DECLINING MARKET STATES:

Maximum financing is not permitted on properties located in declining markets.
For all properties, the subject property zip code must be put into the investor's market indicator portal. If the market indicator shows the property is located in a "B", "C" or "D" market the maximum LTV/CLTV will be reduced. See the property section below for the LTV/CLTV reductions for properties located in declining markets.

SECTION 1: CODING

PROGRAM CODES:

Term	**Program Code**
30 Year Fixed Term	3000-10
15 Year Fixed Term	3100-10
3/1 LIBOR ARM	3300-10
5/1 LIBOR ARM	3400-10
7/1 LIBOR ARM	3200-10
10/1 LIBOR ARM	3900-10

Second Lien Program Codes: Not applicable

SECTION 2: LTV/CLTV/LOAN AMOUNTS BY DOC TYPE

FULL DOCUMENTATION: Purchase & Rate/Term Refinance:

LTV	CLTV	OCC.	PROP.	MAX. LOAN	SCORE
80%	80%	Owner	1 -2 Units	$1,000,000	700
80%	80%	Owner	1 -2 Units	$2,000,000	720
70%	70%	Owner	3-4 Units	$1,000,000	700
70%	70%	Owner	3-4 Units	$1,500,000	720

See Eligible Properties section for declining markets policy, reduction of LTV/CLTV is required in "B", "C" and "D" markets.

Note: Attached condo projects are not permitted on this program.

Note: See Special Program Requirements section below for additional requirements for loan amounts >$850,000.

FULL DOCUMENTATION: Cash-out Refinance:

LTV	CLTV	OCC.	PROP.	MAX. LOAN	SCORE
80%	80%	Owner	1-2 Units	$1,000,000	700
80%	80%	Owner	1-2 Units	$1,500,000	720

Cash out not permitted on 3-4 units.

See Eligible Properties section for declining markets policy, reduction of LTV/CLTV is required in "B", "C" and "D" markets.

Note: Attached condo projects are not permitted on this program.

Note: See Special Program Requirements section below for additional requirements for loan amounts >$850,000.

SECTION 3: PROGRAM PARAMETERS

MINIMUM LOAN AMT:
1 unit: $417,050
2 units: $533,860
3 units: $645,350
4 units: $801,960

ALLOWABLE TERMS:
15 & 30 year fixed rate terms
3/1, 5/1, 7/1 & 10/1 LIBOR ARM programs with a 30 year term.

CASH PROCEEDS:

Maximum cash-out for full doc loans:

Occupancy/Property Type	LTV/CLTV	Max Cash-out
Primary Residence 1-2 units, site condos only & PUD	>65% to 80% <=65%	$250,000 $350,000

SPECIAL PROGRAM REQUIREMENTS:

Super Jumbo Transactions (loan amounts >= $850,000) must meet additional requirements:

- Loan amounts >$1,500,000 must be send to the investor's credit committee for approval.
- Exception requests for loan amounts >$1,500,000 must be accompanied by a memo from a senior manager (lender) that explains the merits of the file. A credit report and fully completed 1003 & 1008 must also be included with the exception request.
- The borrower must explain in writing any derogatory credit or recent inquiries.
- A business credit report may be required for any self-employed borrower whose income is derived from a corporation or partnership at the discretion of the underwriter.
- A profit and loss statement (within 120 days) and balance sheet prepared by an accountant is required for self-employed borrowers. If > 120 days since the borrower filed tax returns or in lieu of the P & L the borrower may provide 6 months personal bank statements to show a steady income stream.
- The form 4506-T must be signed at application.
- Any commercial real estate owned must be supported by a cash-flow analysis including rent rolls, and the original price paid for each property.
- Borrowers must disclose the value of art, collectibles and jewelry on the application.
- The face value of life insurance policies must be disclosed. The cash value may be verified if listed as an additional asset.
- At the discretion of the underwriter, non-disclosed liquid assets may be verified if needed to strengthen the borrower's asset profile.
- 2 full appraisals from two independent appraisal firms must be obtained.
- Each appraisal must contain a "market study" of the factors affecting properties in the subjects market, a description of the property including the lay-out, interior photos and at least 3 listings.

ARM ADJUSTMENTS:

Index is based on the LIBOR (London Interbank Offered Rate) which is the average of Interbank offered rates for 1 year US dollar-denominated deposits in the London Market as published in the Wall Street Journal.

ARM adjustments are as follows:

ARM	Initial Period	First Adjust.	Subsequent Adjust.	Life Cap
3/1	36 months	2%	2%/annual	6%
5/1	60 months	5%	2%/annual	5%
7/1	84 months	5%	2%/annual	5%
10/1	120 months	5%	2%/annual	5%

- After the applicable fixed period for the ARM program, it will adjust per the schedule above.
- Borrowers qualify at the start rate for all loan programs.
- The ARM programs are only assumable after the initial fixed period. Assumptions are subject to investor approval and conditions.
- These loans are not convertible. The floor is equal to the margin.
- **The 3/1 & 5/1 ARM programs** are qualified based on the greater of the fully indexed/fully amortizing rate or the **Note rate + 2%.**
- **The 7/1 & 10/1 ARM programs** are qualified based on the fully-indexed rate or note rate, whichever is higher and at the fully amortizing payment.
- **Refer to the ARM Plan Decoder Matrix for DU in Loan Programs/Program Matrices.**

INTEREST ONLY OPTION:

Not permitted

TEMPORARY BUYDOWNS:

Not permitted

PREPAYMENT PENALTY:

Not permitted

SECTION 4:	BORROWER ELIGIBILITY
FIRST TIME HOMEBUYER:	• A First Time Homebuyer is defined as a borrower who has had no ownership interest in a residential property during the 3 year period prior to the date on the note OR has a mortgage payment history <12 months. • Permitted on owner occupied primary residences. • Verification of 12 months rental payments must be evidenced by bank statements or cancelled checks. • If the borrower has <12 month mortgage payment, a combination of mortgage and rent payments must be obtained to complete a 12 month history. • A VOR from a private party OR verification on the credit report is **not permitted**. • A written VOR is only permitted when the landlord is a large professional management company. • 12 months reserves required (excluding retirement accounts).
NON-OCCUPANT CO-BORROWER:	Not permitted.
PERMANENT RESIDENT ALIEN:	• Allowed under the same terms as a US citizen. • Borrowers must provide evidence of their permanent residency. (i.e. green card)
NON-PERMANENT RESIDENT ALIEN:	• A non-permanent resident alien is a non-US citizen who resides in the US under the terms of a Visa. • Maximum LTV 75% • If a non-permanent resident alien is a co-borrower with a US Citizen or permanent resident alien they qualify under the same terms as a US citizen or permanent resident alien, but they still must provide evidence they can legally live and work in the US. • Eligible Visa types are: H-1, H-2A, H-2B, H-3, L-1, E-1, G series, TN or TC. • Borrowers with diplomatic immunity, temporary protected status, deferred enforced departure, asylum, refugees or humanitarian parole are not eligible for financing.
FOREIGN NATIONAL:	Not eligible
NON-ARMS LENGTH TRANSACTIONS:	• The investor defines a non-arms length transaction as a direct relationship between any of the parties to the transaction including, but not limited to the borrower, lender, broker, appraiser, builder etc. • Non-arms length transactions are permitted if the following minimum requirements are met. A second signature from corporate is required : ❖ The borrower makes the required minimum down payment for the transaction from their own funds. ❖ The loan must be fully documented. ❖ The landlord sells a home utilizing a lease with Option to Purchase Agreement. ❖ The transaction is between individuals with an established relationship: immediate family members (parent, sibling, child, spouse, grandparent, etc.), domestic partner or fiancé. • A non-arms length transaction may not be used to bail out a family member or current owner from a delinquent mortgage. • Borrowers who wish to purchase or refinance a property, currently or recently owned by an individual with whom an established relationship exists must meet the following requirements: ❖ Purchase: The title commitment may not show any evidence of foreclosure proceedings or NOD. ❖ Refinance: If the borrower has been on title <6 months from the application date, a payoff demand from the purchase transaction must show the mortgage was current at the time the property was purchased. • If the seller is a corporation, partnership or any other business entity, there must be proof the borrower is not an owner of the business entity selling the subject property.

