

Trust One Mortgage – 300a VA Series

Product Type & Program Numbers:

- 300a – 30-year Fixed Rate VA
- 315a – 15-year Fixed Rate VA
- 350a – 30-year 5/1 VA ARM

NOTE: VA IRRRL not allowed.

UNDERWRITING CRITERIA: All loans must be run through DU with Approve/Eligible results. If the loan is not approved through DU, the loan must be submitted to management for review to determine if the company wants to do a manual underwrite.

Circumstances which require a downgrade of any AUS Accept received: 1. Disparities in assets, including bank statements that indicate multiple Non-Sufficient Funds (NSF) charges; 2. Failure to meet conditions of an AUS Accept, such as the following: The documentation requirement is for 2 years of W-2s. However, this documentation cannot be provided because the borrower's total employment history is only 16 months, and the remainder of the 2 years is higher education.

➤**Maximum Loan Amount:** The maximum potential loan amount for a purchase transaction at 100/100% loan-to-value/combined-loan-to-value with full entitlement is \$1,094,625. Loan amounts up to \$1,500,000 are allowed as long as the VA guaranty plus the veteran's down payment and/or equity equal 25% of the lesser of the sales price or Notice of Value (NOV). Cash-out refinance transactions are limited to a maximum 90/90% loan-to-value/combined-loan-to-value of the property value shown on the CRV or NOV plus the cost of any energy efficient improvements (up to \$6,000) plus the VA Funding Fee. The maximum guaranty for loan amounts > \$417,000 varies depending upon the location. See VA County Loan Limits in Chapter 23 of the Trust One Program Summary Guide or on the Trust One website. On VA purchase and refinances with loan amounts greater than \$417,000, additional requirements apply (as detailed in the table below). These overlays need to be applied manually.

Criteria*	Loan Amounts > \$417,000 to \$650,000 (including funding fee)**	Loan Amounts > \$650,000 (including funding fee)**
Minimum Credit Score	720	740
Minimum Cash Reserves	6 months PITI	12 months PITI
Gift Funds	Not Allowed	Not Allowed
Eligible Property Type	1 unit SFR, Condo, PUD only. Note: 2-4 Units are not allowed	1 unit SFR, Condo, PUD only. Note: 2-4 Units are not allowed
Documentation	Full documentation**	Full documentation**
Maximum Cash-Out	\$325,000	\$325,000
Appraisal Requirements	VA Appraisal	<ul style="list-style-type: none"> • >\$650,000 and < \$1,000,000: VA Appraisal and LARA • >\$1,000,000: VA Appraisal and field review

*The above criteria apply regardless of Automated Underwriting System (AUS) decision and conditions.

**Trust One must document the loan according to the VA Lender Handbook and may not use the AUS conditions as they relate to income and assets.

***Any loan amount > \$417,000 with 100% LTV requires a second Trust One Underwriter signature.

ADJUSTABLE LOAN FEATURES:

- **Index:** Weekly average on U.S. Treasury securities adjusted to a constant maturity of one year.
- **Interest-Rate Adjustment:** 5/1 fixed-period term, First adjustment is 60–66 months after the first payment date. Adjusts annually with 1% maximum increase or decrease per adjustment.
- **Margin:** As set by the Investor and published in the Conventional/Government Price Guide.
- **Life Floor/Cap:** Life floor, 5% below the start rate but never lower than the margin. Life cap, 5% above the Note rate.
- **Payment Adjustment Date:** First adjustment is the first of the month following the interest-rate adjustment and every 12 months thereafter.
- **Conversion Option:** None.

Trust One Mortgage – 300a VA Series

APPRAISAL: An appraisal is required to help ensure that any property that will become the security for a VA-guaranteed loan has a loan-to-value within program parameters and is in a condition acceptable to VA. Effective with appraisals dated on or after July 1, 2009, the March 2009 version of the Fannie Mae/Freddie Mac form 1004MC, “Market Conditions Addendum to the Appraisal Report” must be included with all VA (including rural housing) appraisals. HVCC rules do not apply.

➤ **Required Forms:**

- Statement of Limiting Conditions.
 - Appraiser’s Certification.
 - Based on the property type, the following appraisal report form must be used:
 - Single-Family Residence (SFR), Planned Unit Development (PUD): Uniform Residential Appraisal Form (#1004 / #70).
 - Condominiums: Individual Condominium Appraisal Report (#1073 / #465).
 - Two-to-Four Units: Small Residential Income Property Appraisal Report (#1025 / #72).
 - A copy of the agreement of sales or sales contract is required to be provided to the fee appraiser by the requester of the VA appraisal immediately upon assignment.
- **For VA loan amounts exceeding \$417,000** the following appraisal requirements apply:
- \$417,001 to \$650,000: VA-required appraisal.
 - \$650,001 to \$1 million: VA-required appraisal and LARA.
 - Greater than \$1 million: VA required appraisal and field review
- See **DISASTER AREAS** for any additional guidelines.

