



**AGENCY HIGH BALANCE  
TEMPORARY LOAN LIMITS  
FIXED RATE PROGRAM**

<b>SPECIAL PROGRAM NOTES:</b>	<b>Note: Please note that Mortgage Insurance may not be available for properties located in a declining/ distressed market. Please check with your MI provider for eligibility on properties located in Stable and/ or distressed/ declining markets.</b>					
<b>PROGRAM CODES:</b>	<u>Term</u>	<u>Program Code</u>				
	30 Year term	2091-00				
	15 Year term	2191-00				
	5/1 LIBOR ARM	2491-00				
	<b><u>SPECIAL PROGRAM CODE FOR HOBBY FARM PROPERTIES:</u></b>					
	30 Year term	2092-00				
<b>Second Lien Program Codes:</b>	Not applicable					
<b>SECTION 2:</b>	<b>LTV/CLTV/LOAN AMOUNTS BY DOC TYPE</b>					
<b>FULL DOCUMENTATION:</b>						
<b>Purchase:</b>	<b>30 YEAR FIXED RATE ONLY:</b>					
	<u>LTV</u>	<u>CLTV</u>	<u>OCC.</u>	<u>PROPERTY</u>	<u>LOAN AMOUNT*</u>	<u>SCORE</u>
	90%**	90%	Owner	1 Unit	\$729,750	<b>720</b>
	80%	80%	Owner	1 Unit	\$729,750	700
	75%	75%	Owner	1 Unit	\$729,750	660
	75%	75%	Owner	2-4 Unit	\$Varies*	740
	<b>5/1 LIBOR ARM:</b>					
	<u>LTV</u>	<u>CLTV</u>	<u>OCC.</u>	<u>PROPERTY</u>	<u>LOAN AMOUNT*</u>	<u>SCORE</u>
	75%	75%	Owner	1 Unit	\$729,750	<b>680</b>
	<b>30 YEAR FIXED RATE AND 5/1 ARM GUIDELINES:</b>					
	<u>LTV</u>	<u>CLTV</u>	<u>OCC.</u>	<u>PROPERTY</u>	<u>LOAN AMOUNT*</u>	<u>SCORE</u>
	65%	65%	2 <sup>nd</sup> Home	1 Unit	\$729,750	740
	60%	60%	Investment	1 Unit	\$729,750	740
	*The maximum loan amount varies per MSA/county. Please see the special program requirements section below for determining the maximum loan amount for your property. **Maximum LTV/CLTV for Condos/attached PUD is 85%. Condos are not permitted in Florida.					
<b>Rate/Term Refinance:</b>	<b>30 YEAR FIXED RATE ONLY:</b>					
	<u>LTV</u>	<u>CLTV</u>	<u>OCC.</u>	<u>PROPERTY</u>	<u>LOAN AMOUNT*</u>	<u>SCORE</u>
	90%**	90%	Owner	1 Unit	<b>\$625,500</b>	720
	80%	80%	Owner	1 Unit	\$729,750	700
	75%	75%	Owner	1 Unit	\$729,750	660
	75%	75%	Owner	2-4 Unit	\$Varies*	740
	<b>5/1 LIBOR ARM:</b>					
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<b>Cash-out Refinance:</b>	<b>30 YEAR FIXED RATE AND 5/1 ARM GUIDELINES:</b> <table border="1"> <tr> <td><u>LTV</u></td> <td><u>CLTV</u></td> <td><u>OCC</u></td> <td><u>PROPERTY</u></td> <td><u>LOAN AMOUNT*</u></td> <td><u>SCORE</u></td> </tr> <tr> <td>60%</td> <td>60%</td> <td>Owner</td> <td>1 Unit</td> <td>\$729,750</td> <td>740</td> </tr> </table> <p>*The maximum loan amount varies per MSA/county. Please see the special program requirements section below for determining the maximum loan amount for your property.  <b>Condos are not permitted in Florida.</b></p>				<u>LTV</u>	<u>CLTV</u>	<u>OCC</u>	<u>PROPERTY</u>	<u>LOAN AMOUNT*</u>	<u>SCORE</u>	60%	60%	Owner	1 Unit	\$729,750	740								
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<b>SECTION 3:</b>	<b>PROGRAM PARAMETERS</b>																							
<b>MINIMUM / MAXIMUM LOAN AMT:</b>	<table border="1"> <thead> <tr> <th>Units</th> <th>Minimum Loan Amount in Continental US*</th> <th>Permanent High Cost Maximum Loan Amount in Continental US*</th> <th>Temporary High Cost Maximum Loan Amount in Continental US*</th> </tr> </thead> <tbody> <tr> <td>1 Unit</td> <td>&gt;\$417,000</td> <td>\$625,500</td> <td>\$729,750</td> </tr> <tr> <td>2 Units</td> <td>&gt;\$533,850</td> <td>\$800,775</td> <td>\$934,200</td> </tr> <tr> <td>3 Units</td> <td>&gt;\$645,300</td> <td>\$967,975</td> <td>\$1,129,250</td> </tr> <tr> <td>4 Units</td> <td>&gt;\$801,950</td> <td>\$1,202,925</td> <td>\$1,403,400</td> </tr> </tbody> </table> <p>* <b>The minimum loan amount is Hawaii is &gt;\$625,500.</b>  <b>The maximum loan amount in Hawaii is \$938,250 for 1 unit, \$1,201,150 for 2 units, \$1,451,925 for 3 units, \$1,804,375 for 4 units.</b></p>	Units	Minimum Loan Amount in Continental US*	Permanent High Cost Maximum Loan Amount in Continental US*	Temporary High Cost Maximum Loan Amount in Continental US*	1 Unit	>\$417,000	\$625,500	\$729,750	2 Units	>\$533,850	\$800,775	\$934,200	3 Units	>\$645,300	\$967,975	\$1,129,250	4 Units	>\$801,950	\$1,202,925	\$1,403,400			
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<b>ALLOWABLE TERMS:</b>	30 & 15 year fixed rate 5/1 LIBOR ARM																							
<b>CASH PROCEEDS:</b>	<ul style="list-style-type: none"> <li>Maximum cash proceeds are limited to \$100,000.</li> <li>This includes cash to the borrower and any other payee.</li> <li>Exceptions may be permitted with corporate support approval.</li> </ul>																							
<b>SPECIAL PROGRAM REQUIREMENTS:</b>	<ul style="list-style-type: none"> <li>Loans must be originated (based on the note date) on or after January 1, 2009.</li> <li><b>This program is only permitted in areas considered "high cost" by HUD.</b> Regular conforming loan limits apply to properties in all other areas.</li> <li>Use the following link to determine eligibility and maximum Temporary High Cost loan limit: Select "Fannie/Freddie" from the limit type field and "CY2010" for the limit year:  <a href="https://entp.hud.gov/idapp/html/hicostlook.cfm">https://entp.hud.gov/idapp/html/hicostlook.cfm</a></li> <li>The website below lists only the high cost counties/MSA eligible for the Temporary High Cost loan amounts over the standard conforming limit:  <a href="http://www.fhfa.gov/Default.aspx?Page=185">http://www.fhfa.gov/Default.aspx?Page=185</a></li> </ul>																							
<b>ARM ADJUSTMENTS:</b>	<p>The index is the LIBOR, the average of interbank offered rates for one year US dollar denominated deposits in the London market as published in the Wall Street Journal. The ARM programs adjust as follows:</p> <table border="1"> <thead> <tr> <th>ARM</th> <th>Fixed Period</th> <th>First Adjustment</th> <th>Periodic Adjustment</th> <th>Life Cap</th> </tr> </thead> <tbody> <tr> <td>5/1</td> <td>60 months</td> <td>5.00%</td> <td>2.00% / year</td> <td>5.00%</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>All ARM programs are fixed for the initial period above, then after the initial adjustment, adjust annually for the remainder of the 30-year term.</li> <li>The floor is equal to the margin.</li> </ul> <p>Conversion option not available.</p>				ARM	Fixed Period	First Adjustment	Periodic Adjustment	Life Cap	5/1	60 months	5.00%	2.00% / year	5.00%										
ARM	Fixed Period	First Adjustment	Periodic Adjustment	Life Cap																				
5/1	60 months	5.00%	2.00% / year	5.00%																				
<b>INTEREST ONLY:</b>	Not permitted																							
<b>TEMPORARY BUYDOWN:</b>	Not permitted																							
<b>PREPAYMENT PENALTY:</b>	Not permitted																							



