

Trust One Mortgage – 500 Series Conforming

Product Type & Program Numbers:

- 500/515: 30 & 15-year Conforming Fixed

➤ **RESUBMISSIONS TO DU AFTER APRIL 4, 2009 and NEW DU SUBMISSIONS AFTER APRIL 4, 2009:** Beginning April 4, 2009, any rate/term or limited cash-out refinance submission to DU will be matched against the criteria for DU Refi Plus underwriting flexibilities. If there is a match against all the criteria, DU will issue a message in the findings: *This loan casefile was underwritten according to the DU Refi Plus expanded eligibility guidelines offered on certain limited cash-out refinance loan casefiles where the borrower's existing loan is identified by DU as a Fannie Mae loan. This loan casefile must be delivered with Special Feature Code 147. If the DU findings contain this message, the loan program MUST be switched to Program 100. Such loans are not acceptable for delivery to this Investor at this time.*

Purchase and Rate & Term Refinance ⁴				
Property Type	Units	Credit Score	DU LTV/CLTV/HCLTV ^{1,2,6,7}	LP/LTV/CLTV/HCLTV ^{1,2,6,7}
Primary Residence	1	680 ⁵	95/95/95	95/95/95
	2	620	80/80/80	80/80/80
	3	620	75/75/75	75/75/75
	4	620	75/75/75	75/75/75
Second Home	1	620	80/80/80	80/80/80
Investment Property ³	1	660	Purchase: 80/80/80 Rate/term: 75/75/75	Purchase 80/80/80 Rate/term: 75/75/75
	2	660	Purchase: 80/80/80 Rate/term: 75/75/75	75/75/75
	3	660	65/75/75	65/75/75
	4	660	65/75/75	65/75/75
Cash Out Refinance ⁴				
Property Type	Units	Credit Score	DU LTV/CLTV/HCLTV ^{1,2,6,7}	LP/LTV/CLTV/HCLTV ^{1,2,6,7}
Primary Residence	1	640	80/85/85	80/85/85
	2	680	80/80/80	75/75/75
	3	620	75/75/75	75/75/75
	4	620	75/75/75	75/75/75
Second Home	1	620	60/75/75	60/75/75

¹CLTV represents the loan amount of a closed-end second or the disbursed amount of the HELOC plus the first mortgage amount, divided by the sales price/appraised value of the subject property. LTV must be reduced 5% with subordinate financing.

²HCLTV represents the HELOC credit line limit plus the first mortgage amount, divided by the value of the subject property. If the secondary financing is a HELOC, the loan amount plus the draw amount cannot exceed the CLTV and the loan amount plus the total line amount cannot exceed the HCLTV. LTV must be reduced 5% with subordinate financing.

³Not allowed in Alaska.

⁴If LTV's > 80% check with MI companies for product eligibility.

⁵Purchase and rate term refinances with LTV/CLTV/HCLTV < 80% minimum credit score 620.

⁶Condo maximum LTV/CLTV/HCLTV is 90%.

⁷40 year term require DU Approve Eligible for 1-2 units only.

All loans must be underwritten through DU/LP and receive an Approve/Accept Eligible. Manual underwriting not allowed. For those loans submitted through DU or LP, the Investor will confirm that any documents required by those systems are included in the closed loan file. Loans submitted through DU or LP an excessive number of times may not be eligible for sale, and are often an indication of manipulated data in order to secure an approval. Such loans are reviewed in depth prior to purchase. It is imperative that all loan data entered into the automated underwriting systems is accurate and classified properly (rate & term refinance versus cash-out, purchase versus refinance, etc.) Excessive real estate commission (> 8%) is not allowed and will be deducted from the sales price/appraised value LTV calculation when determining maximum LTV.

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APPRAISAL: Trust One appraisal policy applies. Appraisals dated more than 12 months prior to the note date are ineligible. An Appraisal Update is required on all appraisals dated more than 120 days prior to the note date. The new Update Appraisal Form (1004D) must be used. If the value of the property is less than the original appraised value then a new appraisal will need to be ordered. If the value of the property is more than the original appraised value then the appraiser must notate on the appraisal the reason for the change and the underwriter may request a new appraisal. If the appraisal indicates that the subject property was previously sold within the last 12 months, the underwriter is required to determine the change in value. On Properties sold within the last 12 months, if the value has increased 20% or more, the lender must document improvements that support the increase and/or the appraiser must document rapid increases in value within the market (such loans undergo additional review by the Investor). Any loan that receives a DU or LP value flag and any loan secured by a property which has sold in the 12 months preceding the current loan transaction is reviewed by the Investor. Typically these loans are cleared for purchase without any further documentation requirements, but on occasion may require the submission of additional information to support value. All appraisals must reflect the current transaction information. When using an appraisal for a refinance that was previously used by the current borrowers to purchase the subject property, the Fannie Mae form 1004D may be used to update the current owner and recent transfer information since the previous appraisal date, as well as other required information in accordance with Fannie Mae guidelines. 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 conventional (including rural housing) appraisals. Purchases of REO or foreclosure properties require a full appraisal on all transactions. Appraisals on new construction properties cannot be dated more than 120 days from the Note Date. If the appraisal is dated more than 120 days from the note date, a new appraisal will be required, appraisal updates are not allowed.

