

St. Francis Mortgage Corporation Correspondent Buyer's Guide

Table of Contents

TABLE OF CONTENTS	1
INTRODUCTION	4
CONFIDENTIALITY STATEMENT	4
REGULATIONS	4
REGULATION B -- EQUAL CREDIT OPPORTUNITY ACT	4
ADDITIONAL PROHIBITIVE FACTORS	4
ADVERSE ACTION	5
REGULATION Z – TRUTH-IN-LENDING (TIL)	5
HIGH COST LOANS	5
REGULATION C - HOME MORTGAGE DISCLOSURE ACT (HMDA)	5
FAIR CREDIT REPORTING ACT (FCRA)	5
REGULATION X — REAL ESTATE SETTLEMENT PROCEDURES ACT (RESPA)	5
FLOOD DISASTER PROTECTION ACT	6
FAIR HOUSING ACT (FH ACT)	6
REPRESENTATIONS AND WARRANTIES	6
OTHER LEGAL AND COMPLIANCE	7
RIGHT TO RECEIVE APPRAISAL	7
1098 AND 1098-E REPORTING	7
TAX BENEFITS FOR HIGHER EDUCATION PROVISIONS UNDER THE TAXPAYER RELIEF ACT OF 1997	8
CUSTOMER PRIVACY	8
GRAM-LEACH-BLILEY ACT (GLB)	8
ST. FRANCIS MORTGAGE CORPORATION’S PRIVACY PROMISE FOR CONSUMERS	9
SECOND LIEN FRHEL AND HELOC	10
FIRST LIEN FRHEL AND HELOC	13
UNDERWRITING GUIDELINES	15
UNDERWRITING OVERVIEW	15
DUE DILIGENCE	15
LOANS SOLD AS COMBOS	15
DOCUMENTATION EXPIRATION	16
AUTOMATED UNDERWRITING SYSTEMS (AUS)	16
GENERAL ELIGIBILITY	16
ACCEPTABLE BORROWERS	16
CO-APPLICANT	17

CO-SIGNERS AND GUARANTORS.....	17
GENERAL ELIGIBILITY	17
<i>Reg O Officers</i>	17
<i>Eligible Borrowers</i>	17
<i>Proof of Residency</i>	17
<i>Non-English Speaking Applicants/ Documents Permanent Resident Alien</i>	17
<i>Non-Permanent Resident Alien (NPRA) Alternate Program</i>	18
<i>NPRA-NRA</i>	18
<i>Loan Purpose</i>	18
<i>Occupancy</i>	19
<i>Subordinate Financing</i>	19
<i>Privately Held Mortgage</i>	19
<i>Senior Lien Financing</i>	19
<i>Terms</i>	19
<i>Amortization</i>	19
<i>Purchase Money Combos</i>	19
<i>Documentation Types</i>	19
EMPLOYMENT AND INCOME ELIGIBILITY	21
INCOME STABILITY	22
STATED INCOME VERIFIED ASSETS.....	22
VERIFICATION OF EMPLOYMENT AND VERIFICATION OF ASSETS FOR SIVA LOANS	22
OTHER SOURCES OF INCOME	24
ALIMONY OR CHILD SUPPORT OR SEPARATE MAINTENANCE	24
BONUS	24
COMMISSION.....	24
ANNUITY INCOME.....	24
INTEREST OR DIVIDEND INCOME.....	25
EXERCISING STOCK OPTIONS.....	25
CAPITAL GAINS OR LOSSES.....	25
DISABILITY COMPENSATION.....	25
NON-TAXABLE INCOME.....	25
PART-TIME OR SECONDARY OR SEASONAL INCOME.....	26
RETIREMENT INCOME	26
SELF-EMPLOYED INCOME.....	26
SOCIAL SECURITY BENEFITS.....	26
RENTAL INCOME.....	27
UNACCEPTABLE SOURCES OF INCOME.....	27
FUNDS FOR CLOSING.....	27
LIABILITIES AND QUALIFYING RATIOS	27
MAXIMUM DEBT TO INCOME RATIO AND CASH-OUT RESTRICTIONS	28
HELOC PAYMENT CALCULATION.....	28
DEBT RECONCILIATION	28
NO FIRST MORTGAGE	28
DETERMINATION OF PITI.....	29
LEASE PAYMENTS.....	29
ALIMONY OR CHILD SUPPORT PAYMENTS	29
STUDENT LOANS.....	29
MARGIN LOAN OR BORROWED FUNDS AGAINST ASSETS.....	29
CONTINGENT LIABILITIES	30
COURT-ORDERED ASSIGNMENTS OF DEBT	30
PROPERTY SETTLEMENT “BUYOUTS”	30
MORTGAGE ASSUMPTIONS	30
401K LOANS.....	31
CREDIT REPORT STANDARDS	31
CREDIT SCORE SELECTION	31
STALE DATED TRADE-LINES.....	31

MORTGAGE PAYMENT HISTORY REQUIREMENTS 31

BANKRUPTCY, FORECLOSURE OR DEED-IN-LIEU..... 32

GUIDANCE FOR ACCEPTABLE RE-ESTABLISHED CREDIT 32

CREDIT COUNSELING..... 32

LIENS / GARNISHMENTS AND JUDGMENTS 32

UNPAID COLLECTIONS AND CHARGE-OFFS 32

PROPERTY AND APPRAISAL REQUIREMENTS..... 33

General Appraisal Requirements 33

FIRREA Requirement..... 33

Refinance Transactions..... 33

Appraisal Standards..... 33

Use of Unlicensed or Uncertified Individuals 34

Required Property Evaluation..... 34

Automated Valuation Models (AVM) 35

Broker Price Opinion (BPO)..... 36

Full and Streamlined Appraisal Forms..... 36

Fannie Mae Desktop Underwriter Qualitative Analysis Appraisal Report (Form 2065) 37

Individual Condominium Unit Appraisal Report (FNMA Form 1073 or FHLMC Form 465) 37

Appraisal Requirements 37

Photographs..... 38

Environmental Hazards..... 38

Environmental Risk Reports..... 38

Recertification of Value..... 39

Final Inspection..... 39

Appraiser Requirements..... 39

Appraiser Licensing and Certification 40

Appraiser Approval Recommendations 40

Quality Control System 41

Rural Property Guidelines 41

Eligible Properties 41

Ineligible States (Geographic Restrictions) 42

Unacceptable Property Types 42

Second, Vacation and Commuter Home Definition..... 42

CONDOMINIUM PROJECT OVERVIEW 42

Project Requirements 43

Ineligible Projects 43

Site Condominiums..... 43

Hazard Insurance..... 44

Flood Insurance 44

Liability Insurance 45

Fidelity Insurance..... 45

INSURANCE AND MISCELLANEOUS REQUIREMENTS..... 45

Hazard Insurance..... 45

Flood Certification..... 46

Flood Insurance 46

Homeowners Insurance..... 46

Late Fees 46

Prepayment Penalties..... 46

Escrow Accounts 46

Qualifying HELOC Payment..... 46

TITLE REQUIREMENTS 47

Land Trusts..... 47

Living Trusts..... 47

EXHIBIT 1: INCOME DOCUMENTATION..... 48

Introduction

The following is the St. Francis Mortgage Corporation ('BUYER') Correspondent Program Guidelines. In this document you will find all the information you need to be a Seller to St. Francis Mortgage Corp.

This document is defined as the St. Francis Mortgage Corporation Correspondent Program Guide. It is intended for used by Sellers of home equity loans to BUYER and may not be distributed to the public.

You should become familiar with the information contained in this manual and operate within these guidelines. The manual will be updated as needed including a summary of all changes to policy. St. Francis Mortgage Corporation may purchase the following home equity loan products from approved Sellers: Home Equity Lines Of Credit (HELOC) and Home Equity Closed-End Fixed Rate Loans (FRHEL).

Confidentiality Statement

The information in this manual is confidential and proprietary to St. Francis Mortgage Corporation and its affiliates. This manual must not be released to any third parties without prior written permission from St. Francis Mortgage Corporation. This manual and any copies made must be returned to St. Francis Mortgage Corporation upon request. You may make additional copies for your staff for internal use only.

Regulations

Current laws regulating mortgage lending are mainly designed to prevent discrimination and ensure full disclosure to the applicant so he or she can make an informed decision. The purpose of fair lending laws and regulations are to ensure that credit-worthy applicants receive equal access to credit and to prevent or prohibit lending discrimination, intentional or not. BUYER complies with all applicable fair lending laws and regulations, and requires Sellers to do the same.

Regulation B -- Equal Credit Opportunity Act

BUYER complies with all aspects of the Equal Credit Opportunity Act (ECOA) and requires strict compliance with the Act from Sellers. To ensure equitable lending practices, federal law prohibits lenders from discriminating for reasons of:

- Race, religion, sex, age, color, marital status, or national origin
- Income received from public assistance
- Applicants exercising rights under any Consumer Credit protection laws

Additional Prohibitive Factors

In addition to the prohibitive factors specified above, some states have enacted laws to include other non-discriminatory factors such as ancestry, creed, certain handicaps, political affiliation, sexual orientation, etc. Any state prohibitions must also be observed.

Adverse Action

Among other things, ECOA requires that a Lender notify an applicant of action taken on a Loan application within thirty (30) days of receiving a completed application. The credit denial must be in writing. Sellers must ensure that all ECOA requirements are complied with.

NOTE: The Consumer Credit Protection Laws include the Truth-In-Lending Act, Fair Credit Reporting Act, Equal Credit Opportunity Act ("ECOA"), Fair Debt Collection Practices Act, Electronic Credit Transactions, and Restrictions on Garnishment.

Regulation Z – Truth-in-Lending (TIL)

The Seller, and the originating lender, are responsible for compliance with all laws and regulations relating to Regulation Z. Reg Z requires that the lenders provide the applicant with information about adjustable rate products and loan programs before granting an extension of credit, and that he or she be advised in writing of all costs connected with the credit portion of the purchase. It also gives the consumer the right to cancel a loan transaction under certain conditions and governs advertising disclosures (media, print ads, posters, newspapers, flyers, brochures, etc.) Many states have adopted regulations that are more restrictive than Reg Z. It is BUYER policy to test loans secured by properties in these states to their specific guidelines.

High Cost Loans

The federal Truth-In-Lending Act (TILA) and several states impose additional disclosure, fee limits, and processing and secondary market requirements on mortgage loans when origination costs and fees exceed certain thresholds of the loan amount ("High Cost Loans"). As a matter of policy, BUYER will not purchase any High Cost Loans under its Purchase Program.

Regulation C - Home Mortgage Disclosure Act (HMDA)

The Seller, and the originating lender, is responsible for compliance with all laws and regulations relating to the Home Mortgage Disclosure Act (HMDA). All mortgage loans submitted to Buyer must have the Government Monitoring Information section of the application completed as applicable for the type of application taken (face-to-face, mail or phone, etc). Buyer shall utilize such information as required per its compliance with Regulation C. The Seller is also responsible for compliance with all applicable laws and regulations relating to Government reporting requirements. The Seller represents and warrants it complies with these laws and regulations.

Fair Credit Reporting Act (FCRA)

The Seller, as the originating lender, is responsible for compliance with all laws and regulations relating to the Fair Credit Reporting Act. The Act provides consumers with a method of knowing from where credit information is acquired, and how to correct inaccurate credit reporting information. It also regulates the credit reporting bureaus by requiring strict control guidelines for permitting reports to be obtained by third parties and for maintaining consumer credit information. The FCRA applies to all requests for credit information, including those that stem from employment, insurance and credit applications.

Regulation X — Real Estate Settlement Procedures Act (RESPA)

The Seller, and the originating lender, is responsible for compliance with all laws and regulations relating to RESPA. The Act requires lenders to disclose the settlement costs charged by different financial institutions to ensure that people applying for a home mortgage know the costs associated with them. RESPA also governs certain aspects of the servicing transfer. BUYER complies with all applicable aspects of RESPA, and will require that Sellers comply.

Flood Disaster Protection Act

The Seller, and the originating lender, is responsible for warning borrowers before granting a loan when the subject property is in a high-risk flood area. BUYER requires each loan file presented for consideration contain a flood certification, and proof of flood insurance if necessary.

