Foreign National Program – Underwriting Guidelines

Underwriting Philosophy
We take a common sense approach to underwriting a borrower's creditworthiness to determine the willingness and ability to repay the loan. Each applicant has a different situation and each loan is weighed on its own merits. Our goal is to help good borrowers with their financing needs while mitigating risk for the company. These programs are high risk loans. We will only approve loans for which the company has a reasonable belief that the borrower has the ability to repay the subject loan. This reasonable belief is based upon information provided by or independently verified by an independent third party. Any irregularity in borrower profile, documentation provided, or property used to support the debt may be cause for denial of the loan.

Program Highlights
<u>The Foreign National product is designed with two separate qualification options for borrowers with unique situations:</u>
Option One – Full Doc
Option Two – Asset Qualification

<u>Option #1 – Full Doc</u>
Designed for high credit quality borrowers who are seeking:
- Loan amounts up to $2 million
- An Interest Only feature
- Conforming or high balance loans when they own multiple financed properties
- DTI up to 50% (see *Qualifying Rate and Ratios*)
- Minimum 620 credit score

Income and assets are fully documented

<u>Option #2 – Asset Qualification</u>
- Borrowers are qualified based on verified liquid assets
- Loan amounts up to $2 million
- Minimum 620 credit score
- No employment or income on 1003
- Debt to Income (DTI) Ratio not calculated

Guideline Overview
Loans meeting the parameters outlined in these guidelines are consistent with the Dodd Frank Wall Street Reform and Consumer Protection Act's requirement that a borrower have the Ability to Repay the mortgage loan. Documentation standards are designed so that loans are made to borrowers who have demonstrated the ability and have the wherewithal to repay the debt. This program requires review and verification of documentation to ensure that the loan meets Ability-to-Repay (ATR) standards. In regards to any underwriting criteria not specifically addressed in this document, Fannie Mae standards apply.

Program Qualifications
This program is designed for foreign national borrowers who can fully document their income and assets OR who have <u>significant verifiable assets</u> and would benefit from alternative loan qualification methods. This program provides <u>two alternate approaches</u> to document the borrower's ability to repay. Standard <u>full documentation of income and assets</u> is used by most borrowers. However, <u>asset statements alone</u> (no debt to income ratio is required) may be used by high net worth individuals for qualification.

Eligibility Matrix Loan Amount & LTV Limitations

Second Home - Purchase and Rate & Term Refinance

Units	Credit Score	LTV	CLTV	Minimum Loan Amount	Maximum Loan Amount
1-2* Unit	720	65%	65%	$100,000	$1,500,000
		60%	60%		$2,500,000
	680	65%	65%		$1,000,000
		60%	60%		$2,000,000
	620	65%	65%		$750,000
		60%	60%		$1,000,000
		50%	50%		$1,500,000

*****2-unit second homes must be in a recognized vacation area (see *Occupancy*)

Second Home - Cash-Out Refinance

Units	Credit Score	LTV	CLTV	Minimum Loan Amount	Maximum Loan Amount
1-2* Unit	720	65%	65%	$100,000	$1,500,000
		55%	55%		$2,000,000
	680	65%	65%		$750,000
		60%	60%		$1,000,000
		50%	50%		$2,000,000
	620	65%	65%		$750,000
		55%	55%		$1,000,000
		45%	45%		$1,500,000

*****2-unit second homes must be in a recognized vacation area (see *Occupancy*

Investment Property - Purchase and Rate & Term Refinance

Units	Credit Score	LTV	CLTV	Minimum Loan Amount	Maximum Loan Amount
1-4 Units	720	65%	65%	$100,000	$1,500,000
		60%	60%		$2,500,000
	680	65%	65%		$1,000,000
		60%	60%		$2,000,000
	620	65%	65%		$750,000
		60%	60%		$1,000,000
		50%	50%		$1,500,000

Investment Property - Cash-Out Refinance

Units	Credit Score	LTV	CLTV	Minimum Loan Amount	Maximum Loan Amount
1-4 Units	720	65%	65%	$100,000	$1,500,000
		55%	55%		$2,000,000
	680	65%	65%		$750,000
		60%	60%		$1,000,000
		50%	50%		$2,000,000
	620	65%	65%		$750,000
		55%	55%		$1,000,000
		45%	45%		$1,500,000

Product Description

- 5/1, 7/1, and 10/1 LIBOR ARMs, fully amortizing
- Interest Only available for fixed rate period on ARMs
- 15 and 30 year fixed rate, fully amortizing

Product Codes (Full Doc)

Fully Amortizing

Hybrid ARM	Product Code
5/1 ARM	IA51AP – iQM Foreign National Full Doc 5/1 LIBOR ARM
7/1 ARM	IA71AP – iQM Foreign National Full Doc 7/1 LIBOR ARM
10/1 ARM	IA101AP – iQM Foreign National Full Doc 10/1 LIBOR ARM
Fixed	
15 Year	IF15AP – iQM Foreign National Full Doc 15 Year Fixed
30 Year	IF30AP – iQM Foreign National Full Doc 30 Year Fixed

Interest Only

Hybrid ARM	Product Code
5/1 ARM	IA51APIO - iQM Foreign National Full Doc 5/1 LIBOR ARM Interest Only
7/1 ARM	IA71APIO – iQM Foreign National Full Doc 7/1 LIBOR ARM Interest Only
10/1 ARM	IA101APIO – iQM Foreign National Full Doc 10/1 LIBOR ARM Interest Only

Product Codes (Asset Qualification)

Fully Amortizing

Hybrid ARM	Product Code
5/1 ARM	IA51AS – iQM Foreign National Asset Qualification 5/1 LIBOR ARM

Interest Only

Hybrid ARM	Product Code
5/1 ARM	IA51ASIO - iQM Foreign National Asset Qualification 5/1 LIBOR ARM Interest Only

7/1 ARM	IA71AS – iQM Foreign National Asset Qualification 7/1 LIBOR ARM
10/1 ARM	IA101AS – iQM Foreign National Asset Qualification 10/1 LIBOR ARM
Fixed	
15 Year	IF15AS – iQM Foreign National Asset Qualification 15 Year Fixed
30 Year	IF30AS – iQM Foreign National Asset Qualification 30 Year Fixed

7/1 ARM	IA71ASIO – iQM Foreign National Asset Qualification 7/1 LIBOR ARM Interest Only
10/1 ARM	IA101ASIO – iQM Foreign National Asset Qualification 10/1 LIBOR ARM Interest Only

Eligibility Requirements

Adjustable Rate Details

Interest Rate Adjustment Caps	5/1, 7/1 & 10/1 ARM Initial: 2% up; Subsequent: 2% up/down; Lifetime: 5% up
Margin	Full Doc = 3.5%; Asset Qualification = 4.125%
Index	1-Year LIBOR (London InterBank Offer Rate)
Index Establish Date	45 days prior to the change date (aka "look back period")
Interest Rate Floor	Note Start Rate
Conversion Option	None
Assumption	ARM products are assumable to a qualified borrower after the fixed term
Negative Amortization	None
Interest Only Option	Interest Only Option available for fixed period of ARMs

Appraisal Requirements

Properties with a condition rating of C5 or C6 are not acceptable.

Loan Amount	Appraisal Requirement
≤ $1,000,000	One Full Appraisal
> $1,000,000	Two Full Appraisals

For Sale By Owner (FSBO) transactions are not allowed on Foreign National Program.

