

# Trust One Mortgage – 1700 My Community Series

## Product Type & Program Numbers:

- 1700/1715: 30 & 15-year Conforming Fixed
- 1700IO: 30-year Conforming Fixed Interest Only; the initial interest only period is 10 years.
- 1750/1770/1710 – 30-year 5/1, 7/1, 10/1 LIBOR ARM
- 1740: 40-year Conforming Fixed

**Declining Markets: See Chapter 7 of the Program Summary Guide, or [Declining Market 1700](#) on the website, for all requirements regarding properties located in declining markets.**

Program	Units	LTV	CLTV <sup>1</sup>
Community 97	1	97% <sup>3</sup>	105%
Community 2 Family	2	97%	105%
Community 3-4 Family	3-4 <sup>2</sup>	80%	105%

<sup>1</sup> A CLTV up to 105% is permitted with an approved Fannie Mae Community Second (except on a co-op where the maximum is 100% CLTV). Only subordinate financing provided by an approved Community Second provider is permitted. Non-community Seconds are not permitted. Correspondents represent and warrant that the Community Second complies with Fannie Mae policy.

<sup>2</sup> 3-4 unit properties are eligible for the fixed rate programs only. They are not available for Community Solutions.

<sup>3</sup> Manually underwritten loans – max. 95%/105% LTV/CLTV.

**NOTE:** Follow Fannie Mae guidelines. **Interest Only loans must be processed through DU.** For loans that receive a DU Finding of Approve/Eligible, there is no minimum FICO score EXCEPT for Interest Only products. Interest Only loans MUST have a minimum FICO score of 620, regardless of DU findings. Borrowers who do not have a FICO score are not eligible for an Interest Only product. There are no exceptions.

**APPRAISAL:** A full interior/exterior appraisal (URAR) is required for manually underwritten loans. DU recommended appraisal formats are acceptable for loans utilizing Desktop Underwriter. A Property Inspection Waiver (PIW) option from DU is not allowed. Two full appraisals required if the loan amount > \$1,000,000 and the loan is located in the following county: AZ (Maricopa); CA (Alameda, Contra Costa, Fresno, Los Angeles, Monterey, Orange, Placer, Riverside, San Diego, Santa Barbara, Sonoma); NV (Clark, Washoe); VA (Arlington). All Conventional Loan appraisals and Appraisal Update and/or Completion Reports, dated on and after April 1, 2009 must be accompanied by a completed Form 1004MC, regardless of the date of the original appraisal. The Market Conditions Addendum (1004MC) is intended to provide the lender with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood. The addendum must be provided with Forms 1004, 1004C, 1004D, 2055, 1073, 1075, 2090, 2095, and 1025.

➤ **Special appraisal requirements for reo or recently foreclosed properties:** Recent increases in property foreclosures have resulted in some real estate owned (REO) properties being neglected and/or sitting vacant for extended periods of time before they are sold to new owners. In these cases, exterior-only appraisals or property inspection reports do not provide an accurate assessment of the condition of the property. Effective 04/04/09 - For purchase transactions that are the result of the sale of an REO property, or the last transaction on the property being purchased was a foreclosure, a full interior/exterior appraisal inspection is required. Form 1004 is required for one-unit properties; Form 1073 is required for units in condominium projects; Form 2009 is required for units in cooperative projects.

➤ See **PROPERTY IMPACTED BY DISASTER** for additional guidelines.

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## ASSETS/FUNDS TO CLOSE/DOCUMENTATION:

➤ **HUD1:** FNMA is now requiring that there is a fully executed HUD1 for each loan file. For a purchase transaction it must be signed by both buyer and seller. This can be accomplished in one of two ways: 1. The Estimated HUD1 (or HUD1a) can be fully executed and included in the file along with a FINAL HUD1 that is not executed; OR, 2. The FINAL HUD1 (or HUD1a) can be fully executed.

In either case, the FINAL HUD1 must be stamped FINAL or say at the top that it is a Final HUD1 .

➤ **Income Eligibility:** The income limits used to qualify the borrower should be converted to an annual basis and must not exceed 100% of the Area Median Income (AMI), or the percentages in the designated high cost areas as shown in the table below. All of the borrower’s stable monthly income must be used to qualify and determine the percentage of the HUD AMI. For example, if there is documentation in the file (e.g., W-2s) that shows the borrower regularly receives overtime and/or bonus pay, this income may not be excluded from the income calculation in order to make them eligible for the program. Income from individuals in the household who are not on the application should not be used to qualify or determine the percentage of the HUD AMI. If the borrowers are utilizing a Community Second program that has income limits with a Community First program, the more restrictive income requirements apply.

Un-reimbursed business expenses – schedule A / form 2106: Employee business expenses must be considered when evaluating the borrower’s income.

State	County	Max Income
All Other Areas	All states and counties not listed below.	100%
California	ALL Counties	140%
Hawaii	ALL Counties	170%
Oregon	Clackamas, Columbia, Multnomah, Washington, Yamhill	120%
Washington	Clark, King, Pierce, Skamania, Snohomish	120%
Fannie Targeted Areas	Refer to Fannie Mae’s web site at: <a href="https://commlend.efanniemae.com/PropertyGeocoder/(djkebb55zvh1q32k1mimqqn4)/Default.aspx">https://commlend.efanniemae.com/PropertyGeocoder/(djkebb55zvh1q32k1mimqqn4)/Default.aspx</a> and enter the property address. (To access the web site, the user must be a site-registered user.) Refer to Fannie Mae Community Lending guidelines for a definition of targeted neighborhoods and detailed lending parameters.	No Income Limits

➤ **Border Regions:** The Community Lending Agency Income Limits has been revised to include a new Fannie Mae variance that allows for **no income limitation** in the following Border Regions.