Fair Housing Act (FH Act)

Enacted to prohibit discriminatory practices as they relate to real estate transactions, the FH Act prohibits discrimination on the basis of race, color, religion, sex, national origin, handicap or familial status. BUYER requires Sellers to comply with the FH Act.

Representations and Warranties

The following Representations and Warranties shall apply to all transactions.

- Seller used no adverse selection procedures in selecting the Mortgage Loans to be sold to BUYER
- Each Mortgage Loan sold to BUYER by the Seller is not subject to any right of rescission, set-off, counterclaim or defense, including the defense of usury, nor will the operation of any of the terms of the mortgage note and the mortgage, or the exercise of any right there under, render the mortgage unenforceable, in whole or in part, or subject to any right of rescission, set-off, counterclaim or defense, including the defense of usury and no such right of rescission, set-off, counterclaim or defense has been asserted with respect thereto.
- Any and all requirements of any federal, state or local law including, without limitation, usury, truth in lending, real estate settlement procedures, consumer credit protection, equal credit opportunity, fair housing or disclosure laws applicable to the origination and servicing of each Mortgage Loan sold by Seller to BUYER have been complied with.
- Each Mortgage Loan sold by Seller to BUYER is a valid, existing and enforceable first or second lien (as applicable and disclosed by Seller) on the mortgaged property subject only to (a) the lien of current real property taxes and assessments not yet due and payable, (b) covenants, conditions and restrictions, rights of way, easements and other matters of the public record as of the date of recording being acceptable to mortgage lending institutions generally and (c) other matters to which like properties are commonly subject which do not materially interfere with the benefits of the security intended to be provided by the mortgage or the use, enjoyment, value or marketability of the related mortgaged property.
- Each Mortgage Loan sold by Seller to BUYER is genuine and each is the legal, valid and binding obligation of the maker thereof, enforceable in accordance with its terms. Any and all parties necessary to ensure the exercise of BUYER's rights with respect to the mortgaged property have executed all necessary documents. All parties to the mortgage note and the mortgage had legal capacity to enter into the Mortgage Loan and to execute and deliver the mortgage note and the mortgage, and the mortgage note and the mortgage have been duly and properly executed by such

- parties. The mortgagor is a natural person.
- Each Mortgage Loan sold by Seller to BUYER contains customary and enforceable provisions such as to render the rights and remedies of the holder thereof adequate for the realization against the mortgaged property of the benefits of the security provided thereby, including, (a) in the case of a mortgage designated as a deed of trust, by trustee's sale, and (b) otherwise by judicial foreclosure. There is no homestead or other exemption available to the mortgagor that would interfere with the right to sell the mortgaged property at a trustee's sale or the right to foreclose the mortgage. Seller has no knowledge of any relief requested or allowed to the mortgagor under the Soldiers and Sailors Civil Relief Act of 1940.
 - For each Mortgage Loan sold by Seller to BUYER no error, omission, misrepresentation, negligence, fraud or similar occurrence has taken place on the part of any person, including without limitation the mortgagor, any appraiser, any builder or developer, or any other party involved in the origination of the mortgage loan.
 - No Mortgage Loan sold by Seller to BUYER is a predatory loan nor is any Mortgage Loan a high cost "home loan" as defined by any state or local law, regulation or ordinance including, but not limited to, Georgia and New York City.
 - All mortgage loans have been originated and serviced in accordance with federal, state and local laws, regulations and ordinances and with the mortgage loan documents.
 - Seller will comply with this policy manual for all mortgage loans sold to BUYER

Other Legal and Compliance

The following Legal and Compliance policies and requirements shall apply to all transactions.

Right to Receive Appraisal

Regulation B, Section 202.5a requires a creditor to provide a copy of the appraisal report used in connection with an application for credit. BUYER expects Sellers to comply with this requirement. To ensure compliance with this regulation, BUYER will require one of the following:

- A notice to the applicant of their right to receive a copy of the appraisal
- A copy of the cover letter used to send the appraisal to the applicant
- A signed statement by the Seller that the applicant was given a copy of the appraisal

1098 and 1098-E Reporting

Seller is obliged to provide borrowers with an IRS Form 1098 which reports the amount of interest they have paid on their mortgage loan to the Seller as a mortgage servicer.

- The 1098 Form should include the per diem interest collected at closing, any interest collected with any regular monthly payments the borrower pays to the Seller, and any points paid at loan origination.
- The per diem interest charged or credited to the Seller by BUYER when we purchase a loan is a transaction between the Seller and BUYER and is not interest that the borrower pays or receives.
- The per diem interest figure charged or credited when BUYER purchases a loan should not be included in the interest payments reported to borrowers.

Please consult legal or compliance advice with any questions.

Tax Benefits for Higher Education Provisions under the Taxpayer Relief Act of 1997

Provisions of the Taxpayer Relief Act of 1997 affect a lender's record keeping and reporting requirements for certain loans taken out by borrowers to pay for educational expenses.

For first lien mortgage loans that qualify under the new provisions, the lender must report interest paid on IRS Form 1098-E for a period of 60 months from the first payment date. The record keeping and reporting requirements may also apply to rate and term refinances of loans that originally qualified under these provisions, for any remaining portion of the 60-month period.

BUYER strongly recommends that Sellers not offer tax advice to borrowers. Borrowers should contact the IRS at (800) 829-1040 or their tax advisor if they have questions about the deductibility of interest as education loan interest, or if they have questions about qualified education expenses.

Borrower(s) who want to have interest reported on Form 1098-E must provide their lender with a properly completed IRS Form W-9S, "Request for Student or Borrower's Social Security Number and Certification". Seller must provide BUYER with the completed IRS Form W-9S with the closed loan file submitted for purchase. If the IRS Form W-9S is present, BUYER will report interest paid on IRS Form 1098-E in compliance with the provisions of this Act. Seller must notify BUYER if any loan submitted for purchase requires interest reporting on an IRS Form 1098-E.

Please consult legal or compliance with any questions regarding this provision of the Taxpayer Relief Act of 1997.

Customer Privacy

The following statements and conditions will be adhered to in maintaining compliance with applicable state and federal legal regulations and BUYER policy.

Gram-Leach-Bliley Act (GLB)

The GLB Act regulations impose a number of requirements on financial institutions, including the following:

- A financial institution is required to provide each individual borrower with a clear statement of its policies and practices for protecting the privacy of "non-public personal information".
- A financial institution may not disclose a borrower's non-public personal information to nonaffiliated third parties, unless the consumer is given a clear and conspicuous notice of this possibility, and an opportunity to "opt out" of such disclosures before they occur.

In 1997, the FCRA was revised to provide financial institutions with more freedom in sharing information with affiliates. Under the Act, BUYER can share with its affiliate's information of a transactional or experiential nature without notifying the borrower. BUYER can also share information such as credit reports and information provided by borrowers on applications if:

- BUYER clearly and conspicuously discloses to the borrower that we will share this information

with our affiliates

- The GLB Act prohibits a financial institution from disclosing “an account number or similar forms of access number or access code” for a consumer credit card, deposit or transaction account to a nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing through electronic mail to the consumer.
- Consumers who select to opt-out from disclosure of information to third parties will have the opt-out in effect until the borrower revokes it in writing.

BUYER Privacy Promise for Consumers

BUYER’s Privacy Promise for Consumers is our commitment to our consumers that we will safeguard any information that they share with us and limit the collection and use of individual borrower information to the minimum we require to deliver superior service to our customers. It also sets forth the guiding principles that each BUYER Mortgage Service Provider must adhere to when handling individual applicant or borrower personal information.

We trust that you will fully comply with the applicable principles so that together, we can continue to provide the highest quality services and standards in the financial services industry. While information is the cornerstone of our ability to provide superior service, our most important asset is our customers’ trust. Keeping customer information secure, and using it only as our customers would want us to, is a top priority for all of us at St. Francis Mortgage Corporation. Our promise to our individual customers:

- We will safeguard, according to strict standards of security and confidentiality, any information our customers share with us.
- We will limit the collection and use of customer information to the minimum we require to deliver superior service to our customers, including advising our customers about our products, services and other opportunities, and to administer our business.
- We will permit only authorized employees, who are trained in the proper handling of customer information, to have access to that information. Employees who violate our Privacy Promise will be subject to our normal disciplinary process.
- We will not reveal customer information to any external organization unless we have previously informed the customer in disclosures or agreements, have been authorized by the customer, or are required by law.
- We will always maintain control over the confidentiality of our customer information. We may, however, facilitate relevant offers from reputable companies. These companies are not permitted to retain any customer information unless the customer has specifically expressed interest in their products or services.
- We will tell customers in plain language initially, and at least once annually, how they may remove their names from marketing lists. At any time, customers can contact us to remove their names from such lists.
- Whenever we hire other organizations to provide support services, we will require them to conform to our privacy standards and to allow us to audit them for compliance.
- For purposes of credit reporting, verification and risk management, we will exchange information about our customers with reputable reference sources and clearinghouse services.
- We will not use or share – internally or externally – personally identifiable medical information for any purpose other than the underwriting or administration of a customer’s policy, claim or account, or as disclosed to the customer when the information is collected, or to which the customer consents.

- We will attempt to keep customer files complete, up-to-date and accurate. We will tell our customers how and where to conveniently access their account information (except when we're prohibited by law) and how to notify us about errors that we will promptly correct. We will continuously assess ourselves to ensure that customer privacy is respected. We will conduct our business in a manner that fulfills our Promise in all the state which we do business.

Second Lien FRHEL and HELOC

Second lien product originated as a Fixed Rate Home Equity Loan (FRHEL) or a Home Equity Line of Credit (HELOC). The FRHEL or HELOC may be closed in conjunction with a first lien or as a stand-alone product.

CLTV	<u>Credit Score</u>			
	<u>>= 720</u>	<u>>= 700</u>	<u>>= 680</u>	<u>>= 660</u>
<u>Maximum Loan Amounts</u>				
Full Documentation-Primary Residence				
<= 100%	100K	100K	100K	50K
<= 95%	150K	100K	100K	50K
<= 90%	150K	150K	100K	50K
<= 80%	150K	150K	150K	100K
Full Documentation-Second Home				
<= 100%	0	0	0	0
<= 95%	50K	0	0	0
<= 90%	100K	50K	0	0
<= 80%	150K	100K	50K	0
SIVA Documentation-Primary Residence				
<= 100%	0	0	0	0
<= 95%	100K	0	0	0
<= 90%	100K	100K	100K	0
<= 80%	100K	100K	100K	0
SIVA Documentation-Second Home				
<= 100%	0	0	0	0
<= 95%	0	0	0	0
<= 90%	0	0	0	0
<= 80%	100K	100K	0	0

Underwriting Criteria	Guideline
Bankruptcy Foreclosure or Deed-in-Lieu	4 years from discharge and 4 years re-established credit
Consumer Credit Counseling	1 year from completion & demonstrated ability to manage credit

Underwriting Criteria	Guideline
Liens or Garnishments & Judgments	Must be fully satisfied prior to closing, evidenced by documentation
Unpaid Collections & Charge-Offs	Fully satisfied prior to closing. Evidence of satisfaction of any unpaid charge-offs or collection accounts is not required when either the balance is less than \$1,250 or the account is greater than 24 months old from the original open date.
Credit Report Standards	3 file merged report on all borrowers or RMCR with 2 scores per borrower
Credit History Requirements	Minimum of 3 trade lines, each with minimum 12 month history
Treatment of Debt	Revolving: Credit bureau payment or 3% of balance Installment: Credit bureau payment or 2.5% of high credit
Maximum Debt-to-Income Ratio	Monthly Income ≤ 4,000 Max DTI 45% Monthly Income > 4,000 Max DTI 50% 40% on credit scores < 680 for CLTVs > 90%
HELOC Payment Calculation	Prime (no teaser) + Margin + 2% (using fully utilized line amount)
Mortgage and Consumer Payment History	0 x 30 within the previous 12 months
Documentation Expiration	Must be dated no more than 120 days from Note date (180 days - new construction)
Documentation Types	Full: Fannie/Freddie Agency requirements Alternative (Salaried): Most recent computer generated pay stub with year-to-date Alternative (Self-Employed including Commissions > 25% Total Qualifying Income, Rental and Retirement): Most recent years' 1040 tax return. (Pages 1, 2 and Schedule A) Stated: Income as stated on application Verbal VOE: Required for all salaried applicants. For self-employed applicants, an independent third party is required to evidence the borrower has been self-employed for at least two years. (i.e, Directory Assistance, license bureau, CPA or valid business license.)
Appraisal Requirements	Approved AVM – Permitted on Loan/Lien ≤ \$150,000 up to 80% CLTV and ≤ \$100,000 up to 100% CLTV. Purchase transactions and attached condos require 2055 or URAR. Form 2055 – Interior/Exterior, Broker Price Opinion or a full URAR – All other transactions
Approved Automated Valuation Model (AVM) Vendors	ValueSure Home Value Explorer ValuePoint 4.0 Automated Property Service

First Lien FRHEL and HELOC

The FRHEL/HELOC first lien mortgage loans may be closed in conjunction with a second lien or as a stand-alone product. If closed in conjunction with a second mortgage, the total combined loan to value cannot exceed 100 percent. This Guide does not apply to first lien purchase money transactions. Acceptable Loan Purpose: Rate and Term, Cash Out.

