



CITADEL
SERVICING CORPORATION

Non-Owner-Occupied Business Purpose Exemption Guide

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The following presentation is for educational and informational purposes and should not be construed as legal advice. Recipients should not construe the contents of this Program Guide as legal, tax, accounting, or investment advice; recipients should consult their own counsel, tax and financial advisors as to legal and related matters concerning any transaction. Further, this Program Guide does not purport to be all-inclusive or to contain all of the information that a recipient may require.

1. SUMMARY

Citadel Servicing Corporation (“CSC”) has reviewed the Official Interpretations as provided by the CFPB in connection to Regulation X and Regulation Z. These Official Interpretations make the statement that any mortgage loan against a Non-Owner-Occupied (“NOO”) investment property being used to “(i) acquire, (ii) improve, or (iii) maintain” a property (specifically not called out as the “subject” in “Comment 3(a)-3.ii.A.4” of “1026.3 – Exempt Transactions”) can be considered specifically a “Business Purpose” loan. The identification of a mortgage as Business Purpose loan, compared to a consumer loan, allows for an exemption to the requirements of Regulation X and Regulation Z.

As advised and permitted in the Official Interpretation of §1026.3(a) of Regulation Z, CSC will rely primarily on the borrower’s written statement of purpose for the loan request in order to determine whether or not the loan request is for a “Business Purpose”. Each applicant will be provided with and allowed to review the CSC Business Purpose Loan Certification and Attestation form (“Attestation”). The Attestation form is attached hereto as Exhibit A. A completed Attestation must be received from the borrower as a condition for CSC to fund the loan.

With an executed Business Purpose Attestation from the borrower, CSC can originate or purchase non-owner-occupied loans without regard to compliance and conformance to Disclosure issuance, transaction timing, or fee tolerances required under Regulation X and / or Regulation Z. Further, as Regulation Z also incorporates the Ability-to-Repay eight-point test, CSC may also disregard the test and requisite documentation therein mandated.

2. BACKGROUND AND REGULATORY OVERVIEW

In general Regulation X is the Real Estate Settlement Procedures Act (“RESPA”) and covers the disclosure of a Good Faith Estimate (“GFE”), whereas Regulation Z is for Truth in Lending Act (“TILA”) and covers the disclosure of a Truth-in-Lending form (“TIL”).

Both Regulation X & Regulation Z allow for exemptions to compliance under certain circumstances, specifically loans for a Business Purpose:

§ 1026.3 – Exempt transactions.

The following transactions are not subject to this part or, if the exemption is limited to specified provisions of this part, are not subject to those provisions:

- a. Business, commercial, agricultural, or organizational credit.
 - 1. An extension of credit primarily for a business, commercial or agricultural purpose.

For consistency, Regulation X adopts the definition of “Business Purpose” via Regulation Z:

§ 1024.5 – Coverage of RESPA.

b. BUSINESS PURPOSE LOANS.

An extension of credit primarily for a business, commercial, or agricultural purpose, as defined by 12 CFR 1026.3(a)(1) of Regulation Z. Persons may rely on Regulation Z in determining whether the exemption applies.

CSC has interpreted “Business Purpose” as found in the Official Interpretations to §1026.3(a):

OFFICIAL INTERPRETATION TO §1026.3(a)

3. FACTORS.

In determining whether credit to finance an acquisition—such as securities, antiques, or art—is primarily for business or commercial purposes (as opposed to a consumer purpose), the following factors should be considered:

- i. GENERAL.
 - A. The relationship of the borrower's primary occupation to the acquisition. The more closely related, the more likely it is to be business purpose.
 - B. The degree to which the borrower will personally manage the acquisition. The more personal involvement there is, the more likely it is to be business purpose.
 - C. The ratio of income from the acquisition to the total income of the borrower. The higher the ratio, the more likely it is to be business purpose.
 - D. The size of the transaction. The larger the transaction, the more likely it is to be business purpose.
 - E. The borrower's statement of purpose for the loan.

However, the preceding Official Interpretation has been supplemented further, marking a change in stance for the direct discussion of an investment property:

OFFICIAL INTERPRETATION TO §1026.3(a)

4. NON-OWNER-OCCUPIED RENTAL PROPERTY.

Credit extended to acquire, improve, or maintain rental property (regardless of the number of housing units) that is not owner-occupied is deemed to be for business purposes. This includes, for example, the acquisition of a warehouse that will be leased or a

single-family house that will be rented to another person to live in. If the owner expects to occupy the property for more than 14 days during the coming year, the property cannot be considered non-owner-occupied and this special rule will not apply. For example, a beach house that the owner will occupy for a month in the coming summer and rent out the rest of the year is owner occupied and is not governed by this special rule. (See comment 3(a)-5, however, for rules relating to owner-occupied rental property.)