ASSETS/FUNDS TO CLOSE/DOCUMENTS:

- **Asset Verification Requirement:** Verify all liquid assets owned by the veteran or spouse to the extent they are needed to close the loan. In addition, verify any liquid assets that may have a bearing on the overall credit analysis. Document asset verification by: Using VA form 2608497a, Request for Verification of Deposit; **Or**, Obtaining acceptable alternative documentation.
- **Business Funds:** The use of business funds for down payment, closing costs and reserves is allowed for sole proprietors, partnerships and corporations, including S-corporations. When using these funds, each transaction must be analyzed in order to determine the borrower’s percentage of ownership in the business, validate the borrower’s ability to access business funds without any detrimental effect to the business and to ensure there is strength and stability within the business.
- **Ownership Verification:** Borrower’s ownership or interest in the business must be confirmed by documentation such as a business license or partnership or corporate tax returns.
 - **Verification of the Availability of Funds:** Based on the ownership type, the following requirements apply:
 - **Sole Proprietor:** Verification that the borrower has 100% ownership of the business, for example using the tax returns provided or a copy of the business license.
 - **Partnership:** Borrower must be a general partner and verification of the percent of ownership is required. Verification of the ability to withdraw funds to the extent of the percentage of ownership and approval of the other general partners is required. The percentage of ownership can be validated using the U.S. Partnership Return of Income (IRS Form 1065) and the Partner’s Share of Income, Credits, Deductions, etc. (Schedule K-1) for filing income tax returns for the partnership.
 - **Corporation:** Verification that the borrower is 100% owner of the corporation or if the applicant is not a 100% stockholder verification of the percent of ownership. In addition verification of the ability to withdraw funds to the extent of the percentage of ownership is required, along with approval of the stockholders with a corporate resolution. The applicant’s percentage of ownership can usually be determined from the Compensation of Officers section of the corporate tax return.
 - **Self-Employed Borrowers:** The following requirements are applicable for self-employed borrowers if using business funds in a mortgage transaction. Business funds from a partnership or corporation may **not** be used to meet any required product/program minimum down payment requirements. These funds must all be from the borrower’s personal assets. This does not apply to a sole proprietorship where personal and business funds can be comingled. Copies of most recent and concurrent six months business account bank statements. For a sole proprietor the funds may be in either a personal or business account. All funds must be seasoned with the source of funds for any large deposits fully documented and explained. Review the most recent bank statements provided to ascertain what is normal and typical for the business. A cash flow analysis on the business is required. The cash flow analysis can be performed by the accountant, CPA or the borrower, if the borrower completes his own tax returns. If completed by a CPA, a letter from the licensed CPA completing the business returns which must be on the firm’s letterhead and provide the CPA’s address, phone number and signature. The file must contain evidence the borrower has full use of business funds and there

Trust One Mortgage – 300a VA Series

is no required repayment. The written document must be from the accountant, CPA, or borrower if returns are self-prepared for sole proprietors, for partnerships it may come from the accountant, CPA, or other general partners, for corporations from the accountant, CPA or it may be found on the corporate resolution. The file must contain evidence that the funds are not advancement against future earnings or future cash distributions. The written document must be from the accountant, CPA, or borrower if returns are self-prepared for sole proprietors, for partnerships it may come from the accountant, CPA, or other general partners, for corporations from the accountant, CPA or it may be found on the corporate resolution. The loan file documentation must include a review of any potential tax implications on funds received.

➤ **Cash Required to Close:** The veteran or spouse must have sufficient cash to cover: Any closing costs or points that are the veteran's responsibility and are not financed in the loan; **And**, The difference between the sales price of and loan amount, if the sales price exceeds the reasonable value established by VA. Verify all liquid assets owned by the veteran or spouse to the extent they are needed to close the loan and/or those that may have a bearing on the overall credit analysis.

➤ **Documents:** Per HUD requirement, case numbers must be evidenced on all Security Instruments (SI), collateral documents, and applicable riders. HUD requires the fixed-length case number be stated on the **first page** of the Security Instrument (SI), any collateral document, or applicable Rider. If the Note includes the case number or a place for the case number, the number must be entered as a complete and accurate fixed-length number as applicable by loan type. Trust One should not include the Section of the Act (SOA) number (most notably 203(b)) as part of the case number on the Note and SI. The leading zeros in each case number are not required. Case numbers for VA loans can be obtained from The Appraisal System (TAS). Documents do not need to be redrawn to correct the case number. The borrower does not have to initial changes to the case number. The lender may draw a line through the incorrect number and write in the correct number and provide the borrower a copy of the documents containing the correct case number. Trust One corrections to be initialed by Trust One. In addition to the note, security instruments and applicable riders, a case number is also required on the following documents: HUD Form 92900-LT (formally Mortgage Credit Analysis Worksheet), Appraisal.

➤ **Down Payment:** Veterans are required to make a down payment under the following circumstances:

- Loan amounts ≤ \$1,094,625: No down payment is required by VA unless the purchase price exceeds the reasonable value of the property.
- Loan amounts between \$1,094,626 - \$1,500,000: A down payment may be required based on the LTV calculation.
- Any loan amount > \$417,000 with 100% LTV requires a second Trust One Underwriter signature.
- Trust One may also require a down payment if necessary to meet secondary market requirements.

➤ **Employment Verification:** For loan applications dated on or after September 1, 2009: Verbal VOE requirements for hourly, salary and commission income are: Trust One must contact the employer, verbally or in writing, and confirm the borrower's current employment status within 10 days prior to the closing date. Trust One must independently obtain a phone number and, if possible, an address for the borrower's employer. This can be accomplished by using a telephone book, the Internet, or directory assistance, or by contacting the applicable licensing bureau. If the contact is made verbally, the conversation must be documented. It should include the name and title of the person who confirmed the employment, the date of the call, and the source of the phone number. The written documentation should also include the name and title of the person who performed the verification for Trust One. If the verbal verification is obtained from a third party vendor, the 10 day timeframe is measured from the date of Trust One's request to the vendor, not the date the information was updated in the vendor's database. However, the information must have been updated within the past 35 days. Verbal VOE requirements for self-employed income are: Trust One must verify the existence of the borrower's business within 30 days prior to the closing date from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible, and by verifying a phone listing and address for the borrower's business using a telephone book, the Internet, or directory assistance. If the contact is made verbally, the lender must document the source of the information obtained and the name and title of the lender's employee who obtained the information. Closing date is defined as the date the note is signed by the borrower(s). If a borrower is in the military, a military Leave and Earnings Statement (LES) dated within 30 days of closing is acceptable in lieu of a verbal or written VOE.