SECTION 4:	BORROWER ELIGIBILITY
<b>FIRST TIME HOMEBUYER:</b>	<ul style="list-style-type: none"> <li>• A first time homebuyer is a borrower who has not owned a residential property in the last 3 years.</li> <li>• Permitted on owner occupied properties only.</li> <li>• A 12 month housing payment history with no late payments may be required by DU findings. Follow DU recommendations for housing history.</li> </ul>
<b>NON-OCCUPANT CO-BORROWER:</b>	<ul style="list-style-type: none"> <li>• Only allowed on full doc primary residences, 1 unit only.</li> <li>• Non-occupant co-borrower income may be used for qualifying to 90% LTV.</li> <li>• Non-occupant co-borrowers may be family members or someone who has an established relationship to the occupant borrower.</li> <li>• The occupying borrower must contribute 5% from their own funds.</li> <li>• The owner occupant must qualify at 35%/43% ratios unless higher ratios are approved by AUS, maximum combined DTI 45%.</li> <li>• The non-occupant borrower should not be a party to the transaction such as the seller, builder or real estate broker.</li> </ul>
<b>PERMANENT RESIDENT ALIEN:</b>	<ul style="list-style-type: none"> <li>• Allowed under the same terms as US citizens.</li> <li>• Permanent resident aliens must provide proof of their residency (i.e. green card).</li> <li>• The Permanent Resident Alien certification must be completed and included in the loan file.</li> </ul>
<b>NON-PERMANENT RESIDENT ALIEN:</b>	<ul style="list-style-type: none"> <li>• Borrowers are eligible for financing under the same terms as a US citizen.</li> <li>• A legible copy of one of the following acceptable visa types must be submitted in the file: E-1, H-1B, H-2A, H-2B, H-3, L-1, G series, and NAFTA workers (TN or TC).</li> <li>• The following are not acceptable visa types: A-1, A-2, A-3, E-2, F-1, F-2, M-1, O-1.</li> <li>• For any visa types not listed above, please contact your branch to research acceptability, all visa types may not be listed here.</li> <li>• A legible copy of the unexpired passport with I-94 is also required.</li> <li>• Borrowers with diplomatic immunity are not permitted.</li> </ul>
<b>FOREIGN NATIONAL:</b>	Not eligible
<b>NON-ARMS LENGTH TRANSACTIONS:</b>	<ul style="list-style-type: none"> <li>• A non-arms length transaction is defined as a direct relationship between any of the parties to the transaction including, buyer, seller, employer, lender, broker, appraiser, etc.</li> <li>• Non-arms length transactions may be acceptable provided there is adequate verification the borrower is making the required minimum down payment from their own funds, there is an executed sales contract, the appraisal supports the value and the appraiser comments on whether the market value is affected by the relationship of the parties.</li> <li>• Non-arms length transactions that are specifically “at-interest transactions” involve persons who are not closely tied or related but may have a greater vested interest in the transaction, such as a party who plays more than one role in the same transaction (selling/listing agent and mortgage broker, for example). At-interest transactions carry increased risk due to the greater vested interest in the transaction by one of the parties.</li> <li>• Second home and investment property transactions are not permitted for non arms length or at interest transactions.</li> <li>• A non arms length transaction may not be used to bail out a family member or any other owner with an established relationship to the borrower from a delinquent mortgage. <ul style="list-style-type: none"> <li>• The title commitment may not show any evidence of foreclosure proceedings or NOD.</li> </ul> </li> <li>• If the seller is a corporation, partnership or any other business entity, there must be proof that the borrower is not an owner of the business entity selling the subject property.</li> </ul>



**NUMBER OF OTHER  
PROPERTIES:**

**Number of financed properties:**

- For Owner Occupied properties, there is no limit to the number of financed properties that the borrower may own.
- For second homes and non owner properties, the borrower may not own more than four 1 to 4 unit properties that are financed, including the subject property.
- Partial or joint ownership is considered the same as total ownership.
- A borrower who holds a Limited Partnership interest that has been formed for the purpose of real estate investment or development OR a General Partner who has personal liability and whose primary income is derived through the partnership's long term investments MUST include all properties owned by that partnership.

