Non-QM Mortgage
Purchase Eligibility Guidelines

Effective Date: April 2, 2019

Contents

General Purchase Eligibility

Overview: These guidelines are designed to provide direction and consistency for Correspondent lenders wishing to originate investment quality Non-QM loans for sale to Silvergate Bank's Correspondent Lending Division ("SCL").

Closed Loans Only: A loan will only be purchased bySCL after the loan has been closed bythe Correspondent and SCL has reviewed and approved the complete file, including credit, appraisal, closing and collateral documents.

Ability to Repay (ATR): For mortgage loans made for a personal, family or household purpose covered by the federal Truth in Lending Act ("TILA"), the ATR rule requires lenders to demonstrate they have made a good faith determination based on verified third-party records that the Borrower has sufficient income and assets to repay the loan according to its terms, generally considering the following eight criteria:

1. Current or reasonable expected income or assets;
2. Current employment status;
3. Monthly payment on the covered transaction;
4. Monthly payment on any simultaneous loan;
5. Monthly payment for mortgage-related obligations;
6. Current debt obligations, alimony and child support; and
7. Credit history
8. Debt-to-Income Ratio

All loans considered for purchase by SCL must meet ATR rules. Certain loans may be exempt from TILA or otherwise exempt from the ATR. If SCL chooses to purchase such a loan (e.g. investment property), it will only do so if the Borrower appears able to afford the loan based on prudent underwriting standards.

Manual Underwriting Requirement: Comprehensive underwriting is required by the Correspondent on every loan to assure and document compliance with ATR requirements and make a well-informed credit/lending decision. The Correspondent's underwriting approval and evidence of its determination that the Borrower meets ATR requirements must be included in the loan file.

QM Review: Loans that are eligible for Fannie Mae or Freddie Mac approval are ineligible for sale to SCL as a Non-QM loan. Loans must be submitted through either Fannie Mae DU or Freddie Mac LP to ensure the Borrower does not qualify for a Qualified Mortgage ("QM"). AUS findings must be either "Refer" or "Approve/Ineligible" – **otherwise, the Correspondent must provide a completed Non-QM Loan Eligibility form.**

In certain respects, the parameters of SCL's Non-QM programs, as defined in these Guidelines, differ from those of FNMA, including but not limited to:

- DTI Ratios
- Maximum Loan Amounts
- Reserve Requirements
- Minimum FICO's

- Aggregate Loan Amounts
- Self-Employed Documentation

Loan Program Types: -Conventional 5/1 & 7/1 Libor ARM and 5/1 & 7/1 Libor ARM Interest-Only (Based on 1-Year Libor Index. 5-2-5 Interest Rate Caps. Floor Rate equals the Margin) -**30-yr fixed** and **30-yr Fixed IO (Expanded program only). 10-yr IO option available on all products (30-yr defaults to 10-yr IO period). DSCR-please refer to separate DSCR guidelines**

Qualifying Rate (ARMs): Qualify at the **greater** of the **Start Rate** or **Fully Indexed Rate** (i.e. Current Index + Margin) for income ratio calculations. The same rule applies to the Interest- Only programs (using the same criteria mentioned above, but it will be amortized over the remaining period after the IO period (25 or 23 years).

Fannie Mae Guideline Reference: For underwriting purposes, if a topic or guideline is not specifically addressed in these guidelines, the applicable topic/guideline will default to standard Fannie Mae underwriting guidelines as defined in Fannie Mae Selling Guide Part B– Origination through Closing. https://www.fanniemae.com/content/guide/selling/b/index.html

Zero Fraud Tolerance: SCL has a zero-tolerance policy as it relates to fraud. Correspondents should follow their own established fraud and identity procedures on every loan to prevent and detect fraud (including, but not limited to, Social Security number verification, verbal verifications of employment, processing of 4506-T, etc.). Loans containing fraudulent documentation or information will immediately be declined. If there is a determination of originator involvement, the originator will be made inactive and any reports required by the federal Bank Secrecy Act will be filed. SCL will pursue Borrower fraud to the fullest extent of the law.

Fair Lending Policy: SCL operates in accordance with the provisions of the Fair Housing Act and Equal Credit Opportunity Act ("ECOA"). The Fair Housing Act makes it unlawful to discriminate in housing-related activities against any person because of race, color, religion, national origin, sex, handicap, or familial status. ECOA prohibits discrimination with respect to any aspect of a credit transaction on the basis of sex, race, color, religion, national origin, marital status, age (provided the Borrower has the capacity to enter into a binding contract), receipt of public assistance, or because the Borrower has in good faith exercised any right under the Consumer Credit Protection Act. SCL fully supports the letter and spirit of both of these laws and will not condone discrimination in any mortgage transaction.

Points and Fees: Points and fees are limited to a maximum of 3% on Owner Occupied (Primary Resident and Second Home) transactions and 5% on Non-Owner Occupied (Investment Property) transactions.

Higher Priced Mortgage Loan (HPML) Eligibility: Higher Priced Mortgage Loans are considered as eligible for purchase by SCL provided all required disclosures are provided, and compliance with the HPML appraisal rule is met. For all HPML's an escrow account for property taxes and insurance must be established and funded for a minimum of 5 years.

HOEPA High Cost (Section 32) Loans Not Eligible: High Cost (Section 32) Mortgage Loans as defined by applicable local, state, federal and secondary market regulations are not eligible for purchase.

Ineligible Loan Features: The following features are not allowed:

- Pre-Payment Penalties (**Exception: Investment properties)**
- Negative Amortization
- Balloon Payments
- Terms Greater than 30 Years

Vesting: Ownership must be fee simple in name of individual(s). (No Trust, LLC) **Exception: DSCR loans can close under an LLC.**

Power of Attorney: Loans closed via a Power of Attorney (POA) are ineligible for purchase.

Guideline Exceptions: Exceptions to published guidelines may be considered on a case-by-case basis without regard to Borrower's race, color, religion, national origin, sex, handicap or marital status. Loans with exception requests should exhibit strong compensating factors. Exception requests should be submitted in writing. SCL's decision to allow or deny any exception request relates only to whether SCL will purchase a loan and does not bind a Correspondent with respect to the underlying decision to extend credit.

Minimum/Maximum Loan Amounts: Minimum Loan Amount is **$50,000** and Maximum Loan Amount is **$3,000,000**. See Program Matrices for Sub-Limits based on Credit Score and LTV.

Assumability: Loans may be assumed by a qualified Borrower after the initial fixed rate term.

Ineligible States: Properties located in the following geographic regions are not eligible for purchase by SCL:

- New York (**max LTV is 65%-Standard program only**)
- Texas (cash-out refinancing only. All other transactions or acceptable)
- US Territories
- **Alaska, Massachusetts, New York, and West Virginia (Ineligible under the Expanded program only)**
- In all cases, state specific regulations supersede SCL guidelines.

Non-Arm's Length Transactions: A Non-Arm's-Length transaction is a transaction between family members (related to the Borrower by blood, marriage, adoption or legal guardianship), co- workers, friends or anyone associated with the transaction, such as the listing agent, builder, mortgage lender or broker. Non-arm's length transactions may be eligible for purchase under this program at the sole discretion of SCL. If a Non-Arm's Length transaction is approved for purchase, SCL may require a second appraisal or other value validations be provided.

Ineligible Property Types: Ineligible properties include but are not limited to:

- Leasehold Properties
- Co-ops
- Condotels
- Timeshares
- Income-Producing Enterprises (Farms; Bed & Breakfast; Assisted Living)
- Manufactured Homes
- Log Homes
- Properties over 5 acres

Loans to One Borrower: Loans to one Borrower from SCL may not exceed 5 properties and/or $3,000,000.

Maximum Financed Properties: Borrowers are allowed up to a total of fifteen (15) financed residential properties with all lenders, including subject property.

Income Qualifying

Adequate and Stable Income: Income and employment analysis are key elements of the underwriting process and must be used to determine whether the Borrower's ability to repay is reasonable. Income documentation provided by the Borrower must be reviewed and verified for this purpose. Additionally, the income must be considered stable, likely to continue, and sufficient to enable the Borrower to repay the debt in a timely manner.

Declining income sources should be closely reviewed to determine if the income may be used for qualifying purposes. An explanation for the decline should be obtained. In instances where there is sufficient information to support the use of the income, the most recent lower income must be used for qualification.

Employment should be stable with at least a two (2) year history in the same job or in the same line-of-work. Self-employed Borrowers must have been in business for at least two (2) consecutive years.

The Borrower(s) must explain in writing any employment gaps that exceed one (1) month.

Borrowers must be currently employed.

ATR Documentation: Maintaining documentary evidence of compliance with the ATR standards is of critical importance. The loan file must document the Borrower's ability to repay or the loan will be ineligible for purchase by SCL.

Debt-to-Income Ratio Requirements: The Debt-to-Income ratio is calculated by dividing the Borrower's total monthly obligations by the Borrower's total monthly qualifying income. SCL does not utilize a separate Housing Expense Ratio (i.e. "Front-End Ratio), but rather rolls up all debts as defined by Ability to Repay (ATR) rules. The allowable DTI ratio depends on the LTV as shown below:

LTV	Maximum DTI
65% or Below	55%
65.01% or Higher	50% (can exceed 50% on an exception basis)

NOTE: First Time Homebuyers are limited to a 43% DTI when using one of SCL's Alternative Documentation programs.