➤ **HUD1:** A final HUD-1 Settlement Statement (or HUD-1A if applicable), or other closing statement evidencing all settlement costs paid by the borrower and seller, is required to be executed by the borrower and seller (if applicable) and be provided in the loan file delivered for purchase.

- **Escrow States:** In escrow states where a final HUD-1 is not available at closing, an estimated HUD-1 or closing (escrow) instructions should be presented to the borrower and property seller (if applicable) to sign. The document must evidence final fees (with fee name and corresponding fee amounts on each line). Fees on the final HUD-1 issued after settlement should not have any fee changes to those fees. Borrower and property seller (if applicable) signatures may be provided on separate copies of the eligible documents. The estimated HUD-1 or closing (escrow) instructions signed by the borrower and property seller (if applicable) at closing in addition to the certified final HUD-1 from the closing agent must be included in the loan package. If there is a change in fees after the signing by the borrower and property seller (if applicable) at closing, only the parties affected by the fee changes are required to re-sign the final HUD-1.

Trust One Mortgage – 300a VA Series

- **Non-Escrow States:** In non-escrow states, a final HUD is still required to be signed by the borrower and property seller (if applicable) and submitted with the loan file.
- **Income:** A completed and signed 4506-T form is required for all borrowers regardless of AUS findings. IRS form 4506-T is valid for 120 days from the signature date. All VA loans are Full/Alt documented loans. Stated Income and Reduced documentation are not eligible. Verify and treat the income of a co-veteran spouse the same as the veteran's income. Only verified income can be considered in total effective income. The income calculation and analysis performed by Trust One to determine the veteran's income must be documented in the file. VA Form 26-6393 is used by Trust One to analyze the veteran's income, debts, and creditworthiness. Effective April 19, 2009, W-2 transcripts obtained from the IRS in lieu of tax return transcripts for salaried borrowers not required to provide tax returns are allowed. However, if any income is derived from tax returns or the tax returns are present in the loan file, tax return transcripts are required. W-2s and IRS W-2 transcripts from the same year must match. If the IRS transcripts do not match the W-2, proof the employer filed amended W-2s and a satisfactory letter of explanation must be provided or the loan is ineligible for purchase. As a reminder, IRS transcripts must be obtained for the years of income documented in the file. In instances where transcripts are not available for the most recent year documented, Trust One should obtain the same number of years of transcripts, using the most recent years available. Examples of situations where most recent year's transcript would not be available include income documented by a YTD paystub, or transcript not available due to recent filing. Generally, transcripts are available from the IRS as follows: Paper filing, 6-8 weeks from receipt by the IRS; E-filing, 15 days from receipt by the IRS; W-2 Transcripts, Generally available beginning in April. For borrowers who have filed an extension with the IRS, the following documentation is required: Evidence the extension was filed, and evidence from the IRS stating "No Record of Return Filed". Note: Transcripts may not exist for all borrowers. This includes borrowers: Without qualifying income; With income from non-taxable sources (for example: child support); Exempt from filing tax returns based on income below IRS published minimum income levels. When transcripts are not available due to recent filing or no taxable income, Clients should obtain the response "No Record of Return Filed" from the IRS and include as evidence in the file. When IRS transcripts are not available for the most recent year of income documentation, the income may still be used to qualify provided material year over year income increases are explained and documented. If earnings shown on most recent tax year are 0 to 10% > than previous year's transcripts then the loan is eligible for financing. Additional verification or explanation may be required at the discretion of the underwriter. If earnings shown on most recent tax year are greater than previous year's transcripts then the loan is eligible for financing. A satisfactory letter of explanation and supporting documentation may be necessary. Situations where this may occur include: Wage earning spouse who is not on transaction; Borrower has an additional wage earning job not disclosed; Bonus Income; Raise; Job change. Supporting documentation may include documentation to substantiate second job, a breakout of individual W-2 filings or a written VOE detailing bonus, job or salary changes.
- **Interested-Party Contributions:** A maximum of 4% of the value of the property as indicated on the Notice of Value (NOV) may be contributed from an interested party (property seller concession) to be applied toward closing costs and/or prepaid items. Any property seller concession or combination of concessions which exceeds 4% of the established reasonable value of the property is considered excessive and unacceptable for VA-guaranteed loans. A reduction of the sales price in the amount equal to the excess is required in these instances. Property seller concessions include, but are not limited to, the following: Payment of the VA funding fee; Prepayment of the veteran's property taxes and insurance; Gifts such as a television set or microwave oven; Payment of additional discount points to provide permanent interest rate buydowns; Provision of escrowed funds to provide temporary interest rate buydowns; Payoff of credit balances or judgments on behalf of the veteran. Property seller concessions do **not** include: Payment of the veteran's closing costs; Payment of points as appropriate to the market For example: If the market dictates an interest rate of 7.5% with two discount points, the property seller's payment of the two points would **not** be a property seller concession. If the property seller paid five points, three of these points would be considered a property seller concession.
- **IRS 4506-T:** A completed and signed 4506-T form with acceptable results is required from all borrowers at application and closing regardless of AUS findings. Both 4506-Ts must be provided in the loan file delivered for purchase. The 4506-T signed at application and closing must include authorization for transcripts for the most recent two years. It is highly recommended that IRS transcripts be obtained prior to closing, to validate the income documentation used to underwrite the loan, and this practice will be required in the future. Effective with loan applications taken on or after October 15, 2009, files are required to include IRS transcripts dated prior to the closing date. In all instances, the transcript requirements apply to borrower personal returns (1040s).
- **Mortgage Broker Fee Agreement:** Effective with deliveries dated on or after July 1, 2009, a completed *Mortgage Broker Fee Agreement* form will be a required document in the loan package for broker originated loans. Use this form to fully disclose fees paid to the mortgage broker by the borrower and lender in connection with the loan. This form is available to underwriters to provide to brokers in Data Trac under REPORTS, UND, #245. It is required in the initial disclosure set, plus it must be updated each time broker revenue amount increases. A fully executed copy that will match docs must be there when docs are ordered.
- **Seller Real Estate Tax Credit:** Seller real estate tax proration to be received or credited at closing may not be considered at the time of underwriting as the source of the applicant's minimum investment or for any other required funds to close (including discount points, closing costs and/or prepaids).

