

<b>PROGRAM CODES:</b>	<b>DU REFI PLUS PROGRAM CODES:</b> 30 Year term                      2099-00	
<b>Second Lien Program Codes:</b>	Not applicable	
<b>SECTION 2:</b>	<b>LTV/CLTV/LOAN AMOUNTS BY DOC TYPE</b>	
<b>FULL DOCUMENTATION: Purchase &amp; Rate/Term Refinance:</b>	Not applicable.	
<b>DU Refi Plus: Rate/Term Refinance Only</b>	<u>LTV</u> 105%	<u>CLTV</u> ** <u>OCC.</u> Owner <u>PROPERTY</u> 1 Unit <u>COMMENT</u> DU Only <u>SCORE</u> 660
	** 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.	
	<b>Maximum LTV/CLTV 100% regardless of AUS for properties in West Virginia</b>	
<b>Cash-out Refinance:</b>	Not applicable.	
<b>SECTION 3:</b>	<b>PROGRAM PARAMETERS</b>	
<b>MINIMUM/MAXIMUM LOAN AMT:</b>	<b>Minimum Loan Amount in Continental US*</b>	<b>Maximum Loan Amount in Continental US*</b>
	>\$417,000	115% of median home price, <b>not to exceed \$625,500</b>
	* The maximum loan amount in Hawaii is \$625,500. All Hawaii loans should be done as conforming only, no High Balance.	
<b>ALLOWABLE TERMS:</b>	30 year fixed rate term permitted	
<b>CASH PROCEEDS:</b>	Not applicable.	
<b>SPECIAL PROGRAM REQUIREMENTS:</b>	<ul style="list-style-type: none"> <li>• This program is only permitted in areas considered "high cost" by HUD, and will only be allowed to the maximum Permanent High Cost Limits established by HERA for 2009. The 2009 ARRA Temporary High Cost Limits are not permitted, <b>regardless of DU findings</b>. Regular conforming loan limits apply to properties in all other areas.</li> <li>• The website below lists only the high cost counties/MSA eligible for these loan amounts: <a href="http://www.fhfa.gov/webfiles/857/HighCostLoanLimits2009.pdf">http://www.fhfa.gov/webfiles/857/HighCostLoanLimits2009.pdf</a></li> </ul> <p><b>DU Refi Plus</b> is the refinance of an <b>existing</b> FNMA loan.</p> <ul style="list-style-type: none"> <li>• DU must identify the program as a DU Refi Plus Case file.</li> <li>• 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).</li> <li>• The following transactions will be Ineligible for DU Refi Plus (new loan): <ul style="list-style-type: none"> <li>◆ Case files where the existing first mortgage has Mortgage Insurance.</li> <li>◆ Case files where the existing first mortgage was delivered on or after March 1, 2009.</li> <li>◆ Loan case files with new subordinate financing.</li> <li>◆ Case files with an interest only feature</li> <li>◆ Case files for ARMs with fixed rate periods &lt;5 years</li> <li>◆ Case files for balloon mortgages</li> <li>◆ My Community Mortgage case files</li> <li>◆ HomeStyle Renovation case files.</li> </ul> </li> <li>• Loans subject to credit enhancements or current repurchase obligation, reverse mortgages, second mortgages, and government mortgages are ineligible for the DU Refi Plus program.</li> </ul>	

<b>SPECIAL PROGRAM REQUIREMENTS (cont'd)</b>	<ul style="list-style-type: none"> <li>Effective with the DU update on 4/14/2010, a borrower can be removed from the new loan with a DU Refi Plus transaction. The remaining borrower must provide evidence that he or she has been making the payments from their own funds for the most recent 12 months prior to the new mortgage (the 12 months history must be on the existing mortgage). The borrower(s) removed from the loan must also be removed from the deed. If a borrower is being removed as the result of a death, the 12 month payment history is not required, but evidence of the death must be provided.</li> </ul>
<b>ARM ADJUSTMENTS:</b>	Not Applicable
<b>INTEREST ONLY:</b>	Not Permitted
<b>TEMPORARY BUYDOWN</b>	Not permitted
<b>PREPAYMENT PENALTY:</b>	Not permitted
<b>SECTION 4:</b>	<b>BORROWER ELIGIBILITY</b>
<b>FIRST TIME HOMEBUYER:</b>	Not applicable.
<b>NON-OCCUPANT CO-BORROWER:</b>	<ul style="list-style-type: none"> <li><b>Non-occupant co-borrowers are not eligible.</b></li> <li><b>ALL</b> borrower(s) on the existing mortgage must be identical to the borrower(s) on the new mortgage.</li> <li>Borrower(s) can be added to the new mortgage; however borrower(s) that were on the original mortgage may not be removed except as noted:             <ul style="list-style-type: none"> <li>The remaining borrower must provide evidence that he or she has been making the payments from their own funds for the most recent 12 months prior to the new mortgage (the 12 months history must be on the existing mortgage). The borrower(s) removed from the loan must also be removed from the deed. If a borrower is being removed as the result of a death, the 12 month payment history is not required, but evidence of the death must be provided.</li> </ul> </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>Borrowers must provide proof they can legally live and work in the US.</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>	Not applicable.