A Pro Teck Valuation Services Appraisal Risk Review (ARR) **or** a Clear Capital Collateral Desktop Analysis (CDA) supporting the value within 10% (higher or lower than appraised value) will be required when the Appraisal Requirement is One Full Appraisal. If variance exceeds 10% then a field review ordered from one of the following providers will be required:

- Pro Teck Valuation Services
- Clear Capital
- Nationwide Appraisal Network
- AAA Appraisal Management Company
- AMG Appraisals
- Appraisal Nation
- AXIS Appraisal Management
- Class Appraisal
- Consolidated Analytics
- GOT Appraisals
- USRES (US Real Estate Services)

A field review from any of the above providers is acceptable in lieu of an ARR or CDA.

If a field review is obtained there is a 5% tolerance as follows:

- If the field review value is ≤ 5% below the appraised value, use the appraised value for LTV calculations
- If the field review value is more than 5% below the appraised value, a second appraisal is required.
  - Use the lower value of the two appraisals for LTV calculations

When two (2) appraisals are provided, an ARR or CDA is not required. The lower value of the two appraisals will be utilized.

FSBO (for sale by owner) transactions are not allowed.

Condos and PUDs must meet FNMA requirements. See *Property Types* section for additional information.

	Unpermitted additions
	All of the following apply:
	• Must obtain a “cost to cure”
	• Must review the LTV (including cost to cure) fits within guidelines
	    ○ If a guideline maximum is 80% and the current LTV is 75% and the cost to cure equals 2% of the value of the home, the loan would be approved without an exception, as the LTV is still within guidelines.
	    ○ If the cost to cure drives the LTV over the maximum LTV limit, the loan would not be eligible unless the home was converted back to the original state with a completion certificate in the file.
	• Obtain typical comparables for value of the home, but would not require similar improvements
	• Unpermitted improvement may not increase the value of the home (hence the cost to cure)
	
	Note: The ECOA Valuations Rule requires copies of appraisals and other written valuations be delivered to borrower promptly upon completion, or three (3) business days before consummation, whichever is earlier.

Assets	**Option #1 – Full Doc**
	Borrower must have sufficient liquid assets available for down payment, closing costs and reserves. Funds must be sourced and seasoned for two (2) months and the most recent consecutive statements (all pages) or the most recent quarterly statements are required. Borrower must provide proof of transfer of the funds from the home country to a U.S. bank prior to closing.
	
	Stocks, Bonds, and Mutual Funds (**Option #1 ONLY**) (FNMA B3-4.3-01)
	Vested stocks, bonds, and mutual funds (including retirement accounts) may be used for down payment, closing costs, and reserves without any reduction in value:
	• One hundred percent (100%) of the value of the asset is allowed when determining available reserves
	• If the lender documents that the value of the asset is at least 20% more than the funds needed for the borrower’s down payment and closing costs, no documentation of liquidation is required. Otherwise, documentation of the borrower’s actual receipt of funds realized from the sale or liquidation must be obtained.
	• **NOTE:** As a reminder, non-vested assets are not eligible for down payment, closing costs, or reserves.
	
	Option #2 - See *Income/Asset Verification Option #2 – Asset Qualification* for reduced valuation of assets (e.g., stocks, bonds, and mutual funds) when using program Option #1.
	
	Like-Kind Exchanges
	Assets for the down payment from a “like-kind exchange,” also known as a 1031 exchange, are eligible if properly documented and in compliance with Internal Revenue Code Section 1031 (FNMA B3-4.3-10).
	• **Note**: Property located in the United States is not considered “like-kind” to property located in a foreign country. It is not possible to exchange out of the United States into foreign property, and vice-versa.
	
	See *Income/Asset Verification* sections for more specific requirements.
	
	Cash out from the subject transaction **may** be used toward the reserve requirement.
	
	See *Documentation / Option #2 – Asset Qualification* for borrower’s loan qualification requirements
	
	See *Reserves* for requirements and limitations.
	
	See *Business Funds* for eligibility.
	
	Additional Requirements for Option #2 – Asset Qualification
	    ○ Reserve requirement is in addition to the residual assets needed to cover debts for sixty (60) month period. These debts include mortgage related debt such as taxes, insurance, HOA dues and special assessments.
	    ○ See *Documentation* for specific requirements.
	
	Underwriters should consider the following:
	• Asset Base and Reserves – Is this consistent with the occupation, cash flows and calculated income established for qualifying purposes?
	
	Verification of Assets and Seasoning Requirements (Option #2 – Asset Qualification)
	Required assets for loan qualification include down payment, closing costs, and reserves. All assets used for qualifying must be seasoned for 12 months.
	• The borrower must provide the bank statements or most current quarterly statements, covering the most recent 12 month period, together with a copy of the Wall Street Journal’s conversion table as of the same

	date as the bank statements or quarterly statements, for the purpose of converting the borrower's foreign currency to U.S. dollars. The underwriter must provide a statement outlining the beginning and ending balances of all foreign bank accounts converted to U.S. dollars. Large deposits are handled per FNMA guidelines.
	• Borrower must provide proof of transfer of the funds from the home country to a U.S. bank prior to closing.
	
	To the extent that required assets are verified as seasoned within a bank on the "*Acceptable Bank List*" there is no further seasoning requirement within a U.S. bank or financial institution. (See *Acceptable Bank List* – Exhibit D at the end of these guidelines)
	
	If asset documentation (12 month seasoning) is provided from a bank that is not on the "*Acceptable Bank List*" then the following verification and additional seasoning requirements apply:
	• At least 75% of the required assets must be verified with computer bank/asset statement(s) as deposited in a U.S. bank or other regulated U.S. financial institution and seasoned for a period of 6 months prior to closing.
	    ○ If transfer to U.S. account occurs within 12 months prior to closing, then supporting documentation concerning source and transfer is required.
	    ○ Transfers occurring greater than 12 months prior to closing do not require supporting documentation.
	• Up to 25% of the required assets may be paper-trailed from a financial institution in the borrower's home country:
	    ○ The borrower must provide the last 3 bank statements or most current quarterly statement, together with a copy of the Wall Street Journal's conversion table as of the same date as the bank statements, for the purpose of converting the borrower's foreign currency to U.S. dollars. The underwriter must provide a statement outlining the beginning and ending balances of all foreign bank accounts converted to U.S. dollars. Large deposits are handled per FNMA guidelines.
	    ○ Borrower must provide proof of transfer of the remaining funds (up to 25% of required assets) from the home country to a U.S. bank prior to closing.

Assumptions	ARM products are assumable to a qualified borrower after the fixed term.

Borrower Eligibility	Foreign Nationals - A foreign national is defined as someone who lives in another country and visits the United States for brief periods for business or vacation. In order to be eligible, the borrower must be a legal resident of another country and live and work there. . A borrower who is working in the U.S. is not eligible for the Foreign National program.
	• 2nd Homes and NOO only
	• First Time Home Buyer is allowed – See *First Time Home Buyer*
	
	Eligibility:
	• Foreign Nationals are a non-US Citizen with a valid passport AND valid visa
	    ○ Borrowers who are residents of countries which participate in the State Department's Visa Waiver Program (VWP) will not be required to provide a valid visa. See: https://travel.state.gov/content/visas/en/visit/visa-waiver-program.html
	    ○ Evidence that the borrower is in the U.S. legally is required, however, no defined length of stay is required.
	• Borrower's visa status must be documented to determine eligibility.
	• Legible copy of a valid passport, including photograph, signature page and evidence of duration of stay permitted for each borrower, and if applicable, a legible copy of a valid visa (including photograph) for each borrower.
	• Citizens of Canada are not required to present a visa
	• For Mexican citizens we also accepts the following:
	    ○ A laser visa card; it is both a border crossing card and a B1/B2 visa, or
	    ○ A NAFTA treaty visa (TN, TC, E1 & E2)
	• An IRS form W-8BEN, Certificate of Foreign Status must be filed with the IRS (all borrowers). A copy of the Certificate must be retained in the file.
	
