Silvergate

Nonresident Foreign National (NFN)
Non-QM 5/1 Mortgage
Eligibility Guidelines

Effective Date: May 1, 2020

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OVERVIEW

Purpose	These guidelines are designed to provide direction and consistency for Correspondent lenders wishing to originate Nonresident Foreign National ("NFN") loans for sale to Silvergate Bank's Correspondent Lending Division ("SCL"). A loan will only be purchased by SCL after the loan has been closed by the Correspondent and SCL has reviewed and approved the complete file, including credit, appraisal, closing and collateral documents.
Nonresident Foreign National Definition	A Nonresident Foreign National (sometimes referred to as a Non-Resident Alien) is a Foreign National who is not a lawful permanent or temporary resident in the U.S. – see Substantial Presence Test below. Nonresident Foreign Nationals may periodically visit the U.S. for various reasons including vacation and/or business, but their primary residence is in another country. Although they do not have legal residency status, they may purchase property for either personal use (i.e. second home) or investment purposes (i.e. rental properties) under the NFN financing program. (**Note:** A Non U.S. Citizen who is a legal U.S. resident is eligible for the same financing as U.S. citizens under standard Non-QM guidelines).

Substantial Presence Test Standard and Methodology	To be eligible under this program, an NFN must **NOT** meet the "Substantial Presence" test of the U.S. Internal Revenue Service. That is, the person must demonstrate they do not have legal residency status in the U.S.
	The IRS considers you to have substantial presence if you are physically present in the U.S. on at least:
	• 31 days during the current year, and
	• 183 days during the latest 3-year period including current year, counting:
	  • All days present in the current year, and
	  • 1/3 of the days present in immediately preceding year, and
	  • 1/6 of the days you were present 2 years prior to the current year.
	Example: You were physically present in the U.S. on 120 days each of the years 2014, 2015 and 2016. To determine if you meet the substantial presence test for 2016, count the full 120 days in 2016, 40 days in 2015 (1/3 of 120), and 20 days in 2014 (1/6 of 120). Since the total for the 3-year period is 180 days (under 183 days) you are not considered a resident under the substantial presence test, and would therefore be eligible for NFN financing.
	Here are three simple rules of thumb:
	• An alien who is present in the U.S. for at least 183 days during a single calendar year has passed the Substantial Presence Test, and is considered to have resident status and will therefore not be eligible for the NFN program;
	• An alien who is present in the U.S. for at least 122 days every calendar year for three (3) calendar years in a row, will pass the Substantial Presence Test in the third calendar year, and will therefore not be eligible for the NFN program
	• An alien who is present in the U.S. for less than 122 days during every calendar year will never pass the Substantial Presence Test, and therefore will be eligible for the NFN program.

Visa Types	The most common non-immigrant visas are the "B1" (temporary visitor for business) and "B2" (temporary visitor for pleasure). Sometimes the two are combined into a B1/B2. Other common non-immigrant visas include "TN1" and "TN2" Trade NAFTA visas for Canadians and Mexicans respectively. Additional non-resident visa types will also be considered on a case basis, including but not limited to "I" Foreign Press visas, "J" Exchange Visitor visas, and "P" Foreign Athlete/Entertainer visas.