<b>NUMBER OF OTHER PROPERTIES:</b>	<p><b><u>Number of financed properties:</u></b></p> <ul style="list-style-type: none"> <li>For Owner Occupied properties, there is no limit to the number of financed properties that the borrower may own.</li> <li>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: <ul style="list-style-type: none"> <li>The recently purchased properties are <b>clearly</b> 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.</li> </ul> </li> </ul> <p><b><u>Number of properties Stearns will finance (all programs):</u></b></p> <ul style="list-style-type: none"> <li>STEARNS LENDING will finance up to 3 properties per borrower: <ul style="list-style-type: none"> <li>❖ One owner occupied property and one second home and one non-owner occupied property OR</li> <li>❖ One owner occupied property and 2 non-owner occupied properties</li> </ul> </li> <li>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.</li> </ul>
<b>SECTION 5:</b>	<b>CREDIT CRITERIA</b>
<b>UNDERWRITING:</b>	<ul style="list-style-type: none"> <li>DU Refi Plus loans <b>must</b> be underwritten through FNMA DU and receive an Approve/Eligible recommendation.</li> <li>DU documentation waivers will not be accepted. The loan must be documented as full doc.</li> <li>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.)</li> </ul>
<b>CREDIT SCORES:</b>	<ul style="list-style-type: none"> <li>The borrower's credit score should be based on at least 3 traditional trade lines.</li> <li>A 3 bureau merged in-file report must be obtained that contains at least 2, preferably 3 credit scores for each borrower.</li> <li>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.</li> <li><b>660</b> minimum credit score applies.</li> <li><b>All</b> borrowers must have credit scores. Co-borrowers with no scores are not permitted regardless of AUS.</li> </ul>
<b>CREDIT REQUIREMENTS:</b>	<ul style="list-style-type: none"> <li>Borrowers must have a traditional credit history.</li> <li>Nontraditional credit is not permitted.</li> <li>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.</li> <li>Mortgage history may be verified on the borrower's credit report or by direct verification from the mortgage company.</li> <li>Rental history may be verified as follows: <ul style="list-style-type: none"> <li>❖ <u>Professional management company</u>: verified on the credit report or a direct verification from the management company (VOR) showing a 12 month history.</li> <li>❖ <u>Individual landlords</u>: 12 months canceled checks (front &amp; back), bank statements or money order receipts</li> </ul> </li> <li>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.</li> <li>Prior preforeclosure sale/short sale waiting periods: <ul style="list-style-type: none"> <li>2 years: Maximum 75% LTV allowed, limited to 1 unit owner occupied only.</li> <li>4 years: Maximum 90% LTV allowed, limited to 1 unit owner occupied only.</li> <li>7 years: standard eligibility applies.</li> </ul> </li> </ul>

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

- 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.
  - 7 years: standard eligibility applies.
- 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.

**Loan modifications:**

- Refinance transactions on previously modified loans are not permitted.

**RATIOS:**

Maximum 45%  
The 45% ratio **may not** be exceeded regardless of AUS.

**QUALIFYING:**

- **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  $\leq 10$  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.
- 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.
- Mortgage Credit Certificates may not be used as income or to offset housing payment. Stearns is not participating in any MCC programs at this time.

**CALCULATING  
LTV/CLTV/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.

**SEASONING:**

**Seasoning does not apply on DU Refi Plus loans.**

**REFINANCES:**

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.
- Existing subordinate liens may be subordinated to the new first lien. Paying off existing subordinate liens is **not** permitted.
- Financing of closing costs, including pre-paid items.
- 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).

**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).
- 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 in the loan file.
- Multiple subordinate liens permitted. Contact branch manager for restrictions. Reminder, deed restrictions and resale restrictions are not permitted.

**EMPLOYMENT/INCOME:**

- 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.
- A 2-year employment history must be documented for all borrowers.
- 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.

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

- 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.
- 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.
- **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.
- 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.
- 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.
- Non-taxable income (i.e. military pay, disability, worker's comp,) may be "grossed-up" 25%
- 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.
- **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.

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

- **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.
- **Mortgage Credit Certificates** may not be used as income or to offset housing payment. Stearns is not participating in any MCC programs at this time.

**ASSETS:**

- 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.
- 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 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.
- 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.
- Business funds are not an eligible source of funds for cash reserves.

