Trust One Mortgage – *400d FHA Series*

Product Type & Program Numbers:
FHA programs 203(b): 1-4 unit family, and 234(c): Condo unit

- 400d – 30-year Fixed Rate FHA
- 400dS – 30-year Fixed Rate FHA Streamline
- 400Hd - 30-year Fixed Rate FHA High Balance
- 450d - 30-Year 5/1 FHA ARM
- 450Hd – 30-Year 5/1 FHA ARM High Balance
- 415d – 15-year Fixed Rate FHA
- 415dS– 15-year Fixed Rate FHA Streamline
- 415Hd – 15-year Fixed Rate FHA High Balance
- 450dS – 30-Year 5/1 FHA ARM Streamline
- 450HdS – 30-Year 5/1 FHA ARM High Balance Streamline

UNDERWRITING CRITERIA: Loans must be underwritten by an FHA Delegated Lender. May follow AUS decision and documentation requirements. Streamline Refinance loans are ineligible for submission to an automated underwriting System and must be manually underwritten.

➢**Underwriting HUD Employee Loans:**

- If the applicant is an employee of HUD or a member of a HUD-employee's household (spouse, parent or child), the application must be submitted to the Homeownership Center for prior approval processing.
- The case number must be ordered via the FHA Connection as "HUD Processed" by entering "203" as the Section of the Act.
- The FHA Delegated Lender should first review the loan file but not issue a decision.
- Submit a copy package of the credit file including the appraisal to the HOC in a bright colored binder clearly marked "HUD EMPLOYEE LOAN"
- DO NOT SEND ORIGINALS. HUD will not return the package.
- Copies must be stamped as "true and certified" copies of the originals.
- Only the DE Underwriter is permitted to contact the HOC to discuss.

➢**Underwriting the HUD REO Loan (including properties sold under Special sales Incentives):**

- The property is underwritten the same as other FHA mortgages.
- Credit is evaluated the same as other mortgages, including calculation of the maximum mortgage, except the standard minimum investment requirement does not apply. This means the maximum LTV calculation does not apply.
- Complete the FHA Loan Underwriting and Transmittal Summary (HUD Form 92900-LT) the same as for any other purchase transaction.
- Primary Residence only, Investment Properties not allowed.

➢**Automated Underwriting System/FHA TOTAL Scorecard:** The Automated Underwriting System **may** return an Ineligible recommendation due to the higher LTV and base mortgage amount. If the sole reason for the ineligibility is the LTV and the base mortgage amount: The Underwriter must make appropriate comments on the DU findings report next to the condition and in the Remarks section of the FHA Loan Underwriting and Transmittal Summary and proceed with the transaction. Trust One may score streamline refinance transactions through TOTAL Scorecard. Purchase credit-qualifying streamline refinance loans only are eligible and therefore all values for income, assets and appraised value (if applicable) submitted through TOTAL must be verified. Submission of Streamline Refinance loans to TOTAL Scorecard is an available option but not required. Trust One is reminded that system updates to TOTAL Scorecard may lag this effective date, which may cause inaccurate messages related to Up Front MIP (UFMIP) premiums. However, Trust One is responsible to comply with UFMIP requirements.

MAXIMUM LOAN LIMITS: Maximum Base Loan Amount cannot exceed the FHA Statutory Mortgage Limits for each county and under no circumstances will a county's mortgage limit be less than the "floor" or greater than the "ceiling" as outlined in the tables below. The lowest minimum "floor" loan amounts for the FHA High-Balance products will be based on the Base Loan Amount and not the Total Loan Amount that includes financed Up-Front Mortgage Insurance (UFMIP).

Standard Loan Limits		**Lowest Maximum ("floor")**	**Highest Maximum ("ceiling")**
Continental US	1 unit	$271,050	$417,000
	2 unit	$347,000	$533,850
	3 unit	$419,400	$645,300
	4 unit	$521,250	$801,950
Alaska & Hawaii	1 unit	N/A	$625,500
	2 unit		$800,775
	3 unit		$967,950
	4 unit		$1,202,925

Trust One Mortgage – *400d FHA Series*

Purchase Mortgages using Sections 203b and 234c, (excluding purchase transactions which do not permit maximum financing), Maximum Base Loan Amount is calculated as the lesser of: • Sales price or appraised value. • Minus any adjustments for excessive seller contributions/inducements to purchase. • Multiplied by the appropriate LTV factor. Purchase Transactions not Permitting Maximum Financing (e.g., some identity of interest, non-occupant co-borrower transactions), Maximum Base Loan Amount is calculated as the lesser of: • Sales price or appraised value. • Plus borrower paid allowable closing costs. • Multiplied by the appropriate LTV factor. Refinance Transactions: Refer to HUD Handbook 4155.1 Rev 5 and the Refinance Section for more details on calculating the maximum mortgage for refinance transactions.

High Balance Loan Limits:		**Lowest Maximum (“floor”)**	**Highest Maximum (“ceiling”)**
Loan limits vary by county. To look up FHA mortgage limits for all areas go to: https://entp.hud.gov/idapp/html/hicostlook.cfm, or see ARRA FHA 2010 Loan Limits in Chapter 18 or on the Trust One website.			
Continental US	1 unit	$417,001	$729,750
	2 unit	$533,851	$934,200
	3 unit	$645,301	$1,129,250
	4 unit	$801,951	$1,403,400
Alaska & Hawaii	1 unit	$625,501	$1,094,625
	2 unit	$800,776	$1,401,300
	3 unit	$967,951	$1,693,875
	4 unit	$1,202,926	$2,105,100
Purchase Mortgages using Sections 203b and 234c, (excluding purchase transactions which do not permit maximum financing), Maximum Base Loan Amount is calculated as the lesser of: • Sales price or appraised value. • Minus any adjustments for excessive seller contributions/inducements to purchase. • Multiplied by the appropriate LTV factor. Purchase Transactions not Permitting Maximum Financing (e.g., some identity of interest, non-occupant co-borrower transactions), Maximum Base Loan Amount is calculated as the lesser of: • Sales price or appraised value. • Plus borrower paid allowable closing costs. • Multiplied by the appropriate LTV factor. Refinance Transactions: Refer to HUD Handbook 4155.1 Rev 5 and the Refinance Section for more details on calculating the maximum mortgage for refinance transactions.			

LTV LIMITS:

Purchase				
Units	**Maximum Base LTV**	**Total LTV (including UFMIP)**	**Max CLTV w/Sec Fin from Govt Agency/Non-Profit considered an instrumentality of government**	**Max CLTV W/Sec Fin from a non-profit Govt Agency not considered an instrumentality of government**
1 – 4 units	96.5%	100%	100% or Cost to Aquire	96.5% of Appraised Value or sales Price

Refinances					
Refinance Type	**Max Base LTV**	**Total LTV (including UFMIP)**	**Max CLTV (subordination of existing 2nd lien)**	**Max CLTV (new second lien)**	**Statutory County Limit**
Streamline without Appraisal	N/A	N/A	125%	Not Eligible	Does not apply
Streamline with Appraisal	97.75%	100%	125%	Not Eligible	Does not apply
Rate & Term	97.75%	100%	Unlimited Effective 9/7/10: 97.75%	Unlimited Effective 9/7/10: 97.75%	Effective 9/7/10: Combined total loan amounts of 1st & subordinate liens are limited to Statutory County Loan Limit
Cash Out	85.00%	87.25%	Unlimited Effective 9/7/10: 85.00%	85.00%	Effective 9/7/10: Combined total loan amounts of 1st & subordinate liens are limited to Statutory County Loan Limit

- Purchase Mortgages using Sections 203b and 234c (excluding purchase transactions which do not permit maximum financing), regardless of the property state: Maximum Base LTV is 96.5%; Maximum LTV (after adding *financed* UFMIP) is 100%.
- Purchase Transactions not Permitting Maximum Financing: Compute LTV based on appropriate program calculations. Refer to HUD handbook 4155.1 Rev 5 Section 1-8.
- Refinances and Purchase Transactions not Permitting Maximum Financing: Compute LTV based on appropriate program calculations. Refer to HUD Handbook 4155.1 Rev 5 Section 1-8 for more details.
- Purchase Transactions involving $100 Down Payment on HUD REO Properties: The total loan amount after adding UFMIP may exceed 100% of the appraised value up to: 101.75% without inclusion of repairs OR 110% with inclusion of repairs (203b with Repair Escrow).
- Effective 9/7/10: Rate & Term and Cash-out refinance transactions: the sum of all loan amounts including the new FHA base loan amount and any junior liens may not exceed the statutory county loan limit where subject property is located. If the junior lien is a home equity line of credit the maximum combined loan amount is based on the full credit-line amount.