Source of Wealth	A letter from the borrower is required explaining the source of borrower's wealth, and the wealth must be validated with documentation in the loan file.
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.
Identification Documents	Copy of current non-US Passport and copy of valid Visa displaying a photo and borrower's name, address, and date of birth are required. A copy of the borrower's I-94 Form showing dates of admission to and departure from the U.S. must also be provided in order to run substantial presence test. I-94 histories: Borrowers can retrieve their I-94 information from the following website: https://i94.cbp.dhs.gov/I94/request.html
Permanent Residence Verification	The borrower's primary residence in their country of origin must be verified, with documentation of property address and length of residency. Utility and cell phone bills may be utilized to demonstrate primary residency.
Currency Conversion	All financial figures must be converted from foreign currency into U.S. Dollars based on current exchange rates published by U.S. Treasury Department: https://www.fiscal.treasury.gov/fsreports/rpt/treasRptRateExch/currentRates.htm
W-8 (BEN)	Borrowers must complete an IRS W-8 (BEN) form prior to closing, which attests to the borrower's foreign or U.S. tax-exempt status. While this is an IRS form, it is not sent to the IRS. It is maintained on file at the bank to support the lack of any tax withholding from any earnings.
Loan Program	Conventional 5/1 or 7/1 Libor ARM. Based on 1-Year Libor Index. 5-2-5 Interest Rate Caps. Floor Rate equals Margin.
Product Code	SCL Product Code is **900**
Ineligible Borrowers	• Resident Aliens, including persons meeting the substantial presence test per above and holders of an Alien Registration Card (green card) are ineligible under the NFN program (but may qualify for regular financing). • Persons with diplomatic immunity are ineligible since they are exempt from U.S. laws. Diplomatic immunity status may be determined through the DOS Diplomatic List – http://www.state.gov/s/cpr/rls/dpl/69457.htm • Persons with passports from countries with active sanctions programs in place by the U.S. Treasury Department's Office of Foreign Asset Control (OFAC) - http://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx • Persons on OFAC's Specially Designated Nationals and Blocked Persons list - https://www.treasury.gov/ofac/downloads/t11sdn.pdf • Persons reasonably considered to be "politically exposed persons" ("PEP") as defined by the U.S. Federal Financial Institutions Examination Council – a current or former senior foreign political figure, their immediate family, and their close associates. • Persons with passports from countries determined to be at high risk due to political unrest or other economic or environmental hazards.
Available Market Areas	Properties may be located in any state other than New York, or Miami/Dade County, Florida.
Occupancy	Second Homes and Investment Properties only.
Loan Purpose	Purchase or Rate & Term Refinance only. Cash-Out not allowed.
Property Types	1-Unit Only (Single Family, PUD, or Condominium).

Foreign National				
Second Home & Investment Properties Only				
Loan Purpose	**Property Type**	**Minimum Credit Score**	**LTV/CLTV**	**New Max Loan Amount**
Purchase / Rate & Term	SFR / PUD / Condo	N/A	50% / 50%	$1,500,000.00

Note: If U.S. or International Credit Report or associated credit score is available and score is 680 or higher, the maximum LTV will be limited to 55% and the maximum loan amount will be $1,000,000.	
Prepayment Penalty	None.
Qualifying Rate	Qualify at the greater of the Start Rate or Fully Indexed Rate+ (i.e. Current Index + Margin) for income ratio calculations.
Secondary Financing	Not Allowed
Gift Funds	Not Allowed
Co-Borrowers	Co-borrowers (who must also be nonresident foreign nationals) must be disclosed on the initial loan application, cannot be added at a later date to qualify.
Two Borrower Limit	No more than 2 borrowers may be party to any transaction.
RESPA Applicability and Disclosures	Borrowers who properly qualify under this program are not subject to Regulation Z; therefore, no Know Before You Owe / TRID disclosures apply, e.g. Loan Estimate and Closing Disclosure. Loans for business use are exempt from RESPA, e.g. a loan to acquire or improve non-owner occupied rental property. Investment home loans may also be considered business purpose and exempt. <u>RESPA does apply if the loan is for personal, family, or household use, e.g. second or vacation homes</u>. The lender must issue the proper disclosures within the required timeframe. For example, lender must issue the Special Information Booklet and Good Faith Estimate no later than three business days after the application is received. Other disclosures may include, but are not limited to: List of Homeownership Counseling Organizations, List of Identified Service Providers, Affiliated Business Arrangement Statement, Mortgage Servicing Disclosure Statement, Escrow Statement, Servicing Transfer Statement, and HUD-1/1A.
Points and Fees	Points and fees are limited to a maximum of 3% on Owner Occupied transactions and 5% on Non-Owner transactions.
Vesting	Property ownership must be in name of individual(s) borrower(s) only.
Power of Attorney	Loans closed via a Power of Attorney (POA) are ineligible.
All Documents Must Be In English	All foreign language documents in the file must be fully translated into English by an American Translation Association certified translator (as confirmed by ATA directory), any cost of which shall be paid for by the borrower (not billed as a lender charge). English shall be the language for all loan applications, documents and lender communications to applicant / borrower (with any required translations the responsibility of the applicant / borrower).

