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BUSINESS PURPOSE LOAN GUIDELINES

Effective January 21, 2024 | Applies to 1-4 Residential Only

- Cash Out Proceeds must be more than 50% of the loan amount
 - Meaning any consumer debts, *including loan fees*, that are being paid through the transaction must be less than 50% of the loan amount as they are now being deemed consumer purpose...
 - If loans are being paid off that the borrower claims are not consumer purpose loans ask for a copy of the closing statement when they took the loan out and a letter explaining what the loan was used for.
- Proceeds should go into a business account or purchase escrow on all business purpose and purchase loans.
 - Regardless of subject property occupancy
 - Exception may be made if borrower is a seasoned real estate investor with multiple rental properties
 - Borrowers who are using the funds to remodel or upgrade a currently owned rental property may have the proceeds go directly to them.
- On all business purpose loans, we would prefer the purpose letter be provided on the business letterhead. If they don't have business letterhead, we will accept a purpose letter emailed to us by the borrower using their business email that should include the name of the business. As a last resort we will accept the handwritten purpose letter like we do now. We will want the handwritten purpose letter on all investment purpose loans like we do now.
- If the loan is going to be a purchase money loan to an LLC or Corporation, and they plan on residing in the property as their primary residence, we want the LLC or Corporation to be in good standing for at least 6 months prior to submission to us and we want them to have at least a bank account in the name of that LLC or Corporation. The funds for the down payment on any purchase needs to come from the bank account of the LLC or Corporation buying the property unless of course our loan proceeds cover the entire purchase price and closing costs.
- Related to ADUs or Duplexes where 1 unit is Owner-Occupied: Both of these could be considered business purpose loans so long as you have sufficient evidence to confirm they are using the proceeds for the other unit or the build of the ADU. For example, if part of the proceeds goes to pay current property taxes or insurance, or to improve any areas that the owners also use, then I would argue those amounts are consumer purpose in an abundance of caution. So, I would recommend getting a clear breakdown of all uses of the proceeds to match that up, and on an owner-occupied property I would make sure that at least 80% of the proceeds go for a clear business purpose.