Freddie Mac Underwriting Guidelines

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Brief Overview of the Product:

This program contains Freddie Mac guidelines for their conventional fixed rate and balloon mortgage loan programs. These guidelines are not complete Freddie Mac guidelines. As always, AllRegs should be consulted for a complete set of guidelines.

Third Party Originations:

Third Party originations are permitted on this product.

Terms, Program Types, Investor/SSI Codes:

Fixed rate mortgages are available on 10 to 30 year terms. (See Fannie Mae Underwriting Guidelines, for terms less than 10 years.)

All balloon mortgages are amortized over a 30 year term.

Generic Codes:

	Investor Code	SSI Code
10 Year Fixed Rate	C10	204
15 Year Fixed Rate	C15	6
20 Year Fixed Rate	C20	7
30 Year Fixed Rate	C30	5
30 Year No MI Investment Property	C30UINV	1588
15 Year No MI Investment Property	C15UINV	1589
5 Year Balloon	LOON5	17
7 Year Balloon	LOON7	15
10 Year Fixed Rate Stated Income	FHSTI0	2757*
15 Year Fixed Rate Stated Income	FHSTI5	2756*
20 Year Fixed Rate Stated Income	FHSTI2	2755*
30 Year Fixed Rate Stated Income	FHSTI3	2754*

* Only Available for Loan Applications Taken Prior to April 28, 2003

FNMA-Only Codes:

	Investor Code	SSI Code
30 Year Fixed	FNC30	1483
20 Year Fixed	FNC20	1484
15 Year Fixed	FNC15	1485
10 Year Fixed	FNC10	1486
7 Year Balloon	FN7B-7	1487

Note: FHLMC Special Feature/Characteristic Codes must be entered on these loans as applicable.

Maximum Loan Amounts and LTVS:

Maximum Loan Amounts:

Units	Maximum Loan Amount	Maximum Loan Amount Properties located in AK and HI Only
1	$322,700	$484,050
2	$413,100	$619,650
3	$499,300	$748,950
4	$620,500	$930,750

The charts below do not apply to Manufactured Homes closing on or after August 1, 2003. Please see the "Additional Manufactured Housing Requirements for Fannie/Freddie Loans" document posted on the main page of the Product Information Website.

Full/Alternative Documentation

Loan Purpose	Occupancy	Units	Max LTV w/o Sub Fin	Max LTV w/ Sub Fin	Max *TLTV w/ Sub Fin	Max *HTLTV w/ Sub Fin
Purchase and No Cash-Out Refinance	Primary	1-2	95%	90%	95%	100%
		3-4	80%	75%	80%	85%
	Second Home	1	95%	90%	95%	100%
	Investment	1-2	90%	85%	90%	95%
		3-4	75%	70%	75%	80%
Cash-Out Refinance	Primary	1-2	90%	85%	90%	95%
		3-4	75%	70%	75%	80%
	Second Home	1	90%	85%	90%	95%
	Investment	1-2	85%	80%	85%	90%
		3-4	70%	65%	70%	75%
Streamlined Refinance	Primary	1-2	95%	90%	95%	100%
	Second Home	1	95%	90%	95%	100%

*TLTV must be calculated based on the **disbursed** amount of the line or loan. HTLTV is calculated based on the high credit limit of the line (TLTV limit must still be met). Refer to the Subordinate Financing section for instructions on how to calculate both.

Stated Income (Balloons not permitted): Only Available for Loan Applications Taken Prior to April 28, 2003

Loan Purpose	Occupancy	Units	Max LTV w/o Sub Fin	Max LTV w/ Sub Fin	Max *TLTV w/ Sub Fin	Max *HTLTV w/ Sub Fin
Purchase and No Cash-Out Refinance	Primary	1-2	90%	N/A	N/A	N/A
	Second Homes	1	90%	N/A	N/A	N/A

*TLTV must be calculated based on the **disbursed** amount of the line or loan. HTLTV is calculated based on the high credit limit of the line (TLTV limit must still be met). Refer to the Subordinate Financing section for instructions on how to calculate both.

One-time Close Construction Perm: Capped Float Down/Interest Rate Lock – Option 1 and 2

Loan Purpose	Occupancy	Units	LTV	CLTV (1)
Purchase	Primary Residence	1-2	95%	N/A
	Second Homes	1	95%	N/A
Purchase/Limited Cash-Out Refinance(2)	Primary Residence	1	90%	95.00%
		2	90%	N/A
		3-4	80%	
	Second Home	1	90%	89.9%

(1) Subordinate financing is permitted only when the second is originated under the NHE Construction/Perm Second Mortgage Program

(2) Refinance transactions on One-Time Close Construction Perm loans are not permitted by Freddie Mac

One-Time Close Construction/Perm Option:

- Refer to the Construction-Perm Manual for detailed information on the One-Time Close Program.
- Both the Capped Float Down and Interest Rate Lock Options available.
- Lender Paid MI, Financed MI, and Stated Income features are not permitted with the Construction/Perm Option
- Effective with loans closing 1/2/2003 and after the following additional guidelines will apply:
  - Loans must be treated as purchase transactions only
  - The LTV will be based upon the lesser of the appraised value or the purchase price (appraised value of the lot plus the documented actual cost to construct the improvements).
  - Lot equity can be used to cover the borrower's down-payment and/or closing costs. The equity will be based upon the appraised value of the land, less any outstanding liens.
  - Construction Perm loans may not be used to do rehabilitation or renovation on existing properties
  - All credit documents and appraisal may be dated no more than 120 days prior to the initial note date

End Loans

Freddie Mac will consider transactions in which a single disbursement is being made to payoff the builder/contractor/other construction loan lender to be a purchase or a refinance transaction (if the Borrower currently holds title to the lot). The LTV for end loans being considered refinance transactions will be based on appraised value; there are no seasoning requirements.

All credit documents and appraisal may be dated no more than 180 days prior to the initial note date.

Temporary Buydowns:

- Permitted on Purchase and No Cash-Out transactions only
- Premium-priced buydowns on No Cash-Out Refinances are not permitted. (This includes buydowns on any premium-priced No Cash-Out Refinance loan regardless of whether the premium-pricing covered the closing costs, and prepaids, and the Borrower paid the buydown funds out of his/her own funds, or rolled the cost of the buydown into the loan amount).
- Permitted on Primary and Second Homes only
- 5 Year Balloons with buydowns are limited to 1 unit Primary and Second Homes only
- The initial interest rate cannot be more than 3 percentage points below the Note Rate
- The buydown plan cannot extend for more than 3 years after the first scheduled payment date
- Increases may take place once annually and may increase by no more than 1 percent per adjustment
- Qualifying Borrower on a 2-1 Buydown:
  - Primary: Initial interest rate
  - Second Home: Note rate
- Qualifying Borrower on a 3-2-1 Buydown:
  - Primary with LTV ≤ 80%: Initial interest rate
  - Primary with LTV > 80%: Second year interest rate
  - Second Home: Note rate
- If trailing Co-Borrower income is being used to qualify, the Note rate must be used to qualify

Compressed Buydowns:

Compressed Buydowns permit an interest rate adjustment semi-annually. All of the Temporary Buydown Section requirements listed above must be met with the following additions and/or changes:

- Fixed rate loans only
- A minimum of 6 months must elapse before the first interest rate adjustment and a minimum of 6 months must elapse between subsequent adjustments
- Interest Rate adjustments are limited to twice per year
- Interest rate cannot increase more than 0.5% per adjustment
- The initial rate can be no more than 2.5% below the Note rate
- The buydown plan cannot extend for more than 30 months

Temporary Buydowns: (continued)

Compressed Buydowns: (continued)

- The following Investor Codes must be used:
  - 30 year term: COMPBD30 (SSI 7110)
  - 20 year term: COMPBD20 (SSI 7111)
  - 15 year term: COMPBD15 (SSI 7112)
  - 10 year term: COMPBD10 (SSI 7113)

Balloon Information:

- At the maturity date of the Note, the Borrower may be able to refinance to a new Note and Mortgage with a maturity date of 23 years or 25 years.
- Certain conditions must be met if the Borrower wishes to exercise the right to refinance. These conditions are:
  - The Borrower must still be the owner and occupant of the property, however if the loan was originated as an investment property, the Borrower does not need to be the occupant of the premises*.
  - The Borrower must be current in their monthly payment as of the maturity date and <u>cannot</u> have been more than 30 days late on any of the 12 scheduled payments immediately preceding the maturity date
  - No other liens* against the Property may exist
  - The refinance fixed rate cannot be more than 5% (500 basis points) above the current Note rate
  - The Borrower must make written request to refinance

  *If the loan is not being closed under the Fannie-Only Balloon Investor Code **and** it is either an investment property or the loan has secondary financing, see the Closing Requirements and Special Forms Section of these guides for changes that should be made to the Closing Docs.
- The refinance rate will be equal to the FHLMC required net yield for a 30 year, fixed rate mortgage for a 60 day mandatory delivery plus one-half of one percent (0.500%) rounded to the nearest one-eighth of one percent (0.125%) in effect on the date that the Borrower gives notice to exercise the refinance. Borrower with a refinance rate no greater than 5% above the original Note rate will not require updated credit qualifications.

Eligible States:

All states are eligible with the following exceptions:

- For Third Party Originated Mortgages, Refer to Procedures for additional State restrictions.
- Montana: Properties exceeding 40 acres are ineligible.
- Texas: Cash-Out Refinances on Primary Residences are only permitted on loans meeting Section 50 (a)(1) through (5) of the Texas Constitution—(For example, paying off a loan used to improve the home would be acceptable).
- Georgia: Stated Income Loans on Primary Residences are not permitted.
- Georgia: Primary residence transactions limited to $1 over current conforming limits for loans funded/closed between October 1, 2002 and March 6, 2003.

Eligible Borrowers:

- U.S. Citizens
- Permanent Resident Aliens:
  - Eligible for a mortgage on the same terms as a U.S. Citizen
  - Documentation must be provided to evidence permanent residency
- Non-Permanent Resident Aliens:
  - Two year employment verification in the U.S. or in the Borrower's previous country
  - Two year credit and residency history must be established and verified in the U.S. or in the Borrower's previous country.
  - Verification that the Borrowers are legally residing/working in the U.S. must be supplied. (Diplomatic visas are unacceptable).

Eligible Borrowers: (continued)

- Inter Vivos Revocable Trusts are acceptable Borrowers as long as the following requirements are met:
  - The subject property must be a one-family primary residence that is occupied by at least one of the individuals establishing the trust or a one-family second home
  - The trust must be established by a written document during the lifetime of the individual establishing the trust to be effective during his/her lifetime
  - The trust must be one in which the individual establishing the trust has reserved to himself/herself the right to revoke the trust during his/her lifetime
  - The primary beneficiary of the trust must be the individual establishing the trust. If the trust is established jointly by more than one individual, there may be more than one primary beneficiary--as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage and that individual will occupy the security property and sign the mortgage instruments
  - The beneficiary is not required to grant written consent for the trust to borrower money, or, if such consent is required, it has been granted in writing for purposes of this new Mortgage
  - The trust document must name one or more trustees to hold legal title to, and manage the property that has been placed in the trust. The trustees must include either the individual establishing the trust (or at least one of the individuals if the trust is jointly held) or an institutional trustee that customarily performs trust functions in the relevant state
  - The trustee(s) must have the power to mortgage the subject property for the purpose of securing a loan to the party (or parties) who are the “Borrower(s)” under the mortgage note
  - Full title to the subject property must be vested in the trustee(s) of the Inter Vivos Revocable Trust; there may be no other owners
  - The title insurance policy must assure full title protection to FHLMC and must state that the title to the subject property is vested in the trustee(s) of the Inter Vivos Revocable Trust. It must not list any exceptions with respect to the trustee(s) holding title to the subject property or to the trust
  - The mortgage must be underwritten as if the individual(s) establishing the trust were the Borrower(s) or Co-borrower if there are additional individuals whose income or assets will be used to qualify the mortgage
  - There is no unusual risk or impairment of lender’s rights (such as distributions required to be made in specified amounts from other than net income)
  - The closing documents must be executed as follows:
    - ⇒ Each trustee and each individual establishing the trust whose income or assets were used to qualify for the mortgage must separately execute the mortgage note and any necessary addendum.
    - ⇒ The trustee(s) of the revocable trust must also execute the security instrument (mortgage or deed of trust) and any applicable rider.
    - ⇒ Each individual establishing the trust whose income or assets were used to qualify for the mortgage must acknowledge all of the terms and covenants contained in the security instrument and any necessary rider and agree to be bound by placing his/her signature after a statement of acknowledgement on such document.
    - ⇒ Any other party required to sign either the promissory note or the security instrument must also execute the applicable document(s). Exhibit A includes the form of signature for the trustee(s) and the statement of acknowledgement for each individual establishing the trust whose income or assets were used to qualify for the mortgage.
    - ⇒ The closing agent will be responsible for making any modifications that are needed to conform these signature forms to those that are customary for the state.
  - Trustees may be excluded from personal liability under the mortgage instrument subject to:
    - ⇒ Under the mortgage note, institutional trustees and individual trustees (other than individuals serving as trustees whose income or assets were used to qualify for the mortgage, including individuals who established the trust) may be excluded from personal liability.
    - ⇒ Under the security instrument, institutional trustees and individual trustees (other than individuals serving as trustees who both established the trust and whose income or assets were used to qualify for the mortgage) may be excluded from personal liability.
  - For all mortgages made to a revocable trust, a Revocable Trust Rider will be required as additional mortgage documentation. A sample Rider is enclosed (Exhibit B). The Rider is to be executed by the trustee(s) and by any other party required to sign the security instrument and acknowledged by each individual establishing the trust whose income or assets were used to qualify for the mortgage.