Documents Must Be Notarized	Documents signed by borrowers outside of the United States must be notarized by a U.S. embassy or consular official at the borrower's expense. The certificate of acknowledgment must meet applicable notary requirements and must include the embassy or consular seal.
Escrows for Property Taxes and Insurance	An escrow account must be established for property taxes and homeowners insurance (as well as any required Flood Insurance).
Ineligible Loan Features	The following features are not allowed: • Pre-Payment Penalties • Balloon Payments • Interest Rate Buy-Downs • Interest Only Payments • Terms Greater than 30 Years
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 $1,500,000. See Program Matrix for Sub-Limits based on Credit Score and LTV.
Not Assumable	Loans are not assumable.
Non Arms-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 will require a second appraisal or other value validations be provided.
Ineligible Property Types	Ineligible properties include but are not limited to: • Properties with more than One (1) Unit. • Leasehold Properties • Condominiums not warranted by Fannie Mae • Co-ops • Condotels • Timeshares • Income-Producing Enterprises (Farm; Bed & Breakfast; Assisted Living) • Manufactured Homes • Log Homes • Properties over 5 acres • Properties inherited within twelve (12) months of loan application.
Loans to One Borrower	Loans to one borrower from SCL may not exceed 1 property.
Maximum Financed Properties	Borrowers are allowed up to a total of ten (10) financed properties with all lenders, including subject property.
MERS Search	A MERS search must be ordered to verify the borrower does not own any undisclosed properties in the United States.

GENERAL UNDERWRITING

Repayment Ability	Documentation standards are designed to ensure borrowers have demonstrated a reasonable ability to repay the debt. SCL will only purchase a loan if the borrower appears able to afford the loan based on a comprehensive good faith underwriting determination.
Regulatory Compliance	Correspondents must adhere to all federal, state and local lending laws applicable to nonresident aliens, including but not limited to compliance BSA / AML Anti-Money Laundering Rules.
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.
Manual Underwriting	The Correspondent's underwriting approval and evidence of its determination that the borrower has the financial wherewithal to repay the loan must be included in the loan file, based on complete evaluation of income, liabilities and financial assets.
AUS Review	Loans that are eligible for Fannie Mae or Freddie Mac approval are ineligible for the NFN program. 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 further documentation that the borrower does not qualify for a QM Loan.
Fannie Mae Guideline Reference	For underwriting purposes, if a particular 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 (which may include, but is 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 correspondent involvement, the correspondent 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.