Trust One Mortgage – 300a VA Series

➤ **Title Policy:** Title commitments, title insurance policies, or Insured Closing Protection Letters with no reinsurance requirement are once again accepted from the following companies: Commonwealth Land Title Insurance Company, Lawyers Title Insurance Corporation, LandAmerica NJ Title Insurance Company, and United Capital Title Insurance Company. If not referenced above, any former LandAmerica title companies remain ineligible. Effective with loans purchased on or after April 30, 2009, title commitments, title insurance policies, or insured closing protection letters from Attorney's Title Guaranty Fund, Inc. (CO) will no longer be accepted. Loans purchased prior to April 30, 2009 with title insurance from Attorney's Title Guaranty Fund, Inc. (CO) require evidence of adequate and acceptable reinsurance provided in the loan file.

BORROWER ELIGIBILITY: For VA home loan purposes, an eligible veteran is a person who served on active duty in the Army, Navy, Air Force, Marines, or Coast Guard, and who, except for a service member on active duty, was discharged or released from active duty under conditions other than dishonorable. In general, the following eligibility criteria apply:

- The minimum service required during wartime periods is 90 days of active duty.
- The minimum service required for the peacetime periods is 181 days of continuous active duty.
- The veteran must have been discharged or released from active duty under other than dishonorable conditions. Veterans who served less than the minimum required period may be eligible if discharged because of service-connected disabilities.
- The un-remarried surviving spouse of an eligible service member who died as a result of service or service-connected injuries may also be eligible.
- Members of the Reserves and National Guard are eligible upon completion of 6 years of service.
- Specific questions on veterans' eligibility matters should be referred to the VA regional office.

➤ **Maximum Number of Borrowers:** Effective with loan applications dated on or after October 15, there will be a maximum of four borrowers allowed on a transaction.

BUYDOWNS: Trust One and property seller-paid interest rate buydowns are allowed on 30-year term mortgages only. The buydown period must last for at least one year. Scheduled reductions in the assistance payments must occur annually on the anniversary of the first mortgage payment. The reduction in the assistance payments may be accomplished through: Annual payment increases in equal or approximately equal amounts; **Or**, Equal annual increases in the interest rate. Trust One is required to provide the veteran with a clear, written explanation of the buydown agreement. Additionally, a copy of the buydown and escrow agreements must be included in the loan file.

CREDIT:

➤ Effective for all loans submitted May 20, 2010 or later: The following scenarios require an exception from the Trust One Underwriting Manager, as well as a QC review: Any loan with DTI > 50; Any loan with FICO < 640; Any loan where the borrower currently has a loan with the Investor (whether or not it is being paid off). Loans with these situations may or may not be granted an exception. In order for an exception to be granted, at least 3 of the following compensating factors must be present: Established history for the past 12-24 months of housing expense greater than or equal to the proposed housing payment; Significant cash down payment (10% or more) on purchase of the property; Demonstrated ability to accumulate savings and a conservative attitude toward the use of credit; Previous credit history showing an ability to devote a greater portion of income to housing expenses; The borrower receives documented compensation or income not reflected in effective income, but directly affecting the ability to pay the mortgage; There is only a minimal increase in housing expense; Substantial documented cash reserves (at least 3 months) after closing; Substantial non-taxable income (if no adjustment was made previously in the ratio computations); Potential for increased earnings, as indicated by job training or education in the borrower's profession; Purchase transaction as a result of relocation of the primary wage-earner, and the secondary wage-earner has an established history of employment, is expected to return to work, and the reasonable prospects exist for securing employment in a similar occupation in the new area.

➤ **Bankruptcy:** No Bankruptcy allowed within 2 years prior to loan application.

➤ **Credit Scores:** The following minimum credit score requirements apply regardless of the AUS decision:

- Loan amounts less than or equal to \$417,000: 620.
- Loan amounts greater than \$417,000 - \$650,000: 720.
- Loan amounts greater than \$650,000: 740.

For loan submissions with credit scores listed, at least one credit score, and preferably two or three credit scores, must be obtained for each veteran. The scores must be obtained from major repositories, such as Equifax, Experian, and TransUnion. Non-Traditional Credit ineligible. VA loans in community property states require a credit report for the non-qualifying spouse as well as for the qualifying spouse.

