



SECTION 1:	CODING															
PROGRAM CODES:	DU REFI PLUS PROGRAM CODES: 20, 25, & 30 Year term 2089-00 10 & 15 year term 2189-00															
Second Lien Program Codes:	Not applicable															
SECTION 2:	LTV/CLTV/LOAN AMOUNTS BY DOC TYPE															
FULL DOCUMENTATION:	Not Applicable															
Purchase																
FNMA DU Refi Plus:	<u>LTV</u> <u>CLTV</u> <u>OCC.</u> <u>PROPERTY</u> <u>COMMENT</u> <u>SCORE</u>															
Rate/Term Refinance Only	105% ** Owner 1-4 Units DU Only 620															
	** Not subject to a maximum CLTV or HCLTV. Borrower may not pay off existing subordinate financing or obtain new subordinate financing as part of the transaction. All existing subordinate financing must be re-subordinated.															
	Condos are not permitted in Florida.															
	CONFORMING LOAN LIMITS:															
	<table border="1"> <thead> <tr> <th><u># of Units</u></th> <th><u>Continental US</u></th> <th><u>Hawaii</u></th> </tr> </thead> <tbody> <tr> <td>1 Unit</td> <td>\$417,000</td> <td>\$625,500</td> </tr> <tr> <td>2 Units</td> <td>\$533,850</td> <td>\$800,775**</td> </tr> <tr> <td>3 Units</td> <td>\$645,300</td> <td>\$967,950**</td> </tr> <tr> <td>4 Units</td> <td>\$801,950</td> <td>\$1,202,925**</td> </tr> </tbody> </table>	<u># of Units</u>	<u>Continental US</u>	<u>Hawaii</u>	1 Unit	\$417,000	\$625,500	2 Units	\$533,850	\$800,775**	3 Units	\$645,300	\$967,950**	4 Units	\$801,950	\$1,202,925**
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	** Note: Stearns Lending will lend a maximum of \$625,500 in Hawaii on all units regardless of conforming limits.															
Cash-out Refinance:	Not applicable															
SECTION 3:	PROGRAM PARAMETERS															
MINIMUM LOAN AMT:	\$40,000															
ALLOWABLE TERMS:	10, 15, 20, 25 & 30 year fixed rate terms permitted.															
CASH PROCEEDS:	Not applicable															
SPECIAL PROGRAM REQUIREMENTS:	DU Refi Plus is the refinance of an existing FNMA loan. <ul style="list-style-type: none"> • DU must identify the program as a DU Refi Plus Case file. • Must provide a benefit to the borrower in the form of either a reduced monthly mortgage payment or a more stable mortgage product (for example, a movement from an ARM to a fixed rate mortgage). • The following transactions will be Ineligible for DU Refi Plus: <ul style="list-style-type: none"> ◆ Case files where the existing first mortgage has Mortgage Insurance. ◆ Case files where the existing first mortgage was delivered on and after March 1, 2009. ◆ Loan case files with new subordinate financing. ◆ Case files with an interest only feature ◆ Case files for ARMs with fixed rate periods <5 years ◆ Case files for balloon mortgages ◆ My Community Mortgage case files ◆ HomeStyle Renovation case files. • Loans subject to credit enhancements or current repurchase obligation, reverse mortgages, second mortgages, and government mortgages are ineligible for the DU Refi Plus program. 															