Even so, both Regulation X and Regulation Z are clear not to overstep State laws for disclosure:

§1024. 5 – Coverage of RESPA.

c. Relation to State laws.

1. State laws that are inconsistent with RESPA or this part are preempted to the extent of the inconsistency. However, RESPA and these regulations do not annul, alter, affect, or exempt any person subject to their provisions from complying with the laws of any State with respect to settlement practices, except to the extent of the inconsistency.

OFFICIAL INTERPRETATION TO 5(c)(1)

State laws that are inconsistent with the requirements of RESPA or Regulation X may be preempted by RESPA or Regulation X. State laws that give greater protection to consumers are not inconsistent with and are not preempted by RESPA or Regulation X. In addition, nothing in RESPA or Regulation X should be construed to preempt the entire field of regulation of the practices covered by RESPA or Regulation X, including the regulations in Subpart C with respect to mortgage servicers or mortgage servicing.

3. PROGRAM

CSC relies upon the NMLS and State Regulators to provide background diligence on mortgage originators as considered in CSC's Know Your Customer Policy. CSC has therefore taken the stance that an MLO, Broker, and / or Lender / Seller will need to be appropriately licensed through the NMLS and State Regulator, where appropriate, without consideration to an exemption thereto. Each counter-party, as consistent with CSC's current policies and procedures in connection to Vendor Management, should have completed CSC's internal approval process in advance of submitting a loan file to CSC.

All loans made against Non-Owner-Occupied properties will utilize CSC's Non-Prime Program. In all instances, income will be documented via a Debt Service Coverage Ratio ("DSCR"). DSCR is calculated by dividing reconciled property rents from actual PITIA payments.

Loans made against Non-Owner-Occupied properties will:

- Conform to the applicable Pricing Matrix (See Exhibit B);
- Have a \$100k minimum loan amount;
- Have impounds;
- Have a term of 30-years that can be (i) either fully amortized or have an interest only term and (ii) be a Fixed Rate Mortgage or hybrid-ARM with a 5- or 7-year initial fixed term;
- Be subject to a 2-year Prepayment Penalty or the maximum allowable by state law as described in the Rate Matrix;
- Be limited to a set maximum LTV / CLTV for both Purchase & Refinance transactions as described on the Rate Matrix;
- Not be subject to disclosures required under TRID, RESPA or TILA;
- Not be tested for ATR, TILA, RESPA or TRID compliance; and / or
- Be subject to any other applicable Federal and State regulation.

4. GUIDELINES

The following are excerpts from the CSC Underwriting Guide pertaining to NOO loans:

3.37 INVESTMENT PROPERTY (NON-OWNER OCCUPIED)

An Investment property is a one-to-four-unit residential dwelling or a unit in a condominium complex or a PUD owned by an individual who does not occupy the dwelling. The dwelling is leased and occupied as a principal year-round residence to individuals other than the owner.

- *Vacant investment properties are not eligible for a refinance transaction.*
- *CSC limits the number of investment properties a borrower may own including subject to 20 properties, whether mortgaged or not.*

All borrowers purchasing or refinancing a one-to-four-family investment property must execute a One-to-Four-Family Rider with loan documents and provide rent-loss insurance coverage. If the subject is qualified with the full PITIA payment, then no rent loss coverage will be required.

VI. RENTAL INCOME REQUIREMENTS

DEBT SERVICE COVERAGE RATIO (“DSCR”)

CSC calculates the DSCR by dividing the sum of annual principal, interest, real estate taxes, property insurance, and homeowner’s / condominium association fees (collectively, “PITIA”) by the lesser of (i) annual in-place rent or (ii) market rent. Tenant occupied properties will require documentation of timely receipt for the prior two (2) months rental payments.

The minimum rental income required is 1.15 times greater than the subject’s PITIA (DSCR of 1.15 : 1.00).

5. DEFINITIONS

Ability-to-Repay (“ATR”): An eight-point test as provided under §1026.43(c)(2) for measuring and determining of a mortgagor’s reasonably expected ability to repay a mortgage according to its terms as documented by third-party records.

Business Purpose Loan(s): Loans made that are exempt to Regulation X and / or Regulation Z as defined in the CFPB’s Official Interpretation(s) thereto.

CFPB: The Consumer Financial Protection Bureau or any successor thereto.

Debt Service Coverage Ratio (“DSCR”): The ratio of current or anticipated market rents compared to the monthly debt obligations for an investment property (rent divided by PITIA payments).

Disclosures: Documents required to be provided to a mortgagor under Regulation X and Regulation Z including but not limited to a Closing Disclosure, Good Faith Estimate, Loan Estimate, or Truth-in-Lending form.