Eligible Borrowers: (continued)

Inter Vivos Revocable Trusts (continued):

- Due to the number of states in which we do business, we will hold responsible the Closing Agent to appropriately modify the Revocable Trust Rider and the form of signature(s) required on the Note and Security Instrument to reflect the requirements of the applicable state law. Minor variances based on individual state laws will be acceptable as long as our rights as the creditor are fully protected. The title insurers must be willing to provide full title insurance coverage without exception for the trust or the trustees for revocable trusts in that state.

Property Eligibility:

Please call to inquire about eligibility if your property type is not reflected.

- Primary Residences 1-4 Units
- Second Homes 1 Unit only
- Investment Properties 1-4 Units
- Condos
- PUDS
- Manufactured Housing
- Modular or Panelized Housing
- Leaseholds
- Unique Properties

Ineligible Properties:

- Singlewide Manufactured Homes
- Condos with Leaseholds
- Cooperatives
- Commercial Properties
- Working Farms
- Orchards
- Manufactured Homes in Ground Lease Communities
- Native American Leasehold Estates

Property Considerations:

Investment Property Requirements:

- LTVs exceeding 75%, must receive an “Accept” through Loan Prospector. Loan may not be manually underwritten unless the FICO indicator score is 720. No Exceptions!!
- For manually underwritten mortgages on investment property, bankruptcies, foreclosures or deeds-in-lieu of foreclosure within the last seven years must be attributable to extenuating circumstances only. The requirements for extenuating circumstances and reestablishment of credit must be met.
- The Borrower may not be affiliated in any way with the builder, developer, or property seller
- The expenses related to the Borrower’s current primary residence must be used in calculating the Borrower’s monthly housing expense-to-income ratio
- Gift funds are not permitted
- Rent loss insurance is required on the investment property providing the insurer’s liability in an amount equal to the gross monthly rent for at least six months when rental income is used to qualify.
- If rental income is used to qualify, the Borrower must have a 2 year history of managing investment properties.
- Buydowns are not permitted
- If rental income is not used for qualifying, the subject property’s PITI plus operating expenses must be used in calculating the monthly debt payment-to-income ratio.
- The Borrower must have 6 months PITI in reserves even if rental income is not used.

Property Eligibility:	(continued)

Property Considerations:	(continued)

Investment Property Requirements (continued):

- If the borrower owns more than one _financed_ Investment Property (including the subject investment property) the following must also be met:
  - The Borrower may have individual and/or joint ownership of no more than ten, 1-4 unit properties that are financed, including the subject property
  - The subject mortgage must be a fixed-rate mortgage with a term of 15, 20 or 30 years and cannot have been originated as an A-Minus Mortgage. (Balloons are ineligible.).
  - The Borrower must provide proof of rent loss insurance on ALL the Investment Properties listed in the Schedule of Real Estate Owned on the 1003 – even if some of those properties are owned free and clear

Condo Requirements:

- Please submit all condos through proper channels to obtain condo approval.
- **California Condos require special handling due to delivery fee requirements. See Procedures for details.**
- Condotels are not permitted
- Projects composed of only detached one-unit dwellings (site condominiums) are permitted with the following conditions:
  - The project is composed of 1 unit dwellings and does not include manufactured housing units
  - The subject property is a primary residence
  - The mortgage on the subject property is covered by a title insurance policy that includes an ALTA Form 4, condo endorsement or its equivalent
  - The property is covered by hazard, flood, liability and fidelity insurance as required
- All projects must meet FHLMC warranties, guidelines and insurance requirements as follows:
  - Class III Condominium Projects must meet all of the following criteria:
    - ⇒ The homeowners association has been controlled by the unit owners (other than the developer) for at least one year
    - ⇒ The Condominium Project, including all units, common elements and amenities must be complete.
    - ⇒ The project is not subject to phasing or add-ons
    - ⇒ The following must be warranted:
      - ✓ The marketability of the project has been proven
      - ✓ At least 90% of the units have been sold to bona fide purchasers other than the developer. Multiple purchases of units by one owner are counted as one sale when determining if the sales requirement has been met.
      - ✓ At least 60% of the total number of units within the project have been conveyed to purchasers who are occupying the units as their primary residence or second home, unless the mortgage is a purchase or no cash-out refinance transaction, with a TLTV of 90% or less, or a cash-out refinance with a TLTV of 75% or less, and will be occupied by the owner as a primary residence or second home.
      - ✓ Any first mortgagee who obtains title to a condo unit pursuant to the remedies in the mortgage or through foreclosure will not be liable for more than 6 months of the unit's unpaid regularly budgeted dues accrued prior to the acquisition of the unit. If the condo association's lien priority includes costs of collecting unpaid dues, the Seller will be liable for any fees or costs related to the collection of the unpaid dues.
  - Class II Condominium Projects must meet all of the following criteria:
    - ⇒ The homeowners association is controlled by the unit owners (other than the developer)
    - ⇒ The Condominium Project, including all units, common elements and amenities must be complete.
    - ⇒ The project is not subject to phasing or add-ons that have not yet been completed
    - ⇒ The following must be warranted:
      - ✓ The condo project has been created and exists in full compliance with the requirements of the condo enabling statute and all other applicable laws of the jurisdiction where the project is located
      - ✓ Any right of first refusal in the condo constituent documents will not impair the first mortgagee to
        1. Foreclose or take title to a condo unit pursuant to the remedies in the mortgage
        2. Accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor
        3. Sell or lease a unit acquired by the mortgagee

Property Eligibility: (continued)

Property Considerations: (continued)

Condo Requirements (continued):

- ✓ Any first mortgagee who obtains title to a condo unit pursuant to the remedies in the mortgage or through foreclosure will not be liable for more than 6 months of the unit's unpaid regularly budgeted dues accrued prior to the acquisition of the title to the unit. If the condo association's lien priority includes costs of collecting unpaid dues, the Seller/Servicer will be liable for any fees or costs related to the collection of the unpaid dues.
- ✓ Except as provided by statute, in case of condemnation or substantial loss to the units and/or common elements of the condo project, the condo homeowners association is not entitled to take any of the following actions, unless at least 2/3 of the first mortgagees or unit owners give their consent:
  1. Seek to abandon or terminate the condo project by act or omission
  2. Change the pro rata interest or obligations of any condo unit in order to levy assessments or charges, allocate distribution of hazard insurance proceeds or condemnation awards or determine the pro rata share of ownership of each condo unit in the common elements
  3. Partition or subdivide any condo unit
  4. By act or omission seek to abandon, partition, subdivide, encumber, sell or transfer the common elements. The granting of easements for public utilities or other public purposes consistent with the intended use of the common elements by the condo project is not a transfer in the meaning of this clause.
  5. Use hazard insurance proceeds for losses to any condo property (whether units or common elements) for other than the repair, replacement or reconstruction of the condo property

  The project, including all common elements and amenities, is complete. All amenities are covered by the mortgage at least to the same extent as the common elements
- ✓ All taxes, assessments and charges that may become liens prior to the first mortgage under local law relate only to the individual condo unit and not to the condo project as a whole
- ✓ No provision of the condo constituent documents gives a condo unit owner or any other party priority over any rights of the first mortgagee of the condo unit pursuant to its mortgage in the case of a payment to the unit owner of insurance proceeds or condemnation awards for losses to or a taking of condo units and/or common elements
- ✓ At least 70% of the units have been sold and conveyed to bona fide purchasers. Multiple purchases of units by one owner are counted as one sale when determining if the sales requirement has been met.
- ✓ At least 60% of the units are occupied as primary residences or second homes. FHLMC has the right to reduce both the presale and owner-occupied residence percentages for particular projects
- ✓ No more than 15% of the unit owners are more than one month delinquent in payment of homeowner's dues or assessments at the time of delivery of the mortgage.

- Class I Condo Projects must meet all of the following criteria:
  - ⇒ Developer control has not yet terminated or a project that is still subject to phasing or add-ons that have not yet been completed.
  - ⇒ All project facilities and common area improvements are complete such as, parking, recreational and service areas.
  - ⇒ The completed sections or phases contain enough units to support any common elements or recreational facilities prior to any additional phasing or add-ons.
  - ⇒ 70% of the units are sold or under contract to be sold (multiple purchases by one owner are counted as one sale.)
  - ⇒ 70% of units sold are owner-occupied primary or second homes.
  - ⇒ Units are owned fee simple. Owners have sole ownership in and rights to use facilities and common areas.
  - ⇒ Project operating budget is consistent with nature of project and provides adequate replacement reserves.
  - ⇒ Project complies with all legal requirements.

Property Considerations: (continued)

Condo Requirements: (continued)

- Condo Insurance Requirements:

  Blanket Coverage:

  - The condo owner's association must maintain blanket "all risk" coverage for the following:
    - ✓ General and limited common elements within the condo
    - ✓ Fixtures, machinery, equipment and supplies maintained for the service of the condo
    - ✓ Fixtures, improvements, alterations and equipment within the individual units
  - Coverage must be for 100% of the insurable value of the common elements or property described above and provide for loss or damage settlement on a replacement cost basis
  - The additional coverage required of PUD homeowner's associations are also required of condo owner's associations where applicable and available.
  - Deductibles may not exceed the lower of $10,000 or 1% of the applicable amount of coverage. Funds for such deductibles must be included in the association's reserves and be so designated.
  - The insurance policy of the condo owner's association must name the insured in substantially the same language indicated below:
  - Association of Owners of the ______ Condominium for the use and benefit of the individual owners (designated by name, if required by law or the constituent documents).

