Program Description:
An adjustable rate mortgage program fixed for 3, 5, and 7 years then adjusts annually based on the 1 Year LIBOR Index

Program Codes:
- 3/1 LIBOR ARM 3-Year Fixed
- 5/1 LIBOR ARM 5-Year Fixed
- 7/1 LIBOR ARM 7-Year Fixed

Contents: Ctrl click heading below to be directed to appropriate section.

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- Property Types
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- Ratios/Qualifying Rate
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- Rental Survey
- Restricted Stock
- Source of Funds
- Subordinate Financing
- Temporary Buy Downs
- Title and Escrow Documentation
- Trusts
- Underwriting

Luther Burbank Savings does not make any loans, which are defined, as “high-cost” under Section 32 or any State or locally governed legislation.

Luther Burbank Savings reserves the right to amend the requirements set out in this document without providing prior notice. All loans must meet Program Guidelines and Luther Burbank Savings Portfolio Underwriting guidelines. This matrix does not include all policy requirements.

For approved mortgage brokers only. Not intended for use by general public.
The Affinity Loan Program is a loan option for medical professionals who (doctors, dentists, and veterinarians) are purchasing their first home, a move-up property or refinancing an existing home. These professionals have a significant opportunity to grow their income as their careers advance but require a little flexibility in relation to student loans, gift funds and LTV/CLTV.

### Owner Occupied:

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Maximum LTV/CLTV</th>
<th>Minimum FICO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $2,500,000</td>
<td>80% / 90%</td>
<td>720</td>
</tr>
<tr>
<td>$2,500,001 to $3,000,000</td>
<td>75% / 85%</td>
<td>720</td>
</tr>
</tbody>
</table>

**Loan type:** fully amortizing loans; interest only is not permitted.  
**Purpose:** purchase, rate/term refinance; cash out is not permitted  
**Loan Term:** 3/1, 5/1, and 7/1 fully amortizing Portfolio Hybrid ARMS  
**Reserves:** follow SFR guidelines  
**Occupancy:** owner occupied; second home and investment properties are not eligible.  
**FICO:** minimum 720  
**DTI:** maximum 47%  
**Credit grade:** A+ and A credit allowed

**Eligible borrowers:** existing medical doctors, dentists, dental surgeons and veterinarians who are actively practicing, OR are newly licensed medical residents who are currently employed, in residency or fellowship, OR newly license medical students who are about to begin their new employment/residency within 60 days of closing. Borrowers must meet the Portfolio Underwriting Guidelines for citizenship requirements.

**Ineligible borrowers:** borrowers who do not meet the Portfolio Underwriting Guidelines for borrower eligibility, medical professionals who are not actively practicing, medical professionals employed as professors, non-occupant co-borrowers

**Credit:**  
Follow standard SFR underwriting guidelines. In addition, for student loans, the monthly debt payment may be excluded from the liability calculation provide that the debt is deferred for a minimum of 12 months

**Income:**  
- A copy of the applicant’s current medical license is required.  
- If the applicant has been employed and practicing medicine for 2 years or more, follow standard SFR Underwriting guidelines.  
- If the applicant has been employed and practicing medicine for 1–2 years, a current paystub and W-2 or K-1 will be required in addition to a copy of the executed employment contract.  
- If the applicant is a new hire and/or employed and practicing medicine less than 1 year or if employment will commence within 60 days of closing, a copy of the executed employment contract is required.  
- Employment contracts must have minimum 12 month duration and provide for automatic contract renewal or no expiration date.  
- **NOTE:** if compensation aside from the applicant’s base income is used, a letter from the department chairperson outlining the requirements to receive the additional pay is required.
### Affinity Program continued

**Assets:**
- Gift funds are permitted for 100% down payment
- Employer funded subordinate financing
- Reserves – follow SFR Underwriting Guidelines

### Age of Documents

All documentation submitted to LBS must be specific to the subject loan transaction and must be indicative of the applicant's most current financial state. The table below lists the acceptable age of documentation:

<table>
<thead>
<tr>
<th>Documents</th>
<th>30 Days at Approval</th>
<th>60 Days at Approval</th>
<th>90 Days at Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal Report</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Asset Statements</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Credit Report &amp; Supplements</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Escrow Instructions</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Flood Certification</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Pay Stubs</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Preliminary Title Report</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The most current asset statement available must be obtained for accounts that report quarterly.

### Appraisals

Full appraisals are required on all transactions.

**Purchase & Delayed Purchase Transactions** – A Loan may be underwritten subject to appraisal and review.

**Refinance Transactions** – The loan will be underwritten once the appraisal is received.

All appraisals are obtained from the Bank's approved Appraisal Management Company, (AMC).

For single family investment properties, the appraisal must contain Single Family Comparable Rent Schedule (Form 1007).

**Unacceptable Collateral**
- Properties with unreinforced brick masonry foundations
- Properties in C5 condition per the appraisal. Properties in C4 condition may be considered on a case by case basis and may be subject to repairs
- Properties in “minus average or average minus” condition per the appraisal

**Non-Permitted Collateral**

The Bank will lend on properties regardless of age provided, the improvements provide effective utility and habitability and no physical deficiencies that affect safety, soundness or structural integrity. If there appears to be additions or improvements done without permits, the appraiser should comment on the impact to the property and the quality of the work. If the area is included in the value, the following is required:
### Appraisal continued

1) Appraiser states that the improvements are done in a workmanlike manner;
2) There are no health and safety issues;
3) The improved space accounts for less than 20% of the total square footage;
4) It does not connect to any stove or gas line.

**Unacceptable Non-Permitted Collateral**

Non-permitted garage conversions are not acceptable.

**Property Inspection**

Loan amounts >$1,000,000 require one full appraisal and may require an additional inspection by a designated bank officer as shown below:

- 1-4 family residential properties (inspection required prior to funding):
  - If the loan is between $3.0MM and $4.499,999 and the LTV is over 65%
  - (ii) If the loan is $4,500,000 or more regardless of LTV

Additional Inspection requirements on “For Sale By Owner” purchase transactions on underlying property lien include:

- A 10-year chain of title report. Additionally, the Bank will accept the buyer’s acceptance of the condition of the property at the buyer’s pre-close walk through. If this is not obtained, an officer from the Bank must complete an interior inspection of the property.

Additional Inspection requirements on “Existing Default by Owner” of a short sale on underlying property liens:

- A 10-year chain of title report. Additionally the Bank will review and/or accept the buyer’s acceptance of the condition of the property at the buyer’s pre-close walk through.

**Declining Markets**

Appraisals marked as “declining” will be reviewed more closely to ensure the value is supported by the most recent listings, sales and market data and that all the comments from the appraiser are taken into consideration. A minimum of three (3) closed sales must be used, verified on the report by reference to public records with recorder’s document numbers or multiple listing number or name and phone number of individual providing the data. At least 2 of the 3 comparable sales must be dated within 90 days of the appraisal date.

### Appraiser Requirements

The appraiser must be state licensed and not be on FHLMC Exclusionary or any other investors’ exclusionary list.

Utilizing Mercury Network will provide “One Point of Contact” for your entire LBS appraisal needs. Accessing the Mercury Network is easy and available through our broker portal within the “Appraisal” tab or directly online at [https://lutherburbank.vmpclient.com](https://lutherburbank.vmpclient.com).

Upon receipt of the completed appraisal, LBS will forward a copy to the Bank’s Appraisal Department for review and determination of acceptability. Other property evaluations will be sent to applicant only if the value differs from initial appraisal.
| ARM Program Information | Index: 1 Year LIBOR Index: (London Interbank Offered Rate), a benchmark rate that some of the world’s leading banks charge each other for short-term loans. Maturities are set at overnight, one week, one, two, three, six or 12 months. For one-year U.S. dollar denominated deposits in the London market, as published in The Wall Street Journal.  
Minimum Initial Rate: Refer to Rate sheet  
Margin: Refer to Rate sheet  
Initial Adjustment Cap: Refer to Rate sheet  
Subsequent Adjustment Cap: Refer to Rate sheet  
Interest Rate Floor: Refer to Rate sheet.  
Conversion Option: Not permitted.  
Negative Amortization: None  
Loan Term: Portfolio Hybrid ARM’s – 30 year and 40 term (See Rate Sheet)  
Late Charge: Payments are due on the first day of each month and a late charge is assessed when the payment is made after the grace period. The late charge is equal to 6.00% of the monthly principal and interest payment for owner occupied property and 10% on investment property loans.  
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Asset Depletion

Income from Asset Depletion in addition to the applicant’s other income may be utilized for loan qualification. (Interest, dividend, capital gain, retirement or any other source of income for the same assets considered in asset depletion calculation will not be allowed).

Eligible Assets

Eligible Assets, remaining after down payment and closing costs, must be unencumbered and titled in the name of the applicant(s), or the applicant’s revocable trust.

Eligible Assets at 100% of market value include:

- Checking, Savings, Money Market, Certificates of Deposit and US Treasury Securities

Eligible Assets at 80% of market value include:

- Stocks that are actively traded on a recognized exchanges such as the NYSE or NASDAQ;
- Investment grade corporate and municipal bonds that are actively traded;
- ADRS and Exchange Traded Funds that are actively traded on major U.S. exchanges.

Retirement Accounts

If the applicant is less than 59.5 years of age, retirement funds may not be used for asset depletion. If the applicant is over 59.5 years of age 100% of the funds in retirement accounts may be used for reserves and/or asset utilization.

Ineligible Funds

The first $150,000 of reserves must be excluded from this calculation. If the applicant is over 59.5 years of age, the first $100,000 of reserves must be excluded from this calculation.

How the calculation works:

Discount Rate: 10-year U.S. Treasury Bond at time of loan submission.
Disbursement period: 15 years.

Example: 60-year old borrower with $2,000,000 in liquidity ($1,000,000 US Treasury and $1,000,000 IRA); assumed US Treasury rate (2.5%) Eligible Assets = 100% of the Treasury bonds and 100% of the IRA or $2,000,000

$2,000,000 - $100,000 ineligible reserves = $1,900,00; and

Monthly Distribution over 15 years of the $1,900,000 = $12,668.99.

43% is the maximum DTI permitted on loans using Asset Depletion.

Loan Requirements

- Owner occupied and second homes only
- Purchase and rate/term refinances only

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**Assets**

**Minimum Personal Liquid Asset Requirements:**
Applicants must have verifiable personal liquid assets at time of application as follows:
- 3 months gross income for loan amounts up to $2,000,000.
- 6 months gross income for loan amounts greater than $2,000,000.

**Use of Liquid Business Assets:**
Business assets cannot be used to meet the minimum Personal Liquid Asset requirements. The use of business assets going towards the down payment in a purchase transaction is acceptable provided that the funds are not from a working capital/operating account. The applicant must have a 50% or greater ownership in the business. The following documentation is required:
- Copies of the most recent six months bank statements for the business.
- Fully executed letter from the chief financial officer or accountant for the business stating the applicant has the use of the stated amount of funds and that they need not be repaid to the company.
- The letter must also state that the withdrawal of the funds will not cause a financial hardship to the business and are not funds used for working capital.