NUMBER OF OTHER PROPERTIES:

Number of properties owned/financed:

- A borrower may **own** a maximum of 4 properties, regardless of whether additional properties are financed by the Investor.
- Partial or joint ownership is considered the same as total ownership.
- A borrower who holds a Limited Partnership interest that has been formed for the purpose of real estate investment or development OR a General Partner who has personal liability and whose primary income is derived through the partnership's long term investments MUST include all properties owned by that partnership.

Note: Ownership in commercial properties, multi-family (five or more units) properties and properties owned free and clear are NOT included in this limitation.

- Borrowers cannot have acquired any properties (including owner occupied, second home or non-owner) in the last 90 days AND no more than 2 non-owner occupied properties in the last 12 months (can be measured from acquisition date to the closing date of the subject transaction). An exception can be made if the subject transaction is an owner occupied rate/term refinance with the following:
  - The recently purchased properties are **clearly** documented as investment or 2nd homes with substantially lower values, in different locations, and there is no cash out in the transaction. Other scenarios must still be approved by corporate support.
- If the transaction is the purchase of a principal residence, but a previous mortgage transaction within the past 12 months was also the purchase of a principal residence, the borrower must provide reasonable documentation to justify the new transaction (e.g. a letter of explanation, or other acceptable documentation). Any address discrepancies or "red flags" must be fully addressed.
  - A borrower purchasing a new primary that is of lesser size or value should be carefully analyzed by the underwriter
  - Relocation and/or extenuating circumstances must be documented and verified
  - Non occupant coborrower/co-signer situations (where the previous owner occ purchase was a cosigned loan) must also be verified and fully documented.
  - FPF has the right to refuse the occupancy type if it cannot be adequately established.

Number of Properties the investor will finance:

- The investor will finance a maximum of 4 properties per borrower. The maximum total dollar amount is $2,000,000.
- The maximum investor concentration in a project or subdivision is 20%.
- Super Jumbo guidelines apply when a w single loan or new multiple loans exceed $850,000. See Special Program requirements section above for Super Jumbo requirements.
- New multiple loans must be underwritten simultaneously.

Number of properties FPF Wholesale will finance:

- FPF WHOLESALELENDING will finance up to 3 properties per borrower:
  - ❖ One owner occupied property and one second home and one non-owner occupied property OR
  - ❖ One owner occupied property and 2 non-owner occupied properties.
- FPF Wholesale will make loans totaling $4,000,000 on primary residences and second homes. The maximum total amount for non-owner occupied loans is $1,000,000.

Note: The more restrictive of FPF Wholesale policy or the investor policy applies.

SECTION 5: **CREDIT CRITERIA**

UNDERWRITING:

Automated Underwriting:

- **All loans must be submitted through DU and receive appropriate fraud alerts, then be manually underwritten.**
- **All loans must be submitted to the investor for final approval.**
- Loans must be underwritten as "Jumbo" fixed rate, Jumbo LIBOR ARM or JUMBO Fixed Rate or LIBOR ARM interest only by DU.

Note: The investor's AUS 1003 Import Tool will continue to provide access to Desktop Underwriter.

The more restrictive of Stearns Policy or Automated Findings must be adhered to.

UNDERWRITING: (cont'd)

Note: All loans must be submitted to the investor's market indicator tool to determine if the property is located in a declining market. See property section below for LTV/CLTV restrictions for properties located in declining markets.

Manual Underwriting:

- **Loans must be manually underwritten after they are submitted through DU and receive the appropriate fraud alerts.**

Underwritten by Investor:

- **All** loans must be submitted to the investor for final signoff.

NOTE: Please refer to 3000-10A for required documentation necessary for Closing Package Submission & Prior Approval by the Investor. If the file is missing the key documentation outlined, the file will be suspended at the time of underwriting loan set up and will not be forwarded to the Underwriter. Suspense details will be available under the Investor's Underwriting Status Report.

CREDIT SCORES:

- **The minimum credit score for the program must be met. See LTV/CLTV matrix above.**
- **The lower of 2 or middle of 3 scores** is selected as a representative score for each borrower.
- If more than one score is provided by the same repository, use the lower of the 2 scores.
- **The lowest of the borrower's** representative scores is used for qualifying.
- **All** borrowers must have credit scores. Co-borrowers with no scores are not permitted regardless of AUS.

CREDIT REQUIREMENTS:

Credit Requirements:

- **A full RMCR credit report or a 3 bureau merged report** with at least 2 valid credit scores is required for each borrower.
- Borrowers must have a **minimum 2- year traditional credit history** with at least 3 trades AND all trades must be rate at least 12 months.
- **In addition to the above requirements, loan amounts >$1,000,000 and 2nd homes with LTV >85-90%** must have credit history that consists of 4 trade lines and one trade must be reported in the last 12 months.
- **Non-traditional credit sources are not permitted.**
- **A written explanation for inquiries is not required,** but the underwriter should determine whether there are undisclosed borrower debts.
- **If the borrower is renting from a private party** cancelled checks must be obtained. (front and back)
- Borrowers must have 0X30 day **mortgage/rent lates** in the last 12 months and 0X60 day lates in the last 24 months. All housing payments must be current at closing.
- **A verification of rent** must be requested if the borrower has <12 month mortgage payment history. The VOR must be used to complete a satisfactory 12 month housing history.
- **The subject mortgage** must be current at closing.
- **A 12 month rental history** must be verified with bank statements or cancelled checks. The only time a written VOR is permitted is if the landlord is a large professional management company. Verification of rents on the credit report is not permitted.
- **All adverse accounts** (i.e. collections, charge-offs, tax liens, etc.) must be paid off prior to or at closing, unless the AUS recommendation does not require them to be paid.
- **Disputed adverse accounts** with a written explanation and supporting documentation may be considered as an exception.
- **Bankruptcies and foreclosures** must be discharged and/or dismissed at least 7 years. The bankruptcy or foreclosure is measured from the discharge or dismissal date.
- **Foreclosures** are any mortgage delinquency ≥120 days, deeds-in-lieu, NOD, short pay, forbearance, lis pendens, breach, notice of sale, etc.
- **Credit must be re-established after a bankruptcy.** Re-established credit must consist 4 credit references with at least one traditional reference and one housing reference; 3 of the references must have been active for the last 2 years; no housing lates since the bankruptcy; no more than 2X30 revolving lates in the last 24 months; 0X60 day revolving and installment lates since the bankruptcy, all accounts must be paid current and there can be no new public records.
- **Consumer credit counseling** is treated the same as a Chapter 13 bankruptcy.
- **All state, IRS, property tax liens** are required to be paid whether or not they affect title. A letter of explanation is required.
- **Credit report alerts:** Credit reports must include FACT Act messages and at least one fraud alert product (Hawk Alert, FACS+ or SafeScan). Alerts must be reasonably resolved.