CLTV	<u>Credit Score</u>			
	<u>>= 720</u>	<u>>= 700</u>	<u>>= 680</u>	<u>>= 660</u>
<u>Maximum Loan Amounts</u>				
Full Documentation-Primary Residence				
<= 100%	100K	100K	100K	50K
<= 95%	150K	100K	100K	50K
<= 90%	150K	150K	100K	50K
<= 80%	150K	150K	150K	100K
Full Documentation-Second Home				
<= 100%	0	0	0	0
<= 95%	50K	0	0	0
<= 90%	100K	50K	0	0
<= 80%	150K	100K	50K	0
SIVA Documentation-Primary Residence				
<= 100%	0	0	0	0
<= 95%	100K	0	0	0
<= 90%	100K	100K	100K	0
<= 80%	100K	100K	100K	0
SIVA Documentation-Second Home				
<= 100%	0	0	0	0
<= 95%	0	0	0	0
<= 90%	0	0	0	0
<= 80%	100K	100K	0	0

Underwriting Criteria	Guideline
Bankruptcy Foreclosure or Deed-in-Lieu	4 years from discharge and 4 years re-established credit
Consumer Credit Counseling	1 year from completion & demonstrated ability to manage credit
Liens, Garnishments & Judgments	Must be fully satisfied prior to closing, evidenced by documentation

Underwriting Criteria	Guideline
Unpaid Collections or Charge-Offs	Fully satisfied prior to closing. Evidence of satisfaction of any unpaid charge-offs and/or collection accounts is not required when either the balance is less than \$1,250 or the account is greater than 24 months old from the original open date.
Credit Report Standards	3 file merged report on all borrowers or RMCR with 2 scores per borrower
Credit History Requirements	Minimum of 3 trade lines, each with minimum 12 month history
Treatment of Debt	Revolving: credit report payment or 3% of balance Installment: credit report payment or 2.5% of high credit
Maximum Debt-to-Income Ratio	Monthly Income <=\$4,000, Max DTI 45% Monthly Income >\$4,000 Max DTI 50% 40% for credit scores < 680 with CLTVs > 90%
HELOC Payment Calculation	Prime (no teaser) + Margin + 2% (using fully utilized line amount)
Mortgage and Consumer Payment History	0 x 30 within the previous 12 months
Documentation Expiration	Must be dated no more than 120 days from Note date (180 days - new construction)
Documentation Types	Full: Fannie/Freddie Agency requirements Alternative (Salaried): Most recent computer generated pay stub with year-to-date Alternative (Self-Employed including Commissions >25% Total Qualifying Income, Rental and Retirement): Most recent years' 1040. (Pages 1, 2 and Schedule A) Stated: Income as stated on application Verbal VOE: Required for all salaried applicants. For self-employed applicants an independent third party is required to evidence the borrower has been self-employed for at least two years. (I.e., Directory Assistance, License Bureau, CPA or valid business license.)
Appraisal Requirements	Approved AVM: Permitted on Loans ≤\$150,000 up to 80% CLTV and ≤\$100,000 up to 100% CLTV. Purchase transactions and attached Condos require 2005 or URAR. Form 2055 Interior/Exterior, Broker Price Opinion or a full URAR: All other transactions
Approved Automated Valuation Model (AVM) Vendors	ValueSure Home Value Explorer ValuePoint Automated Property Service 4.0
Acceptable Property Types	Single Family 2-4 Multi Unit Properties (owner occupied only) Condominiums (attached and detached) Planned Unit Development (attached and detached units)
Condo/PUD Project	Units in a condominium and PUD project must be Fannie Mae

Underwriting Criteria	Guideline
Requirements	warrantable.
Cash-Out Restrictions	Full Documentation: No cash-out allowed for credit scores < 680 with CLTVs > 90% and credit scores < 700 with CLTVs > 95%. Stated Income Verified Assets: No cash-out allowed for credit scores < 700 with CLTVs > 80%. Cash-out limited to 25% of the loan amount for credit scores between 700-719 with CLTVs > 80%.
Title Requirements	Full ALTA

For more comprehensive description of the guidelines, please consult the Underwriting section of this Guide.

Underwriting Guidelines

The following policies and conditions must be met in the underwriting of loans to be sold to BUYER by the Home Equity Seller.

Underwriting Overview

This manual has been compiled as an underwriting guideline to be used by the Seller. The underwriting guideline clearly defines the BUYER's criteria for underwriting loans. BUYER will update its underwriting guidelines periodically to meet BUYER's goals.

All loans sold to BUYER must have prior approval by Seller's selected underwriter approving loans on behalf of Seller. Loans must meet minimum underwriting criteria, which are outlined in the Correspondent Lending Program Guide. BUYER requires a complete credit package to be provided with each loan purchased by BUYER.

Due Diligence

BUYER may from time to time perform a pre-purchase underwriting review. The method used to determine the sample size will vary by Seller, and may be up to and including 100% of the loans purchased from Seller. Determining factors are time and experience with Seller, size of the pool, relationship with Seller, purchase loan and Seller performance and any other factor as determined by BUYER.

Loans Sold as Combos

The Seller may choose to submit both a first and second lien from the same borrower on the same property in combination to BUYER. BUYER will use the loan size and CLTV guidelines from the first lien product

guidelines to govern the entire transaction.

Documentation Expiration

All credit, income, asset and collateral documentation must be dated no more than 120 days (180 days for new construction) from the date of the Note. Specific product or documentation program requirements may be more restrictive. The Seller should use the more restrictive of the two.

Automated Underwriting Systems (AUS)

For simultaneous second liens that are decisioned using DU or LP, the first lien loan recommendation and documentation requirements (except for appraisal documentation) are acceptable provided the following is met:

- Loans processed through DU must receive an “Approve/Eligible”, “Approve/Ineligible” (ineligibility due to loan size only) or Expanded Approval/1” recommendation. LP loans must receive an “Accept” and be eligible for sale to Freddie Mac. LP loans which receive an “LP Accept +” are acceptable provided debts are verified and the loan or line amount is \leq \$75,000.
- All DU and LP findings and documentation requirements must be followed.
- 2-4 owner occupied multi units (max CLTV is limited to 80%)
- Minimum 660 Credit Score.
- Regardless of the appraisal or valuation method recommended by DU/LP, an appraisal with an estimated market value supported by comparable sales is required. (e.g., 2075, 2070 and Property Inspection Waivers are not allowed)
- No investment properties
- Non-Permanent Resident Alien > 90% CLTV is not allowed
- At a minimum, pay stubs are required for loan/lines > \$75,000, regardless of DU or LP requirements

NOTE: In the event of a discrepancy between the data validated by BUYER’s review of the file and the data entered in the automated underwriting system by the Seller, the findings of the automated underwriting system shall be considered null and void and BUYER shall have no obligation to purchase the loan.

NOTE: Stand-alone seconds and 1st mortgage loans are not eligible for purchase through BUYER if the decision and documentation requirements are based entirely or in part on DU/LP or other AUS Underwriting recommendation/findings.

General Eligibility

The following conditions apply for borrowers and co-borrowers on loans sold to BUYER

Acceptable Borrowers

- U.S. Citizens
- Permanent Resident Aliens
- Non-Permanent Resident Aliens (with restrictions)
- Non-Resident Aliens (with restrictions)
- Borrowers must be natural persons. Corporations, estates, partnerships, etc., are ineligible.
- The borrowers must have attained legal age according to local jurisdiction prior to the execution of

the Note and Security Instrument.

- Borrowers may take title to the property as joint tenants, tenants by the entirety, tenants in common, or as individuals. Title may also be held in an inter vivos revocable trust (living trust).
- Borrowers must obtain fee simple title to a property constituting the security.

Co-Applicant

Co-Borrowers executing the Note and Security Instrument and taking title to the property are acceptable. A complete credit package is required on each co-borrower. The co-borrower's income and obligations are combined with the borrowers for qualification:

- If all borrowers are either permanent or non-permanent resident aliens, there are no additional restrictions, and standard guidelines for U.S. Citizens apply.
- If co-applicant income is used, the co-applicant must occupy the property.

Co-Signers and Guarantors

Co-signers or guarantors are ineligible.

General Eligibility

Reg O Officers

Under the Correspondent Lending Program, BUYER will not purchase the loans of Reg O officers of any of its affiliates. BUYER will also not purchase the loans of principals or senior officers of the Sellers with whom it does business.

Eligible Borrowers

Lending to Non-U.S. Citizens represents a different degree of risk. The following policy is designed to make our products accessible to legal aliens while at the same time staying within acceptable risk parameters. To be eligible, the non-U.S. applicant must be classified as:

1. Permanent Resident Alien (a.k.a. Immigrant)
2. Non-Permanent Resident Alien (a.k.a. Non-Immigrant)
3. Non-Resident Alien

NOTE: Persons admitted through the Visa Waiver Program (VWP) are not eligible.

Proof of Residency

Non-U.S. applicants must provide proof of residency status (i.e. Visa classification). The applicant's Visa classification may be documented using photocopies of picture identification,

Non-English Speaking Applicants/ Documents Permanent Resident Alien

Permanent Resident Alien (PRA) is defined as an individual who, though not a U.S. Citizen, is granted

the right to work and live permanently in the United States. The Immigration and Naturalization Service (INS) refers to these individuals as “immigrants”. All Permanent Resident Aliens are entitled to the same rights, products, programs, and lending parameters available to U.S. Banks.

Evidence required demonstrating a PRA’s legal right to live and work in the United States includes one of the following:

1. I-151: Alien Registration Receipt Card (Green Card) that does not have an expiration date on the back
2. I-551: Alien Registration Receipt Card (Resident Alien Card/Green Card) that does not have an expiration date on the back
3. I-155: Alien Registration Receipt Card (Conditional Resident Alien Card) that has an expiration date on the back, as long as it is accompanied by a copy of an INS form I-751
4. Unexpired Foreign Passport: Must contain an unexpired stamp reading: “Processed for I-155”

Applicants with one of the following special visa classifications are also eligible for PRA guidelines:

Refugees:

1. Form I-94 stamped with employment authorization
2. Foreign Passport stamped “Admission for Permanent Residence” with an unexpired date or an Employment Authorization Document.

Asylees:

1. Form I-94 stamped with employment authorization
2. Copy of Employment Authorization Document

Non-Permanent Resident Alien (NPRA) Alternate Program

People with an NPRA status currently residing in the United States that fit the following criteria can be processed under Permanent Resident Alien/U.S. Citizens guidelines:

1. Established credit score (Generic FICO Score)
2. Primary residence within the United States
3. Employment and income can be verified by standard methods

NPRA-NRA

To be eligible for a line/loan, NPRA applicants that do not fit the NPRA alternate loan program and all NRA applicants must meet the criteria outlined in the table below:

	Non-Resident Alien (NRA) Policy
Max Line or Loan Amount	\$25M
Maximum CLTV	80%
Maximum Debt Burden	35%
Property Type	Owner occupied single family
Occupancy Type	Primary U.S. residence
U.S. Residency	Residing at least 6 months

Loan Purpose

Borrowers may obtain a first or second mortgage to finance the purchase of a property (a purchase money mortgage) or to restructure an existing mortgage debt (a refinance mortgage) or any other legal purpose.