**Note: Exceptions are not permitted.**

**Number of properties Stearns will finance:**

- STEARNS LENDING will finance up to 3 properties per borrower:
  - ❖ One owner occupied property and one second home and one non-owner occupied property OR
  - ❖ One owner occupied property and 2 non-owner occupied properties
- Borrowers cannot have acquired any properties (including owner occupied, second home or non-owner) in the last 90 days AND no more than 2 non-owner occupied properties in the last 12 months (can be measured from acquisition date to the closing date of the subject transaction). An exception can be made if the subject transaction is an owner occupied rate/term refinance with the following:
  - The recently purchased properties are **clearly** documented as investment or 2<sup>nd</sup> 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:**

- Loans must be underwritten through DU version 8.0 and receive an Approve/Eligible recommendation.
- DU Refi Plus findings (including any and all messages related to DU Refi Plus) are **not** allowed.
- DU documentation waivers will not be accepted. The loan must be documented as full doc.
- In addition to the automated approval, all of the agency high balance program requirements must be met. (i.e. credit score, housing history, reserves, ratios, eligibility, appraisal, etc.)

**CREDIT SCORES:**

- Borrowers must meet the minimum credit score in the LTV/CLTV matrix above.
- **All** borrowers must have a credit score.
- The borrower's credit score should be based on at least 3 traditional trade lines.
- 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.
- **All** borrowers must have credit scores. Co-borrowers with no scores are not permitted regardless of AUS.

**CREDIT REQUIREMENTS:**

- Borrowers must have a traditional credit history, nontraditional credit is not permitted.
- Borrowers must have a 0 X 30 day payment history on ALL housing (mortgage/rent) for the last 12 months. This includes the subject property (if applicable) and any other properties the borrower owns.
- Mortgage history may be verified on the borrower's credit report or by direct verification from the mortgage company.
- Rental history may be verified as follows:
  - ❖ Professional management company: verified on the credit report or a direct verification from the management company (VOR) showing a 12 month history.
  - ❖ Individual landlords: 12 months canceled checks (front & back), bank statements or money order receipts
- Foreclosures: More than 5 years, within 7 years: Owner occupied purchase will be permitted to a maximum LTV of 90%, minimum credit score of 680. Rate/term refinance allowed to standard LTV/CLTV. Cash out not allowed.
- Bankruptcy: Chapter 13 discharged in the last 24 months, dismissed within the last 48 months, or filed but neither discharged nor dismissed within the last 48 months are ineligible. Non-chapter 13 bankruptcies that were filed, discharged or dismissed within the last 48 months are ineligible.
- Prior preforeclosure sale/short sale waiting periods:
  - 2 years: Maximum 75% LTV allowed, limited to 1 unit owner occupied only.
  - 4 years: Maximum 90% LTV allowed, limited to 1 unit owner occupied only.
  - Purchase transactions may not include gift funds.
  - Cash out refinances are not permitted.
  - Documentation of extenuating circumstances (job loss, reduction of income, medical, divorce) leading to the event required, as well as documentation that the borrower's situation has improved. A LOE from the borrower describing these events is also required.
  - Please note that this must be manually applied, as DU does not recognize preforeclosure sales/short sales
- Prior deed in lieu of foreclosure waiting period:
  - 2 years: Maximum 75% LTV allowed, limited to 1 unit owner occupied only.
  - 4 years: Maximum 90% LTV allowed, limited to 1 unit owner occupied only.
  - Purchase transactions may not include gift funds.
  - Cash out refinances are not permitted.
  - Documentation of extenuating circumstances (job loss, reduction of income, medical, divorce) leading to the event required, as well as documentation that the borrower's situation has improved. A LOE from the borrower describing these events is also required.
  - Please note that this guideline must be followed regardless of DU findings.
- Major adverse credit should be closely reviewed by the underwriter.

**Authorized User Accounts:**

- An authorized user account may only be considered part of the credit profile if another borrower in the mortgage transaction is the owner of the tradeline.
- If the non-borrower spouse is the owner of the account, the tradeline must be considered.
- If **any** of the following apply:
  - The primary credit lines show both high utilization and excessive late payments when compared to the authorized user accounts OR
  - The primary credit lines show both high utilization and significantly lower credit limits when compared to the authorized user accounts OR
  - The primary credit lines show both significantly lower credit limits and excessive late payments when compared to the authorized user accounts OR
  - The primary credit lines show both high utilization, excessive late payments and significantly lower credit limits when compared to the authorized user accounts



**CREDIT REQUIREMENTS:**  
(cont'd)

- The borrower **must** provide
  - a letter of explanation that identifies the primary account holder and the relationship and
  - 6 months cancelled checks along with account statements to document that the borrower has been making the payment on the account
- If the borrower only has 1 tradeline, and it is an authorized user account, it would not be considered valid credit and would not be eligible.

**Loan modifications:**

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

**RATIOS:**

Maximum 45% for all LTVs.  
The ratios **may not** be exceeded regardless of AUS.

**QUALIFYING:**

- **5/1 ARM: Qualify at the greater of the note rate plus 2% or the fully indexed rate**
- **Paying off revolving debt** to qualify is not permitted.
- **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.
- **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 will be included** in the DTI regardless of the length of the deferment.
- **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. Being placed on title only 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 Qualify a borrower for a new piggyback HELOC or to subordinate an existing HELOC secured by the subject property, use 1% of the total line amount (proposed or the line amount to be subordinated). To debt service an existing HELOC secured by other than the subject property, use the payment amount shown on the credit bureau.
- If there is no payment shown, or, if there is a HELOC on the application that does not show on the bureau, use 1% of the total line amount.
- Payments on bridge loans will not be included in the debt ratio only if the following documentation is provided:
  - A copy of the executed purchase contract for the property that is the security for the bridge loan, and
  - If a financing contingency is included in the sales contract, a copy of the mortgage commitment must be provided, and
  - The borrower must have 6 months PITI payments covering any liens on the property being used as the security for the bridge loan in addition to standard reserve requirements for the subject property.



**QUALIFYING:  
(cont'd)**

- Existing negative amortization loans (on other properties held by the borrower) should be qualified at the fully indexed rate, fully amortized payment at the current loan balance.
- If rental income is used to qualify, 6 months rent loss insurance coverage is required regardless of AUS findings. This includes rental income on 2-4 unit owner occupied properties.
- New purchase transactions where the borrower's previous loan was modified and the property is being retained as a 2<sup>nd</sup> home or investment property are not permitted.