CREDIT REQUIREMENTS: (cont'd)

- **Credit report red flags:** Borrower's credit use and limits should be consistent with income, assets and application information. Borrower's address history should also be examined for consistency with other file documentation. Discrepancies should be explained.

Loan modifications:

- Refinance transactions on previously modified loans are not permitted.
- New purchase transactions where the borrower's previous loan was modified and the property is being retained as a 2nd home or investment property are not permitted.
- New purchase transactions where the borrower's previous loan was modified and the property is being sold should be treated with caution and reviewed for delinquencies and short payoffs.

RATIOS:

- The maximum DTI is 45% for LTVs <= 80%

QUALIFYING:

- **Buy downs qualify** at the second year rate.
- **The 3/1 & 5/1 ARM programs** are qualified based on the greater of the fully indexed/fully amortizing rate or the **Note rate + 2%.**
- **The 7/1 & 10/1 ARM programs** are qualified based on the fully-indexed rate or note rate, whichever is higher and at the fully amortizing payment.
- **Buydowns are qualified** based on the note rate using the fully amortizing payment, taxes and insurance. (PITI)
- **All revolving and open-end debt** will be included in the DTI, regardless of the amount remaining.
- **For revolving debt payment,** use the minimum payment from statement or credit report; or $10 or 5% of the current balance, whichever is greater, if no payment is stated on the credit report.
- **Paying installment debt off or down** to qualify is permitted.
- **Paying down revolving debt** to qualify is NOT permitted.
- **Paying revolving debt off** to qualify is permitted**.** If a significant amount of revolving debt is being paid off, a minimum payment equal to 2% of the amount of the debt being paid off should be included in the borrowers DTI.
- **Installment debt with <10 payments** remaining are generally not counted in the DTI ratio. However, they **will be** counted in the borrowers debt ratio if the payment increases the DTI by >5% OR if the payment cannot be offset by incremental reserves (reserves greater than the amount required for the program). If both conditions above can be documented and <10 months payment remain, the debt may be excluded from the DTI calculation.
- **If debts are being paid off or down to qualify**, the payoff must be documented and the source of funds verified.
- **Co-signed debt** will not be counted if there is evidence the primary borrower has made payments as agreed as evidenced by 12 months canceled checks (front and back) from the primary borrower and the account is current. A copy of the note must also be provided to show that the person making the payments is also an obligor on the note. Being placed on title only is not sufficient.
- **Debts opened jointly with a former spouse** will be counted against the borrower unless a court order or divorce decree is provided to prove the former spouse is responsible for the debt. **Business debt** need not be included if the borrower provides 6 months canceled checks that show the debt is being paid as agreed by the business and the account is current.
- **Deferred debt (i.e. student loans and loans in forbearance)** <u>will be included</u> in the borrower's monthly debt. If the credit report doesn't contain the monthly payment, a copy of the borrower's payment letter or forbearance agreement must be obtained to determine what payment amount to include in the DTI, **regardless of AUS decision**.
- **Alimony/child support payments** with more than >10 months remaining will be counted in the borrowers DTI.
- **Loans on 401K, life insurance** or other liquid accounts are not counted in the DTI.
- **Auto leases** are included regardless of the time remaining.
- **Loans with HELOC as subordinate financing:** To Qualify a borrower for a new piggyback HELOC or to subordinate an existing HELOC secured by the subject property, use 1% of the total line amount (proposed or the line amount to be subordinated). To debt service an existing HELOC secured by other than the subject property, use the payment amount shown on the credit bureau. If there is no payment shown, or, if there is a HELOC on the application that does not show on the bureau, use 1% of the total line amount.

QUALIFYING: (cont'd)

- Existing negative amortization loans (on other properties held by the borrower) should be qualified at the fully indexed rate, fully amortized payment at the current loan balance.
- If rental income from the subject property is used to qualify, 6 months rent loss insurance coverage is required regardless of AUS findings. This includes rental income on 2-4 unit owner occupied properties.
- New purchase transactions where the borrower's previous loan was modified and the property is being retained as a 2nd home or investment property are not permitted.
- Mortgage Credit Certificates may not be used as income or to offset housing payment. FPF is not participating in any MCC programs at this time.

<u>Primary Residences that have not been sold or are being converted to a second home or non-owner property:</u>

Scenario	Required Action
Current primary residence is pending sale, but will not close prior to the new transaction.	Both the current and proposed mortgage payments must be used to qualify the borrower for the new transaction AND 6 months PITI required for reserves on both the new & current properties. Reserves of 6 months liquid reserves for the retained property and the greater of 6 months liquid reserves or program requirements are required for the subject property regardless of AUS results.
Conversion to second home	Both the current and proposed mortgage payments must be used to qualify the borrower for the new transaction AND 6 months PITI required for reserves on the current property AND the greater of 6 months PITI or the maximum required for the program is required on the new property. OR Reserves of 6 months liquid reserves for the retained property and the greater of 6 months liquid reserves or program requirements are required for the subject property regardless of AUS results.
Conversion to Non-owner occupied property	When the borrower indicates intention to rent their current primary residence, the property being purchased must be of greater value or in another geographic location. Up to 75% of the rental income may be used to offset the mortgage payment in qualifying if there is documented equity of at least 30% in the existing property as determined at least a 2055 exterior only inspection dated no more than 60 days prior to the note date minus outstanding liens. Note: Appraisal must comply with HVCC. The rental income must be documented with a copy of a signed lease agreement AND the receipt of a security deposit from the tenant and deposit into the borrowers account. A family member, individual with an established relationship with those involved in the transaction or an interested party may not sign the lease agreement as the renter. At the discretion of the investor, a "fair market rent" letter may also be required. Reserves of 6 months liquid reserves for the retained property and the greater of 6 months liquid reserves or program requirements are required for the subject property regardless of AUS results.