ASSETS & RESERVES

<table>
<tr><td rowspan="4">Minimum Reserve Requirements</td><td>Loan Amount</td><td>Required Reserves</td></tr>
<tr><td>≤ $417,000</td><td>9 Months Verified PITIA</td></tr>
<tr><td>$417,001 - $1,000,000</td><td>12 Months Verified PITIA</td></tr>
<tr><td>$1,000,001 - $1,500,000</td><td>24 Months Verified PITIA</td></tr>
<tr><td>Assets Held in Foreign Accounts</td><td colspan="2">Assets held in foreign account(s) (i.e. international banks) require a letter of reference on company letterhead from the financial or banking institution with the following information included:
• Nature of relationship and form of account(s) ownership
• How long account(s) have been open
• Current balance(s).
• Contact information for the company and individual signing the letter
Funds recently deposited in a U.S. depository institution must be sourced with documentation that provides evidence of funds transfer from the country of origin. It must be established that the funds belonged to the borrower prior to the transfer date, and the sources of all funds used for closing shall be verified similar to the process for a borrower who is a U.S. resident.
Full asset documentation is required for both funds to close and reserves (see below for details). The file should include all pages of the most recent two monthly statements or the most recent quarterly statement.</td></tr>
<tr><td>Additional Property Reserves</td><td colspan="2">Borrowers with other financed properties are required to document an additional 3 months PITIA for each property in addition to the subject property.
Calculating Reserves for investment / non-owner occupied (NOO) properties: PITIA is the monthly expense for a property and includes the following:
• Principal and interest (P&I);
• Hazard, flood, and mortgage insurance premiums (as applicable);
• Real estate taxes;
• Special assessments; Association dues (including utility charges attributable to common areas (excluding utility charges applying to an individual unit).</td></tr>
<tr><td>Business Funds/100% Business Owner</td><td colspan="2">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 and it must be verified in accordance with standard requirements. A business cash-flow analysis and a CPA Letter must be provided to confirm that the funds withdrawn for this transaction will not have a negative impact on the business.</td></tr>
<tr><td>Stocks/Bonds/Mutual Funds</td><td colspan="2">70% may be considered for reserves</td></tr>
<tr><td>Vested Retirement Account Funds</td><td colspan="2">60% may be considered for reserves.</td></tr>
<tr><td>Unacceptable Asset Sources</td><td colspan="2">The following sources of funds may not be used in the calculation of assets:
• Proceeds from unsecured loans or personal loans
• 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</td></tr>
</table>

- 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
- Stock options and non-vested restricted stock
- Loan proceeds
- Funds that have not been vested

CREDIT HISTORY

Housing History	A minimum 24 months housing payment history reflecting 0X30 is required.
Credit Report/Credit References	The correspondent lender must establish borrower credit worthiness based on credit history and/or reference letters from creditors. If borrower has a Social Security or Tax Identification Number a domestic credit report is required. Otherwise, either an International Credit Report (available through International Reporting & Company, Inc. of Jacksonville, FL) or a Country of Origin Credit Report sourced through a U.S. agency such as CBC, Kroll, Core Logic, etc. is required. If credit reports are not available, a minimum of three credit reference lettersis required. Reference letters must be original and on company letterhead from at least three banking or financial institutions or creditors. Each letter must state the type of relationship, length of relationship, how accounts are held, the amount of monthly payments on any credit accounts, and number of any 30 day delinquencies in past 12 months. All contact information must be provided for the person signing the letter.
Countries with Credit Reports and Tax Filings	Foreign countries with credit reporting and tax filing systems include Australia, Britain/United Kingdom, Canada, China, France, Israel, Mexico, Poland, Thailand, South Korea, and Vietnam.
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	If the borrower has a domestic credit score from at least 2 of the 3 repositories: (Experian, TransUnion, and Equifax), 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	Three (3) active trade lines seasoned for at least twenty-four (24) months are required. May be installment or revolving. For second homes only the primary wage-earner must meet the minimum trade line requirement. For investment properties, 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

	HAWK Alerts. Any Fraud Alerts must be fully resolved and documented for loan to be eligible.
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.
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.
Installment and Revolving Debts	Past due consumer debts must be paid current prior to closing. Rolling late payments are considered delinquent for each late occurrence. No more than 1 X 30 in the past 12 months is allowed on installment or revolving debt.
Timeshare Accounts	For credit purposes, timeshare obligations are considered installment loans.
Litigation	Any litigation that will impact the borrower's title must be cleared prior to closing. Title must insure the first lien position without exception.
Foreclosure or Deed-In-Lieu/Short Sale/Modification	Previous Foreclosure, Deed-in-Lieu, Short Sale or Loan Modification is not allowed.
Judgment, Tax Lien, Collection, and Charge-Off	Must be paid off with no new derogatory credit in the past twelve (12) months. (Medical Excluded).
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: <u>Profile Inconsistencies</u> The information contained in a 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. <u>Social Security Number Discrepancies, if applicable</u> Any inconsistency in social security numbers reported must be fully explained. <u>Questionable Credit Activity</u> 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. <u>Credit Inquiries</u> 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 a 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. • The explanation is consistent with the adverse information; • The borrowers represent an acceptable credit risk and exhibit the ability and willingness to repay the mortgage; and • How the problem has been resolved and is not likely to recur.