**Primary Residence that has not been sold or is being converted to a second home or non-owner property:**

Scenario	Required Action
Current primary residence is pending sale, but will not close prior to the new transaction.	Both the current and proposed mortgage payments must be used to qualify the borrower for the new transaction AND 6 months PITI required for reserves on both the new & current properties. OR  Reserves of 2 months PITI for the retained property and the required reserves for the program for the subject property may be considered if there is documented equity of at least 30% in the existing property as determined by a 2055 appraisal minus outstanding liens. Note: Appraisal must comply with HVCC.
Conversion to second home	Both the current and proposed mortgage payments must be used to qualify the borrower for the new transaction AND 6 months PITI required for reserves on the current property AND the greater of 6 months PITI or the maximum required for the program is required on the new property. OR  Reserves of 2 months PITI for the retained property and the required reserves for the program for the subject property may be considered if there is documented equity of at least 30% in the existing property as determined by a 2055 appraisal minus outstanding liens. Note: Appraisal must comply with HVCC.
Conversion to Non-owner occupied property	Up to 75% of the rental income may be used to offset the mortgage payment in qualifying if there is documented equity of at least 30% in the existing property as determined by a 2055 appraisal minus outstanding liens. Note: Appraisal must comply with HVCC.  The rental income must be documented with a copy of a signed lease agreement AND the receipt of a security deposit from the tenant and deposit into the borrowers account. A family member, individual with an established relationship with those involved in the transaction or an interested party may not sign the lease agreement as the renter. At the discretion of the underwriter, a "fair market rent" letter may also be required.  If the borrower does not have at least 30% equity in the property both the current and proposed payments must be used to qualify for the current transaction AND 6 months PITI is required for reserves on both properties.

**\*\*Note: A 2055 Appraisal must be obtained for the property to determine the equity. Appraisal must comply with HVCC. \*\***

**CALCULATING  
LTV/CLTV/VALUE:**

- For purchase transactions, the lesser of the purchase price or appraised value will be used to determine the LTV/value.
- For refinance transactions, the current appraisal is used to calculate LTV/value, regardless of the purchase date.
- For loans with a HELOC 2<sup>nd</sup> that is being modified or reduced from the original line amount:
  - If the line amount on the HELOC is being reduced, a **recorded** modification agreement and subordination agreement with the new line amount is required in order to calculate the CLTV/HCLTV on the modified line amount. A non-recorded letter from the 2<sup>nd</sup> lender **DOES NOT** satisfy the requirement.
  - If there is no recorded modification agreement for the new line amount, the original line amount of the HELOC **MUST BE** used to calculate the CLTV/HCLTV.

**Re-negotiated purchase agreement policy:**

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

**SEASONING:**

There **must be** 6 months seasoning since the most recent refinance or date of purchase, measured note date to application date. **No exceptions permitted.**

**REFINANCES:**

**Continuity of Obligation:**

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

**REFINANCES: (cont'd)**

- Loans with an acceptable continuity of obligation are considered either a rate/term or cash-out refinance based on the criteria below.
- “Buy outs” from a divorce settlement or property inheritance will be considered rate/term refinances if the criteria below is met.
- If the borrower is currently on title, but is unable to demonstrate an acceptable continuity of obligation, or there is no outstanding lien against the property, the loan is eligible for financing as a cash-out refinance with the following additional restrictions:
  - ❖ If the property has no outstanding liens (e.g. was purchased for cash or prior loans have been paid off): If the property was purchased within 6-12 months prior to the application for new financing, the LTV will be based on the lesser of the sales price/acquisition (documented on the HUD-1) or the current appraised value.
  - ❖ If the property was purchased >12 months prior to the application date for new financing, the current appraised value may be used to calculate the LTV.
  - ❖ If the borrower has been on title at least 6 months but continuity of obligation does not exist, the maximum LTC will be limited to 50% based on the current appraised value.

**A rate/term refinance** may include:

- Paying off the outstanding balance of the existing first mortgage, including any prepayment penalty.
- Financing of closing costs, including pre-paid items.
- Cash back to the borrower not to exceed the lesser of 2% of the balance of the new loan amount or \$2,000.
- Paying off an existing subordinate lien if ALL the proceeds of the subordinate lien were used to acquire the property. A copy of the HUD-1 settlement statement or other documentation from the prior transaction, such as a purchase contract or title documentation, may be obtained to document the use of the subordinate lien.
- Existing subordinate financing that does not meet the requirement above may be re-subordinated to the new first lien.
- A rate/term refinance must provide some benefit to the borrower, including but not limited to the following:
  - Decreased PITIA payments or overall monthly obligations
  - Shorter term
  - Fixed rate from balloon, ARM, neg am or interest only
  - Payoff of purchase money 2<sup>nd</sup> lien
- Some states require Net Tangible Benefit or Benefit to Borrower calculation – please see State Guidelines. For other states, there is a Statement of Borrower Benefit in J:\Operational Tools\FORMS\Underwriting that may be used as a tool.
- Caution should be used when borrowers refinance in a very short time, to avoid “churning” of loans for the benefit of the originator rather than the borrower.

**Buyouts of an ex-spouse or joint owner** may be treated as a rate/term refinance if the following conditions are met:

- The property has been owned and occupied for the previous 12 months by the borrower and joint owner, except in the case of an inheritance.
- The borrower’s income, assets and debts are fully verified.
- The file contains documentation of the divorce property settlement or estate disposition.
- The loan proceeds must be disbursed directly to the ex-spouse or joint owner (or his/her authorized agent) and not to the borrower.

**Cash-out Refinance:**

- **A cash-out refinance is any refinance transaction that doesn’t meet the requirements above.**
- A short term refinance that combines an existing first mortgage and non-purchase money subordinate lien into a new first mortgage is considered a cash-out refinance. In addition a refinance of this loan within 6 months will also be considered a cash-out refinance.

**Note: The underwriter must pull comps and check to see that the value is supported on all cash out transactions.**

**SUBORDINATE FINANCING:**

- Allowed per the LTV/CLTV limits stated above.
- The junior lien may not amortize or mature <5 yrs from the note date.
- The subordinate financing may **not** come from the broker, developer or realtor.
- Seller subordinate financing is permitted as long as agency requirements below for subordinate liens are met. A review appraisal, or AVM is required to confirm the value.
- Builder subordinate financing is permitted if the builder is the seller of the property. Note that extra diligence should be used when reviewing the seller concessions and the value of the property should be well supported.
- 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).
- 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.
- If the first lien has a buy down feature, the subordinate lien must have fixed payments.
- A copy of the subordinate lien note AND subordination agreement must be obtained for the loan file.
- Secondary financing provided by any type of DAP/Community 2nd program, regardless of its source, is unacceptable at this time.