ADJUSTABLE LOAN FEATURES:

- One Year Constant Maturity Treasury (CMT)
- Margin: 2.00% or 2.25%.
- Annual/Adjustment Cap: 1.00%.
- Life Cap: 5.00%
- Rate at Adjustment: Initial note rate is in effect for 60 to 66 months. Thereafter, the annual adjustment cap as listed above begins with the first adjustment. Rate is equal to the note margin plus index rounded to the nearest .125%. Subject to annual/life caps.

APPRAISAL: Effective for all FHA case numbers assigned on or after 2/15/2010, Trust One is implementing the requirement of using an AMC to order FHA appraisals. Trust One is requiring all appraisals to be ordered on-line through, **Collateral Appraisal Management, LLC**, 108 Pacifica, Ste. 290, Irvine, CA 92618; www.CAManagement.net; Office: (949) 453-8284; Fax: (949)453-0035. Appraisers must be on FHA's approved list on the FHA Connection. When required, the second appraisal must also be completed by an FHA Approved Appraiser using Freddie Mac/Fannie Mae Form 70/1004. The FHA Connection must indicate the Appraiser has passed the Mandatory Appraiser exam. The assigned appraiser must perform the physical inspection of the property. He/she may not sign the appraisal performed by another appraiser. The March 2009 version of the Fannie Mae/Freddie Mac form 1004MC, "Market Conditions Addendum to the Appraisal Report" must be included with all FHA (including rural housing) appraisals. Effective for all case numbers assigned on or after January 1, 2010, the validity period for all appraisals on existing and proposed and under construction properties will be 120 days. Effective for FHA Case Numbers assigned on and after January 1, 2010, are the New Appraiser Independence and other requirements. Trust One must become familiar with HUD's Mortgagee Letters #2009-28, #2009-29 and #2009-30 setting forth additional requirements around appraisals, among others: "To ensure appraiser independence, FHA-approved lenders are now prohibited from accepting appraisals prepared by FHA Roster appraisers who are selected, retained or compensated in any manner by a mortgage broker or any member of a lender's staff who is compensated on a commission basis tied to the successful completion of a loan." HVCC rules do not apply.

➢**Appraisal Portability:** As announced in HUD Mortgagee Letter 2009-29, for transactions where a borrower has switched lenders, the first lender must transfer the case to the second lender, including the appraisal report. FHA recognizes that the second lender may need to order a new appraisal, but this is allowed only under limited circumstances: The DE underwriter for the second lender found material defects with the original appraisal; The original appraiser is on the second lender's exclusionary list; The first lender failed to provide a copy of the appraisal in a timely manner, which causes potential harm to the borrower for events outside of the borrower's control. The events include rate lock expiration, purchase contract deadlines, and foreclosure proceedings.

➢**Appraisal Update and/or Completion Report:** Effective for FHA Case numbers assigned on or after 2/15/2010, The Federal Housing Administration (FHA) is adopting the Appraisal Update and/or Completion Report, Fannie Mae Form 1004D/Freddie Mac Form 442/March 2005.

- **Part A - When to Use the Appraisal Update Report:** To extend the validity period of an existing appraisal that is due to expire and when lender does not want to order a new appraisal report; or, to extend the validity period of an existing appraisal for new construction that is incomplete. **When the Appraisal Update Report May Not be Used:** The property has declined in value; or, the building improvements that contribute value to the property cannot be observed from the street or a public way; or, the exterior inspection of the property reveals deficiencies or other significant changes that did not exist as of the effective date of the appraisal report being updated.
- **Part B: When to Use the Completion Report:** To report the completion of a repair and/or the satisfaction of requirements and conditions noted in the original appraisal report referenced in the header of the Summary Appraisal Update and/or Completion Report. **When the Completion Report May Not be Used:** The Completion Report may not be used in lieu of form HUD-92051, Compliance Inspection Report, for new construction and manufactured housing.

Refer to MORTGAGEE LETTER 2009-51for further details.

➢**HUD REO Properties:** All appraisals utilized to establish the listing price on an REO property owned by HUD will be valid for a period of 120 days from the effective date of the appraisal. If a buyer is financing the purchase with a FHA insured mortgage, a valid HUD REO sale contract must be ratified (fully executed) within 120 days of the appraisal's effective date or the mortgagee must order a new appraisal or have an appraisal update performed in accordance to the guidance provided in FHA Mortgagee Letter 2009-51. When a buyer is using FHA financing to purchase a HUD REO property, the appraisal that was utilized in determining the list price will remain effective for purposes of obtaining the FHA-insured mortgage. A second appraisal may not be ordered to support a higher purchase price due to bidding that is higher than the value indicated on the current HUD REO appraisal. A second appraisal can only be ordered to support a higher sales price if there is material defectiveness with the current HUD REO appraisal or the current appraisal will not be valid on the date of contract ratification. Repairs that affect livability, safety or structural soundness must be completed prior to closing for all HUD REO properties. Condominium HUD REO: Investor requires a Lender Certification for Individual Unit Financing for HUD REO properties.

➢**Property Flipping:**

- **Re-Sale within 90 days:** Generally not permitted if the property is being re-sold within 90 days after acquisition by the seller unless one of the following scenarios apply:
  - The transaction involves a property that has been inherited.
  - The transaction involves the re-sale by HUD or other acceptable federal agency of its REO property.
  - The re-sale is by an employer or relocation agency in connection with the relocation of the employee.
  - The builder is selling a newly built home or is building a home for the Borrower.
  - In addition to the above, the following scenarios will be exempt from the 90 day ownership rule: Property re-sales by State and Federally chartered financial Institutions (e.g., banks and Savings & Loans); Government-Sponsored Enterprises (GSE) (e.g., Fannie Mae and Freddie Mac); Sale of properties by Local and State Government agencies; Sale of properties by non-profit organizations approved to purchase HUD Real Estate Owned (REO) properties at a discount.
  - If the property was acquired by the seller within the most recent 90 days and the seller is one of the entities exempt from the 90 days lock-out period, FHA will permit the processing of the loan to proceed. As a reminder, except for the scenarios listed above, FHA will not grant any exception to time restrictions on re-sales within 90 days after acquisition.
- **Re-sales within 91 and 180 days:** Properties sold within 91 days and 180 days after acquisition by the seller are eligible provided certain additional requirements are met: If the re-sale value is 5% or more over the purchase price, a second appraisal must be obtained to support the value. Form 2055 is not allowed. In addition to a second appraisal, compliance with 24 CFR Part 203 Form may also be attached to document the cost and extent of rehabilitation that went into the property resulting in the increased value. This form is not mandatory.
- **Properties Acquired for $1:** If the seller acquired a property for $1 through a deed transfer more than 90 days ago and is now selling the property for the market price, a second appraisal will be required to be completed for the transaction.
- **Exemptions to Sale of Properties in Presidential Declared National Disaster Areas**: Sales of properties within Presidential-Declared Disaster Areas may be exempted. A property will be exempted only if FHA issues a mortgagee letter announcing the eligibility of properties affected by that specific disaster. Therefore, while the President may issue a statement declaring a federally recognized Disaster Area, no loans can be originated until HUD has issued a Mortgagee Letter for that specific disaster. The Mortgagee Letter will specify how long the exception will be in effect and the specific disaster area affected.

➢**Rate and Term/Cash Out Refi:** A new appraisal is always required. All property conditions must be satisfied prior to closing.

➢**Second Appraisal:**

- A second appraisal is still required when a property is resold between 91 and 180 days following acquisition by the seller, if the resale price is 100 percent (or more) higher than the price paid by the seller when the property was acquired. Trust One must obtain a second appraisal from another appraiser and the cost of the second appraisal may not be charged to the homebuyer.
  - For 1-unit, detached dwellings, the second appraisal may be an exterior only appraisal completed on Fannie Mae Form 2055 and must still be completed by an FHA Approved Appraiser.
  - If the value is more than 5 percent lower than the original appraisal, the lower value is used when determining the maximum mortgage.
  - If an exterior only appraisal is used, any repair requirements noted in the original full appraisal must be complied with.
  - If a full appraisal is used, and if the required repairs on the second appraisal are different from those noted on the original appraisal, the DE Underwriter must reconcile and address the repairs /conditions in each appraisal.
  - Refer to the National HOC Reference guide.
  - Appendix D of Handbook 4150.2, CHG-1, Valuation Analysis for Home Mortgage Insurance for Single Family One- to Four-Unit Dwellings, has been updated and becomes effective for all appraisals performed on or after January 1, 2006. Revised Appendix D will be available online at: http://www.hudclips.org/cgi/index.cgi
  - All valuation conditions, including repairs, alterations and/or required inspections, will be reported within the appropriate section of the applicable Fannie Mae appraisal reporting form.