CALCULATING LTV/CLTV/VALUE:

<u>On a purchase:</u>
- The LTV/CLTV is calculated based on the lesser of the purchase price or the current appraised value.

<u>On a rate/term refinance transaction:</u>
- The LTV/CLTV is based on the current appraised value.

CALCULATING LTV/CLTV/VALUE: (cont'd)

On a cash-out refinance:

- If the property has been owned <12 months, the LTV/CLTV will be based on the lesser of the original purchase price or the current appraised value. A HUD-1 or deed must be provided to verify ownership.
- If the property has been owned ≥12 months, the LTV/CLTV (including any junior liens) will be based on the current appraised value.

Re-negotiated purchase agreement policy:

- FPF will not accept re-negotiated purchase agreements that increase the sales price after the appraisal has been completed if:
  - The appraised value is higher than the contracted sales price provided to the appraiser**,** and
  - The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received, and
  - The only change to the purchase agreement is an increase in sales price.
- If the purchase agreement is re-negotiated after the completion of the appraisal, the loan to value will be based on the lower of the original purchase price or the appraised value, unless:
  - A re-negotiation of seller paid closing costs and/or pre-paids occurs if customary for the market and supported by comparables, not to exceed standard seller contributions, or
  - An amended purchase agreement for a new construction property is obtained due to improvements that impact the value. In the event of such changes, an updated appraisal must be obtained to verify the value of the modifications.

SEASONING:

- **There is no seasoning requirement** on a first lien refinance.
- **For rate/ term refinances** subordinate liens must be seasoned over 1 year or must be treated as cash-out unless the original second was part of the original purchase transaction or the proceeds were used for documented home improvements. If the seasoning requirement is not met, the loan will be classified as a cash-out refi.
- **For rate/term refinances**, when the subordinate lien is a HELOC, the 1 year seasoning requirement is applied to the most recent draw. (Draws ≤ $2,000 or 1% or less of the new loan amount during a 12 month period are not counted.) Documentation showing the date and amount of the latest draw must be provided.

REFINANCES:

Listed Properties: For all refinances, properties may not be currently listed or listed for sale within the last 6 months prior to the application date. No exceptions permitted.

Continuity of Obligation:

- An acceptable continuity of obligation exists when one of the following exists:
  - ❖ At least one borrower obligated on the new loan was also a borrower obligated on the existing loan being refinanced.
  - ❖ The borrower has been on title and living in the property at least 12 months and has either paid the mortgage for the last 12 months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.
  - ❖ The existing loan being refinanced and the title have been held in the name of a natural person or LLC (Limited Liability Company) as long as the borrower was a member of the LLC prior to transfer.
    - o The applicant(s) must be 100% owners of the LLC, otherwise the property must be considered investment property.
    - o If the transaction is owner occupied, at least 6 months of occupancy prior to the transaction must be established.
    - o Cash out is not permitted.
    - o Payoff of joint owners of the LLC is not permitted.
    - o Caution should be used when there are several members of an LLC with small percentages of ownership, especially when the borrower owns a smaller overall percentage than the majority of the owners.
    - o Transfer of ownership from a corporation (such as an S corporation or a C corporation to an individual does not meet the continuity of obligation requirement.
  - ❖ The borrower has recently inherited or was legally awarded the property. (divorce, separation)

REFINANCES: (cont'd)

- Loans with an acceptable continuity of obligation are considered either a rate/term or cash-out refinance based on the criteria below.
- "Buy outs" from a divorce settlement or property inheritance will be considered rate/term refinances if the criteria below is met.
- If the borrower is currently on title, but is unable to demonstrate an acceptable continuity of obligation, **or** there is no outstanding lien against the property, the loan is eligible for financing as a cash-out refinance with the following additional restrictions:
  - ❖ If the property has no outstanding liens (e.g. was purchased for cash or prior loans have been paid off): If the property was purchased within 6-12 months prior to the application for new financing, the LTV will be based on the lesser of the sales price/acquisition (documented on the HUD-1) or the current appraised value. If the property was purchased >12 months prior to the application date for new financing, the current appraised value may be used to calculated the LTV.
  - ❖ **All** borrowers must have held title to the subject property for a minimum of 6 months (note date to application date).

<u>A rate/term refinance</u> may include:

- Paying off the existing first lien
- Paying subordinate liens that are at least 12 months old OR
- Subordinate liens that are less than 12 months old that were used for the original purchase of the home or for documented home improvements.
- Reasonable & customary closing costs including pre-paids.
- Cash to the borrower may not exceed the greater of 1% of the loan amount or $2,000.
- A rate/term refinance must provide some benefit to the borrower, including but not limited to the following:
  - Decreased PITIA payments or overall monthly obligations
  - Shorter term
  - Fixed rate from balloon, ARM, neg am or interest only
  - Payoff of purchase money 2nd lien
- Some states require Net Tangible Benefit or Benefit to Borrower calculation – please see State Guidelines. For other states, there is a Statement of Borrower Benefit in J:\Operational Tools\FORMS\Underwriting that may be used as a tool.
- Caution should be used when borrowers refinance in a very short time, to avoid "churning" of loans for the benefit of the originator rather than the borrower.

<u>Cash-out Refinance</u>:

- **All** borrowers must have held title to the subject property for a minimum of 6 months (note date to application date).
- A cash-out refinance is a loan that doesn't meet the requirements of a rate/term refinance as stated above.
- Cash-out includes the payoff of unseasoned second liens, HELOC and/or non-mortgage debt.
- A short term refinance that combines an existing first mortgage and non-purchase money subordinate lien into a new first mortgage is considered a cash-out refinance. In addition a refinance of this loan within 6 months will also be considered a cash-out refinance.

SUBORDINATE FINANCING:	• The maximum LTV for loans with subordinate financing is 80%. • Subordinate liens must be provided by an institutional lender. • Seller subordinate liens are not permitted. • Negative amortization is not allowed on the subordinate lien. • The subordinate lien may not be subject to a buy down. • The subordinate lien may not have wrap around terms or a prepayment penalty. • Subordinate liens may not have maturity date or call option <5 years unless the lien fully amortizes prior to that time. • Payments must be at least interest only, fixed and due on a regular basis, but not less than semi-annually. • Payments may be variable if the total amount of the subordinate lien fully amortizes during its term and the annual payment adjustments do no exceed the lesser of 2% interest rate increase or 8.5% payment increase. • HELOC subordinate liens are allowed. If the HELOC is on the subject property, the qualifying payment should be calculated as 1% of the line amount and included in the DTI regardless of whether there is a draw on the HELOC. • A copy of the subordinate lien note must be included in the loan file. • Multiple subordinate liens permitted. Reminder, deed restrictions and resale restrictions are not permitted.