**Minimum Reserve Requirements:**
The following liquid financial reserve requirements after close of escrow apply:
- Loan amounts up to $750,000 - Two months PITI required.
- $750,001 to $1,500,000 – Four months PITI
- $1,500,001 to $3,000,000 – Six months PITI and
- Greater than $3,000,000 – Twelve months PITI
- Investor owned residential real estate:
  - All loan amounts – Six months PITI on all Bank-financed properties.
  - For borrowers with multiple properties financed outside of the Bank:
    - 2 to 4 properties – 2 months reserves for each additional property.
    - 5 or more properties – 3 months for each additional property.

Transactions with retained departing residence – a minimum of six months PITI or the required cash reserves shown above, whichever is greater.

All interest only loans require a minimum cash reserve amount equal to six month PITI based on the fully amortized payment. Refer to the Interest Only section of this matrix.

Reserves must be in the applicant’s name. If the assets are the applicant’s business, the applicant must provide proof of ownership, percentage of ownership, and accessibility to these funds.
Assets continued

Acceptable Liquid Assets include the following:

- Earnest money deposits;
- Bank deposits;
- Negotiable stocks and bonds;
- Gift funds that are not required to be repaid (used for source of down payment only);
- Cash value of life insurance policies;
- Equity from the sale or refinance of real estate (used for source of down payment only);
- Liquidation of other assets (ability to liquidate in a timely manner should be considered, for example, the ability to liquidate closely-held stock);
- Retirement plans – IRA, SEP, 401(k), KEOUGH, 403(b) and other IRS-qualified retirement plans. As a guideline, no more than 100% of the applicant’s vested balance should be considered to be liquid.

Only Secured credit lines can be considered as a source of cash to close escrow. Unsecured credit lines are not eligible for consideration. If a secured credit line is used for the down payment, the monthly payment for that debt, including the draw, must be part of the debt-to-income ratio calculation.

Ineligible Funds - If an applicant receives “cash out” for the mortgage transaction, these funds cannot be included in any reserve calculations. Other ineligible funds are borrowed monies or availability under a line of credit. Any funds received from an equity loan/line opened within the last twelve months cannot be counted as part of the applicant’s reserves.

An explanation of the source of funds is required for deposits if funds in the account statement are significantly higher than the average balance for the previous two (2) months. Deposits exceeding $10,000 must be explained if the funds are needed for closing costs, down payment or cash reserves. The underwriter also has the right to source funds if there is a concern about potential undisclosed liabilities.

Gift Funds:
Gift funds may only be used to qualify for owner occupied primary residence transactions. The reasonableness and appropriateness of gift funds is required.

A gift can be provided by a relative, defined as the applicant’s parent, spouse, child or other dependent or by any other individual who is related to the applicant by blood, marriage, adoption or legal guardianship; or a fiancé, fiancée or domestic partner. The donor may not be or have any affiliation with the builder, the developer, the real estate agent or any other interested party to the transaction. A minimum contribution from the borrower’s own funds is not required. All funds needed to complete the transaction may come from a gift. The applicant must meet minimum Personal Liquid Asset Requirements and minimum Reserve Requirements with his/her own funds.

Retirement:
Retirement plans – IRA, SEP-IRA, 401(k), Keogh, 403(b) and other IRS qualified retirement plans are considered eligible assets. No more than 100% of the applicant’s vested balance should be considered as liquid.

Delayed Purchase Asset Requirements
No minimum requirement of the applicant’s own funds on primary residence and 100% of the down payment must have been provided with the applicant’s own funds on second home and investment properties. The funds needed to meet the Bank’s reserve requirements must be verified. For applicant qualification purposes, if an applicant meets the minimum liquid assets requirement prior to the purchase this action will satisfy the pre-application requirement and the post close liquidity should be used to qualify the applicant. The short term liquidity drain of the transaction will not be counted against the applicant.
<table>
<thead>
<tr>
<th>Assumptions</th>
<th>Not allowed.</th>
</tr>
</thead>
</table>

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The bank statement program is designed to provide an underwriting alternative to the self-employed borrower with complex tax returns. The bank statement program analyzes the cash flow in personal and/or business bank accounts for the most recent 12 month period. Additional income may be fully documented according to Portfolio Underwriting Guidelines for consideration in qualifying.

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Purchase &amp; Rate Term Refinance - Owner Occupied, Second Home and Non-Owner</th>
<th>Cash Out Refinance - Owner Occupied, Second Home and Non-Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amount</td>
<td>60%</td>
<td>65%</td>
</tr>
<tr>
<td>2,000,000</td>
<td>720</td>
<td>720</td>
</tr>
<tr>
<td>3,000,000</td>
<td>720</td>
<td>720</td>
</tr>
</tbody>
</table>

LA to $2M requires 12months PITI reserves, >$2M requires 18 months PITI reserves.

Loan type: fully amortizing and Interest Only loans
Purpose: purchase, rate/term refinance, refinance with cash out.
Loan Term: 3/1, 5/1, and 7/1 fully amortizing and Interest Only Portfolio Hybrid ARMS
CLTV: maximum 80% CLTV
Occupancy: owner occupied, second home, and investment properties are allowed.
FICO: minimum 720 for Purchase or Rate/Term Refinance. Minimum 740 for cash-out.
Maximum DTI: 45%
Credit grade: A+ credit only; A credit not allowed.

Eligible borrowers: at least one borrower on the transaction must be self employed for a minimum of 2 years in the current business. 100% commission income borrowers and 1099 income borrowers also allowed with a minimum 2 year history in current position.

Ineligible borrowers: borrowers who do not meet the Portfolio Underwriting Guidelines for borrower eligibility, non-occupant co-borrowers, a transaction in which one borrower does not meet the above employment requirements.

Delayed Purchase: 100% of the down payment must have been provided with the borrower’s own funds; gift funds are not allowed. Funds needed to meet the Bank’s reserve requirements must be verified. For applicant’s liquidity requirement, if the applicant met the minimum liquidity requirement prior to the purchase, the applicant only needs to meet the reserve requirement. The short term liquidity reduction resulting from the purchase will not be counted against the applicant.

Income requirements:
Bank statements can be from either the borrower’s personal account and/or from borrower’s business account. The most recent 12 months complete consecutive bank statements are required for each accounts used to qualify.

If additional income from sources other than bank statements is being used to qualify, documentation must follow standard portfolio income documentation requirements. Additionally, the most recent 2 years individual tax returns and applicable business returns are required. An executed 4506T must be provided at the time of loan submission.

If only bank statement income is used to qualify, no IRS transcripts are required.
**Borrower Eligibility**

<table>
<thead>
<tr>
<th>Borrower Type</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Citizens</td>
<td>• Allowed with a valid Social Security Number</td>
</tr>
<tr>
<td>Permanent Resident Aliens</td>
<td>• Allowed under the same terms as US citizens.</td>
</tr>
<tr>
<td></td>
<td>• Valid Social Security Number required.</td>
</tr>
<tr>
<td></td>
<td>• Permanent resident aliens must provide proof of their residency.</td>
</tr>
<tr>
<td></td>
<td>• The Permanent Resident Alien certification must be completed and included in the loan file.</td>
</tr>
</tbody>
</table>

Note: Asset depletion is not allowed on the bank statement program.

Personal bank statements:
- Income will be calculated using only deposits.
- Income from a personal joint account may be considered only if all account holders are applicants on the loan.
- Deposits larger than the typical monthly deposits must be sourced and documented as derived from a business related source.

Business bank statements:
- Income will be calculated using deposits net of all withdrawals and debits.
- Income from a business account joint with parties other than the borrower may be considered according to the borrower's percentage of ownership.
- Account statements reflecting a business name or DBA are considered business accounts regardless of the manner in which the account is used.
- Deposits larger than the typical monthly deposits must be sourced and documented as derived from a business related source.

**Assets**

**Business accounts**
- Business accounts may be used for down payment, closing costs or cash reserves provided the borrower is the majority owner of the business.
- Business funds in an amount equal to the percentage of business ownership will be considered.
- If business funds are used for down payment or closing costs, a signed letter from the CPA or Company Controller confirming the borrower may access the specified business funds and that withdrawal of the business funds will not adversely impact the daily operations of the business.
- Business funds may not be used to meet personal liquidity requirements.

**Seasoning of funds**
- Refer to Portfolio guidelines seasoning requirements for assets

**Borrowed funds**
- Refer to portfolio guidelines borrowed funds

**Retirement funds**
- Refer to portfolio guidelines retirement funds

**Gift funds**
- Not permitted

Minimum Personal Liquid Asset Requirements – refer to Portfolio guidelines asset requirements.
Non-Permanent Resident Aliens

- Applicants are eligible for financing under the same terms as a US citizen.
- Must have a social security number
- Must have established U.S. credit history. If not enough trade lines are established in the U.S., credit references from foreign countries may be used to establish a minimum trade line requirement. In this situation, the loan will qualify for “A” credit. A foreign credit report is ordered through Luther Burbank Savings’ credit vendor.
- Applicant must be employed in the U.S. The source of the income must be verified and must be expected to continue for at least 3 years and have a 2-year work history including their employment in a foreign country. Standard documentation authenticity, accuracy, and completeness apply.
- Tax Identification Number (TIN) is not acceptable.

One of the following valid Visas are required:

- E-1: Treaty traders and qualified employees
- E-2: Treaty investors and qualified employees
- E-2C: Long-term foreign investors in the Commonwealth of the Northern Mariana Islands (CNMI)
- E-3: Certain “specialty occupation” professionals from Australia
- H-1B: Workers in a specialty occupation and the following sub-classifications:
  - H-1B1 – Free Trade Agreement workers in a specialty
  - H-1B2 – Specialty occupations related to Defense Cooperative Research and Development
  - H-1B3 – Fashion models of distinguished merit and availability
- H-1C: Registered nurses working in a health professional shortage area as determined by the U.S. Department of Labor
- H-3: Trainees other than medical or academic. This classification also applies to practical training in the education of handicapped children.
- I: Representatives of foreign press, radio, film or other foreign informational media
- L-1A: Intracompany transferees in managerial or executive positions
- L-1B: Intracompany transferees in positions utilizing specialized knowledge
- O-1: Persons with extraordinary ability in sciences, arts, education, business, or athletics and motion picture or television production
- O-2: Persons accompanying an O-1 visa holder solely to assist in the O-1 holders’ work activities
| Non-Permanent Residency Aliens continued | • Q-1: Persons participating in an international cultural exchange program for the purpose of providing practical training, employment, and to share the history, culture and traditions of the alien’s home country  
• R-1: Religious workers  
• TN North American Free Trade Agreement (NAFTA) temporary professionals from Mexico and Canada |

| Ineligible | • Foreign Nationals (Non-Resident Aliens) – excludes Foreign Nationals from Canada and Mexico working under the terms of NAFTA  
• Applicants with temporary protected status  
• Applicants with diplomatic immunity  
• Non-permanent resident aliens as non-occupying co-borrowers  
• Non-U.S. citizens with no lawful residency in the U.S. |
**Business Entities**

Loans to business entities are not reported on the Bank’s HMDA report, as the business entity is considered the applicant. The Bank requires individual(s) to qualify for the loan and sign a personal repayment guarantee. A guarantor(s) government monitoring information must not be collected on the 1003 loan application.