California	Imperial County
New Mexico	Catron, Chaves, Dona Ana, Eddy, Grant, Hidalgo, Luna, Otero, Sierra, and Socorro
Arizona	Cochise, Graham, Greenlee, La Paz, Maricopa, Pima, Pinal, Santa Cruz, and Yuma
Texas	Bee, Brewster, Brooks, Cameron, Dimmit, Duval, Edwards, El Paso, Frio, Hidalgo, Hudspeth, Jeff Davis, Jim Hogg, Jim Wells, Kinney, La Salle, Maverick, Nueces, Pecos, Presidio, Reeves, San Patricio, Starr, Terrell, Uvalde, Vale, Verde, Webb, Willacy, Zapata and Zavala.

➤ **Rental Income:** *Community 97:* not applicable. *Community 2- and 3-4 Family:* Fannie Mae Form 216 (Operating Income Statement) is required on all 2-4 Unit properties, regardless of whether the income is used to qualify. Rental income is calculated from the gross rental figure provided by the appraiser using the lesser of 75% percent of the gross rental income for 2-Unit properties, and 65% for 3-4 Unit properties of the actual or projected rent. The rental income is added to the gross qualifying income.

➤ **Boarder Income:** Rental income from boarders (non-relatives) may be counted as qualifying income if all of the following requirements are met: 1 unit property, including condos, PUDs and co-ops; Subordinate financing may only be provided by a Community Second; Boarder has lived with the borrower for the last 12 months and borrower can provide documentation (i.e., driver’s license, installment loan statements, credit card bill, bank statement, etc.) showing that the boarder’s address is the same as the borrowers address; Boarder has paid rent to the borrower for the last 12 months as evidenced by copies of cancelled rent checks, money orders, and/or bank statements; and The income may not exceed 30% of the total qualifying income and if cancelled checks cannot be provided, the income may only be considered as a compensating factor.; Boarders may not be obligated on the note.

### ➤ **Down Payment and Closing Costs:**

- Community 97: No minimum borrower contribution.
- Community 2 Family: No minimum borrower contribution unless LTV > 80%, then 3% of the purchase price or appraised value, whichever is less, is required from the borrower’s own funds to be used towards the down payment.
- Community 3-4 Family: No minimum borrower contribution unless LTV > 80%, then 3% of the purchase price or appraised value, whichever is less, is required from the borrower’s own funds to be used towards the down payment.

The remaining down payment and closing costs may be funded from any of the source of funds listed in the Source of Funds section below.

### ➤ **Source of Funds:**

- **Community 97:** In addition to the borrower’s bank accounts, the down payment gap may be satisfied using any of the following: A loan secured by an asset; Rent credit; Pooled savings (i.e., sou sou or g’ mach) if the LTV does not exceed 95%; Pooled gift funds (gift from relative or domestic partner who has lived with the borrower for the last 12 months or from a fiancé or fiancée) as long as both individuals will be occupying the property as their primary residence; Matched savings plan (Individual Development Account) that does not require repayment; A disaster relief loan or grant; A gift from a relative; Cash on hand; Secured or unsecured loan or grant from governmental entity, public agency, or nonprofit organization (other than a credit union); Secured or unsecured loan or grant from their employer.

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- **Community 2- and 3-4 Family:** The borrower's required contribution must come from their own funds. In addition to the borrower's bank accounts, the down payment may be satisfied using any of the following: Loan secured by an asset; Rent credit; Pooled savings (i.e., sou sou or g'mach) if the LTV does not exceed 95%; Pool gift funds (gift from relative or domestic partner who has lived with the borrower for the last 12 months or from a fiancé or fiancée) as long as both individuals will be occupying the property as their primary residence; Matched savings plan (Individual Development Account) that does not require repayment; Disaster relief loan or grant; Gift from a relative ONLY if it is at least 20% of the purchase price. The down payment above the borrower's required contribution, closing costs and prepaids may be satisfied using any of the following: Loan secured by an asset; Rent credit; Pooled savings (i.e. sou sou or g'mach) regardless of the LTV; Gift from a relative; Pool gift funds (gift from relative or domestic partner who has lived with the borrower for the last 12 months or from a fiancé or fiancée) as long as both individuals will be occupying the property as their primary residence; Matched savings plan (Individual Development Account) regardless of whether repayment is required; Disaster relief loan or grant; Secured or unsecured loan or grant from governmental entity, public agency, or nonprofit organization (other than a credit union); Secured or unsecured loan or grant from their employer.

Note: Interested party contributions and Premium Pricing may be used ONLY for closing costs and prepaid items. They cannot be used to fund the down payment gap.

➤ **Gifts of Equity:** To be eligible as a source of funds for down payment, the following requirements must be met: The gift of equity must be provided by a relative (i.e., the borrower's spouse, child or other dependent, or any other individual who is related to the borrower by blood, marriage, adoption or legal guardianship), a fiancé, fiancée or domestic partner; and The donor may not be, or may not have any affiliation with, the builder, developer, real estate agent or any other interested party to the transaction; and Gift letter explaining the type of gift is required; and The gift of equity must be identified in the Sales Contract; and The sales price of the property must be at a market rate; and The gift of equity must be transferred to the buyer as a credit in the transaction; the final equity exchange must be documented on the borrower's HUD-1. If the above requirements are met, the gift of equity from the seller of the property to a buyer who is related to the seller is not subject to interested party contribution requirements. The borrower does not need to contribute their own funds equal to at least 5% of the purchase price of the property if the gift of equity is less than 20% of the sales price.

➤ **Cash On Hand:** 1-unit primary residence purchase transactions only; Cash on hand may be considered provided the borrower has a limited or no depository relationship with a financial institution. E.g., borrower does not have more than one depository relationship such as a savings account with a local financial institution. As always, prudent underwriting must be applied to ensure cash on hand funds are reasonable and appropriate when evaluating the borrower's profile. Use is consistent with the borrower's profile and financial status. The borrower customarily uses cash for expenses and that usage and the reasonableness of using cash, as well as the amount of funds saved are consistent with the borrower's previous payment practices. Borrower has limited or no established credit, as verified by the credit report and other verifications. Borrower provides written explanation outlining the pattern of cash accumulation, discloses the source of funds, and states that funds have not been borrowed. Written verification that cash-on-hand has been deposited into a bank, savings institution or credit union account, at the time of loan application or no less than 30 days prior to closing. The subject property is owner-occupied and the value/ monthly payment is consistent with verified cash flow. Cash on hand may not be used to meet reserve requirements.

