



Conforming Underwriting Guidelines

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1. Products

PRODUCT DESCRIPTIONS

Fixed rate, fully amortizing mortgage with conforming loan amounts for 10, 15, 20, 25 or 30 years
Adjustable Rate Libor ARMS for 5/1, 7/1 or 10/1 fully amortizing and interest only

PROGRAM CODES

| <u>Fixed Rate</u> | | <u>Adjustable Rate</u> | | <u>Interest Only Adjustable Rate</u> | |
|-------------------|---------|------------------------|------------|--------------------------------------|--------------|
| 15 Year Fixed | WS-15FX | 5/1 Libor Arm | WS-5/1-LA | 5/1 IO ARM | WS-5/1-ioLA |
| 20 Year Fixed | WS-20FX | 7/1 Libor Arm | WS-7/1-LA | 7/1 IO ARM | WS-7/1-ioLA |
| 30 Year Fixed | WS-30FX | 10/1 Libor Arm | WS-10/1-LA | 10/1 IO ARM | WS-10/1-ioLA |

MINIMUM LOAN SIZE

\$50,000

CONFORMING LOAN AMOUNTS

Except in High Cost areas (See Agency High Balance Matrix for loans above \$417,000 on one unit properties), loan limits are:

Contiguous States (excludes Hawaii and Alaska)

| | |
|---------|-----------|
| 1-Unit | \$417,000 |
| 2-Units | \$533,850 |
| 3-Units | \$645,300 |
| 4-Units | \$801,950 |

IMPOUND/ESCROW ACCOUNTS

Escrows may be waived for a fee (see rate sheet)

Escrows are “mandatory” for all LTV’s >80%.

GEOGRAPHIC RESTRICTIONS

Eligible in all areas of AR, CA, CO, CT, DC, DE, FL, GA, IL, MA, MD, ME, MI, MS, NC, NH, NJ, NY, OH, PA, RI, SC, TN, TX, VA, VT and WV –*Loans requiring mortgage insurance are subject to additional restrictions; refer to current soft market and declining area policies available on the MI Company website. *Fannie/Freddie products only in Ohio.*

MAXIMUM LTV, LOAN AMOUNT AND CREDIT SCORE

- LTV’s above 80% are subject to MI eligibility requirements for minimum Fico and maximum LTV . LTV limits may vary depending on declining market policies.

Purchase and Rate/Term Refinance

| Property Type | Maximum LTV/CLTV | Minimum Credit Score |
|--------------------------|-------------------------------|----------------------|
| Primary Residence | | |
| 1 Unit, Condo* and PUD | 97%/NA | 720 |
| 1 Unit | 95%/95% | 640 |
| 1 Unit | 80%/95% | 640 |
| 2 Unit | 80%/80% | 640 |
| 3-4 Unit | 75%/75% FNMA 80%/80% FHLMC | 640 |
| Second Home | | |
| 1 Unit | 90%/90% | 640 |
| Investment | | |
| 1 Unit – Purchase | 80%/85% | 640 |
| 1 Unit – Rate/Term | 75%/75% | 640 |
| 2 Unit | 75%/75% | 640 |
| 3-4 Unit | 75%/75% | 640 |

Cash Out Refinance

| Property Type | Maximum LTV/CLTV | Minimum Credit Score |
|--------------------------|------------------|----------------------|
| Primary Residence | | |
| 1 Unit | 85%/85% | 640 |
| 2 Unit | 75%/75% | 640 |
| 3-4 Unit | 75%/75% | 640 |
| Second Home | | |
| 1 Unit | 75%/75% | 640 |
| Investment | | |
| 1 Unit | 75%/75% | 640 |
| 2 Unit | 70%/70% | 640 |
| 3-4 Unit | 70%/70% | 640 |

*Florida Condos – restrictions apply

Co-ops: refer to NY/NJ Wholesale Co-op Guidelines under “Forms”

LENDER PAID MI

Max LTV 95%

Minimum Fico 680

No cash out refinances

Florida Condos

Max LTV for condos in Florida (purchase and refinance) is 75% for primary residence with AUS approval; 70% for second homes. No investment properties allowed.

SUBORDINATE FINANCING

- Allowed to the maximum CLTV limits as shown in the Maximum LTV/CLTV heading.

- The term of the loan cannot be less than five years, unless the financing fully amortizes prior to that time.
- The loan term must provide for regular payments of principal and interest, or interest only.
- If the loan has a fixed rate, the terms may not be more than 2% below the market rate for Fannie Mae second mortgages at the time of origination. To locate the market rate, refer to the Historical Daily Yields under Reference Materials on efanniemae.com.
- If the loan has a variable rate, the monthly payment must remain constant for each 12-month period over the term of the loan.
- See Ratio's section for DTI calculations on Helocs.
- A copy of the note and the security instrument for the subordinate lien is required to verify the terms.

HOMEOWNERS' INSURANCE REQUIREMENTS

The amount of coverage must at least equal:

- 100% of the insurable value (replacement value) of the improvements as established by the property insurer.

TMS will not accept hazard insurance policies that limit or exclude from coverage windstorm, hurricane, hail damages, or any other peril normally included under an extended coverage endorsement unless a separate policy or endorsement is obtained that provides adequate coverage for the limited or excluded peril.

The separate policy may come from an insurance pool established by a state to cover the limitations or exclusions.

MORTGAGE INSURANCE COVERAGE

Borrower or Lender Paid Options Available

| LTV | 10, 15 and 20 year terms | 25 and 30 year terms |
|-------------|--------------------------|----------------------|
| 90.01 – 95% | 25% | 30% |
| 85.01 – 90% | 12% | 25% |
| 80.01 – 85% | 6% | 12% |

- Minimum credit score required for MI coverage is determined by the MI companies, which generally ranges from 620 to 720.
- LPMI- Lender Paid Mortgage Insurance is accepted - single premium only. Max LTV 95%, no cash-out refinances.
- Mortgage Insurance is required on all first mortgage loans with a LTV greater than 80%
- For all loans requiring mortgage insurance, borrowers must be supplied with a Mortgage Insurance Disclosure Form.
- Approved Mortgage Insurance Companies include: Radian, MGIC, Genworth, and UGI.
- **Note:** Mortgage Insurance companies may have more restrictive guidelines than the agencies OR TMS, including DTI, tradelines, property, R/T definitions, credit scores, etc. Any loan exceeding 80% LTV must meet the requirements of FNMA, TMS and the MI Company.

2. Eligibility

PROPERTY ELIGIBILITY

Eligible Property Types

- Attached and Detached SFR and PUDs

- Detached condominiums for Primary Residence or Second Homes
- Attached condominiums
- 2-4 Units (Not allowed on second homes) Refer to Section for Rent Loss Insurance
- Rural Properties
- Cooperatives – NY and NJ only, see guides for specifics
- Log Homes - one-unit Primary and Second Homes: maximum \$417,000 Loan amount; max 75% LTV/CLTV, must have 2 recent sold log home comps; Second homes restricted to purchase or R/T transactions.

Ineligible Property Types

- Non-Warrantable Condos
- Manufactured Homes
- Condotels
- Live-Work Style Condos
- Timeshare Units
- Houseboats
- Working farms, ranches, orchards and/or commercial operations
- Properties without a permanent heat source and if typical for the area, cooling. *Space heaters and similar sources are not considered permanent, even if affixed to a wall.*
- Properties that are ineligible as per FNMA Guidelines
- Properties with deed restrictions that limit transferability of title
- Refinances where property is currently listed for sale at the time of application
- Leasehold Estates
- Unique Properties: Dome, foundation on stilts, one-of-a-kind luxury residences.

Occupancy

Owner Occupied

For owner occupied transactions, when an existing owner occupied loan is less than one year old and borrowers will be retaining that property, exception approval is required.

Borrower(s) must occupy the subject property within 60 days of the Note date.

Second Home

Defined as a residence the owner uses:

- Second to his/her primary residence; most commonly a vacation home, or
- As a second home in the city for convenience when the primary home is in a distant suburb, but the owner works in the city.

The residence should meet the usage classification for a second home as defined by the Federal IRS regulations:

- **NO** significant rental income or rental expenses are reported on Schedule E on the borrower's personal tax returns for the subject property. No rental income can be used to qualify the borrower.
- The borrower must have personally resided (or intends to personally reside), in the property for some part of the year as evidenced through: Mortgage interest tax deduction on the personal tax return on Schedule A or, a signed statement (e.g., occupancy certification) or other documentation affirming intent from the borrower on a purchase.
- The property may not be leased or rented, or intended for lease or rental, other than on an occasional basis.
- The property must be suitable for year round residence. Any appraisal comment to the contrary (e.g., lack of year round necessities or access), shall constitute reason for unacceptable collateral.

- Property should be in a typical second home area, otherwise satisfactorily justified by the borrowers as a second home.