Residual Income Requirement: Loans with DTI ratios of ≤ 43% require no residual income. Loans with DTI ≥ 43.01% require residual income. Residual Income is defined as the cash flow remaining after all monthly obligations have been paid. The requirement = 0.0045 (0.45%) of the Unpaid Principal Balance of the mortgage (i.e. UPB x 0.0045 = required residual income).

Standard Income Documentation Option

"Silver Standard" Documentation (Full-Doc):

Salaried Borrowers: Salaried income from employment should be from related fields if the Borrower has held multiple jobs. In some cases, an employer does not offer year-round employment for a certain position, such as the building trades or farm workers (seasonal income). The evaluation of stable earnings must be based upon whether the Borrower(s) is able to consistently generate a similar amount of income from the employers listed.

If the income is determined to be stable, the next step is to develop an income figure from the verified information which represents dependable earnings as a basis for repayment of the loan.

Special attention must be given to additional compensation in the form of overtime (OT), bonus, commission, or from other acceptable sources, so that the income used to qualify is truly representative of what the Borrower will continue to earn. Variances in earnings from these sources must be carefully evaluated to determine if income is stable.

For salaried Borrowers, pay stubs covering at least one (1) month's year-to-date (YTD) earnings along with the most recent two (2) years W2 statements are required to verify the income.

Second job income will require receipt of pay stubs covering at least one (1) month's year-to-date (YTD) earnings and most recent two (2) years W-2 statements. For qualifying purposes, the second job income will be based on a two-year average of the W-2's.

Borrowers with commission, bonus or overtime (OT) income greater than 25% of base income will require pay stubs, W2's and personal tax returns covering the most recent two (2) year period. Bonus, overtime and commission less than 25% of base income will require a written Verification of Employment (VOE) to confirm a two (2) year average and proof of continuance.

With the exception of what is stated in these Guidelines, the Product will default to Fannie Mae manual underwriting guidelines for acceptable sources of income for qualification purposes. Please reference the "Employment and Other Sources of Income" section of the Fannie Mae Single Family Seller Guide for additional information regarding income documentation and qualification guidelines.

Self-Employed Borrowers: Self-Employed Borrowers are identified as any individual(s) who has a 25% or greater ownership interest in a business. The following factors must be considered when analyzing a self-employed Borrower:

- The stability of the Borrower's income
- The location and nature of the Borrower's business
- The demand for the product or service offered by the business.
- The financial strength of the business, and
- The ability of the business to continue generating and distributing sufficient income to enable the Borrower to make payments on the requested mortgage.

Self-Employed Borrowers must have been in business for at least two (2) years to be considered for qualification.

Self-employed Borrowers will be required to provide the most recent two (2) years personal tax returns (all schedules) and two (2) years business tax returns, if applicable (i.e. Partnership, LLC, S-Corporation, or C-Corporation). In addition, the following is required:

- If more than 120 days has passed since the filing of the latest Schedule C or business tax return, a dated year-to-date (YTD) unaudited profit and loss (P&L) statement is required.
- Evidence of the existence of the business for the past two (2) years (i.e. a Certified Public Accountant (CPA) letter)
- A signed 4506-T and 1040 tax transcripts covering the most recent two (2) years is required.

Fixed Income: This applies to income sources such as social security (including dependent's social security), disability payments (temporary or permanent), VA disability, retirement/pension, or alimony/child support. If this income is used for qualification of the Borrower(s), evidence of income and probability that it will continue for at least three (3) years past the application date must be provided.

Note: Borrowers who are on a temporary leave from their current job for reasons such as maternity or parental leave, short-term disability, and other temporary leave types that are considered acceptable by law and/or the Borrower's employer will be considered for eligibility on a case-by-case basis, subject to Fannie Mae guidelines for Temporary Leave Income as defined in *Fannie Mae's Selling Guide B3-3.1-09, Other Sources of Income*.

If the fixed income source is verified as non-taxable income, it may be adjusted or "grossed-up" by 125%, provided that:

- Only the net income will be used for determining disposable/residual income; Medicare and insurance payments are to be omitted.
- The Borrower(s) clearly benefits as a result of income being grossed-up to qualify.
- The Borrower's net income (before gross-up) is sufficient to pay all debts. Non-taxable income that is not allowed to be grossed up includes:
- Foreign earned income
- Foster care income
- Housing allowance

Capital Gains and Losses: Capital gain or loss that is a one-time transaction will not be considered as a gain or loss in determining the income available to the Borrower(s). However, if the Borrower's business has a constant turnover of assets that produce recurring gains or losses, the capital gain or loss may be considered in line with the following:

- An average of the gains or losses for the last two (2) years as disclosed on the Borrower's Income Tax Form 1040, Schedule D, will be used to calculate the income.
- When the income from this source represents a substantial portion of the Borrower's income, the Borrower's tax returns for the past two (2) years must be reviewed (regardless of documentation type) to determine an accurate estimated of average earnings. For example, an asset sold during the year might be an income-producing asset, which could result in a reduction in future income.
- Borrowers must have an asset base in order to use capital gain or loss on an on-going basis.

Farm Income: Net farm income reported on the Borrower's income tax return (Schedule F) is eligible with the addition of depreciation, pension, amortization and depletion.
Note: Farm income cannot be generated by the subject property as income producing farm properties are ineligible for purchase.

Interest and Dividend Income: Interest and dividend income may be used for qualification if it has been verified through two (2) years tax returns as a stable source of income, and if additional verification is obtained as proof that the funds are still on deposit in the financial institution and/or investment portfolio account. Income must be proportionately reduced if funds are used for closing in a purchase money transaction.

Military Income: Income verified for clothing allowance, quarters allowance, hardship or hazard pay may be included as stable income if there is a likelihood of continuance. BAH and BAS allowances may be grossed up to 125% due to their non-taxable status. Other allowances may also be grossed up to 125% if documentation is provided evidencing the allowance is nontaxable.

Note Income: Note income is eligible for qualification, so long as a complete copy of the note (all pages) is provided, outlining the terms and conditions of repayment. The repayment period must extend at least three (3) years past the application date of the loan.

Rental Income: In order to use rental income for qualification, all applicable transactions (2-4 unit primary residences and all investment properties) will require a rental income analysis to determine a positive or negative cash flow. Rental income on a Second Home transaction is not allowed. One of the following is required to support leases or rental income on the application:

- Rent Survey Form 1007 or Form 1025 (**only required for subject property)**
- Federal Income Tax Returns (1040's) with Schedule E

Actual rents must be documented with copies of the signed lease agreements. Net cash flow for properties, other than the subject property, will be calculated using Schedule E from the Borrower's federal tax returns (1040's) for the past two (2) years.

A positive cash flow will be added to gross income; negative cash flow will be added to total liabilities and used to qualify the Borrower(s).

Room rents will not be considered as income for qualifying purposes.

A loan for an investment property generating a negative cash flow will be closely scrutinized and should present adequate purpose for the Borrower's circumstances

Rental income received from a family member may not be used as income without copies of a minimum six (6) months' cancelled rental checks provided by the tenant/family member.

Income received from rental properties will be calculated using one of the following methods:

- <u>Owned at Least One (1) Year</u>: For properties owned for one or more tax years, cash flow Can be calculated in one of the following manners:
  - 75% of actual rents, established by copies of signed leases, **OR**
  - Net income from 1040 tax return Schedule E, plus depreciation.
- <u>Owned less than One (1) Year</u>: For properties owned less than one tax year, cash flow must be based on 75% of the lesser of the actual or market rents.

Rental income from a new investment property purchase transaction can be used to qualify using 75% of the current lease (must document proof of the security deposit) minus the full PITIA. If there isn't an existing lease, 75% of the appraiser's opinion on the appraisal minus the full PITIA will be used.

Short Term Rental Income: One of the following is required to support leases or rental income on the application:

- Rental Survey Form 1007 or Form 1025 (only required for Subject property)
- Federal Income Tax Returns (1040's) with Schedule E (**follow Agency Guidelines**)

*******Must provide proof that Short Term Rentals are allowed in the municipality (City Website/Appraiser)**
NOTE: Standard Program ONLY. Not eligible for Expanded /DSCR.

Trust Income: Trust income may only be derived from an irrevocable trust or a revocable trust where a Borrower who is the beneficiary has also established the trust. In order to verify trust income, a complete copy of the original trust agreement showing the terms and conditions of the income that will be received must be provided.

In lieu of the copy of the trust agreement, a certification letter from the trust administrator may be obtained, outlining the total income paid to the Borrower,
method of payment, duration of the trust and any non-taxable portion is required. Receipt of this income must be verified to continue for at least three (3) years
past the date of the application.

With the exception of what is stated in these Guidelines, the Product will default to Fannie Mae manual underwriting guidelines for acceptable sources of income for qualification purposes. Please reference the "Employment and Other Sources of Income" section of the Fannie Mae Single Family Seller Guide (SectionB3-3.1) for additional information regarding trust income.