ARM ADJUSTMENTS:	Not applicable
INTEREST ONLY OPTION:	Not applicable
TEMPORARY BUYDOWNS:	Not applicable
PREPAYMENT PENALTY:	Not applicable
SECTION 4:	BORROWER ELIGIBILITY
FIRST TIME HOMEBUYER:	Not applicable
NON-OCCUPANT CO-BORROWER:	<ul style="list-style-type: none"> • Non-occupant co-borrowers are not eligible. • ALL borrower(s) on the existing mortgage must be identical to the borrower(s) on the new mortgage. • Borrower(s) can be added to the new mortgage; however borrower(s) that were on the original mortgage may not be removed.
PERMANENT RESIDENT ALIEN:	<ul style="list-style-type: none"> • Allowed under the same terms as US citizens. • Permanent resident aliens must provide proof of their residency (i.e. green card). • The Permanent Resident Alien certification must be completed and included in the loan file.
NON-PERMANENT RESIDENT ALIEN:	<ul style="list-style-type: none"> • Borrowers are eligible for financing under the same terms as a US citizen. • Borrowers must provide proof they can legally live and work in the US. • Acceptable VISA types include, but are not limited to: E-1, H-1B, H-2A, H-2B, H-3, L-1, G series.
FOREIGN NATIONAL:	Not eligible.
NON-ARMS LENGTH TRANSACTIONS:	Not applicable.
NUMBER OF OTHER PROPERTIES:	<p><u>Number of financed properties:</u></p> <ul style="list-style-type: none"> • For Owner Occupied properties, there is no limit to the number of financed properties that the borrower may own. <p>Note: Exceptions are not permitted.</p> <p><u>Number of properties Stearns will finance (all loan programs):</u></p> <ul style="list-style-type: none"> • Stearns Lending will finance up to 3 properties per borrower: <ul style="list-style-type: none"> ❖ One owner occupied property and one second home and one non-owner occupied property OR ❖ One owner occupied property and 2 non-owner occupied properties. • Borrowers cannot have acquired any properties (including owner occupied, second home or non-owner) in the last 90 days AND no more than 2 non-owner occupied properties in the last 12 months. An exception can be made if the subject transaction is an owner occupied rate/term refinance with the following: <ul style="list-style-type: none"> • The recently purchased properties are clearly documented as investment or 2nd homes with substantially lower values, in different locations, and there is no cash out in the transaction. Other scenarios must still be approved by corporate support. • Stearns will make loans totaling \$4,000,000 on primary residences and second homes. The maximum total amount for non-owner occupied loans is \$1,000,000.

SECTION 5:	CREDIT CRITERIA
UNDERWRITING:	<p><u>Automated Underwriting:</u></p> <ul style="list-style-type: none"> • DU Refi Plus loans must be underwritten through FNMA DU Version 7.1 and receive an Approve/Eligible recommendation. As of applications dated 12/12/09, new submissions must be submitted through DU 8.0. • Expanded Approval recommendations not permitted • Loans may be documented per the DU findings report. • A verbal VOE must be completed by the underwriter, the funder, or the QC department for all borrowers including self employed. The business phone number must be retrieved from 411 (directory assistance) or similar directory. The business phone number MUST be listed. <p><u>Manual Underwriting is not permitted.</u></p>
CREDIT SCORES:	<ul style="list-style-type: none"> • A 3 bureau merged in-file report must be obtained that contains at least 2, preferably 3 credit scores for each borrower. • A “representative score” (lower of 2, middle of 3) will be chosen for each borrower on the loan. Then, the lowest of all the borrower’s “representative scores” will be the score used for qualifying. • 620 minimum credit score applies, regardless of DU findings. • All borrowers must have credit scores. Co-borrowers with no scores are not permitted regardless of AUS.
CREDIT REQUIREMENTS:	<p>Per DU findings.</p> <ul style="list-style-type: none"> • Mortgage/rental history must be 0x60 in the last 12 months, regardless of AUS. • Short sale requirements: At least 4 years must have elapsed since completion in the event of financial mismanagement. At least 2 years must have elapsed since completion in the event of extenuating circumstances (defined as documented circumstances beyond the borrower’s control such as loss of job, extended unemployment, death of a spouse, major medical) with no prior derogatory credit.
RATIOS:	<ul style="list-style-type: none"> • Ratios are determined by DU, however, for all loans that have ratios $\geq 50\%$, a 2nd signature by a delegated 2nd signer is required. • Effective with DU 8.0, maximum DTI has been reduced to 45%, with some flexibility through DU up to 50%. DTI > 50% is not permitted regardless of AUS. • For new submissions after 12/18/09, the maximum DTI is 50% regardless of previous DU 7.1 approval or new DU 8.0 approval.
QUALIFYING:	<ul style="list-style-type: none"> • Child support/alimony payments with ≤ 10 payments remaining are not included in the DTI. • Loans secured by a liquid asset (i.e. 401K) are not included in the debt calculation. • Deferred student loans <u>will be included</u> in the DTI regardless of the length of the deferment. • For revolving debt payment, use the minimum payment from statement or credit report; or \$10 or 5% of the current balance, whichever is greater, if no payment is stated on the credit report. • Paying revolving debt off to qualify is permitted provided it is allowed on the automated findings report, the borrower has the funds in verified assets to pay the account(s) and the payoff is documented (HUD-1) • Lease payments will be included in the DTI regardless of the number of payments remaining in the lease. • Co-signed obligations will not be included in the DTI if there is evidence the primary borrower has made payments as agreed for the last 12 months (copies of canceled checks, front and back). A copy of the note must also be provided to show that the person making the payments is also an obligor on the note.