Note: to ensure that proper pricing and product standards are applied (maximum LTV; cash out eligibility; etc.) all loan requests for second home should be carefully reviewed to ensure the request is not for an investment property.

Investment Properties

- Refer to Section 5- Rental Income Qualifying Matrix for details on accepting rental income.
- Distant Properties: purchases and refinances of properties owned less than one year must be within 50 miles of borrower's primary residence. On refinances of distant properties, document 12 months prompt mortgage payments if file documentation does not include tax returns covering a full calendar year of ownership. Unless Management Approval is obtained.
- Properties occupied by others, including family members, must be considered classified as Investment Properties.
- If the subject property is currently rented, a copy of the lease agreement is required, even when rental income is not used to qualify.

Condominiums

Condominium Project Eligibility

- FNMA Limited Review for established projects ONLY, if allowed by AUS (Includes detached, 2-4 unit projects. "Established Project" means 100% complete AND 90% conveyed AND control of HOA turned over to HOA.)
- Project Questionnaires are required on all condominiums and attached PUDs. **Limited Project Review "Type Q" is the only Condominium Classification available for financing at this time.*

New Projects:

New projects are projects in which less than 90% of the total units have been conveyed to the unit purchasers. New projects include projects that are not fully complete, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condominium (also referred to as a Newly Converted Projects).

Established Projects:

Established projects are projects in which 90% or more of the total units have been conveyed to the unit purchasers, the project or conversion is 100% complete, including all units and common elements; the project is not subject to additional phasing or annexation; and control of the homeowners' association has been turned over to the unit owners by the developer.

Condominium Insurance Requirements

Walls-in Policy

A "walls-in" (HO-6) condominium insurance policy endorsement is now an Agency requirement, and applied to all conventional loans. This coverage covers fixtures, equipment, and other personal property inside individual units. TMS must consider this insurance policy as part of the borrower's housing expense in qualification (when the association's master policy does not provide this coverage). Also, the "walls-in" policy must be escrowed on any loan where impounds are required.

This applies to all condominium projects with attached units, including two to four unit projects, and is required unless the lender can document the master policy provides the same interior unit coverage. The master policy must include replacement of improvements and betterment coverage to cover any improvements that the borrower may have made to the unit.

The HO-6 insurance policy must provide 100% replacement cost coverage, guaranteed replacement cost or 100% of the insurable value, as determined by the insurer. The deductible for the HO-6 Policy may not exceed 5% of the face value of the policy.

HO-6 policies are only available for primary residences and second homes. Investment properties require the purchase of a business owner's policy, homeowner's policy, or other dwelling coverage that offers the standard extended coverage.

Condominium Project Replacement Cost Coverage

Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units in a condo project. An insurance policy that includes either of the following endorsements ensures full insurable value replacement cost coverage:

- A Guaranteed Replacement Cost Endorsement (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).
- A Replacement Cost Endorsement (under which the insurer agrees to pay up to 100% of the property's insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance) may not exceed for the Policy may not exceed 5% of the face value of the policy.
- Satisfactory documentation dwelling coverage is at least equal to the insurable value of the dwelling as evidenced by the insurer.

Condominium Flood Insurance Requirements

The policy must cover common element buildings and any other common property.

When the project consists of high-rise or other vertical buildings, the homeowners association must obtain a Residential Condominium Building Association Policy for each building that is located in an SFHA. The policy must cover all of the common elements and property, as well as each of the individual units in the building.

A separate policy is required for each dwelling unit when a homeowners association refuses to obtain a Residential Condominium Building Association Policy or when the Residential Condominium Building Association policy does not comply with Fannie Mae's insurance requirements.

Co-ops

Refer to TMS Co-op Guidelines on TMSFunding.com

Age-Related Deed Restrictions

Allowed only for Senior Citizens, age 55 or older. Completed "Form 38 Age Restrictions" available on TMSFunding.com is required

Rural Properties

A rural area relates to the country or anything beyond the suburban area.

The primary dwelling for properties in rural areas must represent 70% or more of the total appraised value of the property. Outbuildings such as barns or stables are not considered in the 70% calculations.

Working farms, ranches, orchards, and/or commercial operations are not permitted

Properties with outbuildings require special consideration.

Properties with *minimal* outbuildings, such as a small barn or stable that are of relatively insignificant value in relation to the total appraised value are acceptable if they are typical residential improvements and support the residential use for the location and property type. Comparable sales with similar improvements should show they are typical and have an existing market. A property with an atypical minimal outbuilding is still acceptable as long as the appraiser's analysis reflects little or no value for it. Properties with *significant*

outbuildings must be reviewed with great care, regardless of whether the appraiser assigns any value to them or not. Their existence may indicate the property may be used for agriculture or other income producing purposes.

Rural properties greater than 20 acres must have recent similarly sized sales comps and requires Credit Management review and approval.

BORROWER ELIGIBILITY

Maximum Number of Borrowers

Maximum number of borrowers on same loan - 4

First Time Homebuyers

Defined as not having owned a home for the past 3 years, or for less than one year on current residence.

Citizenship

| Borrower Type | Requirements |
|--|---|
| All borrowers, including U.S. Citizens | Borrowers must have a valid, U.S. social security number |
| Permanent Resident Aliens | Eligible under same conditions as a U.S. Citizen. Permanent Resident Alien Card (Green Card) required. |
| Non-Permanent Resident Aliens | Eligible under same conditions as a U.S. Citizen. Legal resident with valid social security number, employed in U.S. ITIN not acceptable. Subject to acceptable Visa, Passport and/or EAD. Must verify the borrower is legally residing in the U.S. Acceptable Visa Classifications are: E-1, G-2, G-3, G-4, H-1B, L-1A, L-1B and NAFTA TN |

Non-Occupying Co-Borrowers

If there is a non-occupant co-borrower, the owner-occupant must meet the following requirements:

- **Purchase Transactions** - If the LTV is greater than 80% and the non-occupant co-borrower's income is used to qualify, the owner-occupant must have 5% of the purchase price in their own funds.
- **Qualifying Ratios** – The owner-occupant must qualify at 35%/43% maximum ratios. *
- **LTV** – Up to 90% LTV allowed if co-borrower does not need to occupy property. LTV greater than 90%, co borrower must occupy property.

*always subject to M.I. Guidelines

TITLE

Title Vesting

Title may be held as individuals, or in a FNMA-eligible revocable living trust. Vesting as a corporation, LLC, Partnership, Land Trust, Nominee Trust, irrevocable trust or otherwise not eligible for financing by FNMA, is not accepted.

If title vesting is in a trust:

- The trust may be the only title holder. A Trust in title jointly with an individual or another Trust is not allowed.
- At least one individual establishing the trust must be used to qualify the loan
- If the subject property is not included in the listing of the Trust's assets, exception processing is required.

- Accepted on all occupancies and number of units.

Subject to Credit Management Review, an attorney opinion letter is required if vesting is in a trust. The letter should address the following points:

1. The trust was validly created and is duly existing under applicable law;
2. The trust is revocable;
3. The borrower is the settler of the trust and the beneficiary of the trust;
4. The trust assets may be used for collateral for a loan;
5. The trustee is duly qualified under applicable law to serve as trustee, the trustee is the borrower, and the trustee is fully authorized under the trust documents and applicable law to pledge or otherwise encumber the trust assets; and the settler of the trust.

A complete copy of the trust agreement must also be obtained for the file.

POWER OF ATTORNEY

Power of Attorney must be specific to the transaction. Original POA must be brought to closing to be recorded. Cannot use a POA if closing in a Trust. For refinance transactions, terms of the transaction must be included in the POA.

TRANSACTION REQUIREMENTS

Purchase

Chain of Title

24 month chain of title required, indicating buyers, sellers, price and date. Any increases in value/price must be justified. The appraisal is not an acceptable source for chain of title information.

Extra due diligence is required whenever the seller is an LLC. Desk or field review by Landsafe is required if the LLC has owned the property less than one year.

Length of Ownership (Property Flipping)

Flipping Restrictions apply during the first year of ownership.

Owned by Seller ≤ 90 Days

Not eligible unless a foreclosure sale by lending institution.

- The following applies to all transactions except properties being sold by the foreclosing institutional lender: Seller's ownership must be recorded on title, and must have owned the property for at least 90 days
- Date comparison will be from acquisition date to the earliest of the purchase contract, or application/origination date.
- If the recording date of seller's acquisition is delayed beyond normal recording office delays (generally more than 45 days), underwriters may require 90 days from recording date, or additional documentation to prove the actual date of deed transfer (ex: settlement statement and proof of funds being paid).