  Insurance for Detached Common Elements and Property:

  - The condo owners' association must maintain coverage for detached common elements and property for 100% of their insurable value
  - If the condo consists of high rise or other vertical dwelling units, the condo association must maintain coverage that meets the following requirements:
    - ⇒ The amount of buildings coverage must equal 100% of the insurable value of the common elements and property, including any machinery and equipment that are part of the buildings
    - ⇒ The contents coverage must equal 100% of the insurable value of all contents including machinery and equipment not part of the building, that are owned in common by the association members
    - ⇒ Deductibles may not exceed the lower of $5,000 or 1% of the applicable amount of coverage
    - ⇒ Funds for such deductibles must be included in the association's reserves and be so designated
    - ⇒ A separate condo association endorsement is required if not already a part of the policy

  Liability Insurance:

  - The condo owners' association must carry comprehensive general liability insurance covering all common areas, common elements, commercial spaces and public ways in the condo project. If not already included in the terms of the coverage, there must be a "severability of interest" endorsement precluding the insurer's denial of a unit owner's claim because of negligent acts by the association or other unit owners.
  - The association must carry any additional coverage commonly required by private mortgage investors for developments similar in construction, location and use, including the following where applicable and available:
    - ⇒ Comprehensive automobile liability
    - ⇒ Bailee's liability
    - ⇒ Elevator collision liability
    - ⇒ Garage keeper's liability
    - ⇒ Host liquor liability
    - ⇒ Worker's compensation and employer's liability
    - ⇒ Contractual liability
  - The insurer's limit of liability per occurrence for personal injury, bodily injury or property damage under the terms of the above coverages must be at least $1Million

Property Eligibility: (continued)

Property Considerations: (continued)

Condo Requirements (continued):

Fidelity Insurance:

- Fidelity insurance is require for projects that contain more than 20 units
- FHLMC will accept coverage that meets a State's statutory fidelity insurance requirements
- Fidelity insurance must cover losses resulting from dishonest or fraudulent acts committed by the association's directors, managers, trustees, employees or volunteers who manage the funds collected and held for the benefit of the condo unit owners. A professional management firm must be insured to the same extent as a condo owners' association that manages its own operation. The management firm must submit evidence of such coverage to the condo owners' association
- Fidelity insurance must have the following characteristics:
  - ⇒ The policy must name the owners' association as the insured and premiums must be paid as a common expense by the association
  - ⇒ The coverage must equal no less than the maximum amount of funds in the association's or management firm's custody at any one time. A lesser amount of coverage is acceptable for a project if the condo's documents require the owners' association and any management company to adhere to certain financial controls. However, in such case, the amount of coverage must at lease equal the sum of 3 months assessments on all units in the project.
- To accept reduced fidelity insurance coverage base on greater financial controls, the financial controls must include at least one of the following provisions:
  - ✓ Separate accounts for the working account and the reserve account are maintained by the owners' association or the management company. The depository institution in which funds are deposited sends copies of the monthly account statements directly to the owners' association
  - ✓ Separate records and accounts are maintained for each owners' association using the management company's services. The management company does not have the authority to draw checks on or to transfer funds from the reserve account of the owners' association
  - ✓ Two or more members of the board of directors must sign any checks drafted against the reserve account

- Streamlined Project Review: Allows limited warranties for certain condo projects that meet the following conditions to utilize streamlined project review:
  - The subject property is a 1 unit primary residence
  - The LTV ratio does not exceed 75%
  - There is no secondary financing
  - The project is not a condo hotel
  - The homeowners association maintains the insurance coverage on the condo project and the Borrowers maintain the insurance coverage on the individual units as required.
  - The condo unit securing the mortgage is not subject to any timesharing agreement
  - The condo must comply with all laws as stated in the above condo Classes
  - The same provisions regarding unpaid homeowner association dues applies
  - All stipulations in the above condo Classes regarding taxes, assessments and charges apply
  - All common elements and amenities are complete

PUD Requirements:

- Please submit all PUDs through proper channels to obtain PUD approval.
- All projects must meet FHLMC requirements as follows:
  - The individual unit owners own a parcel of land improved with a dwelling. This ownership is not in common with other unit owners.
  - The development is administered by a homeowners association that owns and is obligated to maintain property and improvements within the development (for example, greenbelts, recreation facilities and parking areas) for the common use and benefit of the unit owners.
  - The unit owners have an automatic, nonseverable interest in the homeowners association and pay mandatory assessments.

Property Eligibility: (continued)

Property Considerations: (continued)

PUD Requirements (continued):

- Insurance requirements:
  - If the individual units are covered by insurance purchased by their respective owners, the PUD homeowners' association must maintain "all risk" coverage for common areas and property for 100% of their insurable value and providing for loss or damage settlement on a replacement cost basis. The association must also obtain any additional coverage commonly required by private mortgage investors for developments similar in construction, location and use, including the following where applicable and available:
    - ✓ Agreed amount
    - ✓ Demolition cost
    - ✓ Increased cost of construction
    - ✓ Boiler and machinery
  - The PUD homeowners' association must maintain coverage on common areas and property for 100% of their insurable value. Deductibles may not exceed the lower of $5,000 or 1% of the applicable amount of coverage. Funds for such deductibles must be included in the association's reserves and must be so designated.

  <u>Liability Insurance:</u>
  - The PUD owners' association must carry comprehensive general liability insurance covering all common areas, common elements, commercial spaces and public ways in the PUD project. If not already included in the terms of the coverage, there must be a "severability of interest" endorsement precluding the insurer's denial of a unit owner's claim because of negligent acts by the association or other unit owners.
  - The association must carry any additional coverage commonly required by private mortgage investors for developments similar in construction, location and use, including the following where applicable and available:
    - ⇒ Comprehensive automobile liability
    - ⇒ Bailee's liability
    - ⇒ Elevator collision liability
    - ⇒ Garage keeper's liability
    - ⇒ Host liquor liability
    - ⇒ Worker's compensation and employer's liability
    - ⇒ Contractual liability
  - The insurer's limit of liability per occurrence for personal injury, bodily injury or property damage under the terms of the above coverage's must be at least $1Million

Manufactured Housing Requirements:

- All manufactured home loans must receive an Accept from LP.
- The manufactured home must be 22 feet wide (single wide manufactured homes are not acceptable)
- Only primary and second home transactions are permitted.
- The land and improvements must be included under one mortgage or deed of trust.
- Maximum financing is not available for cash-out refinances; therefore, LTVs must be reduced by 5% on all cash-out refinance transactions (e.g. if maximum LTV for a cash-out transaction is 80% then new LTV limit is 75%).
- Subordinate financing will not be permitted on Manufactured Housing.
- The subject property must be taxed as real property at closing. The loan may not close as personal property and convert to real property after closing.
- Manufactured homes in ground lease communities are unacceptable.
- Must be built on a permanent chassis
- Designed to be used as a dwelling with a permanent foundation.
- Meets Federal Manufactured Home Construction and Safety Standards established by the Department of Housing and Urban Development in 1976. A "certification label" must be affixed to each transportable section of the manufactured home. Homes constructed prior to this time or not in accordance with this standard will be unacceptable.

Property Considerations: (continued)

Manufactured Housing Requirements (continued):

- The following standards must be met:
  - Must be a one-unit dwelling.
  - The site is served by utilities and off-site improvements meeting community standards.
  - The property conforms to all applicable use restrictions.
  - The property is zoned for residential use and not commercial or business uses.
  - The materials and construction of the improvements are acceptable in the area.
  - A licensed professional engineer or the local or state authority has approved any structural modifications for the Manufactured Home.
  - The appraisal report demonstrates the market value and marketability of the Mortgaged Premises.
  - The Mortgage amount does not include the financing of personal property (such as furniture) or any type of insurance other than mortgage insurance.
- Must be permanently affixed to a site-built foundation designed by a licensed professional engineer which is suitable for the soil conditions of the site. All foundations must:
  - Have footings that are suitable for the soil, climate, and geological conditions of the site.
  - Be able to support the size and weight of the manufactured home.
  - Meet federal, state and local laws, rules and regulations.
  - For existing properties, the appraiser may verify with the state or local authority that a licensed professional engineer approved the permanent foundation system or a new inspection report can be provided by the engineer as verification that all foundation requirements have been met.
- Wheels, axles and trailer hitches must be removed
- The land must be owned in fee simple or be an acceptable leasehold estate.
- A Manufactured Home must be described in the Security Instrument and the description should include the year, make, model and HUD serial number(s) for each section of the Manufactured Home.
- Refer to the Appraisal section for specific requirements regarding the appraisal.
- **Loans Closing on or after August 1, 2003 must meet additional requirements. Please see the "Additional Manufactured Housing Requirements for Fannie/Freddie Loans" document posted on the main page of the Product Information Website.**

Modular or Panelized Housing:

- Must meet Freddie Mac's standard mortgage and property eligibility requirements

Leasehold Requirements:

- A completed Ground Lease Analysis, Form 461, is required (Exhibit E)
- The leasehold mortgage constitutes an interest in real estate
- The lease and any sublease (including all amendments) are recorded in the appropriate land records. A memorandum of lease or sublease may be recorded in lieu of the complete lease or sublease.
- The lease is in full force and effect and is binding and enforceable against the lessor.
- If the lessor's fee simple interest in the land is subject to any encumbrances or liens, the fee simple lienholder has executed and recorded a nondisturbance and attornment agreement that contains the following provisions:
  - The lease or any of the rights of the lessee under the lease will not be terminated or otherwise affected by enforcement of any lien or other rights granted to the fee simple lienholder
  - The rights of the leasehold mortgagee will not be terminated or otherwise affected by enforcement of any lien or rights granted to the fee simple lienholder
  - The fee simple lienholder will not name the lessee or the leasehold mortgagee as a party defendant in any action to enforce its lien
  - If the fee simple lienholder forecloses on its lien, the lease will continue in full force and effect as a direct lease between the fee simple lienholder and the lessee or, if applicable, the leasehold mortgagee
  - The fee simple lienholder will accept the attornment of the lessee
  - The lien of the fee simple lienholder on the real property does not extend to the improvements and fixtures, real or personal property owned by the lessee
  - The lessee and the leasehold mortgagee have no liability or obligation to the fee simple lienholder in connection with its lien on the fee simple interest
  - Condemnation and insurance proceeds awarded to the lessor will be used for the restoration, repair or replacement of the property damaged or taken by condemnation if economically feasible.

Property Eligibility: (continued)

Property Considerations: (continued)

Leasehold Requirements (continued):

- The nondisturbance provisions listed above may be contingent on the lease being in full force and effect and the lessee (or the leasehold mortgage if has exercised its rights under the lease and the leasehold mortgage) not being in default in the payment of rent, taxes or property insurance. If the lease contains any provisions requiring the lessee to agree to the subordination of the lease to liens or encumbrances on the fee simple interests, these provisions must be conditioned on the lessee and the leasehold mortgagee receiving a recorded nondisturbance and attornment agreement that contains the provisions stated above and is executed by the fee simple lienholder.

- The lease is a lease of the fee or a sublease executed by both the fee owner and the sublessor. If the lease is a sublease, it must contain a nondisturbance and attornment agreement.
- The use of leasehold estates for residential properties is an accepted practice in the area and is readily marketable
- The instrument creating the lease, sublease or conveyance reserving ground rents is in a form commonly acceptable to the mortgage investors in the area
- The original term of the lease, or any exercised option to renew the lease, or any renewals enforceable by the leasehold mortgagee, does not terminate earlier than 5 years after the maturity date of the mortgage
- The lease cannot contain provisions for termination in the event of damage to or destruction of the property so long as the leasehold mortgage exists
- For subleasehold mortgages, the amount of the sublease payments is at least equal to the amount of the lease payments. The sublease payments are due no less frequently than the lease payments
- The lease must permit mortgaging of the leasehold estate
- The lease must permit assignments of the leasehold estate without the lessor's consent; however if the leasehold is in a restricted community, including but not limited to communities restricted to residents of certain ages or income, the lease must require that the assignee/lessee satisfy those restrictions. The lease may permit the lessor to review and consent to or deny a proposed assignee/lessee based on whether the proposed assignee/lessee satisifies the creditworthiness requirements of the investor. The lessor will have five business days after receipt of the application to deny the assignee/lessee.
- The lease must provide for release of an assigning lessee
- The lease must permit the leasehold mortgage security to be insured under a hazard insurance policy
- The lease must provide for payment of hazard insurance proceeds to the leasehold mortgagee or insurance trustee
- The lease must contain the following provisions governing increases in the basic rent and amounts due under the lease:
  - Basic Rent
    - ⇒ Permit an increase in the basic rent during the term of the mortgage and within five years after the maturity date of the mortgage only if the increase is a sum certain amount at a specified date or time interval. During this period, basic rent increases based on the cost of living index or other indices or reappraisal are acceptable if the amount of such increases is subject to an annual maximum limitation.
  - Taxes, Insurance and Utilities
    - ⇒ Increases in amounts due under the lease for taxes, insurance, and utilities on the leasehold estate, if collected and paid by the lessor, and taxes, insurance, and utilities related to the common areas and facilities in the ground lease community are permitted if:
      - ✓ The increase is determined in the same manner as basic rent, including a maximum limitation, or
      - ✓ The increase is based on the verifiable increase in such items imposed by third parties, and
      - ✓ The lease provides for the lessee to obtain documentation of the amount paid to third parties for taxes, insurance and utilities.
  - Use Fees and Operating Expenses
    - ⇒ Increases for use fees and operating expenses for the common areas, facilities and services in the ground lease community may not exceed the cost of living index.
- The lease must provide for written notice of default by the lessor to the leasehold mortgagee as a condition of the validity of the notice of default
- The lease must provide for the right of the leasehold mortgagee, in its sole discretion, to cure a default for the lessee's account within the time permitted to lessee plus reasonable additional time.