➢**Streamline Refinance With an Appraisal:** A new appraisal is always required. Inform the appraiser that the loan is a streamline refinance. No repairs required unless health and safety or lead based paint related. Any necessary repairs must be completed prior to closing. No termite certification is required. Termite related repairs are considered health and safety issues. If an appraisal is ordered but the borrower decides to proceed with a streamline without an appraisal, the appraisal may be voided. If it is determined that it is in the best interest of the borrower not to use the appraisal the case type in the FHA Connection must be changed to reflect that the case number is a streamline refinance without an appraisal. DE Underwriter must make a notation on the MCAW indicating that it was in the borrower's best interest to proceed without an appraisal.

➢**Third Party Originator:** Generate an AVM and review as part of the underwriting process. Generate an AVM and review as part of the underwriting process; OR perform an enhanced desk review with 2 additional s; OR perform a drive-by appraisal. In addition to reviewing the valuation provided by the model, Client should focus on recent comparable properties that may not have been used by the appraiser.

ASSETS/FUNDS TO CLOSE/DOCUMENTATION:

➢**Amended Tax Returns:** Tax returns that are amended and filed by the borrower with the IRS are acceptable in the following circumstances:

- **Tax Returns Filed Prior to the Loan Application Date:** Tax returns that are filed prior to application are acceptable for underwriting purposes. Both the original filed return and the amended return are required. If the file was amended 60 days or less prior to the application, evidence of payment must also be provided.
- **Tax Returns Filed After the Loan Application Date:** Tax returns filed after the application date may be acceptable when accompanied by the following: a letter of explanation regarding the reason for the re-file, evidence of filing, payment (and the ability to pay the tax if the check has not cancelled). The original tax return and the amended tax return will be closely examined for consistency with previous filings to determine whether or not the use of the amended return is warranted. In addition, if the borrower requires the amended income for qualification, an exception must be submitted and approved for the use of the amended income. A copy of the original and amended tax returns must be submitted with the exception. When using an amended return after application the underwriter must provide justification and commentary on the 1008 regarding its use.

➢**Borrower Investment:**

- Purchase Transactions with Maximum Financing: Minimum down payment is 3.5% of the sale price or appraised value, whichever is less. The 3.5% cannot be met by borrower-paid closing costs, prepaid expenses, commitment fees or discount points or premium pricing.
- Refinances and Purchases not Permitting Maximum Financing: No minimum borrower investment necessary.
- Premium Pricing: Prepaid expenses and/or closing costs may be paid with premium pricing. Lender funded buydowns may be paid with premium pricing as long as reduction is limited to 2% below the note rate.

➢**Documents:** Effective January 2, 2010, per Ginnie Mae requirement, case numbers must be evidenced on all Security Instruments (SI), collateral documents, and applicable riders. Ginnie Mae 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 can be obtained from FHA Connection.

➢**Excessive Marketing Fees:** Total real estate commissions and marketing fee payouts (in cash or in kind) that exceed 8% of the sales price are considered excessive and must be deducted from the sales price for underwriting purposes. Total commissions/marketing fees include but are not limited to: marketing fees, finder's fees, referral fees, consulting fees, and assignment of sales fees. It is not permissible to omit these fees from the Settlement Statement.

➢**First Time Homebuyer Tax Credits:** With regards to HUD Mortgagee Letter 2009-15, where ARRA provides for as much as an $8,000 tax credit to qualified first-time homebuyers, and FHA in support of this initiative allows the tax credit to be used for downpayment, this tax credit **IS NOT ELIGIBLE** for use as downpayment on the 400d series of programs.

➢**Gifts:** Acceptable. Gift given in the form of CASH is not acceptable. Federal, State, local government agencies and FHA Approved non-profit agencies considered by FHA to be an instrumentality of the government may provide funds for down payment, closing costs and prepaid expenses. Charitable organizations may provide gift funds for down payment, closing costs and/or prepaid expenses. Funds derived from these sources cannot be used to payoff borrower's debts. Obtain Tax Identification Number for the charitable organization. Prior to loan underwriting approval, the Investor must review the non-profit's gift documentation to ensure no repayment is required and no liens will be placed on the subject property as a result of the gift. Refer to HUD Handbook 4155.1 Section 5 for details.

➢**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:** Most recent paystubs covering 30 consecutive days.

➢**IRS Form 4506-T:** A completed and signed 4506-T form with acceptable results is required for all borrowers regardless of AUS findings. IRS Form 4506T must be processed and income validated for most recent 2 years (tax transcripts) or 1 year for AU loans requiring less than 2 years of income and employment verification. Information provided by the IRS in response to Form 4506T must be evaluated and any significant differences must be reviewed, resolved and detailed comments regarding the resolution must be documented on the 1008 by the underwriter. The validated tax transcripts must be included in the file for purchase. The form must not expire before a reasonable time to allow processing, if needed. Section 5 which identifies the third party requesting the information from the IRS should be completed with Trust One's name and the following language "its successors or assigns". Box 6a should only be checked on all requests. In some circumstances and after completion of the loan review, the Investor may require Trust One to obtain a signed IRS Form 4506-T with Box 8 checked to obtain Form W-2 or Form 1099 series transcripts. This may be required when borrower was not required to file tax returns. In addition, the borrowers must sign a new IRS form 4506T at closing to allow for possible post funding QC, to be included in the closed loan delivery.

Effective immediately, for loans receiving an Approve recommendation, obtain tax transcripts for the number of years of income documentation required on the DU Findings Report. Investor requires the most recent Tax Return Transcript for all borrowers.

- For loans underwritten before June 15, 2010, if the borrower has filed their 2009 tax returns, and the tax transcripts are not yet available, the tax transcript request will be returned from the IRS and reflect "No Record Found", the following must be provided: 2009 Tax Transcript showing "No record or return filed"; and, Copy of the 2009 Tax Return; and, For Salaried Borrowers: a 2008 tax transcript, current paystub and 2009 W-2; For Self-Employed Borrowers: a 2008 tax transcript and a 2009 P&L. Please see below if borrower filed an extension.
- For loans underwritten on or after June 15, 2010, Trust One must provide the 2009 Tax Return Transcripts. If a borrower has filed an extension, the following must be provided: Evidence that the extension was filed and evidence of tax payment; and, A 2009 Tax Transcript showing "No record or return filed"; and, For Salaried Borrowers: a 2008 tax transcript, current paystub and 2009 W-2; For Self-Employed Borrowers: a 2008 tax transcript and a 2009 P&L.
- If a borrower is not required to file a 2009 tax return and the source of income cannot be validated through the 4506-T process, alternative documentation must be obtained. Examples of documentation include 1099 transcripts or an award letter with a bank statement.
- FHA Streamline: Tax transcripts must be obtained for the most recent year preceding the loan application date.
  - For loans underwritten before June 15, 2010, if the borrower has filed their 2009 tax returns, and the tax transcripts are not yet available, the tax transcript request will be returned from the IRS and reflect "No Record Found", the following must be provided: 2009 Tax Transcript showing "No record or return filed"; and, Copy of the 2009 Tax Return; and, For Salaried Borrowers: a 2008 tax transcript, current paystub and 2009 W-2; For Self-Employed Borrowers: a 2008 tax transcript and a 2009 P&L. Please see below if borrower filed an extension.
  - For loans underwritten on or after June 15, 2010, Trust One must provide the 2009 Tax Return Transcripts. If a borrower has filed an extension, the following must be provided: Evidence that the extension was filed and evidence of tax payment; and, A 2009 Tax Transcript showing "No record or return filed"; and, For Salaried Borrowers: a 2008 tax transcript, current paystub and 2009 W-2; For Self-Employed Borrowers: a 2008 tax transcript and a 2009 P&L.

➢**Rate and Term/Cash Out Refinance:**
- Verification of Employment.
- Most recent pay stubs covering 30 consecutive days,

OR
- Telephone Verification of Employment.
- Most recent pay stubs covering 30 consecutive days.
- Two years W2s.
- IRS Form 4506T.
- The following is required if funds are needed to close: Verification of Deposit, Most recent bank statement; OR, Two months bank statements.

➢**Rental Income:** The guidelines used to determine acceptable rental income from each source are discussed below. Refer to the 4155.1 Rev 5 Sections 2-7 and HOC Reference Guide for complete guidelines on rental income documentation. Rental income received for properties owned by the borrower may be used for qualification purposes if the stability of the rental income is documented by one of the following sources: A current lease signed by all parties; or, An agreement to lease; or, A two-year property management history, with no unexplained gaps greater than three months, must be established to consider income for qualifying purposes. Net cash flow must be calculated as follows: For properties owned for one or more complete tax years, net cash flow must be calculated by using Schedule E from IRS form 1040. For properties owned less than one complete tax year, net cash flow must be calculated by using 75% of the actual rent established by copies of signed leases or percentage developed by the jurisdictional HOC, for vacancies and maintenance plus Homeowners' Association dues. A positive cash flow is added to gross income, negative net cash flow is added to total liabilities and used to qualify the Borrower. **Additional Requirements for Net Rental Income for Three to Four Unit Properties:** Net rental income of three and four unit properties must be greater than or equal to the projected monthly mortgage payment. The property must be self-sufficient.