Property flipping generally refers to the process of purchasing an existing property with the intention of immediately reselling it for a profit. Property flipping in itself is not illegal unless it includes an act of fraud or misrepresentation. Depending on the circumstances, an "immediate" resale could occur after the owner holds title for months or just days, or where the owner may assign or sell to a third party the owner's interest in a contract to purchase the property. Underwriters must closely scrutinize any transaction indicating a possible property flip to ensure that the transaction involves appropriate credit risk.

Not all purchase/rapid resale transactions are considered property flipping. Examples of purchases that result in legitimate rapid resale transactions include:

- Property sales by employers or relocation agencies related to employee transactions;
- Property sales by Government sponsored enterprise, state or federally chartered financial institution, mortgage insurer, or federal, state or local government agency (REO properties).
- Property sales that were acquired by the property seller as a result of inheritance, divorce, or as a result of a legal settlement;
- Properties that were purchased through a distressed sale and made substantial renovations to the property and is now selling for a profit. The renovations should be documented and verified.

Owned by Seller 91 Days - One Year

Any price increase greater than 15% must be based on documented detailed improvements made to the property. Appraisers should provide itemized details and project costs, and pictures of the significant improvements made.

Non-Arm's Length Transactions

Accepted only on one-unit owner-occupied purchases of existing properties. This applies to transactions where the buyer has a relationship or business affiliation with the property seller.

Borrowers who are "Industry Related" – Mortgage Broker or employed by a Mortgage Broker, Real Estate Agent or Appraiser all require Credit Management review and approval.

If the property is a newly constructed property, and the borrower has a relationship or business affiliation (any ownership interest, or employment) with the builder, developer, or seller of the property, the loan must be secured by a primary residence. In these situations, second home and investment properties are not permitted.

Seller/Interested Party Contributions

Maximum allowed, not to exceed the actual charges for non-recurring closing costs and standard pre-paid items.

| Occupancy | CLTV | Maximum Seller Contributions |
|------------------|----------------|-------------------------------------|
| Owner occupied | >90% | 3% |
| | ≤90% and > 75% | 6% |
| | ≤75% | 9% |
| Second Home | >90% | 3% |
| | ≤90% and > 75% | 6% |
| | ≤75% | 9% |
| Investment | ALL LTV'S | 2% |

Short Sale Purchase

If the purchase contract reveals that the transaction involves the purchase of the subject property via short sale, the following requirements apply in addition to the requirements for all purchase contracts:

- A full walk-in appraisal on the property is required.
- A short sale approval letter from each existing mortgage lien holder accepting a discounted sales price on the subject property must be obtained prior to final approval and included in the loan file. The terms of the purchase transaction must support applicable requirements of the approval letters.

- Note: Properties containing both a 1st lien and subordinate lien(s) generally have all lien holders agreeing to reduced payoff amounts for their liens on the subject property, however it is possible that the reduced payoff may only apply to subordinate lien holder(s).

If the purchase contract has an earnest money deposit, the source of the earnest money deposit (EMD) must be verified by a bank statement and/or bank print-out at the time the EMD check was cleared from the applicant's account, regardless of the amount of the earnest deposit.

Due to potential misrepresentation that could occur with a subject property involved in a short sale agreement, the Client must perform an in-depth review of the Purchase Contract and all addendums including the Short Sale Addendum and document the resolution for any of the following short sale purchase red flags are detected with the transaction

Refinances

Seasoning

- During first year of ownership (ownership date to earliest date of new application documents) use the lesser of current value or acquisition cost to calculate LTV/CLTV.
- Rate and term refinances use current appraised value.
- Cash Out refinances during the first 6 months of ownership are not allowed (ownership date to earliest date of new application documents)
- Cash out 6 months – 12 months - May use appraised value except when no continuity of obligation or no lien on property then lower of purchase price or appraised value
- Borrowers that have taken a cash-out loan on the subject property within the last 6 months (funding date to earliest date of new application documents) are ineligible for rate/term refinancing.
- Freddie Mac requires 4 months seasoning from purchase date to Note date for a R&T refi of a Purchase loan ONLY: no seasoning for refi of previous R&T transaction

Properties Recently Listed for Sale

Refinances on properties currently listed for sale are not permitted. A property that was previously listed must be off MLS:

- **Rate/Term Refinance:** The Listing Agreement must be cancelled and property off the market for at least one day prior to the application date.
- **Cash Out Refinance:** Listing Agreements must be cancelled six months prior to the application date OR the loan is subject to a Maximum of 70% LTV/CLTV. Cash out Refinances are only eligible when a property has been owned for a minimum of six months (see Seasoning section above for exception). Loans with Mortgage Insurance may be subject to different seasoning requirements.

Continuity of Obligation

Loans with acceptable continuity of obligation may be underwritten and priced as rate-and-term or cash-out refinances according to the standard definitions. An acceptable continuity of obligation exists when:

- There is at least one borrower obligated on the new loan who was also a borrower obligated on the existing loan being refinanced, or
- The borrower has recently inherited or was legally awarded the property (for example, divorce or separation), or
- The borrower has been on title and residing in the property for at least 12 months, and has either paid the mortgage for the last 12 months or can demonstrate a relationship (relative, domestic partner) with the current obligor.

If the borrower is currently on title but is unable to demonstrate an acceptable continuity of obligation, or there is no outstanding lien against the property, the loan must be underwritten and priced as a cash-out refinance transaction. Additionally, the following restrictions apply:

Loans with no outstanding liens:

- Property purchased within the past 6 months is not eligible.
- Property purchased within 6 to 12 months prior to the application date for the loan transaction: The loan-to-value is based on the lesser of the original sales price or the current appraised value.
- Property was purchased more than 12 months prior to the application date for new loan transaction; the current appraised value is used to calculate the loan-to-value.

Loans with outstanding liens but with no continuity of obligation:

- If there is an outstanding lien on the subject property, there must be a continuity of obligation.

An exception can be requested, if the following applies - At least one borrower must have been on title for at least six months, and the LTV/CLTV/HCLTV (based on the current appraised value) is 50%.

Rate/Term Refinance

A rate and term refinance is a new mortgage loan that pays off in full the sum of the liens noted in the following. It is acceptable to include closing costs, discount points, prepayment penalties, and any prepaid items, such as hazard insurance and property taxes for the current year, as part of the transaction.

The including of any delinquent property taxes or HOA dues in the loan amount is not allowed on a rate and term refinance.

Rate/term Refi can pay off:

- Unpaid principal balance of an existing lien
- Junior liens that were used for the original purchase of the home (Subject to MI Approval)
- Buying out an Owner's Interest- (result of Divorce Settlement or Dissolution of Domestic Partnership)
 - Must provide documentation property has been jointly owned for ≥ 12 months
 - All parties must sign written agreement that states the terms of property transfer and proposed disposition of proceeds.
 - Remaining borrower must not receive any of the proceeds from the refinancing and must qualify for the mortgage as per underwriting guidelines.
 - DU Loans: If the transaction includes the buyout of a spouse, domestic partner, fiancé or fiancée, the loan must be approved via DU in order for the transaction to be originated as a rate/term refinance.
 - LP or Manual UW Loans: If the transaction is decisioned via LP or manually underwritten, the buyout of a spouse, domestic partner, fiancé or fiancée must be originated as cash-out refinance, subject to all cash out refinance parameters, including maximum LTV/CLTV/HCLTVs.

Other than payment of the first and eligible second liens and closing costs, incidental cash back may not exceed the lesser of 2% of the principal amount of the new mortgage or \$2,000.

Cash-out Refinance

Cash-out refinance transactions must meet the following requirements:

- The transaction must be used to pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have a mortgage lien against it.
- Properties Listed for sale in the 6 months preceding the application date for new financing are limited to 70% LTV/CLTV ratios (or less if mandated by a specific product, occupancy or property type)
- Properties that were listed for sale must have been taken off the market on or before the application date.
- The property must have been purchased by the borrower at least 6 months prior to the loan application date.

Ineligible Transactions for Cash Out

The following transaction types are not eligible as cash-out refinances:

- The mortgage is subject to a temporary interest rate buydown.
- The subject property was purchased by the borrower within the 6 months preceding the application for new financing. (See Seasoning section for exception)
- The subject property is currently listed for sale.
- The existing mortgage is a “*restructured mortgage*”.

A “Restructured Loan” is a mortgage loan in which the terms of the original transaction have been changed, resulting in absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage;
- Application of a principal curtailment by or on behalf of the current mortgage holder to simulate principal forgiveness;
- Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage;
- Conversion of any portion of the original mortgage debt from secured to unsecured.

Acceptable Uses for Cash-out Refinance Transactions:

- Paying off debts of any kind
- Taking equity out of the subject property that may be used for any purpose, as long as additional debt will not be incurred as a result of the cash out.