Builder or Developer-Owned Properties

Loans on builder or developer-owned properties for purchase or refinance transactions are not eligible for purchase.

Occupancy

The following occupancy types are eligible:

1. Owner-occupied (primary residence, including 2-4 units)
2. Second homes

Subordinate Financing

First lien transactions presented to BUYER for purchase may not have subordinate liens greater than 100% CLTV in existence at the time of presentation for sale to BUYER.

Privately Held Mortgage

Second liens are not allowed behind privately held mortgages or land contracts.

Senior Lien Financing

- Second lien transactions may not have senior liens that allow future advances or prohibit subordinate financing.
- Second lien transactions presented to BUYER for purchase may have senior liens with balloon payments maturing with shorter maturity.

Terms

FRHEL: 36-180 month maturity or balloon date with 360 month maximum amortization.

HELOC: Maximum draw period of 10 years with interest only payments per month.

Amortization

Daily Simple Interest or Monthly Accrual

Purchase Money Combos

Seconds behind First Mortgages with negative amortization are not permitted.

Seconds behind Interest Only First Mortgages are not permitted.

Documentation Types

The information obtained at time of the loan application must be supported by verification. Loan documentation is classified as to whether employment, and income and/or assets are verified and each verification type has specific documentation criteria that must be met. Other documentation such as the

appraisal and credit report are generally standard for most loans.

The following table provides an overview and definitions of the three different documentation-type options that are available.

Documentation Type	Definition
Full	Full Documentation refers to standard Fannie Mae / Freddie Mac documentation. It is in the form of fully completed documents that are sent directly to the applicant’s employer or depository or are returned upon completion directly from the employer or depository.
Alternate	Alternate Documentation allows documentation to be obtained directly from the applicant, as opposed to from the applicant’s employer, bank, or mortgage servicer. Examples include: Pay Stub W-2 Bank Statement
Stated Income Verified Assets	The applicant’s employment is stated and verbally verified. The applicant’s income is stated and not verified but reviewed for reasonableness. DTI ratios are calculated based on the stated amount. Liquid asset reserves are verified.
Stated Income Stated Assets	NA

Full or Alternate documentation Requirements

Salaried Applicants	
Full	Alternate
Full completed Verification of Employment. (Form 1005)	<p>For a salaried applicant, the following alternate documentation is acceptable: A computer-generated payroll earnings statement for the most recent 30-day period (a single year-to-date pay stub is acceptable provided it covers at least a 30-day period). The statement must clearly identify the applicant and the applicant’s gross earnings for both the pay period and year-to-date; AND IRS W-2 for the last year that is complete and legible. Verbal confirmation may be obtained through the Human Resources or Personnel departments of the applicant’s employer.</p> <p>NOTE: Any telephone number provided by the applicant must be independently verified (i.e. through the telephone book or Directory Assistance.)</p> <p>A verbal Verification of Employment is required that includes: Current employment status Job title Term of employment Probability of continuation</p>

Salaried Applicants	
Full	Alternate
	Name and title of person providing the information on behalf of the employer Signed and dated by the lender.

Self-Employed

Self-Employed Applicants
Full or Alternate
Pages 1 & 2 (showing AGI) of the most recent year’s personal tax returns (1040 only) are required. Schedule A is required to verify commission income if commissions are greater than 25% of the total qualifying income.
Evidence of two-year self-employment in the same business must be verified by: Obtaining a copy of the valid business license; OR Through a third party such as a CPA, Regulatory Agency or Professional Organization. A verbal verification from an independent third party is required to evidence the applicant has been self-employed for at least two years (i.e., Directory Assistance, license bureau, CPA or valid business license).

Stated Income

Stated Income Documentation Requirements	
Employment	Salaried: Must be stated on the application and a verbal VOE verifying a two-year history is required. Self-Employed: Must be stated on the application and the applicant must have been in the same business for a minimum of two years. Independent verification of existence of the business is required through telephone listing, License Bureau, CPA, etc. Available to licensed professionals ONLY. Copy of license required (exceptions considered on a case-by-case basis).
Income	Stated on the application but not verified. The income disclosed must be deemed reasonable and consistent with the applicant’s occupation.

Employment and Income Eligibility

When reviewing a borrower’s credit package, the employment and income of all persons contributing to the qualifying income will be analyzed. Any person whose income is used to qualify for the loan must be on the loan Note. There are four main categories of income/employment:

1. Salaried

2. Self-Employed
3. Non-Salaried Variable (Commission, Bonus, etc)
4. Non-Salaried Fixed (Pension, Social Security, Lottery Winnings, etc.)

Each income/employment type has its own requirements for verification, proof of continuance, and monthly income calculations. Regardless of the income/employment type, the Seller must consider its stability, adequacy, and probable continuation. All of these reveal the ability of the borrower(s) to meet monthly obligations and service the new debt.

Income Stability

Borrower(s) must demonstrate income stability as follows:

1. Salaried: No specific requirements.
2. Self-Employed: Minimum of two years in the current business.
3. Non-Salaried Variable (Commission, Bonus, etc.): Two-year history with a reasonable probability of continuing for at least three years in the future.
4. Non-Salaried Fixed (Pension, Social Security, Lottery Winnings, etc.): Proof of eligibility and receipt.

Stated Income Verified Assets

Stated income loans with verified assets shall be called SIVA or Stated Income / Verified Asset loans.

The following additional requirements apply to borrowers for whom Stated Income is used to qualify:

1. Stated Income may be used to qualify provided it appears reasonable and consistent using supportable and documented evidence. Verification of the income with the employer is not required.
2. Debt ratios are calculated based on the stated income.
3. For salaried applicants, a two-year employment history is required.
4. A telephone verification of employment with the employer dated no more than 15 days prior to loan closing is required.
5. Self-employed applicants may qualify under the SIVA program ONLY if they are in a profession that requires licensing from a state, federal or self regulating licensing body to practice the profession in the state in which they perform the service (exceptions considered on a case-by-case basis). A minimum two-year history of self-employment in the same business is required. Independent verification of business existence is required.
6. Occupancy is limited to Owner Occupied Principal Residences and Second Homes only.

NOTE: St. Francis Mortgage Corporation will not purchase loans where the broker/seller is the borrower.

Verification of Employment

Verbal verification of employment must be obtained on all applicants whose income is used to qualify. The verification of employment must be completed no more than 30 days prior to loan closing, and must be included in the physical file submitted to BUYER. The telephone number of the employer should be confirmed with an independent third party (e.g. directory assistance, license bureau, CPA, or valid business license).

For Self-employed applicants a verbal verification of employment from an independent third party is required.

Verification of Assets for SIVA Loans

SIVA loans shall be accompanied by a Verification of Assets representing liquid asset reserves as described below.

Verification of liquid assets shall be for the greater of 12 months of PITI (as defined herein) or the new home equity loan monthly payment requirements if the combined loan to value is equal to or less than 80% and if the credit score is greater than or equal to 700 with a combined loan to value less than or equal to 90%. Verification of liquid assets shall be for the greater of 12 months of PITI (as defined herein) or the new home equity loan monthly payment requirements if the combined loan to value is greater than 90%. Liquid assets shall be non-retirement and retirement accounts, AND shall include the following types and corresponding verification requirements:

<u>Type</u>	<u>Verification Type (1)</u>
Bank Deposits	Bank Statement
Equity Securities	Broker Statement
Fixed Income Securities	Broker Statement
Mutual Funds	Fund Statement
Life Insurance Cash Values (2)	Insurance Cash Value Statement
Retirement Account (3)	Statement

- (1) All statements used to satisfy the Verification Type shall be the most recent statement available at to the borrower at the time of application, but not older than 3 months from the application date; older statements that are for those that are provided to borrower on a frequency of more than 3 months shall only be acceptable for Life Insurance Cash Values and Retirement Accounts, but only to the extent the statements can be determined to be provided on a less frequent basis and the statement used is no older than 6 months old.
- (2) Life Insurance Cash Values shall be unencumbered (i.e. there may be NO liens against it, the policy may not be assigned to another party) and be directly available to the borrower (i.e. the borrower shall be the owner, not the beneficiary on death and shall have the unencumbered authority to borrow against the value or cash out the policy); in addition the verified balances used to determine compliance with underwriting requirements shall be further reduced by 50%.
- (3) Retirement accounts shall include IRA, KEOGH, SEP, 401K, ESOP, etc. where the borrower is the owner and beneficiary (other than potentially another party as a beneficiary in the event of death or incompetence); in addition the verified balances used to determine compliance with the underwriting requirements shall be for vested portions net of any loans outstanding against those balances; the total of these net balances shall be further reduced by 30% for underwriting requirements for loans where the primary wage earners FICO is a 720 or above and by 50% for those below a FICO of 720.

Ineligible types of assets for verification include: US Savings Bonds, Annuity (fixed or variable), , Currency, Coin, Collectibles, Foreign Currency, Assets held outside of the United States of America, Art, Private Stock, Real Estate, consumer goods, personal goods, unvested portions of retirement accounts, Health Savings Accounts, pensions, Educational Savings Accounts, 523 Educational Savings Accounts,

and all other assets.

Other Sources of Income

The following guidelines apply to other sources of income:

Alimony or Child Support or Separate Maintenance

In order for alimony or child support to be considered as stable income, the borrower must have received income for at least 6 months. Evidence of continuance for at least 3 years is required if the income is necessary for qualification. If income is received for fewer than six months, income may only be used as a compensating factor. The income must not consist of more than 30% of total qualifying income.

This income may be documented in a variety of ways:

1. Bank Statements
2. Court Document
3. Canceled Checks

Alimony is taxable and reflected on page one of the borrower's personal tax return. Child support is tax-exempt and therefore should be grossed up. Documentation for alimony, child support and/or household maintenance income is not required if the borrower does not use the income to qualify.

Bonus

A bonus is money paid in addition to regular wages. Sometimes bonuses are paid on a regular basis throughout the year. Some employees also receive a guaranteed bonus – a promise or contract made by the employer as part of an incentive plan paid regardless of the company's profitability or employee's performance. The nature of the bonus must be determined up front in order to include in qualifying income. Occasionally, less than a 2-year history may be considered—but no less than 12 months—provided there is a strong likelihood income will continue.

Commission

Commission income is a fee or percentage paid to the employee for performing a service or is based on the dollar amount of the goods and/or the number of units a person sells. Some borrowers are paid a salary plus commission while others receive only commission pay. If the borrower does not have a history of receiving commission income for at least 2-years, the income may only be considered if there are solid compensating factors and a future earnings trend can be demonstrated. Borrower's who receive 25% or more of total income from commission must be qualified using self-employed guidelines. Income may be subject to fluctuations from year-to-year. If there are large fluctuations, the borrower must provide a written explanation to support the increase or decrease in income and the appropriate adjustments made to average income used to qualify.

Annuity Income

Annuity income is similar to pension and Social Security income except that it is generally NOT payable for life. A copy of the most recent updated annuity renewal statement showing the effective date, amount, frequency, and duration of the benefit payments showing income will continue for at least three years

must be obtained.

Interest or Dividend Income

Average interest and dividend income received for the last 12 months is used to calculate the qualifying income. If funds are used for the down payment and closing costs, the value of the assets should be reduced accordingly and the interest and dividends recalculated based on the reduced value.

Exercising Stock Options

Although not typically used as qualifying income, stock options may be considered as qualifying income on occasion if the loan warrants the exception. Only profits received from exercised stock options may be considered. The borrower must have a verified history of receiving income from executed stock options for at least 12 months and the likelihood of its continuance must be verified.

Capital Gains or Losses

Income received from a capital gain is generally a one-time transaction; therefore, it should not usually be considered a part of an applicant's stable monthly income. However, if the applicant needs to use the income to qualify, the Seller must obtain copies of the applicant's signed federal tax returns for the past two years including the related Capital Gains and Losses (Schedule D to IRS Form 1040). A 12 month average can be used if the applicant's tax returns evidence income from capital gains as long as the applicant provides evidence that he or she owns additional property or assets that can be sold if extra income is needed to make future mortgage payments.