➤ **Community Solutions:** An additional feature of My Community Mortgage is Community Solutions, which provides additional underwriting flexibility to Military Personnel, Teachers, Safety Officers, and Healthcare Workers. Community Solutions is a Fannie Mae underwriting feature and is only available with My Community Mortgage loans.

- **Eligible Properties:** 1-unit, including condominiums and PUDs; 2-unit.

• **Debt Ratio:**

Program	Reserves	Total Obligation Ratio <sup>1</sup>
1-unit	1 months <sup>2</sup>	45% <sup>3</sup>
2-unit	2 months	45% <sup>3</sup>

<sup>1</sup>The ratios may be exceeded on a case-by-case basis provided the proposed housing expense is equal to or less than what the borrower had been paying and they were able to maintain a good credit history while paying a similar amount in the past.

<sup>2</sup>Reserves may be funded by a gift received from a relative or from a church, municipality, employer, or non-profit organization.

<sup>3</sup>My Community Mortgage permits a temporary buy down with a single back end ratio not to exceed 43%. The loan may be approved with a total qualifying ratio of 50% if both of the following conditions have been verified: The borrower has 2 months' reserves, and; The underwriter determines that there are strong compensating factors such as a minimal increase in housing debt.

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- **Borrower Eligibility:** The borrower must be a full-time employee as described below: *Educators:* An employee of an accredited or state-recognized private or public school; a certified teacher or administrator in an education agency; or an employee of a post-secondary level educational institution. *Safety Workers:* An employee of a law enforcement agency or fire department administered by a state or local government; or sworn law enforcement officer responsible for crime prevention and detection, or criminal incarceration; or a sworn member of a fire department involved in fire suppression or prevention, emergency medical response, hazardous materials incident response or management/response to terrorism. *Healthcare Workers:* A certified, accredited, or licensed healthcare worker who is a medical resident or fellow; a nurse, nursing assistant, pharmacist, pharmacy technician, physician's assistant or medical technician, technologist or therapist. *Military Personnel:* A member of the United States Armed Forces who is on full-time active duty; a member of a reserve component of the United States Armed Forces or a former member of the United States Armed Forces or a reserve component of the United States Armed Forces who has been separated or retired from either active duty or a reserve component for no more than two years at the time of the loan application.
- **Income Eligibility:** The first mortgage program will define income eligibility. Overtime and part-time income can be used to qualify the borrower if the employer verifies the following: Borrower has received such income for the last 12 months, and Indicates that the continuance of overtime and/ or part-time income will in all probability continue, and The income is to be averaged over the last 12-months to determine the amount of income that can be considered in evaluating the borrower.
- **Documentation:** Loans utilizing the Community Solutions option must be manually underwritten as DU cannot recognize when this option is being used.
  - **Income Plus:** Income Plus provides a means for borrowers who receive a percentage of their income in the form of cash payments, which is not easily verified, to use this income as a compensating factor to qualify for a loan. **Loans must be underwritten by the Investor.** **Note:** Allowed only with loans that have not been submitted to Fannie Mae DU.
- **Eligible Properties:** 1-Unit (including condominiums, PUDs); 2-Unit properties are not eligible.
- **Income:** The undocumented income must appear reasonable (refer to Other Special Requirements below). Undocumented income may only be used as a compensating factor to offset the borrower's total debt ratio if it exceeds the maximum guidelines. Only documented income is to be used to calculate the borrower's median income. More than one borrower may utilize this feature, but the total undocumented monthly income from all borrowers may not exceed \$1,200. However, the undocumented income for each borrower may not exceed 20% of the borrower's own documented monthly income. Undocumented income must be disclosed in Section IV, Employment Information, on the application. The borrower must have a 12-month history of employment with the source of the undocumented income.
- **Borrower Eligibility and Requirements:** The borrower must meet all guidelines set forth in this fact sheet. In addition, the borrower must meet at least one of the following criteria: Have a minimum of 5% of the down payment and/or closing costs coming from their own funds and the LTV does not exceed 97%; OR Have a minimum credit score as follows: FICO of 680; OR Experience zero payment shock (i.e., the new PITI is less than or equal to the current total housing or rent payment); OR The borrower must be a first time homebuyer whose payment shock will be limited to  $\leq 25\%$  of their current rent payment and who has a 12-month rental payment history of 0x30; OR The borrower must be a current homeowner and have a 12-month mortgage payment history of 0x30. The following questions should be considered while evaluating the stability and reasonableness of the undocumented income: Does the amount of the income appear stable and typical for the industry and geographic location? Is the source of income typically received in the form of cash payment (e.g., tips, childcare, tutor, etc.) instead of the traditional paycheck method? Does the borrower appear to have sufficient time to work the hours needed to earn this source of income? Is the borrower's line of work to earn the undocumented income similar to the work to earn the documented income, or is it unrelated and therefore requires further explanation? Verifiable income (i.e., child support, alimony, rental income, etc.) cannot be treated as undocumented income.
- **Qualifying Ratios:** The underwriter should calculate two ratios. The maximum total debt ratio is 43% using all documented and undocumented income. The maximum total debt ratio is 52% using documented income.
- **Other Special Requirements:** The Loan Rationale Notes must contain the following information: The ratio based on the documented income. The ratio based on the combination of documented and undocumented income. The percentage of the undocumented income. The dollar amount of the undocumented income. The answers to the above questions regarding the reasonableness of the undocumented income.
  - **Interested Party Contributions:** Maximum Interested party contribution limits are based on occupancy and LTV for loans without subordinate financing, or the CLTV for loans with subordinate financing: LTV/CLTV  $\leq 75\%$  - 9%; LTV/CLTV 75.01% to 90% - 6%; LTV/CLTV 90.01 to 97% - 3%. **Note:** Interested party contributions can be used for closing costs and prepaids only. They cannot be used to fund the down payment gap. The amount of the contribution made by an interested party is based on the LTV of the mortgage, regardless of whether the property is subject to subordinate financing. If the loan amount plus interested party contribution exceeds 103%, the underwriter must ensure the Contract Section of the Appraisal Report addresses the following: The appraiser analyzed the contract of sale. Indicated on the appraisal report the dollar amount and description of any financial assistance that was paid by any party on behalf of the borrower.