**QUALIFYING:
(cont'd)**

- Being placed on title is not sufficient.
- **Contingent liabilities** (i.e. property settlement "buy-outs" or court-ordered assignment of debt) will not be included in the DTI if there is proof the debt belongs to another person. A copy of a court order, divorce decree or property settlement may provide proof of the contingent debt.
 - **Loans with HELOC as subordinate financing:** to subordinate an existing HELOC secured by the subject property, use 1% of the total line amount (proposed or the line amount to be subordinated). To debt service an existing HELOC secured by other than the subject property, use the payment amount shown on the credit bureau. If there is no payment shown, or, if there is a HELOC on the application that does not show on the bureau, use 1% of the total line amount.
 - Existing negative amortization loans (on other properties held by the borrower) should be qualified at the fully indexed rate, fully amortized payment at the current loan balance.
 - If rental income is used to qualify, 6 months rent loss insurance coverage is required regardless of AUS findings. This includes owner occupied 2-4 unit properties.

**CALCULATING
LTV/CLTV/VALUE:**

For refinance transactions, the current appraisal is used to calculate LTV/value, regardless of the purchase date.

SEASONING:

No seasoning required

REFINANCES:

Properties may not be currently listed or listed for sale within 6 months prior to the application date. ***An exception may be permitted on an Owner Occupied Property with a second signature from corporate support.***

All of the borrowers obligated on the new loan must also be obligated on the existing loan being refinanced. **No exceptions.**

DU Refi Plus may only include:

- Paying off the outstanding balance of the existing first mortgage, including any prepayment penalty.
- Financing of closing costs, including pre-paid items and points.
- Effective with submissions on or after June 29, 2009: The borrower may not receive any cash back at closing. Any excess cash representing the difference between the estimated and the actual payoff of the original loan plus closing costs and prepaid fees must be applied as a principal curtailment to the new mortgage (or a reduction in the actual loan amount).
- Existing subordinate liens may be subordinated to the new first lien. Paying off existing subordinate liens is **not** permitted.

SUBORDINATE FINANCING:

- Re-subordination of any existing subordinate financing is **required**. Subordinate financing **may not** be paid off with the new loan.
- Standard FNMA guidelines apply for subordinate financing:
 - The junior lien may not amortize or mature <5 yrs from the note date
 - If the subordinate lien has a variable payment, other than a HELOC, the monthly payment must remain constant for at least 12 months and cannot have more than a 1% increase in the interest rate.
 - The payments must cover at least interest only and cannot provide for neg am.
 - The subordinate lien must allow for repayment at any time (prepayment penalties are not permitted).

**SUBORDINATE FINANCING:
(cont'd)**

- HELOCs with "early termination fees" as a flat fee not to exceed \$500 (fee as a percentage of loan amount is not permitted) allowed per FNMA announcement 09-19: HELOCs or closed-end second mortgages that pay for some or all of the borrower's closing costs with terms that allow the lender to recoup the closing costs paid on behalf of the borrower if the borrower pays the HELOC or second mortgage off early. This cost is not considered a prepay penalty, although it may be called a prepayment fee in the verbiage. However, state guidelines must be adhered to.
- A copy of the subordinate lien note AND subordination agreement must be obtained for the loan file.

EMPLOYMENT/INCOME:

Income/employment will be documented per DU findings.