Disability Compensation

Disability payments from the Veterans Administration, Social Security, or private firms are acceptable income. Payments must be verified by an award letter that indicates the payment amount and remaining term of at least 12 months.

Non-Taxable Income

Tax-exempt sources include:

1. Disability retirement payments
2. Child support payments
3. Social security distributions
4. Public assistance payments
5. Section 8 Housing
6. Tax Free Municipal Bond

Verify that the particular source of income is tax-exempt and that both the income and its tax-exempt status are likely to continue. Acceptable forms of documentation include award letter, policy agreements, and account statements. Tax-exempt trust and inheritance income may be considered, provided there is sufficient documentation to support the tax-exempt status. In order to evaluate a borrower with tax-exempt income in the same manner as one with has a higher taxable income; income should be grossed-up 25%.

Part-Time or Secondary or Seasonal Income

Other income, when verified as stable and likely to continue, is acceptable. Part-time or second-job income may be used if it can be verified as having been uninterrupted for the previous 2 years and there is a strong likelihood of continuation. Seasonal income may be considered if the borrower has worked in the same job for the past 2 years, and expects to be rehired for the next season.

Retirement Income

Retirement income may be documented using a verification of employment (VOE), the employer's statement or benefit letter, tax returns, IRS 1099R forms, or copies of the borrower's most recent bank statements to confirm the regular deposit of the payments. Documentation supporting the continuance of the income should be provided. Benefits that have defined expiration dates must have a remaining term of at least 12 months from the date of the loan application to be considered as qualifying income.

Any borrower presently employed but anticipating retirement within the near future is evaluated upon the verified anticipated retirement income.

Self-Employed Income

Income for the following borrowers/co-borrowers should be verified using the documentation required for self-employed individuals:

1. Individuals who own at least 25% of a business
2. Individuals whose combined business interests comprise 25% or more of the total
3. Individuals with commission income that is 25% or more of gross qualifying income

Generally, a borrower must own a business for at least 2 years in order for the income to be considered stable. Shorter periods of ownership may be acceptable when combined with previous employment in the same or related field. Businesses not satisfying the 2-year requirement are evaluated on an individual basis.

The inclusion of projected, gross or net business income, retained earnings, or capital withdrawal as stable monthly income is unacceptable. These restrictions apply to all businesses, including closely held corporations. Generally, a 12-month average is used to determine stable gross monthly self-employed income.

Social Security Benefits

Social Security benefits or award statements are normally issued each year by the Social Security Administration to reflect cost of living adjustments. Income is usually non-taxable. If Social Security income has a defined expiration date, (e.g., borrower receiving benefits due to a disability or on the behalf of a dependent child) documentation to insure receipt will continue for at least three years must be provided. (Evidence should make sense. Example: If a dependent is 17 it is highly unlikely that income will continue since this type of benefit usually expires when the child turns 18.)

NOTE: If the borrower is presently employed but is anticipating retirement within the next twelve months, anticipated retirement income should also be taken into consideration.

Rental Income

Income from other investment properties is acceptable provided the income is adequately documented. Details of rental properties are usually specified on the application's Schedule of Real Estate Owned. Evidence of rental income is not required if the applicant can qualify with the full PITI for all properties owned.

Property Seasoning	Units	Acceptable Documentation:
Non-seasoned Acquired subsequent to filing last year's tax returns or applicant plans to rent current home.	1- 4	Executed lease agreement (75% of gross rental income may be used) or an Operating Income Statement Fannie Mae Form 216, or a similar form that provides the same information, is required if income from a 2-4 unit property is used to qualify.
Seasoned Owned property for more than 12 months	1-4	Most recent year's tax returns; or 12-month bank statements or an Operating Income Statement Fannie Mae Form 216, or a similar form that provides the same information, is required if income from a 2-4 unit property is used to qualify.

Unacceptable Sources of Income

Income derived from any of the following may not be used in calculating qualifying income.

1. Draw Income
2. Capital withdrawals
3. Expense/Auto Reimbursement
4. VA Education Benefits
5. Income from Mortgage Credit Certificate
6. Income not listed on Tax Returns
7. Illegal Income
8. Any income that cannot be documented and verified

Funds for Closing

For refinance transactions, the Seller is not required to document assets for closing and reserves. However, for first lien purchase transactions, the borrower is required to evidence and document sufficient funds to close to complete the mortgage transaction, and must also verify the level of reserves after closing.

Generally, the borrower must have enough assets to cover the minimum down payment and it generally must come from their own funds. However, funds received from other sources may be acceptable and can be used to supplement the borrower's funds to pay closing costs and prepaid items, and to satisfy any reserve requirement.

Liabilities and Qualifying Ratios

The following policies and conditions are required for all loans purchased by BUYER.

- The debt burden ratio is calculated by dividing the borrower's current monthly total outstanding debts (including the qualifying monthly payment associated with the requested loan and excluding any debt to be paid off from the loan proceeds) by the current total gross monthly income. The total debt burden ratio cannot exceed debt burden guidelines.
- Installment loans with 10 or fewer payments remaining should not be counted. This does not include revolving accounts (i.e., credit cards).

Maximum Debt to Income Ratio

Unless otherwise limited within this Buyer's Guide, the maximum debt-to-income ratios are:

Monthly Income \leq \$4,000, Max DTI 45%

Monthly Income $>$ \$4,000 Max DTI 50%

40% on credit scores less than 680 with combined loan to value greater than 90%

Cash-Out Restrictions

Specific transactions restrict the amount of cash-out that can be taken by an applicant:

Full Documentation Programs:

No cash-out is allowed for credit scores less than 680 with combined loan to value greater than 90%

No cash-out is allowed for credit scores less than 700 with combined loan to value greater than 95%

Stated Income Verified Asset Programs:

No cash-out is allowed for credit scores less than 700 with combined loan to value greater than 80%

Cash-out is limited to 25% of the loan amount for credit scores between 700-719 with combined loan to value greater than 80%

HELOC Payment Calculation

The qualifying payment for a HELOC is Prime + Margin + 2%. The payment should be calculated on the fully utilized line amount, regardless of initial or present utilization.

Debt Reconciliation

Debt reconciliation is an attempt to account for all borrower debt through the review of the application, a primary credit report, and borrower-provided documents such as pay-stub deductions, mortgage or loan statements, and appraisal (tax and Homeowners Association information). Often discrepancies exist among these sources. The underwriter should use the most accurate information available based on reasonableness, and fully document rationale for unusual circumstances.

Treatment of Revolving and Installment Debts: If the payment is reported by the credit bureau, use that payment. However, if no payment is provided, calculate as follows:

- Revolving: 3% of outstanding balance or actual terms provided by creditor
- Installment: 2.5% of original / high credit balance or actual terms provided by the creditor

No First Mortgage

For loan packages where there is no first mortgage, the tax and insurance amount listed on the application should be used unless it is clearly not reasonable or a title search/appraisal is present in the file. If a title

search or appraisal is present, use the higher of the tax amount on these documents or the amount listed on the application.

Determination of PITI

For loan packages where the first mortgage is held by a bank, Mortgage Company, or other institution and the application states tax and insurance are escrowed, use the higher of the mortgage payment listed on the application or the mortgage payment listed on the credit bureau report that shows the highest payment amount as the PITI liability.

When the loan package states tax and insurance are escrowed, but the mortgage debt is not listed on the credit bureau, the amount entered on the application should be used unless it is clearly not reasonable.

Lease Payments

A lease is a written document containing the conditions under which property is given to an individual for a specific period of time (term). The monthly payment for the leased item should always be counted as a recurring debt regardless of the remaining term. If lease is paid by the borrower's business, the debt does not need to be included as a liability if sufficient documentation is provided. Options include copies of 12 month's cancelled business checks.

Alimony or Child Support Payments

When an applicant indicates they are obligated to pay alimony, child support or separate maintenance, no other documentation is required to evidence the amount of the obligation. The divorce decree or other court-ordered documents are not required.

Obligations that will end within the next 10 months do not need to be counted in debt-to-income ratio. However, the size and number of remaining payments should not impact the borrower's ability to handle the new mortgage payment during the early period of the loan.

If adjusted gross income is used to qualify the borrower in lieu of a full self-employed income analysis, any alimony payments reflected, as a reduction to income on the tax returns, should be added back to the adjusted gross income figure. Alimony payment must be included as a liability in the total debt ratios.

Student Loans

Repayment of all student loans, including accounts that are deferred, should be included in the debt-to-income ratio unless 10 or fewer payments remain. If the monthly payment is not included on the credit report, a copy of the borrower's payment letter or other loan agreement document should be obtained to verify the monthly payment.

Margin Loan or Borrowed Funds against Assets

The borrower may take a loan against a liquid asset that is secured by stocks, bonds, or any other

investment account. Although information regarding the amount of the loan must be provided, the debt is not generally counted in the borrower's qualifying ratios as long as the asset is not needed to qualify.

Contingent Liabilities

Contingent liabilities generally exist when a borrower co-signs another person's loan. As a co-signer, the individual has equal responsibility in repaying the loan should the loan go into default. Debts indicating that the borrower is a co-signer on behalf of another party will be counted as a recurring debt if the remaining term is in excess of 10 months.

The debt is not included in the debt-to-income ratio if the documentation in the file clearly substantiates that the other signer is paying the debt on a timely basis. Generally the other party should be making timely payments to cover at least the last 12-month period. (Shorter payment histories may be considered on a case-by-case basis.) If payments are not made on a timely basis, or if they cannot be sufficiently documented, the debt should be included as a recurring liability. Acceptable documentation includes:

1. Cancelled checks
2. Other party's bank statements showing monthly amounts disbursed
3. Cancelled cashier's checks
4. Money order receipts
5. Divorce decree indicating the debt is the responsibility of another party

The borrower's payment history on the account prior to the assignment must be considered in the analysis. If the loan file contains documentation to substantiate partial payment by the borrower, and the loan is being paid in a timely manner, only the borrower's portion of the debt will be considered when calculating ratios.

Court-Ordered Assignments of Debt

If the borrower is no longer responsible for a payment of a debt as a result of a divorce settlement, but has not been released of the obligation by the creditor, the debt does not need to be included in the debt-to-income ratio as long as one of the following specifically assigns the payment to another party:

1. Applicable page(s) and signature page of the divorce decree
2. Property settlement
3. Separation agreement

Property Settlement "Buyouts"

The borrower's interest in a property that is "bought-out" by another co-owner of the property (as often happens in a divorce settlement) might not be released by the lender thus creating a contingent liability for the borrower. However, the debt does not need to be included in the debt-to-income ratio as long as borrower provides documentation to confirm the transfer of the title to the property.

Mortgage Assumptions

Provided there is a formal executed assumption agreement (with or without release of liability) the debt does not need to be included in the debt-to-income ratio if the following documentation is obtained:

1. Proof of transfer of ownership
2. A copy of the executed assumption agreement
3. A 12-month payment history for the property purchaser that assumed the mortgage indicating timely payments has been made (i.e., via credit report)
4. If we cannot verify the property purchaser's timely payment history, the mortgage payment must be included in the borrower's total debt ratio

401K Loans

The payment associated with a 401K loan is not required to be included in the borrower's debt ratio. The loan balance must be deducted from the asset if used to evidence source of down payment or reserves when required by the transaction.

Credit Report Standards

The Seller must make every effort to determine that the information in the credit report accurately represents the applicant's credit history. The analysis of an applicant's credit history is a major component in determining the probability of repaying the loan. Sellers may submit a residential credit report or a tri-merged in-file report with a public records check.

Credit reports must contain a minimum of three trade lines, each with in a minimum 12-month credit history.

Credit Score Selection

At a minimum a 3 in-file credit report representing 3 credit scores from 3 different scoring agencies must be requested for each borrower, regardless of employment status and level of income. The criteria used to determine each borrower's FICO score are summarized below:

1. If three scores are reported, use the lowest middle score
2. If two scores are reported, use the lower score
3. If only one score is reported, use that score

The FICO score of the borrower providing the primary source of household income shall be used to underwrite the loan as related to the applicable and permissible documentation types, loan to value ratios. If the primary wage earner has a FICO score equal to or above 680, then the co-borrower's score shall be equal to or above 620; otherwise the co-borrower's score must be above 660.