Alternate Income Documentation Options

Alternative Documentation (Alt Doc) Overview: SCL offers Alternative Documentation programs for both Self-Employed and Salaried/Salary-Plus Commission Borrowers. Any of our Alt-Doc options are intended only to minimize the amount of documentation that is required for a qualified Borrower and should in no way be construed as "stated income".

Borrowers utilizing Alt-Doc options may have a Standard Documentation Co- Borrower on the loan. Any Alt-Doc Borrowers on a loan will cause the loan to be considered Alt-Doc for pricing and review purposes. **Note:** Borrowers classified as investors (e.g. Day Traders; Real Estate Investors who do not have ownership in a company; etc.) **ARE NOT** considered Self-Employed for the purposes of SCL's Non-QM program.They are ineligible for Alt-Doc options and must qualify under a Standard Doc program. **If the borrower's primary source of income is from rents disclosed on Schedule E, the loan must be submitted under our Full Doc program. Rents received as secondary income will be reviewed on a case-by-case basis.**

Short Term Rentals: If the subject property is leased on a short-term basis utilizing an on-line service sch as VRBO, gross monthly rents can be determined by using a 12-month lookback period and either 12 monthly statements, or an annual statement provided by the on-line service to document receipt of rental income. **If documentation can't be provided covering a 12-month period, property will be considered unleased. NOTE: Standard Program ONLY. Not eligible for Expanded /DSCR.**

"Silver 12" Bank Statement Program (Alt-Doc): The "Silver 12" Bank Statement program is available to any Borrower with a 25% or greater ownership in a business. **Borrowers must have a <u>50% ownership interest in a business</u> to submit Business Statements for qualifying. T**welve (12) months of statements are reviewed to verify business income stated on the loan application (1003).

The 12 months Bank Statement option is designed for Borrowers with an established self-employment history (**minimum of two years in the same business**). Stability is a critical component in evaluating the Borrower's continuing ability to meet his/her obligations. Borrower(s) must provide evidence of the existence of the business for at least two (2) years. Acceptable documentation includes a copy of the business license, business credit report, Certified Public Accountant (CPA) letter, or confirmation from the State's Corporation website.

Note: Any tax returns provided will cause the loan to become ineligible for alternative documentation programs and will have to be submitted for review as a full doc loan

The Self-Employed Borrower(s) must provide the most recent, consecutive twelve (12) months bank statements (all pages). **Only Sole Proprietors and minimum 50% business owners may use business bank statements when utilizing the Silver 12 option, and a combination of business and personal statements is prohibited.**

- If personal statements are utilized, 100% of the **eligible deposits** can be used for qualifying.
- If business statements are utilized:

Option 1: Borrower or Third Party-prepared Profit and Loss Statement

- P&L Statement covering either the same 1-year period as the bank statements
- P&L gross earnings should be within 15% of bank statement gross deposits (minus any disallowed deposits) to be considered reasonable validation of income (can be borrower-prepared).
- The **lower** of the net income from the P& L or total deposits from the bank statements will be used to determine the borrower's monthly income (averaged over 12 months). Qualifying income is determined by multiplying the borrower's ownership percentage by the lower of the 2 factors above (net P & L income or total deposits).
- Remaining owners that are not on the loan must provide a signed and dated letter acknowledging the transaction and confirming that the borrower has access to the account for income purposes.

Option 2: Third-Party Expense Statement

- Expense Statement prepared and signed by a third-party (CPA or licensed tax preparer) specifying business expenses as a **percentage** of the gross annual sales/revenue **(should be reasonable for type of business)**
- Net income using the Expense Statement is calculated by determining total deposits per bank statements (minus any disallowed deposits) multiplied by the expense percentage provided by CPA or tax preparer.

Deposits coming from sources other than the business must be deducted from the 12-month total. Examples include but are not limited to: (i) deposits from Social Security; (ii) transfers from another (non-business) account; (iii) tax refunds or income deposited from a known employer.

- The Borrower(s) must be the only account holder(s) unless the other person is a spouse (access letter required).
- Bank statements reflecting the occurrence (one time or isolated incident) of NSF funds, wire transfers, overdraft protection transfers, negative ending balances, and transfers from other accounts must be satisfactorily explained. Bank statements reflecting any of these items without a satisfactory explanation is an indicator of cash-flow problems and will not be acceptable.
- Deposits that are larger than typical for the account may be included with a satisfactory explanation from the Borrower(s). Supporting documentation may be required.
- The 12-month history must be represented by the same account.
- Changing of accounts should be supported with a valid explanation.

"Silver 24" Bank Statement Program (Alt Doc): The "Silver 24" Bank Statement program is available to any Borrower with a 25% or greater ownership in a business. **Borrowers must have a <u>50% ownership interest in a business</u> to submit Business Statements for qualifying. T**wenty-four (24) months of statements are reviewed to verify business income stated on the loan application (1003).

The 24 months Bank Statement option is designed for Borrowers with an established self-employment history (**minimum of two years in the same business**). Stability is a critical component in evaluating the Borrower's continuing ability to meet his/her obligations. Borrower(s) must provide evidence of the existence of the business for at least two (2) years. Acceptable documentation includes a copy of the business license, business credit report, Certified Public Accountant (CPA) letter, or confirmation from the State's Corporation website.

Note: Any tax returns provided will cause the loan to become ineligible for alternate documentation programs and require it to be submitted for review as a standard/full doc loan.

The Self-Employed Borrower(s) must provide the most recent, consecutive twenty-four (24) months bank statements (all pages). **Only Sole Proprietors and minimum 50% business owners may use business bank statements when utilizing the Silver 24 option, and a combination of business and personal statements is prohibited**

- If personal statements are utilized, 100% of the eligible deposits can be used for qualifying
- If business statements are utilized:

Option 1: Borrower or 3rd Party Prepared P & L Statement

- P&L Statement covering either the same 2-year period as the bank statements.
- P&L gross earnings should be within 15% of bank statement gross deposits (minus any disallowed deposits) to be considered reasonable validation of income.
- The **lower** of the net income from the P & L or total deposits from the bank statements will be used to determine the borrower's monthly income (averaged over 24 months)
- Qualifying income is determined by multiplying the borrower's ownership percentage by the lower of the 2 factors above (net P & L income or total deposits).
- Remaining owners that are not on the loan must provide a signed and dated letter acknowledging the transaction and confirming that the borrower has access to the account for income purposes.

Option 2: Third-Party Expense Statement

- Expense Statement prepared and signed by a third-party (CPA or licensed tax preparer) specifying business expenses as a **percentage** of the gross annual sales/revenue (should be reasonable for type of business)
- Net income using the Expense Statement is calculated by determining total deposits per bank statements (minus any disallowed deposits) multiplied by the expense percentage provided by CPA or tax preparer.

Deposits coming from sources other than the business must be deducted from the 24-month total. Examples include, but are not limited to: (i) deposits from Social Security; (ii) transfers from another (non-business) account; (iii) tax refunds or income deposited from a known employer

- The Borrower(s) must be the only account holder(s) unless the other person is a spouse (access letter required).

- Bank statements reflecting the occurrence (one time or isolated incident) of NSF funds, wire transfers, overdraft protection transfers, negative ending balances, and transfers from other accounts must be satisfactorily explained. Bank statements reflecting any of these items without a satisfactory explanation is an indicator of cash-flow problems and will not be acceptable.

- Deposits that are larger than typical for the account may be included with a satisfactory explanation from the Borrower(s). Supporting documentation may be required.

- The 24-month history must be represented by the same account.

- Changing of accounts should be supported with a valid explanation.

"Silver Limited" Program (Alt Doc): The "Silver Limited" program is available to self-employed, salaried, wage earner, and/or commissioned Borrowers. (**Borrowers who work for family members are not eligible for the Limited program).**

Self Employed Borrower must provide most recent year tax return (personal and business, if applicable), a YTD P&L and/or paystub showing YTD income. In addition, evidence of the existence of the business for at least two (2) years is required. Acceptable documentation includes a copy of the business license, business credit report, Certified Public Accountant (CPA) letter, or confirmation from the State's Corporation website.

Commission/Salary + Commissions Borrowers must provide the most recent year tax return and the most recent paystub showing YTD income

All other Salaried Borrowers must provide the most recent year W2 and the most recent paystub showing YTD income.

- The most recent two (2) months personal bank statements must also be provided, to validate required reserves.
- A processed 4506-T, IRS transcripts required for 1-year, in line with W-2.
- A written VOE is also required. The VOE must reflect income for the single year period shown on the single year tax return/W-2. The VOE must also reflect the total amount of time the borrower has been employed with that entity.

Asset Depletion Eligibility: Asset depletion (AD) can be used to supplement other income to help lower the DTI ratio and meet ATR requirements, subject to certain limitations.

Eligible assets include cash or cash equivalents and marketable securities (i.e. Certificates of Deposit, money market accounts, savings, stocks & bonds (70%of the remaining value), and mutual funds.

Ineligible assets include equity in real estate and private (not publicly traded) stocks.

Retirement assets may only be used for AD if the Borrower is retirement age (at least 59 ½).

All assets considered for AD must be verified through an account statement from the most recent 60-day period.