	Note: Permanent and Non-Permanent Resident Aliens are **not** classified as foreign nationals.
	
	Ineligible:
	• Borrowers with diplomatic immunity

Business Funds	Option #1 – Full Doc Business funds - Funds in the borrower's business account(s) ≤ 50% of account balance may be counted toward down payment, closing costs, and reserves so long as borrower(s) and/or non-borrowing spouse/domestic partner have a cumulative 100% ownership interest in the business (e.g., Sole Proprietor, S Corp, Corporation, LLC). A non-borrowing spouse/domestic partner who is the only other co-owner of the business is acceptable and must provide a letter allowing the borrower to access the funds in the business account. Business funds that are in a personal account prior to application may be used for down payment, closing costs,

	and reserves without restriction. Large deposits must be sourced to determine there is not an undisclosed loan. Option #2 – Asset Qualification Business funds are not to be included in the total available asset calculation or qualifying calculation. The Asset Qualification option is intended for use with Personal Assets only. Any business funds or transfers to personal accounts documented in the most recent 6 months personal statements will be disallowed and excluded from qualification.
Cash-Out Requirements	There is no ownership seasoning requirement for cash-out refinance. Always use the appraised value for LTV calculation on a refinance transaction. This applies to the original purchasers of the property as well as additional borrowers who are added to title so long as at least one borrower from the original purchase will be a borrower on the new loan. • If a borrower is on title without any original purchasers, the borrower must wait 6 months to do a cash out refinance. When the appraised value exceeds purchase price by more than 20% **and** the subject property is currently owned for less than 6 months (at time of application date), the appraisal must provide detailed and substantial commentary to support the increase in value. Note: The following items may be paid off with proceeds from a Rate/Term refinance: • Non-purchase money seconds with 12 month seasoning • HELOCs (Home Equity Line of Credit) with total withdrawals not exceeding $2,000 in the last twelve (12) months A refinance of a prior cash-out loan within 6 months is allowed to be classified as a rate/term refinance. Cash-Out allowed to borrowers who own up to 15 financed properties when subject is second home or investment property. Borrowers with more than 15 financed properties are ineligible for cash out refinance.
Credit	Credit Score: • A credit score is not required, unless a U.S. credit report is available; see *Borrowers with Established Credit* below. • Loan files with no U.S. credit score use **680** score for matrix and pricing purposes Credit Criteria: • If the borrower has a valid SSN or Tax ID, a traditional U.S. credit report is required • Borrowers that have established credit in the U.S. and do not meet the 24 month 5 rated trades requirement may not have their credit history disregarded. However, the borrower may supplement the U.S. credit with additional credit references from creditors in the borrower's home country. The credit history (i.e., combination of credit report and supplemental credit references) must comply with the profile listed in this section. **NOTE: If a credit report is not available, a minimum of one original credit letter must be obtained from a financial institution located in the country of origin or 3 credit references.** ○ The credit reference letter, on the financial institution's letterhead must include contact information, borrower's name and account number, detailing the types and lengths of the institution's relationship. The account with financial institution must have been opened at least two (2) years. ○ Credit reference letter must be an original on institution letterhead and reflect telephone number, address, and website. It should be written in borrower's native language and any money amounts should be reflected in national currency. **Borrowers with Established Credit** All borrowers must have a minimum credit score of **620.** • The representative score for each borrower is: ○ The middle score when three scores are obtained, or ○ The lower score when two scores are obtained ○ If only one score is obtained, that is the representative score for the borrower • The representative score for the loan is the lowest representative score of the borrowers. Each of the following credit components impacts the borrower's ability to repay the loan: • Borrowers must have a minimum of 3 trade lines on the credit report. Trade lines may be open or closed, with one seasoned trade line having a minimum 24 month rating and one trade line with at least a $5,000 high credit limit. The seasoning and high credit limit requirements may be met with the same trade line. Authorized user trade lines are not eligible for any portion of the credit requirement. When spouse is co-borrower only one borrower is required to have the credit depth listed above.

	• Mortgage / Rental Lates – 1x30 during the past 12 months
	  ○ This applies to all mortgages on all properties
	  ○ (See *Loan Modification* for refinancing loans with prior modifications)
	  ○ Rental history must be documented by a direct verification of rent (VOR) by a professional management company and/or private party. If the VOR is provided by a private party, 12 months cancelled checks or 12 months bank statements must be provided to document rents.
	  ○ See *First Time Home Buyer*
	
	• Bankruptcy (Ch. 7 and 13), Short Sale, Deed-in-Lieu – None less than four (4) years
	  ○ Bankruptcy, Short Sale or Deed in Lieu ≥ 2 years and < 4 years is acceptable with the following compensating factors:
	    ▪ Maximum 65% LTV or existing guidelines, whichever is lower
	
	• Foreclosure – None in the last four (4) years
	  ○ Foreclosure ≥ 3 years and < 4 years is acceptable with the following compensating factors:
	    ▪ Maximum 65% LTV or existing guidelines, whichever is lower
	
	• Judgment/Tax Lien/Collections/Charge-Offs – Must be paid.
	  ○ Medical collections are excluded regardless of amount
	
	• Consumer Credit Counseling – Borrowers who have experienced credit or financial management problems in the past may have elected to participate in consumer counseling sessions to learn how to correct or avoid such problems in the future. Whether borrowers have or have not completed participation in the sessions before closing on the mortgage transaction is not relevant since it is the borrower's credit history that is of primary importance. (FNMA B3-5.2-01)
	
	• Disputed Accounts – Disputed accounts are reviewed to determine current balance and derogatory information (a 30-day or more delinquency) within 2 years prior to the credit report date:
	  ○ Zero balance and no derogatory information – no action required
	  ○ Zero balance and derogatory information - remove and pull new credit report
	  ○ A positive balance and no derogatory information – remove and pull new credit report
	  ○ A positive balance and derogatory information – remove and pull new credit report
	A credit supplement is not allowed to document disputed accounts.
	
	• See *Liabilities* for additional information
	
	Underwriters will evaluate the borrower's liabilities to help assess Ability to Repay. These will include:
	• The monthly payment on any simultaneous loan
	• The consumer's monthly payment for mortgage-related obligations
	• The consumer's current debt obligations, alimony, and child support
	• Credit limits, usage and overall credit profile should be considered and evaluated to be consistent with the income established for qualifying purposes.