Stale Dated Trade-lines

Any trade on the credit bureau report that has not been updated within the past three months should be excluded from the debt burden unless there is specific evidence to the contrary, such as the borrower discloses the debt on the application as currently open. The three-month guideline excludes the current month.

Mortgage Payment History Requirements

Applicants must have no late payments of 30 days or more in their mortgage credit within the previous twelve months; this includes either 1st or subordinate lien credit. In the absence of 12 months history of mortgage credit the borrower must provide evidence of no late payments of 30 days or more in all their related credit exposures.

Payment histories on loans submitted to BUYER more than 4 months after loan closing should include both the updated Mortgage payment history and updated FICO score.

Bankruptcy, Foreclosure or Deed-in-Lieu

Any Foreclosure, Deed-in Lieu or Bankruptcy, regardless of chapter, is considered significant. When the Bankruptcy was a Chapter 13 (regardless of reason for filing), or was a Chapter 7, 11 or 12, the following conditions apply:

1. More than 4 years must have elapsed since discharged or payment plan completed.
2. Evidence of discharge or payment completion is required.
3. If the bankruptcy (7, 11 or 12) was due to extenuating circumstances, at least 2 years must have elapse since discharge. Evidence of extenuating circumstances and discharge are required.

Guidance for acceptable re-established credit

If Chapter 13, or if 7, 11, or 12 due to extenuating circumstances, must have re-established credit for at least 2 years and should be “like” sources of credit (i.e., if revolving, should have some revolving, if installment, etc.)

- If 7, 11, or 12 due to financial mismanagement, must have re-established credit for at least 4 years and should be “like” sources of credit (as explained above).
- A minimum of 4 trade liens is required. At least one must be a traditional source of credit and 1 rating must be housing related.
- No new public records
- No more than 2 x 30 days past due notices in last 2 years
- No late payments on housing

Credit Counseling

The following conditions apply:

1. A minimum of 1 year must have elapsed since the borrower completed the consumer credit counseling program.
2. The borrower has since demonstrated ability to manage credit, evidenced by a satisfactory pay history.

Liens / Garnishments and Judgments

All judgments, garnishments and/or liens must be fully satisfied prior to loan closing. Additionally, documentation of payoff and evidence of funds to satisfy are required.

Unpaid Collections and Charge-Offs

Evidence of the satisfaction of any unpaid charge-offs and/or collection accounts is not required when either the balance is less than \$1,250 or the account is greater than 24 months old.

Property and Appraisal Requirements

In general, full (1004) and streamlined (2055/2065) appraisals are to be completed in accordance with Fannie Mae / Freddie Mac guidelines, and meet minimum standards established under FIRREA. In addition to accepting full and streamlined appraisals, BUYER allows the use of Automated Valuation Models (AVM) and Broker Price Opinions (BPO) for Refinance Transactions only, if certain conditions are met (see AVM and BPO Table).

General Appraisal Requirements

All appraisals submitted must include the appraiser's name (clearly stated and typed) and signature. The appraiser must provide their typed certification or license number. BUYER has the right to refuse any appraisal or appraiser.

FIRREA Requirement

The Loan must be originated using an appraiser who had no interest, direct or indirect, in the mortgaged property or in any loan made on the security thereof, and whose compensation is not affected by the approval or disapproval of the mortgage loan, and such appraiser and the appraisal made by such appraiser both satisfy the requirements of Title XI of FIRREA and the regulations promulgated there under.

Refinance Transactions

The LTV/CLTV shall be based on appraised value; except where the loan date is within 12 months of the purchase of the property. If the property was purchased within the last 12 months, the lesser of the purchase price or appraised value shall be used in determining compliance with the Loan to Value ratio requirements; however, an appraised value greater than the purchase price may be used but only if there have been material and supportable improvements invested in the property that have been documented in a written Full or Streamlined Appraisal Form that provides reasonable explanation as to the improvement in the value beyond the purchase price.

Appraisal Standards

In compliance with the FIRREA standards, all appraisals must meet the following requirements:

1. Sellers must comply with the appraisal requirements established by their primary regulatory agency and provide appraisals, which meet the minimum standards established by FIRREA, USPAP, and the regulatory agencies.
2. If an appraiser is either licensed or certified, BUYER requires their number be conspicuously placed on the appraisal form.
3. All transactions require either a licensed or certified appraiser, as applicable.
4. The appraisal must be typed and complete, with all appropriate boxes checked. The comment section should be fully utilized.

Use of Unlicensed or Uncertified Individuals

If an appraiser relies on unlicensed/uncertified individuals (employees, sub-contractors, appraiser trainees, etc.) to assist in preparing the appraisal report, or to perform part or all of the appraisal report, a state-licensed or certified "supervisory" or "review" appraiser must acknowledge the extent of the assistance provided by others, indicate the specific tasks performed, and certify the individuals were qualified to perform such tasks.

The state-licensed/certified appraiser must certify that they directly supervise the unlicensed/uncertified appraiser, and has reviewed and agrees with the statements and conclusions of the appraisal report. The "supervisory" or "review" appraiser is bound by the certifications made in the appraisal, and must take full responsibility for the appraisal report.

No one other than the original appraiser can mark on, fill in, sign, or alter the appraisal. Any corrections made by the original appraiser must be initialed. Corrections should be limited to minor typos that do not impact the value estimate. Otherwise, the appraiser should describe in writing what revisions were made, or provide a new original appraisal report or addendum with original signatures.

Required Property Evaluation

The following minimum property evaluation parameters apply to loans sold to BUYER unless otherwise specified. Approved venders are listed elsewhere in this guide.

AVM and BPO (Available for Refinance transactions only)

Loan or Line	CLTV	Max. Property Value	Property Type	Product
≤ \$100,000	≤ 100%	\$700,000	Single Family - Detached Condos and PUDs	Approved AVM, BPO or 2055 Exterior Inspection

Full and Streamlined Appraisals

Loan or Line	CLTV	Max. Property Value	Property Type	Form
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\$100,001- \$150,000	≤ 100%	<\$700,000	Single Family - Detached Condos and PUDs [1]	Fannie Quantitative Analysis Appraisal Report (Form 2055 with an Exterior Inspection) [2, 3]
\$150,001- \$500,000 (not applicable at this time)	≤ 80%	\$700,001 - \$1MM	Single Family	Uniform Residential Appraisal Report (Fannie Form 1004, Freddie Form 70) [4]
		All	2-4 Unit (Owner Occupied)	Small Residential Property Appraisal Report (Fannie Form 1025, Freddie Form 72) [5]

[1] – Attached units in Condos and PUDs require an Individual Condominium Unit Appraisal Report (Fannie Form 1073, Freddie Form 465).

[2] – Fannie Mae Form 2065 is only available for simultaneous second loans processed through DU, where the findings indicate a 2065 is acceptable.

[3] – Loan amounts greater than \$250,000 require an Interior Inspection.

[4] – If the loan line ≥ \$1MM, 2 Small Residential Appraisals are required from separate companies (Fannie Form 1004, Freddie Form 70)

[5] – If loan or line ≥ \$1MM, 2 Small Residential Appraisals are required from separate companies.

Automated Valuation Models (AVM)

AVMs are statistically based computer programs that use real estate information such as comparable sales property characteristics, tax assessments, and price trends to provide an estimate of value for a specific property.

AVMs are a meaningful tool and can notably streamline the origination process. AVMs tend to work best when there is a wealth of current data, when properties in a given area are relatively homogenous, and when a property’s condition and marketability are relatively typical for the area. They work less well when data is in varied neighborhoods, and for properties that differ noticeably from the average property condition or marketability.

It is critical that Sellers who employ AVMs have a strategy that considers the overall credit risk of the loan and reflects the specific strengths and weaknesses of the AVMs they use, particularly the property data supporting those products. Approved Products:

1. ValueSure
2. ValuePoint 4.0
3. HomeValue Explorer
4. Automated Property Service

BUYER may accept other AVM products. The Seller is required to provide BUYER’ Risk Management with the supporting evaluation information prior to submitting loans for purchase with AVMs from other

products.

BUYER reserves the right to perform reviews on appraisals received, and to require additional information or value confirmation where we deem it necessary.

BUYER reserves the right to refuse appraisals from any individual appraiser with or without cause.

Broker Price Opinion (BPO)

If an AVM is not available (no hit) or the loan is not eligible for this type of evaluation, a BPO is acceptable for most transactions (see AVM and BPO table) provided the loan/line is equal to or less than \$100,000 and the property value is equal to or less than \$700,000.

AVMs and BPOs are available for Refinance transactions only. Typically, a local licensed real estate professional conducts a BPO. The report provides an estimated Market Value and combines information from a drive-by exterior examination, external data sources, previous sale data, property assessment data, recent comparable sales and current neighborhood listings, as well as a photograph of the subject.

Full and Streamlined Appraisal Forms

The appraiser must use the most current version of the following forms, and include any other data (either as an attachment or addendum to the appraisal report form) to adequately support the estimate of value.

Uniform Residential Appraisal Report (FNMA Form 1004 and FHLMC Form 70)

This appraisal form may be used for the following types of properties:

1. Single-unit residential property.
2. Single-unit investment property. It must include a Single Unit Comparable Rent Schedule (FNMA Form 1007/FHLMC Form 1000) and Operating Income Statement (FNMA Form 216/ FHLMC Form 998).
3. Detached condominiums (site condominiums), if there are no common area improvements (other than greenbelts, private streets, and parking areas) and the appraiser adequately describes the project, the homeowner's association, and the quality of the project maintenance.
4. Units in PUD projects.

Fannie Mae Form 1004, Uniform Residential Appraisal Report must include the following:

1. An exterior sketch of the building improvements that indicates the dimensions. For condominium units, the appraiser must provide a sketch showing the interior unit perimeter dimensions.
2. A location map showing the subject property in relation to all of the comparable properties.
3. Photos of the front, rear, and street scene of the subject property. If the property is proposed construction, lot and street scene photos are required.
4. Photos of the front of all comparable properties, with the street address listed on the photo. If additional comparable properties are used (more than the required 3), photos must be included.
5. Certificate of completion, if applicable.

Fannie Mae Quantitative Analysis Appraisal Report Form (Form 2055)

Form 2055, while consistent with a summary format, is considered a limited appraisal since the appraiser develops only the market approach and does not develop the cost and income approaches to the value. The

market value approach is considered to be the most reliable approach to the value for both new and existing single-family dwellings. BUYER accepts Fannie Mae Form 2055, Quantitative Appraisal Report Form in lieu of the Fannie Mae Form 1004 for the following loans:

1. Single Unit Attached and Detached Dwellings, including Condominiums and PUDs
2. Primary Residence or Second Home
3. Purchase, Rate/Term and Cash Out Refinance Transactions
4. Existing or New Construction
5. Loan Amounts up to \$500,000

Fannie Mae Desktop Underwriter Qualitative Analysis Appraisal Report (Form 2065)

Form 2065 is only available for simultaneous second mortgage with a 1st lien conforming loan processed with a DU. The DU Underwriting Finding indicates if it is acceptable, and whether an interior or exterior inspection is required. Form 2065 offers an interior and exterior inspection option, or an exterior-only, inspection option. The report provides a relative or qualitative sales comparison analysis instead of the traditional dollar-adjustment quantitative sales comparison analysis that is required by form 2055. The following documentation requirements apply:

1. Street map showing the subject property and comparables.
2. Photo of the front of the subject property.
3. Single Unit Comparable Rent Schedule (Form 107) for single-family investment properties.
4. Certificate of completion, if applicable.

NOTE: When DU recommends an exterior-only inspection for an appraisal report, the appraiser is responsible for determining if adequate information is available (from MLS listings, tax or assessment records, prior inspections, from the property owner, etc.) to develop a reliable appraisal without inspecting the interior. If adequate information is not available, the appraiser must also inspect the interior of the property.

Individual Condominium Unit Appraisal Report (FNMA Form 1073 or FHLMC Form 465)

Sellers must also complete a BUYER Condo / PUD Project Data as needed to warrant that the project meets BUYER guidelines.

