FLEX VOE

Written Verification of Employment (WVOE) is a process used by banks and mortgage lenders to review the employment history of a borrower, to determine the borrower's job stability and cross-reference income history with that stated on the Uniform Residential Loan Application (Form 1003).

WVOE ONLY				
Primary Residence only			Purchase and Rate/Term Refinance	Cash-out Refinance
Credit Score	**Max Loan Amount**	**Min Reserves**	**LTV/CLTV**	**LTV/CLTV**
660	$1.5M	6 months	80/80[1]	70/70

[1] FTHB max 70% LTV/CLTV, no gift funds allowed

WRITTEN VERFICATION OF EMPLOYMENT
• Two-year history with same employer is required. • Completed FNMA Form 1005 • Minimum credit score - 660 • 24-month 0x30 housing history required. • Paystubs, Tax Returns, 4506-T, or W-2's not required. • Max LTV 80% for purchase/R&T of owner occupied home only. Max LTV for C/O is 70%. • Must be completed by Human Resource, Payroll Department or Officer of the Company. • 2 Months Personal Bank Statements required to support the WVOE. Monthly deposits must support at least 65% of reported income is deposited into borrower's account after accounting for tax and insurance withholdings. • FTHB maximum LTV 70%, no gift funds allowed. • An internet search of the business is required with documentation to be included in the credit file to support existence of the business.

PROGRAM DETAILS	

Product Terms	**Fully Amortizing**
	• Qualifying Ratios are based on PITIA payment with the principal and interest payments amortized over the loan term
	• 7/1 LIBOR: (5/2/5 Cap Structure)
	  ○ Qualifying rate: qualify borrower(s) at the greater of the Fully-Indexed Rate or Note Rate.
	• 15 Year Fixed
	• 30 Year Fixed
	Interest-Only
	• Qualifying Ratios are based on PITIA payment with the principal and interest payments amortized over the scheduled remaining loan term at the time of recast after the interest only period has expired.
	• Loan Terms: 360 or 480 Months
	• 7/1 LIBOR: (5/2/5 Cap Structure)
	  ○ Qualifying rate: qualify borrower(s) at the greater of the Fully-Indexed Rate or Note Rate.
	  ○ Interest-Only Period: 10 Year Interest-Only Period
	  ○ Amortization Periods: 20 Year or 30 Year

Product Terms (continued)	• 30 Year Fixed
	  ○ Qualifying rate: qualify borrower(s) at the Note Rate.
	  ○ Interest-Only Period: 10 Year Interest-Only Period followed by 20 Year Amortization
	• 40 Year Fixed
	  ○ Qualifying rate: qualify borrower(s) at the Note Rate.
	  ○ Interest-Only Period: 10 Year Interest-Only Period followed by 30 Year Amortization

Minimum Loan Amount	$250,000
Interested Party Contributions (seller concessions)	LTV = 80%: max 4% LTV < 80%: max 6% All Interested Party Contributions must be properly disclosed in the sales contract, appraisal, loan estimate and closing disclosure and be compliant with applicable federal, state and local law. Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction. Interested party contributions may only be used for closing costs and prepaid expenses (Financing Concessions) and may never be applied to any portion of the down payment or contributed to the borrower's financial reserve requirements. If an Interested Party Contribution is present, both the appraised value and sales price must be reduced by the concession amount that exceeds the limits referenced above.
Escrows – Impound Accounts	Escrow funds/impound accounts are required to be established for all loans. Escrows may be established for funds collected by the lender, originator or servicer as required to be paid under the security instrument. Escrow funds include, but are not limited to, taxes, insurance (hazard, flood, and mortgage) premiums, special assessments, ground rents, water, sewer, etc.
Secondary Financing	Secondary financing must be institutional. Lenders must employ reasonable underwriting policies and procedures designed to determine whether the borrower has applied for another credit transaction secured by the same dwelling. Existing secondary financing must be subordinated and recorded or refinanced. HELOC CLTV must be calculated at the maximum available line amount unless the borrower can provide documentation the line of credit is past its draw period.
Loan Document Seasoning	Underwriting and borrower credit documents may not be more than 90 days seasoned at the Note Date. The Appraisal should be dated no more than 180 days prior to the Note Date.
Borrower Statement of Occupancy (required)	Borrower must acknowledge the intended purpose of the subject property ("Primary Residence" or "Second Home") by completing and signing the appropriate sections of the "Occupancy Certification" form. <form link to be added at a later time>
Automatic Payment Authorization	• It is recommended that the borrower execute the assignable Automatic Debit Payment Agreement (ACH) Form. < form link to be added at a later time > • The ACH form should include the bank routing number, account number, and type of account.