A $250.00 legal review fee per entity is charged for all business entity loans. Additional fees may be required on complex, multiple layered entities.

A legal review by the Bank approves the signers for the entity.

- The Bank requires the entity’s member(s), managing member(s), partner(s) or shareholder(s) to be a guarantor and submit separate individual application packages. The guarantor(s) personal financial statement(s), credit, assets and/or liabilities for the loan transaction are used for qualifying purposes.
- The organization/entity operating term must be longer than the term of the loan.
- Ownership Statement – Business Entity application is required on all files.
- If an entity is formed outside of California, on California loans, please provide additional requirements noted under Foreign Entities requirements listed on the Required Business Entity Documentation List.
- If an entity is formed outside of Washington, on Washington State loans, please provide additional requirements noted under Foreign Entities requirements listed on the Required Business Entity Documentation List.

**Partnerships and Partnership types:**

All partnerships are written agreements between or among two or more persons, or sometimes other non-living entities, to create and conduct business together and to share in anticipated profits.

**General Partnership:**

- General Partners – Carry the burden of liability for the entity
- Qualification – complete credit package of General Partner(s) or a qualified partner that will sign a personal guarantee.

Documentation Requirements:
Refer to Required Business Entity Documentation Checklist on the LBS, (California or Washington), website.

**Limited Partnership:**

- Limited Partners are at risk for only that portion of their respective contributions to the partnership.
- Qualification – complete credit package of the Limited Partner(s) and/or a qualified partner that will sign a personal guarantee.
- The Bank will not require a personal repayment guarantees from the General Partners since they already are personally “liable”.
- Limited Partners will sign a personal guarantee.

Documentation Requirements:
Refer to Required Business Entity Documentation Checklist on the LBS, (California or Washington), website.
### Business Entities continued

**Corporation:**
All corporations are organizations formed, authorized by law and comprised of stockholders for specific purpose of funding a business concern to be operated by representative management under the direction of a Board of Directors. A corporation issues shares of stock, which represent the percentage of investment and/or ownership. These individuals are known as stockholders.

- Qualification – complete credit package of the majority owner or owners (shareholders).
- Personal Guarantee – Majority owner or owners.

**Documentation Requirements:**
Refer to Required Business Entity Documentation Checklist on the LBS, (California or Washington), website.

**Limited Liability Companies:**
The Bank will lend to Limited Liability Companies ("LLC"), which combine the benefits of both corporate and partnership structure and status to the borrowing entity. The LLC's members, including those actively involved in the business of the LLC, are shielded from personal liability for debts or claims in a manner similar to shareholders of a corporation or limited partners of a partnership. However, the LLC typically will be taxed for California and federal income tax purposes in a manner similar to that of a partnership.

- Qualification – complete application package of the majority of ownership member(s) or Managing Member.
- Personal Guarantee the majority of ownership member(s) or Managing Member or qualified member.

**Documentation Requirements:**
Refer to Required Business Entity Documentation Checklist on the LBS, (California or Washington), website.
<table>
<thead>
<tr>
<th>Condominium</th>
<th>General Condominium Project Eligibility Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The project must comply with the following general eligibility requirements:</td>
</tr>
<tr>
<td></td>
<td>• Ineligible Project – must not be an ineligible project (see Ineligible Projects section below);</td>
</tr>
<tr>
<td></td>
<td>• Project Insurance – project complies with the applicable insurance requirements;</td>
</tr>
<tr>
<td></td>
<td>• Project ownership – unit owners must have an undivided ownership in the land on which the project is located; and</td>
</tr>
<tr>
<td></td>
<td>• Ownership and use of the common elements – unit owners must be the sole owners of, and have the right to the use of, the common elements, including all buildings, roads, parking, facilities and amenities. The developer must not retain any ownership interest in the common elements, facilities and amenities except as a unit owner.</td>
</tr>
<tr>
<td></td>
<td>• <strong>Non-warrantable Condominiums</strong> are allowed on a case by case basis with rate adjustment.</td>
</tr>
<tr>
<td></td>
<td><strong>Ineligible Projects</strong></td>
</tr>
<tr>
<td></td>
<td>The following projects are not eligible for financing with Luther Burbank Savings:</td>
</tr>
<tr>
<td></td>
<td>• Project required to be registered with a Federal or State securities agency.</td>
</tr>
<tr>
<td></td>
<td>• Condominium Hotel – project operated and managed as a hotel or similar type of transient property, even though the units are individually owned.</td>
</tr>
<tr>
<td></td>
<td>• Project with multi-dwelling units – owner holds a single deed evidencing ownership of more than one dwelling unit.</td>
</tr>
<tr>
<td></td>
<td>• Project with non-incidental commercial space – more than 35% of the total above- and below-grade square footage of the building in which the project is located is commercial, non-residential or mixed-use space.</td>
</tr>
<tr>
<td></td>
<td>• Tenancy-in-common apartment project – owned by several owners as tenants-in-common or by a homeowners’ association. Individuals have an undivided interest in the residential apartment building (including the units) and land on which the building is located, and may or may not have the right of exclusive occupancy of a specific unit in the project.</td>
</tr>
<tr>
<td></td>
<td>• Timeshare project or project with segmented ownership – arrangement under which purchaser receives an interest in real estate and the right to use a unit or amenities, or both, for a specified period and on a recurring basis such as the 15th week of the year, or ownership that is for a limited period such as for the subsequent five years.</td>
</tr>
<tr>
<td></td>
<td>• Houseboat project – comprised of boats designed or modified to be used primarily as dwelling units.</td>
</tr>
<tr>
<td></td>
<td>• Project that is a legal non-conforming use – in the event of partial or full destruction, the jurisdiction in which the project is located does not allow the rebuilding of the improvements to current density.</td>
</tr>
<tr>
<td></td>
<td>• Project in litigation – where the HOA, project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, functional use or habitability of the project.</td>
</tr>
</tbody>
</table>
Condominium continued

- New project sold with excessive seller contributions – new project where the builder, developer, or property seller is offering unacceptable sales concessions. Examples include rent-backs or leasebacks, payments of principal, interest, taxes and insurance (PITI) or homeowners’ association assessments for any period of time, and undisclosed contributions.
- Project with excessive single investor concentrations – project in which an individual or single entity (such as an investor group, partnership or corporation), other than vacant units owned by the developer during the initial marketing period, owns more than the following total number of units in the project:

<table>
<thead>
<tr>
<th>Number of units in project</th>
<th>Total number of units owned by individual or single entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 to 4</td>
<td>1</td>
</tr>
<tr>
<td>5 to 20</td>
<td>2</td>
</tr>
<tr>
<td>21 or more</td>
<td>20%</td>
</tr>
</tbody>
</table>

- Continuing Care Retirement Community (CCRC) – a residential project designed to meet the health and housing needs of seniors as their needs change over time. CCRCs may also be known as Life-Care Facilities and are distinguished from age-restricted communities.
- Manufactured homes – projects containing manufactured homes or units.
- High Rise Condominiums – Projects that are eight stories or greater (including parking levels) are considered high rise. Only high rise projects located in neighborhoods typical for that type of project are eligible.

Streamlined Review

- Streamlined review may be used for projects listed on the Fannie Mae list of approved projects. This list may be accessed at:
  - California Projects
    [https://www.fanniemae.com/content/datagrid/condo_pud/condo_approved_projects_report-ca.pdf](https://www.fanniemae.com/content/datagrid/condo_pud/condo_approved_projects_report-ca.pdf)
  - Washington Projects
    [https://www.fanniemae.com/content/datagrid/condo_pud/condo_approved_projects_report-wa.pdf](https://www.fanniemae.com/content/datagrid/condo_pud/condo_approved_projects_report-wa.pdf)

- Project Type Classification: Streamlined Review

Established Condominium Project Reviews

Definition of Established Condominium Project:

- Project and related facilities is complete and not subject to additional phasing;
- At least 90% of the total units are conveyed to unit purchasers other than the developer, and
- Unit owners control the homeowners association.
<table>
<thead>
<tr>
<th>Condominium continued</th>
<th>The established project must comply with the following requirements:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• All units, common elements and amenities are complete;</td>
</tr>
<tr>
<td></td>
<td>• There are no manufactured homes in the project;</td>
</tr>
<tr>
<td></td>
<td>• Owner-Occupancy Requirements:</td>
</tr>
<tr>
<td></td>
<td>➢ Primary Residences and second homes: no owner-occupancy requirements</td>
</tr>
<tr>
<td></td>
<td>➢ Investment properties: at least 50% of the units in the project are occupied as primary residences or second homes;</td>
</tr>
<tr>
<td></td>
<td>• Project budget – is consistent with the nature of the project and appropriate assessments are established to manage the project:</td>
</tr>
<tr>
<td></td>
<td>➢ Appropriate allocations for line items pertinent to the type and status of the project</td>
</tr>
<tr>
<td></td>
<td>➢ There must be adequate funding for insurance deductible amounts</td>
</tr>
<tr>
<td></td>
<td>➢ At least 10% of the budget provides funding for replacement reserves for capital expenditures, deferred maintenance based on the project’s age, estimated remaining life, and replacement cost of major common elements; and</td>
</tr>
<tr>
<td></td>
<td>• Delinquent assessments – no more than 15% of the total number of units in the project are 60 or more days delinquent on the payment of their homeowner’s association assessments.</td>
</tr>
</tbody>
</table>

**Project Type Classification: Established Project**

**New Condominium Project Reviews**

**Definition of New Condominium Project:**

• Project and related facilities is not complete, or is subject to additional phasing;
• Fewer than 90% of the total units have been conveyed to unit purchasers other than the developer; or
• Control of homeowners’ association has not been turned over to unit owners.
The new project must comply with the following requirements:

- **Project completion** – subject legal phase and prior legal phases are substantially complete. Note: “Substantially complete” indicates that all units in the subject building are complete subject to the selection of buyer preference items.
- **There are no manufactured homes in the project.**
- **Owner-occupancy requirements** – at least 70% of the total units in the project (or at least 70% of the sum of the subject legal phase and prior legal phases) must have been conveyed or must be under contract to purchasers other than the developer (or its successor) who will occupy the units as their primary residences or second homes.
- **Homeowners’ association assessments** must begin once the developer has ceased to pay operating expenses attributable to the project, whether or not all units are sold. Developer is responsible for the assessment attributable to the unsold units.
- **Project budget** – budget is consistent with the nature of the project and appropriate assessment must be established to manage the project:
  - There are appropriate allocations for line items pertinent to the type and status of the project;
  - If the project was recently converted, the developer must have initially funded a working capital fund in an amount consistent with the estimated remaining life of the common elements;
  - There must be adequate funding for insurance deductible amounts; and
  - At least 10% of the operating budget provides funding for replacement reserves, for capital expenditures and deferred maintenance based on the project’s age, estimated remaining life, and replacement cost of major common elements.
- **Delinquent assessments** – no more than 15% of the total number of units in a project are 60 or more days delinquent on the payment of their homeowners’ association assessments.
- **Compliance with laws** – project has been created and exists in full compliance with applicable State law, the requirements of the jurisdiction in which the project is located and all other applicable laws and regulations governing the creation of the project.
- **Limitations on ability to sell/right of first refusal** – right of first refusal in the project documents does not adversely impact the right of mortgagee or its assignee to:
  - Foreclose or take title to a unit pursuant to the remedies in the mortgage; or
  - Accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor; or
  - Sell or lease a unit acquired by the mortgagee or its assignee.
### Condominium Insurance Requirements

- **Conversions** – if the project is a conversion, it must meet the following:
  - The licensed engineer has stated that the project is structurally sound, and the condition and remaining useful life of the major project components (including roof, elevators and mechanical systems) are sufficient to meet the residential needs of the project, and that the licensed engineer has found no evidence that any of these conditions are not met.
  - All rehabilitation work was completed in a professional manner.
  - If the project is a partial rehabilitation, all repairs affecting soundness and habitability are complete, replacement reserves have been allocated for all capital improvements and the underwriter has determined that the reserves are sufficient to fund the improvements.