Appraisal Requirements

In addition to the appropriate appraisal form, the appraisal must:

1. Include a Statement of Limiting Conditions and Appraiser's Certification (FHLMC 439/FNMA 1004B, revised 06/93) signed and dated by the appraiser with no alterations.
2. Meet the standards set by the Uniform Standards of Professional Appraisal Practice (USPAP) as adopted by the Appraisal Foundation. The 2003 edition of the USPAP (effective 1/1/03) now requires the appraiser to provide a three-year sales history on all residential properties appraised. If there is not sufficient room on page two of the appraisal report, BUYER will require that the sales history be provided on an addendum to the appraisal.
3. Disclose any applicable information regarding the competency provision of the USPAP.
4. Certify that the analysis is limited only by the reported assumptions and conditions and is the appraiser's own personal, unbiased professional opinion.
5. Be based upon the market value of the property.
6. Analyze and report in reasonable detail sales history covering the past 3 years – for subject and

- comps.
7. Analyze any current agreement of sale, option, or listing.
 8. Provide data on current revenues, expenses and vacancies for income producing property.
 9. Analyze and report on appropriate discounts and deductions.
 10. Analyze and report the impact of financing concessions, rent or sales concessions, contributions (even if such items are common market practice), and discounts for proposed construction or partially leased properties.
 11. Analyze and report a reasonable marketing period and exposure time.
 12. Analyze and report on current market conditions and trends that affect the value of the property.
 13. Include a statement that the appraisal was not based upon a requested minimum valuation, specific valuation, or the approval of a loan.
 14. Include a legal description of the subject property.
 15. Identify and separately value any personal property, fixtures, or intangible items.
 16. Set forth all material assumptions and limiting conditions that affect the opinions, analysis, and conclusions expressed in the appraisal.
 17. An appraiser certification should be included stating the appraiser has no present or prospective interest in the property, that they have personally inspected the property, and the appraisal was prepared in accordance with USPAP.
 18. Any addendum included with the appraisal must be signed and dated by the appraiser, and include the property address.
 19. Appraisals made subject to repairs require a final inspection (FHLMC Form 442). Homes subject to completion require a final inspection and complete photos, front and rear. The original appraiser must do the final inspection. If, for any reason, the original appraiser is unable to complete the inspection, another appraiser from that firm can complete the inspection provided they state that they agree with the original value.
 20. The appraisal form and all attachments requiring the appraiser's signature must be signed originals, unless otherwise indicate in the Program Description for the Documentation Process or the Document Audit requirements.

Photographs

Photographs of the subject property and comparables are required.

Environmental Hazards

According to the Uniform Standards of Professional Appraisal Practice (USPAP) and Fannie Mae/Freddie Mac guidelines, the appraiser must note in the appraisal report any adverse conditions that were observed during the inspection of the subject property, or after gaining information through normal research involved in performing an appraisal. In addition, the appraiser is obligated to assess the impact on the subject property's marketability and value.

Environmental Risk Reports

Certain conditions noted in the appraisal report may suggest the need for an Environmental Risk Report, including but not limited to discolored soil, unusual odors, lack of vegetation, known underground storage tanks, storage of toxic materials, accumulated debris or derelict cars within boundaries of the subject site; known existence of UREA Formaldehyde foam insulation, radon, lead-based paint or asbestos insulation and/or soundproofing, etc. If the appraiser mentions any such conditions, BUYER may require an

acceptable Environmental Risk report as a condition for purchase.

Recertification of Value

All appraisals should be dated within 120 days prior to the date of the Note and Security Instrument. A recertification is required if the appraisal is more than 120 days old at closing, regardless of whether the property was appraised as proposed construction or existing construction. The appraiser must inspect the exterior of the property and review current market data to determine whether the property value has changed since the date of the original appraisal. The recertification must be dated within 120 days of the date of the Note and Security Instrument.

Since Fannie Mae no longer provides a form for recertification of appraisals that are more than 120 days old at the time of closing, a Recertification of Value may be prepared using proprietary software issued by the appraisal company. The recertification must contain all of the following:

1. The property address
2. Statement denoting whether the property declined in value (and if so, why)
3. Current market conditions
4. Verification that the exterior of the property has been re-inspected

An additional recertification may be obtained to update the appraisal for an additional four months. An appraisal with a recertification can be no more than one (1) year old at the time of execution of the Note and Security Instrument.

BUYER accepts an appraisal up to one year old in stable markets, as long as the appraisal includes recertification dated within 120 days of the closing documents.

If two appraisals are required, the recertification must be provided for the appraisal with the lower value.

Final Inspection

Appraisals on new construction, or existing construction subject to completion of repairs, must have a final inspection on FHLMC Form 442 showing all items complete. Photos of the front and rear of the subject property must be provided with final inspection reports. If two appraisals are required, a final inspection must be provided for the appraisal with the lower value.

A final inspection report issued on FHLMC Form 442 is not acceptable as a recertification of value unless the appraiser specifically states he has inspected the property, reviewed market data, and indicates the value of the property as of the final inspection date.

A faxed signed final inspection is acceptable in lieu of a hard copy. Final inspections, with original photos, must be sent to BUYER when final documents are submitted.

Appraiser Requirements

An appraiser's expertise, professionalism, and ethical conduct are considered warranted by the Seller's submission of the credit package. Appraisers cannot have a direct or indirect interest (financial or otherwise) in the property being appraised. They must not be supervised, controlled, or influenced by the lending, underwriting and/or investment functions of the Seller. They should be engaged by the lending

institution rather than the borrower, property seller, agent or other interested party. An appraiser must be physically based in the market where they serve. It is the Seller's responsibility to ensure all FIRREA and state-specific requirements are met on an ongoing basis.

Appraiser Licensing and Certification

All appraisal reports submitted to BUYER must be completed by an appraiser with a current license or certification by the state in which the mortgaged property is located. All FHA and VA appraisers must be approved by HUD or VA for the jurisdiction where they are appraising. (The FHA Connection ordering system confirms the FHA jurisdiction approval):

- A State Certified Appraiser is: An individual who has satisfied the requirements for certification in a state whose criteria for certification currently meet the minimum criteria issued by the Appraiser Qualifications Board of the Appraisal Foundation.
- A Licensed Appraiser is: An individual who has satisfied the requirements for licensing in a state where the licensing procedures comply with Title XI of the Federal Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA).

BUYER will require the appraiser's license or certification number on individual appraisals. Transactions Requiring a State-Certified Appraiser

- A state-certified appraiser is required for real estate transactions that are valued at greater than \$250,000 (complex or multi-family residential).
- Transactions Requiring Either a State-Certified or Licensed Appraiser
- A licensed appraiser can be used for all appraisals for federally related transactions that do not require a certified appraiser.

Appraiser Approval Recommendations

The Seller must have the necessary approval process in place to ensure the appraiser provides an accurate estimate of the value, and a complete and accurate description of the property and improvements. The Seller is solely responsible for the selection and approval of the appraisers. All Sellers are responsible for selecting appraisers fairly and without discrimination.

Listed below are the major components that should be a part of the Seller's procedures for reviewing appraiser qualifications. These guidelines must include but are not limited to:

Application or Resume: A complete application or resume on the respective appraiser must be kept on file by the Seller and must include a clear indication of the experience and education that qualifies the individual to perform appraisals. Sellers must obtain proof of license or certification in accordance with applicable state laws.

NOTE: Upon a request from an investor, or at its sole discretion, BUYER may request a copy of the resume and/or materials used by a Seller to approve an appraiser.

Reference Check: The Seller is responsible for conducting a complete reference check of the appraiser's credentials and experience.

Appraisal Reviews: The Seller should conduct an initial evaluation of sample appraisals submitted on behalf of the appraiser. Both the qualifications of the inspecting appraiser and/or review appraiser must be evaluated on their own merits. The Seller is expected to review sample appraisals for each type of property for which the individual appraiser will be responsible (i.e., single family, 2-4 family, and condominium/PUD).

Quality Control System

The Seller must have the necessary review process in place to continually evaluate the quality of the appraiser's work through normal underwriting reviews and spot-check field reviews. The Seller must notify BUYER immediately if any spot check review reveals quality or value issues on any appraisal performed for any Mortgage Loans purchased by BUYER.

BUYER requires all Sellers to have an acceptable Quality Control System in place prior to approval. Each system is reviewed and approved on the basis of its compliance with BUYER's Quality Assurance Standards. Each Seller's Quality Control System is expected to contain strict requirements for approving individual appraisers.

Sellers must continually evaluate the quality of an appraiser's work through normal underwriting review of appraisal reports, and a thorough spot-check field review of appraisals as part of its quality control system.

Rural Property Guidelines

The following parameters apply to lending against rural property:

- Maximum CLTV on rural properties is 80%.
- For second mortgage loans less than or equal to \$35,000, rural CLTV restrictions do not apply. Maximum CLTV limits on these loans follow standard CLTV policy. Also, on second mortgage loans less than \$35,000, the minimum rural FICO score of 680 does not apply. Standard score parameters apply.

Rural properties are defined as follows:

- If the area is marked as <25% built-up on the appraisal, the property is considered rural, and rural limits apply.
- If the area is not marked as <25% built-up on the appraisal, the appraisal must have at least two good comparables within three miles of the subject property to be considered non-rural. If the appraisal does not show at least two good comparables within three miles of the subject property, the property is considered rural, and rural limits apply.
- Working farms are ineligible. Working farms are defined as any acreage used to produce income.
- All rural properties are subject to full Uniform Residential Appraisal Reports. All comparables must be within a 10-mile radius

Rural properties with acreage up to 50 acres will be considered. The land value and outbuildings (barns) must not exceed 50% of total value of properties.

Eligible Properties

The following property types are acceptable:

1. Single family, attached or detached
2. 2-4 multi-unit (owner occupied)
3. Condominiums
4. Planned Unit Development

Mixed use may be eligible if <5% of space (e.g., retail space on high rise condominium complex).

Ineligible States (Geographic Restrictions)

BUYER will only purchase loans secured by property in Indiana, Illinois and Wisconsin. Properties located in other states will be considered on a case by case basis provided the seller is licensed to originate loans in the state.

Unacceptable Property Types

Mortgages may not secure the properties with the following characteristics:

1. Mixed Use (>5% of space)
2. Cooperatives
3. Dome Home
4. Leaseholds
5. Non-conforming use properties
6. Properties with health, safety and/or liability issues
7. Illegal use
8. Multi unit properties with an illegal additional unit or accessory apartment
9. Properties located in high risk flood area without proper coverage as federally mandated.
10. Properties located in an area that is deemed an environmental risk by a Phase III report.
11. Unique properties where marketability cannot be established.
12. Business, commercial or agricultural use of property that does not meet residential requirements.
13. Community living (group homes)
14. Timeshares, houseboat project, segmented ownership projects.
15. Residential dwellings consisting of five or more units.
16. Rural properties that do not conform to BUYER guidelines.
17. Manufactured Housing (Single/Double-Wides and Mobile Homes). Properties are defined as Manufactured Housing if they currently or have at any point had a tongue, skirt, wheels or axle.

Second, Vacation and Commuter Home Definition

A second home is defined as 1-unit property (including condos and PUDs) that the borrower occupies for some portion of the year in addition to their principal residence. A borrower may have more than one second home. The property must be suitable for year round occupancy and should not be located in the same market as the borrower's primary residence. However, there are exceptions and the underwriter must exercise good judgment. There are no differences in the treatment or definition of second, vacation or commuter homes.

Condominium Project Overview

A condominium is a form of ownership characterized by holding title to a single unit together with a proportionate undivided ownership interest in the common elements. Common elements typically include land, roofs, floor, walls, lobbies, and community spaces and facilities. The common elements are usually maintained but not owned, by a non-profit homeowner's association.

Project Requirements

BUYER purchases loans on condominiums that meet Fannie Mae's project requirements. These project requirements depend on the basic condominium classification. The basic condominium classifications and their project requirements are as follows:

Type A: A condominium project is considered established if the unit owners have been in control of the homeowner's association for at least one year (three years for projects that are a conversion of an existing building to a condominium). To be eligible for purchase, the project must meet either the Limited Project Review or Type A Review requirements.

Type B: A condominium project is considered new if (1) the project is still managed by the developer, or (2) the unit owners have been in control of the homeowner's association for less than one year (three years for projects that are a conversion of an existing building to a condominium). To be eligible for purchase, the project must meet either the Limited Project Review or Type B Review requirements.