Borrower Contact Consent Form	• To assist the loan servicer in contacting the borrower is required to execute the Borrower Contact Consent Form < form link to be added at a later time >.
Debt to Income Ratio (DTI)	**MAX 43%** The Debt-to-Income ("DTI") ratio is calculated and reviewed for adherence to Fannie Mae guidelines and inclusion of all income and liability expenses. See most recent program matrix for applicable details.
Ability to Repay Qualified Mortgage Rule	Loans must meet the CFPB's requirements under its Ability-to-Repay (ATR) / Qualified Mortgage Rule. This includes loans that meet the general ATR requirements and certain higher-priced qualified mortgage loans with rebuttable presumption liability protection, as prescribed by the applicable regulation.
Prepayment Penalty	Not allowed
State & Federal High-Cost Loans	Not allowed
Listed Seasoning	For all cash-out refinances, properties previously listed for sale should be seasoned at least 6 months from the listing contract expiration date.
Appraisal Requirements	Full Interior / Exterior appraisal required. Fannie Mae/Freddie Mac Forms 1004/70, 1025/72 or 1073/465 must be used. • The Appraisal should be dated no more than 120 days prior to the Note Date. After a 120-day period, a re-certification of value is acceptable up to 180-days. After 180-days, a new appraisal report is required. • **NOT ELIGIBLE**: Properties for which the appraisal indicates condition ratings of C5 or C6 or a quality rating of Q6, each as determined under the Uniform Appraisal Dataset (UAD) guidelines. Second Appraisal A Second Appraisal is required when any of the following conditions exist. When a second appraisal is provided, the transactions "Appraised Value" will be the lower of the two appraisals. The second appraisal must be from a different company and appraiser than the first appraisal. • The transaction is a flip as defined in the Property Flipping section of this guide • As required under the Appraisal Review Products section of this guide
Appraisal Review Product	An appraisal review product is required on every loan file unless a 2nd appraisal is required; the options for review products include the following; • An enhanced desk review product from Clear Capital CDA must be used. ○ A $150 Desk Review Fee will be charged to the borrower and must be disclosed on the initial LE • A field review or second appraisal from an MCFI Approved AMC is acceptable. The field review or 2nd appraisal may not be from the same appraisal company as the original report. If the Appraisal Review Product (ARR, CDA, or ARA) reflects a value more than 10% below the appraised value or cannot provide a validation, the next option in the review waterfall must be followed. The next option would be either a field review or second appraisal, both must be from a different appraisal company and appraiser than the original appraisal.

Minimum Sq. Footage	• SFR: 700 sq. ft. • Condo: 500 sq. ft. • 2-4 units: 400 sq. ft. per individual unit
Personal Property	Any personal property transferred with a property sale must be deemed to have zero transfer value, as indicated by the sales contract and the appraisal. If any value is associated with the personal property, the sales price and appraised value must be reduced by the personal property value for purposes of calculating the LTV/CLTV/HCLTV.
Escrow Holdbacks	Not allowed, any repair or maintenance required by the appraiser must be completed prior to loan purchase.
Ineligible Property Types	• Rural Properties • Mixed Use properties; • Vacant land or land development properties; • Properties not readily accessible by roads that meet local standards; • Properties not suitable for year-round occupancy regardless of location; • Agricultural properties including: farms, ranches, orchards; • Manufactured, Mobile or Modular Homes; • Condo-hotels or co-op/timeshare hotels; • A project that includes registration services and offer rentals of units on a daily, weekly or monthly basis; • Cooperative share loans; • Boarding houses or bed/breakfast properties; • Properties with zoning violations; • Dome or geodesic homes; • Assisted living facilities; • Homes on Indian reservations; • Log homes; • Hawaii properties located in lava zones 1 and/or 2; • Houseboats; • Properties used for the cultivation, distribution, manufacture or sale of marijuana.
Acreage Limitations	• Maximum 10 acres; • No truncating allowed.
Eligible States	All MCFI licensed states (rate sheet for details)