➤ **CAIVRS Requirement:** Perform and document a CAIVRS screening on each veteran and any co-obligor. An applicant cannot be considered a satisfactory credit risk if he or she is presently delinquent or in default on any debt to the federal government until the delinquent account has been brought current or satisfactory arrangements have been made between the veteran and the federal agency.

Trust One Mortgage – 300a VA Series

➤ **Downgrade Policy:** In the event that credit terms or loan information was not considered in the AUS decision, an Approve/Eligible or Accept decision must be downgraded to Refer and be manually underwritten. Circumstances requiring a downgrade, if not considered in the AUS decision, include but are not limited to: Delinquent federal debt, CAIVRS, and suspended and debarred individuals; Disputed accounts, significant inaccuracy or undisclosed debt; Previous mortgage foreclosure (within 3 years of application) and bankruptcy (within 2 years of application); Collection accounts, tax lien, charge-off, judgment; Delinquent items and any mortgage trade line, including mortgage line-of-credit payments, during the most recent 12 months consisting of any of the following: Three or more late payments greater than 30 days, One or more late payments of 60 days plus one or more 30-day late Payments, One payment greater than 90 days late; Bank statements that indicate multiple non-sufficient funds (NSF) charges (Example: more than 1 or 2 isolated incidents over a 60 day period. An explanation for such NSFs will be required and additional asset statements may be required to decision the loan); Failure to meet the specific conditions of an AUS approval.

➤ **Foreclosure:** No Foreclosure allowed within 3 years prior to loan application.

➤ **Restructured loans, Loan modifications, Short pay and Short refinances:** Ineligible. A restructured or short payoff loan is a mortgage loan in which the terms of the original transaction have been changed, resulting in either the absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan. Restructured loans result 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 investor 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. The following scenarios are a few common indicators that the loan may be a short payoff: The new loan amount is less than the current balance; The payoff amount on the final HUD-1 is less than the current balance; The payoff demand reflects a shortfall and uses the words “forgiven” or “payoff bonus”. To assist in identifying restructured or short payoff loans, the Investor may request the final HUD-1, payoff demand, or other evidence of the pay down or payoff source of funds.

DISASTER AREA: Refer to the Investor’s Disaster Areas for a comprehensive list of Presidentially declared areas subject to the disaster-area policy. Any loan closed prior to the disaster is eligible for VA guaranty without regard to the disaster. For a loan on a property located within the affected area to be eligible for VA guaranty, appraised on or before the date of the disaster, and not closed prior to that date, refer to and complete the VA Loan Guaranty Requirements for Disaster Areas form. Once an area is Presidentially declared for Individual Assistance and published by FEMA, one of three classifications of appraisal and re-inspection requirements is required.

➤ **Standard Procedures:**

- **Performed On or Before Incident Period End Date for Disaster:** Property must be re-inspected by the original appraiser or acceptable inspection source (such as, a nationally recognized field company or local professional licensed inspector). The appraiser/property inspector must provide the following commentary/evidence: Property is free from damage and the disaster had no affect on value or marketability; If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the Investor’s purchase of the loan.
- **Standard Appraisal Performed After Incident Period End Date for Disaster (Appraisal report forms 1004, 1004C, 1025, 1073, 2090):** If the property is free from damage: Preferably, all comparables should be post-disaster; however, if sufficient comparables are not available, the appraiser must provide current photos of the subject property and comparables. Multiple Listing Service (MLS) photos or photos used for previous appraisals are not acceptable. If the appraisal indicates damage: The extent of the damage must be addressed; Completion of repairs is required evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the Investor’s purchase of loan.
- **Non-standard Appraisals:** (Property Valuation Update, PIW, 1075, 2055, 2075, 2095): Not allowed for 12 months after the disaster incident period end date.

➤ **Expanded Procedures:**

- **Appraisal Performed On or Before Incident Period End Date for Disaster:** Property must be re-inspected by the original appraiser or, if not available, another licensed appraiser. No exceptions. The appraiser must provide the following commentary/evidence: Property is free from damage and the disaster had no affect on value or marketability; If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the Investor’s purchase of the loan; The completion of the Catastrophic Disaster Area Inspection form is not required; however, the appraisal must include a minimum of three comparable sales, post-disaster; Photos are provided of interior, exterior, and neighborhood; The Employment Verification Certification form is not required; however, standard divisional procedures still apply.
- **Standard Appraisal Performed After Incident Period End Date for Disaster (Appraisal report forms 1004, 1004C, 1025, 1073, 2090):** Appraisal must include written certification by the appraiser that: Property is free from damage and the disaster has had no affect on value or marketability; If the appraisal indicates damage, the extent of the damage must be addressed. Completion of

Trust One Mortgage – 300a VA Series

repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the Investor's purchase of the loan; The completion of the Catastrophic Disaster Area Inspection form is not required; however, the appraisal must include a minimum of three comparable sales, post-disaster; Photos are provided of interior, exterior, and neighborhood; The Employment Verification Certification is not required; however, standard divisional procedures still apply.

- **Non-standard Appraisals:** (Property Valuation Update, PIW, 1075, 2055, 2075, 2095): Not allowed for 12 months after the disaster incident period end date.

➤ **Suspended from Purchase/Lending Activities:** These areas are identified as having damage significantly above and beyond common disaster situations. The damage suggests pervasive problems with housing values as a result of the disaster. Until further notice, loans secured by properties located in these areas will not be purchased by the Investor.