Official Interpretation: Supplemental commentary published by the CFPB provided to add clarification and explanation to specific provisions and subsections of to a denoted or referenced Act.

Regulation X: Real Estate Settlement Procedures Act (“RESPA”) of 1974, as amended, 12 CFR, Part 1024.

Regulation Z: Truth in Lending Act (“TILA”), as amended, 12 CFR, Part 1026.

SAFE Act: The Secure and Fair Enforcement for Mortgage Licensing Act of 2008 enacted on July 30, 2008, and mandates a nationwide licensing and registration system for residential mortgage loan originators (MLOs).



Exhibit A

Business Purpose Loan Certification and Attestation

Date:

Borrower Name(s):

Loan#:

Mailing Address:

Property Address:

By signing this document, I am confirming that my loan request is for business purposes and not household purposes, and that the loan proceeds are intended to be used and will in fact be used for business purposes only, and not my personal use. I also represent that I do not occupy the property as my Primary Residence or as a Second Home. I intend to lease or rent the property to a third party. I understand that because the loan will be made exclusively for business purposes, laws applicable to consumer purpose transactions, including but not limited to the following, are not applicable to this loan:

- Truth in Lending Act (15 U.S.C. § 1601 et seq.);
- Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.);
- Gramm-Leach Bliley Act (15 u.s.c. § 6802-6809);
- Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5101 et seq.); and / or
- Homeowners Protection Act (12 U.S.C. § 4901 et seq.).

By signing below, I confirm I have read and understand this document and I affirm that the Property to is to be a non-owner-occupied investment property.

Borrower 1

Date

Borrower 2

Date

Exhibit B



NON PRIME WHOLESAL RESIDENTIAL RATE SHEET & MATRIX

Date: 07/27/2020

GENERAL INFORMATION

Credit Tier	"AAA"	"AA"	"A"	"B"	"C"
Minimum FICO	≥ 750	≥ 725	≥ 700	≥ 675	≥ 650
LTV Threshold	Primary Residence Transactions				
≤ 50% LTV	4.875%	5.000%	5.125%	5.250%	5.375%
≤ 60% LTV	5.125%	5.250%	5.375%	5.500%	5.625%
≤ 65% LTV	5.250%	5.375%	5.500%	5.625%	5.750%
≤ 70% LTV	5.375%	5.500%	5.625%	5.750%	5.875%
≤ 75% LTV	5.500%	5.625%	5.750%	5.875%	6.000%
≤ 80% LTV	5.625%	5.750%	5.875%	6.000%	6.125%
Max LTV	"AAA"	"AA"	"A"	"B"	"C"
Purchase	80%	80%	80%	75%	70%
Refinance	75%	75%	75%	70%	65%
CLTV**	80%	80%	80%	75%	70%

Credit Tier	"AAA"	"AA"	"A"	"B"	"C"
Minimum FICO	≥ 750	≥ 725	≥ 700	≥ 675	≥ 650
LTV Threshold	Investor Property (20%+) or Secondary Home Transactions				
≤ 50% LTV	6.750%	6.875%	7.000%	7.125%	7.250%
≤ 60% LTV	6.875%	7.000%	7.125%	7.250%	7.375%
≤ 65% LTV	7.000%	7.125%	7.250%	7.375%	7.500%
≤ 70% LTV	7.125%	7.250%	7.375%	7.500%	7.625%
≤ 75% LTV	7.250%	7.375%	7.500%	7.625%	7.750%
≤ 80% LTV	7.375%	7.500%	7.625%	7.750%	7.875%
Max LTV	"AAA"	"AA"	"A"	"B"	"C"
Purchase	70%	70%	70%	70%	N/A
Refinance	70%	70%	70%	70%	N/A
CLTV**	70%	70%	70%	70%	N/A

Credit Tier	"AAA"	"AA"	"A"	"B"	"C"
Minimum FICO	≥ 750	≥ 725	≥ 700	≥ 675	≥ 650
LTV Threshold	Investor Property (20%+) or Secondary Home Transactions				
≤ 50% LTV	6.750%	6.875%	7.000%	7.125%	7.250%
≤ 60% LTV	6.875%	7.000%	7.125%	7.250%	7.375%
≤ 65% LTV	7.000%	7.125%	7.250%	7.375%	7.500%
≤ 70% LTV	7.125%	7.250%	7.375%	7.500%	7.625%
≤ 75% LTV	7.250%	7.375%	7.500%	7.625%	7.750%
≤ 80% LTV	7.375%	7.500%	7.625%	7.750%	7.875%
Max LTV	"AAA"	"AA"	"A"	"B"	"C"
Purchase	70%	70%	70%	70%	N/A
Refinance	70%	70%	70%	70%	N/A
CLTV**	70%	70%	70%	70%	N/A