Defining Refinance Transactions Based on Subordinate Lien Payoff

| Refinance transaction includes payoff of the first lien and ... | Then lenders must underwrite the transaction as a ... | Comments |
|--|---|---|
| The payoff of a purchase money second with NO cash-out | Limited cash-out refinance | *If loan has M.I. subject to M.I. guidelines in all cases. *Not eligible for DU Refi Plus |
| The payoff of a non-purchase money second, regardless of whether additional cash-out is taken | Cash-out refinance | N/A |
| The subordinate financing is being left in place, regardless of whether the subordinate financing was used to purchase the property, and the borrower is not taking cash-out except to the extent permitted for a limited cash-out refinance transaction | Limited cash-out refinance | The subordinate financing must be factored into the comprehensive risk assessment based on the CLTV and total debt-to-income ratio. The subordinate lien must be resubordinated to the new first mortgage loan. |
| The subordinate financing is being left in place, regardless of whether the subordinate financing was used to purchase the property, and the borrower is taking cash-out | Cash-out refinance | If the Subordinate Financing is a Line of Credit borrower will be qualified based on 1% of Maximum line amount. Exception to use actual payment may be requested and if approved may be subject to a pricing adjustment. |

All Transactions

Financed Properties

Maximum number of residential properties owned by borrower with outstanding mortgage liens.

| Occupancy Type | Total Financed Properties |
|------------------------------------|---------------------------|
| Primary Residence | Unlimited |
| Second Home or Investment Property | 4 |

Exposure Limitations

The policy on mortgage ownership limits is designed to protect the company from excessive risk exposure with the same borrower.

- TMS will finance up to 4 properties (including subject property) at conforming loan limits.
- New multiple loans must be underwritten simultaneously.
- If the aggregate dollar amount of all loans to one applicant from TMS (including the amount of the new loan) exceeds \$2,000,000, the loan request may require approval from Credit Management.

3. Documentation

UNDERWRITING DECISION

All loans must be run through an automated underwriting engine (DU/LP) and receive an approved/Eligible or Accept recommendation. We do not allow “manual underwrites.”

FANNIE MAE GUIDELINES

All loans must meet Fannie Mae and TMS guidelines. Loans that are underwritten using DU must be documented according to the requirements of the findings report. Current Version of FNMA Guide can be found at [FNMA Selling and Servicing Guide](#)

Full appraisal required if subject property is an investment property or if located in a Federal Disaster Area.

A 4506-T must be executed before closing, with findings acceptably validated. An additional 4506-T must also be signed at closing.

YTD P&L for applicable year(s) are required on self-employed borrowers whenever the application date is more than 120 days after the most recent tax returns (underwriter discretion). If most recent year tax returns have not been filed, a P&L is required.

AGE OF DOCUMENTATION

Application: 120 days

Credit/Income: 90 days existing property/ 120 days new construction for all documents. Updated credit reports are required when the existing credit report is expiring, or when there are material changes to the reported information.

Title search: 60 days

Appraisals: 90 days

4. Credit

ALIMONY/CHILD SUPPORT

If alimony and/or child support have 10 or fewer payments remaining, can ignore debt from DTI.

BANKRUPTCY

For all bankruptcy types, the time period required to reestablish credit is measured from the bankruptcy discharge or dismissal date. Must be recognized by DU and Credit Provider.

For Chapter 7 and Chapter 13, the time period to reestablish credit is four years from discharge date.

Multiple Bankruptcy Filings

For borrowers with multiple bankruptcy filings during the last seven years, a five-year seasoning from the most recent discharge or dismissal date is required to reestablish credit.

CREDIT AND CREDIT SCORES

All borrowers must have a minimum representative credit score of at least **640**, except where a higher credit score requirement is indicated throughout this Product Summary, or as may be required by Mortgage Insurance Company.

CREDIT INQUIRIES

If the credit report indicates that a creditor has made an inquiry within the previous 120 days, a letter from the creditor or signed statement from the borrower is required to determine if additional credit was obtained. Any new debt must be included in qualifying the borrower.

DISPUTED TRADELINES

If the tradeline **does not** belong to the borrower, or the reported payment history is **inaccurate**, written documentation is required to evidence the erroneous information. Under these circumstances, when the information is validated, DU may require no further action.

If the tradeline **does** belong to the borrower and the reported payment history is **accurate**, the disputed tradeline(s) must be considered in the credit risk assessment. To ensure the disputed tradeline is considered by DU, a new credit report must be obtained with the tradeline no longer reported as disputed and resubmitted the loan casefile to DU.

FORECLOSURE

For borrowers with a past foreclosure, the time period required to reestablish credit is 7 years (no conditions after 7 yrs). Extenuating circumstance if AUS approved is still 3 years

LATE PAYMENTS

Late payments are considered accounted for in the credit score. However, the following items are subject to individual evaluation, no matter how high the credit score:

- Judgments, collections, charge-offs, tax liens.
- Bankruptcy
- Foreclosure including deed-in-lieu, and short sales, Notice of Default, 120-day lates; Mortgage
- late payments OX60 in the last 12 months.
- Number of "Authorized User Accounts."

TMS requires that a single representative credit score be selected for each borrower. A representative score is determined for the borrower and the loan, as follows:

Borrower Representative Score:

If a total of 3 scores are obtained for a borrower, the designated score for the borrower shall be the middle score.

If a total of 2 scores are obtained, the lower score will be the designated score for that borrower. *Credit report must indicate all 3 repositories we accessed and the score was not available.

Loan Representative Score:

If there are co-borrowers on the loan, the credit score applicable to the loan itself will be the lowest of the respective borrower’s scores.

MINIMUM TRADELINES

Each borrower must have 3 trade lines, regardless of credit score or AUS Findings

- One with >= 24 month reporting history
- The other two with >=12 month reporting history
- At least one of the three is currently open and has a “last Activity Date” within the past 12 months
- Eligible tradelines are standard reporting creditors, and do not include authorized user accounts, judgments, collections or charge-offs

PAY-OFF DEMAND STATEMENTS

Current pay off demand statements are required on all refinances, and must show that the loan:

- Is not 30 days delinquent
- Does not contain charges associated with default/forbearance
- Does not indicate a curtailment of principal/interest (e.g. short pay)
- Meets the program requirements for mortgage delinquencies

SHORT SALES OR PRE-FORECLOSURES, DEED-IN-LIEU; SHORT PAY-OFFS OR RE-STRUCTURED DEBT

For borrowers who sold or refinanced (or are selling or refinancing) a property for less than the amount owed on the mortgage (as agreed to by the lender, investor, and mortgage insurer) a four-year seasoning for reestablishing credit following the sale or refinance of the property is required.

5. Employment/Income

VERIFICATION OF EMPLOYMENT (VOE)

Follow DU for documentation requirements as follows:

| Document Type | Requirements |
|--|---|
| Paystub with at least 30 days earnings | The Paystub should be dated no earlier than 30 days prior to the initial loan application date and must include year-to-date (YTD) income covering a period of at least 30 days. |
| Paystub with < 30 days earnings | When one Paystub is used to document income, the Paystub should reflect at least 30 days of earnings. If the Paystub does not reflect 30 days of income (for example, when the borrower has been employed |

| | |
|---|--|
| | only one month and the Paystub reflects only 2 weeks of income), the lender should obtain additional documentation. |
| W-2 | The lender must obtain a Paystub for the current job and W-2s for all jobs held in the prior year. |
| Written Verification of Employment Form 1005 (VOE) | <p>A VOE with YTD income may be used as additional support for breakdown of income. The VOE must include a minimum of 30 days' YTD income. The VOE must contain the prior year's earnings.</p> <p>Lenders can calculate a monthly average income based on the current YTD earnings of base income; however, bonus and overtime income should be annualized.</p> <p>If a Written VOE is utilized for current employment, it must be accompanied by a computer generated pay stub showing YTD income, with all information consistent with the VOE.</p> <p>Any income marked "not likely to continue" on the VOE should not be considered for qualifying purposes.</p> |
| Personal Federal income tax returns | Copies of tax returns that were filed with the IRS must be signed by the borrowers who filed the return. All supporting schedules must be included. In addition, the lender must obtain written permission from the borrower to request copies of federal income tax returns as specified in the underwriting findings report (IRS Form 4506-T). |
| Business Federal income tax returns | DU may require two years business federal income tax returns, along with an additional message allowing the waiver of the business tax returns. However, business tax returns do not have to be provided unless the business is a Corporation, an S Corporation, or a partnership. |

VERBAL VERIFICATION OF EMPLOYMENT (VVOE) SALARIED

TMS will obtain a verbal confirmation of current employment or self-employment within 5 business days prior to funding the loan. A verbal VOE will be required, even in cases where a written VOE was provided within 5 days of funding.

VERBAL VERIFICATION OF EMPLOYMENT (VVOE) SELF-EMPLOYED

Internet sites such as 411.com, Chamber of Commerce sites and Manta.com which allow the business owner to add their own information are not acceptable for VVOEs for self-employed borrowers.