Disaster Declarations and Recertification	Whenever an area is declared a disaster area, the Federal Emergency Management Agency (FEMA) releases disaster declaration announcements. FEMA makes available individual and public assistance when a disaster occurs. If an area containing the subject property is eligible to receive **individual assistance and/or public assistance**, as designated by FEMA, the property will require a recertification of value as follows: • An appraisal completed in an area *after the disaster declaration was released* (incident date) does not require a recertification. Ideally, the appraiser will comment that the property is free from damage and the disaster had no effect on the property. • If the appraisal was completed *prior to the disaster*, at a minimum a re-inspection stating the property is free from damage and the disaster had no effect on the property value and marketability is required (including exterior photos of the property). ○ Payment for necessary re-inspections will be the responsibility of the borrower or seller Interior photos may be required on a case-by-case basis The re-certification must be obtained as promptly as possible (but not until after the disaster is active) in order to ensure a timely closing, funding (and purchase if applicable) of the loan.
Documentation	Documentation • Documents signed by borrowers outside of the United States must be notarized by a U.S. embassy or consular official. The certificate of acknowledgment must meet the standard notarial requirements and must include the embassy or consular seal. • Power of Attorney (POA) is not allowed.

	Translations:
	• All documents must be translated into English by an independent third party translator. Copies of the original document and the translation will be required.
	
	Mortgage Payment - ACH
	• Due to frequent travel outside the U.S., it is recommended that all Foreign National borrowers establish an ACH debit for mortgage payment from a U.S. bank. However, this is not a requirement for approval.
	
	<u>Option #1 – Full Doc</u>
	Standard Fannie Mae <u>full income and asset documentation</u> is required.
	
	Verbal VOE to be performed prior to closing or if self-employed, an independent written confirmation of self-employment is required (i.e., copy of business license reflecting ownership of company, etc.)
	• Employment Income - Verbal VOE (VVOE) must be obtained within <u>10 business days</u> prior to the note date;
	• Self-Employment Income – Lender must verify the existence of the borrower's business within <u>30 calendar days</u> prior to the note date
	    ○ From a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible; or
	    ○ By verifying a phone listing and address for the borrower's business using a telephone book, the Internet, or directory assistance.
	The lender must document the source of the information obtained and the name and title of the lender's employee who obtained the information.
	
	Self-employed, commissioned, or borrowers using overtime or bonus income **must** have a 2 year history.
	
	<u>Option #2 – Asset Qualification</u>
	• Full Asset Documentation is required for both funds to close and reserves. Assets can be cash in the bank, stocks, bonds, mutual funds or retirement accounts. For most asset types, this would include all pages of the most recent twelve (12) months. Asset levels in the verified accounts are expected to be consistent and sustained over the twelve (12) month period. Increases or decreases of greater than 15% over the twelve (12) month period (i.e., compare month 1 to month 12) must be explained by the borrower. Additional supporting documentation may be required. Large month-to-month changes in asset totals during the twelve (12) month period may require additional explanation and documentation.
	
	A completed iQM Asset Qualifier Worksheet (see *Exhibit C* must be submitted with the loan package.
	
	No Section 32 High Cost Loans will be allowed. In addition, loans defined by certain states as "higher priced", "high cost", "subprime", "high risk", or "high rate, high fee" loans are prohibited.
	
	The borrower must acknowledge their ability to repay the loan by signing the *Borrower Affirmation* document at closing. *Borrower Affirmation – Option #1 – Full Doc* and *Borrower Affirmation – Option #2 – Asset Qualification* are attached to these guidelines.

Escrow Holdback	Escrow holdbacks are allowed for weather related repairs on purchase transactions only. • Maximum $5,000 repair limit • Escrow withhold amount must be at least 1.5 times the cost of repairs ○ <u>Example</u>: $5,000 repairs x 1.5 = $7,500 total escrow withhold amount • Other repair escrow policies and procedures apply
Escrow Waivers	Tax and insurance impounds are <u>always</u> required unless prohibited by law.
Financing Types	<u>New York Consolidation, Extension & Modification Agreement (NY CEMA)</u> For all refinance products, property located in the state of New York may be structured as a Consolidation, Extension, and Modification Agreement (CEMA) transaction. The most current version of Fannie Mae/Freddie Mac Uniform Instrument (Form 3172) must be used. The following documentation must be provided: • NY Consolidation, Extension and Modification Agreement (Form 3172) • Original Note(s) – Original documents signed by the borrower • Gap Note and Gap Mortgage, if applicable • Consolidated Note – Original documents signed by the borrower • Exhibit A – Listing of all Notes & Mortgages being consolidated, extended and modified • Exhibit B – Legal description of the subject property • Exhibit C – Copy of the consolidated Note • Exhibit D – Copy of the consolidated Mortgage

	Lost Note Affidavits are not an acceptable substitute for any of the required documents. If original documentation cannot be provided per above, then a CEMA is not allowed. See Geographical Locations/Restrictions for additional information regarding NY loans.
First Time Home Buyer	First Time Home Buyer is defined as a borrower who had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the security property. First Time Home Buyer is allowed. There is no prior rental requirement. See *Housing History* for eligibility.

Geographical Locations/Restrictions	Eligible states are as follows:
	• All states* (including DC) are eligible except:
	  ○ DE, ME, MA, OH, RI, WY
	  ○ Interest Only Restriction – Interest Only loans are not allowed in Illinois
	
	See *New York Consolidation, Extension & Modification Agreement (NY CEMA)* in *Financing Types* section above.
	
	***New York – Subprime Home Loans**
	Loans that meet the definition of a subprime home loan under New York law are **not** eligible.
	
	Furthermore, we will not purchase iQM loans in New York for Primary residences, 1-4 unit properties, that meet the Fannie Mae conforming loan limits (to include High Balance loan amounts in certain high cost counties). See FHFA Conforming Limits site:
	http://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx
	(This is an overlay.)
	
	As a reminder, the following loans are **not** included in the New York subprime definition:
	• Primary residence, 1-4 units properties, with loan amounts that are $1 or more above the conforming limits (which include high balance loan amounts in certain high cost counties)
	• Second homes – any loan amount
	• Investment property – any loan amount
	
	*Additional restrictions as follows:
	Hawaiian Lava-Flow Hazard Zones – The U.S. Geological Survey (USGS) categorizes the island of Hawaii into nine "lava zones" based on each zone's probability of exposure to lava flows caused by volcanic eruption. Properties in lava zones 1 and 2 are not eligible for loans funded or purchased by us due to increased risk of property destruction from lava flows within these areas. The Hawaii Lava-Flow Hazard Zone Map can be accessed at: http://hvo.wr.usgs.gov/hazards/FAQ_LavaFlowHazardZone/ and http://pubs.usgs.gov/mf/1992/2193/
	
	State specific regulatory requirements supersede all underwriting guidelines set forth by us.

Gift Funds / Gifts of Equity	Gift funds and gifts of equity are not allowed
Higher Priced Mortgage Loan (HPML)	Not applicable. Applies to principal dwellings only.
Housing History	There is no requirement for rent or mortgage history for this program. Example: Borrower can be a first time home buyer without any rental history. However, if the borrower has rent or mortgage history, it must meet credit requirements.

Income Verification/ Option #1 – Full Doc	Full Income Documentation is required. For most income types, this would include:
	
	Income Verification:
	Two (2) years foreign tax returns are required from borrower's resident country, translated into English by third party certified translator. If resident country does not have filing requirement, then borrower must submit:
	• Self-employed – A letter from an independent accountant or auditor that is not related to borrower's business in any way.
	  ○ The letter shall indicate name and description of the borrower's business, approximate market value of the company, borrower's personal income for the prior two years, and year to date income for current year.
	  ○ Letter must be an original on the accountant's letterhead and must reflect the accountant's telephone number and address.
	  ○ Letter should be written in borrower's native language and reflect income in national currency.
	  ○ Borrower shall provide the business Internet web page address (URL). If the business does not have a web page, borrower must provide marketing material such as brochures or

catalogs.