- **Mortgagee Consent** – the project documents:
  - Must state, or applicable State law must provide, that amendments of a material adverse nature to first-lien mortgages be agreed to by mortgagees that represent at least 51% of the unit votes (one vote for each first-lien mortgage owned).
  - Must state, or applicable State Law must provide, that any action to terminate the legal status of the project or to use insurance proceeds for any purpose other than to rebuild, must be agreed to by first-lien mortgagees that represent at least 51% of the unit votes (one vote for each first-lien mortgage owned).
  - May allow implied approval to be assumed when the then current mortgagee of record fails to submit a response to any written proposal for an amendment within 60 days after the then current mortgagee of record actually receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a “return receipt” requested.

- **Rights of condominium mortgagees and guarantors** – project documents, applicable State law, or any applicable insurance policy must provide the mortgagee and guarantor of the mortgage the right to timely written notice of:
  - Any condemnation or casualty loss affecting a material portion of project, or unit securing the mortgage;
  - Any 60-day delinquency in payment of assessments or charges owned by the unit owner;
  - A lapse, cancellation or material reduction of any insurance policy maintained by the homeowners’ association; and
  - Any proposed action requiring the consent of a specified percentage of the mortgages.

- **First mortgagee’s rights confirmed** – there are no provisions in the project documents that give a unit owner or other party priority over any rights of the first mortgagee in the case of payment to the unit owner of proceeds from termination or insurance proceeds, or condemnation awards for losses to or a taking of units and/or common elements.

- **Marketing units in the condominium project** – sales program developed for marketing units in the project must recognize and provide procedures for complying with all laws pertaining to the advertising and sale of real estate, the form and content of sales contracts and the method for handling deposits connected with the sale.
Condominium Additional Requirements

Project Type Classification: New Project

Project Review Method: Full Review

2-to-4 Unit Condominium Project Review
Definition of 2-to-4 Unit Condominium Project: Project is comprised of at least two, but no more than four, one-unit dwellings that are each separately owned with separate legal descriptions.

The 2-to-4 Unit Project must comply with the following requirements:

- Project completion requirements – all units and common elements must be complete (including common elements owned by a master association); and
- Owner-occupancy requirements – all but one unit must have been conveyed to purchasers (other than the developer) who occupy their units as primary residences or second homes.

Project Type Classifications: 2-to-4-Unit Project
Project Review Method: no review required

Detached Condominium Project Review
Definition of Detached Condominium Project: Project is comprised of solely detached, one-unit dwellings.

Detached condominiums must comply with the following requirement:

- The project must not include manufactured homes.

Project Type Classification: Detached Project
Project Review Method: no review required

Planned Unit Development (PUD) Project Eligibility Requirements
A PUD is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units. For a project to qualify as a PUD for the purposes of this policy, all of the following requirements must be met:

- Each unit owner’s membership in the HOA must be automatic and nonseverable;
- The payment of assessments related to the unit must be mandatory;
- Common property and improvements must be owned and maintained by a HOA for the benefit and use of the unit owners; and,
- The subject unit must not be part of a condo or co-op project.

Zoning is not a basis for classifying a project or subdivision as a PUD. Units in projects are subdivisions simply zoned as PUDs that include the following characteristics and are not defined as PUD projects. These projects:

- Have no common property and improvements;
- Do not require the establishment of and membership in an HOA; and
- Do not require the payment of assessments.
Condominium continued

PUD projects are classified as either:

- **Type E** – established PUD projects in which the developer has turned over voting control of the HOA to the unit purchasers; or
- **Type F** – new PUD projects in which the developer has not turned over voting control of the HOA to the unit purchasers.

**Detached PUDs**

A project review is not required for Type E or F Detached PUD Projects.

**Attached PUDs**

Type F Attached PUD Projects require a limited review.

Type E Attached PUD Projects require a limited review.

**Underwriting Considerations for Common Elements and Amenities**

The common elements, including amenities and limited common elements, must be consistent with the nature of the project and similar to competing projects in the market area.

**Financing of Limited Common Elements**

- Limited Common Elements are portions of common elements reserved for use by one or more unit owners but not all unit owners. They may include, but are not limited to, balconies or patios serving a single unit, assigned parking spaces or storage bins.
- If purchased as part of the unit, they may be financed as part of the mortgage, and the cost of such Limited Common Elements may be included when determining the sale price and loan-to-value (LTV) ratio.
- Only Limited Common Elements may be financed along with the condominium unit. Facilities serving the condominium unit which are made available to the condominium unit by a permit, license or lease, must not be financed as part of a mortgage, and the cost of the use of such facilities may not be included when determining the sale price and LTV ratio.

**Projects in Litigation**

A project in which: (1) the HOA is named as a party to pending litigation, or (2) the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, functional use or habitability of the project is not eligible.

However, if the underwriter determines the reason for the pending litigation involves minor matters that do not affect the safety, structural soundness, functional use or habitability of the project, the project is eligible as long as the litigation is limited to one of the following:

- The litigation amount is known, the insurance company has committed to provide the defense and the litigation amount is covered by the insurance policy;
- The matters involve non-monetary neighbor disputes or rights of quiet enjoyment; or,
- The HOA is the plaintiff in the litigation and the matter is minor with insignificant impact to the financial status of the project.
<table>
<thead>
<tr>
<th>Condominium continued</th>
<th>Condo/PUD Insurance Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Property Insurance</strong></td>
<td><strong>Condo/PUD Insurance Requirements</strong></td>
</tr>
<tr>
<td>Master hazard blanket all risk policy with 100% of the insurable replacement cost coverage and deductible shall not exceed 5% of the face amount of the policy.</td>
<td></td>
</tr>
<tr>
<td>• Individual hazard insurance policies are allowed on 2-to-4 unit projects, Detached Condo Projects and PUDs.</td>
<td></td>
</tr>
<tr>
<td>• A hazard insurance policy must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. Extended coverage must include, at a minimum, wind (including hurricane), civil commotion (including riots), smoke, hail and damages caused by aircraft, vehicle or explosion unless a separate policy or endorsement is obtained that provides adequate coverage of the limited or excluded peril. This separate coverage can come from an insurance pool established by the State to cover the limitations or exclusions.</td>
<td></td>
</tr>
<tr>
<td>• HO-6 (“walls in”) Coverage</td>
<td></td>
</tr>
<tr>
<td>• Borrower must obtain individual policy coverage unless it is documented that the master policy provides the same coverage for the interior of the condo unit. The minimum HO-6 coverage, as determined by the insurer, must be sufficient to repair the unit to its condition prior to a loss claim event. Standard 5% deductible and standard escrow waiver procedures apply.</td>
<td></td>
</tr>
<tr>
<td>• Number of units covered must be reflected on the policy declaration page or on a policy addendum.</td>
<td></td>
</tr>
<tr>
<td>• Flood zone indicated on the policy declaration page or equivalent must be the same as indicated on flood determination certificate.</td>
<td></td>
</tr>
<tr>
<td>• Self-insurance arrangements whereby the homeowners’ association is self-insured or has banded together with other unaffiliated associations to self-insure all of the general and limited common elements of the various associations are not permitted.</td>
<td></td>
</tr>
<tr>
<td><strong>Master or Blanket Insurance for Unaffiliated Project</strong></td>
<td></td>
</tr>
<tr>
<td>• Master or blanket insurance policies that provide coverage for multiple unaffiliated projects in a single insurance policy are not allowed.</td>
<td></td>
</tr>
<tr>
<td><strong>Liability Insurance</strong></td>
<td></td>
</tr>
<tr>
<td>Homeowners’ association must maintain a comprehensive commercial general liability (CGL) insurance policy covering the entire project. The policy should provide coverage for:</td>
<td></td>
</tr>
<tr>
<td>• All common areas and elements, public ways (private streets, sidewalks, pathways, etc.), commercial spaces and any other areas that are under the supervision of the homeowners’ association.</td>
<td></td>
</tr>
<tr>
<td>• Commercial spaces that are owned by the homeowners’ association, even if they are leased to others.</td>
<td></td>
</tr>
<tr>
<td>• Bodily injury and property damage that result from the operation, maintenance or use of the project’s common areas and elements or full destruction.</td>
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</tbody>
</table>
| Condominium continued | If not already included in the terms of the CGL coverage, there must be a “severability of interest” endorsement precluding the insurer’s denial of a unit owner’s claim because of negligent acts by the association, the fee simple landowner/lessor or other unit owners.

The amount of coverage should be at least $1 million for bodily injury and property damage and must provide for claim settlements on an occurrence basis. |

**Flood Insurance**

When flood insurance is required for a condominium with five or more units, the condominium association must have a Residential Condominium Building Association Policy (RCBAP) or an equivalent private policy covering the entire building that provides coverage on the residential condominium unit at least equal to the lesser of:

- Full replacement cost value (RCV) of building as determined by insurers, divided by the number of units in the building; or
- Maximum amount of insurance available per unit under the National Flood Insurance Program (NFIP) which is currently $250,000 in the Regular Program, times the number of units.

**Note:** If condo is new construction that has not yet been turned over to the association, coverage is written on a General Property Form on the building.

- Individual flood insurance policies are allowed on 2-to-4 unit projects.
- Deductible not to exceed $25,000 per building located in the flood zone, or $10,000 for a unit owners policy.

An insurance policy that includes either of the following endorsements will ensure full insurable value replacement cost coverage:

- *Replacement Cost Endorsement*, under which the insurer agrees to pay up to, but no more than 100% of the property’s insurable replacement cost, or
- *Guaranteed Replacement Cost Endorsement*, under which the insurer agrees to replace the property up to a specified percentage over the policy limit or agrees to replace the property regardless of the cost.

**Steam Boiler and Machinery Coverage Endorsement**

For a multi-unit building where the heating and cooling system is centrally located, a policy or endorsement is required for adequate protection against mechanical breakdown and equipment failure.