FNMA 1084 SELF-EMPLOYED INCOME ANALYSIS FORM

Submission documents for self-employed borrowers are to include a completed 1084 form, which will show the calculations for determining a borrower's self-employed income.

Self-employed borrowers require a CPA letter (or copy of 2 years of business licenses if no CPA used) and verification of business existence via directory assistance within 30 days of closing.

EXTENSIONS TO FILE TAX RETURNS

As a reminder, beginning with loan files closed on or after June 15, 2012, files must include the 2011 Tax Return Transcripts. If a borrower has filed an extension, we require:

- Evidence in the file that the extension was filed, and

- A 2011 Tax Transcript showing ‘No record of return filed’, and
- For salaried borrowers: A 2010 transcript, a current paystub and 2011 W-2, or
- For self-employed borrowers: A 2010 transcript and, at underwriter’s discretion, a P & L for 2011.

RENT LOSS INSURANCE

Required on all subject property 1-4 unit investment properties and 2-4 unit owner occupied properties where rental income is used to qualify. This insurance covers the borrower for rental income losses in the event of physical damage to the home. Six months of coverage is required.

USING RENTAL INCOME ON CONFORMING CONVENTIONAL LOANS

If rental income is used to qualify, borrower’s most recent two years tax returns should reflect ownership of rental properties. With this documentation of rental ownership history, tax returns will be used to calculate the income for those properties purchased prior to the most recent calendar year. Leases may be used only for those properties acquired after the last calendar year.

If Borrower does not have a 2 year history as a landlord, rental income may be used to qualify. (See grid below)

In all cases, the minimum requirement per DU findings must be followed. The matrices that follow give guidance or requirements that are in addition to, not replacement of, DU findings.

| Income Source | Borrower’s most recent 2 years tax returns do not reflect owning rental properties for the entire 2 year period | Borrower has \geq 2 year history of owning rental properties, as reflected on the most recent 2 year tax returns |
|--|---|--|
| Primary residence | | |
| Other rental properties owned | DTI must include full PITI of other properties owned; cannot offset with rental income | Provide 2 years tax returns to calculate rental income. Leases to document income may be used only on those properties acquired after the calendar year. |
| Rental income from other units in a subject property 2-4 unit | <p>Purchase: Use 75% of the lower of actual rents received or market rents, using appraisal or leases as the source.</p> <p>Refinance: Use tax returns if acquired in a previous calendar year. <i>Leases can ONLY be used if the property was acquired after the calendar year. If tax returns are not provided, use lower of leases or market rents per appraiser</i></p> | Provide 2 years tax returns to calculate rental income. |
| Conversion of existing primary to investment property- property being converted is a 1 Unit | 75% of the rental income may be used to offset the mortgage payment in qualifying if there is documented equity of at least 30% in the existing property derived from an appraisal-(an AVM or BPO | 75% of the rental income may be used to offset the mortgage payment in qualifying if there is documented equity of at least 30% in the existing property derived from an appraisal-(an AVM or BPO are not accepted), minus |

| | | |
|---|---|--|
| building | <p>are not accepted), minus outstanding liens. If an appraisal is provided it must be HVCC compliant, and obtained through TMS HVCC Appraiser.</p> <p>The rental income must be documented with:</p> <ul style="list-style-type: none"> • a copy of the fully executed lease agreement; and • The receipt of a security deposit from the tenant and deposit into the borrowers account. <p>If the 30 percent equity in the property cannot be documented, rental income may not be used to offset the mortgage payment.</p> <ul style="list-style-type: none"> • Both the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction; and • 6 months of PITI for both properties is required to be in reserves. | <p>outstanding liens. If an appraisal is provided it must be HVCC compliant, and obtained through TMS HVCC Appraiser.</p> <p>The rental income must be documented with:</p> <ul style="list-style-type: none"> • a copy of the fully executed lease agreement; and • The receipt of a security deposit from the tenant and deposit into the borrowers account. <p>If the 30 percent equity in the property cannot be documented, rental income may not be used to offset the mortgage payment.</p> <ul style="list-style-type: none"> • Both the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction; and • 6 months of PITI for both properties is required to be in reserves. |
| Conversion of existing primary to investment property-property being converted is 2 -4 Unit building | <p>The 30% equity rule applies to the rental income from the unit currently occupied by the borrower.</p> <p><i>Cannot use rental income from the other units in that building</i></p> | <p>The 30% equity rule applies to the rental income from the unit currently occupied by the borrowers. For the other units in that building, use tax returns.</p> <p><i>Leases can ONLY be used if the property was acquired after the calendar year. If tax returns are not provided, use lower of leases or market rents per appraiser.</i></p> |
| Second Home | | |
| Income Source | Borrower's most recent 2 years tax returns do not reflect owning rental properties for the entire 2 year period | Borrower has ≥ 2 year history of owning rental properties, as reflected on the most recent 2 year tax returns |
| Income from subject property | Rental income cannot be used to offset mortgage payment. Tax returns must not reflect any rental income. | Rental income cannot be used to offset mortgage payment. Tax returns must not reflect any rental income. |

| | | |
|--|--|---|
| Income from other rental properties owned. | DTI must include full PITI of other properties owned; cannot offset with rental income. | Provide 2 years tax returns to calculate rental income. <i>Leases to document income may be used only on those properties acquired after the calendar year</i> |
| Investment | | |
| Income Source | Borrower's most recent 2 years tax returns do not reflect owning rental properties for the entire 2 year period | Borrower has \geq 2 year history of owning rental properties, as reflected on the most recent 2 year tax returns |
| Income from subject property | DTI must include full PITI of subject property; cannot offset with rental income | Provide 2 years tax returns to calculate rental income. <i>Leases to document income may be used only on those properties acquired after the calendar year.</i> |
| Income from other rental properties owned. | DTI must include full PITI of other properties owned; cannot offset with rental income. | Provide 2 years tax returns to calculate rental income. <i>Leases to document income may be used only on those properties acquired after the calendar year.</i> |

CONVERSION OF A PRINCIPAL RESIDENCE (DEPARTURE RESIDENCE)

| Disposition of Current Primary Residence | Requirements |
|---|--|
| Current primary residence is pending sale but the transaction will not be closed (with title transfer to a new owner) prior to the closing on the new primary residence | <p>Both the current and proposed mortgage payments (PITI) must be used in qualifying the borrower for the new mortgage loan. In addition, the following minimum reserve requirements must be met:</p> <ul style="list-style-type: none"> • If $<$ 30% equity in existing primary residence (or amount of equity is not documented), borrower must have a minimum of 6 months PITI reserves for both properties. <ul style="list-style-type: none"> • Agency loans submitted through DU or LP should comply with the reserve requirements established by DU or LP. • If \geq 30% equity in existing primary residence (as evidenced by an interior/exterior appraisal dated within 60 days of the Note,) minus outstanding liens, then borrower must have 2 months' PITI reserves for both properties. <ul style="list-style-type: none"> • Agency loans submitted through DU or LP should comply with the reserve requirements established by DU or LP and the equity documentation requirements established by Fannie Mae and Freddie Mac. |

| | |
|---|--|
| | <p>Exception: The current primary residence's PITI is not required to be used in qualifying the borrower providing that the minimum reserves stated above are met and documented for both properties and the following additional documentation is provided:</p> <ul style="list-style-type: none"> • A fully executed non contingent sales contract for the current residence, and • The lender's commitment to the buyer of the current residence, if the executed sales contract included a financing contingency. |
| <p>Converting current primary residence to a second home and purchasing a new primary residence</p> | <p>Both the current and proposed mortgage payments (PITI) must be used in qualifying the borrower for the new mortgage loan. In addition, the following minimum reserve requirements must be met:</p> <ul style="list-style-type: none"> • If < 30% equity in existing primary residence (or amount of equity is not documented), borrower must have a minimum of 6 months PITI reserves for both properties. <ul style="list-style-type: none"> • Agency loans submitted through DU or LP should comply with the reserve requirements established by DU or LP. • If \geq 30% equity in existing primary residence (as evidenced by an interior/exterior appraisal dated within 60 days of the Note) minus outstanding liens, then borrower must have 2 months' PITI reserves for both properties. <ul style="list-style-type: none"> • Agency loans submitted through DU or LP should comply with the reserve requirements established by DU or LP and the equity documentation requirements established by Fannie Mae and Freddie Mac. |
| <p>Converting current 1 unit primary residence to a 1 unit investment property and purchasing a new primary residence</p> | <ul style="list-style-type: none"> • Up to 75 percent of the rental income may be used to offset the mortgage payment in qualifying if there is documented equity of at least 30 percent in the existing property (as evidenced by an interior/exterior appraisal dated within 60 days of the Note) minus outstanding liens. • The rental income must be documented with: <ul style="list-style-type: none"> • A copy of the fully executed lease agreement, and • The receipt of the security deposit from the tenant and deposited into the borrower's account. • If the 30 percent equity in the property cannot be documented, rental income may not be used to offset the mortgage payment: <ul style="list-style-type: none"> • Payments for both properties must be used to qualify the borrower, and • 6 months' PITI reserves are required for both properties. • Agency loans submitted through DU or LP should comply with the reserve requirements established by DU or LP and the equity |