➢**Seller Contributions:** 6%. Seller contributions limited to: Buy down funds (if applicable); Discount points; Seller-paid closing costs; Prepaid Expenses; UFMIP.

➢**Streamline Refinance:**
- Credit Qualifying Streamline Refinance: Telephone Verification of Employment; Most recent Pay stubs covering 30 consecutive days; Two years W2s; IRS form 4506T.
- Non-Credit Qualifying Streamline Refinance: Ineligible.
- No asset verification required.

➢**Termite/Pest Inspection:**
- FHA streamline refinance loans: A termite report is not required.
- FHA refinance other than streamline: A termite report is always required if the appraiser notes damage or possible infestation on the appraisal. This requirement cannot be waived.
- FHA purchase: A termite report is always required if the appraiser notes damage or possible infestation on the appraisal. This requirement cannot be waived. A termite report is always required if called for in the purchase contract. This requirement cannot be waived unless the purchase contract is modified to eliminate requirement for termite report. A termite report is required on all other purchase transactions in areas of "very heavy" probability and "moderate to heavy" probability of termite infestation. This requirement can be waived by the Underwriter. A termite report is at the discretion of the underwriter for purchase transactions in "slight to moderate" or "moderate to none" probability areas. All requests to waive termite report must be made prior to docs. The request for waiver must be signed by the borrower(s) and notarized with loan docs. When Underwriter conditions for a termite report, only the Underwriter or Underwriting Manage can waive the termite report.

➢**Third Party Origination:** Clients must perform a Verbal Verification of Employment (VVOE) For all employed borrowers, independently obtain the employer's phone number (directory assistance, 411.com, etc) and confirm the borrower(s) employment within 72 hours of closing. For all self employed borrowers, independently verify the existence of the business (directory assistance, 411.com, etc.). Execute and validate the 4506T and compare to income documentation in file.

➢**Validation of Qualified Parties to the Transaction:** A loan will no longer be purchased where companies or individuals who are material parties to the transaction listed on the Investor's Exclusionary List, General Services Administration (GSA) Excluded Party List or the HUD Limited Denial or Participation List (LDP) were directly or indirectly involved in the transaction. The Exclusionary List contains confidential information and may not be distributed to third parties. Material parties include but are not limited to: Borrower, Seller, Processor, Underwriter, Listing/selling Realtors, Builder, Loan Officer, Trust One and any additional employees involved in the transaction, Title Agent/Title Company, Closing Attorney/Settlement Agent/Settlement Company, Notary, Appraiser/Appraisal Company. Regardless of the reason for the party being excluded, any party to the transaction included on any of the above lists will be ineligible for purchase.

➢**VOD:** A written VOD cannot be used as standalone documentation to support assets. At least one month's bank statement is required on all loans regardless of AU decision.
➢**VOE:** A written VOE cannot be used as standalone documentation for Income verification. A pay stub with 30 days year-to-date income and W2 is required on all loans regardless of AU decision.

ASSUMPTIONS: Permitted. Credit worthy borrowers only.

BORROWER ELIGIBILITY: All borrowers must have a valid social security number. Validate the social security number using any one of the following: Pay stub; W-2; Passport; Valid tax returns. All borrowers must demonstrate 2 years of employment history.
➢**Co-Borrower:** Co-borrower does not have to occupy. Co-borrower must take title to the property AND sign the Note and the Mortgage. Co-signor does not take title to the property but must sign the loan application and the Note. The co-borrower or co-signor cannot be the seller, builder, real estate agent, etc. Loans involving non-occupant co-borrowers are subject to the following restrictions: One unit property if the LTV exceeds 75%; Co-borrower must be a close family member or have a long-standing relationship with the borrower; If the co-borrower is unrelated or does not have a long-standing relationship with the borrower, the maximum LTV is 75%; If a parent is selling to a child, the parent cannot also be the co-borrower with the child unless the new mortgage LTV is 75% or less. Income, assets and debts from all borrowers (including co-signors) are used in qualifying. Co-borrower must have a principal residence in the US. Refer to HUD Handbook 4155.1 Rev 5 for details.

- Cash Out Refinance: All borrowers must occupy subject property. May add a co-borrower or co-signer provided he/she occupies the subject property as his/her primary residence. The addition of an occupant-borrower is not limited to the original borrower's spouse. However, the additional borrower must occupy the property as his or her primary residence. (i.e. son/daughter of original borrower). The original borrower / property owner must be in title for a minimum of 12 months and must also be on the original note and mortgage. There are no exceptions. An additional occupant-borrower may be added at any time after the original borrower purchases the property, up to and including the closing of the new loan. (The original borrower must always meet the 12 month requirement for title and mortgage. The new occupant-borrower does not have to meet this requirement.) Non-Occupying Co-borrowers: Permitted only if the non-occupant co-borrower has been on title and on the mortgage note as a non-occupant co-borrower since the original financing of the purchase mortgage. Documents must be provided to evidence non-occupant co-borrower was on the purchase transaction (copy of purchase HUD-1 and copy of original note). Adding a non-occupant co-borrower or co-signer in order to meet credit underwriting guidelines is not allowed.
- Rate & Term Refinance Adding Co-borrowers: May add a co-borrower, co-signer or non-occupant co-borrower.

➢**Confirmation of Borrower's Identity:** Trust One will be required to confirm the identity of each borrower whose credit is material to the loan transaction prior to the extension of credit. Trust One must ensure that their Closing Agent, Notary Public or signing attorney, as appropriate, provide evidence in the file that the identification document included a photo and has been checked for each borrower.
➢**Non-Permanent Resident Aliens:** Primary residence. Borrower must be eligible to work in the U.S. Evidence of valid Social Security number required. Evidence of residency and work status to be obtained through documentation from US Bureau of Citizenship and Immigration Services (BCIS) formerly INS. Copy of the Employment Authorization Card, I-688B. This card carries an expiration date. A social security card is not acceptable as evidence of work status.
➢**Non-Purchasing Spouse in a Community Property State** (AZ, CA, ID, NV, NM, TX, WA)**:**
If property is located in a community property state, or the borrower resides in a community property state, the following requirements apply:

- A credit report for the non-purchasing spouse is required to determine any joint or individual debts. The spouse's authorization to pull a credit report must be obtained. If the spouse refuses to provide authorization for the credit report, the loan must be rejected.
- Even if the non-purchasing spouse does not have a social security number, the credit reporting company should verify that the non-purchasing spouse has no credit history and no public records recorded against him/her.
- Credit Company should be given non-purchasing spouse information: Name(s), address, birth date and any other significant information requested in order to do the records check.
- Except for those obligations specifically excluded by state law (AZ and NV: Exclude debts in DTI analysis if acquired prior to the marriage), the debts of the non-purchasing spouse must be considered in the qualifying ratios. If the debts are the sole responsibility of the non-purchasing spouse, do not consider debt in the DTI.
- The greater of the monthly payment amount or 5% of the outstanding balance if minimum payment is not reflected on credit report if the non-purchasing spouse must be included in the qualifying ratios.
- Disputed debts of the non-purchasing spouse need not be counted provided the file contains documentation to support the dispute.
- Credit history of the non-purchasing spouse should not be the sole basis for declining the loan. The FICO score for the non-occupying co-borrower is not considered for eligibility or MIP.

- Arizona: The satisfaction of collections and judgments of non-purchasing spouses for FHA loans in AZ will no longer be required under the following circumstances: The non-purchasing spouse is not contributing towards any of the down payment or costs on the transaction (including gifts or monies from joint accounts); The non-purchasing spouse signs the title disclaimer in order to prevent any judgments from attaching to the property. (Condition at closing); The non-purchasing spouse cannot sign the Deed of Trust/Security Instrument.
- California: All delinquent debts, including those of the non-purchasing spouse, must be satisfied prior to or at closing.
- Washington: Debts of the non-purchasing spouse are excluded from the qualifying ratios if the non-purchasing spouse receives no money from the transaction. When no funds are received from the transaction, the non-purchasing spouse may Quit Claim his/her interest to the purchasing spouse.

➢**Permanent Resident Aliens:** Same terms as US Citizens. Evidence of lawful, permanent residency issued by the Bureau of Citizenship and Immigration Services (BCIS), formerly the INS. Copy of the Alien Registration Receipt Card (Resident Alien card), I-551.