- The minimum required employment/income documentation is:
 - ◆ **Salary/Bonus/Overtime Income:** one current paystub and a verbal VOE
 - ◆ **Self-employed/Commission Income:** One year's federal income tax returns.
- A written VOE may not replace a paystub or W2.
- A verbal verification of employment is required for salaried **and** self-employed borrowers. The business phone number must be retrieved from 411 (directory assistance) or similar directory. The business phone number **MUST** be listed. A printout of the information should be provided in the file.
- A salaried borrower's employment/income is verified with their current employer. A self-employed borrower's employment/income is verified by obtaining the business number through directory assistance and through the borrower's CPA, business license or professional organization. A printout of the information should be provided in the file.
- Tip income can only be used in qualifying income if they are included in 2 years taxable income. UW should develop an average income trend over the past 2 years, and the employer must indicate that the tip income will in all likelihood continue.
- A signed 4506-T will be processed by Stearns regardless of AUS findings. Regardless of AUS results, if there is a variance of greater than 10% between the income returned on the 2 years 4506T transcripts, additional income documentation will be required.
- If rental income is used to qualify, 6 months rent loss insurance coverage is required regardless of AUS findings. This includes owner occupied 2-4 units.
- If rental income from the subject property is used to qualify:
 - Net cash flow must be calculated by the amount established by the appraiser in the Operating Income Statement (FNMA 216/FHLMC 998)
 - 2 year rental property management history must be evidenced unless the borrower qualifies with the full payment.
- Income from accessory or "in-law/granny" units is not permitted. Income may only be used if the property is taxed as a 2 unit property, and is not permitted if classified as an SFR with accessory unit.
- **Retirement Income:** Per FNMA guidelines, retirement and/or pension income must be verified by one of the following: letters from the organizations providing the income, copies of retirement award letters, copies of signed tax returns, W-2 or 1099 forms, or copies of the borrowers' 2 most recent bank statements and retirement account statements showing **regular distributions**. If retirement income is paid in the form of a monthly distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least 3 years after the application date.



ASSETS:	<p>Assets may be documented per DU findings.</p> <ul style="list-style-type: none"> Borrowers must have sufficient verified liquid assets for closing costs and reserves. Liquid assets include checking accounts, savings accounts, CD's, gifts, money market, mutual funds, stock, trust funds, net equity, bridge loans, bonds, secured borrowed funds, etc. Stocks, bonds and mutual funds: 70% of the value may be used as reserves Retirement accounts (IRA, 401K, etc): 60% of the vested value may be used as reserves. Stock options and non-vested restricted stock are not eligible for use as reserves. Funds from personal assets that are sold prior to closing are acceptable as long as the individual purchasing the asset is not a party to either the property sale transaction or the mortgage financing transaction. The borrower must document ownership of the asset, the value of the asset, provide a bill of sale and proof of receipt of funds.
CASH RESERVES:	<p>Reserves required per DU.</p>
GIFTS/ DOWN PAYMENT:	<p>Not applicable.</p>
DOCUMENTATION TYPES:	<p>Loan applications on this program must be fully documented. Income, employment and assets are fully verified per DU findings.</p> <ul style="list-style-type: none"> A verbal VOE is required for all types of employed borrowers prior to closing, including self employed borrowers. Regardless of AUS findings, a year to date paystub and W2 is required, a written VOE may not replace a paystub and W2 <p>Age of credit documentation: The maximum age of all credit documents (including credit report, employment, income and asset documents) is 60 days at the time of underwriting, 90 days at the time of funding, regardless of AUS requirements. No exceptions will be permitted.</p>
SECTION 6:	PROPERTY/APPRAISALS
ELIGIBLE PROPERTIES:	<p>Eligible Properties are attached & detached SFR, 2-4 units, warrantable condo and PUD units, rural properties and modular homes.</p> <p>Agency Warrantable condo projects allowed. See condo section for more info.</p> <p>Modular Housing is acceptable. Modular housing is prefabricated, panelized or sectional housing that assumes the characteristics of a site built home, meets all local and state building codes, is permanently affixed to the land and is legally classified as real estate. At least one comparable sale must be of a modular home.</p> <p>Leaseholds permitted. The term of the lease must extend at least 5 years beyond the term of the loan. All other FNMA requirements must be met.</p> <p>Listed Properties: Properties may not be currently listed or listed for sale within the last 6 months prior to the application date. An exception may be permitted with a second signature from corporate support.</p> <p>Rural Properties:</p> <ul style="list-style-type: none"> No maximum acreage, but must have a size that is common & customary for the market, that can be supported by the appraisal and comparables. Land value should typically not exceed 30% of the total property value Property and subject neighborhood must be residential in nature Conform to the existing zoning with any residential use permissible under zoning and land use regulations, and be typical to the market area Properties must be readily accessible by roads that meet local standards, and must have adequate utilities.