| | |
|---|---|
| | documentation requirements established by Fannie Mae and Freddie Mac. |
| <p>Converting current 2-4 unit primary residence to an investment property and purchasing a new primary residence</p> | <ul style="list-style-type: none"> • Up to 75 percent of the rental income may be used to offset the mortgage payment in qualifying if there is documented equity of at least 30 percent in the existing property (as evidenced by an interior/exterior appraisal dated within 60 days of the Note) minus outstanding liens.. • The rental income must be documented with: <ul style="list-style-type: none"> • A copy of the fully executed lease agreement, and • The receipt of the security deposit from the tenant and deposited into the borrower’s account. • If the 30 percent equity in the property cannot be documented, rental income from the unit previously occupied by the borrowers may not be used in qualifying. However, rental income from the units not previously occupied by the borrower may still be used in the loan qualification following standard rental income requirements for 2-4 unit Investment Properties: <ul style="list-style-type: none"> • Payments for both properties must be included to qualify the borrower, and 6 months PITI reserves are required for both properties. • Agency loans submitted through DU or LP should comply with the reserve requirements established by DU or LP and the equity documentation requirements established by Fannie Mae and Freddie Mac |
| <p>Converting current primary residence to an investment property</p> | <p>In most cases, rental income from the property being vacated may not be used to qualify for the new mortgage. The applicant must qualify using the full PITI payment of the vacated property, even if a lease is provided.</p> <p>Exception: There are two circumstances when rental income from the property being vacated (reduced by the appropriate vacancy factor as determined by the jurisdictional FHA HOC) can be considered when qualifying for the new mortgage:</p> <ul style="list-style-type: none"> • Corporate relocations The applicant is being relocated with a new or by a current employer to an area not within reasonable and locally recognized commuting distance. A minimum 12 month lease is mandatory and evidence of receipt of the security deposit and/or first month’s rent should be considered as supporting documentation. • Sufficient equity exists in the vacated property The applicant has an LTV of 75% or less determined by either: <ul style="list-style-type: none"> • A current (no more than 6 months old) residential appraisal (FHLMC 2055 and FHLMC 466 exterior only appraisals are |

| | |
|--|---|
| | <p>acceptable as a minimum requirement), or</p> <ul style="list-style-type: none"> • Compare the unpaid principal balance to the original sales price of the property (documentation verifying both is required e.g. copy of current mortgage statement and copy of original HUD-1). |
|--|---|

TEMPORARY LEAVE OF ABSENCE

Alternative short-term sources of income from a borrower that is on a temporary leave of absence are permitted in certain circumstances.

Acceptable reasons for the leave of absence include maternity or parental leave, short-term medical disability, or other temporary leaves acceptable by law or the borrower's employer provided the following conditions are met:

- Written verification from the borrower confirming their:
 - intent to return to work upon completion of the leave of absence, under the same terms as prior to the leave, and
 - agreed upon date of the return to work;
- Written verification from the borrower's employer confirming borrower's:
 - continued employment with the company
 - return to work date
 - post-leave employment and income will be under the same terms as prior to the leave
- Verbal Verification of Employment (VVOE) is performed and confirms employment and the above conditions are met.

Verification of borrower's income is required as follows:

- Standard documentation of the amount of regular employment income borrower received prior to temporary leave. This includes, but is not limited to; base pay, overtime, commissions, and bonus income.
- Documentation evidencing the amount and duration of all income sources being used to qualify the borrower during temporary leave of absence.
- If needed, documentation verifying all available liquid assets used to supplement a reduced income for duration of temporary leave of absence.

Use the chart below to determine the income calculation requirements for borrower's on a temporary leave of absence.

| IF it is verified that the borrower will... | THEN... |
|--|--|
| Return to work at their current employer as of the first mortgage payment, | borrower's regular employment income (i.e., gross monthly income) that will be received upon return to work can be used for loan qualification purposes. |
| Not return to work as of the first mortgage payment, | <p>use the lesser of the borrower's:</p> <ul style="list-style-type: none"> • temporary leave income that will continue to be received for duration of leave of absence (if any), or • regular employment income |

In situations where the temporary leave of absence income is less than the regular employment income and is not sufficient to qualify; available liquid financial reserves may be used to supplement the temporary leave income. Supplemental income, if applicable, is calculated as follows:

| Step | Action |
|------|---|
| 1 | Determine amount of liquid reserves available for use as supplemental income by subtracting any funds needed to complete transaction (down payment, closing costs, other required debt payoff, escrows and minimum required reserves) from total verified liquid asset amount |
| 2 | Determine number of months requiring supplemental income. This is number of months from first mortgage payment date to date borrower will begin receiving his or her regular employment income, rounded up to the next whole number. |
| 3 | Determine amount of qualifying supplemental income by taking available liquid reserves and dividing by the number of months of requiring supplemental income. |
| 4 | Calculate total qualifying income by adding supplemental income amount calculated in steps 1-3 to temporary leave of absence income. |

Note: The total qualifying income determined in Step 4 may not exceed the borrower's regular employment income.

TMS does not require that a borrower, currently not on a leave of absence, be questioned in regard to their intent to take a future leave, nor does TMS require any information pertaining to a borrower's personal medical history.

6. Assets

ASSET RESERVES

Reserves are based on occupancy of the subject property:

- Owner occupied: 2 months, unless DU allows a lower amount
- Second Home: 2 months reserves for each residential property owned, excluding the primary residence or those owned free and clear
- Investment: 6 months reserves on subject property, plus 2 months reserves for each other residential property owned, excluding the primary residence or those owned free and clear
- Departure residence: When borrowers are buying a new primary residence and existing primary will not be sold prior to closing, asset reserves may be required. See reserve guidelines listed under Conversion of a primary residence

The reserves are calculated using the full PITI for each property – P&I, taxes, insurance, HOA dues (excluding any utility charges), mortgage insurance, ground rents, special assessments, subordinate financing, etc.

DU has not yet been updated to calculate the required reserves for the subject property, and will not be able to calculate the number of other financed properties owned. Therefore, underwriters must manually apply the reserve requirements to second home or investment property transactions.

BORROWER INVESTMENT

The Borrowers must have enough liquid assets to cover the down payment, closing costs, any prepaid items, and reserves as required.

Acceptable Sources

- Borrowers own funds, including checking, savings, certificate of deposit, or other depository accounts.
- Proceeds from loans secured by the borrowers own assets, such as a 401(k) loan.
- Gifts from acceptable sources

Assets brought to closing must be from sources and amounts as have been verified. Transfers between verified assets to consolidate funds into one check must be documented. If the source of funds for down payment or closing costs is from the sale of stock, mutual funds, bonds or the withdrawal or loan from a retirement account, the file documentation must evidence the receipt of funds and the sale, liquidation or withdrawal of the asset.

BORROWER’S OWN FUNDS

The following table describes the minimum borrower contribution requirements:

| LTV, CLTV, or HCLTV Ratio | Minimum Borrower Contribution Requirement from Borrower’s Own Funds |
|--|---|
| 80% or less One- to four-unit principal residence Second home | Entire down payment can come from a gift |
| Greater than 80% One- to four-unit principal residence Second home | The borrower must make a 5% minimum borrower contribution (or 3% for MCM) from his or her own funds. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves. |

COMMUNITY SAVINGS PLANS/POOLED SAVINGS

Community savings plans, such as g’mach and Sou-Sou are savings systems in which members of a community make regular contributions into an account and the members are entitled to a distribution of funds. Funds from a community or pooled savings account may be used for the down payment on the **purchase of a primary residence only** if the borrower can provide documentation to evidence his or her regular participation in contributing to the savings fund.

EARNEST MONEY DEPOSITS

Required to be documented as being paid and the funds sourced as coming from borrower’s accounts.

GIFT OF EQUITY

Borrower must have 5% of own funds available in savings even if funds are not being used . Exception may be requested from credit management, pricing adjustment may apply.

GIFT FUNDS

Applies to Purchase or rate/term transactions only. Primary residences and second homes only.

Signed gift letter listing donor’s name, address, phone number and relationship is required.

Acceptable gift donors:

- Immediate family member
- Domestic partner
- Fiancé/ Fiancée
- Church
- Municipality
- Non-profit organizations

LARGE DEPOSITS

Documenting the source is generally required when non-payroll deposits exceed \$1,000, either individually or in aggregate, over one month's statement.