Property Considerations: (continued)

Leasehold Requirements (continued):

- The lease must provide for no termination for noncurable default as long as no default in rent exists, except for a court-ordered termination. In the event of a court-ordered termination, the lease must provide for title to the improvements to revert to the lessor. In addition, the lease must provide for a new lease of the same priority to be given to the leasehold mortgagee, or its designee, in the event the lease terminates because of a court ordered termination. The lessor must provide a title endorsement insuring that the new lease is of the same priority and that the lien on the leasehold estate is a first lien. For purposes of this paragraph, “rent” includes basic rent, other amounts due under the ground lease for such items as taxes, insurance, and utilities on the leasehold estate, if collected and paid by the lessor, and any other use fees and operating expenses to the extent such charges are necessary for the maintenance and preservation of the common areas and community facilities.
- Provide that in the event of the bankruptcy of the lessor or the lessee, the lessee must notify the leasehold mortgagee and take, in a timely manner, all action necessary to assume the unexpired term and any renewal options of the lease.
- The lease must provide that in case of partial taking, the lessee will rebuild and restore the improvements on the mortgaged premises, unless the leasehold mortgagee consents to the distribution of the proceeds instead
- The lease must provide for protection of the mortgagee’s interests in the event of a property condemnation.
- The lease must provide for the leasehold mortgagee’s right to acquire the lease in its own name or in the name of a nominee upon foreclosure or assignment in lieu of foreclosure.
- The lease must provide for the leasehold mortgagee’s right to exercise any renewal options that may exist
- The lease must provide that the leasehold mortgagee must approve:
  - Any partition, subdivision, or modification of the ground lease community and the leasehold estate;
  - Any surrender, abandonment or termination of the leasehold estate or the ground lease community;
  - The termination or cancellation of the lease or any action that has the effect of terminating the lease, and
  - Any amendments to the lease that relate to the provisions of these guidelines or otherwise affect the rights of the leasehold mortgagee.
- Provide that there shall be no merger of the fee interest and leasehold interest in the even the same person or entity acquires both interests.

Properties with Legal Non-Conforming Zoning:

If the appraisal indicates a property’s zoning is of a legal non-conforming (grandfathered use) nature, one of the following must be obtained:

- The appraiser must address the issue within the body of the appraisal, specifically state the property may be rebuilt “as is” in the event of a loss and indicate the source of the information, OR
- A letter of addendum from the appraiser must be obtained addressing the issue, specifically stating the property may be rebuilt “as is” in the event of a loss and indicate the source of the information, OR
- A letter from the county or governing municipality must be obtained stating the property may be rebuilt “as is” in the event of a loss.

Unique Properties:

Unique Properties, such as earth houses, geodesic domes, log houses, etc. are eligible provided the following:

- The appraiser has adequate information to develop a reliable estimate of market value.
- It is not necessary for one or more of the comparable sales to be of the same design and appeal as the property that is being appraised (although appraisal accuracy is enhanced by using comparable sales that are the most similar to the subject property)

Property Eligibility: (continued)

Property Considerations: (continued)

Unique Properties (continued):

- On a case-by-case basis, both the appraiser and the underwriter must independently determine whether there is sufficient information available to develop a reliable estimate of market value. This will depend on the extent of the difference between the special or unique property and the more traditional types of houses in the market and the number of such properties that have already been sold in the market area
  - The property will be eligible, if recent comparable sales of the same design and appeal are not available, but the appraiser is able to determine sound adjustments for the differences between the comparables that are available and the subject property and to demonstrate the marketability of the property—based on older comparable sales, comparable sales in competing neighborhoods, the existence of similar properties in the market area, and any other reliable market data.
  - The property will be ineligible if the appraiser is not able to find any evidence of market acceptance and the characteristics of the property are so significantly different that he or she cannot establish a reliable estimate of market value.

Number of Properties Owned/Financed:

- Primary Residences:
  - There is no limit to the number of properties owned or financed
- Investment Properties and Second Homes:
  - The maximum number of financed properties, regardless of lender, for any Borrower(s) will be limited to ten (10) including the Borrower's primary residence. In addition, the maximum aggregate loan balance for any Borrower(s) on all second home/investment properties will be limited to $2,000,000, regardless of the investor. Privately financed properties and land contracts are also included in the maximums.
  - When utilizing the NO MI Investment Property option, refer to the Private Mortgage Insurance section for additional restrictions.

Appraisal/Survey/Inspection Requirements:

Appraisal:

The information in the report must be accurate, internally consistent, written in clearly understandable language, fully supported, and sufficiently documented to FHLMC standards.

- For Non-Loan Prospector loans, a Form 2055 Interior and Exterior Report is acceptable for one unit primary residences and one unit second homes.
- The appraisal report must be dated within 120 days, but no more than 12 months before the note date
- If the report is greater than 120 days old, the original appraiser or a qualified appraiser must certify that the subject property has not declined in value since the date of the original appraisal.
- The Operating Income Statement will be required if the subject property is a 2-4 Unit Owner Occupied or 1-4 Unit Investment property and the rental income will be used to qualify. The Operating Income Statement will also be required to document operating expenses on transactions where tax returns cannot be provided even if the borrower is going to be qualified with the full PITI payment. See the Underwriting Section of these guidelines for specific details.
- The Single Family Rent Comparable Schedule is required for 1 unit investment properties when rental income from the subject property will be used to qualify
- Properties appraised in "Fair Condition" are unacceptable. The property must be brought up to at least "Average Condition", prior to closing. A final inspection showing the work has been completed must be included in the file. Escrow holdbacks may be permitted. Refer to Procedures for details.
- Manufactured Homes:
  - ⇒ Regardless of any LP feedback message to the contrary, Form 70 (URAR) or Form 2055 with interior inspection or Form 465 for manufactured condos must be provided. Please note, Form 465 does not contain a section to indicate the subject is a manufactured home, therefore the appraiser must indicate this in the comments area of the appraisal report.
  - ⇒ At least two of the comparable sales provided must be manufactured homes and demonstrate a market appeal for this housing type. If the property is new construction at least one comparable must be a re-sale.

Appraisal/Survey/Inspection Requirements: (continued)

⇒ **Loans Closing on or after August 1, 2003 must meet additional appraisal requirements. Please see the "Additional Manufactured Housing Requirements for Fannie/Freddie Loans" document posted on the main page of the Product Information Website.**

Declining Markets:
Maximum financing is not permitted in any instance in which property values are declining. In such cases, the LTV must not exceed an amount that is 5% less than the maximum LTV ratio allowed for the specific type of mortgage or product.

Survey:
If the title company insuring the mortgage requires a survey to remove exceptions to survey matters, the survey must conform to the requirements of the title insurance company's standards, or any applicable legal standards relating to surveys.

A copy of the survey, whether new or existing, is required to be in the closed loan package.

Inspection:
Inspections may be required at the discretion of the Underwriter or Appraiser.

Escrow:

An escrow account must be established for real estate taxes, hazard insurance and, if applicable, private mortgage insurance and flood insurance.

The escrow account may be waived for real estate taxes, hazard and flood insurance for loans with LTVs of 80% or less, subject to state restrictions. An additional fee may be required, please refer to your rate sheet.

Postponed Improvement Escrow:

Refer to Procedures

Private Mortgage Insurance Requirements:

The charts below do not apply to Manufactured Homes closing on or after August 1, 2003. Please see the "Additional Manufactured Housing Requirements for Fannie/Freddie Loans" document posted on the main page of the Product Information Website.

Private mortgage insurance will be required on all loans with LTV's in excess of 80% except when utilizing the No MI Investment Property Option. See Terms, Program Types, Investor/SSI Code Section of these guides for Investor Codes specific to the No MI Investment Property Option.

Standard MI Coverage is required unless the Loan Prospector Feedback Certificate indicates the mortgage is eligible for Reduced MI. If Reduced MI is chosen, the additional requirements listed below must be met. **Please note: Custom MI cannot be selected even if the Feedback Certificate indicates the loan is eligible.**

Standard MI Coverage:

Term	LTV Ratio	Standard MI Coverage
30 Year	80.01 – 85%	12%
	85.01 – 90%	25%
	90.01 – 95%	30%
15 and 20 Year	80.01 – 85%	6%
	85.01 – 90%	12%
	90.01 – 95%	25%

Delegated Underwriting Authority:
NCM does not permit their staff Underwriters to use their Delegated Underwriting Authority for MI on manufactured homes. A full package must be sent to the MI Company for MI Approval. As always, contact your MI Company for restrictions on their Delegated Underwriting program.

Private Mortgage Insurance Requirements: (continued)

Financed Mortgage Insurance Premiums:

- For all manually underwritten mortgage loans (except Stated Income loans), the loan amount excluding the financed premium cannot exceed the lesser of 90% or the program maximum as shown in these guidelines. For loans receiving an "Accept" through Loan Prospector, the loan amount excluding the financed MI premium can exceed 90% provided it does not exceed the program maximum as shown in these guidelines and under no circumstances can the addition of the financed premium cause the LTV to exceed 95%.
- For Stated Income loans, the LTV *including* the premium cannot exceed 90%.
- Only 1 unit primary residences and second homes are permitted to have financed MI.
- 5 Year Balloon mortgages cannot have financed MI.
- Mortgage Insurance coverage is based on the LTV figured from the loan amount excluding the financed MI.
- Underwriting guidelines adhere to the LTV figured from the loan amount excluding the financed MI.
- Only available on Standard MI Coverage. Loans with Reduced MI Coverage are not eligible for financed premiums.

Reduced MI Coverage:

Term	LTV Ratio	Reduced MI Coverage
> than 20 years	85.01 – 90%	17%
	90.01-95%	25%

Reduced MI Coverage Requirements:

- Loan must have received an Accept through Loan Prospector
- The Feedback Certificate from Loan Prospector must indicate the Mortgage is eligible for Reduced MI
- Fixed Rate Mortgages only. (Balloon Mortgages are ineligible)
- Loan must amortize over a period greater than 20 years
- Only 1-2 unit primary residences are eligible
- Only Purchases and No Cash-Out Refinances in which the mortgage being refinanced is currently owned by Freddie Mac are eligible.

No MI Investment Property Option: Please use the specific Investor/SSI codes for this program listed in the Terms, Program Types, Investor/SSI Code section of these guides. The following requirements must be met for this option:

- Minimum Credit Score: 700
- Borrower cannot own more than 5 financed properties, including the subject property
- Full/Alt Documentation only
- Purchase and No Cash-out Refinances only

Lender Paid MI:

- Only Full/Alt Documentation loans are permitted.
- Purchase, No Cash-Out and Cash-Out refinances are permitted
- Primary and second homes only
- Minimum Credit Score 660
- TMO Users must use one of the following codes:
  -

15 Year Term:	INVESTOR CODE	SSI CODE
LTV 80.01-85%	LPMI8515	985
LTV 85.01-90%	LPMI9015	986
LTV 90.01-95%	LPMI9515	987

  -

30 Year Term:	INVESTOR CODE	SSI CODE
LTV 80.01-85%	LPMI8530	982
LTV 85.01-90%	LPMI9030	983
LTV 90.01-95%	LPMI9530	984

- Rate adjustments apply. Refer to your rate sheet for adjustments
- See the Procedures for additional information regarding LPMI

Private Mortgage Insurance Requirements: (continued)

Approved companies:
GE, UG, PMI, MGIC, RMIC and Radian

Please make sure to consult the MI Company's rate card or Representative for all adjustments to the rate that may apply- including the adjustment for using a stated income feature. Please make sure when completing the MI Sticker/Application, the MI Company is notified of the use of the stated income feature. Please note: If you are obtaining MI through Radian on a stated income loan, National City Mortgage has negotiated a flat 14 basis points rate add-on. You must refer to the MI rate card for all other adjustments.

Refinance Requirements:

No Cash-Out Refinance:

- Loan amount may include:
  - Payoff of the first mortgage, regardless of age
  - The pay off of any existing subordinate mortgage *that was used to acquire the subject property*, regardless of age
    - ⇒ Written confirmation (such as the HUD-1) must be obtained to show the proceeds of an existing subordinate lien were used to fund part of the purchase price of the subject property.
  - Payment of closing costs, financing costs and prepaid items
  - Disbursement of cash to the Borrower (or any other payee) not to exceed 2% of the new refinance mortgage or $2,000, whichever is less

Cash-Out Refinance:

- Loan amount may include:
  - Payoff of the first mortgage, regardless of age
  - Payoff of any junior liens, regardless of age
  - Payment of related closing costs, finance costs and prepaid items
  - Disbursement of cash-out to the Borrower (or any other payee)
- If LTV is over 75%, the loan must receive an "Accept" through Loan Prospector. Loans may not be manually underwritten unless the FICO indicator score is 720. No Exceptions!!