➢**Trust Agreements:** Inter Vivos (Living) Trusts, Refer to HUD Handbook 4155.1 Rev 5. Land Trusts, Acceptable in states in which they are legally permitted, (such as Illinois) as long as the true applicant mortgagor, the land trust beneficiary, executes the note, mortgage or deed of trust.

BUYDOWNS:

➢**Temporary:** Purchases. Maximum 1% per year. Maximum 2% below note rate. Ineligible on ARM loans.

CREDIT: AUS Approved loans – Credit evaluated by AUS, subject to clear CAIVRS, LDP and GSA search results. AUS Refer and manually underwritten loans – FHA Credit Standards apply, subject to clear CAIVRS, LDP and GSA search results. Refer to HUD Handbook 4155.1 Rev 5 for guidelines. Non-Purchasing Spouses – Refer HUD Handbook 4155.1 Rev 5.

➢**Credit Scores:** Regardless of AUS decision, the minimum FICO is 640 for purchase, rate/term refinances and cash out refinance transactions. Non-traditional credit ineligible. A minimum of two credit scores from two repositories are required. For 3 repository scores us the middle score. For 2 repository scores use the lower of the two. If two repositories report identical scores, that score will be used for qualification. One repository score is ineligible.

➢**Credit Qualifying Streamline Refinances:** Tri-merged in-file Credit Report to assess overall credit history. The minimum FICO is 640 including transactions with or without an appraisal. 12 month payments history or life of loan if property is owned less than 12 months via a credit report, cancelled checks, or VOM to reflect no more than 1X30 during the previous 12 months. All loans must be current and may not include the financing of any past due interest payments.

➢**Cash-Out Refinance:** Loan must be current for the month due. AUS and manually underwritten loans are ineligible if there are any housing payment delinquencies of 0x30 or greater within the past 12 months or life of loan, whichever is less. Obtain up to a 12 month or life of loan payment history via Residential Mortgage Credit Report, Tri-merged in-file credit report, cancelled checks or VOM.

➢**Disputed Accounts:** If an account is in dispute, the loan must be manually downgraded and a manual underwrite is required, OR borrower must prove the account is no longer in dispute.

➢**Housing (mortgage/rental) Payment History Requirements for Purchase Transactions:** AUS Approve – Mortgage history evaluated by AUS; Housing (Mortgage/Rental) Delinquencies - Loans will be ineligible: With one or more housing (mortgage/rental) delinquency of 60, 90, 120,150 days or greater reported within 12 months of the date of the credit report. AUS Refer/Manual - Mortgage/Rental history: 0x30 in last 12 months.

➢**Minimum Credit History:** Tradelines on the credit report are acceptable and there are no specific requirements with respect to number of tradelines if the following requirements are met: Loan receives a DU Approve/Eligible; minimum number of credit scores required is met; minimum credit score required is met.

➢**Purchase:** AUS Refer and manually underwritten Purchase loans are ineligible if there are any housing payment delinquencies of 1 x 60 or greater within the past 12 months.

➢**Rate and Term Refinance:** Loan must be current for the month due. Obtain up to a 12 month or life of loan payment history via Residential Mortgage Credit Report, Tri-merged in-file credit report, cancelled checks or VOM showing payments are current. AUS Approve – Mortgage history evaluated by AUS in accordance with FHA TOTAL Scorecard User Guide. AUS Refer and manually underwritten – Non-Investor to Investor Rate/Term Refinance: ineligible if there are any housing payment delinquencies of 1 x 60 or greater within the past 12 months. AUS Refer – Investor to Investor Rate/Term Refinance (when referred by AUS): 1 x 30 mortgage payments in the last 6 months, No more than 2 x 30 mortgage lates between months 7 through 12, No cash back to borrower, PITI must be reducing a minimum of $50/month, Fixed Rate only, Comply with minimum credit score requirements. Medium to Low Risk result on FHA Comprehensive Risk Assessment tool, No additional debt (installment/revolving) opened in the last 6 months, Borrower to qualify on base pay/salary only, Non-occupant co-borrower/co-signor not permitted, Three months verified PITI reserves.

➢**Restructured loans, Loan modifications, Short pay and Short refinances:** Ineligible.

➢**Third Party Originator:** In addition to the credit report submitted by the Third Party Originator, clients must obtain an in-file credit report at or prior to underwriting and at a minimum check for: Undisclosed debt, Deterioration in FICO and/or credit ratings, and Red Flags including but not limited to employment and address history. Client should review MERS to identify undisclosed properties and include a screen print in the file.

ESCROW (IMPOUNDS): Escrow/impound accounts are required for property taxes and insurance. The amount must be included in qualifying ratios. Waivers not allowed. HO-6 (walls-in) condominium insurance must be impounded.

- **HO-6 (walls-in) Insurance:** Effective with loan applications on or after August 9, 2010, an individual, borrower-paid Hazard Insurance policy with "walls-in" coverage (HO-6 policy) is required and must be impounded for all FHA Condominium loans (including all attached condominium projects and 2-4 unit projects), when the Master or Blanket Policy for the Homeowners Association does not include replacement coverage for any affixed improvements that the borrower makes to the unit (i.e. cabinets, flooring, countertops, plumbing fixtures, etc.).

FEDERALLY DECLARED DISASTER AREAS: Regardless of the processing style or appraisal requirements, **all** FHA loans that are secured by properties located in the affected counties listed above must follow the following guidelines. When natural disasters occur, e.g., hurricanes, tropical storms, tornadoes, steps must be taken to ensure that the security on each Loan is protected. Once a disaster is declared, FEMA announces which counties are considered disaster areas under Designated Counties at www.fema.gov. It is the responsibility of Trust One to monitor the FEMA web site and obtain the required re-certification when there is a Major Disaster Declaration that includes individual assistance. The following guidelines apply when a property is located in a Federally Declared Major Disaster Area as defined by FEMA:

A. Properties Located in Federally Declared Major Disaster Areas: In the event the subject property, on which an appraisal has been performed and the Loan has not yet funded, is located in an area that is declared a federal disaster area after the appraisal has been issued, Client must ensure that the property meets the collateral requirements set forth above and under the No Adverse Origination Circumstances section in Chapter 1C, Representations, Warranties, and Covenants, of the Investor Guide. If the property inspection was completed prior to the date the natural disaster was declared, a re-inspection or inspection will be required. These requirements apply to all Loans regardless of income documentation type or appraisal requirements. Regardless of whether or not the transaction requires an appraisal, an inspection will be required up to and including 90 days from the date the natural disaster occurred. There may be situations where a longer timeframe may be instituted.

B. Inspection Requirements: An appraiser, engineer, qualified home inspector, or licensed insurance adjustor must perform the special property inspection. Photographs of the subject property must be attached to the Special Disaster Inspection Certification. The individual who performs the inspection should review the original appraisal report and be able to certify that his or her personal inspection of the building revealed no indications of significant disaster related damages. The inspector's Special Disaster Inspection Certification must address the physical condition of the site and improvements; it does not need to address value trends. If the condition of the subject property is acceptable, the value conclusion made prior to the disaster is acceptable.

➢**Special Disaster Inspection Certification Alternatives:** The following forms may also be used for this certification along with a photograph of the subject property: Appraisal Update and/or Completion Report (Fannie Mae form 1004D or Freddie Mac form 442); Uniform Residential Appraisal Reports (Fannie Mae form 1004 or Freddie Mac form 70); Drive by appraisal (Fannie Mae or Freddie Mac form 2055). In any situation where the appraiser notes defects in the exterior inspection, a full Fannie Mae form 1004 or Freddie Mac form 70 appraisal report with an interior and exterior inspection is required; Individual Condominium or PUD Unit Appraisal Report (Fannie Mae form 1073 or Freddie Mac form 465); Special Disaster Inspection Certification may take the form of a letter on the qualified individual's letterhead bearing an original signature. The letter is required to contain the language indicated in the Special Disaster Inspection Certification Instructions; Standard form used by the property inspector providing it clearly identifies the name, address, and qualifications of the inspector, contains the information required in the Special Disaster Inspection Certification, and bears an original signature.

C. Properties with Significant Damage: If a property was significantly damaged and an appraiser performed the property damage inspection, the property must be re-inspected by a qualified home inspector or an engineer to assess the nature and degree of the damage. A significantly damaged property must be repaired before the Loan is sold if the damage affects the structural integrity or livability of the subject property, as determined by the inspector.

D. Properties with Minor Damage: Repairs will not be required for a property with minor damage not affecting the structural integrity or livability of the property, provided an adequate escrow is arranged to guarantee the completion of repairs. Based on the engineer or home inspector's damage estimate, an accurate escrow holdback account must be established to repair the damaged property.