INELIGIBLE PROPERTIES:

Ineligible properties: 2nd homes, investment properties, condotels, timeshares, cooperatives, commercial properties, unimproved land, income producing properties or farms, manufactured housing, properties with deed restrictions, properties on Indian leased land.

- FHA approved (FNMA Type U) condos not permitted. All projects must meet FNMA requirements.

STATE RESTRICTIONS:

- Loans allowed in the 48 contiguous states, the District of Columbia and the state of Hawaii.
- Maximum loan amount in Hawaii is \$625,500 (conforming limit)
- Properties located on the island of Hawaii and are located in Lava Flow Hazard Zones 1 or 2 as determined by the US Geological Survey are not eligible.
- Properties in Texas require full interior/exterior appraisal regardless of AUS.
- Condos are not permitted in Florida.

CONSTRUCTION/PERM:

Not applicable.

APPRAISAL:

- As determined by DU or a minimum 2075 drive-by appraisal is required on all files. **Property Inspection Waivers are not permitted.**
- Properties in Texas require full interior/exterior appraisal regardless of AUS.
- A 216 (Operating Income Statement) is required for all **for all 2-4 unit properties** (including owner occupied), regardless of AUS findings. This is required even when income is not being used to qualify.
- Appraisals may be no older than 90 days at funding. If the appraisal is older than 90 days a new appraisal must be obtained.
- All appraisals with an effective date on or after April 1, 2009 will require Form 1004MC Market Conditions Addendum to the Appraisal Report
- **All appraisals for loans with an initial application date on or after May 1, 2009 must be HVCC (Home Value Code of Conduct) compliant.**
- If a supervisory appraiser signs the appraisal report on behalf of an appraiser, the supervisory appraiser must have performed the inspection of the property.
- Recommendations that require a fee (no appraisal option) are not allowed.
- A 3-year sales history for the subject property is required. The appraiser must also report any existing sale or option contracts on the subject property. If the estimated value of the property "as is" varies by >5% from the sale or option contract amount, the appraiser should explain the difference.
- The cost approach is no longer required on all appraisals, but the site value must be completed.

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

CONDO PROJECTS:

- **Condo projects are not permitted in Florida.**
- Project review is **not** required; lender must warrant that the property is not in a condo hotel/motel or co-op hotel/motel.
- Agency warrantable (FNMA) condo projects are permitted.
- FHA approved (FNMA Type U) condos not permitted. All projects must meet FNMA requirements.

**CONDO PROJECTS:
(cont'd)**

- Low and high-rise projects are permitted. Low-rise projects have ≤4 stories, high rise projects have >4 stories.
- Site condos are eligible as long as the project consists of detached SFRs and have no common improvements other than greenbelts, private streets and parking areas.
- “Walls In” (HO-6) hazard insurance coverage for condos: If the blanket insurance policy does not provide coverage of the interior of the unit, the borrower will be required to obtain “walls in” coverage. See hazard insurance section below for details.
- **Ineligible condo projects** are timeshare or segmented ownership projects, own your own property, houseboat project, kiddie condos, project with non-conforming zoning, projects in litigation or condotels.
- **Condo projects** where a single owner may hold a single deed evidencing ownership of more than one unit is an ineligible project type.
- **Site/detached condos/PUDS** are permitted for new or existing detached condos/PUDS. Permitted on primary residences and second homes. There are no pre-sale or occupancy requirements for the project. Completion is only required for the subject unit.