Property Flipping	For properties acquired by the seller of the property within 6 months of application date where the contract price exceeds the sellers acquisition price by the following: • More than a 10% price increase if the seller acquired the property in the past 90-days; • More than a 20% price increase if the seller acquired the property in the past 91-180 days The following additional requirements apply: • Second appraisal required from a MCFI Approved AMC, (The second appraisal must be provided to the borrower in accordance with either the ECOA or HPML requirements, whichever applies) • Second appraisal must be dated/delivered prior to the loan consummation/note date; • Property seller on the purchase contract must be the owner of record; • Increases in value should be documented with commentary from the appraiser and recent comparable sales. • Sufficient documentation to validate actual cost to construct or renovate (e.g., purchase contracts, plans and specifications, receipts, invoices, lien waivers, etc.)
Title Vesting & Ownership	Ownership must be fee simple. Title must be in the Borrower's name at time of application for refinance transactions and on closing date for all transactions. Acceptable forms of vesting are: • Individuals • Joint tenants • Tenants in common • Inter Vivos Revocable Trust Land trusts and IRA's are not eligible.
Leasehold Properties	In areas where leasehold estates are commonly accepted and documented via the Appraisal, loans secured by leasehold estates are eligible for purchase. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. The leasehold estate and any improvements must constitute real property, be subject to the mortgage lien, and be insured by the lender's title policy. Documentation and Leaseholds must meet all FNMA eligibility requirements (i.e. term of lease).
Texas Properties	**Texas Purchase Loan** – Must be in compliance with the provisions of Texas Constitution Section 50(a)(6) **Rate/Term Loan** – Defined as the borrower receiving no cash in hand at closing – must meet standard eligibility criteria, all the necessary disclosures are provided to the borrower(s), existing loans meet the seasoning requirements, and recession time-periods are followed per the Texas Constitution. **Texas Equity 50(a)(6) loan** - Texas law determines whether or not a loan is a Texas Section 50(a)(6) loan.

Texas Properties (continued)	**Non-Texas Section 50(a)(6) loan** – A seasoned Texas Section 50(a)(6) loan can be refinanced into a non-Texas Section 50(a)(6) loan if certain conditions are met. A Non-Texas Section 50(a)(6) loan is eligible for purchase provided the loan meets standard eligibility criteria and the requirements of the Texas Constitution, including: • The refinanced loan is created at least a year after the initial Texas Equity 50(a)(6) loan was closed; • The loan amount only covers the actual cost of the refinancing, and does not provide the borrower with additional funds; • The LTV/CLTV does not exceed 80 percent of the fair market value; • The lender provides the borrower with certain disclosures within 3 business days of application and 12 or more days before the loan is closed; and • An affidavit that conforms to Section 50(f-1) Article XVI of the Texas Constitution must be prepared and recorded.
Limitations of Financed Properties	• Maximum of four (4) financed properties including subject. • Servicing exposure to a single borrower shall not exceed $5,000,000 in current UPB • All financed properties, other than the subject property, require an additional two (2) months PITIA in reserves for each property. Total reserve requirement is not to exceed twelve (12) months
Disaster Areas	The following guidelines apply to properties located in FEMA declared disaster areas, as identified by reviewing the FEMA web site at http://www.fema.gov/news/disasters.fema. In addition, when there is knowledge of an adverse event occurring near and around the subject property location, such as earthquakes, floods, tornadoes, or wildfires, additional due diligence shall be used to determine if the disaster guidelines should be followed. **Appraisal Completed Prior to Disaster** An interior and exterior inspection of the subject property, performed by the original appraiser if possible, is required. • The appraiser should provide a statement indicating if the subject property is free from any damage, is in the same condition from the previous inspection, and the marketability and value remain the same. • Inspection report must include photographs of the subject property and street view. • Any damage must be repaired and re-inspected prior to purchase **Appraisal Completed After Disaster Event** • Appraiser must comment on the adverse event and certify that there has been no change in the valuation. • Any existing damage notated from the original report must be repaired and re-inspected prior to purchase.

Condominiums	Fannie Mae eligible (warrantable) projects are allowed. • The client may review and approve Fannie warrantable projects, a Condo Project Warranty Certification, similar to Exhibit I must be provided with the loan package. • Projects consisting entirely of detached units will not require a project review and are eligible for single-family dwelling LTV/CLTV Project exposure maximum shall be $5,000,000 or 15% of project whichever is lower; Borrower project/unit concentration limit: two (2) units
General Project Criteria	• Project has been created and exists in full compliance with applicable local jurisdiction, State and all other applicable laws and regulations • Project meets all FNMA Insurance requirements for property, liability and fidelity coverage • Borrower must carry H06 coverage for replacement of such items as flooring, wall covering, cabinets, fixtures, built-ins and any improvements made to the unit. • Project documents do not give a unit owner or any other party priority over the rights of the 1st mortgagee.