FLOOD INSURANCE: All Transactions closed on or after June 1, 2010: Flood insurance on properties located in a Flood Hazard Zone is required and loans without coverage are ineligible for purchase. Once the NFIP's authority to issue policies is restored and evidence of acceptable flood insurance is in the file, loans located in a Flood Hazard Zone will again be eligible for purchase.

GEOGRAPHIC RESTRICTIONS: See ARRA FHA 2010 Loan Limits on the Trust One website or in Chapter 18 of the Program Summary Guide for eligible states and corresponding loan limits.

➢**Arizona:** The satisfaction of collections and judgments of non-purchasing spouses for FHA loans in AZ will no longer be required under the following circumstances: The non-purchasing spouse is not contributing towards any of the down payment or costs on the transaction (including gifts or monies from joint accounts); The non-purchasing spouse signs the title disclaimer in order to prevent any judgments from attaching to the property. (Condition at closing); The non-purchasing spouse cannot sign the Deed of Trust/Security Instrument.

➢**California:** All delinquent debts, including those of the non-purchasing spouse, must be satisfied prior to or at closing.

➢**Washington:** Debts of the non-purchasing spouse are excluded from the qualifying ratios if the non-purchasing spouse receives no money from the transaction. When no funds are received from the transaction, the non-purchasing spouse may Quit Claim his/her interest to the purchasing spouse.
➢**Hawaii:** A permanent heating source may not be required for properties located in Hawaii if the following are met: Lack of permanent heat source must be common to the area; Appraiser must provide three comparables without a permanent heat source with same elevation; The subject property must be suitable for year-round occupancy. If the above guidelines are not met, the subject property must have an acceptable source of permanent heat.

MORTGAGE INSURANCE: Mortgage Insurance is required on all loans. The section of the Act under which the loan will be insured determines the mortgage insurance to be used. Up Front MIP (UFMIP) is required. Monthly MIP required. Monthly MIP is calculated by multiplying the average outstanding balance by the premium factor rate shown on the Up-Front and Annual MIP Chart divided by 12.

For Case Number Assigned on or after 4/5/2010				
LTV Loan Term	**Purchases & Full Credit Qualifying Refinances (Rate & Term, Cash-Out)**		**Streamline Refi (with and without appraisal, credit qualifying)**	
	UFMIP	**Monthly**	**UFMIP**	**Monthly**
> 95%; > 15 years	2.25%	.55%	2.25%	.55%
≤ 95%; > 15 years	2.25%	.50%	2.25%	.50%
≥ 90%; ≤ 15 years	2.25%	.25%	2.25%	.25%
≤ 89.99%; ≤ 15 years	2.25%	None	2.25%	None

MULTIPLE PROPERTIES: Borrower may own no more than one FHA loan with maximum financing. An eligible investor may own no more than seven rental units in a contiguous/adjacent area (defined as a 2-block radius).

OCCUPANCY:
- Primary Residence.
- 3-4 units: Net rents from all units (including primary unit) must be equal to or exceed mortgage payment (Net rent is calculated using the allowable vacancy factor for the applicable FHA HOC). If the Appraiser uses the URAR (1004) the Gross Rent Multiplier Form must be completed.

PREPAYMENT PENALTY: Not permitted. However, if refinancing and the payoff check for the existing loan is not received by the servicing lender by the first day of the month, the lender may collect interest on the existing loan through the end of the month.

PROPERTY REQUIREMENTS:
➢**Eligible:**
- 1-4 family - 203(b); manual underwriting ineligible for 2-4 unit properties.
- PUD - 203(b)
- Condominium: FHA 234(c) insures mortgages for the purchase or refinance of condominium units in FHA-approved condominium projects only. Site condominiums do not require FHA approval and must be processed under Section 203(b). To determine which condominium projects are FHA-approved, refer to the following Web site: https://entp.hud.gov/idapp/html/condlook.cfm. Two condominium project approval processing options are available for lenders as detailed below. These processes provide project approval on individual units under Section 203(b) of the National Housing Act and replace the FHA Spot Loan approval process. For additional details refer to Mortgagee Letter 2009-46A and 2009-46B.
  - **Direct Endorsement Lender Review and Approval Process (DELRAP):** This option is only available to lenders who have unconditional Direct Endorsement (DE) authority and staff with knowledge and expertise in reviewing and approving condominium projects. Under this process, lenders must provide their condominium approval or denial documents to FHA within five business days of final disposition. These documents must be uploaded using PDF format through FHA connection.
  - **HUD Review and Approval Process (HRAP):** This option allows lenders to submit condominium projects with relevant documentation directly to HUD for review and approval at their discretion, in lieu of using the DELRAP process. This enables HUD to make the determination as to the eligibility of a specific project rather than the DE underwriter.
  - **Eligible property types:** Condominium projects of 2 or more units and site (detached) condominiums. Site condominiums do not require project approval. Site condominiums are defined as single-family totally detached dwellings (no shared garages or any other attached buildings) encumbered by a declaration of condominium covenants or condominium form of ownership. Site condominiums not meeting this definition will require project approval.

- **HO-6 (walls-in) Insurance:** HO-6 (walls-in) insurance policies are required on all condominium loans where the master HOA policy does not provide coverage of the interior of the unit. HO-6 policies must cover the fixtures, equipment, and replacement of improvements and provide betterment coverage to include any improvements that the borrower may have made. Impounds are required for HO-6 (walls-in) insurance. This includes FHA streamline loans and may affect the 5% savings calculations. Effective with loan applications on or after August 9, 2010, an individual, borrower-paid Hazard Insurance policy with "walls-in" coverage (HO-6 policy) is required and must be impounded for all FHA Condominium loans (including all attached condominium projects and 2-4 unit projects), when the Master or Blanket Policy for the Homeowners Association does not include replacement coverage for any affixed improvements that the borrower makes to the unit (i.e. cabinets, flooring, countertops, plumbing fixtures, etc.). Trust One must provide an acceptable Individual Contents and Liability Policy with "Walls In" coverage in an amount that is no less than 20% of the condominium unit's appraised value and a maximum 5% insurance policy deductible with the closing package, if the condominium Master or Blanket Policy does not include replacement coverage for improvements made to the unit.

- Right of First Refusal in condo legal documents is not permitted unless the first mortgagee rights will not be adversely impacted to: Foreclose or take title to a condo unit pursuant to the remedies in the mortgage; Accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor; Sell or lease a unit acquired by the mortgagee or assignee. Units being financed as a HUD REO property require a loan level Lender Certification for Individual Unit Financing.
- Condo/PUD Project Warranty Form: a required document for any transaction where the subject property is part of a condominium or PUD project.
- Rural properties only eligible in California.
- The kitchen must be functional, meaning that there must be kitchen cabinets, and a working sink and working stove. This applies to **all** real estate transfers. In addition, all property must be habitable and all appliances, plumbing, electrical, etc. must be functional and in good working condition.

➢**Ineligible Properties:**

- Manufactured Home/Mobile Home/Modular Home/Pre-fabricated Home
- Assisted Living Projects
- Cantilevered Property
- Common Interest Apartments
- Non-warrantable condominium
- Condo-Hotel
- Cooperatives.
- Houseboats
- Condominium project with pending structural litigation
- Investment Securities
- Multi-family dwelling with more than 4 units
- Multi-family condominium dwelling with ownership of > 1 unit evidenced by a single deed and mortgage (includes lock-out units).
- Projects with non-incidental business operations owned or operated by the Homeowners Association such as, but not limited to, a restaurant, spa, health club, etc.
- Property or project with pending structural litigation. Non-structural litigation may be considered on a case-by-case basis.
- Property without full utilities installed to meet all local health and safety standards
- Property that restricts the owner's ability to occupy the unit, have mandatory rental pools or guaranteed rent- backs.
- Property that represents a legal, but Non-Conforming use if zoning regulations prohibit rebuilding the improvements to current density in the event of full or partial destruction.
- Property without full kitchen
- Property used for commercial or industrial purposes
- PUD Hotel
- Tax-sheltered syndicate
- Time share units/projects
- Unimproved land
- Working farm, ranch or orchard

➢**Wood Destroying Insects/Organism Requirements:** FHA no longer mandates automatic inspections. Inspections are required if: Evidence of active infestation, Mandated by the state or local jurisdiction, Customary to the area, At lender's discretion.