INCOME QUALFYING

Adequate and Stable Income	Income and employment analysis is a key element 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 four (4) 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. Borrower(s) must explain in writing employment gaps that exceed one (1) month. Borrowers must be currently employed.
Full Documentation	The full income documentation standard is designed for both wage earners and self-employed borrowers using primarily FNMA documentation guidelines. All documentation outlined should be present in the loan file submitted for purchase review. The lesser of SCL documentation requirements or DU findings will be required.
DTI Ratio (Second Homes)	The Debt-to-Income ratio ("DTI") 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. For Second Homes the maximum allowable DTI ratio is limited to 43%.
Wage Earners	Employed borrowers must arrange for a written verification of employment (VOE) to be submitted directly to the lender from his/her employer that indicates the borrower's position and title, length of employment, gross income for the prior two years and current year to date income, and the likelihood of borrower's continued employment. The VOE must be an original on the employer's company letterhead and include the employer's telephone number, address, and website, and the name and title of the person signing the letter on behalf of the employer. It should be written in the language of the country where the company is located and reflect income in national currency (prior to required currency conversion and translation into English).

	Borrower must also provide 3 months of pay stubs showing year-to-date earnings along with two years of foreign tax returns from borrower's native country, signed and dated by borrower. Employer must be verified using LexisNexis, D&B International Business Search, Google, or other valid means of verification.

Self-Employed Borrowers	Self-employed borrowers must have a minimum of four years in the same line of work and two years foreign tax returns (personal and business) are required from borrower's resident country. If borrower's resident country does not have a tax filing requirement, the borrower must submit the following:
	• A letter from an independent accountant (not related to borrower) that includes the following information:
	  o Name, location, and description of the borrower's business;
	  o Summary financial statements for the business, including its approximate market value; and
	  o Borrower's personal income from the business for the prior two years and current year to date.
	This letter must be an original on the accountant's letterhead, include the accountant's telephone number and address, and be written in the relevant country's language (prior to the required translation into English and conversion of the relevant national currency into U.S. dollars).
	• The internet web page address (URL) for the borrower's business. If the business does not have a web page, the borrower must provide marketing material such as brochures or catalogs.
	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.

Asset Depletion	Asset depletion can be used to supplement income and further demonstrate the borrower's financial ability to repay the mortgage. The amortization period used to calculate depletion of the asset will be based on a 5% factor, which is equivalent to a 20-year amortization of the asset. For example, if an asset value is $1,000,000 and the factor is 5% the amount of the asset than can be used to supplement income is $50,000 annually. If asset depletion is utilized, the calculations must be clearly documented in the file. All assets considered for AD must be verified through the most recent two monthly account statements or the most recent quarterly statement. Eligible assets include cash or cash equivalents and marketable securities (i.e. Certificates of Deposit, money market accounts, savings, stocks, bonds, and mutual funds). Ineligible assets include equity in real estate and private (not publicly traded) stocks. Retirement assets may be used if the Borrower is retirement age (at least 59 ½).
Capital Gains and	A capital gain or loss that is a one-time transaction will not be considered as a

Losses	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 gainsor losses for the last two (2) years 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 to assure an accurate estimate of average earnings. • Borrowers must have an asset base in order to use capital gain or loss on an on-going basis.
Interest and Dividend Income	Interest and dividend income may be used for qualification if it has been verified 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.

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 a credit report or current account statement should be used to calculate the debt-to-income ratio. If no payment is stated on a 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 a 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 any 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, with a balance greater than or equal tothe 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 documentation as evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order.