The amortization period used to calculate depletion of the asset will be based on a 5% factor. For example, if an asset value is $1,000,000, the amount of the asset than can be used to supplement income is $50,000 annually, or $4,166.67/month ($1,000,000 x 5% = $50,000)

If asset depletion is used to support ATR determination, the AD calculations must be clearly documented in the file.

Asset Reserves

Overview: The Borrower must have adequate liquid assets available to pay the down payment and the costs associated with obtaining the mortgage, meet any required investment criteria, and provide required reserves following closing.

A Borrower's ability to accumulate assets provides insight into the Borrower's ability to successfully manage personal finances.

Assets from acceptable sources must be verified for down payment, closing costs, prepaid items and reserves.

Minimum Reserve Requirements:

Loan Amount	Required Reserves
$50,000 - $650,000	6 months verified PITI
$650,001 - $1,500,000	9 months verified PITI
$1,500,001- $3,000,000	12 months verified PITI

When calculating reserves for Investment/Non-owner-occupied properties, PITI plus additional property expenses must be used:

- Principal and Interest (P&I);
- Hazard, Flood, and Mortgage Insurance premiums (if applicable);
- Real Estate Taxes;
- Any Special Assessments;
- Any Homeowner's Association dues;
- Any Subordinate Financing payments.

Borrowers with additional financed properties are required to document an additional 2 months PITIA for each property in addition to the reserves on the subject property.

Documentation of Assets: Assets can be cash in the bank, stocks, bonds, IRA's, 401K's, mutual funds or retirement accounts. For stocks and bonds, 100% of the value of the assets may be considered for reserves and won't be required to be liquidated. For vested retirement funds, 60% of the value may be considered for reserves if the borrower is not yet of retirement age (59 ½); if the borrower is at least retirement age, 70% may be utilized, and liquidation is not required.

For most asset types, documentation should include all pages of the most recent two months consecutive statements or the most recent quarterly statement.

If the Borrower(s) is not of retirement age, he/she must document that they have unrestricted access to all retirement-based funds used for closing costs, down payments and post-closing reserves.

Significant disparities between the current account balance and the opening balances may require additional explanation, as will large or irregular deposits.

Proceeds from a Cash-Out Refinance transaction on the subject property may be used to meet reserve requirements.

Down Payment: The greater the down payment, the less risk the proposed loan will have. On Owner-Occupied transactions (including second homes), a minimum of 10% of the purchase price must come from Borrower's own funds. Non-owner-occupied transactions require 30% down payment from Borrower's own funds.

Business Funds: Use of business funds/assets may be considered acceptable for down payment, closing costs and post-closing reserves when a Borrower is self-employed. The Borrower must be identified as an owner of the account.

- No more than 50% of the business funds can be used for the down payment and closing costs. Unused balance may be utilized to meet reserve requirements. OR
- A letter from a CPA must be obtained verifying that the withdrawal/use of funds for the transaction will not have a negative impact on the business.

Unacceptable Asset Sources: The following sources of funds may not be used in the calculation of assets:

- Proceeds from unsecured loans or personal loans
- Gifts which must be repaid in full or partially
- Sweat Equity
- Cash-on-Hand: also known as mattress money
- Cash advances from a credit card or other revolving account
- Salary/ bonus advances received against future earnings
- 1031 Tax Deferred Exchange proceeds on owner-occupied property or second home
- Seller-Funded Down Payment Assistance Programs
- Funds for closing Disaster Relief Loans or Grants
- Commission from the sale of the subject property
- Assets from margin accounts
- Gift of Equity
- Funds that have not been vested

Borrowers

General Definition: A Borrower is a credit applicant who will have ownership interest in the subject property, sign the security instrument, and sign the mortgage or deed of trust note. If two or more individuals own the property jointly and are jointly and severally liable for the note, all are considered Borrowers.

Customer Identification Program: The USA Patriot Act requires banks and financial institutions to verify the name, date of birth, address and identification number of all Borrowers. Correspondents must ensure the true identities of all Borrowers have been documented.

US Citizens: United States Citizens are eligible for financing.

Permanent Resident Aliens: A permanent resident alien is a person who is not a US citizen, but is legally able to maintain permanent residency in the United States. Permanent Resident Aliens are eligible. The Borrower must provide the INS evidence as follows:

- Alien Registration Receipt Card I-151 (referred to as a “green card”).
- Alien Registration Receipt Card I-551 (Resident Alien Card) that does not have an expiration date on the back (i.e. “green card”).
- Alien Registration Receipt Card I-551 that has an expiration date on the back (Conditional Resident Alien Card), and is accompanied by a copy of the filed INS Form I-751 (petition to remove conditions).
- Non-expired foreign passport that contains a non-expired stamp (valid for a minimum of three years), reading “Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized.”

The US Citizenship and Immigration Services website is:
http://www.uscis.gov/tools/reports-studies/immigration-forms-data

Non-Permanent Resident Aliens (with US credit): Non-Permanent Resident Aliens who are authorized to live and work in the US on a temporary basis are eligible with one of the following visa classifications:

- A-1, A-2, A-3
- E-1, E-2, E-3
- G1 – G-5
- H-1
- L-1
- NATO
- O-1
- R-1
- TN (NATFA)

Borrower must provide copy of his/her passport and unexpired visa. In lieu of this, borrower can provide an I-797 Notice of Action form with valid extension dates and an I-94 form (Arrival/Departure Record). Borrowers who are unable to provide evidence of lawful residency status in the US will not be eligible for financing.

Non-Occupant Co-Borrowers: Non-Occupant Co-Borrowers must be disclosed on the initial loan application, cannot be added at a later date to qualify, and must be related to the primary Borrower on the loan.

First-Time Homebuyers: Borrowers are considered First-Time Homebuyers (FTHB) when there is no evidence of the Borrower(s) owning a residential property in the prior three (3) years. FTHB's generally must fulfill specific requirements in addition to the conditions stipulated for experienced homebuyers (See program matrices for details).

Occupancy Types

Primary Residence: A primary residence is a 1-4 Unit property occupied by the Borrower as his or her principle residence (may also be referred to as owner-occupied).

To qualify as a primary residence, the transaction must meet each of the following criteria:

- Property is located in the same general area as the Borrower's employment
- Borrower intends to occupy subject property as his/her principal dwelling
- Property possesses physical characteristics that accommodate the Borrower's family

Second Home: A second home is a dwelling occupied by the Borrower in addition to the Borrower's primary residence (may also be referred to as a vacation home). Second homes are eligible for financing and are restricted to one-unit dwellings only. Typically, second homes should meet the following criteria:

- Be located a reasonable distance (e.g. at least 50) miles from the Borrower's primary residence or be in a resort area
- Must be occupied by the Borrower for some portion of the year

- Suitable for year-round occupancy
- Borrower must have exclusive control over the property
- Must not be subject to any timeshare arrangements, rental pools or other agreements which require the Borrower to rent the subject property or give control of the subject property to a management firm.

Investment Property: An Investment Property is a 1- 4 Unit Non-Owner-Occupied property. To be acceptable, it must not be one of the ineligible property types spelled out in the General Purchase Eligibility section at the beginning of these guidelines.

Purchase Transactions

Purchases: A purchase transaction is one which allows a buyer to acquire a property from a seller. A copy of the fully executed purchase contract and all attachments or addenda is required. The lesser of the purchase price or appraised value of the subject property is used to calculate the loan-to- value.
Note: The Borrower may not be on title prior to the loan closing. The seller that is on title (the vested owner of record) must be the individual who executes the sales contract. Additionally, the seller must be on title prior to when the settlement statement and closing docs are executed.

Owner-Occupied Residency Requirement: A property will not be considered a primary residence unless at least one of the Borrowers occupies all or part of the subject property within sixty (60) days of the note date and will occupy the subject property as his/her primary residence for at least twelve (12) consecutive months from the Note date. In addition:

- The Homeowner's insurance policy must show the same mailing address and subject property address.
  Note: If the Borrower uses a P.O. Box, and occupancy cannot be verified, a formal occupancy inspection is required.
- If the subject property is two-to-four family property, the appraisal must indicate the unit the Borrower intends to occupy in the property and the information indicating the unit to be owner-occupied must be consistent with all documentation in the file.
- If the Borrower currently owns other properties (not being sold as part of the subject transaction), the Correspondent must review to determine that the Borrower's intent to occupy the subject property is reasonable. The loan file must contain supporting documentation.
- The purchase agreement must show the Borrower's intent to occupy the subject property.
- The Borrower may not receive any cash back on a purchase transaction other than out of pocket fees, provided gift fund requirements are met.

For-Sale-By-Owner (FSBO): FSBO transactions must be closed through escrow with an executed real estate sales contract in the file.

Gift Funds: Gift funds from immediate family members are acceptable on Owner-Occupied transactions if a minimum of 10% of the purchase price comes from Borrower's funds. Investment transactions require 20% from Borrower's own funds.

Sweat Equity: Gifts of "Sweat Equity" are not allowed.

Seller Contributions: Sellers Contributions to Purchase Transactions are restricted as follows:

- Contributions cannot exceed 6% of the purchase price for owner occupied/second-home transactions;
- Contributions cannot exceed 3% of the purchase price for Investment/Non-Owner-Occupied Transactions.