➢**Converting Primary Residence into Investment Property:** If the borrower has an existing lien with the current Investor, Trust One Underwriting Management approval is required and Trust One Underwriting Management reserves the right to change loan programs, possibly requiring a new loan lock. Rental income for qualification purposes may be derived from one of the following sources: Owner-occupied property two- to four-unit, or other real estate owned. When a borrower is vacating their current residence and purchasing another primary residence, rental income from the vacated property may not be included in the total qualifying income, with the following exceptions:

- Borrower is relocating with a new employer or being transferred by their current employer to an area that is not within a reasonable commuting distance, rental income from their current primary residence may be considered. The following documentation must be provided to include rental income: A lease agreement signed by the borrower and the lessee/tenant for at least 12 months; Evidence of the security deposit and/or evidence that the first month's rent was paid to the borrower.
- Vacated property may have a maximum 75% LTV or less supported by a current appraisal that is no more than six months old or by comparing the unpaid principal balance to the original sales price of the vacated property. The appraisal may be: Fannie Mae Form 1004/Freddie Mac form 70; Fannie Mae/Freddie Mac Form 2055 exterior only appraisal report; Fannie Mae form 1075/Freddie Mac Form 466 for condominiums.

QUALIFYING:

➢**Ratios:**

- AUS Approved loans – Ratios evaluated by AUS.
- Manually underwritten loans – 31% / 43%; The DTI ratio of 43% may be exceeded with significant compensating factors provided the DTI does not exceed 50%. Ratios >43% ≤ 50% require significant documented compensating factors which may include: 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 that the 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. The underwriter must document the availability of such possible employment.
- With Temporary Buydown: Ratios – 31% / 43% (includes AUS loans). Qualify at Note Rate.

➢**ARM:** Qualify at start rate regardless of LTV.

➢**REVOLVING DEBT:** All revolving debt, regardless of the outstanding balance, must be included in the monthly debt obligations for qualification. Pay down of revolving debt for qualification purposes is no longer eligible.

REFINANCE TRANSACTIONS:

➢**Rate and Term Refinance (No Cash Out):** Term of the new FHA loan can be up to 30 years. Housing payment may increase without restrictions. The new FHA loan may include the existing first lien (unpaid principal balance plus accrued interest), closing costs (with the exception of a tax service fee, an origination fee over 1% of the loan amount and all third party service fees must be charged using the actual cost of the service provided) , prepaid expenses, discount points, minus MIP refund (if originally financed in the mortgage). One year seasoning from funding on all junior liens unless documentation is provided to verify lien was incurred as part of acquisition or for home improvements of the subject property. Regardless of the age of a HELOC, if draws in excess of $1000 were advanced within the last 12 months for purposes other than repairs and rehabilitation of the subject property, the line of credit is not eligible for inclusion in the new mortgage. New secondary financing is not permitted**. FHA to FHA refinance –** May subordinate existing junior liens with no CLTV limitations. **Conventional to FHA Rate and Term refinance –** May subordinate existing junior liens with no CLTV limitation. Premium pricing permitted. The following guidelines pertain to owner-occupied rate/term refinances for properties in Texas. If the first mortgage is subject to Texas Section 50(a)(6), FHA insured financing is not permitted. If an existing second lien is subject to Texas Section 50(a)(6), FHA insured financing is not permitted. Once a cash-out, always a cash-out. The title policy will reference Texas Section 50(a)(6) or Article XVI of the Texas Constitution effective January 1, 1998.

➢**Rate and Term (No Cash Out) Refinance with Appraisal – Credit Qualifying:** The maximum base mortgage calculation is the lower of the loan to value limitation or the existing debt calculation described below and may never exceed the statutory limit except by the amount of any new Up-Front MIP. The new FHA base mortgage amount is the lesser of calculations 1A or 1B, when applicable, or Calculation 2 and may never exceed the statutory limit except by the amount of any new Up-Front MIP.

- **Calculation 1 – LTV Limitation:**
  - **A -** Properties owned one year or more: Appraised Value (excluding any closing costs) times 97.75%.
  - **B -** Properties Owned Less Than One Year Prior to Application Date and Not Already FHA Insured (Conventional or VA loan being refinanced to FHA loan). Lesser of Original Sales Price Plus repairs (if applicable) paid after the purchase and documented in the file or Appraised Value times 97.75%.

- **Calculation 2:** Base Mortgage Using Existing Loan Balance. Unpaid Principal Balance (includes up to 1 month's interest from payoff statement; The existing first lien may include the interest charged by the servicing lender when the payoff will not be received on the first day of the month, but may not include delinquent interest.), Minus lesser of UFMIP Refund or new UFMIP, Plus the interest charged by the servicing lender when the payoff will not be received on the first day of the month, but may not include delinquent interest, Plus allowable borrower paid closing costs, Plus reasonable discount points, Plus prepayment penalties, Plus satisfaction of junior liens seasoned at least 1 year from funding, or used for the initial purchase or repair of the subject property (Regardless of the age of a HELOC, if draws in excess of $1000 were advanced within the last 12 months for purposes other than repairs and rehabilitation of the subject property, the line of credit is not eligible for inclusion in the new mortgage), Plus repairs required by the appraiser, if any, Plus accrued late charges, Plus escrow shortages, Plus prepaid expenses: Per diem interest on the new loan to the end of the month, Hazard insurance premium deposits needed to establish escrow account, Real Estate Tax deposits needed to establish escrow account, One month Mortgage Insurance, Minus lender credit for closing costs and prepaid expenses. FHA to FHA refinances - Refinance Authorization Information must be obtained at Case Number Assignment directly from FHA Connection. Delinquent interest may not be included in loan amount. Delinquent interest may not be included in loan amount.

➢**Credit Qualifying Streamline Refinance:** Loans are ineligible for submission to an automated underwriting System and must be manually underwritten. May be done with or without an appraisal. All borrowers must credit qualify. Investment Properties ineligible. Trust One may score streamline refinance transactions through TOTAL Scorecard. **P**urchase credit-qualifying streamline refinance loans only are eligible and therefore all values for income, assets and appraised value (if applicable) submitted through TOTAL must be verified. Submission of Streamline Refinance loans to TOTAL Scorecard is an available option but not required. Trust One is reminded that system updates to TOTAL Scorecard may lag this effective date, which may cause inaccurate messages related to Up Front MIP (UFMIP) premiums. However, Trust One is responsible to comply with UFMIP requirements.

- Seasoning: A loan application cannot be taken until the actual date the 6th payment is due has passed. In other words, if the borrower made the 6th payment on the 20th, but the 6th payment is not due until the 1st of the following month, you cannot take the application until the 1st of the following month.
- Payment History: At the time of application, the borrower must exhibit an acceptable payment history as described below via a credit report, cancelled checks or VOM: For mortgages with less than a 12 month payment history, the borrower must have made all mortgage payments within the month due. For mortgages with a 12 month payment history or greater, the borrower must have 0 x 30 day late payment in the preceding 12 months.
- Net Tangible Benefit: The lender must determine that there is a net tangible benefit as a result of the streamline refinance transaction, with or without an appraisal. If a net tangible benefit cannot be demonstrated, the borrower(s) are not eligible for the Streamline Refinance option and must follow Rate/Term guidelines. An <u>FHA Net Tangible Benefit Worksheet</u> has been created and must be completed. Net tangible benefit is defined as: reduction in the total mortgage payment (principal, interest, taxes and insurances, monthly MIP, homeowners' association fees, ground rents, special assessments and all subordinate liens); **OR,** refinancing from an adjustable rate mortgage (ARM) to a fixed rate mortgage. **Reduction in Total Mortgage Payment:** The new total mortgage payment must be 5 percent lower than the total mortgage payment for the mortgage being refinanced. Example: Total mortgage payment on the existing FHA-insured mortgage is $895; the total mortgage payment for the new FHA-insured mortgage must be $850 or less. This requirement is applicable when refinancing from a Fixed Rate to Fixed Rate, from an ARM to ARM, from a Graduated Payment Mortgage (GPM) to Fixed Rate, from GPM to ARM, from a 203(k) to 203(b) and from a 235 to 203(b). Loans being refinanced as FHA Streamlines may be subject to **additional conditions**, even if refinancing to the same loan program. (i.e. ARM to ARM). Review the following sections for additional requirements / restrictions that may apply. **Fixed Rate to One Year ARM:** May be done With or Without an appraisal ; Primary residences only; The interest rate on the new mortgage must be at least two percent below the interest rate of the existing mortgage. **Fixed Rate to Hybrid ARM:** May be done With or Without an appraisal ; The streamline refinance must result in an immediate payment reduction to be eligible; Primary residences only; All other Streamline Refinance guidelines remain the same. **1 Year ARM to Fixed Rate:** May be done with or without an appraisal; The interest rate of the new fixed rate mortgage is no greater than two percent **above** the interest rate of the existing ARM. **Hybrid ARM (3 & 5 Year) to Fixed Rate:** May be done With or Without an appraisal ; The total mortgage payment of the new fixed rate mortgage is no greater than 20 percent **above** the total mortgage payment of the existing ARM. Example: Total mortgage payment on the hybrid ARM is $895; The total mortgage payment for the new fixed rate mortgage must be $1,074 or less. **ARM to ARM, GPM to Fixed Rate, GPM to ARM:** May be done with or without an appraisal; Primary residences only; The new total mortgage payment must be 5 percent lower than the total mortgage payment for the mortgage being refinanced. **Reduction in Term:** For transactions that include a reduction in the mortgage term, that loan must be underwritten and closed as a rate and term (no cash-out) refinance transaction. A reduction in the mortgage term is not permitted under Streamline Refinance transactions.
- Verification: If assets are needed to close, client must verify and document assets, regardless of the amount needed. The following is required if funds are needed to close: Verification of Deposit, Most recent bank statement, OR Two months bank statements. The lenders must also include the pay-off statement in the case binder on every loan.
- Credit Score: Client must enter all credit scores into FHA Connection. The minimum credit score is 640.