**EMPLOYMENT/INCOME:**

- A 2-year employment history must be documented for all borrowers.
- Reminder: Income for each borrower to be obligated for the mortgage debt must be analyzed whether it can reasonably be expected to continue through at least the first 3 years of the mortgage loan.
- Salaried borrowers must provide a copy of their most recent 30 day paystub reflecting YTD figures AND a VOE OR a copy of last 2 years. W-2.
- Self-employed borrowers must provide the last 2 years 1040 with all applicable schedules (business returns when applicable).
- 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.
- **Self employed borrowers:** Provide documentation per AUS findings. Fannie Mae's Cash Flow Analysis (Form 1084) or any other type of cash flow analysis that applies the same principals as this form is required in file. **Exceptions to following the DU Findings:**
  - If business funds are used as the down payment or reserves, the borrower must also provide the most recent business returns.(in addition to the CPA letter stating that use of business funds will not have a material affect on the cash flow of the business).
  - If the borrower is not using the most recent year's tax returns you must also obtain and analyze their business tax returns if it's a S-Corporation, Corporation or Partnership along with the appropriate K1's. Example: Today you receive a file with an extension for 2009 tax returns and the borrower is self-employed through his corporation. DU findings are asking for one year most recent 1040's. Since the qualifying income we are looking at is from 2008, we would also require their business returns from 2008, a copy of their extension for 2009 and a P & L for 2009 along with YTD P & L for 2010.

**EMPLOYMENT/INCOME:  
(cont'd)**

- If the borrower is employed by a relative or closely held family business, 2 years tax returns must be provided in addition to the borrower's current paystubs/W2 or VOE.
- Auto allowances may be used as qualifying income if verified by the employer and show on the tax returns (Form 2106). Only the amount that exceeds actual expenses may be considered as income. The auto allowance may not be used to offset the car payment.
- Rental income from properties other than the subject property may be used for qualifying. Borrowers must provide the schedule E from their tax returns (when the property has been owned >1 year) OR must provide current lease agreements if the property does not show on the borrowers tax returns.
- If leases are used for qualifying, the net rental income is calculated at 75% of the gross rents from the leases. If tax returns are used for qualifying, the rental income is taken from the Schedule E. Depreciation, interest, taxes or insurance expenses may be added back to determine the net rental income.
- If rental income is used to qualify, 6 months rent loss insurance coverage is required regardless of AUS findings. This includes rental income on 2-4 unit o/o properties.
- 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 only needs to be evidenced if required by AUS findings.
- 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.
- Alimony, child support, maintenance income may be used if there is proof of 12 months consistent receipt and continuance for at least 3 years. Copies of the divorce decree and/or separation agreement must be provided.
- 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.
- Trailing co-borrower or spouse income is not permitted.
- Non-taxable income (i.e. military pay, disability, worker's comp,) may be "grossed-up" 25%.
- **4506T / Tax transcripts:** Follow AUS findings for the level of income documentation required. A signed 4506-T will be processed for at least 1 year regardless of AUS findings except as noted. The most recent year's tax transcript is required if income information was used in the underwriting decision regardless of AUS results. If the most current year's tax transcripts are not available the following must be provided:
  - the previous year's transcripts
  - evidence that the extension was filed & IRS payment made / or refund received for the most current year
  - most recent 30 days paystubs & most current W2s
  - For **self employed** borrowers, a P&L for the most current tax year is also required. 1040s that can not be validated, along with payment, can be used in lieu of this P&L.
  - **Please note that if income for more than the most current year is used, tax returns and 4506Ts must still be obtained for all years of income used.**
  - 4506T must be processed for most current year and show "no record"
- **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:**

- Borrowers must have sufficient verified liquid assets for the down payment, 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.
- Two consecutive monthly bank statements **OR** a verification of deposit **AND** one most current previous month's bank statement is the minimum documentation required to document the Borrower's assets. A written verification of deposit alone is not acceptable in documenting the borrower's assets. At least one month's most current previous bank statement is required to cross-validate the information if a verification of deposit is used.
- Business assets may be used for down payment and closing costs as follows:
  - The borrower must be the sole proprietor or 100% owner of the business or provide verification from the other owners that the borrower has access to the funds.
  - The accountant must comment on what impact the withdrawal of the funds will have on the business. If the accountant states that there will be a negative impact, the use of the funds will not be permitted.
  - Business funds are not an eligible source of funds for cash reserves.

**CASH RESERVES:**

- 2 months PITI required for primary residences.
- 6 months PITI for second homes & non-owner occupied properties.
- When the subject property is an investment property or second home, and the borrower owns one to four financed properties, 2 months reserves are required on each additional financed second home or investment property.
- Reserve calculation must include all of the components of the monthly housing expense (PITIA): principal and interest; hazard, flood and MI premiums (as applicable); real estate taxes; ground rent; special assessments; any HOA dues (excluding any individual unit utility charges); and any subordinate financing payments on mortgages secured by the subject property.
- Gifts may not be used for reserves.
- Business funds are not an eligible source of funds for cash reserves.

**GIFTS/ DOWN PAYMENT:**

**Down Payment:**

- **For purchase transactions**, the borrower must contribute a minimum 5% down payment from their own funds, regardless of the LTV.

**Gifts:**

- Gifts are permitted after the borrower has contributed the required down payment from their own funds.
- Gifts must come from a relative, domestic partner or fiancé.
- Gifts are allowed on primary residence and second home purchases and rate/term refinances. Gifts are not allowed on non-owner occupied loans.
- The gift letter must include the name, address and telephone number of the donor, the relationship to the borrower, state the dollar amount of the gift and that no repayment is expected or required.
- If the gift funds are not already in the borrowers account, transfer of the gift funds to the borrowers account or to escrow (or the closing agent) must be documented.



**GIFTS/DOWN PAYMENT:  
(contd')**

**1031 Exchange:**

- Permitted on investment properties only.
- Escrow instructions required on both the relinquished and acquired properties.
- Closing must be handled by a qualified intermediary. (Accommodator)
- 1031 exchange agreement required.
- HUD-1 required for both properties.
- Verification of receipt of funds by the accommodator or exchange holder from the property being relinquished and credit of those funds to subject property.
- Exchange must be in individual's name
- Relinquished property must close before or at same time. Reverse exchanges are not permitted.
- Appraisal required.
- Statement of borrowers equity required: Calculated at lower of sales price from sales contract OR gross trade value from sales contract less sum of transfer fees and all lien balances on currently owned property and transfer fees on new property OR appraised value of borrowers currently owned property plus any new transfer fees on new property.

**DOCUMENTATION TYPES:**

Loan applications on this program must be documented using full doc. Income, employment and assets are fully verified.

