INTERNAL MEMORANDUM

DATE: **November 05, 2018**
TO: **Sales, Transaction Manager, and Underwriting Departments**
CC: **Executive Team, Capital Markets, and Compliance Department**
FROM: **Kyle Gunderlock**
RE: **DSCR Calculations**

Citadel Servicing Corporation ("CSC") offers a Debt Service Coverage Ratio ("DSCR") program under our Outside Dodd-Frank™ ("ODF") product to qualified applicants. CSC limits the DSCR program exclusively to investment properties that are non-owner occupied. Whereas, these borrowers are influenced by the market rents for the property, which relate to their payment to CSC, two separate ratios are required by underwriting (1) DSCR and (2) Debt-to-Income ("DTI"). Each ratio is independent and requires a unique calculation.

(1) Debt Service Coverage Ratio ("DSCR") Calculation:

Calculation: (A) Subject's Rents divided by (B) Subject's Monthly Payment(s) equals (C) DSC Ratio

(A) "Subject's Rents" will be equal to the reconciled amount of Gross Income generated, or anticipated to be generated, by the subject property.

- The rents should be considered reconciled by the underwriter with consideration toward any existing rental agreement, a rental survey as part of an appraisal (Form 1007), and a public records search for the area. Actual rents may be the utilized figure, even if higher than the 1007 figure, should it prove to be marketable and reasonably replicated in the event the existing tenant departs in the unforeseen / near future.
- No Vacancy Factor will be assessed to the figure.
- Rents from family members or related parties can still be considered with documentation via canceled checks or recurring consistent deposits into a bank account for a minimum of six (6) months prior to the date of application.
- A property may be vacant at the time of CSC's transaction and subject to the following transactional controls:

  Purchase Transaction: Underwriter should use a reconciled rent estimate based on 1007 and internal rent survey.

  Refinance Transaction: Underwriter should evaluate the reason for the current vacancy and condition for a Letter of Explanation ("LOE") about if and when the property will be occupied by a tenant. If it is determined the property is not going to be tenant occupied, or not realistically likely to be tenant occupied in the Underwriters judgment, in the near future then the DSCR Program is likely not the appropriate program. Near future can be stated as within approximately the next two-month period after the transaction's closing.

(B) "Subject's Monthly Payment(s)" represents the subject property's liabilities in the form of Principal, Interest, Taxes, Insurance, and Association fees ("PITIA") that will be due.

- CSC will utilize the actual payment calculated to be due on the first monthly payment. This payment can be based on the Interest Only ("IO") payment, should that IO program be utilized at the selection for Borrower, Broker, and / or Mortgage Loan Originator.

- Given use of the actual payment, CSC will utilize the start rate for the DSCR calculation, even if the fully-indexed rate may be higher.
- If subject has subordinate financing, it should be included in the PITIA figure.

(C) DSCR Overlays by calculated Ratio:

- Ratio of **≥1.0** – Property is Cash Flow Positive
  - Property stands on its own and does not need additional consideration

- Ratio of **≥0.750 & <1.0** – Property is Cash Flow Negative
  - Property does not stand on its own and is considered at higher risk. CSC will require:
    (i) Rate Adjustment by program; and one of (ii) or (iii) below, or combination thereof, whereas:
    (ii) Documentation of additional rental property(ies) whereas the aggregate of all properties inclusive of subject have a DSCR of ≥1.0; and / or
    (iii) Document seasoned funds for use as an Asset Depletion source as otherwise consistent with CSC's written Guidelines.

- Ratio of **<0.750** – Property is severely Cash Flow Negative:
  - Property does not stand on its own and is considered at higher risk. CSC will require:
    (i) Loan Amount to be reduced until a calculation of ≥0.750 is achieved, Rate Adjustment by program; and one of (ii) or (iii) below, or combination thereof, whereas:
    (ii) Documentation of additional rental property(ies) whereas the aggregate of all properties inclusive of subject have a DSCR of ≥1.0; and / or
    (iii) Document seasoned funds for use as an Asset Depletion source as otherwise consistent with CSC's written Guidelines.
  - CSC Senior Management may on a case-by-case consider loans with <0.75 DSCR when risk is substantially mitigated in their sole discretion by compensating factors.

Condotels properties are allowable property types though each is likely to have a 1007 based on a monthly rental rate versus a nightly or weekly rental rate customarily achieved. In the event the transaction is a refinance, Applicant may document the rents received via three-month tablature rent roll. If a purchase transaction, CSC Account Executive should consider, prior to submission, structuring the file as a NOO BP loan, where the DSCR is not measured.

(2) Debt-to-Income:

Calculation: Liabilities / Income = DTI Ratio

The DTI Ratio will be otherwise consistent with CSC's Guidelines including utilization of the higher of the Fully Index Rate or Start Rate. DTI should also be measured of the first fully amortized payment for interest only loans as otherwise consistent with CSC's Guidelines and ATR.

Whereas CSC's DSCR Program is qualifying off the DSCR, the DTI is superfluous, but should equally be measured to a maximum of 50% DTI.

Senior Management reserves the right and will have the final discretion for applications for the program that may result in limitations on LTV, loan amounts, or rate adjustments.