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 must 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.
For-Sale-By-Owner	FSBO transactions must be closed through escrow with an executed real estate sales contract in the file.
Seller Contributions	Sellers' Contributions to Purchase Transactions cannot exceed 3% of the purchase price
Property Flips	When the subject property is being resold within 180 days of its acquisition by the seller <u>and the sales price has increased more than 10%,</u> 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. For Flip transactions, 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

REFINANCE TRANSACTIONS

Continuity of Obligation	For refinance transactions there must be continuity of obligation regarding the outstanding lien that will be satisfied through the refinance. An acceptable continuity of obligation exists when any of the following are present: • At least one borrower obligated on the new loan must be a borrower obligated on the existing loan being refinanced; or • At least one borrower has been on title for a minimum of six months and has either paid the mortgage for the last six months or can demonstrate a relationship (spouse, domestic partner) with the current obligor.
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: o 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 o 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 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.
Seasoning	SCL has No Seasoning Requirement for Rate & Term 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.
Benefit to the Borrower	In compliance with Fair Lending standards, Refinances must provide a bona fide benefit to the borrower(s). 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. Pay-off of a Construction loan 8. 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.

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 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 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:

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Uniform Residential Appraisal Form (FNMA Form 1004)
Individual Condominium Unit Appraisal Report (FNMA Form 1073)
Single Family Comparable Rent Schedule for all 1-unit investment properties (FNMA Form 1007)

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<tr>
<td>Number of Appraisals and Special Requirements</td>
<td>
Guideline
<table>
<tr><th>Loan Amount</th><th>Appraisal Requirements</th></tr>
<tr><td>≤ $1,000,000</td><td>One (1) full appraisal with 3 comps sold within past 6 months</td></tr>
<tr><td>>$1,000,000</td><td>Two (2) full appraisals with 5 comps Sold within past 12 months</td></tr>
</table>
All transactions require a new appraisal. For properties purchased or refinanced within the past 6 months, the lesser of the purchase price or current appraised value will be utilized to determine subject property value. If the property valuation has increased by 10% 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 LTV is ≤ 40%, and
Loan Amount is ≤ $1,000,000

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<td>Appraisal Report Content</td>
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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.

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	• 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 make appropriate adjustments for 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. <u>Design</u> 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. <u>Outbuildings</u> 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. <u>Building Permits for Additions and Alterations</u> 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. Room additions or additional units must be permitted to ensure that the dwelling was built to code.
Property Condition	All properties are must have an “average” or “good” rating to be eligible for under this Program. Factors that negatively impact the property’s condition must be considered when assessing the overall risk of the loan file, including: <u>Deferred Maintenance</u> “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). <u>Debris, Graffiti, or Trash</u> 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. <u>Infestation</u> If there is any indication of termites or any other infestation, the infestation issue must be investigated, treated, and remedied. <u>Roof Damage</u> 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.

	<u>Other Unacceptable Property Conditions</u> • 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 <u>Disaster Areas</u> 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 <u>prior to the disaster</u> 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 damage must meet "Deferred Maintenance" guidelines above. When the inspection date of the appraisal is <u>after the disaster</u> 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 <u>closing but before loan purchase</u>, 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" guidelines.
Comparable Sales	The subject property appraisal must be supported by an analysis 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 through the use of at least one (1) comparable sale from inside the subdivision or project and one (1) comparable 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 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 new appraisal is required if the original appraisal is aged beyond this timeframe. A recertification of value is not acceptable.
Repair Escrows	Escrows for work completion are not allowed.
ECOA Compliance Note	ECOA Valuations Rule requires (1) notification to borrower(s) of right to receive copies of appraisals within three days of application, and (2) copies of appraisals and other written valuations be delivered to borrowers on the earlier of (a) promptly upon completion, or (b) three business days before closing.

PROPERTY INSURANCE

Minimum Hazard Insurance Coverage	Hazard insurance must protect against loss 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, or 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 insurable 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. See Examples Below:

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 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 ratingin 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, ifthe policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance). • A Replacement Cost Endorsement (under which the insurer agrees topay 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 forcoinsurance).

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: If Flood insurance is required it must be escrowed.**
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.
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 insurance must meet 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.
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: • Final title policy; • Title bring-down search representing the period of time from the original search through the time the mortgage is recorded; or • Gap coverage from the time of the original search until the mortgage is recorded
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 property lines and do not interfere with any of the buildings or improvements, or with the use of the subject property; and public utility restrictions, 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 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.