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**BORROWER ELIGIBILITY:** All borrowers must have social security number.

➤**Homebuyer Education:** Effective with applications dated on or after 1/1/09 the following borrowers will be required to complete pre-purchase homebuyer education and counseling:

- If all borrowers obtaining a mortgage loan are first-time homebuyers, regardless of the number of units in the subject property, at least one of the borrowers must complete counseling.
- If all borrowers on the mortgage are relying solely on nontraditional credit to qualify, regardless of product or home buyer status, at least one of the borrowers must complete counseling.

Proof that the borrower completed the course must be documented in the file. A third party that is independent of the Lender must provide counseling. Counseling sessions must be in the form of:

- Face-to-face tutorial, or
- Classroom or workshop session
- Telephone or on-line counseling provided by an approved mortgage insurer “The Keys to Homeownership” workbook may be used to supplement the counseling. However, completion of the workbook without telephone counseling, a face-to-face tutorial, or classroom/workshop session is not acceptable.

**Contacts:** For approved counseling services, refer to: HUD’s Web site at <http://www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm>.

For approved mortgage insurers, refer to CMI’s **Mortgage Origination’s Procedures**. Fannie Mae provides a “Find a counselor Search” feature that allows borrowers to search for providers in their state. See [www.efanniemae.com](http://www.efanniemae.com). **Exception:** The borrower is not required to attend a homebuyer education program if they previously owned a home.

➤**Landlord Education Program:** Borrowers purchasing a 2-4 Unit property must participate in a landlord education program offered by a recognized community organization prior to closing. Proof that the borrower completed the course must be documented by one of the following: A letter from the course instructor indicating the borrower completed the course; or A certificate of course completion.

➤**Post Purchase Delinquency Counseling:** All borrowers must execute the Borrower Authorization for Counseling Form. This form authorizes the Investor to share relevant account information with the MI company and/or third party counselor should the borrower become delinquent on the loan payment. The MI company and/or the third party counselor will provide post-purchase counseling at the earliest sign of difficulty to assist in minimizing the number of potential defaults.

## **BUYDOWNS:**

➤**Temporary:** Permitted where the rate reduction does not exceed two percentage points, and the rate increases by a maximum of one percentage point per year (e.g. 2-1 or 1-1 buy down). Not permitted on 3-4 units. Not permitted on the 5/1 ARM. Purchase transactions only. Permitted for Fixed Rate and Fixed Rate Interest Only loans only; not available for Interest Only ARMs. Rate increase may not exceed 1% per year.

➤**Loans Approved via DU:** For loans submitted to DU, the system will apply the following calculations based on the LTV. The loan will be qualified at the note rate if the LTV is > 95%. The loan will be qualified at the bought down rate plus 1% if the LTV is ≤ 95%.

➤**Manually Underwritten Loans:** The loan should be qualified at the note rate if the LTV is > 95%. The loan should be qualified at the bought down rate if the LTV is ≤ 95%. Funds for the buy down may come from any source or combination of sources such as the property seller, the borrower, a relative of the borrower, the borrower’s employer, the lender, etc. If the Contributor of the buy down funds is an interested party to the sale or purchase transaction, the buy down funds are subject to the interested party contribution limits as indicated.

## **CREDIT:**

➤**Credit Score Requirements:**

- **DU underwritten:** LTV/CLTV ≤ 97.00%: Minimum credit score 580 or as required by DU and/or Mortgage Insurer. CLTV > 97%: Minimum credit score 700. Interest Only loan: Minimum credit score 620.
- **Manually underwritten:** 1 unit - 640; 2 unit – 700; 3-4 unit – 700. Loans with a subordinate financing require a minimum FICO of 700. CLTV > 97%: Minimum credit score 700. Loan term > 30 years: 680. Rate/Term Refinance: 680.
- **Borrower with No Credit History 1-Unit Primary Residence:** A least one other occupying borrower whose income and assets is used for qualification, must have a minimum credit score of 600 or at least three trade lines or a total of four trade lines and non-credit payment references, indicating acceptable credit history. Borrowers who do not have a FICO score are not eligible for an Interest Only product.

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➤ **Bankruptcy/Foreclosures/Deed-in-lieu of Foreclosure:** To be considered for a mortgage loan, the borrower must have re-established a satisfactory credit history and demonstrated the ability to manage financial affairs prudently. Generally a bankruptcy, foreclosure or deed-in-lieu should be fully discharged as specified in the applicable Documentation Process fact sheet (or for at least four years for a bankruptcy and deed-in-lieu and five years for a foreclosure if not specified in the fact sheet). Unless there are extenuating circumstances, the mortgage application may not be approved before the following time periods have elapsed from the date of the application:

- 4 years from the date the Chapter 7, 11, or 12 bankruptcy was discharged or dismissed;
- 4 years from the date a Chapter 13 repayment plan was dismissed;
- 5 years from the date of a foreclosure sale; or
- 4 years from the date a deed-in-lieu was executed.

Investor may consider two years an acceptable interval for having re-established a satisfactory credit record when:

- The previous action was a discharged Chapter 13 bankruptcy, regardless of the reasons that contributed to the previous bankruptcy.
- The previous action related to a foreclosure, deed-in-lieu or Chapter 7, 11 or 12 bankruptcy resulted from extenuating circumstances. (If the borrower cannot provide satisfactory documentation of the extenuating circumstances, four full years must have elapsed.)