Ineligible Projects	• A project subject to the rules and regulations of the U.S. Securities Exchange Commission.
	• Non-warrantable Condos
	• Condominium Hotel – Condotel
	  ○ Condominium Project in which any unit owner or the homeowners' association is a party to a revenue-sharing agreement with either the developer or another third-party entity.
	  ○ Condominium project where the unit is not the lessee's residence.
	  ○ Projects that are managed and operated as a hotel or motel, even though the units are individually owned.
	  ○ Projects with the names that include the words "hotel," "motel," "resort," or "lodge."
	  ○ A project that includes registration services and offer rentals of units on a daily, weekly or monthly basis.
	  ○ Hotel or motel conversions (or conversions of other similar transient properties.)
	• Resort type project
	• Timeshare or Projects that restrict the owner's ability to occupy the unit.
	• New Condo conversion completed less than 2 years.
	• Houseboat project
	• Manufactured home projects
	• Assisted living facilities or any project where unit owners contract in advance for a lifetime commitment from the facility to care for them regardless of future health or housing needs.
	• Any project in which a single entity owns more than 25% of the total number of units. Projects that have 5- 19 Units, one owner can own two units.
	• Multi-family units where single deed has ownership of more than one or all of the units.
	• Where more than 50% of total square footage in the project or in the building that the project is located in is used for non-residential purposes.

Ineligible Projects (continued)	• A Common-interest apartment
	  ○ A project in which individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific apartment unit in the building.
	  ○ The project or building is often owned by several owners as tenants-in-common or by a homeowners' association.
	• Fragmented or segmented ownership
	  ○ Ownership is limited to a specific period on a recurring basis i.e. Timeshare
	• Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA
	• Non-conforming zoning (can't be rebuilt to current density).
	• Project units sold with excessive Seller contributions that may affect the value of the subject property.
	• Any project that requires Private Transfer Fees as a part of the transaction and that fee does not benefit the association
	• Project in litigation, arbitration, mediation or other dispute regarding safety, soundness or habitability.
	• Project with adverse environmental issue(s) involving safety, soundness or habitability.
	• Projects that are not well managed or in poor physical or financial condition.
	  ○ Excessive special assessments; Low Reserves; Neglected Repairs

Warrantable Condominium Projects	Projects that are FNMA Warrantable may be reviewed and approved by Client Underwriter. A Rep and Warrant from the Client Underwriter that project meets the requirements of a FNMA Warrantable Project Condo Cert must be completed fully. The Fannie Full Project Review Process/Criteria must be utilized to determine project eligibility. Limited reviews/criteria are not eligible.
Recertification of Projects	Projects must be recertified every 6 months or at expiration of the Project Budget or Insurance, whichever is earlier. Documents Required: • Project Approval Certification Form • Current Annual Budget • Current Balance sheet (dated within the last 60 days • Evidence of current HOA/Project Insurance • Any Amendments, Supplements etc to the Project Legal documents

Transactions Types	PURCHASE
	• Proceeds from the transaction are used to finance the acquisition of the subject property
	• LTV/CLTV based upon the lessor of the sales price or appraised value
	
	RATE/TERM REFINANCE
	• Proceeds from the transaction are used to pay off an existing first mortgage loan and any subordinate loan used to acquire the property.
	• Any subordinate loan not used in the acquisition of the subject property provided one of the following apply:
	  ○ Closed end loan, at least 12 months of seasoning has occurred;
	  ○ HELOC, at least 12 months of seasoning has occurred and total draws over the past 12 months are less than $2,000.
	• Buying out a co-owner pursuant to an agreement.
	• Paying off an installment land contract executed more than 12 months from the loan application date.
	• Cash back in an amount not to exceed the lesser of 2% of the new loan amount or $5,000 can be included in the transaction.
	• LTV/CLTV based upon the appraised value.
	
	CASH-OUT
	• A refinance that does not meet the definition of a rate/term transaction.
	• A mortgage secured by a property currently owned free and clear is considered cash out.
	• The payoff of delinquent real estate taxes (60-days or more past due) is considered cash out.
	• A letter explaining the use of loan proceeds required when the cash out exceeds $250,000.
	• Loans not eligible for cash-out:
	  ○ Properties listed for sale in the past 6-months.
	• See cash-out limits.
	• Cash-Out Seasoning is defined as the difference between application date of the new loan and prior financing note date or date of purchase.
	• For properties owned 12-months or longer, the LTV/CLV is based upon the appraised value.
	• If Cash-Out Seasoning is less than (12) months but greater than (6) months the transaction property value is limited to the lower of the current appraised value or the property's purchase price + documented improvements.
	• Cash out Seasoning of less than (6) months is not allowed when the prior transaction was also a cash out.
	• Cash-Out Seasoning of six (6) months or less is allowed with the following restrictions:
	  ○ The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan subject to the maximum LTV, CLTV, and HCLTV ratios for the cash-out transaction based on the current appraised value.
	  ○ The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
	  ○ At least one of the following must exist…