Streamlined Refinances: (Third Party Originations are not permitted):

- **Eligibility Requirements for ALL Streamline Refinances**: See below for specific requirements for loans presently owned by FHLMC and loans not presently owned by FHLMC)
  - NCM must currently be servicing the existing mortgage
  - FICOs must be met as follows unless a LP Accept is received (Caution or A Minus Decisions are not acceptable, regardless of FICO)
    - ⇒ ≥ 660 for 1-unit Primary Residences and Second Homes
    - ⇒ ≥ 680 for 2-unit Primary Residence
  - A Tri-Merged credit report will be required to support the FICO score.
  - If LP is used, assets input must be verified
  - Permitted on the following property types:
    - ⇒ 1-2 unit primary residences and
    - ⇒ 1 unit second homes
  - Loan amount may include:
    - ⇒ Payoff of the first mortgage at least 12 months old (seasoning requirement waived if loan is presently sold to FHLMC)
    - ⇒ Payment of closing costs, financing costs and prepaid items up to 2.5% of the unpaid principal balance of the new refinance mortgage
    - ⇒ Disbursement of cash to the Borrower (or any other payee) not to exceed 2% of the new refinance mortgage or $2,000, whichever is less
  - The new loan amount may not exceed the original loan amount of the mortgage being refinanced
  - The LTV of the new loan may not exceed the original LTV of the mortgage being refinanced
  - The new loan amount cannot be used to payoff a junior lien.

Refinance Requirements: (continued)

<u>Streamlined Refinances (continued):</u>

- **Eligibility Requirements for <u>ALL</u> Streamline Refinances**:
  - The mortgage being refinanced must have been a conventional loan and must have been one of the following:
    - ⇒ An “Accept” through Loan Prospector OR
    - ⇒ Manually underwritten to Freddie Mac underwriting guidelines.
    - ⇒ It cannot have been an A Minus mortgage.
  - The Borrower on the new loan must be the same as the Borrower on the mortgage being refinanced except that:
    - ⇒ A Borrower may be added to the new refinance mortgage
    - ⇒ A Borrower that contributed no qualifying income, assets or reserves to the mortgage being refinanced may be omitted
  - The loan must be originated to either
    - ⇒ Reduce term OR
    - ⇒ Reduce interest rate OR
    - ⇒ Replace an ARM or Balloon mortgage with a fixed rate
  - The P&I payment on the new loan cannot be more than 20% greater than the P&I payment at which the Borrower was qualified for the mortgage being refinanced
  - A new appraisal (or other report as identified by Loan Prospector) is not required as long as the Underwriter can warrant the value has not declined since the original report was prepared.
  - Re-warranting of Condo and PUD projects (based on new HOA information) is required.
  - Please see the Procedures for instructions on requesting information from the original file.

- **Additional requirements for new loans when the existing mortgage is <u>not currently owned by Freddie Mac</u>**:
  - First mortgage must be seasoned 12 months
  - A verbal VOE or most recent paystub must be supplied for an employed Borrower to verify employment (not income)
  - Signed pages one and two of the individual Borrower’s most recent federal income tax returns and signed IRS Form 4506 must be supplied for self-employed Borrowers or a Borrower receiving non-employed income to verify employment (not income)
  - For loans not using LP, there can be no 30 or more day lates in the last 12 months

- **Additional requirements for new loans when the existing mortgage is <u>currently owned by Freddie Mac</u>**:
  - First mortgage does not have to be seasoned 12 months
  - Verification of income and employment is not required
  - For loans not using LP, the mortgage being refinanced must have been current for the most recent 90 days and in the last 12 months has not been:
    - ⇒ 30 days delinquent more than once, and
    - ⇒ 60 or more days delinquent

Subordinate Financing:

Calculating TLTV (Total Loan to Value) and HTLTV (Home Equity Total Loan to Value) ratios:

- TLTV: Divide the sum of the first lien mortgage amount and the disbursed amount of the HELOC and any other secondary financing by the lower of the sales price or appraised value.
- HTLTV: Divide the sum of the first lien mortgage and the total HELOC credit line limit and any other secondary financing by the lower of the sales price or appraised value.

Subordinate Financing is permitted and subject to the following:

- Maximum LTV, TLTV and HTLTV ratios as shown in the LTV section of these guidelines
- The maturity date or amortization basis of the junior lien (other than HELOCs) cannot be less than five years after the Note date of the first lien mortgage unless the junior lien is fully amortizing.
- Terms of the junior lien must provide for regular monthly payments sufficient to meet the interest due
- If the first mortgage is a Balloon, the maturity date of the subordinate financing must be at least 12 months prior to the Balloon maturity date or the language contained in the security instrument for the subordinate financing must contain language clearly subordinating the lien of the secondary financing to the Balloon mortgage
- For mortgages with a HELOC the terms of the HELOC may provide for a balloon or call option with the first five years after the Note Date of the first lien mortgage

Subordinate Financing: (continued)

- If the junior lien is a HELOC, both the limit of the line of credit and the disbursed amount of the line of credit must be submitted to Loan Prospector
- When doing 80/10/10s and 80/15/5s (see LTV chart for availability), the Borrower does not have to contribute 5% own funds into the transaction. However, seller-held seconds are not permitted if the Borrower is not contributing 5% of own funds into transaction.
- Subordinate Financing is not permitted on the Stated Income Feature

Documentation Options:

TMO Users: Refer to Procedures for information regarding coding the Qualifying Income Field.
See the Refinance Requirements Section of these guidelines for Streamlined Documentation requirements.

Stated Income: Only Available for Loan Applications Taken Prior to April 28, 2003. Refer to Fannie Mae Underwriting Guidelines for a Conforming Stated Income Feature.

Note: The use of the Alternative Stated Income feature outlined in Chapter 37 of the Freddie Seller/Servicer Guide is not permitted.

The use of this processing feature for borrowers who normally would not qualify under full documentation processing is **not** acceptable. Stated Income is used only to minimize the amount of documentation required for a qualified borrower.

Under the Stated Income feature, the borrower's income does not need to be verified. However, all other requirements still apply, plus the following:

- Automated Underwriting is not permitted.
- Refer to Page 2 for the Investor Codes that must be utilized for this feature.
- Fixed rate mortgages only. Balloon mortgages are not permitted.
- The LTV may not exceed 90%
- Subordinate Financing not permitted.
- 1-2 unit primary residences or 1 unit second homes only (including condos and PUDs)
- Purchase and no cash-out refinance transactions only
- A FICO score $\geq$ 680 is required.
- The Borrower can not have a history of bankruptcy, foreclosure or deed-in-lieu of foreclosure in the previous 7 years appearing on the credit report or elsewhere in the file
- The borrower must have no fewer than 3 open tradelines rated for at least 24 months. The Borrower must have a two year history with no record of any collection, chargeoffs, judgements, liens, or other derogatory items in the last 24 months. The borrower can not have any installment and/or revolving payments 30 or more days delinquent in the previous 12 months. The borrower can not have any mortgage payments 30 or more days delinquent in the previous 12 months.
- Non-occupant Co-Borrower transactions are not allowed.
- Self-employed borrowers must be self employed in the same business for two years and have a current business license or other verification of two years of self-employment. The file must contain the following:
  - Evidence confirming a two-year history of self-employment in the same business, such as the business' Articles of Incorporation, a signed statement from the Borrower's accountant, a verbal verification with a local or state business regulatory or registration office or trade organization, the first business license issued, or two-years of the Borrower's federal income tax returns or applicable schedules.
  - A signed IRS Form 4506, authorizing the release of information for the most recent one tax year on loans with FICOs less than 730. A signed IRS Form 4506 for Borrowers with indicator scores of 730 or greater is not required.
- Salaried Borrowers must have been in the same line of business for a minimum of 2 years. At a minimum, a verbal verification of employment is required.
- All other income from employment or non-employment sources must be fully verified with standard documentation. Non-employment sources include dividend/interest, trust income, child support, alimony or separate maintenance, foster care, unemployment, disability, social security, and other retirement income, rental income, installment sale or land contract income, and any other income that is not readily verifiable by an outside, independent third party source.
- The income stated must be reasonable for the borrower's occupation and be consistent with the other factors in the file (such as verified assets).

Documentation Options: (continued)

Stated Income: Only Available for Loan Applications Taken Prior to April 28, 2003. Refer to Fannie Mae Underwriting Guidelines for a Conforming Stated Income Feature. (continued)

- The value of the mortgage premises must be supported by the appraisal report, which must be, at a minimum, a Form 2055 including an interior inspection
- The borrower must make a downpayment of at least 10% of the lower of the appraised value or sales price from their own funds.
- Interested Party contributions are allowed up to 6% for all LTVs for closing costs and prepaids.
- 2 months of bank statements to verify assets are required
- 6 months of PITI payments available after closing are required except in situations where the borrower has an equity investment of $50,000 or more
- Debt-to-income ratio may not exceed 50%
- Borrower may not be employed by or affiliated with either the property seller or real estate broker

Underwriting:

- All loans will be underwritten to FHLMC guidelines unless otherwise stated in these guidelines.
- The use of FHLMC waivers is permitted with this product.
- Manually underwritten mortgages are defined as: A mortgage for which the Underwriter makes the determination regarding Borrower creditworthiness and layering of risk and that is one of the following:
  - A mortgage that was submitted to Loan Prospector and received an evaluation status of invalid, ineligible or incomplete
  - A mortgage that was submitted to Loan Prospector, received a Risk Class of Caution and was not delivered to Freddie Mac as an A-Minus Mortgage
- Non-Loan Prospector mortgages are defined as: A mortgage for which the Underwriter makes the determination regarding Borrower creditworthiness and layering of risk and that is one of the following:
  - A mortgage that was never submitted to Loan Prospector
  - A mortgage that was submitted to Loan Prospector and received an evaluation status of invalid, ineligible or incomplete

Submission:

NCM has delegated underwriting authority.
Submit your original package to your local underwriting center.

Use of Automated Underwriting:

- The use of LP or DU is required on this product with the exception of the Stated Income Feature. For all Accept Mortgages, LP has determined that the layering of risk is acceptable. We do not have to make this determination.
- The following charts detail how loans should be registered in accordance with the NCMC Trading Memo (posted in the Freddie Mac Underwriting Guidelines folder) and Mandatory AU Usage Memo (posted in the Credit Policy folder):

Loans with FICOs <620 and/or DTIs >50%

	NO DU	DU APPROVE	DU REFER	DU EA/TPR
NO LP	Must Run AUS	FNMA Only	FNMA Only	EA/TPR
LP ACCEPT	*C30 Family/FH	*C30 Family/FH	*C30 Family/FH	*C30 Family/FH
LP A MINUS	A Minus	FNMA Only	A Minus or FNMA Only	A Minus or EA/TPR
LP CAUTION	Must Run DU	FNMA Only	FNMA Only	EA/TPR

*TMO Users: C30 Family; AT Users: FH Codes

Use of Automated Underwriting: (continued)

Loans with FICOs >620 and DTIs <50%

	NO DU	DU APPROVE	DU REFER	DU EA/TPR
NO LP	Must Run AUS	*C30 Family/FH	FNMA Only	EA/TPR
LP ACCEPT	*C30 Family/FH	*C30 Family/FH	*C30 Family/FH	*C30 Family/FH
LP A MINUS	A Minus	*C30 Family/FH	A Minus or FNMA Only	A Minus or EA/TPR
LP CAUTION	Must Run DU	FNMA Only	FNMA Only	EA/TPR

*TMO Users: C30 Family; AT Users: FH Codes

For all Caution Mortgages not delivered as A-Minus Mortgages, the loan must be manually underwritten in accordance with Chapter 37 of the Freddie Mac Seller/Servicer Guide. For such Mortgages, there is a strong indication that the layering of risk is excessive and that acceptability and compliance with Freddie Mac requirements is unlikely.

When underwriting a Caution Mortgage, all risk factors must be analyzed including those identified in the *Credit Risk Comments* and *Repository Reason Code Comments* sections of the Feedback Certificate, and document in the Mortgage file offsetting factors satisfactory to ensure that the Mortgage is acceptable. The offsets used must provide information not considered by Loan Prospector. Following is a list of factors that have already been considered by LP, therefore they cannot be used for concluding that excessive layering of risk is not present:

- LTV/TLTV below the maximum allowable financing
- Ratios below guidelines
- Number of months reserves
- Type of Mortgage product
- Property type
- FICO score
- Any combination of any of these factors

For all other Manually Underwritten Mortgages, the Underwriter is responsible for determining that the Mortgage is acceptable for sale to Freddie Mac by:

- Evaluating all risk factors present in the Mortgage file, and
- Identifying offsetting factors needed to ensure that the Mortgage is acceptable, and
- Documenting in the Mortgage file those offsetting factors and the overall conclusion of acceptability

The Underwriter must determine that each component (credit reputation, capacity and collateral) is acceptable and that the overall layering of risk is acceptable. A conclusion that the Mortgage is acceptable cannot be reached by looking only at a single underwriting component or by placing the most weight on a single component, but may result from balancing the weakness of one component against the strength of the other two components.