SECTION 7:

INSURANCE

MORTGAGE INSURANCE:

Mortgage Insurance Requirements for DU Refi Plus:

- The original LTV of the existing loan must be ≤80% and no existing MI may be in force, the new loan **will not** require MI.
- If the existing loan has MI, the loan is ineligible for financing.

Loans requiring MI are not eligible.

SELF-INSURED OPTION

Not applicable

HAZARD INSURANCE:

- The amount of hazard insurance coverage must be the lesser of 100% of the insurable value of the improvements as established by the property insurer OR the unpaid principal balance as long as it equals at least 80% of the insurable value of the improvements.
- “Walls In” (HO-6) hazard insurance coverage for condos: If the blanket insurance policy does not provide coverage of the interior of the unit, the borrower will be required to obtain “walls in” coverage. The HO-6 policy must provide coverage in an amount that is no less than 20% of the condo unit’s appraised value.
- HO-6 “walls in” will also be required on **PUDs** in cases where the master policy does not include interior unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the borrower may have made to the unit.
- For properties located in California, lenders may not require hazard insurance in an amount exceeding the replacement value of the improvements on the property.
- The maximum deductible may be up to 5% of the amount of the policy.

FLOOD INSURANCE:

- A flood hazard determination is required for all loans.
- Flood insurance is required if the property is located in a special flood hazard area or flood zone.
- Flood insurance is required on properties located within the following special flood hazard area zones: A, AE, AH, AO, A1-30, A-99, V, VE, V1-30
- The maximum amount of flood insurance required is the lowest of: 100% of the replacement cost of the dwelling, calculated as appraised value minus land value OR the unpaid principal balance of the mortgage OR the maximum insurance available under the National Flood insurance program. (Currently \$250,000 per dwelling.)
The deductible for 1-4 unit properties may not exceed a maximum of \$5,000 unless a higher deductible is required by state law.



RENT LOSS INSURANCE:	If rental income is used to qualify, 6 months rent loss insurance coverage is required regardless of AUS findings. This includes owner occupied 2-4 unit properties.
IMPOUNDS:	<ul style="list-style-type: none"> • Required if LTV > 80% unless state law supersedes. • In California, impounds are required on 1 unit, primary residences when the LTV is ≥90% and are required on second homes and non-owner occupied properties when the LTV is >80%. • Impounds for taxes, insurance and mortgage insurance (when applicable) required on all non-owner occupied properties when the LTV is >80%. • This includes impounds for “walls-in” HO-6 policy premiums.
SECTION 8:	TITLE/CLOSING AGENTS
TITLE DOCUMENTATION:	<p><u>Title History Review Policy:</u> The preliminary title report must reflect a minimum 6-month title history.</p> <p><u>Title Insurance:</u> A full ALTA title policy is required.</p>
PLAT/SURVEYS:	<ul style="list-style-type: none"> • Surveys are required in some areas. See Stearns state lending information for survey requirements. • If surveys are not commonly required in the area where the property is located an ALTA 9 endorsement or its equivalent should be provided. • If it is not customary to supply either a survey or an endorsement, the title policy must not have a survey exception.
INTER VIVOS REVOCABLE TRUSTS:	Not eligible
SECTION 9:	FEES/MISCELLANEOUS
FEE LIMITATIONS:	<ul style="list-style-type: none"> • Agency/HOEPA Rule: The borrower may not pay >5% in fees that affect the APR on any loan. • Loans where the “points and fees” or “annual percentage rate” exceed the maximum thresholds described under HOEPA (Section 32) are not eligible for purchase. This applies to all types of mortgages except second homes, and non-owner occupied properties. • Reminder: Section 32 (HOEPA) thresholds are: APR that exceeds the yield on the Treasury securities for the same term of the loan by >10% OR the total points and fees paid by the borrower exceeds the greater of 8% or the maximum dollar amount set annually by the Federal Reserve. • Broker compensation is limited to maximum 4% of loan amount.
SELLER/INTERESTED PARTY CONTRIBUTIONS:	Not applicable.