Property Flips: When the subject property is being resold within 180 days of its acquisition by the seller and the sales price has increased more than 10%, the transaction is considered a "flip". To determine the time period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) should be used.

Flip transactions are subject to the following requirements:

- All transactions must be arm's length, with no identity of interest between the buyer and seller or other parties participating in the sales transaction.
- No pattern of previous flipping activity may exist in the last 12 months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan.
- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing.
- No assignments of the contract to another buyer.
- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the Borrower must be obtained.

Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Regulation Z revisions can be found at http://www.consumerfinance.gov/regulations/appraisals-for-higher-priced-mortgage-loans. A second appraisal is required in the following circumstances:

- Greater than 10% increase in sales price if the seller acquired the property in the past 90 days
- Greater than 20% increase in sales price if the seller acquired the property in the past 91-180 days

Secondary Financing: Only institutional secondary financing is acceptable for purchase transactions. (SCL does not provide secondary financing). Existing subordinate financing may remain in place as long as it is re-subordinated and not a reverse mortgage or HELOC.

Departing Residences: If the Borrower's current primary residence is pending sale but will not close with title transfer prior to the new transaction, both the current and proposed mortgage payments (PITIA) must be used in qualifying for the new loan.

If the Borrower is converting a current primary residence to a second home, both the current and proposed mortgage payments (PITIA) must be used in qualifying for the new loan.

If the Borrower is converting a current primary residence to an investment property, Rental Income from the newly converted property can be used to qualify, using 75% of the current lease minus the full PITIA. All of the following must be obtained to confirm leasing of the property:

- Fully executed lease agreement
- Security deposit from the tenant
- Bank statement showing the deposited security funds

Refinance Transactions

General Refinance Requirements: Rate & Term and Cash-Out refinance transactions are allowed.

Rate/Term Refinance: A rate/term refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan.

The mortgage amount for a rate/term refinance is limited to the sum of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens used in their entirety to acquire the subject property (regardless of seasoning)
- The amount of a home equity line of credit in first or subordinate lien position that was used in its entirety to acquire the subject property (regardless of seasoning)
- Any subordinate financing that was not used to purchase the subject property provided:
  - For closed end seconds, the loan is at least one year seasoned as determined by the time between the note date of the subordinate lien and the application date of the new mortgage
  - For HELOCs and other open- ended lines of credit, the loan is at least one year seasoned and there have been less than $2,000 in total draws over the past 12 months prior to the application date.

If the most recent first mortgage transaction on the property was a cash-out refinance within the last six months, the new mortgage can only be rate/term refinance. It is not eligible for cash-out. Note date to note date is used to calculate the six months.

On rate/term transactions, the Borrower may only receive cash back in an amount that is the lesser of 2% of the new mortgage balance or $2000.

Cash Out Refinance: A cash-out refinance is a refinance that does not meet the rate/term refinance definition. Cash-out would include a refinance where the Borrower receives cash from the transaction or when an open ended subordinate lien (that does not meet the rate/term seasoning requirements) is being refinanced.

A mortgage taken out on a property previously owned free and clear is always considered a cash-out refinance.

The mortgage amount for a cash-out refinance transaction may include any of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens that are being paid off
- Cash in hand reflected on the HUD-1 or Closing Disclosure as appropriate.

A signed letter from the Borrower disclosing the purpose of the cash-out must be obtained on all cash-out transactions. The purpose of the cash-out is also reflected on the loan application.

Delayed financing transactions (initiation of a cash-out refinance immediately after a cash purchase) are permitted.

Cash out Limits: The max funds given directly to the Borrower during Cash-Out Refinance are based on the LTV of the subject loan at consummation of the transaction. Below are the cash in hand limits:

Standard Product		Expanded Product	
LTV	**Cash in Hand Limit**	**LTV**	**Cash in Hand Limit**
LTV ≤ 55%	No Limit	See program LTV	$500,000
LTV >55%	$300,000	Will 5% LTV reduction	$500,001-$1,000,000

NOTE: Max cash out for investment properties under the Expanded program is $500,000.

Seasoning: SCL has No Seasoning Requirement for Rate & Term or Cash-Out refinances. See Appraisal Requirements for value determination guidance.

Properties Listed for Sale: Refinances for properties currently listed for sale are not eligible. To be eligible for a refinance, properties previously listed for sale must have been off the market and the listing canceled at least 1 day prior to the application date of the loan.
Place a copy of the canceled listing in the file and perform a current multiple listing service search to verify that the property is not currently listed by a different realtor. In addition, the loan file must contain evidence that the Borrower is occupying the property and an explanation letter on Borrower's intent to occupy, reason for listing the home and why they are now refinancing. **Note:** Investment and Second Home properties do not require these two documents.

Benefit to the Borrower: Refinances must provide a bona fide benefit to the Borrower(s) for primary and second home transactions.

When determining the benefit on a transaction, one of the following items should exist to support the benefit to the Borrower(s):

1. Lower principal and interest payment
2. Lower interest rate
3. Pay-off of a balloon payment
4. Consolidation of debt
5. Resolution of loss mitigation actions
6. Pay-off of a tax lien
7. Cash-Out Proceeds to Borrower(s) in excess of the costs and fees to refinance
8. Pay-off of a Construction loan
9. Pay-off of property taxes

On a loan where the only benefit is monthly savings, closing costs and fees must be taken into account and recouped within state-specified time frames as applicable. Originators must adhere to any state-specific or federal benefit to Borrower compliance requirements. Benefit to the Borrower must be calculated based on the qualifying housing payment.

Refinance in Texas: Cash-Out Refinances in Texas are Not eligible.

Inherited Properties: Inherited properties are allowed as both rate/term and cash-out transactions. If the subject property was inherited less than 12 months prior to application, the transaction is considered a cash-out refinance and is subject to the following requirements:

- Equity owners must be paid through settlement. A written agreement signed by all parties stating the terms of the buy-out and property transfer must be obtained.
- Subject property has cleared probate and property is vested in the Borrower's name.
- Current appraised value is used to determine loan-to-value.

Buying Out a Co-Owner's Interest: A finance transaction resulting from a divorce settlement and/or dissolution of a domestic partnership, wherein the Borrower(s) is required to buy-out the interest of the other owner may be considered Rate & Term if the following apply:

- The subject property was jointly owned by the parties for at least twelve (12) months prior to the funding of the new loan, with documentation to evidence this;
- Fully-executed written agreement or court-approved divorce decree that references the terms of the property settlement and proposed disbursement of refinance proceeds.
- The Borrower(s) who will be acquiring sole ownership of the subject property may not receive any of the funds from the refinance.

Credit Standards

Mortgage/Rent: 0 x 30 in past twelve (12) months as evidenced by a credit report, 12 months canceled checks, or an institutional VOM/VOR. 12 months of canceled checks or bank statements must be obtained if borrower is making payments to an individual or interested party. Properties owned free and clear are considered 0 x 30.

Credit Report: A credit report is required for every Borrower on the loan application who will sign the note. The credit report should provide merged credit information from the 3 major national credit repositories. A valid Social Security number (SSN) or ITIN (Individual Taxpayer Identification Number) is required for all Borrowers on the loan. The credit report should include verification of all credit references provided on the loan application and must certify the results of public record searches for each city where the Borrower has resided in the last 2 years. Either a three-bureau merged report or a Residential Mortgage Credit Report (RMCR) is required.

Age of Credit Report: The credit report and other credit documentation may not be more than **90** days old at time of loan closing.

Credit Scores: Each Borrower must have valid credit scores from at least 2 of the 3 repositories: Experian (FICO), TransUnion (Empirica), and Equifax (Beacon).

The Borrower's representative credit score is determined by the following:

- If all three (3) scores are reported for the individual Borrower, the middle score would be used for that Borrower.
- If only two (2) scores are reported for the individual Borrower, the lower of the two scores will be used.
- If there are multiple Borrowers on a loan application, the lower of the representative scores will be used for qualification.

Trade Lines: Two (2) active trade lines reporting for at least twenty-four (24) months with activity in the last 12 months is required. For primary residence and second home transactions, only the primary wage-earner must meet the minimum trade line requirement. For investment property transactions, all Borrowers on the loan must meet the requirement.

Fraud Alerts: The three credit repositories have also developed automated messaging to help identify possible fraudulent activity on a credit report. Examples include Initial 90-day Fraud Alerts, Extended Fraud Alerts, Active Duty Alerts, and HAW K Alerts. All Fraud Alerts must be fully resolved for the loan to be eligible for purchase.

Inquiries: Recent inquiries may indicate that the consumer has actively been seeking credit. A signed letter of explanation from the Borrower or creditor is required for all inquiries within the most recent 120 days to determine whether additional credit was granted as a result of the Borrower's request.

Disputed Credit Accounts: All disputed accounts appearing on the borrower's credit report must be taken into consideration with all other debt unless the borrower can prove otherwise.

Derogatory Credit: The credit history of the Borrower(s) should be reviewed to determine whether there are any major indications of adverse or derogatory credit. Adverse or derogatory credit information does not necessarily mean the Borrower's credit is not acceptable. The Borrower's overall credit history should be evaluated to determine the level of risk.

Installment and Revolving Debts: Past due consumer debts can be no more than 30-days past due at time of closing. Rolling late payments are considered delinquent for each late occurrence.