EMPLOYMENT/INCOME:

- Reminder: Income for each borrower to be obligated for the mortgage debt must be analyzed whether it can reasonably be expected to continue through at least the first 3 years of the mortgage loan.
- **All income used to qualify** must be stable, must be sufficient to pay the mortgage debt in a timely manner, must be likely to continue AND must come from a US source, US possession or territory.
- **Stable income** is defined as income that has been received for the last 2 years without interruption and has a strong likelihood of continuing 3 years.
- **Employment gaps >30 days** must be explained in writing.
- **Income from the following sources <u>must</u> be verified with 2 years tax returns:**
  - ❖ Self-employed borrowers.
  - ❖ Borrowers whose commission income is >25% of their total income.
  - ❖ A borrower who is employed by a family member or interested party to the transaction.
  - ❖ A borrower who receives income from rental properties.
  - ❖ Borrowers who have unreimbursed business expanses.
  - ❖ A borrower who receives income from periodic employment or employment subject to time limits. (I.e. contract employees or trade persons).
  - ❖ Borrowers who receive capital gains, interest, royalties or other non-employment earnings.
- **Computer generated W2s and/or pay stubs** are required.
- **The IRS form 4506-T** must be signed at application and closing for all employment types.
- **Overtime, bonus & commission income** should be received at least 2 years and be expected to continue. The income should be stable or increasing.
- **Overtime and bonus income received 18** months may be considered if there are substantial compensating factors that offset the shorter term.
- **Dividend/interest income** is calculated from 2 years 1040's schedule B. The borrower must have sufficient assets to support the income.
- **Non-taxable fixed income** (certain military allowances, disability/retirement payments, worker's compensation benefits, social security, child support and public assistance payments) is calculated at the greater of 25% or the actual amount of federal and state taxes paid by a wage earner in a similar tax bracket.
- **Alimony/child support payments** must be received at least 12 months and be expected to continue at least 3 years. Alimony/child support income is verified with a divorce decree or court order and proof of regular receipt of the payments. (canceled checks or bank statements)
- **Rental income** from a property other than the subject property that is owned for one or more complete tax years will be calculated from the 1040's schedule E. When a property has been owned <12 months, rents will be calculated at 75% of actual rents as evidenced by copies of signed leases.
- **Proposed rental income** must be calculated as follows: 75% of actual rent established by a 12 month fully executed lease (cannot be signed by a family member or interested party; a fair market letter may also be required; 75% of rent as established by the appraiser's opinion of fair market rent.
- **Rental income from a 2-4 unit subject property** is based on the market rents from the form 216 operating income statement.
- If rental income is used to qualify, 6 months **rent loss insurance coverage** is required regardless of AUS findings. This includes rental income on 2-4 unit owner occupied properties.
- Income from accessory or "in-law/granny" units is not permitted. Income may only be used if the property is taxed as a 2 unit property, and is not permitted if classified as an SFR with accessory unit.
- **Tip Income:** Tip income can only be used in qualifying income if they are included in 2 years taxable income. UW should develop an average income trend over the past 2 years, and the employer must indicate that the tip income will in all likelihood continue.
- **Temporary disability income** may be allowed if the borrower provides an insurance award letter and a letter from the borrowers employer stating the likelihood of continuing employment and the approximate date the employee will return to work.
- **Seasonal unemployment compensation** may be allowed if the borrower provides 2 years 1040's with all schedules.
- **Pension Income** is verified with a copy of the most recent year's checks, the most recent year's W-2P for or a letter from the pension fund showing the pension amount.

EMPLOYMENT/INCOME: (cont'd)

- **Social security income** is verified with a copy of the award letter or bank statements showing the automatic deposit. If a child receives social security or social security disability income, verification the income will be received at least 3 years is required unless the award letter states "improvement not expected".
- **Trailing co-borrower income not permitted.**
- **Written verifications of employment** are not acceptable as standalone documentation to substantiate the borrower's current employment/income regardless of the automated underwriting requirements.
- **Ineligible income sources are:** VA benefits, retained earnings in a company, rental income from the borrower's primary residence or second homes, income sources that cannot be verified, temporary income and income from sources outside the US.
- **Mortgage Credit Certificates** may not be used as income or to offset housing payment. FPF is not participating in any MCC programs at this time.

ASSETS:

- **Sufficient funds** for the down payment, closing costs, pre-paids and reserves must come from the borrowers own funds and must be verified and sourced for all doc types.
- **Assets may be verified** with two consecutive monthly bank statements or a verification of deposit and one month's bank statement is the minimum documentation required to document the Borrower's assets. A written verification of deposit alone is not acceptable in documenting the borrower's assets. At least one month's bank statement is required to cross-validate the information if a verification of deposit is used.
- **Earnest money deposits** must be verified by a written statement from escrow or a cancelled check. The source of the earnest money must also be verified.
- **Funds from individual requirement accounts** (i.e. IRA, Keogh) and tax favored savings accounts (IRA's) may be used for the down payment, closing costs and reserves. If the borrower is borrowing from these accounts to meet the down payment, closing costs or reserve requirement, **50%** must be subtracted from the vested amount to account for any withdrawal penalties or income tax. If the borrower is using the sources above only to support the cash reserve requirement, funds do not need to be withdrawn.
- **When a retirement account** only allows for withdrawal in the case of the borrower's employment termination, retirement or death, (i.e. pension) these accounts cannot be counted as reserves.
- **Mutual funds** may be verified with a current statement.
- **Stocks/bonds** may be verified with a photocopy of the stock certificate and a dated newspaper or VOD.
- **If verification of cash to close** reveals a significant increase in the average balance of an existing account, recent large deposits or a newly-opened account with a large balance, the borrower must explain the increase in writing and there must be documentation to support the explanation.
- **Business assets** may only be used if the borrower is a sole proprietor**.** The borrower's accountant must provide a written statement about the impact using the funds will have on the business. If there is a negative impact, business funds may not be used. Business funds are not an eligible source of funds for cash reserves.
- **Assets/funds for the down payment may <u>not</u>** come from the proceeds of a personal or unsecured loan, donated funds, a gift that must be repaid in full or in part, sweat equity, any payment received as a result of being a party to the sales transaction (i.e. real estate commission payments), salary advances or cash on hand.

CASH RESERVES:

<u>**Full Doc Primary Residences and Second Homes:**</u>

- Loan amounts < $1,000,000 with DTI of > = 35%:
  - ❖ 12 months liquid reserves; at least 6 months must be from a liquid source and up to 6 months from non-liquid (401K/IRA/SEP account at least 50% of full vested amount)
- Loan amounts < $1,000,000 with a DTI of < 35%
  - ❖ 6 months liquid reserves (exclusive of 401K/IRA/SEP account).
- Loan amounts >$1,000,000 regardless of DTI:
  - ❖ 12 months liquid reserves; at least 6 months must be from a liquid source and up to 6 months from non-liquid (401K/IRA/SEP account at least 50% of full vested amount)
- FTHB: 12 mos reserves (excluding 401K/IRA/SEP funds) required.

CASH RESERVES: (cont'd)

Notes:

- PITI reserves include HOA fees if applicable.
- If the borrower is using funds from retirement accounts for reserves, the account must be reduced by **50%**. The value of the account(s) should be reduced by the underwriter when the loan data is put into the AUS system.
- Business assets (other than Schedule C) **may not** be used for reserves
- Bridge loans, loans secured by other assets and proceeds from the sale of non-real estate assets **may not** be used for reserves.
- Reserves are exclusive of cash-out, closing costs and the proceeds from home equity transactions. (If applicable). Gift funds may not be used for reserves.