Multiple Bankruptcy Filings: A 5-year time period must have elapsed from most recent dismissal or discharge date for borrowers with more than one bankruptcy filing within the past 7 years. A satisfactory credit record must be re-established. All bankruptcies must be either dismissed or discharged. Investor may consider 3 years an acceptable interval for having re-established a satisfactory credit record when the most recent bankruptcy filing was the result of documented extenuating circumstances.

Deed-in-Lieu: After the required 4-year but less than 7-year elapsed time period:

- Borrower may purchase a property secured by a principal residence, second home, or investment property with the greater of 10 percent minimum down payment or the minimum down payment required for the transaction.
- Limited-cash-out and cash-out refinance transactions secured by a principal residence, second home, or investment property are permitted pursuant to the eligibility requirements in effect at that time.

Investor may consider 2 years an acceptable interval for having re-established a satisfactory credit record if the deed-in-lieu was the result of documented extenuating circumstances. The same requirements apply as outlined above.

Pre-foreclosure sale: The term pre-foreclosure sale indicates that the borrower has been delinquent on their mortgage and the lender has agreed to accept a lesser amount to avoid foreclosure. A pre-foreclosure sale involves the sale of the property by the borrower to a third party for less than the amount owed to satisfy the delinquent mortgage, as agreed to by the lender, investor, and mortgage insurer. A 4-year time period must have elapsed from completion date (or a 2-year time period due to extenuating circumstances).

Foreclosures: After the requisite 5-year elapsed time period:

- The borrower may obtain a new mortgage to purchase a principal residence with a minimum 10% down payment and a minimum credit score of 680.
- The borrower may obtain a limited cash-out refinance mortgage pursuant to our eligibility requirements in effect at that time.
- The borrower may not obtain a cash-out refinance or obtain a mortgage secured by a second home or investment property for seven years after the foreclosure action.

Investor may consider 3 years an acceptable interval for having re-established a satisfactory credit record when:

- The previous action was a foreclosure resulted from extenuating circumstances. (If the borrower cannot provide satisfactory documentation of the extenuating circumstances, 5 full years must have elapsed.)

If the foreclosure was the result of documented extenuating circumstances and the requisite 3 year elapsed time period has passed:

- The same requirements apply as outlined above, with the exception that the minimum credit score of 680 is not required.

Extenuating Circumstances: Extenuating circumstances are created by non-recurring events that are beyond the borrower's control. Events often result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations. However, extenuating circumstances cannot be defined solely by the event. The event, the severity of the resulting hardship, and the extent of the borrower's efforts to resolve the situation must also be considered.

Documentation Requirements: If a bankruptcy, foreclosure or deed-in-lieu has occurred in the last seven years, the borrower must provide a copy of the applicable bankruptcy documents (or a copy of the appropriate documentation needed to establish the date of the foreclosure or deed-in-lieu). The borrower must also submit a written statement explaining the circumstances that contributed to the action and, if applicable, provide documentation to support his/her claim of any extenuating circumstances. Examples of documentation include:

- A copy of a divorce decree, medical reports, or bills, notice of job layoff, job severance papers, etc.
- Insurance papers or claim statements, property listing agreements, lease agreements, tax returns (covering the periods prior to, during, and after a loss of employment), etc. illustrating factors that contributed to the borrower's inability to resolve the problems that resulted from the event.

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Verifying Re-established Credit: Regardless of the reason, if the borrower's credit history includes a bankruptcy filing or foreclosure-related action, she or he must have re-established credit for at least four years (or as dictated by policy) for a bankruptcy and five years for a foreclosure and established a new payment record that illustrates a willingness and ability to manage his/her finances over time and if applicable, under different economic conditions. All accounts must be current as of the date of the mortgage application. In addition, the borrower's credit history must include:

- A minimum of four credit references, with at least one traditional credit reference and one housing-related reference, all of which must have a satisfactory payment history. Three of the four credit references (including any rental housing reference) must have been active for a full 24 months before the date of the mortgage application. Collections and charge off accounts may not be considered as a trade line to meet the minimum credit requirement regardless of whether or not the account is with the original creditor.
  - No more than two installment or revolving debt payments  $\geq$  30 days past due in the last 24 months.
  - No installment or revolving debt payment  $\geq$  60 days past due since the discharge or completion of the bankruptcy or the completion of the foreclosure-related action;
  - No past due rental/mortgage payments since the discharge or completion of the bankruptcy or the completion of the foreclosure-related action; and
  - No new public records containing bankruptcies, foreclosures, deeds-in-lieu, pre-foreclosure sales, unpaid judgments or collections, garnishments, liens, etc. since the discharge or completion of the bankruptcy or the completion of the foreclosure related action.
  - In no instance, may credit from a non-traditional source be used to offset a delinquency for a traditional credit account.
- **Minimum FICO Score Exceptions:** If the borrower does not have a FICO score due to lack of sufficient credit history, they must meet all "Non-Traditional Credit" criteria. **Credit file must be sent to Investor for underwriting.** If the FICO score is less than what is required, the borrower may still qualify as follows: (does not apply to Interest Only loans) If they have an insufficient traditional credit history (i.e., lack of credit accounts, accounts not opened long enough, or lack of usage), but must meet all "Non-Traditional Credit" criteria; or If they meet all "Traditional Credit" criteria; or If their credit history was heavily influenced by credit deficiencies caused by extenuating circumstances however, since then, they have re-established a satisfactory credit history. They must meet the "Extenuating Circumstances Exceptions" criteria. **Note:** The above are the only alternatives. Combining alternatives in an effort to qualify the borrower is not permitted. Example: "Extenuating Circumstances" may not be used to compensate for other loan deficiencies revealed during the credit evaluation.
- **Traditional Credit History (For Manually Underwritten Loans):** The representative credit score may not be lower than 580 or 40 points below the minimum required score whichever is higher. The minimum credit score must be based on LTV, CLTV or HCLTV—whichever is highest—as applicable with the exception of the 580 minimum credit score requirement outlined above. The credit score requirements do not apply to loans that are underwritten with DU Version 7.0. If the FICO score is less than what is required, the borrower may still qualify if: They have an insufficient traditional credit history (as documented by reason codes showing a lack of credit accounts, accounts not opened long enough, or lack of usage), but meets all non-traditional credit criteria for the program type selected as listed below; or The credit history was heavily influenced by credit deficiencies caused by extenuating circumstance. However, since then, the borrower must have re-established credit and meets the conditions listed below; or They meet all traditional credit criteria for the program type selected as listed below. **Note:** The above are the only alternatives. Combining alternatives in an effort to qualify the borrower is not permitted. **Example:** Extenuating circumstances may not be used to compensate for other loan deficiencies revealed during the credit evaluation. Under no circumstances may a non-traditional credit evaluation be used to offset derogatory credit. The borrower must have a minimum of four trade lines that are at least 24 months old (including both installment and revolving accounts); The borrower must have no history of delinquent housing payments within last 24 months; The borrower must have no delinquencies for revolving accounts in the last 12 months, and prior to that, no more than one account that was 1 x 30 days delinquent in 12 months; The borrower must have no delinquencies for installment accounts in the last 12 months, and prior to that, no more than one account that was 1 x 30 days delinquent in previous 12 months; The borrower's outstanding revolving account balances may not represent more than 50 percent of the aggregate credit lines. (The borrower cannot pay off or pay down the balances to qualify.); **Charge-offs, collection accounts and past due accounts must be paid in full at or before loan closing.** No collections or judgment (other than medical collections) filed within the past 24 months. Any and all judgments must be satisfied. Nontraditional credit may not be used to offset derogatory credit; additional discretion must be used.
- **Non-Traditional Credit Criteria:** The non-traditional mortgage credit report and/or other written credit references serve to develop a credit history for a borrower who does not have the types of credit that appear on a traditional credit report. Because borrowers using non-traditional credit to qualify present an additional layer of risk that must be considered during loan evaluation, it should only be used as a substitute if the borrower does not have a credit history with traditional credit providers or as a supplement when a traditional credit report has an insufficient number of credit references. If the borrower does not have a FICO score (due to no credit record with the repository), s/he may qualify provided an acceptable non-traditional credit history can be developed as detailed below. (The borrower must meet all of the criteria listed.) Investor must underwrite. The maximum LTV for borrowers with non-traditional credit is 95% (80% for a 3-4 unit); a CLTV up to 105% is permitted with an approved Community Second. Must have a full 12-

## Trust One Mortgage – 1700 My Community Series

month history (24 months for housing debt) on no less than 3 sources of non-traditional credit, of which, one of the sources must be for housing debt. 2 of the sources must represent Tier I credit (rental housing payments, utility payments, payments for telephone service, or payments for cable television service), of which, 1 of the sources must be for rental housing payments. If the borrower has no history of housing payments, a minimum of 4 credit sources are required. The creditor's name and address, the name of the individual providing the reference, the nature of the obligation (utilities, payment for purchase, insurance, etc.), the date the account was opened, when payments are due, the amount of the highest credit, the current status of the account, the required payment amount, the unpaid balance, and the payment history. The remaining sources may represent any reasonable service or purchase as long as the repayment terms are in writing and the borrower can provide canceled checks, or money order receipts that show the creditor as the payee to document the payments. Examples include payments for: Medical, life, automobile, or renter insurance; Installment loan to furniture, appliance, or from a specialty store; Medical bills, auto rental, school tuition, child care, etc; or Personal loan from an individual (repayment terms must be in writing and the borrower must provide cancelled checks to document the payments). **Note:** In lieu of one of the credit sources listed above, Investor will accept a documented 12-month savings history from the borrower showing the following: Regular deposits that occur no less than quarterly; Deposits must clearly be savings. Payroll checks may not be used to establish a savings history pattern; The account may not reflect any "NSF" checks (insufficient funds). No history of delinquency in their housing debt within the past 24 months (or if the borrower has been making payments less than 24 months, no history of delinquency for the number or rental payments that have come due). No history of delinquency on the remaining accounts over the past 12 months, although one of the accounts may have had one 30-day delinquency. **Charge-offs, collection accounts and past due accounts must be paid in full at or before loan closing.** No collection accounts reporting on the credit report (other than medical collections) filed within the past 24 months. Any and all judgments must be satisfied. **Note:** The income from an occupying co-borrower with insufficient credit references may be used to qualify for the loan provided it does not exceed 30% of the total qualifying income (50% for loan approved via DU). The primary borrower must meet all other traditional or non-traditional credit profile requirements as stated above.

➤ **Policy For Unpaid Charge-Offs And Collections:** Unpaid charge-offs, collection accounts and past due accounts must be paid in full at or before loan closing.

**ESCROW (IMPOUNDS):** The LTV must be 80% or less (unless state law dictates escrows are not required for mortgage loans with a LTV > 80%). Must be Conventional loan to waive the escrow requirements (except Expanded Approval loans which must have escrows unless state law dictates otherwise.).

**GEOGRAPHICAL RESTRICTIONS:** Eligible states: AK, AZ, CA, CO, CT, GA, HI (Properties located in Lava Hazard Zones 1 or 2, as determined by the U.S. Geological Survey, are not eligible), ID, IN, MD, MI, MO, NV, NM, OK, OR, TX, UT, VA, WA, WY.

**Declining Markets:** See Chapter 7 of the Program Summary Guide, or **Declining Market 1700 on the website, for all requirements regarding properties located in declining markets.**

➤ See **PROPERTY IMPACTED BY DISASTER** for additional guidelines.