**For all transactions:**

- Regardless of AUS findings, a year to date paystub and W2 is required, a written VOE may not replace a paystub and W2
- A verbal VOE must be completed by the underwriter, the funder, or the QC department for all borrowers including self employed.
- The salaried borrower's employment/income is verified with their current employer.
- The 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.
- **4506T / Tax transcripts:** Follow AUS findings for the level of income documentation required. A signed 4506-T will be processed for at least 1 year regardless of AUS findings except as noted. The most recent year's tax transcript is required if income information was used in the underwriting decision regardless of AUS results. If the most current year's tax transcripts are not available the following must be provided:
  - the previous year's transcripts
  - evidence that the extension was filed & IRS payment made / or refund received for the most current year
  - most recent 30 days paystubs & most current W2s
  - For **self employed** borrowers, a P&L for the most current tax year is also required. 1040s that can not be validated, along with payment, can be used in lieu of this P&L.
  - **Please note that if income for more than the most current year is used, tax returns and 4506Ts must still be obtained for all years of income used.**
  - 4506T must be processed for most current year and show "no record"

**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.**



<b>SECTION 6:</b>	<b>PROPERTY/APPRAISALS</b>
<b>ELIGIBLE PROPERTIES:</b>	<p><b>Eligible Properties</b> are attached &amp; detached SFR, 2-4 unit (owner occupied only), warrantable condos and PUD units, rural properties and modular homes.</p> <p><b>Condition of Property:</b> For all real estate transfers (purchase transactions). All properties must be habitable and all appliances, plumbing, electrical, etc. must be functional and in good working condition. A stove is not required in the case where a stand-alone appliance can be placed. If the kitchen has built in appliances, a stove/oven must be installed. The lack of a stove or oven can not pose any health or safety hazard, otherwise installation is required prior to closing.</p> <p><b>Agency Warrantable condo projects</b> allowed. See condo section for more info.</p> <p><b>2<sup>nd</sup> Homes</b> must be suitable for year round occupancy. Timeshares, condotels, mandatory rental pools and properties with recreational leases are not allowed. Multi-units and mixed-use properties are not eligible for second homes.</p> <p><b>Modular Housing</b> 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><b>Leaseholds</b> 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><b>Listed Properties/Refinance Transactions:</b> Properties may not be currently listed at the time of application.</p> <ul style="list-style-type: none"> <li>• The property listing agreement must be cancelled a minimum of 1 day prior to the application date.</li> <li>• A copy of the cancelled/expired listing must be included in the file.</li> <li>• Appraiser must note that the property is not currently listed.</li> <li>• For owner occupied transactions, the borrower must confirm the intent to occupy the property.</li> <li>• For cash out refinances where property has been previously listed within the last 6 months, the maximum LTV/CLTV/HCLTV is 70% (or the maximum per the program guidelines if less than 70%).</li> </ul> <p><b>Property Flipping:</b> If the owner (individual or entity other than the Mortgage holder) sells a property within 90 days after the date of acquisition, that property is not eligible for financing.</p> <p><b>Rural Properties:</b></p> <ul style="list-style-type: none"> <li>• No maximum acreage, but must have a size that is common &amp; customary for the market, that can be supported by the appraisal and comparables.</li> <li>• Land value should typically not exceed 30% of the total property value</li> <li>• Property and subject neighborhood must be residential in nature</li> <li>• Conform to the existing zoning with any residential use permissible under zoning and land use regulations, and be typical to the market area</li> <li>• Properties must be readily accessible by roads that meet local standards, and must have adequate utilities.</li> </ul> <p><b>Hobby Farms (Fixed Rate ONLY):</b> Stearns Lending will accept properties that may have an additional use as a "hobby farm". Examples of this would be a semi-rural or rural property, residential in nature, where some of the acreage is used to grow grapes, have a small orchard, or a small barn and riding rings, etc. The requirements for the property to be considered are:</p> <ul style="list-style-type: none"> <li>• Property must be residential in nature, and an SFR only</li> <li>• Primary residence only</li> <li>• Appraiser must state property's highest and best use is as Residential</li> <li>• Appraiser must supply photos of the non-residential use</li> <li>• Property must be appraised as residential real estate, with commercial/agricultural value not included in the appraiser's market value</li> <li>• Appraiser must comment on any affect the commercial/agricultural use has on marketability and compatibility with the subject's neighborhood</li> <li>• Agricultural use should generally not exceed 20% of the total acreage</li> <li>• Minimal outbuildings, such as small barns or stables, that are of relatively insignificant value in relation to the total appraised value, provided the outbuildings are typical of other residential properties in the subject area, and the appraiser can demonstrate (via comparable sales) that there is an active, viable market</li> </ul>



**ELIGIBLE PROPERTIES:  
(cont'd)**

- Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals may indicate that property is agricultural in nature, and regardless of whether the appraiser assigns a value, would be ineligible for financing
- Income generated (gross, not net) should be minimal. (this is more telling than a loss, because any loss is probably a write-off of more than just the hobby itself) *Any loss must be considered in the DTI*
- Commercial use should not result in any significant alterations
- The market value of the property is primarily a function of its residential characteristics rather than of the business use
- The commercial/agricultural use must be allowed by zoning and the subject must conform to zoning.
- A pricing adjustment will apply to these types of properties, as well as special program codes to identify them to Secondary Marketing (see Program Codes in Section 1).  
**Loans to be underwritten by designated branch underwriters - see branch manager for details.**

**INELIGIBLE PROPERTIES:**

**Ineligible properties:** manufactured homes, condotels, timeshares, cooperatives, commercial properties, unimproved land, kiddie condos, income producing properties or farms (except hobby farms – see above), properties with deed restrictions, properties on Indian leased land.