GIFTS/ DOWN PAYMENT:

Down Payment:

- The borrower must contribute a minimum 5% down payment from their own funds on a full doc primary residence and second home.
- When the loan amount is >$1,000,000 the entire down payment must come from the borrowers own funds.
- Additional down payment may come from any acceptable asset source such including borrower's funds, gift funds or secondary financing.

Gifts:

- Gifts are permitted after the borrower has made the required down payment from their own resources.
- Gifts are not permitted on loan amounts >$1,000,000.
- Gifts funds must be verified with a gift letter AND either proof of receipt of the funds OR proof of the donor's ability to give the gift.
- The gift must come from an immediate family member or someone who has an established history with the borrower. (i.e. domestic partner, fiancé)
- Gifts of equity are permitted from a relative. The minimum down payment for the program must come from the borrowers own funds. The gift of equity must show in the HUD-1 as a credit.
- Gift funds may not be used for reserves.

DOCUMENTATION TYPES:

Full Documentation:

- ALL borrowers must have a 2 year continuous employment history in the same line of work/business.
- Wage earners are classified as borrowers who receive a salary, commission, overtime, tip or gratuity, bonus income, etc. Income for these borrowers must be verified with a verbal VOE AND 2 years W-2's AND the most recent 30 day paystub showing YTD earnings
- If a written VOE is provided, a W-2 and paystub covering 30 days must also be obtained to back up the written verification.
- Verbal VOE is required for all transactions. A phone number and if possible an address should be independently obtained by using phone book, internet or directory assistance.
- If the borrower is in the military, a military Leave and Earnings Statement (LES) is acceptable.
- Self-employed borrowers must show 2 consecutive years of self-employment with stable, on-going income and provide 2 years 1040's (business returns if applicable) with all schedules.
- Self employment should be verified with a third party, such as a CPA, regulatory agency, or licensing bureau if possible, and by verifying a phone listing and address for the borrower's business using a phone book, internet or directory assistance.
- A self-employed income analysis should be completed for all self-employed borrowers. If the form is not completed, all income calculation comments must be on the 1008.
- NOTE: The underwriter may request additional information such as business license, business tax returns, profit & loss statement and/or balance sheet if it is necessary to further support the determination of the stability of a self-employed borrower's income.
- The IRS form 4506-T must be signed and dated at application and closing for all employment types. Regardless of AUS results, if there is a variance of greater than 10% between the income returned on the 2 years 4506T transcripts, additional income documentation will be required.
- Full Documentation is required on non arms length transactions.

Age of credit documentation: The maximum age of all credit documents (including credit report, employment, income and asset documents) is 60 days at the time of underwriting, 90 days at the time of funding, regardless of AUS requirements. **No exceptions will be permitted.**

SECTION 6:	PROPERTY/APPRAISALS
ELIGIBLE PROPERTIES:	**Eligible properties** are SFR, attached and detached PUD projects, site condos, 2-4 units (owner occupied only). **Condition of Property:** the kitchen must be functional, meaning that there must be kitchen cabinets, a working sink and working stove. **This applies to all real estate transfers (purchase transactions)**. In addition, all property must be habitable and all appliances, plumbing, electrical, etc. must be functional and in good working condition. **Modular, panelized and pre-cut homes** are allowed. These homes are multi-sectioned units that are transported to the site and installed. They are constructed to the state, local or regional building codes where the property is located. **Leaseholds permitted.** The term of the lease may not expire earlier than 5 years after the maturity date of the loan. The lease and any subleases must be recorded. The sublease payment, if any, must be at least equal to the lease payment and must be due at the same time as the lease payment. **All properties must have a permanently affixed heating system**. Portable heaters, wood burning stoves etc. are not considered permanently affixed. **Rural properties are permitted to maximum 10 acres.** **Properties that have been listed for sale** in the last 6 months are not eligible for a refinance transaction. **The listing must have been cancelled at least 6 months prior to the application date. No exceptions permitted.** **Property Flipping:** If the owner (individual or entity other than the Mortgage holder) sells a property within 90 days after the date of acquisition, that property is not eligible for financing. Proof the property seller has owned the property for 12 months or a chain of title for the last 12 months is required. Acceptable sources for the chain of title include copies of recorded deeds, tax statements, or a 12-month chain of title on the title commitment. **Declining Markets**: For all properties, the subject property zip code must be put into the investor's market indicator portal. If the market indicator shows the property is located in a "B", "C" or "D" market" the maximum LTV/CLTV will be restricted as follows: **B Market:** Reduce maximum LTV/CLTV by **5%** **C Market:** Reduce maximum LTV/CLTV by **10%** **D Market:** Reduce maximum LTV/CLTV by **15%** If the investor market tool delivers an "A" market designation, **but** the appraiser notes in the appraisal report that the subject property is located in a submarket that is **declining**, the "A" market **must be downgraded** to a "B" market, reducing the maximum LTV/CLTV by 5%. (Previously required to be downgraded to a "D" market). If the market portal tool identifies the property in a "B", "C" or "D" market and the appraiser indicates that the subject property is located in a submarket which is declining, there is no further LTV/CLTV downgrade required. A market upgrade of 5% LTV/CLTV is permitted if the loan meets **all** of the criteria below. The LTV/CLTV may not exceed the maximum permitted for the product. • Minimum 720 credit score • Maximum DTI 35% • Single Family Residence (condos not permitted) • Purchase or Rate/Term only • Two full appraisals • Fully amortized, interest only not permitted • Maximum combined loan amount $2M

INELIGIBLE PROPERTIES:

Ineligible properties: Second homes, non-owner occupied properties, attached condos, mobile homes, manufactured homes, and condotels, and time shares, properties with commercial or industrial use, unimproved land, and income producing properties (farm, ranch or orchard), houseboats, and cooperatives, mixed use property, assisted living projects, properties with deed restrictions, properties on Indian leased land and properties with more than 10 Acres.

- Properties with unexpired redemption period are ineligible: Certain state laws provide for a "redemption period" after a foreclosure or tax sale has occurred, during which time the prior owner may reclaim the property upon payment of all amounts owed. Unexpired redemption periods create an unacceptable title defect on the subject property, and do not conform to the existing policy that requires the property to have "good and marketable" title. The purchase of additional insurance, a redemption bond or similar coverage during the redemption period does not remedy the title defect. **Please consult state lending guidance and review the prelim for title defects especially on purchases of foreclosed properties.**

Re-negotiated purchase agreement policy:

- FPF will not accept re-negotiated purchase agreements that increase the sales price after the appraisal has been completed if:
  - The appraised value is higher than the contracted sales price provided to the appraiser**,** and
  - The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received, and
  - The only change to the purchase agreement is an increase in sales price.
- If the purchase agreement is re-negotiated after the completion of the appraisal, the loan to value will be based on the lower of the original purchase price or the appraised value, unless:
  - A re-negotiation of seller paid closing costs and/or pre-paids occurs if customary for the market and supported by comparables, not to exceed standard seller contributions, or
  - An amended purchase agreement for a new construction property is obtained due to improvements that impact the value. In the event of such changes, an updated appraisal must be obtained to verify the value of the modifications.