The policy or policy endorsement must provide for the insurer’s minimum liability per accident to be at least the lesser of:

- $2 million, or
- Insurable value of the building(s) housing the boiler and machinery.
Condominium continued

### Fidelity, Crime or Employee Dishonesty Insurance Coverage

Requirements for fidelity, crime, or employee dishonesty insurance apply as follows:

- Required for all condominium projects with more than 20 units.
- When required, the HOA must have blanket fidelity, crime, or employee dishonesty insurance coverage for anyone, including a management agent, who either handles or is responsible for funds that it holds as administrators, whether or not that individual receives compensation for services.
  - The insurance policy must name the HOA as the insured;
  - The premiums must be paid as a common expense by the association;
  - The amount of fidelity, crime or employee dishonesty coverage must equal no less than the maximum amount of funds in the custody of the HOA or its management firm at any one time or coverage that meets the state’s statutory fidelity, crime, or employee dishonesty insurance requirements if documented; and
  - Minimum coverage may be reduced to three months HOA assessments for all units within the project, but only if the HOA or management firm adheres to at least one of the following controls:
    - Maintains separate accounts for the operating budget and the reserve fund with copies of the monthly statements sent directly from the bank to the HOA, or
    - Two or more board members must sign any check drawn on the reserve fund account, or
    - Separate records and accounts are maintained for each HOA using the management firm’s services and the management firm does not have the authority to draw checks or transfer funds from the HOA reserve account.

A management agent that handles funds for the HOA should be covered by its own fidelity, crime, or employee dishonesty insurance policy which must provide the same coverage required of the HOA.

The Bank will accept any of the following as evidence of this coverage:

- Copy of the Managing Agent fidelity, crime or employee dishonesty Insurance Certificate;
- Copy of the HOA Master fidelity, crime employee dishonesty Insurance Certificate indicating Managing Agent as additionally insured;
- Copy of the Management Rider from the Master HOA fidelity, crime, or employee dishonesty insurance policy; or
- Email from the Insurance Company confirming the Managing Agent as additionally insured (must also include the Master HOA fidelity, crime, or employee dishonesty insurance number and the name of the Project).
| **Condominium continued** | The fidelity, crime, or employee dishonesty insurance policy must include a provision that calls for at least ten days’ written notice to the HOA or insurance trustee before the policy can be canceled or substantially modified for any reason. This same notice also must be given to each servicer that services a mortgage in the project.

Fidelity, crime, or employee dishonesty insurance is not required for PUD projects. |

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| **Credit** | The minimum representative credit score for A+ program is 680.

A+ Credit Loan amounts over $1,500,000:
- One applicant minimum 5 trade lines.
- Additional applicant(s) minimum 3 trade lines.
- Trades lines must be at least three years old.
- Trade lines are not required to be open and active.

A+ Credit Loan amounts up to $1,500,000:
- All applicants must have a minimum 3 trade lines.
- Trades lines must be at least three years old.
- Trade lines are not required to be open and active.

The minimum representative credit score for A program is 660.

A Credit:
- Each applicant minimum of 3 trade lines or 2 + verification of rent. (If landlord is a private party, 12 months canceled checks required in lieu of VOR.)
- Trades lines must be at least three years old and rental verification must cover 12 consecutive months at a minimum.
- Trade lines are not required to be open and active.

Trade lines must have an established credit history. If the minimum number of trade lines is not established in the United States, credit references from foreign countries may be used to meet the minimum trade line requirement. Foreign credit must be reported and rated through a consumer credit reporting agency in the applicant’s country of origin. Foreign credit is not to be confused with non-traditional credit, which is not reported and rated through a consumer credit reporting agency, either domestically or internationally.

Authorized user account(s) are not considered an acceptable trade line, unless you provide evidence the authorized user is making the payments.

On a Business Entity Application, the Guarantor(s)’ FICO score will be used for qualifying purposes. Refer to the Interest Only section of the loan matrix for minimum FICO score requirements. Refer to Loan Amount/LTV section in the loan matrix for additional information. |
A single representative credit score is selected for each applicant. A representative score is determined for the applicant and the loan qualification as follows:

For each applicant select:
- The middle score, if three scores are received
- The lower score, if two scores are received
- The one score, if only one score is received

If there are multiple applicants, use the average of the scores selected.

The credit score is only one factor considered in making a loan decision. It is not the sole determinant to approving or denying a loan request.

**Non Traditional Credit:**
Non Traditional credit report is acceptable on owner-occupied loan amounts up FNMA Loan Limits.

**Delinquent Credit:**
Late payments are considered accounted for in the credit score. However, the following items are subject to individual evaluation, no matter how high the credit score:
- Bankruptcy, foreclosure, deed-in-lieu, short sale, notice of default, loan modification.
- Liens and Judgments, collections, charge-offs, tax liens, repossessions, mortgage late payments and delinquent property taxes.
- Excessive revolving debt
- Mortgage late payments

**Credit Explanations:**
The applicants must supply a satisfactory explanation for all delinquent credit items listed specifically in the following categories, along with supporting documentation.

**Bankruptcy:**
The mortgage application may not be approved before the following time period has elapsed from the date of the application:

**After 5 years** from the date the bankruptcy was discharged, dismissed or satisfied. There must be evidence to indicate all debts not satisfied by bankruptcy have been or are being paid. There should be no evidence of derogatory credit that occurred after the discharge of bankruptcy.

Waiting period may be shortened with rate adjustment.
**Credit continued**

<table>
<thead>
<tr>
<th>Pre-foreclosure, Short Sale, Foreclosure, Deed-in-Lieu of Foreclosure, or Loan Modification:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The mortgage application may not be approved before the following time period has elapsed from the date of the application.</td>
</tr>
</tbody>
</table>

**After 4 years** from the completion date of short sale close of escrow, recorded deed in lieu documents, foreclosure sale, reinstatement of notice of default filing, or loan modification. The following conditions are required:

- Minimum 660 FICO score required or as required by program whichever is greater
- Evidence on the credit report and other credit documentation that the applicant(s) has/have reestablished an acceptable credit history
- There should be no evidence of derogatory credit that occurred after the pre-foreclosure, short sale, deed in lieu, or loan modification occurred

**Waiting period** may be shortened with rate adjustment.

**After 5 years for Bankruptcy or After 4 years for Pre-foreclosure, Short Sale, Foreclosure, Deed-in-Lieu of Foreclosure, or Loan Modification:**

Satisfactory explanation and documentation leading to the above events is required. The Bank will take into consideration circumstances that were beyond the applicant’s control, such as a loss of job, medical expenses not covered by insurance, death of the primary wage earner, evidence the applicant was a passive investor in an entity that had a property pre-foreclosure, foreclosed, or deed in lieu upon or participated in a short sale, and financial problems caused by natural disasters. A foreclosure, deed in lieu of foreclosure, notice of default or short sale caused by financial mismanagement is not acceptable.

Requirement for documentation leading to the above events may be waived with rate adjustment

**Liens and Judgments:**
An applicant who has had liens and/or judgments must provide evidence that the liens and judgments have been satisfied or released.

**Collections/Repossessions/Charge-off:**
At the underwriter’s discretion, an applicant who has or had collection accounts must provide a letter of explanation as to the circumstances and include any supporting documentation.

The Bank will not automatically require that a collection account be paid off if a satisfactory explanation is received. If the amount involves a large sum, the Bank may require the account to be paid off to avoid future lawsuit affecting the applicant’s ability to keep the Bank’s loan current.

**Mortgage Late Payments:**
Excessive prior mortgage delinquency is defined as any mortgage trade line that has one or more 30, 60, 90,120, or 150 day delinquency reported within the 12 months prior to the credit report date and one or more 60, 90,120 or 150 day delinquency reported within the 24 months prior to the credit report date.

**Delinquent Property Taxes:**
Evidence of delinquent property taxes on the subject property or other real estate is not acceptable.

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### Cross Collateral

Various transactions due to either timing, structure, or both may require that additional real estate collateral is taken in addition to the primary property being financed. An example would include a purchase transaction that is to scheduled close prior to the sale of and exiting home where the sales proceeds are necessary for the down payment for the property being acquired. The Bank may establish a release price for the property in the trailing transaction. When the additional collateral is to be released at a later date, a Schedule of Release Price will be included as an addendum to the Deed of Trust. This agreement will specify under what terms the Bank will re-convey its lien on the collateral.

Generally, this document will include the required principal reduction, subject to other conditions. These conditions may include the required LTV on remaining loan amount, payment of release price, and that there is no default under the note, deed of trust, or loan documents. The LTV on the loan subsequent to the release of one property must meet the LTV guidelines published on the date of loan approval. The maximum LTV will be 75% or the amount on published guidelines, whichever is less.

**Requirements:**
The Bank must be in first lien position on both properties. Any and all existing loans of record must be paid through one transaction. Maximum number of properties secured for a cross collateralization is two 1-4 unit residential properties. Refer to rate sheet for loan-to-value requirements.

**Documentation Requirements:**
- Appraisal for each property
- Preliminary title report for each property
- Escrow instructions to include both properties
- Flood certification for each property

**Lender’s Documents:**
- One Note and any applicable Riders
- Rescission notice and applicable disclosures are required if the property used as additional collateral is the applicant’s owner occupied primary residence.
- Deed of Trust is required for each property, along with any applicable Riders
- See Rate Sheet for add-ons.
- Loans allowed on Purchase, Delayed Purchase and Rate and Term Refinance only.

### Delayed Purchase

Application for new loan must be received by the Bank within 90 days of close of the purchase. Purchase LTV is used instead of refinance LTV. Documentation required is final Closing Disclosure or Settlement Statement for purchase of the property, source of funds, purchase contract and any reports required through the contract. Please see Assets Section for specific requirements regarding Delayed Purchase transactions.

If the property is not encumbered or is lien free, a letter of explanation must be provided describing the applicant(s) intent for the cash proceeds from the delayed purchase loan.
Departing Residence

Departing Residence is defined as:

New owner occupied purchase transactions in which the applicant(s) are retaining the existing residence for any period of time after the closing, regardless of their intentions (i.e.: retained as a rental, second home, pending sale or intention to sell the property at some time in the future).

If departing residence is going to be retained as a rental:
- Letter from applicant verifying intent of departing residence.
- Obtain a rent survey
- 75% of rental income from the rent survey minus housing expenses, (PITIA).
- If this number is positive, it is used as income
- If this number is negative, include the negative rental as a contra-income entry and use in the numerator of the total debt-to-income ratio.
- See Rate Sheet for add-ons
- Max LTV and CLTV is 80% or program maximum whichever is less

Where a departing residence is listed for sale and/or the applicant(s) have intentions to sell and, if not sold, state property will be rented:
- Letter from applicant verifying intent of departing residence.
- Obtain a rental survey
- 75% of rental income from the rent survey minus housing expenses, (PITIA).
- If positive, No income is given
- If negative, include the negative rental as a contra-income entry and include in the numerator of the total debt-to-income ratio.
- See Rate Sheet for add-ons
- Max LTV and CLTV is 80% or program maximum

Where a departing residence is listed for sale the following applies:
- Letter from applicant verifying intent of departing residence.
- Qualify applicant with full payment.

If the departing residence is free and clear or the applicant does not require income from departing residence to qualify:
- “Departing Residence” rate sheet adjustments do not apply.
- Maximum LTV and CLTV is 80%.