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

**Re-negotiated purchase agreement policy:**

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

**STATE RESTRICTIONS:**

- Loans allowed in the 48 contiguous states, the District of Columbia and the state of Hawaii.
- Properties located on the island of Hawaii that are located in Lava Flow Hazard Zones 1 or 2 as determined by the US Geological Survey are not eligible for purchase.
- **Condo projects are not permitted in Florida.**
- **Cash-out refinances are not permitted in Texas.**

**CONSTRUCTION/PERM:**

Not eligible

**APPRAISAL:**

- A full appraisal (form 1004 or 1073 as applicable) with an interior and exterior inspection is required.
- 1007 (Single-Family Comparable Rent Schedule) is required for all one-unit investment properties regardless of AUS findings.
- A 216 (Operating Income Statement) is required for all one-unit investment properties **and 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.
- All appraisals with an effective date on or after April 1, 2009 will require Form 1004MC Market Conditions Addendum to the Appraisal Report

**APPRAISAL:  
(cont'd)**

- **All appraisals for loans with an application date on or after May 1, 2009 must be HVCC (Home Value Code of Conduct) compliant. Reminder: transferred/ported appraisals, even when HVCC compliant, are not permitted. Allowed on the Portfolio programs only.**
- **Condition of Property: For all real estate transfers (purchase transactions).** All properties must be habitable and all appliances, plumbing, electrical, etc. must be functional and in good working condition. A stove is not required in the case where a stand-alone appliance can be placed. If the kitchen has built in appliances, a stove/oven must be installed. The lack of a stove or oven can not pose any health or safety hazard, otherwise installation is required prior to closing.
- All appraisals with an effective date on or after April 1, 2009 will require Form 1004MC Market Conditions Addendum to the Appraisal Report.
- The appraiser performing the appraisal must be qualified to perform appraisals without oversight or supervision by a "supervisory" or "review" appraiser, and must be experienced with the types of properties being appraised and with higher value properties.
- A **Field Review** is required if:
  - ❖ the loan amount is  $\geq$  \$625,500 and the LTV, CLTV or HCLTV is  $>$  80%; or
  - ❖ the property is valued at  $\geq$  \$1,000,000 and the LTV, CLTV or HCLTV is  $>$  75%.
  - ❖ If the field review results in a different opinion of value than the appraisal, the lowest of the original appraised value, the field review value, or the sales price (for purchases) should be used to calculate the LTV/CLTV.
- **Reminder:** On a purchase transaction, the appraiser must be provided with a copy of the sales contract so any unusual or excessive sales contributions or concessions can be considered.
- All appraisals must meet the following requirements:
  - ❖ The most recent and similar comparable sales available as part of the sales comparison approach must be used. Any change in market conditions from the date the sales contract was signed and date of the appraisal must be considered.
  - ❖ Verification of the comparable sales with a reliable party that is not associated with the subject property or the subject property's development, and at least 2 comparables, must be verifiable through the Multiple Listing Service (MLS) as arms-length transactions.
  - ❖ At least 2 of the comparable sales must have closed within the last 90 days.
  - ❖ At least one current listing or pending same must be provided.
  - ❖ The comparables sales must be mapped in the appraisal.
- If the property is located in a condo project, at least 2 comparables must come from outside the subject project, and outside the influence of the developer, builder or property seller.
- Appraisals must be dated within 90 days of note. If  $>$ 90 days a new appraisal must be obtained. Re-certifications are not permitted.
- 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.
- **For all 5/1 LIBOR ARMs:** A Landsafe LARA with acceptable results (3, 4, or 5 rating) required. Please note that properties with rapid appreciation over 40% in short period of time (6 months) should be reviewed and improvements should be fully documented. If a LARA is not available, a 2<sup>nd</sup> appraisal is required. **NO EXCEPTIONS.**



**APPRAISAL:  
(cont'd)**

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

**CONDO PROJECTS:**

- **Maximum LTV/CLTV is 85% for all condos & attached PUD.**
- **Condo projects are not permitted in Florida.**
- **Streamline or Limited Review is not permitted.**
- **Condo projects** must be reviewed by the FNMA CPM system or the lender.
- FHA approved (FNMA Type U) condos not permitted. All projects must meet FNMA requirements.
- **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 SFR and have no common improvements other than greenbelts, private streets and parking areas.
- **Full Lender Review for New and Established Projects:** please refer to the matrices located in the shared J drive/Operational Tools/Underwriting/Condominiums, for documentation that is required for the Full Lender Review.
- **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.
- Note: Condo projects in litigation may be eligible for an exception from corporate:
  - Litigation can not be structural/defect construction litigation.
  - Slip and fall/nuisance lawsuits, HOA dues suits may be acceptable
  - Provide HOA documents with file to corporate support for review
- New projects where the seller is offering sale/financing structures in excess of FNMA's eligibility policies for individual loans are ineligible. These excessive structures include, but are not limited to builder/developer contributions, sales concessions, HOA or principal abatements and interest payment abatements, and/or contributions not disclosed on the HUD-1.
- **Condo projects** where a single owner may hold a single deed evidencing ownership of more than one unit is an ineligible project type.
- "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.
- **2-4 Unit projects** must meet the following requirements:
  - ❖ Small projects must be typical for the market area and this must be supported by the appraisal.
  - ❖ All but one unit in the project must be sold as a primary residence or second home. Only one unit may be non-owner occupied.
  - ❖ No single entity may own more than one unit in the project.
  - ❖ All units, common elements and facilities must be 100% complete and the project may not be subject to any additional phasing or annexation.
  - ❖ The unit owners must have the sole ownership interest in and rights to the use of the project facilities, limited common elements and common elements.
  - ❖ Each unit must be separately metered.
  - ❖ The project must be covered by all applicable insurance.
  - ❖ The projects legal documents must contain an arbitration agreement for dispute resolution.



SECTION 7:	INSURANCE									
<b>MORTGAGE INSURANCE:</b>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">LTV</th> <th style="text-align: left;">15 Yr. Term</th> <th style="text-align: left;">30 Yr. Term</th> </tr> </thead> <tbody> <tr> <td>85.01 - 90%</td> <td>12%</td> <td>25%</td> </tr> <tr> <td>80.01 - 85%</td> <td>6%</td> <td>12%</td> </tr> </tbody> </table> <p>Financed, reduced, minimum coverage with LLPA's or lower cost/custom MI is not permitted. Approved MI companies are: Radian and MGIC. PMI is available for Retail ONLY (No TPO)</p> <ul style="list-style-type: none"> <li>• <b>Split Premium MI permitted:</b> An upfront fee is calculated on the base loan amount and must be paid up front, cannot be financed into the loan. This will lower the monthly MI payments. <ul style="list-style-type: none"> <li>❖ <b>Pay Option:</b> the borrower pays an upfront fee to reduce the MI factor. The borrower may choose from 3 different up front fees to lower the monthly MI payment. The fee for this option must be obtained from the MI company rate card. Eligible terms for the Pay Option are 10, 15, 20, 25 &amp; 30 year fixed terms.</li> <li>❖ The seller may pay the upfront fee, subject to interested party contribution limits.</li> <li>❖ <b>In addition the following requirements must be met:</b> <ul style="list-style-type: none"> <li>▪ Minimum credit score 720 for all LTVs.</li> <li>▪ Permitted on purchases, and rate/term refinances.</li> <li>▪ Primary residences.</li> <li>▪ Buydowns not permitted.</li> <li>▪ The respective mortgage insurance company guidelines for full doc loans in the applicable market type (either stable or declining) must be adhered to.</li> <li>▪ MGIC and Radian are approved providers for split premium MI.</li> </ul> </li> </ul> </li> </ul> <p><b>Note: Some mortgage insurance companies will continue to impose the declining/distressed market policy. Please check with your MI provider for eligibility.</b></p> <p><b>See the Mortgage Insurance Restrictions Matrix in J://Loan Programs/Product Matrices for specific MI company requirements.</b></p>	LTV	15 Yr. Term	30 Yr. Term	85.01 - 90%	12%	25%	80.01 - 85%	6%	12%
LTV	15 Yr. Term	30 Yr. Term								
85.01 - 90%	12%	25%								
80.01 - 85%	6%	12%								
<b>SELF-INSURED OPTION:</b>	Not permitted									
<b>HAZARD INSURANCE:</b>	<ul style="list-style-type: none"> <li>• Hazard insurance is required for each property.</li> <li>• 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.</li> <li>• "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.</li> <li>• HO-6 "walls in" will also be required on <b>PUDs</b> 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.</li> <li>• For properties located in California, lenders may not require hazard insurance in an amount exceeding the replacement value of the improvements on the property.</li> <li>• The maximum deductible may be up to 5% of the amount of the policy.</li> </ul>									
<b>FLOOD INSURANCE:</b>	<ul style="list-style-type: none"> <li>• A flood hazard determination is required for all loans.</li> <li>• Flood insurance is required if the property is located in a special flood hazard area or flood zone.</li> <li>• 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</li> <li>• 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 amount is required by state law.</li> </ul>									