**HAZARD INSURANCE:** Hazard insurance coverage must be in an amount at least equal to replacement value, which is equivalent to 100% of the insurable value. The insurable value is established by the property insurer, not the principal amount of the loan. Each mortgage loan commitment specifies that evidence of insurance must be provided prior to or at loan closing. Property insurance for home mortgages must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The policy must provide coverage equal to or broader than those coverages provided under an Insurance Services Office (ISO) homeowner's form HO-3 for primary residences or DP-3 for second or investment homes. The coverage should be of the type that provides for claims to be settled on a replacement cost basis. Hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement are not accepted. A lender should advise borrowers that they may not obtain hazard insurance policies that include such limitations or exclusions—unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions. The minimum amount of the hazard insurance coverage must be: 1-4 family properties - 100% of the insurable value, which is replacement value; Condominium & co-op projects - 100% of the insurable value, which is replacement value. More than the minimum required coverage is acceptable, but only at the borrower's discretion. A policy that provides for guaranteed replacement cost will always cover the required minimum insurance coverage amount. However, we do not require that the borrower provide a guaranteed replacement cost insurance policy. They may provide one only at their discretion. Note: Properties in Hawaii that are located in Lava Hazard Zones 1 or 2, as determined by the U.S. Geological Survey, are not eligible for financing. In order to provide the closing agent with the minimum amount of hazard insurance coverage required, an insurer's determination of the Insurable Value (IV) of the property improvements must be obtained.

➤ **Condominium:** If the master or blanket insurance policy does not provide coverage of the interior of the unit, the borrower will be required to obtain a "walls in" coverage policy (commonly known as HO-6 policy). If required, the HO-6 insurance policy must provide minimum coverage of 20% of the unit's appraised value.

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## **LIBOR ADJUSTABLE LOAN FEATURES:**

- Index: Average rate for one year U.S. dollar denominated deposits in London markets based on quotations of major banks, also known as the London Interbank Offered Rate (LIBOR).
- Margin: See Rate Sheet.
- Interest Rate:
  - 5/1 ARM: Initial interest rate remains constant for first 5 years of loan. On the first interest rate adjustment date, the interest rate will be adjusted to equal the sum of the index plus the required margin, subject to an Initial Cap of 2%, a Periodic Cap of 2% and a Life Cap of 5%. The floor is the margin.
  - 7/1 ARM: Initial interest rate remains constant for first 7 years of loan. On the first interest rate adjustment date, the interest rate will be adjusted to equal the sum of the index plus the required margin, subject to an Initial Cap of 5%, a Periodic Cap of 2% and a Life Cap of 5%. The floor is the margin.
  - 10/1 ARM: Initial interest rate remains constant for first 10 years of loan. On the first interest rate adjustment date, the interest rate will be adjusted to equal the sum of the index plus the required margin, subject to an Initial Cap of 5%, a Periodic Cap of 2% and a Life Cap of 5%. The floor is the margin.
- Adjustment Frequency:
  - 5/1 ARM: The initial interest rate change occurs after the first 5 years and every 12 months thereafter.
  - 7/1 ARM: The initial interest rate change occurs after the first 7 years and every 12 months thereafter.
  - 10/1 ARM: The initial interest rate change occurs after the first 10 years and every 12 months thereafter.

## **MAXIMUM LOAN AMOUNT:**

### ➤ **Conforming limits:**

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

## **MINIMUM LOAN AMOUNT:** None

**MORTGAGE INSURANCE:** Acceptable MI insurers: MGIC, Radian, PMI, RMIC. **Additional restrictions may be placed by the individual MI insurer and can be found on the website of the MI insurer.** For Fully amortizing and interest only loans that are approved via DU, or are manually underwritten, mortgage insurance (MI) coverage must be as stated below, regardless of the DU findings. Reduced or Custom MI is not acceptable.

LTV	Coverage		
	Community 97	Community 2-family	Community 3-4 family
	1-unit/Condo/PUD	2-family	3-4 family
95.01% - 97% <sup>1</sup>	18%	18%	N/A
90.01% - 95%	16%	16%	16%
85.01% - 90%	12%	12%	12%
80.01% - 85%	6%	6%	6%

<sup>1</sup>MI coverage may not be available for LTV's above 95% the FICO is less than 620 or may have additional restrictions with regards to first time homebuyers, homebuyer education, median income, and down payment. Refer to individual MI company parameters for details.

Loans receiving an EA approval are not eligible for delivery if LTV is > 80% and therefore do not require mortgage insurance.

## **MULTIPLE PROPERTIES:** Not allowed.

## **OCCUPANCY:**

- **Primary Residence:** 1-4 unit. 3-4 unit Fixed Rate only. Borrowers may not own any other property as of mortgage closing date.

## **PREPAYMENT PENALTY:** None.

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**PROPERTY IMPACTED BY DISASTER:** Correspondents must ensure that all loans are secured by properties that have not been negatively impacted by a disaster and/or declared disaster areas by county, state or federal agencies. Correspondents represent and warrant that the properties securing all loans submitted for purchase are in good condition, and have not been negatively impacted by any disaster as of the date the Investor funds the loan. Correspondents also represent and warrant that the borrower's place of employment has not been negatively impacted by these events. If it is discovered a property was affected by a disaster that occurred prior to the purchase of the Loan, the correspondent is obligated to repurchase the loan. The Correspondent agrees to notify the Investor immediately upon discovery that a property has been negatively affected by any such disaster. At minimum, the Investor may require an appraiser's certification, or re-inspection/appraisal of the damage to determine if the loan is eligible for purchase.

### **PROPERTY REQUIREMENTS:**

#### ➤ **Eligible:**

- Single Family Residence
- Condominium. Properties must have a DU Approve/Eligible Findings Report, FNMA project approval, or Investor project approval, otherwise HOA must complete Investor Condo project questionnaire for Investor approval. Loans secured by attached units in all new condominium projects are no longer eligible for limited reviews. Primary Residences: The max LTV/CLTV for loans secured by established attached condominium units is 90%/90% for DU Approve recommendations only. The max LTV/CLTV for all other DU recommendations (includes Expanded Approvals) is 80%/80%. Condominium Limited Project Reviews with incomplete amenities are no longer available. Condominiums consisting of 2-4 units must be complete, established projects.
- PUD. Attached PUD properties must have a DU Approve/Eligible Findings Report, FNMA project approval, or Investor project approval, otherwise HOA must complete Investor Condo project questionnaire for Investor approval.