Timeshare Accounts: For credit review purposes, timeshare obligations are considered installment loans.

Litigation: Any litigation involving the Borrower, including bankruptcy, foreclosure, deed- in-lieu, pre-foreclosure, short sale, judgments, tax liens, collection accounts, and charge-offs must be evaluated separately and meet the Program requirements. All derogatory credit that will impact the Borrower's title must be paid off at or prior to closing. Title must insure the first lien position without exception.

Consumer Credit Counseling: Borrowers who have participated in Consumer Credit Counseling are eligible provided that at least 12 months has passed since the completion of the program.

Bankruptcy: Must be seasoned at least twelve (12) months. This applies to all chapters (7, 11, and 13). See rate sheet for adjustment for seasoned less than thirty-six (36) months.

Foreclosure/Deed-in-Lieu/Short Sale/Modification: Waiting period is twelve (12) months from finalization to the date of the loan application. See rate sheet for adjustment for seasoned less than thirty-six (36) months.

Judgment, Tax Lien, Collection, or Charge-Offs: Judgments and tax liens must be paid off at or before closing. Collections or charge-offs may remain open when they are:

- <24 months old with a max balance of $2,000
- $\geq$ 24 months old with a max balance of $2,500 per occurrence
- Medical collections

Charge-off and collections that exceed the above-balances must be paid in full.

Requirements for Letters of Explanation: A written Letter of Explanation may be needed to address information reported in the credit profile. Explanation letters must address the matter sufficiently and be signed by all Borrowers acknowledging accuracy of the information. A copy of the written explanation must be included in the loan file.

A Letter of Explanation may be required for reasons including, but not limited to the following situations:

Profile Inconsistencies

The information contained in the credit report must be examined for consistency with other file documentation including Borrower's address history, employment information and name variations. Discrepancies must be adequately explained and questionable explanations researched.

Social Security Number Discrepancies

Any inconsistency in social security numbers reported must be fully explained.

Questionable Credit Activity

An explanation letter may be required to address reported activity that could indicate they credit is not being successfully managed. Instances of questionable credit activity may include but is not limited to a profile that includes recently opened revolving accounts that are at or near their limits or Borrowers that are overextended or overly reliant on the use of revolving credit combined with a consistently delinquent payment history.

Credit Inquiries

A written statement addressing all credit inquiries made within the prior 120 days (other than an inquiry related to the subject loan) is required and must state that no additional credit accounts were obtained by the Borrower other than those reflected on the credit report or the mortgage application. If additional credit was obtained, a verification of that debt must be provided and the Borrower must be qualified with the monthly payment.

Adverse and Derogatory Credit

A written explanation is required to explain the circumstances causing adverse or derogatory credit addressing the following items:

- The explanation is consistent with the adverse information;
- The explanation establishes a credible cause for the late payments;
- The Borrowers represent an acceptable credit risk and exhibit the ability and willingness to repay the mortgage;
- How the problem has been resolved and is not likely to recur.

Extenuating Circumstances

The Borrower must provide a letter of explanation to address the nature of the events that led to extenuating circumstances, including bankruptcy or foreclosure-related actions. The letter must prove that the Borrower had no reasonable options other than to default on their financial obligations. Derogatory information that was the result of extenuating circumstances must be supported with appropriate documentation and an explanation regarding the relevance of the documentation. Examples of documentation that can be used to support extenuating circumstances include documents or official records that confirm the event (such as a copy of a divorce decree, notice of job layoff, job severance papers) or that illustrate factors that contributed to the Borrower's inability to resolve the problems that resulted from the event (such as a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns).

Liabilities

Installment Debt: Installment debt is a monthly obligation with fixed payments and terms. Payments on installment loans must be included in the Borrower's debt-to- income ratio. Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. If the payment is substantial and exceeds 5% of the Borrower's qualifying income, the originator should review the overall transaction to ensure the remaining payments will not impact the Borrower's ability to handle the new mortgage payment. Installment debt paid in full prior to closing can be excluded from the debt-to-income ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

Revolving Debt: Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment as stated on the credit report or current account statement should be used to calculate the debt-to-income ratio. If no payment is stated on the credit report, the greater of $10 or 5% of the current balance should be included in the debt-to-income ratio calculation. Revolving accounts are allowed to be paid off prior to or at closing in order to exclude the payment from the debt ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full.

Business Debt: A business debt is a financial obligation of a business and can be the sole responsibility of the business or be personally secured by the business owner, making that person also liable for the debt. If the debt is reflected on the borrower's personal credit report, the borrower is personally liable for the debt and it must be included in the debt-to-income ratio. Debts paid by the borrower's business can be excluded from the debt-to-income ratio with an y of the following supporting documentation:

- Most recent 6 months canceled checks drawn on the business account;
- Tax returns reflect the business expense deduction; or
- Business bank account statement showing assets remain after funds to close and reserve requirements are with a balance greater than or equal to the balance of the debt.

If the debt is less than 6 months old, the payment must be included in the debt-to-income ratio.

Alimony and Child Support: Monthly alimony, child support or separate maintenance fees must be included in the Borrower's debt-to- income ratio. File should contain supporting documentations evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order.

Home Equity Line of Credit (HELOC): For Home Equity Loans and Lines of Credit, whether deferred, in forbearance, or in repayment, the actual documented payment (documented in the credit report, in documentation obtained from the lender, or in documentation supplied by the Borrower) must be utilized to determine the monthly payment for the debt in the Borrower's qualifying debt ratios. If the payment currently being made cannot be documented or verified, then 1% of the outstanding balance must be used.

Student Loans: For all student loans, whether deferred, in forbearance, or in repayment, the greater of the following must be utilized to determine the monthly payment for the debt in the Borrower's qualifying debt ratios:

- 1% of the outstanding balance; or
- the actual documented payment (documented in the credit report, in documentation obtained from the student loan lender, or in documentation supplied by the Borrower)

- If the payment currently being made cannot be documented or verified, then 1% of the outstanding balance must be used.

Property Appraisal Requirements

General Appraisal Responsibilities: A completed appraisal report is required on all loan transactions to assess the adequacy of the property as collateral for the mortgage requested. The Correspondent lender is responsible for all of the following:

- The accuracy and completeness of the appraisal and its assessment of the marketability of the property.
- Underwriting the completed appraisal report to determine whether the subject property presents adequate collateral for the mortgage.
- Ensuring that the appraiser uses sound reasoning and provides evidence to support the methodology used for determining the value.
- Compliance with the ECOA Valuations Rule, which requires notifications to Borrowers (1) of their right to receive copies of appraisals within three (3) days of application, and (2) that copies of appraisals and other written valuations be delivered to them on the earlier of (a) promptly upon completion, or (b) three (3) business days before closing.
- Ensuring that the appraiser provides an accurate opinion, an adequately supported value, and an accurate description of the property.
- Ensuring that the appraiser provides his or her license or certification on the appraisal report.
- Complying with the Appraiser Independence Requirements published by Fannie Mae/Freddie Mac and the requirements of the Federal Truth in Lending Act and Regulation Z with respect to valuation independence.
- Disclosing to the appraiser any information about the subject property of which it is aware of that could impact the marketability of the property.
- Providing the appraiser with the ratified sales contract and other financing or sales concessions associated with the transaction.
- Ordering and receiving the appraisal report for each mortgage transaction.
- Ensuring the appraiser does not use unsupported assumptions or use race, color, religion, sex, handicap, familial status, national origin for any party in the transaction, or impermissible demographics of the community in which the property is located, as the basis for market value.

Uniform Residential Appraisal Report (URAR): Appraisers are required to use appraisal report forms that are acceptable to Fannie Mae and/or Freddie Mac. The following appraisal report forms should be used:

- Uniform Residential Appraisal Form (FNMA Form 1004)
- Small Residential Income Property Appraisal Report (FNMA Form 1025)
- Individual Condominium Unit Appraisal Report (FNMA Form 1073)
- Single Family Comparable Rent Schedule for all 1-unit investment properties (FNMA Form 1007)
- Operating Income Statement for 2-4 unit investment properties (FNMA Form 216)

Number of Appraisals and Special Requirements:

- ≤ $1,500,000- One (1) full appraisal with at least 3 comps sold within past 6 months
- > $1,500,000- Two (2) full appraisals with at least comps sold within past 12 months

All transactions require a new appraisal. For properties purchased or refinanced within the past 6 months, the lesser of the purchase price/appraised value at the time of the last refinance or current appraised value will be utilized to determine subject property value. If the property valuation has increased by10% or more in the past 7-12 months, a second appraisal will be required. If a property has been "flipped" within 180 days, a second appraisal will be required. The requirement for a second appraisal will be waived if the following criteria are met:

- The loan is a non-HPML transaction
- The LTV is ≤ 40%, and
- The loan amount is ≤ $1,000,000

Appraisal Report Content: The following items must be contained in the appraisal report:

- Street map showing the location of the subject property and all comparable sales used.
- Exterior building sketch of the improvements indicating dimensions. A floor plan sketch is required along with calculations demonstrating how the estimate for gross living area is determined. For a unit in a condo project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions.
- Original color photographs or digital color images of the front, street, and rear views of the subject property. Original digital black and white photographs/pictures are permitted if the appraisal clearly indicates the subject property meets our standards.
- Interior photos of the subject are required to include the kitchen, all bathrooms, the main living area, any areas with physical deterioration, and any renovations/ improvements.
- Any other data as an attachment or addendum to the appraisal report form necessary to provide an adequately supported estimate of market value.
- Appraisal report must contain analysis of all agreements of sale, options or listings for the subject property current as of the effective date of the appraisal, and analysis of all sales of the subject property that occurred within the 3 years prior to the effective date of the appraisal.
- Appraisal report must include a completed Sales Comparison Approach section of FNMA Form 1004 where there are comparable sales used with more than one sale or transfer in the 12 months prior to the effective date of the appraisal.
- Appraiser comments on any unfavorable conditions, such as adverse environmental or economic factors, and how those conditions impact the market value of the property. In those cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected.
- Certification and Statement of Limiting Conditions signed by the appraiser.