- Employee (not self-employed) – Letter from borrower's employer.
  - The letter shall indicate position/title, length of employment, gross income for prior two years, year to date income for current year, and probability of continued employment.
  - The letter must be an original on the employer's company letterhead and must reflect the employer's telephone number, address, and website.
  - Letter should be written in borrower's native language and reflect income in national currency.

Rental Income - Subject Property and Other Investment Real Estate Owned (not departure residence)
(Follow *FNMA B3-3.1-08, Rental Income*)
Generally, if a borrower has a history of renting the subject or another property, the rental income will be reported on IRS Form 1040, Schedule E of the borrower's personal tax returns or on Rental Real Estate Income and Expenses of a partnership or an S Corporation form (IRS Form 8825) of a business tax return. If the borrower does not have a history of renting the subject property or if, in certain cases, the tax returns do not accurately reflect the ongoing income and expenses of the property, the lender may be justified in using a fully executed current lease agreement.

- Airbnb or similar such rentals are not acceptable.

An expired lease agreement that has verbiage that states the lease agreement becomes a month-to-month lease once the initial lease/rental term expires is allowed.

Asset Based Income (Asset Amortization) Requirements
Asset amortization is a calculation used to generate a monthly income stream from a borrower's personal assets. It can be combined with other income such as pension or other investment income.
There is no age restriction.

Eligibility Requirements (Asset Amortization)

- Available for Second Homes Only
- Borrower and Co-Borrower must be individual or co-owners of all asset accounts with no other account holders listed on the documentation
- 100% of eligible assets must be verified and will be amortized over the term of the loan
- All assets must be in a U.S. financial institution—No Foreign Assets
- The sum of eligible assets as defined are net of any discounts and minus any funds used for closing and/or minimum reserves required for the program.
- Other reported earnings from Capital Gains or Interest/Dividend already considered and averaged as "effective income" cannot be included or double counted.

Eligible Asset Types (Asset Amortization)
Considered assets must be comprised of the following readily marketable assets which must be available to the borrower with no penalty and are limited as follows:

- Bank Deposits – Checking, Saving, Money Market accounts = 100%
- Publicly traded stocks and bonds = 90% (stock options not allowed)
- Mutual Funds = 90%
- Retirement Accounts = 80%

For eligible asset types, any debt tied to that asset must be netted out. Example: Stocks bought on margin.

Ineligible Asset Types (Asset Amortization)

- Business funds
- Non-liquid assets (automobiles, artwork, business net worth, etc.)

Asset Amortization Calculation Policy:

- Eligible asset amount to be amortized over the term of the loan (e.g., 360 months for a 30 year loan, 180 months for a 15 year loan)

Borrower may use documented regular (monthly) payments from retirement accounts where there is a two year history of receipt and a three year continuance so long as it is less than 50% of qualifying income. Borrower to provide appropriate documentation from home country.

Example of Asset Amortization for 30 year loan:

Savings Account Balance $100,000 ($100,000 Usable toward calculation)
Stock Fund Balance $100,000 ($90,000 Usable toward calculation)
Mutual Fund Balance $10,000 ($9,000 Usable toward calculation)

	Total Usable toward calculation = $199,000/**360** ***= $552.78 monthly income***
Income/Asset Verification **<u>Option #2 – Asset Qualification</u>**	Cash out proceeds from the subject transaction may not be used for qualifying or for reserves on the Asset Qualification program. **<u>Option #2 – Asset Qualification</u>** Employment and Income are not required to be disclosed on the 1003 loan application. If not disclosed, please enter "Not applicable to this loan" in the respective fields. Business phone number must be reflected on the 1003 (for consumer contact purposes only). Assets must be verified sufficient to cover the loan amount request with sufficient additional assets to cover all revolving, installment, alimony/child support, and mortgage related expenses for a period of no less than five (5) years, plus the separate reserve requirement based on loan amount listed in the *Assets* section of these guidelines. Installment debt that is not secured by a financial asset – including student loans, automobile loans, and home equity loans – must be considered part of the borrower's recurring monthly debt obligations if there are more than 10 monthly payments remaining. Paying <u>down</u> installment debt to ≤ 10 remaining payments to avoid including in additional reserve calculation is not allowed. Paying <u>off</u> installment debt completely is allowed. **<u>Important:</u>** The <u>ending balance</u> on the most recent asset statement(s) must be sufficient to cover the required assets including: • Loan Amount Request • Down payment • Closing Costs and Prepaids • Five (5) years of other debt/expenses described above • Separate reserve requirement <u>Eligible Asset Types</u> Considered assets must be comprised of the following readily marketable assets which must be available to the borrower and are limited as follows: • Bank Deposits – Checking, Saving, Money Market accounts = 100% • Publicly traded stocks and bonds = 90% (stock options not allowed) • Mutual Funds = 90% • Retirement Accounts = 80% Note: Assets must be in liquid or semi liquid form, no privately held stock, deferred compensation or non-regulated financial companies. <u>Note: For eligible asset types, any debt tied to that asset must be netted out. Example: Stocks bought on margin.</u> <u>Ineligible Asset Types</u> • <u>Business funds</u> • <u>Non-liquid assets (automobiles, artwork, business net worth etc…)</u> ***<u>Example #1:</u>*** Loan amount: $300,000 Closing Costs/Prepaids: $15,000 Principal and Interest (P & I) for subject = $2,000 Verified Assets: • $200,000 Checking and Savings (100% usable) = $ 200,000 • $300,000 Stocks and Bonds (90% usable) = $ 270,000 • $400,000 401K (80% usable) = $ 320,000 • $300,000 Mutual Funds (90% usable) <u>= $ 270,000</u> Total allowable assets = $1,060,000 $1,060,000 (allowable assets) minus $315,000 (loan amount + closing costs/prepaids) = $745,000 residual assets Total of monthly debt (revolving, installment, alimony/child support, hazard insurance, property tax on the subject property, etc.) excluding subject P&I = $2500 $2,500 X 60 months = $150,000. Required reserves per Option #1 (See *Assets*) = 6 months x $2,000 (P & I) = $12,000