Transactions Types (continued)	▪ No mortgage financing was used to obtain the property. • The original purchase transaction is documented by a settlement statement, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed or similar alternative confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at time of sale.). • The preliminary title search or report must confirm that there are no existing liens on the subject property or the existing lien being refinanced was taken out after the property was obtained as evidenced by a copy of the note. ▪ The mortgage being refinanced was used to purchase the property and has an original term of 24 months or less as evidenced by a copy of the settlement statement and original note. ▪ If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the settlement statement for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction. ▪ The lender has documented that the borrower acquired the property through an inheritance or was legally awarded the property through divorce, separation, or dissolution of a domestic partnership.
Debt Consolidation	• Cash out transactions meeting the following additional requirements may be eligible for enhanced LTV's or pricing, see Product At-A-Glance for specific criteria; ○ Mortgage and non-mortgage debts are paid off and total monthly debt payments are lowered by at least 10% ○ Closing costs are recouped within 60-months ○ Cash in hand may not exceed $5,000 or 2% of the loan balance ○ The closing documents must reflect the paid off debts
Non-Arm's Length Transaction	A non-arm's length transaction occurs when the borrower has a direct relationship or business affiliation with subject property Builder, Developer, or Seller. Examples of non-arm's length transactions include family sales, property in an estate, employer/employee sales and flip transactions. When the property seller is a corporation, partnership or any other business entity it must be ensured that the borrower is not an owner of the business entity selling the property. A non-arm's length transaction is not intended to bail out a family member who has had difficulties making their mortgage payment. A thorough review of the title report in these cases is required as well as the payment history pattern (VOM on the Seller's mortgage)

<table>
<tr>
<td>Interested Party Transaction</td>
<td>A Conflict-Of-Interest Transaction occurs when the borrower has an affiliation or relationship with the Mortgage Broker, Loan Officer, Real Estate Broker or Agent, or any other interested party to the transaction.

In the case of the Mortgage Broker, Loan Officer, or Real Estate Broker/Agent extra due diligence must be exercised. For example the seller’s real estate agent for the subject property may not act as the loan officer for the borrower(s) purchasing the same subject property. An examination of the relationship among the Mortgage Broker, Title/Escrow Companies, Appraiser and any other party to the transaction must be closely examined. A Letter of Explanation regarding the relationship between the parties is required</td>
</tr>
<tr>
<td>Eligible Non-Arm’s Length and Interested Party Transactions</td>
<td>
Buyer(s)/Borrower(s) representing themselves as agent in real estate transaction
Commission earned by buyer/borrower cannot be used for down payment, closing costs, or monthly PITIAA reserves
Seller(s) representing themselves as agent in real estate transaction
Renter(s) purchasing from Landlord
24 months cancelled checks to prove timely payments required
A VOR is not acceptable
Purchase between family members
Full Documentation only
Gift of Equity requires a gift letter and the equity gift credit is to be shown on the CD
Must provide a 12-month mortgage history on existing mortgage securing subject property confirming Family Sale is not a foreclosure bailout
</td>
</tr>
<tr>
<td>Non-Arm’s Length & Interested Party Restrictions</td>
<td>
Borrower to provide cancelled check verifying the earnest money deposit
Cash-Out refinances not allowed
For-Sale-By-Owner (FSBO) transactions must be arms-length
Employer to employee sales or transfers not allowed
Property trades between buyer and seller not allowed
</td>
</tr>
<tr>
<td>Borrower Eligibility</td>
<td>Non-Occupant Co-borrowers
Not allowed
First Time Home Buyers

Max 70% LTV
No Gifts allowed
Minimum 6 months of reserves
24-month rental history required reflecting 0x30.
Payment shock limited as follows:

<table>
<tr><th></th><th><u>>36 to 43% DTI</u></th><th><u><=36 DTI</u></th></tr>
<tr><td>Credit Score >= 660:</td><td>300% current housing</td><td>Payment shock not applicable</td></tr>
</table>
Payment Shock = (Proposed Housing Payment /Present Housing Payment) * 100</td>
</tr>
</table>