ESCROW (IMPOUNDS): An impound/escrow account must be established for all loans, regardless of the LTV or the state in which the loan was originated. Impounds are required for the following as applicable: Taxes; Borrower-paid insurances (Mortgage, Hazard, Flood insurance. Impound/Escrow accounts are not required for Home Owners Association (HOA) dues. Exceptions: LTVs \leq 80%, the purchase price for the loan will include an adjustment to the price; LTVs $<$ 90% for CA, the purchase price for the loan will include an adjustment to the price; Authorization for Impound Account Form required to be signed and included in the loan file for CA loans with LTVs $<$ 90%. Escrow funds may not revert to the party that established the escrow. If the property is sold subject to or on an assumption of the loan, prior to the completion of the buydown, the remaining funds held in escrow must continue to be paid out on behalf of the new owner.

FEES AND CHARGES:

➤ **Fees/Charges the Veteran Can Pay:**

- The VA Funding Fee;
- A maximum of: Reasonable and customary amounts for any or all of the Itemized fees and Charges designated by the VA, plus Reasonable discount points;
- Trust One origination fee not to exceed 1%;
- Trust One 1% flat charge (intended to cover all of Trust One's costs and services that are not reimbursable as "itemized fees and charges.");
- Trust One 2% flat charge (for Trust One supervising the progress of construction and/or making advances in excess of 50% of the loan).

➤ **Fees/Charges the Veteran Can Not Pay:** Appraisals requested by Trust One or the property seller for reconsideration of value; Appraisals requested by parties other than the veteran or Trust One; Attorney's fees; Brokerage fees; Consulting and Referral Fees; Flood zone determination made by Trust One to VA appraiser; Inspection fees; Prepayment fees of an existing loan (may not be paid with VA-guaranteed loan proceeds); Tax service fee.

➤ **Itemized Fees and Charges:** The veteran can pay any or all of the itemized fees and charges listed below, in amounts that are reasonable and customary. For services performed by a third party, the amount paid by the veteran cannot exceed the actual charge of that third party.

- Appraisals, including second appraisals requested by the veterans for reconsideration of value.
- Credit report or on AUS-decisioned loans, up to \$50 evaluation fee charged in lieu of a credit report. For "refer" recommendations the veteran may also pay the charge for a merged credit report.
- Flood zone determination: the veteran may pay for a life-of-the-loan flood determination service purchased at the time of loan origination.
- Hazard insurance premium including flood insurance, if required.
- Mortgage Electronic Registrations Systems (MERS) fee.
- Prepaid items such as taxes, assessments, and similar items for the current year chargeable to the veteran and the initial deposit for the tax and insurance account.
- Recording fees and recording taxes or other charges incident to recordation.
- Special mailing fees such as Federal Express®, Express Mail®, etc. for refinance transactions only.
- Survey, if required by Trust One or the veteran. Condominium surveys must have prior approval of the VA.
- Title examination and title insurance including environmental protection lien endorsement, if required by Trust One.
- Other fees as authorized by the VA.

➤ **Excessive Real Estate Commissions:** Any aggregate real estate sales commission greater than 8% of the sales price of the subject property is considered an excessive real estate commission. The portion of the aggregate commission greater than 8% must be deducted from the sales price for underwriting purposes.

Trust One Mortgage – 300a VA Series

FUNDING FEE: The VA funding fee must be paid by Trust One within 15 days of the loan closing. Paying the fee more than 15 days after the loan closes will automatically assess a 4% late fee. Fees more than 30 days late will automatically be assessed an interest charge in addition to the late fee. The VA funding fee may be financed. However, the maximum loan amount (including the financed funding fee) cannot exceed \$1,500,000. As a reminder, the additional requirements for loan amounts greater than \$417,000 will apply to the total loan amount which includes the funding fee, if financed. The following documentation is required as proof of the VA funding fee payment at the time of loan delivery: If the loan closed more than 45 days prior, a copy of the front and back of the check, or a copy of the ACH transmittal, including the Loan Guaranty Certificate (LGC) number, amount, and the date paid. The following tables list the percentages for the required VA funding fees for closing.

Purchase and Construction Loans			
Type of Veteran	Down Payment	Percentage for First-Time Use	Percentage for Subsequent Use
Regular Military	0 – 4.99%	2.15%	3.30%
	5 – 9.99%	1.50%	1.50%
	10% or more	1.25%	1.25%
Reserves/ National Guard	0 – 4.99%	2.40%	3.30%
	5 – 9.99%	1.75%	1.75%
	10% or more	1.50%	1.50%

Cash Out Refinance Loans		
Type of Veteran	Percentage for First-Time Use	Percentage for Subsequent Use
Regular Military	10/01/04 – 09/30/11: 2.15%	3.30%
Reserves/ National Guard	2.40%	3.30%

Other Types of Loans	
Type of Loan	Percentage for Type of Veteran Whether First-Time or Subsequent Use
Loan Assumption	0.50%
Energy Efficient Mortgages	Calculate the funding fee based on the full loan amount including the cost of the energy efficiency improvements based on the percentages listed in the above tables

FUNDING FEE EXEMPTION: A veteran must establish any claim for exemption from the fee. The following are the only exceptions allowed:

- Veterans receiving VA compensation for service-connected disabilities.
- Veterans who would be entitled to receive compensation for service-connected disabilities if they did not receive retirement pay.
- Surviving spouses of veterans who died in service or from service-connected disabilities (regardless of whether such surviving spouses are veterans with their own entitlements and whether they are using their own entitlements on the loan).
- Veterans who are rated by the VA as eligible to receive compensation as a result of pre-discharge disability examination and rating.