RETIREMENT ACCOUNTS

60% of the vested value may be used as reserves- subject to review of terms and conditions for withdrawal whether used for down payment or reserves. Evidence of liquidation is required if used for funds to close.

STOCKS, BONDS, AND MUTUAL FUNDS

70% of the value may be used as reserves. Evidence of liquidation is required if used for funds to close.

STOCK OPTIONS AND NON-VESTED RESTRICTED STOCK

Not eligible for use as reserves.

UNACCEPTABLE ASSET SOURCES

- Cash-on-hand
- Sweat Equity
- Cash advance on a revolving charge account, unsecured line of credit.

USE OF BUSINESS FUNDS

When a Borrower has insufficient personal liquid assets to qualify or close, but has sufficient verified funds in a 100 percent owned business, the business funds may represent an adequate source of down payment and reserves if both of the following conditions are met:

- Business average annual cash flow is greater than the amount to be withdrawn/reserves. The file must contain the underwriter's written analysis and conclusions.
- Cash on company year-end balance sheet for each of the previous three years is greater than the amount to be withdrawn/reserves. This information is found on line 1 of the schedule L for the Partnership, S-Corporation and the Corporation. A three-year history of a balance greater than or equal to the amount being considered for reserves or down payment is required. Two years of the schedule L will show three years of cash on hand for the company.

The following also are required:

- Regardless of the documentation required for the process type, **two years' personal, partnership and/or corporate tax returns must be obtained.**
- All funds must be seasoned with the source of funds for any large deposits fully documented and explained.
- A cash flow analysis on the business is required, performed by the accountant, CPA or the borrower, if the borrower completes his own tax returns
- The file must contain evidence the borrower has full use of business funds and there is no required repayment.
- The file must contain evidence that the funds are not advancement against future earnings or future cash distributions.

VERIFICATION OF DEPOSIT (VOD)

VOD must be accompanied by most recent bank statement.

7. Ratios

QUALIFYING RATES

Fixed rate, 7/1 and 10/1 ARM – qualify at the Note rate

5/1 ARM- Greater of the fully indexed rate or the Note rate plus 2%

QUALIFYING RATIOS

Maximum qualifying ratios are determined by DU, not to exceed 50%, unless otherwise limited within this document or by the MI companies on loans >80% LTV.

See Non-Occupying Co-Borrowers (section 1) for ratio requirements on affected loans

LIABILITIES

Contingent Liabilities

Co-signed loans and contingent liabilities may be excluded from DTI in the following circumstances:

- The borrower must provide cancelled checks, copies of money orders or other acceptable documentation as evidence that the primary obligor has been making the payments for the previous consecutive 12 months

And

- Verification that there have been no delinquent payments in the previous consecutive 12 months. If the payment history is not shown on the credit report, the borrower must be able to provide canceled checks or copies of consecutive money orders for the previous 12-month period.
- Cash as a source of payment is not acceptable

Note: If the cosigned account has had any late payments in the past 12 months, the payment must be included in the borrower's debt-to-income ratio.

Court – ordered Debt may be excluded from DTI if the following are provided:

- A copy of the pertinent pages from the court order or divorce decree, showing assignment of the debt to another party.

And

- Documentation of any ownership transfer (as applicable).

Deferred Student Loans

For deferred student loan payments not listed on the credit report, use 2% of the balance in lieu of requesting additional documentation. If documentation is provided, the actual payment amount may be used

HELOCs

For an existing HELOC on the subject or non-subject property, use the credit report payment or payment shown on the monthly statement.

Note: If neither the credit report payment nor the monthly statement is available, the qualifying payment must be 1.0% of the full line amount.

For a new HELOC, use 1.0% of the full line amount.

Paying Off or Paying Down Debt to Qualify

| Action | Revolving Debt | Installment Debt |
|--|----------------|---|
| Paying off debt | Not permitted | Allowed, no further consideration required. |
| Paying down debt or amortizing payments to reduce number of payments to less than 10 | Not permitted | Not permitted |

Property Owned Free and Clear

File must include, at a minimum, one of the following documents showing that the property (other than subject) is owned free and clear:

- A hazard insurance policy or binding hazard policy commitment showing no mortgagee
- CoreLogic/RealQuest Property and Ownership search against public records, reflecting that there is no mortgage or encumbrance against the property

Qualifying Amount for Property Taxes

For qualifying purposes for the property tax payment, compare the following sources and use the highest of: appraisal, title commitment binder/prelim, tax bill, if provided; or for new construction properties 1.25% of the sale price unless a higher percentage is typical and customary.

Revolving Accounts

Revolving accounts where the credit report does not include a payment, or the payment is less than 1% of the balance, use the greater of \$10 or 5% of the balance unless a monthly billing statement is provided.

Secured Loan Payments

To exclude payment from the DTI calculation on a loan secured by liquid assets (i.e., 401k/IRA accounts, CDs, stocks, bonds, marketable securities, etc.), the value or balance of the account must be sufficient to repay the loan obligation.

If the balance in the account is not sufficient, the loan is not fully secured. In the case where the account value is less than the loan balance, the transaction requires the payment to be included DTI calculation.

8. Appraisers and Appraisals

APPRAISERS

Must be state licensed with no prior disciplinary action. Must not be on any Exclusionary list.

APPRAISALS

General Appraisal Requirements

- The most recent and similar comparable sales available as part of the sales comparison approach must be used. Any change in market conditions from the date the contract of sale was signed and date of the appraisal must be considered.
- Properties for which the appraisal denotes a Condition Rating of C1, C2, C3, and C4 are acceptable collateral in 'as-is' condition, provided any existing deficiencies are minor and do not affect the safety, soundness, or structural integrity of the property. Properties for which the appraisal denotes a Condition Rating of C5 and C6 are not acceptable collateral in 'as-is' condition. These properties are acceptable only if the deficiencies that resulted in the C5 or C6 rating are identified by the appraiser

and cured prior to closing. Evidence of the resolution of the identified deficiency is required to be documented on Fannie Mae/Freddie Mac Form 1004D/442 completed by the original appraiser.

- Properties for which the appraisal denotes a Quality Rating of Q1, Q2, Q3, Q4, and Q5 are acceptable collateral. Properties for which the appraisal denotes a Quality Rating of Q6 generally are not acceptable collateral. Properties with Quality Ratings of Q6 may be eligible collateral only if the deficiencies resulting in the Q6 rating are identified by the appraiser and are cured prior to closing, including any and all items related to the safety, soundness, or structural integrity of the property. Evidence of the resolution of the identified deficiency is required to be documented on Fannie Mae/Freddie Mac Form 1004D/442 completed by the original appraiser.
- Verification of comparable sales with a reliable party that is not associated with the subject property or the subject property's development, and at least two comparables, must be verifiable through the Multiple Listing Service (MLS) as arm's length transactions.
- In a declining market, two of the comparable sales must have closed within the last **90 days as of the appraisal effective date**.
- In a declining market, two additional comps of current listings or pending sales must be provided
- Comparable sales must be mapped in the appraisal
- Days-on-market (DOM) for subject and comparable sales must be provided, if applicable. The average DOM for the comparable sales must not exceed the "Marketing Time" box marked by the appraiser.
- If the appraiser is unable to meet any of the above requirements, the appraiser must provide a detailed explanation as to why the requirements were not met, and if it resulted in making an adjustment to the property value.
- The Home Ownership and Equity Protection Act (HOEPA) directs that anyone involved in originating a loan must not directly or indirectly coerce, influence, or otherwise encourage an appraiser to misstate or misrepresent the value of the subject property.
- The appraiser must be provided with a copy of both the purchase contract and **all addenda** to ensure any financing and/or sales concessions are considered when determining impact on the value of the property. Amendments or adjustments received after the appraisal must be complete and supplied to the appraiser for review.
- If a supervisory appraiser signs the appraisal, the Supervisory appraiser must perform the property inspection- subject interior/exterior and comps.
- If an appraiser uses comparable sales outside the subject neighborhood when comparable sales are available, an explanation must be provided.
- Appraisers must provide a 12-month listing history for the property. Frequent listings and/or sales require explanation on each occurrence or listing and should include the data source(s), offering prices, and date(s), and any further evaluation as they may indicate "flipping".
- In the analysis and completion of the sales comparison approach, the appraiser may determine that time adjustments are required. These adjustments may be either positive or negative. The adjustments must reflect the difference in market conditions between the date of sale of the comparable and the effective date of appraisal for the subject property.
- Condo's/PUD require a minimum of one comp. outside complex.
- Refinances, where the most recent transaction was an REO Sale, are not eligible for a Property Inspection Waiver or Form 2075.

New Construction Projects and Developments- Additional Requirements

- The appraiser must use at least one current sale from the subject builder/developer in the project, and either;
 - One current sale from a competing builder/developer, or
 - A resale from within the subject property's development that has closed within the last 30 days.