**RENT LOSS INSURANCE:**

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

**IMPOUNDS:**

- Required if LTV > 80% unless state law supersedes.
- In California, impounds are required on 1 unit, primary residences when the LTV is  $\geq 90\%$  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:**

**Title History Review Policy:**

The preliminary title report must reflect a minimum 6-month title history.

**Title Insurance:**

A full ALTA title policy is required.

- 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:**

Inter vivos revocable trusts are created by individuals as an estate planning tool. Also called a family trust or a living trust, it can be used as an alternate form of property ownership.

Inter vivos trusts must comply with local/state regulations and the following requirements to be eligible for financing:

- An inter vivos trust is defined as follows, and must meet these requirements:
  - Created by an individual during his or her lifetime,
  - Becomes effective during its creator's lifetime,
  - Can be changed or cancelled by its creator at any time, for any reason, during his or her lifetime.
  - The trustee must have the power to mortgage the Mortgaged Premises for the purpose of securing a loan to the trust.
  - The consent of the beneficiaries is not required for the trust to borrow money, or if such consent is required, the consent must be granted in writing for purposes of the transaction.
  - There must be no impairments of lenders' rights.
- To be eligible, the borrower must be
  - The person who created the trust, and
  - The beneficiary, or the person who is designated to benefit from the trust, and
  - The trustee, or the person who will administer the trust for the benefit of the beneficiary, the borrower.
- Eligible borrowers include:
  - One of more borrowers with one inter vivos trust, or
  - Two or more borrowers with separate inter vivos trusts, or
  - Multiple borrowers with one or more holding title as an individual and one or more holding title as an inter vivos trust.
- Eligible properties: 1 unit primary residence or 1 unit second home only. **Investment properties are not eligible.**
- An Attorney Opinion letter from the borrower's attorney is required verifying all of the following:
  - The trust was validly created and is duly existing under applicable law,
  - The trust is revocable,
  - The borrower is the person who created the trust and the beneficiary of the trust,
  - The trust assets may be used as collateral for a loan,
  - The trustee is:
    - Duly qualified under applicable law to serve as trustee
    - Is the borrower
    - Is the person who created the trust
    - Is fully authorized under the trust documents and applicable law to pledge or otherwise encumber the trust assets
- A complete copy of the trust documents certified by the borrower to be accurate, OR a copy of the abstract or summary for jurisdictions that require a lender to review and rely on an abstract or summary trust documents instead of the trust agreements.
- In lieu of the Attorney's Opinion letter and copies of the trust documents, the title company Trust Certification is acceptable for the following states: AZ, CA, DE, DC, ID, IA, ME, NV, NH, NM, OR, PA, SC, TX, UT, VA. The same terms and conditions apply to this certification as shown above for the Attorney Opinion.
- Other title and closing requirements:
  - Full title to the property must be vested either:
    - In the trustee of the inter revocable trust or
    - Jointly in the trustee of the inter vivos revocable trust and in the name of an individual borrower or
    - In the trustee of more than one inter vivos revocable trust. If the title will be vested in the trustees of more than one inter vivos revocable trust, the terms of the two revocable trusts documents must compliment each other and may not be in conflict with one another.
    - Irregular title vesting not permitted.
  - The title binder may not contain any exceptions to coverage based on the property being held by the trust. The title policy must ensure full title protection, and must indicate that title to the subject property is vested in the name of the trustees.



**INTER VIVOS REVOCABLE TRUSTS:  
(cont'd)**

- o The Note must be executed individually by the person who created the trust and by the trustee on behalf of the trust,
- o The Mortgage or Deed of Trust is executed by the trustee on behalf of the trust. The Revocable Trust Rider must be used with the Mortgage or Deed of Trust.
- o The date of the Trust must be reflected on the note as part of the description below the Trustee's signature, e.g. John Smith, Trustee of the John Smith Trust dated June 1, 2001.

Inter Vivos Trust as Borrower Acknowledgement form required unless verbiage is included in the Inter Vivos Revocable Trust Rider.

**POWER OF ATTORNEY:**

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

**SECTION 9:  
FEE LIMITATIONS:**

**FEES/MISCELLANEOUS**

- 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 (Purchases and refinances) except second homes, non-owner occupied properties or HELOC.
- 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.
- For a purchase transaction the maximum real estate commission cannot exceed 8% of the sales price.
- **Broker compensation is limited to a maximum 4% of the loan amount.**



**SELLER/INTERESTED PARTY  
CONTRIBUTIONS:**

Owner occupied and second homes:

All CLTV            3% max.

N/O/O:

All CLTV            2% max.

Note: Seller/interested party contributions may be used for closing costs and pre-paids. HOA subsidies are not permitted. HOA fees due at closing may be paid with interested party contributions; however, payments due after closing can not be paid in advance through interested party contributions.

Please see the LTV/CLTV/value and Ineligible Properties sections above for instances where a re-negotiated purchase agreement is issued after the appraisal is completed.