- Any documentation relief can be utilized on this product.
- Any appraisal relief can be utilized on this product. (The only exception to this would be an offering through DU to pay a property inspection waiver fee in lieu of obtaining an appraisal which is unacceptable. In addition, see appraisal section for restrictions on Manufactured Housing.)
- Resubmission requirements:
  - Debts/income – Resubmission is not required if the total difference does not change the total debt-to-income ratio by more than three percent and the total debt-to-income ratio on the last submission did not exceed 45 percent.
  - Assets/reserves – Resubmission is not required if the amount of verified reserves decreases by no more than 10 percent.
  - Loan Amount – Resubmission is not required if the loan amount decreases by no more than 1% on a refinance and at the time of the most recent LP submission MI is not required or the loan amount decreases by no more than 1% on a refinance and at the time of the most recent LP submission MI is required and the change does not impact the amount of the MI coverage and the amount of the MI premium collected by the lender is based on the new amount and the seller obtains a new MI certificate.
- Any Expanded Approval/Timely Payment Rewards offerings cannot be used under this product. Refer to the Expanded Approval/Timely Payment Rewards guidelines if an Expanded Approval/Timely Payment Rewards offering is received.
- Any A Minus offerings cannot be used under this product. Refer to the A Minus guidelines in the Product Manual if an A Minus offering is received.

Use of Automated Underwriting: (continued)

- Underwriting the Borrower: The following statement is verbatim from Chapter 37 of the Freddie Mac Seller/Servicer Guide: 'For all Caution Mortgages not delivered as A- Mortgages, the Seller must manually underwrite the Mortgage in accordance with this chapter. For such Mortgages, there is a strong indication that the layering of risk is excessive and that acceptability and compliance with Freddie Mac requirements is unlikely. When underwriting a Caution Mortgage, the Seller must analyze all risk factors present in the Mortgage file, including those identified in the C*redit Risk Comments and Repository Reason Code Comments* sections of the Feedback Certificate, and document in the Mortgage file offsetting factors satisfactory to ensure that the Mortgage is acceptable. The offsets used must provide information not considered by Loan Prospector'.

Credit:

- Selecting the Score:
  - We require the "Middle/Lower then Lowest" method to be used when selecting the credit score. To use the "Middle/Lower then Lowest" method, the Underwriting Score for each Borrower must be determined.
  - If three usable FICO scores are received for a Borrower, the Underwriting Score selected would be the middle score. If two of the scores are the same, that score should be used.
  - If only two usable FICO scores are received for a Borrower, the lowest of those two scores would be that Borrower's Underwriting Score.

  This procedure to establish Underwriting Scores should be used for each Borrower on the loan. Once the Underwriting Score for each Borrower is determined, the lowest of these scores should be used (if more than one Borrower is on a loan) to determine if minimum FICO requirements are met as listed in the Credit Score Requirements section above.
- Credit Score Requirements are as follows:
  - General requirement is 620
  - Investment Properties with LTVs exceeding 80%: 720 (Unless an "Accept" is received through Loan Prospector)
  - Cash-Out refinances with LTVs exceeding 80%: 720 (Unless an "Accept" is received through Loan Prospector)
  - Stated income
    - ⇒ FICO score of $\geq$ 680
    - ⇒ See Stated Income section for additional credit restrictions.
- Establishing Borrower credit reputation:
  - Through LP: For Accept mortgages LP has determined that the Borrowers credit reputation is acceptable
  - For Manually Underwritten mortgages: Borrowers must have at least a minimum amount of credit history available. A 24 month history is required although there may be situations in which a credit history of less than 24 months is sufficient as long as the history contains a sufficient number of payment references. At least one Borrower whose income or assets are used for qualification must have a minimum number of payment references comprised of:
    - ⇒ At least 3 tradelines, whether or not on the credit report or
    - ⇒ If a Borrower does not have 3 tradelines, at least 4 noncredit payment references or a total of 4 tradelines and noncredit payment references
      - ✓ A noncredit payment reference can be used if it existed for at least 12 months
      - ✓ A documented savings history of at least 12 months may be used as a noncredit payment reference if the history shows periodic deposits (at least quarterly) resulting in a growing balance over a year
      - ✓ Noncredit payment references may appear on a credit report or may be directly verified
    - ⇒ Direct verification of housing debts and other debts not shown on the credit report is required. Although each borrower is not required to have a minimum housing payment history, current and prior housing histories must be verified for the most recent 12 months (or the length of housing history if less than 12 months).
      - ✓ If the credit report obtained does not contain a reference covering the Borrower's minimum required housing payment history, direct verification and documentation must be obtained for the Borrower's Mortgage and/or rental housing payment history.
      - ✓ A direct written verification or payment history can be used to document rental payment history only if obtained from a professional management company.
      - ✓ Refer to section 37.11 of the Freddie Mac Seller's Guide in AllRegs for details on acceptable documentation of payment history.

Underwriting: (continued)

Credit: (continued)

- For Manually Underwritten Mortgages, Freddie Mac recommends the use of FICO scores with accompanying reason codes in underwriting the Borrower's credit reputation. The reason codes indicate the most important reasons why a FICO score is not higher and, when conducting a comprehensive or cautious review, must be used by the Underwriter to identify the credit factors that need to be addressed in determining the Borrower has an acceptable credit reputation.

  When FICO Scores are used, the Underwriter must use one of the three levels of review in the chart below depending on the risk indicated by the Borrower's FICO score:

Minimum FICO Scores			
Units	**Basic**	**Comprehensive**	**Cautious**
1	661	620-660	Less than 620
2	681	640-680	Less than 640
3-4	701	660-700	Less than 680

- **Basic Review:** A borrower whose credit score is in this range is likely to have an acceptable credit reputation. However, the following must be considered:
  ⇒ Evaluate all available credit information to verify consistency with the loan application and credit report. If it is consistent, the Borrower's credit reputation is considered acceptable and the Underwriter does not need to include any additional explanation in the Mortgage File.
  ⇒ Evaluate the overall layering of risk in credit, capacity and collateral (See Section 37.1(c) of the Freddie Mac Seller/Servicer Guide)**:**
  ⇒ If there is a Bankruptcy, Foreclosure or Deed-in Lieu of Foreclosure or there are recent late housing payments, or if the Mortgage is a Caution Mortgage with one or more *Credit Risk Comments* in the Feedback Certificate related to Borrower credit reputation, a cautious review must be completed.
- **Comprehensive Review:** Credit scores in this range should be viewed as an indication that the borrower's willingness to repay debt and ability to manage as agreed are uncertain. The Underwriter must:
  ⇒ Review the credit documentation for consistency with the credit report as in the basic review
  ⇒ Evaluate the overall credit reputation using the factors described in Section 37.7 of the Freddie Mac Seller/Servicer Guide, especially those listed in the reason codes accompanying the FICO score.
  ⇒ Provide a description of his/her evaluation and conclusion that the credit reputation is acceptable on the 1008
  ⇒ After credit reputation is established, evaluate the overall layering of risk in credit, capacity and collateral.
  ⇒ If there is a Bankruptcy, Foreclosure, Deed-in-Lieu of Foreclosure or there are recent late housing payments, or if the Mortgage is a Caution Mortgage with one or more *Credit Risk Comments* in the Feedback Certificate related to Borrower credit reputation, a cautious review must be completed.
- **Cautious Review:** Credit scores in this range should be viewed as a strong indication that the borrower's credit reputation is not acceptable. The Underwriter must:
  ⇒ Establish that the Borrower has an acceptable credit reputation despite the risk indicated by the FICO score.
  ⇒ Evaluate the reason codes accompanying the FICO score
  ⇒ Identify and document credit-related offsets for significant derogatory information included in the credit history, such as bankruptcy, foreclosure or recent late housing payments (see Section 37.7(b)).
  ⇒ If the Mortgage is a Caution Mortgage, document credit-related offsets for the factors identified in the Credit Risk Comments and Repository Reason Code Comments sections of the Feedback Certificate necessary to ensure that the Mortgage is acceptable. It is likely that the Borrower's credit reputation is unacceptable unless:
    ✓ The adverse or derogatory credit information is due to extenuating circumstances and the Borrower has re-established an acceptable credit reputation in accordance with Section 37.7 (b)(i) of the Freddie Mac Seller/Servicer Guide.
    ✓ The credit information is inaccurate as described in Section 37.5 of the Freddie Mac Seller/Servicer Guide.
    ✓ The Selected Borrower is not providing income, assets or liabilities to the transaction and may be disregarded in acordance with Section 37.4 of the Freddie Mac Seller/Servicer Guide.
  ⇒ Evaluate the overall layering of risk in credit, capacity and collateral (See Section 37.1(c) of the Freddie Mac Seller/Servicer Guide)
  ⇒ Provide a description of his/her evaluation and conclusion that the credit reputation is acceptable on the 1008

Credit: (continued)

- Bankruptcy/Foreclosure:
  Except for "Accept" mortgages, a bankruptcy within the last seven years that is disclosed on a credit report, disclosed by the borrower or contained elsewhere in the mortgage file must always be considered significant derogatory information. The length of time since discharge to the date of the application must meet the recovery period requirements for extenuating circumstances or financial mismanagement.

  Except for "Accept" mortgages, whenever a borrower has had a bankruptcy within the last seven years, the mortgage file must also contain:
  - Copies of the bankruptcy petition, schedule of debts and discharge
  - Evidence to indicate that all debts not satisfied by the bankruptcy have been paid or are being paid
  - Any other evidence necessary to support the determination that the borrower has re-established and maintained an acceptable credit reputation.
- Extenuating Circumstances:
  Freddie Mac considers an extenuating circumstance to be a non-recurring or isolated circumstance, or set of circumstances, that was beyond the borrower's control and that significantly reduced income and/or increased expenses and rendered the borrower unable to repay obligations as agreed, resulting in significant adverse or derogatory credit information.:
  In addition, if the borrower's credit history includes significant adverse or derogatory credit within the most recent two years, even if it was caused by extenuating circumstances, the borrower's credit reputation cannot be considered acceptable.
  When the fact that the borrower experienced extenuating circumstances is used, the Underwriter must confirm the extenuating circumstances and that the borrower has re-established an acceptable credit reputation. The mortgage file must contain all of the following documentation:
  - A written statement from the borrower attributing the cause of the financial difficulties to outside factors beyond the borrower's control that are not ongoing and are unlikely to recur.
  - Third-party documentation confirming that the events related by the borrower in the explanation were an isolated occurrence and significantly reduced the borrower's income and/or increased expenses and rendered the borrower unable to repay as agreed.
  - Evidence that the borrower had an acceptable credit reputation prior to the problems.
  - Evidence on the credit report and other credit documentation that the borrower has re-established an acceptable credit reputation:
    - ⇒ For at least the most recent 24 months and
    - ⇒ Meeting Freddie Mac's requirements for type and minimum number of payment references. If the derogatory credit included tradeline credit, the borrower is expected to re-establish credit with at least one tradeline credit. If the derogatory information was on non-credit payment references, either tradeline or non-credit payment references may be used. In addition, of the minimum number of payment references required, at least one must have been open for at least the most recent two years and all must have been active within the most recent 24 months. The payment references may include an account opened prior to the significant adverse or derogatory information. At least one of the payment references must be housing related.
  - Evidence on the credit report and other credit documentation that all of the borrower's credit is current.
  - Evidence that the borrower's credit history, in the most recent 24 months, show all of the following:
    - ⇒ No new public records for bankruptcy, foreclosure, unpaid judgements or collections
    - ⇒ No payments 60 or more days past due
    - ⇒ No more than two payments 30 days past due
    - ⇒ No housing payments past due
  - If the housing (rental or mortgage) payment history was not reported to the credit repositories, documentation for the most recent 12 months must be obtained.
  - Evidence that the Borrower's credit history does not contain multiple revolving accounts with high balances-to-limits or high overall utilization of revolving credit
  - An underwriting analysis on the Form 1008 or on a separate document in the mortgage file, relating the borrower's explanation to the mortgage file documentation and leading to a reasonable conclusion that:
    - ⇒ The events causing the financial difficulties were beyond the borrower's control, are not ongoing and are unlikely to recur; and
    - ⇒ The borrower has re-established an acceptable credit reputation.

Credit: (continued)

If third party documentation cannot be obtained to confirm the extenuating circumstance and re-establishment of credit, the extenuating circumstance cannot be considered as an acceptable offset to significant adverse or derogatory credit information.