	Since the residual assets ($745,000) are **more** than the required funds to cover all other debt for 60 months ($150,000) plus required reserves ($12,000), the loan qualifies for the program. ***Example #2:*** Loan amount: $300,000 Closing Costs/Prepaids: $15,000 Principal and Interest (P & I) for subject = $2,000 Verified Assets: • $10,000 Checking and Savings (100% usable) = $ 10,000 • $250,000 Stocks and Bonds (90% usable) = $225,000 • $120,000 Mutual Funds (90% usable) = $108,000 Total allowable assets = $343,000 $343,000 (allowable assets) minus $315,000 (loan amount + closing costs/prepaids) = $28,000 residual assets Total of monthly debt (revolving, installment, alimony/child support, hazard insurance, property tax on the subject property, etc.) excluding subject P&I = $700.00 $700 X 60 months = $42,000. Required reserves per Option #1 (See *Assets*) = 6 months x $2,000 (P & I) = $12,000 Since the residual assets ($28,000) are **less** than the required funds to cover all other debt for 60 months ($42,000) plus required reserves ($12,000), the loan ***does not*** qualify for the program.
Interest Only	Interest-only payments are allowed on the hybrid ARMs only (i.e., 5/1, 7/1, 10/1) during the fixed rate period of the loan. See *Product Codes* for the appropriate program code.
Interested Party Contributions (IPCs) / Seller Concessions	Interested party contributions (IPCs) are costs that are normally the responsibility of the property purchaser that are paid directly or indirectly by someone else who has a financial interest in, or can influence the terms and the sale or transfer of, the subject property. (FNMA B3-4.1-02) Interested parties include, but are not limited to, the property seller, the builder/developer, the real estate agent or broker, or an affiliate who may benefit from the sale of the property and/or the sale of the property at the highest price possible. A lender or employer is not considered an interested party to a sales transaction unless it is the property seller or is affiliated with the property seller or another interested party to the transaction. **IPC Limits** Occupancy Type / LTV/CLTV Ratio / Maximum IPC Second home / 65% or less / 9% Investment property / All CLTV ratios / 2%
Liabilities	(FNMA B3-6-05) Alimony/Child Support/Separate Maintenance Payments – When the borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement – and those payments must continue to be made for more than 10 months – the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration. (FNMA 3-6-05) Home Equity Lines of Credit (HELOC) – When a borrower has a home equity line of credit (HELOC) that provides for a monthly payment of principal and interest or interest only, the payment on the HELOC must be considered as part of the borrower's recurring monthly debt obligations. If the HELOC does not require a payment, there is no recurring monthly debt obligation so the lender does not need to develop an equivalent payment amount. Installment Debt – All installment debt that is not secured by a financial asset—including student loans, automobile loans, and home equity loans—must be considered part of the borrower's recurring monthly debt obligations if there are more than ten monthly payments remaining. Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments do not need to be included in the borrower's long-term debt. However, an installment debt with fewer monthly payments remaining also should be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet his or her credit obligations. Lease Payments – Lease payments must be considered as recurring monthly debt obligations regardless of the number of months remaining on the lease. This is because the expiration of a lease agreement for rental

	housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house. Revolving Charge/Lines of Credit – Revolving charge accounts and unsecured lines of credit are open-ended and should be treated as long-term debts and must be considered part of the borrower's recurring monthly debt obligations. These trade lines include credit cards, department store charge cards, and personal lines of credit. Equity lines of credit secured by real estate should be included in the housing expense. If the credit report does not show a required minimum payment amount and there is no supplemental documentation to support a payment of less than 5%, the lender must use 5% of the outstanding balance as the borrower's recurring monthly debt obligation. If a revolving account balance is to be paid off at or prior to closing, a monthly payment on the current outstanding balance does not need to be included in the borrower's long term debt (DTI ratio). Such accounts do not need to be closed as a condition of excluding the payment from the DTI ratio. Student Loans – For all student loans, whether deferred, in forbearance, or in repayment (not deferred), the lender must include a monthly payment in the borrower's recurring monthly debt obligation when qualifying the borrower. • If a monthly payment is provided on the credit report, the lender may use that amount as the monthly payment for qualifying purposes. If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment (which may be the case for deferred loans or loans in forbearance), the lender must calculate a qualifying monthly payment using one of the options below: ○ 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or ○ The fully amortizing payment using the documented loan repayment terms. Open 30-day accounts An open 30-day account may be excluded from debt-to-income ratios so long as borrower has assets to pay the account in full. The verified funds must be in addition to any funds required for closing costs and reserves.
Limitations on Other Real Estate Owned	**The following requirements apply to Options #1 and #2:** Loan/Property restrictions per borrower are as follows: • Borrowers are limited to two (2) loans with us not to exceed $2,000,000 total. • If borrower only has one (1) loan with us, including the subject property, that loan may exceed $2 million (up to the guideline maximum herein). • Borrowers with > 15 financed properties are not eligible for any 2nd home or investment property transactions (purchase, rate/term, or cash-out) • Borrower may have our financing on a maximum of 10% of the properties in a PUD or condominium project. ○ For projects ≤ 10 total units, financing on a maximum of 1 unit is allowed **Option #1 – Asset Qualification** Ownership of NOO properties requires additional reserves and a positive cash flow requirement. If the positive cash flow requirement is not met, additional residual assets will be required. An investment property owned by the borrower must show a positive cash flow (100% rent vs PITIA). This may be cumulative if multiple properties are owned. Leases will be required. Rents are derived from the rental/lease agreement Gross Rent = $1200 PITIA for this property must be less than $1200 per month (i.e., positive cash flow) **This calculation may be cumulative for all rents and all PITIAs when more than one NOO is owned.** Here is a sample calculation for additional residual assets when borrower has multiple other investment properties. <table><tr><th>Property</th><th>Monthly PITIA</th><th>Monthly Gross Rent</th></tr><tr><td>A</td><td>$1250</td><td>$1400</td></tr><tr><td>B</td><td>$2100</td><td>$1275</td></tr><tr><td>C</td><td>$1850</td><td>$1225</td></tr><tr><td>Total</td><td>$5200</td><td>$3900</td></tr></table>Actual total PITIA of other investment properties = $5200 Additional monthly rent needed to break even = $5200 - $3900 = $1300 Additional Residual Assets = 60 months x $1300 = $78000
Listed for Sale / "Recently Listed"	Rate/Term Refinance (per FNMA B2-1.2-02) Subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan.

	Cash-out Refinance (per FNMA B2-1.2-03) Subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan.
Loan Amount	Minimum loan amount = $100,000
Locking the loan	**Locking** • 45 day minimum lock term required • Loan must be approved prior to lock
Mortgage Insurance	Mortgage insurance is not required
Non-Arm's Length transactions	Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property. Non-arm's length transactions are not allowed FSBO (for sale by owner) transactions are not allowed (our overlay).
Occupancy	Second Homes – 1-2 units Investment Properties – 1-4 units
Payment Shock	N/A
Points and Fees	Maximum 5% Limit. The points and fees limit applies to all occupancy types.
Power of Attorney	Not allowed
Prepayment Penalty	None

Property Types	Second Homes and Investment Property only.
	
	Eligible
	• 1-unit single family residences (attached and detached) and PUDs (attached and detached)
	• 2-4 unit properties (within matrix parameters)
	• Condominiums - FNMA Eligible
	    • Both FNMA Condo Project Manager (CPM) and FNMA Limited Review are allowed
	    • Detached Condo units that are Principal Residences may be processed with Limited Review (See FNMA B4-2.2-03, *Limited Review Process for Detached Condo Units*)
	    • Non-Warrantable Exception:
	        ○ The FNMA investment property concentration limits (i.e., the percentage of non-owner occupied properties within a project) do not apply, **and**
	        ○ Minimum 50% of units in project (or subject legal phase, considered with prior legal phases) must be sold or under contract.
	            ▪ **Note: For reference**, FNMA (B4-2.2-02) requires that investment property transactions on attached units in established projects (including two-to four-unit projects), have at least 50% of the total units in the project conveyed to principal residence or second home purchasers. This requirement does not apply if the subject mortgage is for a principal residence or second home.
	    • Single Entity Ownership Exception:
	        ○ Projects in which a single entity (the same individual, investor group, partnership, or corporation) owns **up to and including 25%** of the total number of units in the project will be considered on a case by case basis.
	            ▪ **Note: For reference**, the FNMA (B4-2.1-02) acceptable limit is:
	                • Projects with 2 to 4 units = 1 unit
	                • Projects with 5 to 20 units = 2 units
	                • Projects with 21 or more units = 10% of total units
	
	Limited Review (See FNMA B4-2.2-02, *Limited Review Process for Attached Condo Units*)
	Limited Review eligibility criteria for **attached units** differ depending upon the occupancy type and
	