Down Payment

Primary Residence:
- No minimum contribution of applicant’s own funds is required. The source of donor’s gift funds must be verified. Please refer to the Assets Section for further information.

Second Home:
- 100% of the purchase price cash down payment from applicant’s own funds is required. Documentation is required per the Lending Policy

Investment Properties:
- 100% of the purchase price cash down payment from applicant’s own funds is required. Documentation is required per the Lending Policy.
### Escrow

**Double Escrow:**
Double escrow transactions are not allowed

**Broker Affiliated Escrow Companies:**
LBS will not allow the use of an escrow company that is owned by a principal of the mortgage broker providing the loan to the Bank.

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### Flood Insurance

- A flood hazard determination is required for all loans.
- Flood insurance is required if the property is located in a special flood hazard area or flood zone.
- Flood insurance is required on properties located within the following special flood hazard area zones: A, AE, AH, AO, AR, A1-30, A-99, V, VE, V1-30
- The maximum amount of flood insurance required is the lowest of: A) 100% of the replacement cost of the dwelling, calculated as appraised value minus land value OR B) the unpaid principal balance of the mortgage OR C) the maximum insurance available under the National Flood insurance program. (Currently $250,000 per dwelling.)
- The deductible for 1-4 unit properties may not exceed a maximum of $10,000 unless a higher maximum is required by state law.
- If the property is located in a special flood hazard area (an A- or V-rated zone):
  - A. The notice must be given to the borrower 10 days prior to consummation of the loan documents.
  - B. Flood insurance impounds will be required regardless of LTV on all Regulation Z transactions, and regardless of whether the hazard insurance and taxes will be impounded.
  - C. Non-Reg. Z covered loans do not require flood insurance impounds.
- Evidence of Flood insurance coverage must be in place at time of closing.
  - a. Flood application in place and proof of premium being paid before consummation of documents.
  - b. Acceptable proof of existing Flood Insurance with required amount of insurance, along with an endorsement to reflect LBS as the mortgage/loss payee on a Refinance property.

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### Geographic Areas

Refer to Rate sheet.

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Hazard Insurance

- Hazard insurance is required for all mortgage loans and the amount of coverage of hazard insurance must conform to Fannie Mae and market requirements. Coverage must be at least equal to the insurable value or replacement cost, or, the unpaid principal balance of the mortgage loan, whichever is less.
- For properties located in California, lenders may not require hazard insurance in an amount exceeding the replacement value of the improvements on the property.
- The maximum deductible may be up to 1% of the amount of the policy or $10,000, whichever is less.

**HO-6 Policy (Condo):**

Borrower must obtain individual policy coverage unless it is documented that the master policy provides the same coverage for the interior of the condo unit. The minimum HO-6 coverage, as determined by the insurer, must be sufficient to repair the unit to its condition prior to a loss claim event. Standard 5% deductible and standard escrow waiver procedures apply.

Number of units covered must be reflected on the policy declaration page or on a policy addendum.

**Law and Ordinance endorsement to insurance:**

A property zoned legal non-conforming with the ability to rebuild if destroyed by fire or other hazard requires a Law and Ordinance endorsement to the hazard insurance policy.

Hillside Properties

- Hillside lots noted to have "fill" to build a pad up from a hillside must have an acceptable geological report. Structures built on a hillside must be on a single flat pad, with the exception of buildings built on hillsides where the lots are terraced with level pads. In cases where land slippage is noted, an acceptable geological report will be required. If a property is built on a hillside and is not built on a flat pad, it is acceptable if it was erected after the year 2000. In all cases, the Bank will not make loans on structures where any portion of the home or adjoining features are built on stilts on the slope of a hillside.

Income / Employment

**Income/employment must be documented per Lending Policy.**

The underwriter may require additional income documentation if income does not appear reasonable or income cannot be calculated.

- **Acceptable Sources of Income:**
  - Wage Earner Income. Commission, overtime, bonus income which has a minimum 2 year history and documented that it is likely to continue for the next 3 years.
  - New bonus income – If a borrower does not show a previous history of a bonus for an employee that is new to a job, it may be used if documentation is obtained confirming the bonus is guaranteed with the likelihood to continue for three years. This is considered on a case basis with an underwriter review of the employee’s contract.
**Income / Employment**

- If the borrower previously received bonus income from a previous employer with a two year history, it may be used for a new job. The borrower must have received a payment of the bonus on the new job.
- Commission Income: If the applicant derives more than 25% of his/her income from commissions, then two years 1040's are required. An average of the last two years commission income is calculated for qualifying income. If the commission income trend is declining, most weight should be placed on the current income period earnings. A letter of explanation from the applicant should justify the declining commission earnings. If there is a significant recent increase in income, less weight should be placed on the current period’s earnings. Expenses paid in connection with this income should be considered when calculating qualifying income. This information can be obtained from the tax returns as “Unreimbursed Employee Expense”.
- Principal and interest income from a secured note may be used if documentation is provided verifying the amount and the payment is expected to continue for a minimum of three years.
- Income from sources other than the ones addressed may be considered provided the applicant has received the income for at least 2 years and documentation supports that it will continue for at least 3 years.

**Self-Employed Applicants**

An applicant is considered self-employed if he/she has 25% or greater ownership in a business and the income from the business provides a majority of the applicant’s income.

The Bank requires the following documentation for a self-employed applicant:

- Personal Federal Income Tax Returns – the two most current years signed Federal income tax returns; the returns must be complete and have all applicable schedules and statements referenced in the schedules. Most recent one year tax return is acceptable with rate adjustment.
- Partnership, Corporation, S-Corp or Partnership Federal income tax returns – the two most current years signed Federal income tax returns; the returns must be complete and have all applicable schedules and all statements referenced in the schedules. Most recent one year tax return is acceptable with rate adjustment.
- Signed profit and loss statements for the previous year (if no tax returns for that year) and the current year through the most recent quarter.
### Income / Employment continued

**Tax Return Analysis:**

The applicant’s income will be determined by averaging the most recent two years income, and in some cases, the year-to-date P&L prepared by a disinterested third party. The year-to-date P&L will be used if the income reported is representative of previous years’ income. For individual federal income tax returns, the income listed as “adjusted gross income” is often not an accurate indication of the applicant’s actual cash flow. Adjustments may be added back to the adjusted gross income to arrive at income for loan-qualifying purposes including:

- Depreciation on real property
- Depreciation on personal property, if at least 3 years of depreciation remain
- Loss carry-forward from prior year(s) (with acceptable explanation of the loss)
- IRA/Keogh contributions
- Interest income exclusions
- Dividend exclusions
- Non-cash losses
- Pension (with acceptable documentation to verify the borrower is recipient of 100% of pension funds.)

**Non-taxable Income:** Fully documented tax-free income will be grossed up by no more than 33% to calculate qualifying income.

**Rental Income for Investment Properties:**

If the subject property being financed is a 1-4 unit investment property and the rental income is being used for qualifying purposes, use 75% of the gross income from the current Fair Market Rental Income Survey provided by the appraiser for qualifying purpose.

**Rental income from property other than subject property:**

When rental property is not reflected on the borrower’s most recent filed 1040’s, use a current fair market rental income survey (see Rental Survey section.) If income shown on the most recent tax return is collected for a period of less than 12 months, instead of using a rental survey, the income shown on the tax return may be used. It must be averaged over a 12 month period.

**Rental income from an Accessory Dwelling Unit (ADU)/Mother-in-law Unit (MIL) or boarder income** may be used if reported on tax returns. Rent schedule is acceptable for rental qualification when subject property is a purchase with an ADU/MIL per guidelines above.

<table>
<thead>
<tr>
<th>Income / Employment continued</th>
<th>Tax Return Analysis:</th>
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<tbody>
<tr>
<td>The applicant’s income will be determined by averaging the most recent two years income, and in some cases, the year-to-date P&amp;L prepared by a disinterested third party. The year-to-date P&amp;L will be used if the income reported is representative of previous years’ income. For individual federal income tax returns, the income listed as “adjusted gross income” is often not an accurate indication of the applicant’s actual cash flow. Adjustments may be added back to the adjusted gross income to arrive at income for loan-qualifying purposes including:</td>
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<tr>
<td>Income / Employment continued</td>
<td>Retirement</td>
</tr>
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</tr>
<tr>
<td>Document regular and continued receipt of retirement and/or pension income, as verified by:</td>
<td></td>
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<tr>
<td>• Letters from the organizations providing the income,</td>
<td></td>
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<tr>
<td>• Copies of signed federal income tax returns,</td>
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<tr>
<td>• IRS W-2 or 1099 forms, or</td>
<td></td>
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<tr>
<td>• Proof of current receipt</td>
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</tr>
</tbody>
</table>

**Established 401(k), IRA or Keogh retirement account**

If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years after the date of the mortgage application. In addition

- the borrower must have unrestricted access without penalty to the accounts; and
- if the assets are in the form of stocks, bonds, or mutual funds, 70% of the value (remaining after any applicable costs for the subject transaction) must be used to determine the number of distributions remaining to account for the volatile nature of these assets.

**New 401(k), IRA or Keogh retirement account:**

If retirement income is paid from a distribution of a 401(k), IRA or Keogh retirement account, funds must meet the Asset Depletion test, (refer to the Asset Depletion section within this matrix. The borrower 1) must have unrestricted access without penalty to the accounts; and, 2) if the assets are in the form of stocks, bonds or mutual funds, use 100% of the value (remaining after any applicable costs for the subject transaction) to account for the volatile nature of these assets. If the applicant does not currently have a scheduled distribution plan set up for funds in these types of account, but is eligible to withdraw these funds without penalty, please refer to the Asset Depletion section within this matrix.

**Employment Gap/Previous Employment:**

Applicants who are beginning to receive income from re-entering the workforce, but have had a job gap over 30 days may use the new income with documentation of previous employment for the most recent two year period. If an applicant currently has less than a two-year employment and income history, new income may be used to qualify if there is evidence of a previous employment history prior to two years, or the applicant was previously a student with acceptable documentation.

New income will be considered with receipt of the following documentation:

- Consider new contracts with a copy of the contract along with first pay stub
- New retirement income allowed with supporting documentation as required.
- Alimony and/or child support with documentation and proof of receipt of a minimum of three months of payment: a court mandated that such payments must continue for a minimum of 36 months after the funding date.
- Compensation change with documentation and proof of receipt of a minimum of one month’s payment

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**Relative or Interested Party Employer:**
When utilizing income received when employed by a relative, seller, or realtor for qualifying purposes, a paystub dated within 30 days of the loan application, 2 years signed and dated tax returns, and a Verification of Employment is required. In addition, the Bank will require evidence that the applicant has no ownership interest in the business.

**Verbal Verification of Employment (VVOE) is required as follows:**
The Bank may also obtain a verbal verification of employment in lieu of the written verification by completing the appropriate form documenting the verbal verification. The Bank may verify directly with the applicant’s employer via telephone within three business days prior to funding or on the day of funding that the applicant is still employed on refinance transactions and within five business days on purchase transactions.