- Financial Mismanagement:
  If the Underwriter is unable to document extenuating circumstances in accordance with Freddie Mac's requirements, then it must conclude that the problems were due to financial mismanagement. Making a case that the borrower is sufficiently willing to repay obligations when significant derogatory information was caused by financial mismanagement is very difficult. It will take a longer and more convincing re-establishment period to overcome derogatory information caused by financial mismanagement than would be needed if the borrower had experienced financial difficulties due to extenuating circumstances.
  When the Underwriter determines that the Borrower's credit reputation is acceptable despite significant adverse or derogatory information caused by financial mismanagement, the Mortgage file must contain all of the following documentation:
  - Evidence that each Borrower with significant adverse or derogatory credit information caused by financial mismanagement has a minimum Underwriting Score of 680
  - Evidence on the credit report and other credit documentation that the Borrower has re-established an acceptable credit reputation
    - ⇒ For at least a 48-month period, or at least 24 months after the discharge of a Chapter 13 Bankruptcy
    - ⇒ Meeting the requirements of Section 37.4 of the Freddie Mac Seller/Servicer Guide for type and minimum number of payment references
      - ✓ If the derogatory credit included Tradeline credit, the Borrower is expected to re-establish credit with at least one Tradeline credit
      - ✓ If the derogatory information was on Noncredit payment references, either Tradeline or Noncredit payment references may be used
      - ✓ Of the minimum number of payment references required, at least one must have been open for at least the most recent 24 months and all must have been active within the most recent 24 months
      - ✓ The payment references may include an account opened prior to the significant adverse or derogatory information
      - ✓ At least one of the payment references must be housing-related
  - Evidence on the credit report and other credit documentation that all of the Borrower's credit is current
  - Evidence that the Borrower's credit history, in the most recent 48 months, or the most recent 24 months for a Chapter 13 Bankruptcy, shows all of the following:
    - ⇒ No new public records for Bankruptcy, Foreclosure, unpaid judgements or collections
    - ⇒ No payments 60 days or more past due
    - ⇒ Nor more than two payments 30 days past due
    - ⇒ No housing payments past due
    - ⇒ If the housing (rental or Mortgage) payment history was not reported to the credit repositories, documentation for the most recent 12 months must be obtained
    - ⇒ Evidence that the Borrower's credit history does not contain multiple revolving accounts with hgih balnces-to-limits or high overall utilization of revolving credit
    - ⇒ An underwriting analysis on the Form 1008 or on a separate document in the mortgage file, relating the borrower's explanation to the mortgage file documentation and leading to a reasonable conclusion that the Borrower has re-established an acceptable credit reputation
- Inquiries:
  Inquiries on the credit report generally reflect the Borrower's requests for new or additional credit. Inquiries made for other purposes, such as general solicitations not initiated by the Borrower or monitoring inquiries by current creditors, typically are not shown on the credit report.

  For Manually Underwritten Mortgages, if the credit report indicates that a creditor has made an inquiry within the previous 90-day period, then the Underwriter must determine whether additional credit was granted as a result of the Borrower's request. A letter from the creditor or, if such a letter is unobtainable, a signed statement from the Borrower may be used to determine whether additional credit was obtained.

Credit: (continued)

When underwriting with FICO scores in the comprehensive or cautious range, a reason code will alert the Underwriter that the number of inquiries affected the Borrower's FICO score and, therefore, should not be overlooked in underwriting. In this case and when underwriting without FICO scores, the Underwriter must decide whether the number of recent inquiries, especially when combined with other credit information, increases the risk of the Borrower's credit profile.

- Balances-to-Limits/High Overall Utilization of Revolving Credit: For Manually Underwritten Mortgages, the Underwriter must compare the current balance for each open account to the high credit or limit. Multiple revolving accounts with balances more than 50 percent of their limits must be considered as additional risk when evaluating credit reputation.

  Any derogatory information in a credit history within the most recent two years combined with several revolving accounts at or near their limits should be considered significant derogatory information when evaluating the credit reputation.

  In addition to evaluating balances-to-limits, the Underwriter must compare the overall amount of outstanding revolving credit to the overall amount of revolving credit available. Usage of more than 60 percent of available revolving credit must be considered a risk factor.

  The Underwriter may not use the lack of adverse or derogatory credit information as an offset for high balances-to-limits or high overall utilization of revolving credit.

  For a Caution Mortgage (not delivered as an A-Minus Mortgage) with at least two Feedback Certificate messages related to high balances-to-limits or high overall utilization of revolving credit, the Underwriter should presume the Borrower's credit reputation is unacceptable.

  For a Mortgage with a FICO score in the cautious range and at least two reason codes related to high balances-to-limits or high overall utilization of revolving credit, the Underwriter should presume the Borrower's credit reputation is unacceptable, unless:
  - The Borrower has sufficient cash reserves to pay off all revolving account balances, and
  - The Borrower's total debt-to-income ratio is within guidelines
- When underwriting with FICO scores, the Underwriter must not use the following factors as offsets for weaknesses in the Borrower's credit reputation because they have already been considered in creating the FICO score:
  - The absence of, or age of, derogatory information
  - The number/proportion of accounts paid as agreed versus delinquent
  - The types of accounts paid as agreed versus the types of accounts that are delinquent
  - Recent pay-down or consolidation of account balances by the Borrower
  - The length of the Borrower's credit history
  - Any combinations of the above factors
- Adverse or Derogatory Credit Information: Adverse credit information in and of itself does not mean the Borrower's credit reputation is unacceptable; however, the Underwriter must determine whether the derogatory information is significant.

  For Accept Mortgages, the significance of the derogatory information has already been considered by LP and the Borrower's credit reputation is acceptable.

  For Caution Mortgages (not delivered as A Minus Mortgages) with at least two Feedback Certificate messages related to nonpayment of obligations, the Underwriter must presume the derogatory information is significant. The Underwriter must document the extenuating circumstances or conclude that the difficulties were due to financial mismanagement.

  See Section 37.7 of the Freddie Mac Seller/Servicer Guide for factors to be used in determining the significance of derogatory information.

Underwriting: (continued)

Qualifying Ratios:

- Capacity: Another part of determining the Borrower's creditworthiness, as required in Section 37.1 of the Freddie Mac Seller/Servicer Guide, is evaluating the Borrower's capacity to repay the Mortgage and other monthly obligations.

  For Accept Mortgages, LP makes the determination that Borrower capacity is acceptable so long as the amount of stable monthly income used by LP is correct.

  For all Manually Underwritten Mortgages, the Underwriter must evaluate capacity in accordance with Freddie Mac requirements and document his/her conclusion that capacity is acceptable in the Mortgage file. The Underwriter must determine capacity by analyzing file documentation of the following factors:
  - Stable monthly income
  - Monthly housing expense-to-income and monthly debt payment-to-income ratios
  - Debt-to-housing gap ratio (difference between monthly debt payment-to-income ratio and monthly housing expense-to-income ratio)
  - Reserves and other liquid assets
  - Information about how the Borrower has paid obligations in the past

  For all Caution Mortgages (not delivered as A Minus Mortgages), the Underwriter may not use information already considered by LP to determine that capacity is acceptable when the Feedback Certificate contains credit risk comments related to capacity.

  The Underwriter must presume the Borrower's capacity to repay is not acceptable when the following conditions exist:
  - The Mortgage is an LP Caution Mortgage, and
    - ⇒ The transaction is a cash-out refinance, and
    - ⇒ At least one Credit Risk Comment related to the monthly debt payment-to-income ratio and one related to the debt-to-housing gap ratio are returned on the Feedback Certificate
  - The Mortgage is a Non-LP Mortgage, and
    - ⇒ The transaction is a cash-out refinance, and
    - ⇒ The monthly debt payment-to-income ratios exceeds 42%, and
    - ⇒ The debt-to-housing gap ratio exceeds 15%, and
    - ⇒ Any Borrower has an Underwriting Score less than 700, and
    - ⇒ The TLTV ratio is greater than 75%
- Debt-to-Housing Gap Ratio: The debt-to-housing gap ratio (gap ratio) is the difference between the monthly debt-to-income ratio and the monthly housing expense-to-income ratio.

  LP calculates and evaluates the Borrower's gap ratios. For Accept Mortgages, LP has determined that the Borrower's gap ratio is acceptable.

  For Manually Underwritten Mortgages, the Underwriter must consider the Borrower's debt-to-housing gap ratio when evaluating Borrower's capacity to meet monthly obligations. As a guideline, the debt-to-housing gap ratio should not exceed 15%.

  A higher gap ratio may be appropriate in some cases. An example that could justify a higher gap ratio on a Manually Underwritten Mortgage may include the following:
  - Existence of verified income, not included in qualifying income, available to service shorter-term debt. (For example, alimony or child support income that can be verified but has not been received long enough to include as qualifying income).

Qualifying Ratios: (continued)

- Debt-to-Housing Gap Ratio (continued):
  In addition, the examples listed below may be used to justify a high gap ratio for Non LP Mortgages:
  - Liquid assets substantial enough to satisfy debts and bring the gap ratio within guideline
  - Monthly debt-to-income ratio within guideline combined with small monthly housing expense-to-income ratio
  - The Borrower's strong Credit Score (for example, a 720 or higher FICO score) and the Underwriter's confirmation that the Borrower's credit reputation is excellent

  For any Manually Underwritten Mortgage for which the gap ratio guideline is exceeded, the Underwriter must prepare and retain in the Mortgage file a written explanation justifying his/her underwriting decision.
- The qualifying ratios for manually underwritten mortgages are as follows:
  - 25 - 28% = Monthly housing expense to income
  - 33 - 36% = Monthly debt to income
  - 50% DTI = Stated Income Feature
- Loans with debt-to-income ratios exceeding 50% that are submitted to Loan Prospector must receive an Accept or the loan must be registered under the FNMA-Only investor codes (as shown on page 2)
- Payments on installment secured by financial assets owned by the Borrower in which repayment can be obtained by liquidating the asset, may be excluded from the Borrower's ratios regardless of the payment amount or number of payments remaining. The loan must have been made by a financial institution. Only the value of the account exceeding the loan balance can be reflected as an asset.
- For subject investment properties and 2-4 unit owner occupied residences: If rental income is not used for qualifying, the subject property's PITI plus operating expenses must be used in calculating the monthly debt payment-to-income ratio.
- Freddie Mac requires that payments from deferred installment loans be included when calculating a Borrower's monthly debt obligations. See below for examples of an installment debt with deferred payment and how the payment must be documented:
  - Examples of Installment debt with deferred payments:
    - ⇒ Debts on furniture, household items, and automobiles on which the initial payment is delayed for a period of time as part of a promotional campaign by the merchant
    - ⇒ Student loans on which the repayment period has not yet started because the Borrower is still in school or payment has been suspended for a period of time with the approval of the creditor
  - Examples of how the required payment must be documented when not given on the credit report or are listed as deferred:
    - ⇒ A direct verification obtained from the creditor, or
    - ⇒ A copy of the installment loan agreement obtained from the Borrower, or
    - ⇒ If payments are currently deferred, the payment amount that will be required once the deferment or forbearance period has ended, as stated in a copy of a financial institution's student loan certification or installment loan agreement.
- Contingent Liabilities: The contingent liability section applies to all Loan Prospector loans not eligible for Accept Plus Documentation or for Non-Loan Prospector Mortgages:
  - Mortgage Assumptions: If the borrower is listed as a borrower on a mortgage that has been assumed by another, a copy of the documents transferring the property and any assumption agreement executed by the transferee are required. As long as the borrower no longer owns the property, the contingent liability can be disregarded, without having to document the most recent 12 months' payment history.
  - Court-Ordered Assignments of Debt: If a secured debt or mortgage has been assigned by court order (i.e. divorce decree) to another person, the contingent liability can be disregarded. The documentation of the most recent 12 months' payment history is not required, however, the appropriate pages from the court documents (i.e. separation agreement or divorce decree) must be supplied as well as the transfer of title (if applicable).

Underwriting: (continued)

Qualifying Ratios: (continued)

- Contingent Liabilities (continued):
  - Other Credit Liabilities: If the Borrower is a co-signer on a debt for another person, the underwriter must determine who actually makes the payments on the debt when deciding whether the contingent liability needs to be included in the Borrower's debts.

    To disregard the liability, evidence must be obtained to show timely payments are being made by someone other than the Borrower and document who makes the payments by obtaining copies of cancelled checks or a statement from the creditor. The documentation obtained must cover at least the most recent 12 months.