	LTV/CLTV/HCLTV ratios, and are as follows:

Occupancy Type	**Maximum LTV/CLTV/HCLTV**
Second home	65%

	Investment property	65% (exceeds FNMA)

Note: Mortgages secured by attached units in **new** condo projects are not eligible for Limited Review. See FNMA guidelines for restrictions on Florida condominiums. (See FNMA B4-2.2-04)

Ineligible

- Acreage greater than 20 acres (appraisal must include total acreage)
- Agricultural zoned property
- Condo hotel
- Co-ops
- Hobby Farms
- Income producing properties with acreage
- Leaseholds
- Log Homes (**may be eligible on a case-by-case basis**)
- Manufactured housing
- Mixed use properties
- Modular homes
- Properties subject to oil and/or gas leases (**may be eligible on a case-by-case basis)**
- Title may not be held in a business name
- Unique properties
- Working farms, ranches or orchards

Qualifying Rate and Ratios

Option #1 – Full Doc with/without Asset Amortization:

Qualifying Rate

- 5/1, 7/1, 10/1 ARM – Qualify at the greater of the fully-indexed rate* or Note rate
- ARM qualifying ratios are based on a fully amortizing principal and interest payment.
- Interest Only loans qualify at the greater of the fully-indexed rate* or Note rate based on the scheduled remaining loan term at the time of recast after the interest only period has expired.
- Fixed Rate loans qualify at the note rate

*Calculate the fully indexed rate by adding the appropriate margin to the current index.

- **Round the result to the nearest one-eighth of one percentage point (0.125%)**

Depending on market conditions and individual loan pricing, the fully indexed rate may be higher or lower than the Note rate.

Example 1:

Loan Amount = $100,000	Calculate Fully Indexed Rate:
ARM Type = 5/1 ARM	Margin + Index: 3.5% + 1.790% = 5.29%
1-Year LIBOR Index = 1.790%	Round 5.29% to the nearest 1/8 (.125%) = 5.25%
Margin = 3.5%	
Start Rate/Note Rate = 6.25%	**Fully Indexed Rate = 5.25%**

- Since the Note rate is greater than the fully indexed rate, the Note rate of 6.25% is used for qualification purposes.

Interest Only ARM Qualification:

Use the remaining scheduled amortization term *after* the interest only period expires. For a 5/1 Interest Only ARM, the remaining term is 25 years (i.e., 30 – 5 = 25). Using the Start Rate/Note Rate in **Example 1:** $100,000 @ 6.25%, 25 year amortization = $659.67 monthly qualifying payment for an Interest Only loan.

Example 2:

Loan Amount = $100,000	Calculate Fully Indexed Rate:
ARM Type = 5/1 ARM	Margin + Index: 4.125% + 1.820% = 5.945%
1-Year LIBOR Index = 1.82%	Round 5.945% to the nearest 1/8 (.125%) = 6.00%
Margin = 4.125%	
Start Rate/Note Rate = 4.5%	**Fully Indexed Rate = 6.00%**

- Since the fully indexed rate is greater than the Note rate, the fully indexed rate of 6.00% is used for qualification purposes.
- Using the fully indexed rate in Example 2: $100,000 @ 6.00%, 25 year remaining term for amortization = $644.31 monthly qualifying payment for an interest only loan.

DTI Ratio

- Maximum DTI is 50% (applies to both fully amortizing and interest only)

Option #2 – Asset Qualification

Qualifying Rate and Ratios

- N/A

Reserves	**Minimum 12 months reserves are <u>always</u> required at closing.** Cash out from the subject transaction **<u>may</u>** be used toward the reserve requirement for the <u>Full Doc Program only</u>. Cash out from the subject transaction may <u>not</u> be used for reserves on the Asset Qualification Program. <u>Additional reserves for each financed property (other than subject):</u> One month PITIA for each additional financed property. PITIA calculated using the <u>actual mortgage payment</u> (PITIA) of the "other" property for each additional property. • Reserves for financed properties with a recent 12 month paid-as-agreed history may be waived • Reserves for financed properties acquired within the 12 months prior to application cannot be waived **<u>Option #2 – Asset Qualification</u>** Required 12 months reserves for Option #2 – Asset Qualification are calculated using <u>only P&I (principal + interest) payment</u>. Other mortgage related debt is included with "60 months monthly debt" calculation as part of loan qualification. See *Income/Asset Verification <u>Option #2 – Asset Qualification</u>.* **<u>Option #1 – Full Doc and Option #2 - Asset Qualification</u>** <u>Additional reserves for each financed NOO property (other than subject):</u> One month PITIA for each financed NOO property. PITIA calculated using the <u>actual mortgage payment</u> (PITIA) of the "other" property for each additional property. <u>PITIA for reserves is the monthly housing expense for a property and includes the following:</u> • Principal and interest (P&I); • Hazard, flood, and mortgage insurance premiums (as applicable); • Real estate taxes; • Ground rent; • Special assessments; • Any owners' association dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit); • Any monthly co-op corporation fee (less the pro rate share of the master utility charges for servicing individual units that is attributable to the borrower's unit); • Any subordinate financing payments on mortgages secured by the subject property. See *Business Funds* for eligibility.
Subordinate Financing	Subordinate financing must have regular monthly payments at market interest rate that cover at least the interest due so that negative amortization does not occur. Financing provided by the property seller is allowed for <u>arm's-length transactions only</u> in accordance with FNMA guidelines and program CLTV limits. If financing provided by the seller is more than 2% below current standard rates for second mortgage, the subordinate financing must be considered a sales concession and the subordinate financing amount must be deducted from the sales price. Subordinate financing that does not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five years after the note date of the new first mortgage is unacceptable. An exception may be made when the amount of the subordinate debt is minimal relative to the borrower's financial assets and/or credit profile (FNMA B2-1.1-04)
Temporary Buydown	Not allowed
Texas Section 50(a)(6) Equity Cash Out	Not applicable
Underwriting	**<u>Option Two – Asset Qualification</u>** **<u>Residual Income Calculation for Asset Qualification (Option Two)</u>** In accordance with ATR standards, a monthly residual income calculation must be completed when using the Asset Qualification option. The formula for this calculation is: <u>Total Monthly Income</u> – <u>Total Monthly Debt Obligations</u> (Expenses) = <u>Monthly Residual Income</u> <u>Total Monthly Income</u> = <u>Total Allowable Assets</u> / 60 months ***<u>Example:</u>*** Loan amount: $300,000 Principal and Interest (P & I) for subject = $2,000