GEOGRAPHIC RESTRICTIONS: Eligible states AK, AZ, CA, CO, CT, GA, HI, ID, IN, MD, MI, MO, NV, NM, OK, OR, TX, UT, VA, WA, WY. See DISASTER AREAS for any additional guidelines.

HAZARD AND FLOOD INSURANCE: The following hazard insurance requirements apply:

- For hazard insurance, the amount of coverage must be equal to at least the principal balance of the new loan or replacement cost.
- All loans require a flood certificate from an approved flood insurance vendor.
- Flood insurance is required on all properties located in a Special Flood Hazard Area (SFHA).

Trust One Mortgage – 300a VA Series

LOAN GUARANTY ENTITLEMENT: The Investor’s maximum exposure, inclusive of the VA entitlement, is limited to 75% of the lesser of the sales price or appraised value. For loan amounts greater than \$1,094,625, this requires the veteran to provide a down payment. A minimum of 25% of the loan amount must consist of available guaranty. If less than 25% guaranty is indicated on the Loan Guaranty Certificate (LGC), the Client must attach a copy of the worksheet indicating the calculations used to determine the full 25% guaranty. The maximum guaranty is the lesser of the veteran’s available entitlement or the maximum potential guaranty amount detailed in the following table. The maximum guaranty for loan amounts > \$417,000 varies depending upon the location of the property.

➤**Time Frame to Obtain Insurance:** Effective with loans purchased on or after December 1, 2009, all government loans must be insured within ninety (90) days from the settlement date on the HUD-1 Settlement Statement. This insurance requirement will be verified as follows: VA loans require the submission of the Loan Guaranty Certificate. Documentation submission for VA must occur within the ninety (90) day timeframe to avoid a repurchase obligation with respect to the affected loan. At the sole discretion of the Investor, Investor reserves the right to shorten the allowable time frame for government loan insuring at the Client level with prior written notice.

Loan Amount	Max Potential Guaranty
≤ \$45,000	50% of the loan amount
\$45,001 to \$56,250	\$22,500
\$56,251 to \$144,000	40% of the loan amount or maximum of \$36,000
\$144,001 to \$417,000	25% of the loan amount or maximum of \$104,250
\$417,001 to \$1,500,000	25% of the loan amount or maximum \$273,656

OCCUPANCY: Veterans purchasing a primary residence, refinancing, or improving their home must certify that they intend to live in the home. If the buyer is on active duty, a spouse may certify occupancy. Single or married service members deployed from their permanent duty station are considered to be in a temporary-duty status and are able to certify intent to occupy. There is no need to have a spouse, if applicable, certify occupancy.

- Primary Residence: 1-4 units. Loan amounts > \$417,000 1 unit only.

PROPERTY REQUIREMENTS:

➤**Eligible:**

- 1-4 unit SFR.
- PUD.
- Condominium (VA approved). VA project review will be required. Condominium projects previously accepted by VA, based upon HUD/FHA acceptance, will continue to be acceptable to VA.
- HUD-owned properties that were underwritten to HUD guidelines.
- Rural properties eligible in California only.

➤**Ineligible:**

- Manufactured Home/Mobile Home/Modular Home/Pre-fabricated Home.
- Commercial enterprises
- Boarding houses, hotels, motels, and tourist homes
- Private clubs
- Sanitariums
- Fraternity and sorority houses
- Condotels
- Cooperatives
- Log homes

➤**Converting Primary Residence into Investment Property:**

- If the veteran is converting a current principal residence to an investment property upon purchase of a new principal residence, the following requirements apply: both the current and proposed monthly housing expenses must be used to qualify; rental income may not be used to offset the mortgage payment; evidence of cash reserves totaling 6 months PITI for both properties must be provided.

Trust One Mortgage – 300a VA Series

- The following exceptions allow the veteran to qualify using 75% of the gross rental income to offset the mortgage payment and the reserve requirement is waived: The veteran is relocating with a new employer, or is transferred by the current employer to an area not within a reasonable and locally recognized commuting distance, or The veteran has documented equity of at least 30% in the existing property.
- **Pending Sale of Real Estate:** In instances where the veteran intends to sell the property but it will not close before the purchase of a new principal residence occurs: The principal, interest, taxes and insurance (PITI) on both the pending sale and the subject new property must be included in qualifying the borrower AND the following documentation must be obtained: Cash reserves totaling at least six months PITI for both properties **or** Cash reserves totaling at least two months PITI for both properties if able to document equity of a least 30% in the existing property. Acceptable documentation for determining the equity position is either an appraisal from an approved Investor Appraiser or an AVM. Note: The PITI of the pending sale does not need to be included in qualifying the borrower as long as the six months of reserves (or two months with documented equity) for both properties are documented and the following additional documentation is provided: The executed sales contract for the current residence and Confirmation that any financing contingencies have been cleared.
- **Conversion of Principal Residence to a Second Home:** If the veteran is converting a current principal residence to a second home upon purchase of a new principal residence: Both the current and proposed principal, interest, taxes and insurance (PITI) must be used to qualify the borrower for the new loan; and Minimum reserves of six months PITI for both properties are required. However, only reserves of two months PITI are required for both properties if 30% equity in the existing principal residence is documented with: An appraisal from an approved Investor appraiser or An automated valuation method (AVM).

QUALIFYING: Maximum qualifying debt-to-income ratio is 41%. Ratio may be exceeded with an acceptable AUS certificate.