#### ➤ **Ineligible:**

- Cooperatives
- Condo Hotels
- Timeshare units
- Manufactured housing/Mobile Homes
- Dome Homes
- Agricultural in nature: Farms, Orchards, Ranches, Properties with significant outbuildings or facilities for farm animals, etc.
- Geothermal Homes
- Commercial property
- Houseboats

### **QUALIFYING:**

➤ **DU:** Determined by DU. **Note:** The Qualifying Ratio is not applicable for loans run through DU that receive an Approve/ Eligible finding as long as the loan meets all other eligibility criteria.

➤ **Manually Underwritten Loans:** 43%. This ratio may be exceeded on a case-by-case basis provided the proposed housing expense is equal to or less than what the borrower had been paying and they were able to maintain a good credit history while paying a similar amount for housing in the past.

➤ **Revolving Debt:** Include the following when calculating DTI: Minimum payment (from statement or credit report); or \$10 or 5% of the current balance, whichever is greater, if no payment is stated on the credit report. If multiple account payments are not reported, and /or the borrower's ratios are at the maximum permitted for the process selected, the underwriter should obtain actual minimum payments from the borrower's account statements to qualify the borrower.

➤ **Real Estate Obligations:** If the sale of the borrower's current home does not close prior to the subject property, the housing payment does not need to be included in the qualifying ratios provided the borrower: Provides a copy of the fully executed sales contract and, the sale of the current home closes simultaneous with the subject transaction; or If not closing simultaneously, provides a copy of the fully executed sales contract, lender's commitment letter to the buyer of the current home, and verification of post-close reserves sufficient to cover six months of PITI on the current home; or If the borrower provides a signed lease agreement for the rental of their current residence, the full PITI payment does not need to be included in the qualifying ratios. However, any applicable negative rental income must be included as a liability in the qualifying ratios. In addition, the borrower must have post-close reserves sufficient to cover six months of PITI on the current home.

➤ **1700IO:** Qualifying rate is the note rate. Calculate the qualifying payment by using the fully-amortizing monthly principal and interest payment amounts based on the Qualifying Rate and the term of the loan, plus escrows for taxes and insurance if applicable.

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**REFINANCE TRANSACTIONS:** Alt 97 not allowed. If the subject property is currently listed for sale the loan is not eligible for a rate/term refinance or a cashout refinance. Properties that were listed for sale and taken off the market within the past 180 days are eligible for a refinance as follows: Loans are eligible for either a rate/term; Properties that were listed for sale must have been taken off the market on or before the application date; Applies to loans approved via DU and LP as well as loans manually underwritten; Every effort should be made to verify the property is no longer listed for sale and the underwriter should give additional scrutiny to these transactions to ensure that refinancing the loan provides a benefit to borrower; This policy does not apply to the refinance of a property that was recently purchased within the past 90 days. The borrower(s) may not receive any cash back on a purchase transaction, unless the amount represents: Reimbursement for the borrower's overpayment of fees; Reimbursement for costs paid by the borrower in advance (e.g. earnest money deposit, appraisal, credit report fees, etc.); Legitimate pro-rated real-estate tax credit in locales where real estate taxes are paid in arrears. If the borrower receives cash back for any of the above reasons, the underwriter must confirm that the minimum down payment or required borrower contribution has been met.

➤ **Rate/Term Refinance may include funds for the following:** Only subordinate financing that was used, in its entirety, for the purchase of the property will be considered Rate & Term refinance. If the subordinate lien being paid off was originated for any other purpose, at any time, and was not used entirely for the purchase of the property, the transaction will be considered a Cash-out refinance. As a result, a Rate & Term Refinance may only include the following: The payoff of the outstanding principal balance of an existing first mortgage; the pay off of the outstanding principal balance of an existing subordinate mortgage that was used in whole to acquire the subject property; the financing of closing costs (including prepaid expenses); and cash back to the borrower in an amount no more than the lesser of 2% of the balance of the new refinance mortgage or \$2000.

➤ **Cash Out Refinance:** Not eligible.

**NOTE: The file must be fully documented to evidence that the second lien was used solely as purchase money. For example, the Correspondent may provide a copy of the HUD-1, Title Report or Sales Contract from the original purchase transaction. Depending on the situation, the aforementioned documents may or may not be appropriate.**

Use the DU Findings Report or LP Feedback Certificate to determine underwriting and documentation requirements. Section 32 loans are not allowed.

➤ **Continuity of Obligation:** If there is an existing lien that will be satisfied via a rate/term refinance transaction, there must be continuity of obligation as described below:

- 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 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, etc.) with the current obligor; or
- The borrower has recently inherited or was legally awarded the property (e.g. divorce, separation).
- Note: Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.

Loans that meet one of the above descriptions of continuity of obligation may be underwritten as rate/term refinance. 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 as a cash-out refinance transaction which is ineligible.

**RELOCATION:** Ineligible.

### **RESERVES:**

➤ **DU:** Determined by DU

➤ **Manual Underwrite:** Community 97: no reserves; Community 2 Family: 2 months reserves, must be from the borrowers own funds; Community 3-4 Family: 2 months reserves, must be from the borrowers own funds.

**SUBORDINATE FINANCING:** Only subordinate financing provided by an approved Community Second provider is permitted. Non-community Seconds are not permitted. Correspondents represent and warrant that the Community Second complies with Fannie Mae policy. *MCM Community Second Mortgage Enhancement:* Under certain conditions, Fannie Mae permits some Community Seconds to be treated as a gift in DU rather than a subordinate financing. Terms and conditions are listed below: The Community Second must be fully forgiven over time (both the principal and the interest). The payment must be deferred for no less than 5-years. Note: Although the funds may be treated as a gift in the initial calculation, the dollar amount of the Community Second must be reflected as subordinate financing in all system calculations, (i.e., included in the CLTV), when the loan is closed and delivered to Fannie Mae..

**TRAILING CO-BORROWER INCOME:** Ineligible.