Borrower Eligibility (continued)	Residency
	<table><tr><td>Eligible:</td><td>• U.S. Citizen
	• Permanent Resident Alien</td></tr><tr><td>Ineligible:</td><td>• Non-Permanent Resident Alien
	• Applicants possessing diplomatic immunity
	• Foreign Nationals
	• Inter Vivos Revocable Trust
	• Borrowers from OFAC sanctioned countries
	• Politically exposed borrowers
	• Any material parties (company or individual) to transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administrative (GSA) Excluded Party list or any other exclusionary list.</td></tr></table>
	US Citizen - Eligible without guideline restrictions
	
	Permanent Resident Alien - An alien admitted to the United States as a lawful permanent resident. Lawful permanent residents are legally accorded the privilege of residing permanently in the United States.
	• Acceptable evidence of permanent residency include the following:
	  ○ Alien Registration Receipt Card I-151 (referred to as a green card).
	  ○ Alien Registration Receipt Card I-551 (Resident Alien Card) that does not have an expiration date on the back (also known as a green card).
	  ○ Alien Registration Receipt Card I-551 (Conditional Resident Alien Card) that has an expiration date on the back, and is accompanied by a copy of the filed INS Form I-751 (petition to remove conditions).
	  ○ Non-expired foreign passport that contains a non-expired stamp (valid for a minimum of three years) reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [mm-dd-yy]. Employment Authorized."
	• Eligible without guideline restrictions.

Credit	<u>CREDIT REPORTS</u> Fannie Mae guidelines, except for the following paragraph, should be utilized for processing and documenting all required credit reports and determining borrower's credit eligibility. The credit report used to evaluate a loan may not reflect a security freeze. If the borrower(s) unfreeze credit after the date of the original credit report, a new tri-merged report must be obtained to reflect current and updated information from all repositories. <u>LOAN INTEGRITY & FRAUD CHECK</u> Data integrity is crucial to quality loan file delivery and mitigation of fraud risk. All loans must be submitted to an automated fraud and data check tool (i.e. FraudGuard, DataVerify, etc.). A copy of the findings report must be provided in the loan file along with any documentation resolving any deficiencies or red flags noted.

Credit (continued)	<u>CREDIT INQUIRIES</u> Creditor must obtain verification from borrower in the form of a signed statement attesting that their current obligations are accurate. Additionally, any credit inquiries listed on the report within 90 days of the report date must be explained, if new credit was extended borrowers must provide documentation on the current balance and payment; if no credit was extended borrower must state the purpose of the inquiry. Lenders must inform borrowers that they are obligated to inform the lender of any new extension of credit, whether unsecured or secured, that takes place during the underwriting process and up to the consummation of the loan. <u>HOUSING HISTORY</u> Mortgage/rental history is required. If a borrower's mortgage or rental history is not reported on the credit report, alternative documentation showing the most recent 24-month history (cancelled checks, mortgage/rental statements including payment history, etc.) must be provided. **Borrowers who live rent free or without a complete 24-month housing history are NOT allowed**
Consumer Credit	<u>Consumer Credit History</u> Any non-mortgage account can be no more than 30-days delinquent at time of application. Any delinquent account must either be brought current or paid off at closing. All mortgage accounts must be current at application and remain paid as agreed through closing. If a short sale, deed in lieu of foreclosure, or foreclosure has occurred within the last 12 months, no more than a 1x30x6 is allowed on each revolving debt account and no more than a 1x30x12 is allowed on each installment debt account. <u>Timeshares</u> Timeshare obligations will be treated as a consumer installment loan <u>Consumer Credit Charge-offs and Collections</u> • Individual collection and non-mortgage charge-off accounts equal to or greater than $250 and accounts that total more than $2,000 must be paid in full prior to or at closing. • Medical collections may remain open with a max cumulative balance of $10,000. • A 2nd mortgage or junior lien that has been charged off is subject to foreclosure seasoning periods for grade determination based upon the charge off date.