Type C: This classification primarily applies to proposed or new projects that are still under construction. It also applies to projects that do not meet the presale requirements for Type A or Type B, and projects that consist of manufactured housing units. Proposed/New Construction Projects must be approved by Fannie Mae as documented by an un-expired Fannie Mae Form 1028.

NOTE: Upon submission to BUYER of a loan on a condominium, the Seller must represent and warrant it meets Fannie Mae's requirements for projects.

Ineligible Projects

BUYER does not purchase loans on the following types of condominium projects:

1. Condominium Hotels - Projects that have rental desks, short-term occupancy, and cleaning services that operate as commercial hotels even though the units are owned individually.
2. Multi-Dwelling Unit Condominiums - Projects that permit an owner to hold title to more than one unit, with ownership evidenced by a single deed and mortgage.
3. Non-Conforming Use of Land - Projects that represent a legal but non-conforming use of the land if zoning regulations prohibit rebuilding the improvements to current density in the event of their partial or full destruction.
4. Timeshares
5. Houseboat Projects
6. Recreational leases, leaseholds, land lease and ground rents.
7. Projects with more than 20% commercial space.
8. Any condominium project where the owner's association has been named as a party to current litigation is ineligible for sale to BUYER. If the project has not been turned over to the association, the project sponsor or developer may not be named as a party to current litigation.

Site Condominiums

Site condominiums consist solely of detached dwellings and have no common area improvements (other than greenbelts, private streets, and parking areas). For a detached condominium unit to be eligible for a limited project review, the Seller must warrant that the following eligibility criteria have been met:

1. The mortgage is secured by a single-family detached unit in the condominium project, and it is not a manufactured home.
2. The condominium unit is occupied as a primary residence or second home.
3. The appraiser commented on any effect buyer resistance to the condominium form of ownership has on the market value of the individual unit.
4. If the project is new, the appraiser used as a comparable sale at least one detached condominium unit located either in a competing project or in the subject project, but only if offered by a builder other than the subject unit's builder.
5. The property is either covered by the type of hazard and flood insurance required for single-family detached dwellings (if the unit consists of the entire structure as well as the site and air space) or is covered by the project's master insurance policy (if the unit consists only of the air space for the unit and the improvements and site are considered common areas).

Hazard Insurance

Policy Type: A "Master" or "Blanket" Policy with premiums that are part of the common expense unless the property is a detached condominium that is eligible for single-family coverage.

Carrier: The insurance carrier must have general policyholder's rating of B or financial performance index of six or better in Best's Key Rating Guide, or an A or better by Demotech, Inc.

Coverage: All perils must be covered by a standard extension coverage endorsement including those covered by the standard "all risk" endorsement or "broad form" coverage's.

Amount: The policy must cover 100% of the insurable replacement cost of the project's improvements including the individual units. If the policy contains a "Guaranteed Replacement Cost Endorsement:" or "Replacement Cost Endorsement" the amount of coverage is acceptable.

Deductibles: Unless state law requires a higher deductible, the deductible must be the lesser of \$10,000 or 1% of the face amount of the policy.

For an attached PUD project, if the project's legal documents allow for the individual units and common areas to be covered under a blanket hazard insurance policy, the deductible for the individual unit should be the higher of \$1,000 or 1% of the replacement cost of the unit. If the policy provides for a wind-loss deductible, the deductible for the individual unit may be the higher of \$2,000 or 2% of the replacement cost of the unit.

Special Endorsements:

1. Inflation Guard, if it can be obtained.
2. Building Ordinance or Law, if the enforcement of any building, zoning, or land-use law results in loss, damage, increased cost of repairs, etc.
3. Steam Boiler and Machinery if the project has central heating or cooling.
4. Special Condominium – always required for condominiums only.

Flood Insurance

Policy Type: A "Master" or "Blanket" Policy with premiums that are part of the common expense unless the property is a detached condominium or PUD that is eligible for single-family coverage.

Carrier: Must be a private or national flood insurer.

Coverage: All common element, buildings (including units), and other common property must be

covered. If the condominium is a high-rise, each building with units requires a separate policy.

Amount: The policy must cover the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the appropriate National Flood Insurance Program.

Deductibles: Unless state law requires a higher deductible, the deductible must be the lesser of \$5,000 or 1 percent of the face amount of the policy.

Areas Requiring Coverage: When any part of the project's improvements are in a Special Flood Hazard Area with a designation beginning with "A" or "V".

Liability Insurance

Policy Type: Commercial Liability Policy with premiums that are part of the common expense unless the property is a detached condominium or detached PUD that is eligible for single-family coverage.

Carrier: Must be a commercial liability insurer.

Coverage: The policy must cover bodily injury and property damage resulting from the operation, maintenance, or use of project's common areas and elements.

Amount: A minimum of \$1,000,000 for bodily injury or property damage for any single occurrence.
Deductibles: None.

Special Endorsements: If the policy does not include a "severability of interest" endorsement, a specific endorsement to preclude the insurer's denial of a unit owner's claim because of negligent acts of the homeowner's association or other unit owners.

Fidelity Insurance

Fidelity insurance is insurance that a homeowner's association obtains to protect it against economic loss from dishonest acts of anyone who either handles or is responsible for funds that the association or corporation holds or administers, whether or not that individual receives compensation for services.

Fidelity Insurance is only required on attached condominium projects or attached PUD projects that have more than 20 Units. It is not required on detached condominiums or PUDs that are eligible for single-family coverage or on projects of less than 20 units.

Policy Type: A "Master" or "Blanket" Policy with premiums that are part of the common expense unless the property is a detached condominium that is eligible for single-family coverage.

Carrier: Must be a commercial liability insurer.

Coverage: The policy must cover anyone who handles or is responsible for the homeowner's association funds. Note: If the size and type of the project requires fidelity bond coverage, the homeowner's association must carry the insurance, even though there may be a management company who handles the funds on behalf of the association.

Amount: The policy must cover the maximum amount of funds that may be in the custody of the homeowner's association or its management company at any one time, but not less than the sum of three months assessments on all units in the project.

Deductibles: None

Insurance and Miscellaneous Requirements

The following requirements are in effect for all loans, as applicable.

Hazard Insurance

BUYER requires evidence of sufficient coverage for all closed loans greater than \$35,000.

Flood Certification

Flood certification will be required for all secured loans.

Flood Insurance

Flood Insurance is required by law for any property located in a Special Flood Hazard Area (SFHA) regardless of whether or not the community participates in the National Flood Insurance Program (NFIP). For properties located in communities who are not participants of the NFIP the borrower must obtain flood insurance from an independent carrier. Otherwise the loan will not be purchased based on unacceptable property. Flood certification will be required for all secured loans.

Policy Type: A “Master” or “Blanket” Policy with premiums that are part of the common expense unless the property is a detached condominium or PUD that is eligible for single-family coverage.

Carrier: Must be a private or national flood insurer.

Coverage: All common element, buildings (including units), and other common property must be covered. If the condominium is a high-rise, each building with units requires a separate policy.

Amount: The policy must cover the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the appropriate National Flood Insurance Program.

Deductibles: Unless state law requires a higher deductible, the deductible must be the lesser of \$5,000 or 1 percent of the face amount of the policy.

Areas Requiring Coverage: When any part of the project’s improvements are in a Special Flood Hazard Area with a designation beginning with “A” or “V”.

Homeowners Insurance

For all loans greater than \$35,000, BUYER requires hazard insurance coverage in an amount sufficient to cover the replacement costs of all improvements (land value is excluded). The policy must be a homeowner’s policy. In the case of a condominium, a master policy is required.

Late Fees

Required as allowed in each state.

Prepayment Penalties

BUYER will not purchase loans with prepayment penalties or early closure fees that exist longer than 36 months from loan inception.

Escrow Accounts

Escrow accounts are allowed.

Qualifying HELOC Payment

Qualify based on Prime + Margin + 2% of the total available line.

Title Requirements

At a minimum, title search indicating ownership, legal description, taxes paid and outstanding liens. Title search needs to at least go back to when the present borrower purchased the subject property.

Lien Position	Loan Amount	Title Requirements
Second Lien	Less than \$100,000	Ownership and Encumbrance Search - (includes Legal Description, Vesting Information, Encumbrances and Tax Information)
	\$100,000 or greater	Full ALTA Policy
First Lien	All	Full ALTA Policy

Land Trusts

The policy is as follows:

1. The trustee must sign the mortgage.
2. The beneficiary of the trust must be an individual, i.e. not a partnership, corporation or living trust.
3. A certified copy of the trust agreement dated within 90 days is required with the following information:
 - a) The borrower(s) must be shown as the sole beneficiary.
 - b) The legal description must correspond with the Seller's documents.
 - c) The trustee and all beneficiaries must furnish a signed copy of an Assignment of Beneficial Interest for Home Equity Products.

Living Trusts

Home Equity loans can be made on property held in a living trust if the conditions listed below are met. Approval must be granted separately in order to make loans on property held in a living trust.

Listed below are the requirements that must be met before a loan can be purchased when the property is held in a living trust:

1. Only properties held in REVOCABLE TRUSTS are eligible as collateral.
2. The settlor/beneficiary of the trust must be the applicant in all cases. The trust agreement must outline that the trustee has control and power to pledge the assets in the trust for the purpose of the loan.
3. Income generated from the trust cannot be used to qualify the borrower(s) for the loan until it has been distributed to the borrower(s), as evidenced via tax returns.
4. To be considered for an exception, the trust documents must ensure:
5. at least one borrower is the settlor/beneficiary of a revocable trust and
6. The trustee has the expressed right to mortgage or borrow against the property for our loan.

The following document must be executed at closing in addition to the Note and Mortgage:

1. Full Force and Effect Affidavit (all markets except California)
2. Certification of Trust (California only) executed prior to closing in lieu of the full trust document.

Exhibit 1: Income Documentation

The following information is required for loans being sold to BUYER:

Income Source	Documentation Requirements
Verbal VOE for Salaried Applicants	Verbal Verification of Employment (VOE) is required for salaried applicants. The telephone number of the employer should be confirmed with an independent third party.
Salaried	Most recent computer generated pay stub w/ year-to-date earnings dated within 60 days of application along with recent year's W-2. If less than 2 years with current employer, previous year's W-2 is required. NOTE: Employment/income verification service vendors, such as TALK/The Work Number, are an acceptable method to verify salaried applicants.
Self-Employed	Pages 1 & 2 (showing AGI) of most recent years personal tax returns (only) are required. Schedule A is required to verify commission income if commissions are > 25% of total qualifying income. A verbal VOE from an independent third party is required evidencing the borrower has been self-employed for at least two years (ex. Directory Assistance, license bureau, CPA or valid business license).
Stated	Stated on the application but not verified. The income disclosed must be deemed reasonable and consistent with the applicant's occupation.
Commission	Prior year's W2 Pages 1 and 2 of previous two year's 1040s, and applicable schedules if commission is greater than 25% of total income. Schedule A if commission is greater than 25 % of total income.
Bonus	Previous two years' W2
Rental (from other investment properties)	Previous years' tax returns, all schedules; Or Executed lease agreement (75% of gross rental income may be used); Or An Operating Income Statement Fannie Mae Form 216, or similar form that provides the same information, is required if income from a 2-4 unit property is used to qualify; Or 12/month bank statement on properties owned for more 12 months.
Seasonal	Pages 1 and 2 of previous years' 1040s, and applicable schedules Previous two years' W2
Trust	One of the following: Written verification from the trustee of the amount, frequency and duration of income Most recent trust account statement and prior two years' 1040s with all applicable schedules
IRA Distribution , Interest or Dividends	One of the following: Pages 1 and 2 of previous years' 1040s, and schedule B Year-end broker/broker bank statements dated within the last 30 days
Notes Receivable	Pages 1 and 2 of previous years' 1040s, and applicable schedules Copy of note
Alimony or Child Support Income	Copy of one of the following: Bank Statements Court Document Canceled Checks (6 months) Copy of one of the following: Divorce Decree Property Settlement Agreement Attorney Letter Court Certified Document

Pension or Social Security	IRS Form 1099 or W2-P Copy of one of the following: Award letter Statement of benefits Most recent two months bank statements or record of deposits
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