	Verified Assets: • $200,000 Checking and Savings (100% usable) = $ 200,000 • $300,000 Stocks and Bonds (90% usable) = $ 270,000 • $400,000 401K (80% usable) = $ 320,000 • $300,000 Mutual Funds (90% usable) = $ 270,000 Total Allowable Assets = $1,060,000 $1,060,000 (Total Allowable Assets) divided by 60 months = $17,666.67 in Total Monthly Income Total Monthly Debt Obligations as defined in 12 CFR 1026.43(C)(7)(i)(A), including payment on the loan, simultaneous loans, mortgage related obligations and current debt obligations (revolving, installment, alimony/child support, hazard insurance, property tax on the subject property, etc.) = $4,500 $17,666.67 Total Monthly Income minus $4,500 Total Monthly Debt Obligations = $13.166.67 Monthly Residual Income Monthly Residual Income must meet or exceed the income found in the VA Residual Income Table in these guidelines. (See *VA Residual Income Tables* below) Note: Required reserves are **not** deducted from Total Allowable Assets when calculating residual income. **ALL LOANS:** Loans must be manually underwritten and fully documented. All loans must be underwritten in compliance with the Ability to Repay standards set forth in 12 C.F.R. §1026.43. For additional topics not specifically or fully addressed by 12 C.F.R. §1026.43 guidance or herein, Fannie Mae underwriting guidelines should be followed Underwriter may request a copy of any inspection where repairs or remediation (monetary or other) are specified in a purchase contract, regardless of whether repairs have been completed. The underwriter must be comfortable that the borrower is able to repay the loan and that belief must be supported by information from independent third parties. All factors in the loan file must be viewed in totality to reach this conclusion. Non-arm's-length transactions are not allowed.. See *Non-Arm's Length Transactions* for additional information. **Guideline Variance \ Exceptions:** Minor exceptions to guidelines may be considered on a case by case basis. Compensating factors include, in order of importance: • Loan to value ratio (LTV) • Reserves – well above the program requirement (prior to any cash out) • Credit profile (depth of credit) and credit score • Length of employment in same occupation/business (long term employment stability) • Debt to income ratio (DTI) • Reduction in new housing expense vs. existing housing expense (15% or greater reduction) • Other compensating factors not listed above All exceptions must be submitted per our Exception Policy, approved by Underwriting Senior Management, Warehouse Lending and Capital Markets. Underwriters should: • Make a sound risk assessment of the resources of the applicant before finalizing the loan. An underwriter has the discretion to require any additional documentation they feel is appropriate and reasonable to support that assessment. • If underwriter requires tax returns to make the proper risk assessment then borrower will be **ineligible for this program** and underwriter will make a counter offer to another product, if applicable. **Underwriting Manager review and signature is required for loan amounts > $1,000,000.** **Senior Credit Committee member must review and sign for loan amounts ≥ $2,000,000.** File must include title commitment with 24 months title history.

EXHIBIT A
Borrower Affirmation – Option #1 – Full Doc

Date:

Loan No

Borrower Name:

1. I understand that my monthly payment on this loan will be as follows:
   ___Fixed Mortgage
   For years
   My monthly payment is $

   ___ Adjustable Rate Mortgage
   For the first years
   My monthly payment is $
   I understand my payment may adjust (more than once) after the first years.

2. I understand the checked items below on this property will be approximately this amount per month $
   ___ Property taxes
   ___ Hazard Insurance
   ___ Flood Insurance
   ___ Mortgage Insurance

   The checked items above will be impounded.

   The items not checked will not be impounded; and if not impounded I am responsible to pay them directly.

3. I believe I can afford to make the monthly payment on the loan.

4. I am not aware of anything in the future that will affect my ability to make this loan payment.

5. If my loan program did not require that I submit my prior tax returns, I understand that if I had provided additional verifiable documentation of my income, such as my tax returns or W-2 wage statements or other documentation deemed necessary to support my income, I may have been able to qualify for a loan with different loan terms or conditions such as a lower interest rate.

NOTE: If there is a discrepancy between the terms in this document and the actual loan documents, the terms of the loan documents prevail.

I certify that the above information and the information on the final Uniform Residential Loan Application (Form 1003) is true and correct as of this day and that it represents an accurate picture of my financial status.

____________________________________	______________________________
Borrower name	Borrower name
____________________________________	______________________________
Borrower name	Borrower name

IMC-0007 (Borrower Affirmation – Agency and Alternative Bank Statements v2- Rev 03/16)

EXHIBIT B

Borrower Affirmation – Option #2 – Asset Qualification

Date:

Loan No

Borrower Name:

1. I understand that ______________ will determine my Ability to Repay this mortgage loan, as it is required to do under existing law, solely on the basis of existing assets that I currently maintain.

2. I understand that my monthly payment on this loan will be as follows:
   ___Fixed Mortgage
   For years
   My monthly payment is $

   ___ Adjustable Rate Mortgage
   For the first years
   My monthly payment is $
   I understand my payment may adjust (more than once) after the first years.

3. I understand the checked items below on this property will be approximately this amount per month $
   ___ Property taxes
   ___ Hazard Insurance
   ___ Flood Insurance
   ___ Mortgage Insurance

   The checked items above will be impounded.

   The items not checked will not be impounded; and if not impounded I am responsible to pay them directly.

4. I believe I can afford to make the monthly payment on the loan.

5. I am not aware of anything in the future that will affect my ability to make this loan payment.

6. My loan program did not require that I submit my prior tax returns. I understand that if I had provided verifiable documentation of my income, such as my tax returns or W-2 wage statements or other documentation deemed necessary to support my income, I may have been able to qualify for a different loan program with different loan terms or conditions such as a lower interest rate.

NOTE: If there is a discrepancy between the terms in this document and the actual loan documents, the terms of the loan documents prevail.

I certify that the above information and the information on the final Uniform Residential Loan Application (Form 1003) is true and correct as of this day and that it represents an accurate picture of my financial status.

_______________________________ _______________________________
Borrower name Borrower name

_______________________________ _______________________________
Borrower name Borrower name

EXHIBIT C

iQM Asset Qualifier Worksheet

Assets:	Original $ Amount	Percentage Allowed	Usable $ Amount
Checking/Savings/Money Market	$200,000	100%	$200,000
Stocks and Bonds	$300,000	90%	$270,000
Mutual Funds	$300,000	90%	$270,000
Retirement Accounts (401K, IRA, SEP, Keough (if distribution is not already set up))	$400,000	80%	$320,000
Total Allowable (Usable) Assets			$1,060,000
Total Allowable (Usable) Assets	$1,060,000		
Less: Down Payment (Purchase Only), Closing Costs and Prepaids (enter negative number>>>)			
Less: Loan Amount (enter negative number>>>)	-$300,000		
Total Residual Assets	$760,000		
Total of all other monthly debts (revolving, installment, support, property hazard insurance, property taxes, PITIA of other REO) [Total Monthly Debt Obligations]	$4,500		
60 months of all other monthly debts	$270,000		
Subject P&I Reserves (e.g., 3 mos @ $1700/mo)	$5,100		
	$275,100		
Are Total Residual Assets greater than 60 months of all other monthly debt plus required reserves (see matrix)	Yes = loan qualifies		
Total Monthly Income (Total Allowable Assets / 60 months)	$17,666.67	Monthly Residual Income (Total Monthly Income minus Total Monthly Debt Obligations)	$13,166.67

Note: Any asset that has a loan against it (borrowing on margin, 401 K loan etc...) must be netted against the asset.

UNDERWRITER COMMENT

Underwriter:		Date	

Ver 8 9.30.16

EXHIBIT D

Acceptable Bank List for Foreign National Asset Documentation

Agricultural Bank of China
Bank of America
Bank of China
Bank of New York Mellon
Barclays
BBVA
BNP Paribas
Citigroup
Credit Suisse
Deutsche Bank
Goldman Sachs
Groupe BPCE
Group Crédit Agricole
HSBC
Industrial and Commercial Bank of China Limited
ING Bank
JP Morgan Chase
Macquarie Bank Limited
Mitsubishi UFJ FG
Mizuho FG
Morgan Stanley
Nordea
Royal Bank of Scotland
Royal Bank of Canada (RBC Bank)
Santander
Société Générale
Standard Chartered
State Street
Sumitomo Mitsui FG
UBS
Unicredit Group
Wells Fargo