**IRS Form 4506-T** – a signed and processed IRS Form 4506-T is required on all loans to obtain the applicant(s)’s tax return transcripts for the two years prior to the loan application, regardless of income or documentation type. All loan submissions must include a signed IRS Form 4506-T. If a borrower has not filed the most recent tax returns prior to April 15 or an extension is obtained, the most recent tax return may be submitted with a stamp from the Internal Revenue Service verifying they have been received. If there is an amount owed, a copy of the cancelled check is also required. If borrower used E-File to file tax returns, proof the filing and a copy of the canceled check for any amount owed may be submitted. If there is a substantial increase of income for that year, a 4506-T verification from the IRS may be required.

**Income Documentation:**
All documentation must be prepared by an appropriate person other than the borrower or other interested parties.
- A profit-and-loss statement prepared by a self-employed borrower and validated by a third-party accountant would be acceptable.
- Tax returns prepared by a borrower that have been filed with the IRS and validated with the results of a processed 4506-T would be acceptable.

**Income that may not be included in the calculation of qualifying ratios includes:**
- Veteran’s Administration education payments;
- Retained earnings;
- Signature loans;
- Lines of credit on credit cards;
- Overdraft protection;
- Expense account payments;
- Income tax refunds as shown on tax returns;
- Forgiveness of debt;
- Gambling income;
- Income derived from short-term property rentals (one week or less) on subject property;
- Income derived from illegal activities; or
- Any source of income that cannot be verified by acceptable documentation.
<table>
<thead>
<tr>
<th>Interest Only</th>
<th>Interest only loans are qualified based on a fully amortized payment in the following manner:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>30 Years</td>
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<tr>
<td></td>
<td>• 3 year interest only – qualify at greater of start rate or fully indexed rate for a fully</td>
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<tr>
<td></td>
<td>amortized term of 27 years.</td>
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<tr>
<td></td>
<td>• 5 year interest only - qualify at greater of start rate or fully indexed rate for a fully</td>
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<tr>
<td></td>
<td>amortized term of 25 years.</td>
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<tr>
<td></td>
<td>• 7 year interest only – qualify at greater of start rate or fully indexed rate for a fully</td>
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<tr>
<td></td>
<td>amortized term of 23 years.</td>
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<tr>
<td></td>
<td>40 Years</td>
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<td></td>
<td>• 3 year interest only – qualify at greater of start rate or fully indexed rate for a fully</td>
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<tr>
<td></td>
<td>amortized term of 37 years.</td>
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<tr>
<td></td>
<td>• 5 year interest only - qualify at greater of start rate or fully indexed rate for a fully</td>
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<tr>
<td></td>
<td>amortized term of 35 years.</td>
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<tr>
<td></td>
<td>• 7 year interest only – qualify at greater of start rate or fully indexed rate for a fully</td>
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<tr>
<td></td>
<td>amortized term of 33 years.</td>
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<tr>
<td></td>
<td>Minimum FICO Score is 660</td>
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<td></td>
<td>Maximum loan-to-value and Combined loan-to-value is 80%.</td>
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<tr>
<td></td>
<td>Maximum loan amount is $5,000,000</td>
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<td>All interest-only loans require a minimum of six months PITI cash reserves based on the fully</td>
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<td></td>
<td>amortized payment as calculated above.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Interested Party Contribution</th>
<th>Refer to Fannie Mae guidelines.</th>
</tr>
</thead>
</table>

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Loan Amount/LTV

Minimum Loan Amount: $20,000

Maximum Loan Amount:
- A+ Credit owner Occupied is $7,500,000.
- A Credit Loan is $2,500,000.

Purchase
If the seller purchased the property within 6 months, the LTV will be calculated using the lesser of the seller's acquisition cost, current sales price or current appraised value.

Refinance:
LTV will be calculated on properties purchased within 12 months by using the lesser of purchase price or current appraised value. Properties purchased more than 12 months ago, the value will be based on the current appraised value.

<table>
<thead>
<tr>
<th>Loan Amount/LTV</th>
<th>Minimum Loan Amount: $20,000</th>
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<tbody>
<tr>
<td>Maximum Loan Amount:</td>
<td></td>
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<tr>
<td>- A+ Credit owner Occupied is $7,500,000.</td>
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<tr>
<td>- A Credit Loan is $2,500,000.</td>
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<thead>
<tr>
<th>Purchase and Rate &amp; Term Refinance - Owner Occupied and Second Home</th>
<th>Purchase and Rate &amp; Term Refinance - Owner Occupied and Second Home</th>
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<tbody>
<tr>
<td><strong>30-Year Amortization</strong></td>
<td><strong>40-Year Amortization</strong></td>
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<tr>
<td>$500,000 660 660 660 680 700</td>
<td>$500,000 660 660 660 680 700</td>
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<td>1,000,000 660 660 660 680 700</td>
<td>1,000,000 660 660 660 680 700</td>
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<td>2,000,000 660 660 660 680 740</td>
<td>2,000,000 660 660 660 680 700</td>
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<td>3,000,000 660 680 680 680 700</td>
<td>3,000,000 660 660 680 680 720</td>
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<td>5,000,000 680 720 720 720 740</td>
<td>5,000,000 660 660 680 700 720</td>
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<tr>
<td>7,500,000 720 720 720 720 740</td>
<td>7,500,000 660 660 680 700 720</td>
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<thead>
<tr>
<th>Non-Owner Occupied Investment Properties</th>
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<tbody>
<tr>
<td>Basic and Advanced Non-Owner Occupied</td>
</tr>
<tr>
<td>Purchase and Rate &amp; Term Refinance</td>
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<td><strong>500,000 660 660 660 680 700</strong></td>
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<td>1,000,000 660 660 660 680 700</td>
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<td>2,500,000 660 660 660 660 680</td>
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<td>5,000,000 680 700 740</td>
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<tr>
<td>- Cash-out Refinance - Cash out</td>
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<td>2,500,000 660 660 680</td>
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</tbody>
</table>

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<thead>
<tr>
<th>Cross Collateral Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Owner Occupied and Second Home</td>
</tr>
<tr>
<td><strong>484,350 660 660 660 680 680</strong></td>
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<tr>
<td>1,000,000 660 660 660 660 680</td>
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<td>2,000,000 660 660 660 680 700</td>
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<td>3,000,000 660 660 660 660 700</td>
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<tr>
<td>5,000,000 680 720 720</td>
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<tr>
<td>7,500,000 720 720 720</td>
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<tr>
<td>Non-Owner Occupied (OOR)</td>
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<tr>
<td><strong>2,500,000 660 660 660 680 700</strong></td>
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<tr>
<td>5,000,000 660 660 660 680 700</td>
</tr>
</tbody>
</table>

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Loan Amount/LTV continued

### Loan Amount/LTV Notes:

1. Max CLTV 80.01% - 90% up to $2.00MM
   a. Primary Residence only
   b. Purchase and rate and term only
   c. 40 yr. term CLTV 75.01% to 90% limited to $1.50M
2. Max CLTV = LTV unless noted differently.
3. No subordinate financing allowed on Cash-out Refinance transactions.
4. Advanced Non-Owner - If an investor is applying to finance a single family property that is not his/her primary residence or second home and the applicant owns ten or more single-family homes or a combination of fifty units of any real estate property type, the loan application will be subject to Loan-to-Value requirements as defined in the Bank’s LTV/FICO matrices listed above.

For the purposes of this analysis a unit will be defined as:
- A single-family 1-4 unit property where each residential dwelling will be defined as a separate unit;
- Each separate dwelling in an apartment complex will count as a unit, meaning that a building with five apartments will count as five units;
- Industrial, Office and Retail property unit count will be measured by the number of leases in each of these properties.
<table>
<thead>
<tr>
<th>Mortgage Broker Loans</th>
<th>The Bank will accept a loan application through the retail channel from an Approved Broker if the loan is to be originated for the approved mortgage broker or for that approved mortgage broker’s employees or loan consultants.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage Insurance</td>
<td>Not offered at this time</td>
</tr>
<tr>
<td>Mortgages to One Borrower</td>
<td>The policy on mortgage ownership limits is designed to protect the company from excessive risk exposure with the same borrower. Luther Burbank Savings will finance up to five residential properties, (1 – 4 units) for a borrower. Pricing Adjustments apply on properties 3, 4 and 5.</td>
</tr>
</tbody>
</table>
| Non-Arm’s Length Transaction | The Bank will not lend on non-arm’s length transactions. This includes but, is not limited to:  
  - Applicant is purchasing a property from a builder who is also taking the applicant’s existing residence as trade for equity or may be purchasing the applicant’s existing residence.  
  - Any type of transaction where the builder, property seller, and/or any party currently on title is a company owned by the applicant.  
  - The applicant is related to and/or affiliated with the builder, property seller, broker or on title as a registered agent, sale agent, partner or employee of the builder or broker.  
  - Title is in the name of a LLC or owned partially or wholly by the applicant, and the applicant is interested in transferring from the LLC to self.  

All non-arm’s length transactions are prohibited except the following:  
  - The buyer may be related to the seller as a parent, child, or sibling only. |
Non-Occupant Co-Borrowers

The Bank will allow applicants who will not occupy the property to be added to the loan as co-borrowers in order to qualify for the loan. A non-occupant co-borrower commits to repay the loan in the event that the primary borrower/occupant fails to meet the terms of the loan agreement.

The Bank will require the non-occupant borrower to sign the note and deed of trust.

The occupying borrower and non-occupying co-borrower must have sufficient combined income and liquidity to qualify under LBS' standard requirements. Non-occupant co-borrower is limited to purchase transactions and rate and term refinance transactions. If a non-occupant co-borrower was part of the original purchase transaction they are eligible on cash-out refinance transactions as well. Occupant and non-occupant borrowers must be related. A relative is defined as the borrower's parent, spouse, child or other dependent or by any other individual who is related to the borrower by blood, marriage, adoption or legal guardianship; or a fiancé, fiancée or domestic partner. The non-occupant borrower cannot be or have any affiliation with the builder, the developer, the real estate agent or any other interested party to the transaction.

Number of Properties

<table>
<thead>
<tr>
<th>Occupancy Type</th>
<th>Total Financed Properties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Residence</td>
<td>No Limit</td>
</tr>
<tr>
<td>Second Home</td>
<td>No Limit</td>
</tr>
<tr>
<td>Investment Property</td>
<td>No Limit</td>
</tr>
</tbody>
</table>

Occupancy

Owner occupied, second homes & investment property loans are acceptable. If the applicant has not occupied the property for a minimum of six months prior to submitting an application for an owner occupied refinance, then the property will be considered an investment for purpose of pricing and loan-to-value limitations, regardless of the applicant's statement that they will occupy. However, a delayed purchase or receipt of a Certificate of Occupancy within 60 days may be treated as owner occupied with possible other requirements.