ADJUSTMENTS

Description	Rate	Note
Cash-Out Refinance	0.250%	
Alt Doc - 30 Years	0.250%	PERSONAL Account, Credit Grades AAA to B
Alt Doc - 15 Years	0.250%	BUSINESS Account, Credit Grades AAA to B
Alt Doc - 10 Years	0.250%	Credit Grades AAA to B (or Asset Depreciation as additional source)
Alt Doc - 5 Years	0.250%	Pricing in Grid is for a 5/1 Hybrid ARM
30-Year Fixed	0.000%	Pricing in Grid is for a 5/1 Hybrid ARM
Interest Only (5-yr)	0.250%	30-Term, Min Loan \$250K, Grades AAA to B, Avail on 5/1 or 7/1
ARM	0.000%	Purch - 0% & Refi - 0% LTV/CLTV, \$1M max loan amt
Foreign Nationals	0.250%	Investor Property Only, Max 60% Purchase / 80% Refinance, Price on "A"
Foreign Nationals	0.250%	Foreigners must be assessed at least 6-months (additional guidelines apply)
≤ \$ 150,000	0.250%	Primary Only
> \$ 150,000	0.250%	Primary Only, Purch - 0% & Refi - 0% LTV/CLTV, AAA to B Only
> \$ 150,000	0.250%	Max Cash-In-Hand 60% LTV is \$300,000
> \$ 150,000	0.250%	Primary Only, Purch 65% & Refi 60% Max LTV/CLTV, AAA to B Only
> \$ 150,000	0.250%	Max Cash-In-Hand 60% LTV is \$500,000
Non-War Condo	0.250%	Purch - 0% & Refi - 0% LTV/CLTV
Condo / PUD	0.250%	Purch 65% & Refi 60% Max LTV/CLTV
2-4 Unit Property	0.250%	Purch 70% & Refi 65% Max LTV/CLTV, \$750K max loan amt, Min "B" Grade
Rural Property	0.250%	Alt W/ 2nd Home: 2% / 1% Sequential Stepdown Prepayment Penalty
2-year Prepay	—	2% Prepayment Penalty
Buy Out Prepay	1.00 pt	Not applicable if Transaction is on Primary Residence
Rate Buy Down	3.1	Program Floor of 4.875% (Primary) & 5.750% (2nd/3rd)

Administration / Underwriting / Commitment Fee - \$1,295

*Broker Origination Points and Fees are limited to the lesser of (a) 3.0% of the loan amount and (b) the maximum allowable by Federal & State High Cost thresholds.

CONTACT YOUR LOCAL
ACCOUNT EXECUTIVE

GENERAL INFORMATION

NO FEDERAL OR STATE HIGH COST LOANS	
Income Documentation	
Full Doc = W-2 + Pay Stubs / Wage Earner	
Alt Doc = 12 Personal or Business Bank Stmts / SE Only	
ATR in Full / Asset Depreciation = Only Assets to Qualify max LTV 70%	
DSCR = Calculate by dividing (a) recorded property rents from	
(b) actual PITI payments, Minimum DSCR is 1.15.	
Foreign Nationals = Qualify and Price on DSCR	
Maximum Debt-to-Income Ratio	
50% Back End	
Loan Terms	
30-Year Amortized & Term - 5/1 or 7/1 Hybrid ARM or 30-yr Fixed	
All Loans require Impounding for Taxes & Insurance	
Interest Only (IO)	
IO Loans must qualify at max rate at first fully amortized pymt	
IO Loans 15-yr IO Pymt & 25-yr Fully Amortized (30-year term)	
Index & Adjustment Caps	
Floored at Start Rate / 1-Year CMT	
2.00% Initial Change Cap / 2.00% Annual Cap / 6.00% Life Cap	
Occupancy	
Primary / Second Home / Investment (INV)	
Reserve Requirement	
No Reserve for ≤ 60% LTV and 6 Months for > 60% LTV	
Loan Amounts	
\$100,000 Minimum to \$1,000,000 Maximum (Round-down to \$50K)	
Loan Amounts > \$1.0M Require Senior Management Approval	
Property Types	
SFR / Condo / Townhouse / 2-4 Units	
Non-Warrantable Condos - Reference CSC Guidelines	
States	
AL, AR, AZ, CA, CO, CT, DC, DE, FL, GA, ID, IL, IN, KS, KY, LA, MD, ME, MI, MN,	
MT, NC, NE, NH, NJ, NV, OK, OR, PA, SC, TN, TX, UT, VA, VT, WA, WI, & WY	
Texas - Primary Purch & B/T & INV or 2nd Home: Purch & Refi	

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