- Maximum Combined Loan Amount: If subordinate financing is remaining in place, the maximum combined loan-to-value ratio is 125 percent. For streamline refinance transactions WITHOUT an appraisal, the CLTV is based on the original appraised value of the property. The Case Query function in FHA Connection will display the appraised value. Prior to loan approval, a copy of the Case Query screen must be available for review by the DE Underwriter. For streamline refinance transactions WITH an appraisal, the CLTV is based on the new appraised value.
- URLA: Mortgagees may no longer use an abbreviated version of the URLA. GMAC is now required to collect full information pertaining to employment, income and assets from the borrower on Streamline Refinance transactions. Due to various disclosure requirements and our long-standing belief that borrowers are best served when certifications they must make are divulged as early as possible in the loan application process, the application for mortgage insurance must be signed and dated by the borrower(s) before the loan is underwritten. Mortgagees are permitted to process and underwrite the loan after the borrowers and interviewer complete the initial URLA and initial form HUD-92900A, HUD/VA Addendum to Uniform Residential Loan Application.

➢**Streamline Refinance Without an Appraisal (Credit Qualifying):** The maximum base mortgage cannot exceed unpaid principal balance PLUS the interest charged by the servicing lender when the payoff will not be received on the first day of the month, but may not include delinquent interest, late charges or escrow shortages MINUS the lesser of: Unearned UFMIP (from FHA refinance Authorization or appropriate MIP Refund Schedule) OR New Estimated UFMIP. Total New Mortgage Amount=Maximum base mortgage **PLUS** New UFMIP. Closing costs, pre-paid expenses and discount points, late changes and escrow shortages may **not** be finance into the new loan. **Additional Requirements For all Occupancy Types:** Minimum FICO 640. Determine the LTV based on the original appraised value of the loan being refinanced. (This value should be taken from the FHA Connection Case Query Screen. Prior to loan approval, a copy of the Case Query screen must be available for review by the DE Underwriter.) This LTV calculation is required to determine if annual MIP is required on loans with 15-year term or less **and** when the monthly MIP may be cancelled. Term of new mortgage is the lesser of 30 years or the un-expired term of the current mortgage plus 12 years. (This is particularly important when the term of the original loan was 15 years). New secondary financing **is not** permitted. May subordinate existing junior liens up to a maximum 125% CLTV. For streamline refinance transactions WITHOUT an appraisal, the CLTV is based on the original appraised value of the property. A subordination agreement should be a condition of loan approval. No cash back to borrower permitted (incidental minor adjustment at closing not exceeding $500.00 cash back is acceptable). Refinance Authorization information must be obtained at Case Number Assignment directly from FHA Connection. Premium pricing is permitted.

➢**Streamline Refinance with an Appraisal (Credit Qualifying):** The Base Mortgage Amount may not exceed the lesser of the following three calculations:

- **1st Calculation – LTV limitation:** 97.75% of the appraised value.
- **2nd Calculation - Existing Debt Calculation:** Unpaid Principal Balance PLUS allowable closing costs (excluding discount points: Discount points may not be included in the new mortgage. If the borrower has agreed to pay discount points, the lender must verify the borrower has assets to pay them along with any other financing costs that are not included in the new mortgage amount.) PLUS Prepaid expenses (including: per diem interest to end of month on new loan, hazard insurance deposits needed to establish escrow account, real estate tax deposits needed to establish the escrow account) PLUS the interest charged by the servicing lender when the payoff will not be received on the first day of the month, but may not include delinquent interest, late charges or escrow shortages MINUS Lesser of: Unearned UFMIP Refund (From FHA Refinance Authorization or appropriate MIP Refund Schedule) OR New Estimated UFMIP.
- **3rd Calculation – Statutory Limit:** Statutory limit for County. The base mortgage may never exceed the statutory limit for the county.
- Total New Mortgage Amount=Maximum base mortgage PLUS New UFMIP.
- Additional Requirements**:** Minimum FICO score is 640. Owner Occupied properties only. Delinquent interest may not be included in loan amount. New secondary financing **is not** permitted. May subordinate existing junior liens up to a maximum 125% CLTV. A subordination agreement should be a condition of loan approval. No cash back to borrower permitted except for minor adjustments at closing not exceeding $500.00 cash back. Refinance Authorization information must be obtained at Case Number Assignment directly from FHA Connection and included in the loan file. Premium Pricing is permitted.

➢**Equity Refinances (Cash Out):** Maximum LTV is 85%. Six-month seasoning requirement for all cash out refinances. The six month time frame is from the note date of the current loan to the application date of the new loan. All borrowers must hold title to the subject property for a minimum 6 months. If the subject property has been owned less than 12 months preceding the date of the loan application as the borrower's principal residence, the mortgage amount is limited to the lesser of 85% of appraised value **or** 85% of the sales price of the property when acquired. Properties owned free and clear may be financed as cash-out transactions. Obtain a copy of the Deed to verify date of ownership. Obtain a copy of the HUD-1 to verify original sales price. Term of new loan may be up to 30 years. Payment may increase without restrictions. May subordinate existing junior liens regardless of CLTV or combined loan amount, provided the homeowner qualifies for making scheduled payments on all liens. New secondary financing is limited to 85% CLTV. Premium pricing permitted. Closing costs, prepaid expenses and discount points may not be added to the appraised value or sales price to calculate the new maximum loan amount. Equity Refinance is not permitted in Texas. Maximum base mortgage amount cannot exceed the statutory county limit for the area.

- **Maximum Base Mortgage Calculation – LTV Limitation**
  - Properties Owned As Borrower's Principal Residence More Than One Year Prior to Application Date: Appraised Value times applicable LTV factor as determined by other loan data.
  - Properties Owned As Borrower's Principal Residence Less Than One Year Prior to Application Date: Lesser of Appraised Value (AV) OR the Original Sales Price (SP) of the property times the applicable LTV factor as determined by other loan data.

Units	Maximum Base Loan Amount	Length of Ownership[1]	Maximum LTV	Maximum CLTV (subordinated existing lien)	Maximum CLTV (new subordinate lien)
1-4	All Loan Amounts	≥ 12 months	85% of AV	Unlimited	85% of AV
1-4	All Loan Amounts	< 12 months	85% of AV or original SP, whichever is less	Unlimited	85% of AV or original SP, whichever is less

[1]Defined as number of months the borrower has owned the property as his or her principal residence preceding the date of the loan application.

- **Additional Requirements for Equity/Cash-Out Refinances:** If subject property is encumbered by a mortgage, the loan must be current for the month due and the borrower must have made all mortgage payments within the month due for the previous 12 months. Subordinate financing may remain in place but subordinate to the FHA first mortgage, regardless of the total indebtedness or the CLTV, provided the borrower qualifies for making payments on all liens. Co-borrowers or co-signors may be added provided they are occupants of the property. Non-occupant owners may not be added in order to meet credit underwriting guidelines. Closing costs, prepaid expenses and discount points may not be added to the appraised value or included in calculating the new loan amount. FHA to FHA refinances - Refinance Authorization Information must be obtained at Case Number Assignment directly from FHA Connection. The calculated mortgage amount may never exceed the statutory limit for the area. All borrowers must credit qualify. Non-occupant co-borrowers who are not Borrowers on the current mortgage and do not hold title cannot be added to the loan.

<u>RESERVES:</u>

- 1 & 2 units – None.
- 3 & 4 units – 3 months PITI.
- If using "significant reserves" as a compensating factor, a minimum 3 months PITI must be documented.
- Only retirement accounts that are accessible for liquidation may be counted as reserves. Accounts that cannot be accessed for liquidation by the borrower until retirement age may not be counted as part of the borrower reserves.

<u>SECONDARY FINANCING:</u> Not Applicable. Down Payment Assistance Programs ineligible.