Prepayment Penalty

Regulation Z covered loans are not subject to a prepayment penalty. Loans not subject to Regulation Z are subject to a prepayment penalty.
<table>
<thead>
<tr>
<th>Property Types</th>
<th>Eligible:</th>
<th>Ineligible:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Primary Residence: 1 – 4 Unit Owner-Occupied;</td>
<td>- Rural properties not residential in nature;</td>
</tr>
<tr>
<td></td>
<td>- Second Home: One unit Owner-Occupied;</td>
<td>- Properties that include more than 25 acres of land;</td>
</tr>
<tr>
<td></td>
<td>- Investment Property: 1 – 4 unit Non-Owner Occupied;</td>
<td>- Manufactured Homes;</td>
</tr>
<tr>
<td></td>
<td>- PUDs and Condominiums, including high rise condominiums</td>
<td>- Leasehold manufactured properties;</td>
</tr>
<tr>
<td></td>
<td>- Mixed-Use properties that meet FNMA eligibility guidelines</td>
<td>- Leasehold condominiums;</td>
</tr>
<tr>
<td></td>
<td>- Properties in C3 condition per the appraisal. Properties in C4 condition may be considered on a case by case basis and will be subject to repairs.</td>
<td>- Properties under current or intended use for commercial purposes;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Working farms, ranches or orchards;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Timeshares;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Commercial properties;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Property operated as a hotel, motel, inn, or bed and breakfast;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Common interest properties;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Segmented ownership properties;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Cooperatives;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Houseboats;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Leased land;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Dwellings damaged by waste, fire, earthquake, flood or other natural disaster;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Properties exposed to be toxic or hazardous waste;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Properties considered to over or under-developed for the area;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Mixed-Use properties that do not meet FNMA eligibility guidelines; and,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Unique properties in which marketability cannot be established (log homes, earth, dome, etc.);</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Properties with unreinforced brick masonry foundations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Properties in C5 condition per the appraisal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Properties in “average minus (-)” condition per the appraisal</td>
</tr>
</tbody>
</table>

If the subject property is currently listed for sale the loan is not eligible for a rate/term refinance or a cash-out refinance. Properties listed for sale within the past 12 months are not eligible for cash-out transactions. Properties that were listed for sale and taken off the market within the past 180 days are eligible for a rate/term refinance as follows:
- Properties that were listed for sale must have been taken off the market on or before the application date.
- Every effort should be made to verify the property is no longer listed for sale and the underwriter should give additional scrutiny to these transactions to ensure that refinancing the loan provides a benefit to applicant.
Ratios/Qualifying Rate

Housing and Total Debt-to-Income ratios are as follow:

1-4 Family Owner Occupied – 45% is the guideline and not to exceed 47%. This higher ratio is considered when compensating factors exist. When using asset depletion, the maximum debt-to-income ratio is 43%.

1-4 Investor Owned Residential Real Estate Property – 43% is the guideline and not to exceed 45%. The higher ratio is considered when compensating factors exist.

The following factors are used for qualifying purposes:

- Qualified at fully amortizing payment. Qualifying rate is the greater of start rate or fully indexed rate.
- Interest-Only loans – Refer to Interest Only Section
- The hazard insurance premium, calculated from the insurance quote in the file divided by 12. If the insurance quote is unavailable, the annual premium is computed at .0035 multiplied by the lesser of the loan amount or the replacement cost of the property as shown on the appraisal report.
- California real estate taxes – use the actual tax rate on refinances and 1.25% x the value, divided by 12 for purchases.
- Washington real estate taxes - use the greater of actual taxes provided in preliminary title report or taxes provided by the appraiser in the appraisal report.
- Installments due toward repayment of secondary financing (If payments are quarterly or semi-annual, payments are calculated on a monthly basis and included for qualifying purposes);
  - Homeowners Association Dues (condominium and planned unit developments);
  - Mello Roos payments or similar bond/supplemental taxes which are imposed in certain communities, converted to a monthly amount; and
  - Flood insurance premium (annual premium divided by 12)
  - Monthly installment debt as reflected on the credit report. In order to exclude installment debt from qualifying debt obligations, it must be paid down to ten months.
  - For revolving debt, in the absence of a stated payment, 5% of the outstanding balance will be considered to be the required monthly payment. Payments of less than $10 need not be considered. Paying off revolving debt to avoid including the debt in debt ratios is not permitted
  - The Bank will not include a payment where the applicant co-signed for a third party on a loan if there is verification via 6 months canceled checks that the other party makes the payments. The account must be rated as agreed on the credit report, if not, the payment will be included.
  - Non-occupant co-Borrowers are allowed to use blended ratios
  - Business loans on the personal credit report are used unless it is shown on the business tax returns and 6 months canceled checks are provided by the business.

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| Refinance - Rate & Term | A rate and term refinance is a new mortgage loan that pays off in full the sum of the existing loan(s). It is acceptable to include:  
- Closing costs, discount points, prepayment penalties, and any prepaid items, such as hazard insurance and property taxes for the current year as part of the transaction.  
- Unpaid principal balance of an existing first lien.  
- Subordinate liens (closed-end seconds, HELOCs, and home improvement seconds) which are more than one year old or if subordinating. If paying off a 2nd HELOC, there cannot be any draws in the past 12 months.  
Buyouts of an ex-spouse or joint owner may be treated as a rate/term refinance if the following conditions are met:  
- The property has been owned and occupied for the previous 12 months by the applicant and joint owner, except in the case of an inheritance. The file contains documentation of the divorce property settlement or estate disposition.  
- The loan proceeds must be disbursed directly to the ex-spouse or joint owner (or his/her authorized agent) and not to the applicant. The disbursement to the ex-spouse or joint owner must be reflected on the Closing Disclosure.  
The inclusion of any delinquent property taxes or HOA dues in the loan amount is not allowed on a rate and term refinance. Please refer to credit section regarding the unacceptability of delinquent property taxes.  
Other than payment of the first and second liens and closing costs, incidental cash back may not exceed the lesser of 1% of the principal amount of the new mortgage or $10,000. |
| Refinance - Cash-out | A cash-out refinance involves a new mortgage loan in which the cash back exceeds the lesser of 1% of the new mortgage principal balance or $10,000 and is used to pay off the unpaid principal balance of the existing first mortgage and the amount required to satisfy any outstanding subordinate mortgage liens, no matter how old. Any additional cash back received may be used by the applicants for any purpose. A statement from the applicant(s) disclosing the purpose for the cash out is required.  
It is acceptable to include closing costs, discount points, prepayment penalties, and any prepaid items, such as hazard insurance and property taxes (current and previous year), as part of the transaction.  
All cash out transactions are subject to RESPA, Regulation Z and Lender Paid Mortgage Compensation requirements, unless they are a business entity. |
### Rental Survey

Rental surveys are used as an underwriting tool as defined throughout the matrix. If a rental survey is required, please follow these instructions:

- Include the fee for the rental survey in the applicable disclosures
- The rent survey must include exterior photos of the subject property and each of the comparables.
- The survey must be ordered through the Mercury Network. Accessing the Mercury Network is easy and available through our broker portal within the “Appraisal” tab or directly online at [https://lutherburbank.vmpclient.com](https://lutherburbank.vmpclient.com).

### Restricted Stock

- Allow use of vested restricted stock as income and reserves.
- Allow the use of income from restricted stock if borrower paid taxes on the receipt of the stock and the dividends paid to borrower. This would be used if there was 2 year history of receiving restricted stock and it is likely to continue.
- Borrower must be 100% vested on stock being used for income
- Need to know restricted conditions
- Document if the borrower may liquidate the stock or must it be seasoned through the vesting period

### Source of Funds

Unacceptable source of funds include:

- Personal or unsecured loan/line of credit
- Gifts that require full or partial repayment
- Cash advance from a revolving credit card
- Cash on hand
- Unverified stated value of non-publicly traded stocks

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| Subordinate Financing | Please refer to rate sheet for maximum combined loan-to-value (CLTV). The following requirements apply CLTV 80.01% – 90% rate sheet adjustment:

- Primary Residence only
- Departing residence may be retained by borrower. However the departing residence program is not allowed for LTV/CLTV above 80%. Borrowers must qualify with all housing related payments.
- Purchase transactions only
- Interest only option not available

The following requirements apply to subordinate financing on all loans:

- Cash out refinance does not allow subordinate financing.
- Qualifications based on Ability to Repay Requirements and the following:

For portfolio loans, the Bank will allow secondary financing behind a Bank first trust deed lien with an LTV of 80.0% or less on owner occupied residential properties, subject to the following requirements:

- If the secondary financing is not fully amortizing, it must have a maturity date of more than five (5) years but not more than thirty (30) years;
- The Bank does not prescribe the terms or loan features that are obtained for subordinate financing, but the calculation method used to determine the applicant’s prepayment ability is to use substantially equal monthly, fully-amortizing payments that are based on the greater of the fully indexed rate or any introductory interest rate.
- High Priced Mortgage Loans (HPML) may not have a second deed with a balloon payment;
- The monthly payment on the secondary financing must be included in the calculation of the borrower’s monthly housing expense;
- Copies of the note and deed of trust for the secondary financing must be provided;
- Negative amortization is not permitted nor is equity share or shared appreciation;
- Subordinate financing from an applicant’s employer may not include a provision requiring repayment upon termination;
- Subordinate financing from the property seller:
  - Allowed for owner-occupied primary residences only;
  - Affects interested party contribution limits; and
  - Should be at market rates. If the interest rate is more than 2% below Fannie Mae’s posted net yield in effect for second mortgages at the time of closing, it must be treated as a sales concession, and a dollar for dollar reduction must be made to the sales price for computing ratios.
- The secondary financing must not contain prepayment penalties.
Subordinate Financing continued

- Employer Seconds containing the following requirements are permitted if the meet the following requirements:
  - Review of a formal second mortgage program;
  - Identify the employer’s address;
  - Indicate how finds will be transferred;
  - Payments must be fully amortizing and substantially identical;
  - Deferred payments are acceptable if the applicant qualified using a fully amortizing payment on the secondary financing;
  - If repayment is required due to termination, the employee must receive a minimum of six months to repay the debt or provide a prepayment term of at least 60 months. If repayment is less than 6 months it is acceptable if:
    - The CLTV is 80% or less;
    - Applicant has sufficient assets to pay off the 2\textsuperscript{nd} trust deed, or
    - Loan is forgiven by the employer on a pro-rata basis, not to exceed 4 years.

**Refinance Loans with Secondary Financing**

Junior liens (including equity lines) that are not paid off from the proceeds of the refinance must subordinate to our new first trust deed. A copy of the subordination agreement should be required to document the file and will most often be obtained through escrow.

The terms and conditions of the loan should follow the same guidelines for payments and terms as noted above.

Temporary Buy Downs

N/A at this time.

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| Title and Escrow Documentation | **Short Form Policies are acceptable on Refinance transactions.** The preliminary title report must reflect a minimum 24 month title history.  
Short Sale and For Sale by Owner transactions require 10 year chain of title  
Broker must have no ownership in the settlement agent business.  
Loan documents may not be delivered by loan officer. Documents must be signed in the presence of escrow officer or title officer, or by a notary designated by same. |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trusts</td>
<td><strong>Revocable Trusts are allowed.</strong> Luther Burbank Savings trust certification required.</td>
</tr>
<tr>
<td>Underwriting</td>
<td>Loans must meet all Luther Burbank Savings Guidelines. If policy is silent defer to Fannie Mae/Freddie Mac guidelines. DU automated underwriting is not acceptable.</td>
</tr>
</tbody>
</table>