    If the payments on the contingent liability have not been timely over the most recent 12 months, the liability must be included in the Borrower's qualifying ratios.

- Excluding Prior Home PITI Payment and/or Bridge Loan Payment From Monthly Debt to Income Calculation: This debt can be excluded provided all of the following are met:
  - A copy of the executed sales contract on the prior home is supplied
  - A copy of a lender's loan commitment to the buyer of the prior home is supplied (if the contract includes a financing contingency)
  - The Borrower must have reserves of 6 months' PITI payments covering any liens on the prior residence

Non-Occupant Co-Borrowers:

Non-Occupant Co-Borrowers are permitted with the following limitations:

- Occupying Borrower's ratios are limited to 35/43 (Unless an "Accept" is received from Loan Prospector)
- Occupying Borrower must contribute at least 5% own funds into the transaction, unless the LTV is 80% or less
- Maximum LTV is 90% (Unless an "Accept" is received from Loan Prospector, at which time the maximum LTV is 95%)
- Occupying Borrower's credit must meet FHLMC guidelines
- Non-occupant co-borrower may not be an interested party to transaction

Income Requirements:

Stable monthly income is the Borrower's verified gross monthly income from all verifiable sources which can reasonably be expected to continue for at least the next three years.

- **Salaried Borrowers:**
  - Evidence of a two year history of employment is required
  - Documentation Required:
    - ⇒ Written VOE **OR**
    - ⇒ Paystubs for the most recent 30 day period showing year-to-date income; and
    - ⇒ W-2 forms for the past 2 years; and
    - ⇒ Verbal VOE
- **Other Income:** (i.e., bonuses, overtime, commissions, additional part-time employment or unemployment)
  - Evidence of a two year history of the "Other" income is required. A 12 to 24 month history may be considered if there are compensating factors that reasonably offset the shorter income history.
  - Commission Income
    - ⇒ 24 month average is required
    - ⇒ Schedule A of the Borrowers tax returns must be obtained to document unreimbursed business expenses. A 24-month average of the expenses must be deducted from income.
  - Bonus and Overtime
    - ⇒ 24 month average is required

Underwriting: (continued)

Income Requirements: (continued)

- **Self-Employed Borrowers:** A borrower who has an ownership interest of 25% or more in a business is considered to be self-employed.
  - Must have been established for a minimum of 2 years. A shorter timeframe will be considered on a case-by-case basis.
  - Must have a signed 4506.
  - Copies of the past two years' signed personal and business federal income tax returns are required.
  - A balance sheet and Profit and Loss statement are not required.
- **Alimony, Child Support and Separate Maintenance Payments:** If an applicant chooses to disclose the aforementioned items, proof evidencing the continuance of such payments for the next three years is required.
  - Factors that should be considered in determining the likelihood of consistent payments include, but are not limited to the following:
    - ⇒ Whether the payments are received pursuant to a written agreement, court decree or law.
    - ⇒ The length of time the payments have been received.
    - ⇒ The regularity of the receipt.
  - Copy of the divorce decree, child support order or court documents evidencing the amount that is required to be received monthly
  - Evidence of receipt of the income for the most recent three months from one of the following sources must be provided: court, canceled checks or bank statements showing regular monthly deposits.
- **Non-Employed:** This category includes many sources of passive income such as: social security, pension income, interest income, trust, investment, etc.
  - The underwriter must be confidant this income will continue for the next three years. Factors that should be considered in determining the likelihood of consistent payments include, but are not limited to the following:
    - ⇒ Whether the payments are received pursuant to a written agreement, court decree or law.
    - ⇒ The length of time the payments have been received.
    - ⇒ The regularity of the receipt.
  - Documents provided can be any of the following as applicable: award letter, pension statement, IRS 1099, the most recent signed pages 1 and 2 of individual income tax returns, or other documents.
  - For all tax-exempt income, the income can be grossed up 25%.
- **Rental Income:**
  - **Subject 2-4 Unit Primary Residence:**
    - ⇒ Income must be substantiated by using the income approach on the appraisal and obtaining copies of the present lease(s) or the borrower's prior year federal tax return.
    - ⇒ Monthly operating income from the lesser of either Form 998, Operating Income Statement, or net rental income from Schedule E (if property has been owned for more than one year), may be considered as stable monthly income.
  - **Subject Investment Property:**
    - ⇒ Income must be substantiated by using the income approach on the appraisal and obtaining copies of the present lease(s) or the borrower's prior year federal tax return.
    - ⇒ Monthly operating income from the lesser of either Form 998, Operating Income Statement, or net rental income from Schedule E (if property has been owned for more than one year), may be considered as stable monthly income.
    - ⇒ Borrower must have a two year history of managing investment properties, if rental income is used to qualify.
  - **Investment Properties and 2-4 Unit Primary Residences other than the subject property:**
    - ⇒ Signed leases may be used to calculate gross rents, however, no more than 75% of the gross rental income can be used unless the prior two (2) years' federal tax returns clearly support the use of a higher percentage.

Income Requirements: (continued)

- **Trailing Co-Borrower Income:**
  - Primary Borrower must be a relocating employee
  - Trailing Co-Borrower must have been living with the relocating employee, employed at the previous location, and intends to seek new employment at the new location
  - The note rate must be used to qualify if the mortgage has a temporary buydown
  - 100% of the Trailing Co-Borrower's income can be used to qualify if all of the following are met
    - ⇒ The amount of Trailing Co-Borrower income used does not exceed 33% of the total qualifying income for the mortgage
    - ⇒ The income is not from self-employment
    - ⇒ The Trailing Co-Borrower was continuously employed in the same occupation for two years immediately preceding the relocation
    - ⇒ The Trailing Co-Borrower provides a statement of intent to work in the new location and describes the occupation for which he or she intends to seek employment
    - ⇒ Based upon a review of the job market in the new location, the underwriter must reasonably determine that employment opportunities and earning potential for the Trailing Co-Borrower are comparable or better than the opportunities in the former location

Asset Requirements:

Reserve Requirements:

- In general, reserves are not required. However, if reserves are entered into Loan Prospector, the reserves must be verified. For Manually Underwritten mortgages, if the underwriter uses reserves as a compensating factor, they must be verified.
- For all 2-4 unit Primary Residences: 6 months reserves are required if rental income is used to qualify
- For all investment properties: 6 months reserves are required regardless of whether rental income was used to qualify or not
- 6 months reserves are required if the prior home's bridge loan payment is going to be excluded from ratios. (See Ratio Section)

Asset Verification:

- A written VOD or two months bank statements are required unless Loan Prospector offers less documentation

Unacceptable Sources of Down Payment:

- Funds from Non-Profit Organizations such as Nehemiah, AmeriDream or any other program to which the seller contributes the funds.
- Proceeds of a personal or unsecured loan
- A gift that must be repaid in full or in part
- A cash advance on a revolving charge account or unsecured line of credit
- Cash for which the source cannot be verified (cash on hand)

Gift Fund Requirements:

- Borrower(s) must have at least 5% of their own funds into the transaction for LTVS > 80% (unless using a gift or grant from the Employer, Church, Municipality or a Non-Profit Organization as described below)
- If the LTV is $\leq$ 80% the entire down payment may come from a gift
- The gift must come from one of the following sources:
  - Relative which is defined as:
    - ⇒ A spouse, child or dependent
    - ⇒ An individual related to borrower by blood, marriage or adoption
    - ⇒ A guardian of the borrower
    - ⇒ A person for whom the borrower is a guardian
    - ⇒ The borrower's fiancee or the borrower's domestic partner.
  - Employer, Church, Municipality or a Non-Profit Organization (if one of these is used as the gift donor, they must have an established gift program)

Underwriting: (continued)

Asset Requirements: (continued)

Gift Fund Requirements (continued):

- List donor's name, address, phone number, relationship to Borrower and dollar amount of gift on application or gift letter. If provided in a gift letter, it must be signed by the donor.
- If sufficient funds required have not been verified in Borrower's accounts, document transfer.
- Not permitted on investment property

Interested Party Contributions:

Interested parties include, but are not limited to, the builder, developer, seller of the property and the real estate agent. Contributions from interested parties are acceptable for closing costs and prepaids with the following limitations and are based on the lower of the sales price or appraised value:

Primary and Second Homes:
9% for LTVs ≤ 75%
6% for LTVs > 75% up to and including 90%
3% for LTVs > 90%
Investment Properties:
2% regardless of LTV
Stated Income:
6% for all LTVs

Non-Arms Length Transactions:

Primary Residences: Freddie Mac does not specifically address Non-Arms length transactions in their guidelines in relation to Primary Residences. However, Underwriters should scrutinize very closely loans that are Non-Arms length transactions. This includes, but is not limited to, transactions in which the Borrower is affiliated in some way with the Builder, Developer, or Property Seller.

Second Homes and Investment Properties: The Borrower may not be affiliated in any way with the builder, developer, or property seller.

Closing Requirements and Special Forms:

Manufactured Homes:

- You must use a special closing addendum when the property type is marked as Manufactured Housing. You must print the forms from the Product Information section of the Website. The forms are located within the "Miscellaneous Forms, Information and Miscellaneous Bulletins" folder.
- The state may require additional requirements, so please check with your title company for additional restrictions/requirements when preparing a closing package for this property type.
- The closing instructions must state that we require the property to be taxed as real estate and hold first lien position.
- The VIN (vehicle identification number) must be on the title policy and on the Alta 7 endorsement
- The manufactured home must be described in the Security Instrument and the description should contain the year, make-model and HUD serial number(s) for each section of the unit.
- Must obtain an insured closing protection letter from each agent (unless prohibited by state law).
- Refinance transactions: Check with the closing agent to make sure existing loan is titled as real property.
- All other standard closing requirements must be met.

Closing Requirements and Special Forms: (continued)

Balloon Doc Changes (These changes do not apply if the Fannie-Only Investor code for Balloons is used):

- For Balloon Mortgages secured by Investment Property, the occupancy requirement (but not the ownership requirement) in the Balloon Note Addendum and Balloon Rider must be deleted.

  For Balloon Mortgages that have secondary financing meeting the loan terms as reflected in the Subordinate Financing Section, the following change can be made to Section 2(c) the Balloon Note Addendum and Balloon Rider:
  - The following words can be inserted at the beginning of the sentence of the Balloon Note Addendum: (c) except for the secondary financing in existence on the date of this Note Addendum, which meets the Lender's requirements,
  - The following words can be inserted at the beginning of the sentence of the Balloon Rider: (c) except for the secondary financing in existence on the date of this Balloon Rider, which meets the Lender's requirements,

Leaseholds

- The Uniform Security Instrument must describe the "Property" as a leasehold interest created by a recorded lease in the property described in the legal description.
- The following language must be included in Uniform Covenant 6 of the Security Instrument or attached as a Rider: Borrower shall not surrender the leasehold estate and interests herein conveyed or terminate or cancel the ground lease. Borrower shall not, without the express written consent of Lender, alter or amend the ground lease.

Please use the most current of the forms listed below:

<u>Fixed Rate</u>
FNMA/FHLMC Multistate Note – Form 3200 or the appropriate FNMA/FHLMC Note where the property is located

<u>Balloon Mortgage</u>
If using the standard Balloon Investor Codes, the following documents should be used:

- Balloon Note: Freddie Form 3290 Multistate Note (or the state specific version where required)
- Balloon Note Addendum: Freddie Form 3292
- Balloon Rider: Freddie Form 3191

If using the Fannie-Only Investor Code the following documents should be used:

- Balloon Note – Fannie Form 3260 Multistate Note (or the state specific version where required)
- Balloon Note Addendum – Fannie Form 3266
- Balloon Rider – Fannie Form 3180

FNMA/FHLMC Mortgage for the state where the property is located
Environmental Lien Endorsement ALTA 8.1
Initial Escrow Account Statement

<u>If applicable</u>:
1-4 Family Rider Multistate – Form 3170
Condo Rider – Form 3140
Condo Endorsement ALTA 4
PUD Rider – Form 3150
PUD Endorsement ALTA 5
Second Home Rider – Form 3890
Location Endorsement ALTA 9 (Required in areas where surveys are not customary.)
Manufactured Housing Endorsement ALTA 7
ALTA Leasehold Policy Endorsement
Exhibit C- HOA Worksheet
Exhibit D- PUD Worksheet
Revocable Trust Rider

Closing Requirements and Special Forms: (continued)

Interim Interest Credits:

Interim Interest Credits are permitted if closing occurs within the first 5 days of the month.

Prepayment Penalty:

There will be no prepayment penalties on this program.

Servicing:

Retained