Subject Property Analysis: The subject property should conform to the neighborhood in terms of age, design and materials used for construction. The appraiser should describe any unacceptable or unusual items that will impact marketability and where appropriate, make adjustments for the specified items in the estimate of market value.

Acceptable marketability is supported by at least average ratings for quality, construction, condition and appeal of the property (fair and/or poor ratings are not acceptable under this Program).

<u>Living Area</u>

Living areas of the subject property should be typical for the marketing area. The appraisal should use comparable sales of similar size to demonstrate the marketability of the property.

Condo units and/or attached properties with less than 600 square feet and detached properties with less than 700 square feet of living area will require additional analysis to determine if their size is common and customary in the subject market. These will be considered on a case-by-case basis.

Design

The appraiser should assess the design and overall appeal of the subject property and evaluate whether similarly designed properties exist and are readily marketable in the subject area.

Outbuildings

Small outbuildings such as barns, stables, workshops or guesthouses must be described on the appraisal report. These must be typical for the subject area and be supported by comparable sales of properties with similar outbuildings.

Conversions or additions

Conversions or additions to the living area must have been completed in a workman-like manner as confirmed by the appraiser and supported by photographs of the addition. The improvements must be of good quality and any possible health or safety violations must be noted by the appraiser.

Property Condition: All properties are must have an “average” or “good” rating to be eligible for under this Program. All factors that negatively impact the property’s condition must be considered when assessing the overall risk of the loan file.

These factors include:

Deferred Maintenance

“Subject to” items must be described in detail. The appraiser must determine the nature of the repairs and include the cost-to-cure. Deferred maintenance that exceeds 2.5% of the property value or that affects its basic habitability will require a Satisfactory Completion Certificate (Freddie Mac Form 442).

Debris, Graffiti, or Trash

Properties showing an excessive amount of debris, graffiti or trash may require clean-up. If necessary, a Satisfactory Completion Certificate (Freddie Mac Form 442) and photos will be required.

Infestation

If there is any indication of termites or any other infestation, the infestation issue must be investigated, treated, and remedied.

Roof Damage

Properties with visible evidence of roof leaks and/or interior water damage (e.g. ceiling stains) must be addressed at time of underwriting, even if the appraisal does not list them specifically in the report. If any of these conditions exist, a roof certification must be obtained, indicating a remaining useful and physical life of at least three (3) years.

Other Unacceptable Property Conditions

- Boarded-up properties
- Properties that pose an imminent threat to the health and safety of the occupant.
- Inadequate foundations that do not meet the current code requirements for the local municipality
- Inadequate heating (must be permanent affixed legal heating systems)
- Properties without water or public electricity
- Cantilevered or properties on stilts, posts or piers.
- Shared services for well, septic or utilities that are private agreements
- Properties showing evidence of mold
- Environmental hazards or nuisances

Disaster Areas

Originators are responsible for identifying areas impacted by disasters and taking the appropriate steps to ensure the subject property has not been adversely affected. Examples of disasters include, but are not limited to, hurricanes, earthquakes, floods, landslides, tornadoes, wildfires, volcanic eruptions, civil unrest, and terrorist attacks. Adverse events that receive a formal disaster declaration issued by local, state or federal departments of emergency management must follow the procedures listed below. A list of all federally declared disaster areas may be found on the FEMA website at http://www.fema.gov/news/disasters.fema.

In addition, when there is knowledge of an adverse event occurring in and around the subject property's geographic region and a formal declaration has not yet been made, additional due diligence is required to determine whether the disaster area guidelines must be followed.

Guidelines for disaster areas should be followed for 90 days from the incident period ending date or the date the adverse event occurred, whichever is later.

When the appraisal was completed prior to the disaster incident, an interior and exterior inspection of the subject property is required.

- Inspection must be completed by licensed third-party professional to certify the condition of the subject property and to identify any impact to habitability or marketability.
- Inspection report must include photographs of the front, rear and street view of the property.
- Any damage must be repaired and re-inspected prior to purchase.
- File must contain a copy of the inspection report and evidence of inspector licensing.
- An appraisal update or final inspection from the appraiser must also be obtained. Appraiser must comment on the adverse event and certify that there has been no decline in value. Existing dam age must meet "Deferred Maintenance" guidelines above.

When the inspection date of the appraisal is after the disaster incident, the following requirements must be met:

- Appraiser must comment on the adverse event and any effect on marketability or value.
- Existing damage must meet "Deferred Maintenance" guidelines.

When a Disaster occurs after closing but before loan purchase, the loan is ineligible for purchase until an appraisal update or final inspection from the appraiser is obtained.

- Appraiser must comment on the adverse event and any effect on marketability or value.
- Existing damage must meet "Deferred Maintenance" guideline.

Comparable Sales: The subject property appraisal must be supported by an analsis of recently closed comparable sales located near the subject property. The following key factors are considered in this review:

Proximity to the Subject Property
Comparable sales should be located within one (1) mile of the subject property in urban and suburban areas. If two of the three comparable sales used by the appraiser exceed a distance of five (5) miles from the subject property, the property will be considered as rural. The appraiser must explain the necessity of using any comparable property located outside the neighborhood.

Comparable Sales Inside and Outside of New Projects
The appraiser must demonstrate the marketability of homes built within new subdivisions or Condominium projects by providing at least one (1) comparable sale from inside the subdivision or project and one (1) com parable from outside the subdivision or project.

Age of Comparable Sales
Comparable sales must have a recent date of sale, preferably within six (6) months of the subject property's sale date. If any of the comparable sales are over six months old, the appraiser should comment on the market conditions. If it is necessary to use older comparable sales, the appraiser should supplement them with pending sales and/or current listings in the neighborhood.

Similarity to Subject Property
The comparable sales selected by the appraiser must represent the best market data available to support the property's estimated value. Comparable sales should be as similar as possible to the subject property in physical attributes, rights of ownership, zoning and other amenities.

Personal Property: Any personal property transferred with a property sale must be deemed to have zero transfer value, as indicated by the sales contract and the appraisal. If any value is associated with the personal property, the sales price and appraised value must be reduced by the personal property value for purposes of calculating the LTV/CLTV/HCLTV.

Appraiser Qualifications: Real estate appraisers are to be state-certified or state-licensed in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. They must have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and property type as well as have access to the necessary and appropriate data sources for the appropriate area of the appraisal assignment.

The Correspondent lender must have a process in place to ensure the appraisers it selects have the appropriate knowledge, experience, access to the appropriate data sources, geographic competence, and the ability to generate a quality appraisal report. The Correspondent may choose to use an appraisal m management company; however, the originator must establish appropriate procedures and qualifications and continue to meet all requirements noted in these guidelines.

An unlicensed or uncertified appraiser who works as an employee or subcontractor of a licensed appraiser may perform a significant amount of the appraisal as long as the appraisal report is signed by a licensed or certified appraiser and is acceptable under state law. A supervisory appraiser or any appraiser signing on the left-hand side of the appraisal report as the “Appraiser” must have performed the level of inspection of the subject property required by the assignment.

Age of Appraisal: The appraisal report must be completed within **120** days of closing. A recertification of value is required after 120 days and is allowed up to 180 days. A new appraisal is required after 180 days.

Repair Escrows: Escrows for work completion are not allowed.

Property Insurance:

Minimum Hazard Insurance Coverage: Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, explosion.

Hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm,hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement are not acceptable. Borrowers may not obtain hazard insurance policies that include such limitations or exclusions, unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions

Hazard insurance coverage should be in the amount of the lesser of:

- 100% of the insurance value of the improvements, as established by the property insurer; or
- The unpaid principal balance of the mortgage, as long as it equals the minimum amount (80% of the insurable value of the improvements) required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained.

Calculating the Required Coverage Amount: Compare the insurable value of the improvements as established by the property insurer to the unpaid principal balance of the mortgage loan.

If the insurable value of the improvements is less than the unpaid principal balance, the insurable value is the amount of coverage required.

If the unpaid principal balance of the mortgage loan is less than the insurable value of the improvements, calculate 80% of the insurable value of the improvements.

If 80% of the insurable value is equal to or less than the unpaid principal balance of the mortgage, the unpaid principal balance is the amount of coverage required.

If 80% of the insurable value is greater than the unpaid principal balance of the mortgage, this calculated figure is the amount of coverage required.