STATE RESTRICTIONS:

- Properties located **in Lava flow zones 1 & 2** in Hawaii are not permitted.
- **Cash out refinances on Homestead properties (owner occupied properties) in Texas are not permitted.** Cash out refinances on 2nd homes & non owner occupied properties are permitted, however the following documentation must be provided to prove that the subject property is not considered the borrowers homestead in Texas:
  - A copy of their most recent filed tax return showing the property has been a second home or non-owner for the most recent 12 months AND
  - The title company must verify the property is not considered the borrowers homestead, and the **borrower must submit an affidavit to that effect**.
  - Note that if the borrower does not have a primary residence in Texas, and only a 2nd home or non owner, the title company in Texas may not insure except as a 50(a)(6) loan, verify with the title company before proceeding.

CONSTRUCTION/PERM:

Construction to perm financing involves obtaining a long-term loan to replace interim construction financing.

- Borrowers must contribute a minimum 5% down payment from their own funds.
- The down payment must be documented unless the land was acquired ≥12 month before the application date of the construction financing.

Note – properties where the borrower is the builder and the property is investment property are not permitted.

Purchase Transactions:

- The LTV/CLTV is based on the lesser of the appraised value of the lot + documented construction costs or the appraised value of the property at the time the permanent loan is closed.
- If the lot was purchased ≥12 months ago or was acquired by inheritance or gift the LTV is based on the lesser of the current value. (lot + improvements) OR the sum of documented construction costs + the value of the lot.
- If the lot was acquired <12 months ago the LTV is based on the lesser of the current appraised value OR the total acquisition cost (documented construction costs + price of the lot)

CONSTRUCTION/PERM: (cont'd)

- No loan proceeds are disbursed to the borrower. Proceeds may be used to repay the construction financing (which may include lot financing) and/or to reimburse the borrower for documented acquisition or construction costs.
- The borrower must have held legal title to the lot before they applied for the construction financing and must be named as the borrower on the construction loan.

Rate/term Refinance:

- The LTV/CLTV must meet the program requirements for rate/term refinances.
- The LTV/CLTV is based on the current appraised value, regardless of when the lot was acquired.
- Closing costs and pre-paids may be included in the loan amount.
- Documentation of acquisition cost does not need to be documented when the borrower receives no cash from the transaction.
- Complete acquisition costs and down payment documentation is required if the borrower wishes to be reimbursed for a cash investment in the property.

Cash-out refinances:

- The borrower must have held legal title to the lot before they applied for the construction financing and must be named as the borrower on the loan.
- The LTV/CLTV must meet the program guidelines for a cash-out refinance.
- If the land was acquired ≥12 months prior to the close of the construction financing, the LTV is based on the current appraised value of the property. (lot + improvements)
- If the land lot was acquired <12 months prior to the close of the construction financing the LTV/CLTV is base on the lesser of:
  - ❖ Current appraised value (lot + improvements) OR
  - ❖ Total acquisition cost (sum of the improvement costs + sales price of the lot)
- Acquisition cost is documented with a purchase contract or construction statement signed by the borrower and the builder. If the lot was acquired separately, a copy of the recorded deed with the filing date and a copy of the lot purchase agreement or contract for deed, or owner's title policy or HUD-1 settlement statement must be provided.

APPRAISAL:

- **ALL loans require an AVM, regardless of LTV. An AVM is not required for loan amounts that require 2 full appraisals.**
- A 216 (Operating Income Statement) is required for all one-unit investment properties a**nd for all 2-4 unit properties** (including owner occupied), regardless of AUS findings. This is required even when income is not being used to qualify.
- **Loan amounts less than $850,000** require one full appraisal.
- **Loan amounts greater than and equal to $850,000** require 2 full appraisals by two independent appraisal companies. AVM is not required if 2 appraisals are provided.
- **Interior photos** are required for loan amounts >=$850,000.
- The LTV/value will be calculated based on the lower of the values.
- **Field reviews** may be required at the investor's discretion. If a field review is required use form 2000/1032. The lower of the original appraised or review value will be used to calculate the LTV/CLTV.
- All appraisals with an effective date on or after April 1, 2009 will require Form 1004MC Market Conditions Addendum to the Appraisal Report
- All appraisals for loans with an initial application date on or after May 1, 2009 must be HVCC (Home Value Code of Conduct) compliant. Ported/transferred appraisals are not accepted.
- **Appraisals must dated be no more than 90 days** of the note on existing properties, 180 days on new construction.
- Per FNMA 2010-09 effective September 1, 2010:
  - o Minimum requirements for interior photographs: kitchen, all bathrooms, main living area, examples of physical deterioration (where applicable), examples of recent updates such as restoration, remodeling & renovation (where applicable).
  - o If the underwriter considers an appraisal deficient, the underwriter has the following options for addressing the deficiencies:
    - contacting the appraiser to address deficiencies contained in the appraisal report,
    - obtaining a desk review or a field review of the original appraisal, or
    - obtaining a new appraisal of the subject property.

APPRAISAL: (cont.)

  - When a review appraisal or new appraisal is obtained, the underwriter must use the opinion of market value as stated in the review or new appraisal because the underwriter has, at that point time, rejected the original appraisal. It is not acceptable for the underwriter to exercise blanket discretion by arbitrarily changing the opinion of market value. For example, it is not within the underwriter's discretion to simply average the two opinions of market value in order to arrive at a final value conclusion.
- **Condition of Property**: the kitchen must be functional, meaning that there must be kitchen cabinets, a working sink and working stove. **This applies to all real estate transfers (purchase transactions).** In addition, all property must be habitable and all appliances, plumbing, electrical, etc. must be functional and in good working condition.
- All appraisals with an effective date on or after April 1, 2009 will require Form 1004MC Market Conditions Addendum to the Appraisal Report
- If a supervisory appraiser signs the appraisal report on behalf of an appraiser, the supervisory appraiser must have performed the inspection of the property.
- **On existing properties**, appraisals dated >90 but <180 days must have the value updated.
- **Appraisals more than >180 days** old are not allowed on existing properties. A new appraisal must be obtained.
- **On new construction**, appraisals >180 days old must be updated by the original appraiser and appraisals dated >360 days from the note require a new appraisal.
- **Comparables for condominiums in new subdivisions or PUD projects or units in new or recently converted condo or PUD projects:** the appraiser should select one comparable sale from the subject subdivision or project and 2 comparable sales from outside the subdivision or project.
- **For properties located in a "C" or "D" market (as determined by the investor's Market Indicator)** the appraiser must use comparables sales that have been closed within the last 6 months. The appraiser must comment on the reason for using comparables that are >3 months old. If the appraiser does not have comparables dated within the last 3 months, the appraiser must provide 2 recent listings in addition to properly adjusted comparables older than 3 months.
- **If the appraiser bases value on improvements/renovations,** photographs of the improvements must be included with the appraisal.
- **If an appraiser** indicates the property value has declined during an update, a new appraisal must be obtained.
- **Appraisal form 1004D/439** is used to provide an update of value AND to show the completion of "subject to" repairs/conditions. If the property is "subject to" repairs/completion, photos of the completed items must accompany the form 1004D.
- The cost approach is no longer required on all appraisals, but the site value must be completed.