**GIFTS/ DOWN PAYMENT:** Not applicable.

<p><b>DOCUMENTATION TYPES:</b></p>	<p>Loan applications on this program must be documented using full/alt doc. Income, employment and assets are fully verified.</p> <ul style="list-style-type: none"> <li>• A verbal VOE must be completed by the underwriter, the funder, or the QC department for all borrowers including self employed.</li> <li>• Regardless of AUS findings, a year to date paystub and W2 is required, a written VOE may not replace a paystub and W2</li> <li>• The salaried borrower's employment/income is verified with their current employer.</li> <li>• 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.</li> <li>• <b>4506T / Tax transcripts:</b> 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:             <ul style="list-style-type: none"> <li>• the previous year's transcripts</li> <li>• evidence that the extension was filed &amp; IRS payment made / or refund received for the most current year</li> <li>• most recent 30 days paystubs &amp; most current W2s</li> <li>• For <b>self employed</b> borrowers, a P&amp;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&amp;L.</li> <li>• <b>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.</b></li> <li>• 4506T must be processed for most current year and show "no record"</li> </ul> </li> </ul> <p><b>Age of credit documentation:</b> The maximum age of all credit documents (including prelim, credit report, employment, income and asset documents) is <b>60 days at the time of underwriting, 90 days at the time of funding</b>, regardless of AUS requirements. <b>No exceptions will be permitted.</b></p>
<p><b>SECTION 6: ELIGIBLE PROPERTIES:</b></p>	<p><b>PROPERTY/APPRAISALS</b></p> <p><b>Eligible Properties</b> are attached &amp; detached SFR, warrantable condos and PUD units, rural properties and modular homes.</p> <p><b>Agency Warrantable condo projects</b> allowed. See condo section for more info.</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> </ul> <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>

**INELIGIBLE PROPERTIES:**

**Ineligible properties:** 2<sup>nd</sup> homes, investment properties, 2-4 units, manufactured homes, condotels, timeshares, cooperatives, commercial properties, unimproved land, kiddie condos, income producing properties or farms, 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 and the District of Columbia
- Hawaii loans: conforming limits only. Not permitted on High Balance.
- Condo projects are not permitted in Florida.
- **Maximum LTV/CLTV 100% regardless of AUS for properties in West Virginia**

**CONSTRUCTION/PERM:**

Not eligible

**APPRAISAL:**

- A full appraisal (form 1004 or 1073 as applicable) interior and exterior inspection is required.
- Property Inspection Waivers per DU findings not permitted.
- 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. Reminder: transferred/ported appraisals, even when HVCC compliant, are not permitted.**
- If a supervisory appraiser signs the appraisal report on behalf of an appraiser, the supervisory appraiser must have performed the inspection of the property.
- For LTV/CLTV ≥75% AND values ≥\$1,000,000 a full appraisal + a field review (Form 1032) is required. If the field review has a different opinion of value, the lower of the original appraised value, the field review value or the sales price (for purchase transactions) will 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.
- Appraisals must be dated within 90 days of note. If >90 days a new appraisal must be obtained. Re-certifications are not permitted.
- Per FNMA 2010-09 effective September 1, 2010:
  - Minimum requirements for interior photographs: kitchen, all bathrooms, main living area, examples of physical deterioration (where applicable), examples of recent updates such as restoration, remodeling & renovation (where applicable).
  - If the underwriter considers an appraisal deficient, the underwriter has the following options for addressing the deficiencies:
    - contacting the appraiser to address deficiencies contained in the appraisal report,
    - obtaining a desk review or a field review of the original appraisal, or
    - obtaining a new appraisal of the subject property.
  - When a review appraisal or new appraisal is obtained, the underwriter must use the opinion of market value as stated in the review or new appraisal because the underwriter has, at that point time, rejected the original appraisal. It is not acceptable for the underwriter to exercise blanket discretion by arbitrarily changing the opinion of market value. For example, it is not within the underwriter's discretion to simply average the two opinions of market value in order to arrive at a final value conclusion.