Examples

Category	Property A	Property B	Property C
Insurable Value	$90,000	$100,000	$100,000
Unpaid Balance	$95,000	$90,000	$75,000
80% Insurable Value	N/A	$80,000	$80,000
Required Coverage	$90,000	$90,000	$80,000

The maximum allowable deductible for insurance covering a property securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

Condominium and PUD Insurance: Insurance should cover 100% of the insurable replacement cost of the project improvements and common elements, including the individual units in the project. If the subject property is an attached PUD or a condominium, the respective associations may acquire a blanket policy to cover the project. The entire project insurance policy should be reviewed to ensure the homeowners' association maintains a master or blanket type of insurance policy, with premiums being paid as a common expense. The policy must show the HOA as the named insured.

For PUD projects, individual insurance policies are also required for each unit. If the project's legal documents allow for blanket insurance policies to cover both the individual units and the common elements, blanket policies are acceptable in satisfaction of its insurance requirements for the units. The policy must require the insurer to notify in writing the HOA (or insurance trustee) and each first mortgage loan holder named in the mortgagee clause at least 10 days before it cancels or substantially changes a condo project's coverage.

For condominium projects, if the unit interior improvements are not included under the terms of the condominium policy, the Borrower is required to have an HO-6 hazard policy ("wall-in coverage"), which is sufficient to repair the condo unit to its condition prior to a loss claim event.

Rating Requirements: The hazard insurance policy must be written by a carrier that meets at least one of the following requirements:

- Carriers rated by A.M. Best Company, Inc. must have: a "B" or better Financial Strength Rating in Best's Insurance Reports, or an "A" or better Financial Strength Rating and a Financial Size Category of "VIII" or greater in Best's Insurance Reports Non-US Edition.
- Carriers rated by Demotech, Inc. must have an "A" or better rating in Demotech's Hazard Insurance Financial Stability Ratings
- Carriers rated by Standard and Poor's must have a "BBB" or better Insurer Financial Strength Rating in the Standard and Poor's Ratings Direct Insurance Service

The following alternative policies are also acceptable:

- Policies underwritten by a state's Fair Access to Insurance Requirements (FAIR) plan or other state insurance plan, if it is the only coverage that can be obtained

An insurance policy that includes either of the following endorsements will assure full insurable value replacement cost coverage:

- A Guaranteed Replacement Cost Endorsement (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).
- A Replacement Cost Endorsement (under which the insurer agrees to pay up to 100% of the subject property's insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).

Evidence of Hazard Insurance: Evidence of Insurance may be provided in one of the following forms: Actual Policy, Certificate of Insurance (COI), or Insurance Binder.

Evidence of Insurance must provide the following information:

- Names of Borrowers reflect the same as the names on the note
- Property address agrees with the note/security instrument
- Mailing address is the same as property address
- Policy Number
- Loan Number
- Name of insurance company
- Insurance Agent information
- Effective and expiration dates of coverage
- Premium Amount
- Coverage amount and deductible
- Loss payee clause as applicable
- Signed and dated by agent

Flood Insurance

Flood Insurance Requirement: Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as a Special Flood Hazard Area (SFHA). A SFHA is typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be located in a community which participates in the FEMA program to be eligible for financing.
Note: Loans requiring flood insurance must be escrowed for flood insurance premiums.

Flood Certificate/Determination: Determination whether a subject property is in a flood zone must be established by a Life of Loan Flood Certificate provided by the Federal Emergency Management Agency (FEMA). The appraisal report should also accurately reflect the flood zone.

The flood insurance requirement can be waived if:

-Subject property improvements are not in the area of Special Flood Hazard, even though part of the land is in Flood Zone A or V; or
-Borrower obtains a letter from FEMA stating that its maps have been amended so that the subject property is no longer in a Special Flood Hazard area.

Minimum Flood Coverage: The minimum amount of flood insurance required for most first mortgages secured by one-unit properties and individual PUD units is the lower of:

- 100% of the replacement cost of the insurable value of the improvements;
- the maximum insurance available from the National Flood Insurance Program (NFIP), which is currently $250,000 per dwelling; or
- the unpaid principal balance of the mortgage

Project Flood Requirements: The flood policy for a PUD or condominium project must cover any common element buildings and any other common property located in a SFHA. The amount of flood insurance coverage for a PUD or condo project should be at least equal the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the appropriate National Flood Insurance Program (NFIP).

Deductible Amount: The maximum allowable deductible is the maximum available from the NFIP, which is currently$10,000. The maximum allowed deductible for a PUD or condo project is $25,000.

Evidence of Flood Insurance: Flood insurance must be obtained prior to closing and maintained throughout the duration of the loan ("Life- of-Loan"). Acceptable evidence of flood insurance is:

- A copy of the Policy Declaration Page, or
- A copy of the Complete/Signed Application plus proof of premium payment.

Title Insurance

Title Insurance Requirement: Loans must be covered by a title insurance policy that has been paid in full and is valid, binding, and remains in full force and effect.

The title insurer must be qualified to do business in the state where the subject property is located. The title insurer and policy must conform to Fannie Mae requirements.

Title Commitment Review: Preliminary title must indicate that the final title policy will be issued after funding.

The preliminary title report/title commitment should be dated no more than 90 days prior to closing. Any requirements by title, such as Statements of Information or copies of trust agreements, must be cleared prior to closing.

All files are to contain a 24-month title history from an acceptable source. Transfer date, price, and buyer and seller names on any title transfers that occurred within the previous 24 months should be provided. The vesting history should be reviewed for inconsistencies or any indication of flipping activity.

Borrower Information: All Borrower names must be indicated on the title commitment. If the Borrower's marital status appears to be different than on 1003, the discrepancy must be addressed. The seller's name must be cross referenced to the purchase agreement and valuation chain of title.

Coverage Amount: The amount of title insurance coverage must at least equal the original principal amount of the mortgage.

Title Policy Forms: The Title Policy must be written on one of the following forms:

- 2006 American Land Title Association (ALTA) standard for, or
- ALTA form with Amendments required by state law in those states where the standard ALTA forms of coverage are not used or where the 2006 ALTA forms have not yet been adopted, provided that those amendments do not materially impair protection to the owner.
- **Note:** Loans with Short Form Title policies are not eligible for purchase.

Insured Name: Title policy must insure the originator as its name appears in the security instrument. It must also include the language "its successors and assigns as their interest may appear."

Gap Coverage: The preliminary title report/title commitment must be updated after closing in writing to ensure the mortgage is in first lien position and documented through one of the following:

- Final title policy
- Title bring-down search representing the period of time from the original search through the timethe mortgage is recorded
- Gap coverage from the time of the original search until the mortgage is recorded, when the mortgage is not recorded at the time of diligence

Title Policy Underwriter: A nationally recognized insurer or reinsurer which has received one of the following ratings must have underwritten the title insurance policy:

- BBB or better rating from Duff and Phelps Credit Rating Company
- C or better rating from LACE Financial Corporation
- Baa or better rating from Moody's Investors Service
- BBB or better rating from Standard and Poor's, Inc.
- A Financial Stability Rating of S (Substantial) or better, or a Statutory Accounting Rating of C (Average) or better from Demotech, Inc.

Title Exceptions: The following items are allowable title exceptions:

- Customary public utility subsurface easements; the location of which are fixed and can be verified. The exercise of rights of easement will not interfere with the use and enjoyment of any present improvement of the subject property or proposed improvements upon which the appraisal or loan is based.
- Above-surface public utility easements that extend along one or more property lines for distribution purposes, or along the rear property line for drainage, provided they do not extend more than 12 feet from the subject propertylines and do not interfere with any of the buildings or improvements, or with the use of the subject property; and public utilityrestrictions, provided their violation will not result in the forfeiture or reversion of title or a lien of any kind for damages, or have an adverse effect on the fair market value of the subject property.

- Mutual easement agreements that establish joint driveways or party walls constructed on the subject property and on an adjoining property, provided all future owners have unlimited and unrestricted use of them.
- Encroachments on one (1) foot or less on adjoining property by eaves or other overhanging projections or by driveways provided there is at least a 10-foot clearance between the buildings on the subject property and the property line affected by the encroachments.
- Encroachments on the subject property by improvements on adjoining property provided these encroachments extend one (1) foot or less over the property line of the subject property, have a total area of 50 square feet or less, do not touch any buildings, and do not interfere with the use of any improvements on the subject property or the use of the subject property not occupied by improvements.
- Encroachments on adjoining properties by hedges or removable fences.
- Liens for real estate or ad valor taxes and assessments not yet due and payable.
- Outstanding oil, water, or mineral rights as long as they do not materially alter the contour of the property or impair its value or usefulness for its intended purposes.

Survey Requirements: If the title company requires a survey or plat map due to an exception noted on the title policy, a copy must be submitted in the loan file. Surveys must be certified, dated, and signed by the licensed civil engineer or registered surveyor performing the survey. Unimproved land surveys are not acceptable.

Surveys should be reviewed for easements, encroachments, flood zone impacts, and possible boundary violations, taking into account the location of the dwelling on the property.

Exhibits

- **Program Matrix**
- **Loan Delivery Checklist**