- If the appraiser is unable to meet any of the above requirements, the appraiser must provide a detailed explanation as to why the requirements were not met, and if it resulted in making an adjustment to the property value.
- When appraising new construction, both the contract/sales date (when the buyer entered into the contract with the builder), and the closing date must be reported and analyzed. Differences in market conditions between the contract/sales date and the effective date must be analyzed.
- The appraiser must provide the builder names of the subject property, and the comparables (if new construction also).

Market Conditions Addendum to the Appraisal Report

The market Conditions Addendum to the Appraisal Report (Form 1004MC) is required for all conventional loans. Form 1004MC will:

- Provide the appraiser with a structured format to report market data,
- Help further clarify conclusions made by the appraiser, and
- Supply the lender with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood.

Home Valuation Code of Conduct

All appraisals must be HVCC compliant and ordered through our HVCC Appraisal Management Co.

Operating Income Statement (216) and Comparable Rent Schedule (1007)

The operating income statement is required on all 2-4 unit properties, and all one-unit rental properties. The comparable rent schedule is required on all one-unit rental properties when rental income is being used to qualify. If rental income is not being used to qualify, either an operating income statement or a comp rent schedule is required.

Unpermitted Space

BUILDING PERMITS

A building permit is an official certificate from the city or county authorizing construction of a new structure or improvements/major renovations to a pre-existing structure on a parcel of land.

Building permits are required under the following conditions:

| Condition | When Permit is Required |
|---|---|
| Purchase Agreement/Sales Contract requests a copy of the building permit as a condition of the sale. | A copy of the permit is required to be included in the loan file. |
| The appraiser comments in the appraisal report that the addition, remodeling, or conversion was permitted. | A copy of the building permit is not required to be included in the file. |
| Appraisal Report indicates: There is a change to the original structure, extensive remodeling, or conversions of an existing structure. AND The appraiser does not state the change was | A permit is required unless all of the following requirements are met: The subject property has an acceptable zoning classification and the appraiser has not made any negative comments regarding the zoning. AND The appraiser has not made any negative comments |

| | |
|---|--|
| permitted. | regarding the ability to rebuild the subject property. AND The addition, extensive remodeling or conversion of the subject property was completed in a good workmanlike manner and there are no negative comments regarding the soundness, structural integrity or livability of the subject property. |
| Appraisal Report indicates: There is a change to the original structure, extensive remodeling, or conversions of an existing structure. AND The change made was unpermitted, but the appraiser indicates no additional value was given and the change was valued as its original use. | A copy of the building permit is not required to be included in the file. |
| Appraisal Report indicates: There is a change to the original structure, extensive remodeling, or conversions of an existing structure. AND The change is covered by the hazard insurance policy. | A copy of the building permit is not required to be included in the file if the file contains documented evidence from the insurer that the applicable change has been disclosed prior to the issuance of the policy and the policy does not contain any exclusion as it relates to the change made. This includes, but is not limited to, changes such as second story, bedroom, kitchen, bathroom or detached unit additions |

Work Completion Escrows (Escrow Holdbacks)

Not permitted.

Construction-to-Perm

All construction-to-permanent loans must adhere to these requirements:

- The property must be complete at the time of the permanent financing funding.
- A final Certificate of Completion must be obtained
- Photographs of the completed property are required
- All construction-to-permanent loans must be secured by owner-occupied primary residences
- The borrower must be the primary obligor on the construction financing which is obtained through a legitimate financing institution AND the borrower is the owner of the lot on which the residence is constructed.
- Detached single family residences only.
- TMS transaction will be as a Refinance. The borrower may or may not receive cash out.

These properties are not eligible for construction-to-permanent financing:

- Investment properties
- Properties in which the borrower has a development interest (for example, if the borrower is also the builder)

The LTV depends on how long the borrower has owned the land.

| Ownership of Land | Determination of LTV |
|---|--|
| Borrower owned the land for less than 12 months | LTV is based on the lesser of the: -Current Appraised Value OR -Sales price of the land plus any documented improvement costs. |
| Borrower owned the land for at least 12 months | LTV is based on the current appraised value |

The cost of the land acquisition is determined by a certified copy of the closing statement (HUD-1) from the purchase of the land. **If the land was a gift, use the current appraised value of the land.**

The total acquisition cost is based on:

With a Sales Contract:

- Appraised Value of the land, if not included in the contract price and
- Paid receipts and cancelled checks for costs that exceed the contract price

Without a Sales Contract:

- Current appraised value of the land, and
- Contractors construction cost breakdown, and
- Paid receipts and cancelled checks for costs that exceed interim financing.
- Labor performed by the buyer, also referred to as sweat equity, or the trade of any labor or goods from the buyer to the builder is not an eligible source of funds.

If the borrowers employ a general contractor, the following documentation is required to verify the cost of construction:

- Signed construction contract
- Sealed copy of the improvement plans and complete breakdown of construction costs and specification.
- Copies of canceled checks and receipts of bills for payment of any supplied, materials, labor, or funds paid directly to subcontractors by the borrower.

If a general contractor is not used to construct the building, the construction costs must be documented with copies of receipts or invoices and cancelled checks for materials, supplies and/or labor.

9. Compliance/Special Considerations

TMS does not make any loans, which are defined as “high-cost” under Section 32 or any State or locally governed legislation.

TMS reserves the right to amend the requirements set out in this document without providing prior notice.

All loans must meet Program Guidelines and TMS Conventional Underwriting Guidelines.

- All refinances must provide a net tangible benefit to the borrower.
- Maximum allowable fees charged to borrower are the greater of 5% or \$1,000 (excludes prepaids and charges from un-affiliated vendors (title co, appraiser, etc.)
- Maximum Realtor fees allowed on any purchase transaction, including auction charges is 8%

Change Log

2/20/12

- Added minimum Fico 680 to LPMI
- Added Age-Related Deed Restrictions to Eligible Property section
- Added guidance regarding excluding secured loan payments from DTI
- Clarified VVOE requirement
- Updated HO-6 coverage to show 100% replacement cost coverage required
- Added OH and WV as acceptable states
- Added section on LPMI to show max LTV 95% and no cash out refinances
- Updated appraisal section to show ratings of C5, C6 and Q6 as unacceptable, requiring deficiencies to be cured prior to closing and a final inspection to be completed
- Updated continuity of obligation requirements when there is an existing lien on the property.
- Updated guidelines for paying down and paying off debt to qualify
- Made the YTD P&L optional for self-employed borrowers who have not filed their tax returns by April 15
- Added Temporary Leave of Absence guidelines
- Added a copy of the security instrument as a requirement for subordinate financing
- Noted POAs for refinance transactions must include the terms of the transaction.
- Added information to appraisal section that for refinances, PIWs and Form 2075 are not acceptable when the most recent transaction was an REO sale.
- Added Arkansas to list of approved states

9/28/11

- Added Mississippi as an acceptable state.
- Added requirement for a copy of a signed lease when the subject is an investment property, even if rental income is not being used to qualify.
- Updated guideline for payment calculation on a HELOC
- Added requirement for two year's tax returns when using business funds for assets
- Added restriction for primary residence only on non-arm's length transaction new construction
- Updated minimum FICO for second homes
- Added Community Savings Plans to asset section

9/1/11

- Updated definition of primary residence – borrower must occupy within 60 days of the Note date
- Added requirement for wind/hail and other peril insurance
- Added guidance on refinances to buyout a spouse
- Added definitions for new and established condo projects
- Added requirements for VVOE for self-employed borrowers

8/9/11

- Added homeowners' insurance requirements
- An attorney opinion letter is required when vesting in a trust
- Added acceptable Visa classes for non-permanent resident aliens
- Added documentation guidelines for when tax return extensions have been filed
- Added guidelines for excluding contingent liabilities from DTI
- Added Business funds as an asset type

7/21/11

- Added signed gift letter as required documentation
- Added second homes as acceptable property type when gift funds are being used.
- Clarified building permits guidelines

- Added guidelines for short sale purchases
- Added guidelines for Power of Attorney
- Added Citi exception for rent loss insurance
- Updated requirements for borrower contributions
- Seasoning requirement after short sale increased to 4 yrs
- Updated departing residence guidelines

7/10/11:

- Added program codes for Interest Only products
- Added LTV restrictions for Florida Condos
- Added comment regarding availability of Lender Paid MI
- Added Co-ops in NY and NJ as acceptable property type
- Added Maine as eligible state
- Added new minimum tradeline requirements
- Added section regarding qualifying rate for ARMs
- Added maximum number of borrowers on an application
- Added maximum age of documentation for title reports
- Added EAD as acceptable documentation for Non-permanent resident aliens
- Added requirement for full appraisal if property is in a Federal Disaster Area
- Removed requirements for borrower's own funds on purchase of 1-unit primary residence
- Added guidance on minimum payment calculation for deferred student loans