- Effective for all loans submitted May 20, 2010 or later: The following scenarios require an exception from the Trust One Underwriting Manager, as well as a QC review: Any loan with DTI > 50; Any loan with FICO < 640; Any loan where the borrower currently has a loan with the Investor (whether or not it is being paid off). Loans with these situations may or may not be granted an exception. In order for an exception to be granted, at least 3 of the following compensating factors must be present: Established history for the past 12-24 months of housing expense greater than or equal to the proposed housing payment; Significant cash down payment (10% or more) on purchase of the property; Demonstrated ability to accumulate savings and a conservative attitude toward the use of credit; Previous credit history showing an ability to devote a greater portion of income to housing expenses; The borrower receives documented compensation or income not reflected in effective income, but directly affecting the ability to pay the mortgage; There is only a minimal increase in housing expense; Substantial documented cash reserves (at least 3 months) after closing; Substantial non-taxable income (if no adjustment was made previously in the ratio computations); Potential for increased earnings, as indicated by job training or education in the borrower's profession; Purchase transaction as a result of relocation of the primary wage-earner, and the secondary wage-earner has an established history of employment, is expected to return to work, and the reasonable prospects exist for securing employment in a similar occupation in the new area.
- **5/1 ARM:** Qualify using the initial note rate.

REFINANCE TRANSACTIONS: NOTE: VA IRRRL not allowed. The following requirements are applicable to "no-cash-out" and "cash-out" refinance transactions:

- **Properties Listed for Sale:** Refinances on properties listed for sale are not permitted. Properties previously listed for sale must have been off the market and the listing canceled in the time frames described below:
 - **Rate and Term Refinances:** The listing agreement must be canceled at least one day prior to the date the loan application is taken.
 - **Cash Out Refinances:** Listing agreements on the subject property must be canceled six months prior to the loan application date or the loan is subject to a maximum loan-to-value of 70%.
 - In all circumstances, listing agreements must be canceled prior to the loan application. A copy of the canceled/expired listing should be placed in the file and a search of the current multiple listing service should be completed to verify that the property is not currently listed by a different agency.
- A payoff demand statement is required and must reflect that the loan is not more than 30 days delinquent, does not contain charges associated with default/forbearance, does not indicate a curtailment of principal/interest (short pay), and meets the mortgage derogatory requirements.

Trust One Mortgage – 300a VA Series

➤ **Cash Out refinance:** A VA-guaranteed cash-out refinance may be used to pay off any type of lien or liens against the secured property. The liens to be paid off may be current or delinquent and may be from any source (for example, VA, FHA, or conventional mortgages and/or tax judgments/liens). The veteran must have ownership rights to the property with the existing lien. Free and clear properties are ineligible.

- **Maximum Loan-to-value:** Up to 90% of the value of the property indicated on the Notice of Value (NOV) plus the cost of any energy-efficient improvements (less than or equal to \$6,000) plus the VA funding fee. Cash proceeds from loan may be used to pay fees, charges, and discount points. If paid from loan proceeds, the total of the following items cannot exceed 90% of reasonable value: Payoff of liens, Fees and charges, other than VA funding fee, Reasonable discount points, Cash to the veteran.
- **Max cash out:** Loan amount < \$417,000, unlimited. Loan amount > \$417,000, \$325,000.
- **Geographic restrictions:** VA cash-out loans not allowed in Texas. Effective January 1, 2003, the VA requires that purchase-transaction loans secured by properties located in Fallon, Nevada, and serviced by the City of Fallon Municipal Water System include a veteran-signed "Purchaser Acknowledgement and Release" form. For additional information, contact your local VA office.

RESERVES: The following reserve requirements must be met for purchases and refinances:

- Up to \$417,000: Reserves not required.
- \$417,001-\$650,000: 6 months reserves required.
- \$650,001-\$1,500,000: 12 months reserves required.

SECONDARY FINANCING: Secondary financing is acceptable as long as the veteran is not placed in a substantially worse position than if the entire amount borrowed had been guaranteed by VA. New and existing subordinate financing are allowed as long as the CLTV does not exceed LTV limits. In addition, the following requirements must be met:

- **Simultaneous:** Secondary financing must be obtained simultaneously with the VA-guaranteed first mortgage, both secured by the same property.
- **Documentation:** Trust One must submit documentation disclosing the source, amount, and repayment terms of the second mortgage and agreement to such terms by the veteran and any co-obligors.
- **Lien Positions:** The second mortgage must be subordinated to the VA-guaranteed loan.
- **Allowable Purposes:** The proceeds of the second mortgage may be for items such as, but not limited to: Closing costs; A down payment to meet secondary market requirements of Trust One. Secondary financing may not be used to cover any portion of a down payment required by VA to cover the excess of the purchase price over the VA's reasonable value.
- **Cash Back:** There can be no cash back to the veteran from the VA first or second mortgage obtained simultaneously.
- **Underwriting:** The veteran must qualify for the second mortgage which is underwritten as an additional recurring monthly obligation.
- **Interest Rate:** The interest rate on the second mortgage may exceed the rate on the VA-guaranteed first; however, it may not exceed industry standards for second mortgages.
- **Assumability:** The second mortgage must be assumable by creditworthy purchasers.
- **Grace Period:** There should be a reasonable grace period before: A late charge comes due; or, Commencement of foreclosure proceedings in the event of default.
- **Unusual Terms:** Second mortgages bearing unusual terms, interest rates, etc. are sometimes offered. Consult the VA if it is unclear whether the terms of the second mortgage meet VA standards.