Consumer Credit (continued)	• Collections and charge-offs that have expired under the state statute of limitations on debts may be excluded. Evidence of expiration must be documented. • Charge-offs and collections not excluded by the above bullet points must be paid or may stay open if using one or a combination of both of the following: • Payments for open charge-offs or collections are included in the DTI (Subject to program DTI restrictions) • Reserves are sufficient to cover the balance of the charge-offs or collections and meet reserve requirements. <u>Consumer Credit Counseling Services</u> Borrowers currently participating in Fannie Mae approved credit counseling services are acceptable if most recent 12 months paid as agreed, and the CCCS administrator provides a letter allowing borrower to seek new mortgage financing <u>Judgement or Liens</u> All open judgements, garnishments, and all outstanding liens must be paid off prior to or at loan closing. <u>Income Tax Liens</u> All income tax liens (federal, state, local) must be paid off prior to or at loan closing. Tax liens that do not impact title may remain open provided the following are meet; • The file must contain a copy of the repayment agreement • A minimum of 6-payments has been made under the plan with all payments made on time • The balance of the lien must be included when determining the maximum CLTV for the program • Refinance transactions require a subordination agreement from the taxing authority
Bankruptcy History	Recent bankruptcies are allowed, all bankruptcies (except for a Chapter 13, see below) must be settled at time of application. Evidence of bankruptcy resolution is required. The length of time is measured from the discharge/dismissal date to the note date. A cash-out refinance may be used to settle the remaining balance of a Chapter 13 repayment plan. All the following requirements must be meet; • A minimum of 12-months of payments have been made under the bankruptcy plan. • The most recent 12-months of payment plans have been made on time. • The borrower has received written permission from the bankruptcy court for the mortgage transaction. Bankruptcies resolved in the last 48 months require a letter of explanation from the borrower. The situation causing the bankruptcy must be adequately documented as resolved. The new housing payment must be considered when determining if the situation is adequately resolved. If multiple bankruptcies exist in this time frame each must be addressed in the explanation.

Foreclosure Seasoning	Foreclosures completed in the last 48 months require a letter of explanation from the borrower. The situation causing the foreclosure must be adequately documented as resolved. The new housing payment must be considered when determining if the situation is adequately resolved. If multiple foreclosures exist in this time frame each must be addressed in the explanation. The length of time is measured from the settlement date to the note date. In the case of a foreclosure which was included in Bankruptcy, the seasoning timeline will start from the earlier of a) the date of discharge of bankruptcy and b) the foreclosure completion date. Re-established credit of at least 2 tradelines paid as agreed for 12 months is required or the foreclosure date will be used. Active foreclosures are not allowed.
Short Sale / Deed in Lieu Seasoning	Short Sales and Deed-in-Lieu of Foreclosures completed in the last 36 months require a letter of explanation from the borrower. The situation causing the Short Sale / Deed-In-Lieu must be adequately documented as resolved. The new housing payment must be considered when determining if the situation is adequately resolved. If multiple Short Sales and/or Deed-In-Lieu exist in this time frame each must be addressed in the explanation. The length of time is measured from the settlement date to the note date. For the Credit Grades of B, B-, and C, where the housing event can be settled, the delinquency proceeding the housing event can be ignored. In the case of a short sale/deed-in-lieu which was included in Bankruptcy, the seasoning timeline will start from the earlier of a) the date of discharge of bankruptcy and b) the short sale/deed-in-lieu completion date. Re-established credit of at least 2 tradelines paid as agreed for 12 months is required or the completion date will be used. Short Sale or Deed-In-Lieu currently in process are not allowed.
Forbearance or Modification	Forbearance or loan modifications are treated as a short sale / deed-in-lieu for grading and pricing purposes. A letter or explanation from the borrower addressing the situation that made forbearance or modification necessary must be provided. The current housing payment history along with the new housing payment must be considered when determining if the situation is adequately resolved.
Credit Score	• Decision Score: Minimum of 1 borrower with 2 credit scores. Use lower of 2 or middle of 3 credit scores generated; • For multiple borrowers: ○ Use lowest Decision Score amongst all borrowers who will be on Note and Title.
Tradelines	• At least three (3) tradelines open and reporting for a minimum of 12- months with activity in the last 12- months, or • At least two (2) tradelines open and reporting for a minimum of 24-months with activity in the last 12- months The following are <u>not acceptable to be counted as a tradeline</u>: “non-traditional” credit as defined by Fannie Mae, any liabilities in deferment status, accounts discharged through bankruptcy, authorized user accounts, charge-offs, collection accounts, foreclosures, deed in lieu of foreclosure, short sales, or pre-foreclosure sales.