Note: **For all transactions > 75% LTV**, the underwriter must pull additional comps if there is **more than one** comparable sale on the appraisal older than 90 days from the date of the appraisal **OR** located >1 mile from the subject property for urban & suburban properties and > 5 miles away for rural properties. The additional comps must support the appraised value. If the comps do not support the appraised value an AVM must be obtained. The value on the AVM must be within 10% of the appraised value. If the AVM is not within 10% of the appraised value, an enhanced desk review must be obtained and must support the appraised value. If the enhanced desk review does not support the appraised value, the value must be reduced, or a field review obtained through our AMC portal.

CONDO PROJECTS:

- **Attached condos are not an eligible property type.**
- **Site condos are permitted and have the same eligibility as a 1 unit SFR.**
- **Site Condos** are detached dwellings in a condo development. Manufactured housing units are not eligible. Permitted on for primary residences. There can be no common area improvements other than greenbelts, private streets, etc. The appraiser must comment on this type of ownership.

SECTION 7:	**INSURANCE**
MORTGAGE INSURANCE:	Not applicable.
SELF-INSURED OPTION:	Not applicable

HAZARD INSURANCE:

- Hazard insurance is required for each property.
- The amount of hazard insurance coverage must be the lesser of 100% of the insurable value of the improvements as established by the property insurer OR the replacement cost.
- For properties located in California, lenders may not require hazard insurance in an amount exceeding the replacement value of the improvements on the property.
- The maximum deductible may be up to 5% of the amount of the policy for single family dwellings & $25,000 for master policies provided by a condo projects HOA.
- On purchase transactions evidence of proof of the payment for the first year's hazard insurance policy is required.
- On a refinance transaction the borrower must provide proof of an existing policy with at least 30 days remaining coverage or provide a new policy that is paid for the first year.

FLOOD INSURANCE:

- A flood hazard determination is required for all loans.
- Flood insurance is required if the property is located in a special flood hazard area or flood zone. (Areas beginning with an A or V)
- If a property is located in a non-participating community and the property is mapped in a flood zone, the loan is not eligible for purchase.
- If the land is in a flood hazard area, but the improvements are not, flood insurance is not required.
- An in force flood insurance policy is required at closing for properties located in a flood zone.
- The maximum amount of flood insurance required for detached single family residences is the lowest of: 100% of the replacement cost of the dwelling, OR the unpaid principal balance of the mortgage OR the maximum amount of insurance available under the National Flood insurance program.
- The deductible for 1-4 unit properties may not exceed a maximum of $5,000 unless a higher maximum is required by state law. The maximum deductible for condo projects is $25,000 for master policies provided by the condos HOA.
- Condo projects must be covered for 100% of the insurable value or maximum coverage allowed per the National Flood Insurance program with a deductible not to exceed $25,000 per building located in a flood zone.

RENT LOSS INSURANCE:

If rental income is used to qualify, 6 months rent loss insurance coverage is required regardless of AUS findings. This includes rental income on 2-4 unit owner occupied properties.

IMPOUNDS:

- Required on 2-4 unit properties regardless of LTV
- Required if LTV > 80% unless state law supersedes.
- In California impounds are required on 1 unit primary residences when the LTV is ≥90% and are required on second homes and non-owner occupied properties when the LTV is >80%.
- Mortgage Insurance must always be escrowed unless paid in a lump sum.

SECTION 8: TITLE/CLOSING AGENTS

TITLE DOCUMENTATION:

Title History Review Policy:

- No requirements

Title Insurance:

- A full ALTA title policy is required.

PLAT/SURVEYS:

- Surveys are required in certain areas.
- If the title policy insures against survey defects, the investor will not require a survey.
- If the title company requires a survey to issue an endorsement, the investor will require a survey.
- Surveys, when required, should be no older than 90 days at closing.

INTER VIVOS REVOCABLE TRUSTS:

Not eligible

POWER OF ATTORNEY:

A Specific (or Limited) power of attorney must meet the following requirements:

- Clearly reference the subject property (if a legal description is referenced, it must be stated or attached accordingly)
- Authorize the attorney-in-fact to enter into a real estate transaction and to mortgage the property (for refinance transactions, must specify the terms of the transaction)
- Indicate clearly that the mortgagor is appointing an attorney-in-fact
- Precisely identify who is being appointed
- Identically match the legal name(s) on the POA to the typed name(s) and signature(s) for the Borrower and POA. If the legal signature differs from the typed name, a notarized Signature/Name Affidavit is required.
- Must be signed and dated by the borrower (aka principal)
- Must be notarized (notary must be complete, contain a valid date, and no blank fields)
- Must be signed no more than 90 days prior to, or concurrent with, the date of the security instrument
- Must be recorded prior to, or concurrent with, the date of the security instrument.
- May not contain any blank fields.
- Must be acceptable to the title company issuing the title policy.
- General POA's are not acceptable.
- In all states, documents executed by the attorney-in-fact must include the principal's name, the agent's name, and the agent's capacity (attorney-in-fact) in the signature. The agent's capacity (attorney-in-fact) must be written out in its entirety as abbreviations (AIF, POA, etc) are not acceptable. The same information must be typed on the documents.

SECTION 9: FEES/MISCELLANEOUS

FEE LIMITATIONS:

- The investor will not purchase any loan that is "high cost" under Section 32 (HOEPA) or any other federal, state or local predatory lending laws.
- Loans for ALL purchase transactions, including second homes and non-owner occupied properties will be checked to make sure the points and fees don't exceed the HOEPA thresholds. The points and fees will be calculated even though these loan types are not included in the Federal HOEPA law.
- On a purchase transaction, the real estate commission may not exceed 8% of the purchase price.
- **Broker may not receive compensation that exceeds the greater of:**
  - **2% of the loan amount; or**
  - **$20,000**
- This limit includes the sum of all fees paid by the borrower to the broker and any fees paid by the lender to the broker, such as rebate or yield spread premium.

SELLER/INTERESTED PARTY CONTRIBUTIONS:

Maximum seller/interested party contributions are limited to 3%.
HOA subsidies are not permitted. HOA fees due at closing may be paid with interested party contributions; however, payments due after closing can not be paid in advance through interested party contributions.
Please see the LTV/CLTV/value and Ineligible Properties sections above for instances where a re-negotiated purchase agreement is issued after the appraisal is completed.