<p><b>APPRAISAL: (cont'd)</b></p>	<ul style="list-style-type: none"> <li>• 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 &gt;5% from the sale or option contract amount, the appraiser should explain the difference.</li> <li>• The cost approach is no longer <u>required</u> on all appraisals, but the site value must be completed.</li> </ul> <p>Note: <b>For all transactions &gt; 75% LTV</b>, the underwriter must pull additional comps if there is <b>more than one</b> comparable sale on the appraisal older than 90 days from the date of the appraisal <b>OR</b> located &gt;1 mile from the subject property for urban &amp; suburban properties and &gt; 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.</p>
<p><b>CONDO PROJECTS:</b></p>	<ul style="list-style-type: none"> <li>• <b>Condo projects are not permitted in Florida.</b></li> <li>• <b>DU Refi Plus:</b> Lenders will not be required to perform a project review, but must warrant that the property is not in a condo hotel/motel or co-op hotel/motel.</li> <li>• FHA approved (FNMA Type U) condos not permitted. All projects must meet FNMA requirements.</li> <li>• <b>Low and high-rise projects</b> are permitted. Low-rise projects have ≤4 stories, high rise projects have &gt;4 stories.</li> <li>• <b>Site condos</b> are eligible as long as the project consists of detached SFR and have no common improvements other than greenbelts, private streets and parking areas.</li> <li>• <b>Ineligible condo projects</b> are timeshare or segmented ownership projects, own your own property, houseboat project, kiddie condos, project with non-conforming zoning, projects in litigation or condotels.</li> <li>• Note: Condo projects in litigation may be eligible for an exception from corporate:             <ul style="list-style-type: none"> <li>• Litigation can not be structural/defect construction litigation.</li> <li>• Slip and fall/nuisance lawsuits, HOA dues suits may be acceptable</li> <li>• Provide HOA documents with file to corporate support for review</li> </ul> </li> <li>• <b>Condo projects</b> where a single owner may hold a single deed evidencing ownership of more than one unit is an ineligible project type.</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. See hazard insurance section below for details.</li> </ul>
<p><b>SECTION 7:</b></p>	<p><b>INSURANCE</b></p>
<p><b>MORTGAGE INSURANCE:</b></p>	<p><b><u>Mortgage Insurance Requirements for DU Refi Plus:</u></b> If the original LTV of the existing loan is ≤80%, and no existing MI is in force, the new loan would not require MI. If the original LTV of the existing loan is &gt; 80%, and existing MI is in force, financing is ineligible. <b>Loans requiring MI are not allowed.</b></p>
<p><b>SELF-INSURED OPTION:</b></p>	<p>Not permitted</p>

<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.)</li> <li>• 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>
<b>RENT LOSS INSURANCE:</b>	If rental income is used to qualify, 6 months rent loss insurance coverage is required regardless of AUS findings.
<b>IMPOUNDS:</b>	<ul style="list-style-type: none"> <li>• Required if LTV &gt; 80% unless state law supersedes.</li> <li>• 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 &gt;80%.</li> <li>• Impounds for taxes, insurance and mortgage insurance (when applicable) required on all non-owner occupied properties when the LTV is &gt;80%.</li> <li>• This includes impounds for “walls-in” HO-6 policy premiums.</li> </ul>
<b>SECTION 8:</b>	<b>TITLE/CLOSING AGENTS</b>
<b>TITLE DOCUMENTATION:</b>	<p><b>Title History Review Policy:</b> The preliminary title report must reflect a minimum 6-month title history.</p> <p><b>Title Insurance:</b> A full ALTA title policy is required.</p> <ul style="list-style-type: none"> <li>• Surveys are required in some areas. See Stearns state lending information for survey requirements.</li> <li>• If surveys are not commonly required in the area where the property is located an ALTA 9 endorsement or its equivalent should be provided.</li> <li>• If it is not customary to supply either a survey or an endorsement, the title policy must not have a survey exception.</li> </ul>

<b>INTER VIVOS REVOCABLE TRUSTS:</b>	Not eligible
<b>POWER OF ATTORNEY:</b>	<p>A Specific (or Limited) power of attorney must meet the following requirements:</p> <ul style="list-style-type: none"> <li>• Clearly reference the subject property (if a legal description is referenced, it must be stated or attached accordingly)</li> <li>• 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)</li> <li>• Indicate clearly that the mortgagor is appointing an attorney-in-fact</li> <li>• Precisely identify who is being appointed</li> <li>• 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.</li> <li>• Must be signed and dated by the borrower (aka principal)</li> <li>• Must be notarized (notary must be complete, contain a valid date, and no blank fields)</li> <li>• Must be signed no more than 90 days prior to, or concurrent with, the date of the security instrument</li> <li>• Must be recorded prior to, or concurrent with, the date of the security instrument.</li> <li>• May not contain any blank fields.</li> <li>• Must be acceptable to the title company issuing the title policy.</li> <li>• General POA's are not acceptable.</li> <li>• 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.</li> </ul>
<b>SECTION 9:</b>	<b>FEES/MISCELLANEOUS</b>
<b>FEE LIMITATIONS:</b>	<ul style="list-style-type: none"> <li>• Agency/HOEPA Rule: The borrower may not pay &gt;5% in fees that affect the APR on any loan.</li> <li>• 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.</li> <li>• Reminder: Section 32 (HOEPA) thresholds are: APR that exceeds the yield on the Treasury securities for the same term of the loan by &gt;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.</li> <li>• Broker compensation is limited to 4% of the loan amount.</li> </ul>
<b>SELLER/INTERESTED PARTY CONTRIBUTIONS:</b>	Not applicable.