Obligations Not Appearing on Credit Report	<u>Housing and Mortgage Related Obligations</u> Housing and mortgage-related obligations include property taxes, premiums and similar charges that are required by the creditor (i.e., mortgage insurance), ground rent, and leasehold payments. All properties owned by the borrower must be fully documented in this regard. These obligations must be verified using reasonably reliable records such as taxing authority or local government records, homeowner's association billing statements, information obtained from a valid and legally executed contract. <u>Current Debt Obligations, Alimony, and Child Support</u> A lender may use a credit report to verify a borrower's current debt obligations, unless the lender has reason to know that the information on the report is inaccurate or disputed. Obligations that do not appear on the credit report, such as alimony and child support, must be documented through other methods according to Fannie Mae guidelines.
Payment Shock	Payment shock should not exceed 300% of the borrower's current housing payment unless DTI is less than or equal to 36%. If the loan purpose is debt consolidation, and the net tangible benefit test is met, a payment shock calculation is not required. NOTE: See additional payment shock restrictions in the First Time Home Buyers section of this guide. Payment Shock = (Proposed Housing Payment /Present Housing Payment) * 100
Additional Credit Criteria	• Inquiries – Recent inquiries within 90 days of the credit report date must be explained by the borrower. • New debt/liabilities – A verification of all new debt/liabilities must be provided, and borrower should be qualified with the additional monthly payment. • Gap credit – There should be no new borrower debt obligations. This will be confirmed with a new gap credit report. Refer to "Credit Inquiries" section above.
Reserves	• Additional Reserves - Each financed property in addition to the subject property, will increase the applicable reserve requirement by two (2) months PITIA on the subject property to a maximum requirement of 12 months (Additional reserves based upon the PITIA of the subject property); • Reserves must be sourced and documented • Reserves for a loan with an Interest Only feature based upon the interest only payment; • ARM loans – reserves based upon initial PITIA, not the qualifying payment; • Proceeds from a cash-out refinance can be used to meet the minimum reserve requirements; • Reserve requirements are waived for Rate-And-Term Refinance transactions when the transaction results in a reduction to the monthly principal and interest payment of 10% or greater. Waiver not eligible for DTI greater than 50%. For an interest only loan the reduction is based on the amortizing payment used for loan qualification; • Proceeds from 1031 Exchange cannot be used to meet reserve requirements.
Down Payment Sourcing	Down payment funds should be documented for 60 days per the Fannie Mae Verification of Deposits and Assets guidelines with the documentation included in the loan file. Lenders must require that the borrower state the source of the down payment and provide verification. If the lender determines that the source of the down payment is another extension of credit, the lender must then consider that loan as simultaneous secondary financing. Refer to "Secondary Financing" section above.

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<tr><td>Gift Funds</td><td>

Unless otherwise specified, Gift Funds are acceptable if 5% down payment has been made by the borrower from their own resources
Fannie Mae guidelines should be used for donor relationship to borrower(s), documentation, proof of funds, and evidence of receipt;
Gift funds may not be used to meet reserve requirements;
Gift of Equity allowed for Primary Residence only. Must meet all other guidelines for Gift Funds.

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<tr><td>Asset Documentation</td><td>
In addition to documenting the down payment, closing costs, and minimum PITIA reserve requirements, all borrowers must disclose all other liquid assets. Fannie Mae guidelines prevail regarding sources and types of assets as well as assets which are not eligible for closing costs and/or reserves.

Account Statements should cover most recent 60-day period;
VOD should be dated within 30 days of loan application date;
Stocks/Bond/Mutual Funds - 100% of stock accounts can be considered in the calculation of assets for closing and reserves;
Vested Retirement Account funds – 60% may be considered for closing and/or reserves;
Non-vested or restricted stock accounts are not eligible for use as down payment or reserves.
Any assets which produce income or are used as income already included in the income calculation are not eligible for use as down payment or reserves.
When bank statements are used, large deposits must be evaluated. Large deposits are defined as any single deposit that represents more than 75% of the monthly average deposit balance. An example of how to identify a large deposit follows:

Month 1deposits
$1,000
$1,500
Month 2 deposits
$2,500
$5,000
Total deposits equal $10,000 or a monthly average of $5,000.
75% of the monthly average is $3,750.
The $5,000 deposit from month 2 needs to be sourced.

Assets held in foreign accounts may be used as a source of funds to close and to meet applicable reserve requirements. These funds must be transferred to a U.S. domiciled account in the borrower’s name at least ten (10) days prior to closing.

Documenting Assets Held in Foreign Accounts:

Assets must be verified in U.S. Dollar equivalency at the current exchange rate via either www.xe.com or the Wall Street Journal conversion table.
A copy of the two (2) most recent statements of that account. If the funds are not seasoned a minimum of sixty (60) days, a letter of explanation is required along with the information to comprise a sixty (60) day chain of funds.

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