➤ **Appraisal Alternatives:**

- Fannie Mae Property Inspection Waiver option (PIW) allowed with DU Approve/Eligible (See the Rate Sheet for price adjustment(s)).
- Freddie Mac Property Inspection Alternative (PIA) must be supported by the LP Findings stating this option is available. Purchase and rate/term refinance transactions only. 1 unit primary residence and second home only. Escrow Holdbacks not allowed. "Notice About Appraisal of Your Property" must be signed by the borrower.

➤ **Adverse Markets:** If DU or LP gives a Potential Red Flag, this indicates the lender must take special care to verify that adverse market requirements have been met. (See chapter 9 of the Trust One Program Summary Guide or AM500 - Adverse County Market List, on the Trust One Website for a listing of Adverse Market areas) Special requirements apply to appraisals that identify adverse market conditions for the subject property (for example, declining values, an over-supply of properties, or marketing times in excess of six months). These appraisals need to be documented and reviewed carefully. Required documentation includes:

- At least two of the three comparables must be dated within 90 days of the appraisal date.
- A minimum of one listing or pending sale is required. Ideally and when possible, at least two additional comparable listings or pending sales should be provided.
- The appraiser must address the impact on marketability and value of both favorable and unfavorable factors and avoid using subjective, racial, or stereotypical terms, phrases or comments within the appraisal report.
- Days on market must be reported for subject property and each comparable sale and must support the average marketing time listed on Page 1 of the appraisal.
- If the appraiser is unable to provide two comparables within 90 days and/or current listing(s), the appraiser must provide a detailed explanation and identify whether value adjustments resulted. The explanation from the appraiser must be consistent with other tools utilized to review the appraisal. When the appraiser is unable to provide this (or other) information, second level reviews through the Investor escalation processes may be required on loans underwritten by the Investor. Delegated or contract Underwriters are responsible for determining the value is supported using all supporting documentation and additional valuation tools.
- The maximum LTV/CLTV on any property located in a soft or declining market is limited to the lesser of 95% or the maximum LTV/CLTV for the specific product and loan type.

➤ **Disaster Policy:** See last page of guidelines.

➤ **HVCC:** FNMA and FHLMC, in conjunction with the Federal Housing Finance Agency (FHFA), have adopted the Home Valuation Code of Conduct (HVCC) effective for all conventional (conforming and non-conforming) loans with applications dated on or after May 1, 2009. Trust One must represent and warrant that any appraisal used in originating a conventional loan conforms to the requirements of FNMA and FHLMC and complies with Home Valuation Code of Conduct. Please review the additional details and/or guidance found in Chapter 28 of the Trust One Program Summary Guide, or on the Trust One website. All appraisals must be ordered on-line through an Appraisal Management Company. A listing of eligible Appraisal Management Companies can be found in the HVCC guidelines in Chapter 28 of the Trust One Program Summary Guide or on the Trust One website.

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ASSETS/FUNDS TO CLOSE/DOCUMENTATION: As determined by DU/LP. For those loans submitted through DU or LP, the Investor will confirm that any documents required by those systems are included in the closed loan file. Loans submitted through DU or LP an excessive number of times may not be eligible for sale, and are often an indication of manipulated data in order to secure an approval. Such loans are reviewed in depth prior to purchase. It is imperative that all loan data entered into the automated underwriting systems is accurate and classified properly (rate & term refinance versus cash-out, purchase versus refinance, etc.)

Interest credit allowed; loan must fund by the 5th calendar day of the month preceding the first payment date. Limited Power of Attorney allowed. Well, Septic and Termite Certifications are required as noted on appraisal and/or sales agreement. A minimum of 6 months chain of title as evidenced by the title commitment satisfactory to Investor review.

➤ **Business Funds:** Business funds are eligible as an acceptable source of assets (down payment, closing costs, or reserves) at the underwriter's discretion on a case by case basis.

➤ **Down Payment:** As determined by DU/LP. Grants not allowed. Sweat equity is not allowed.

➤ **Employment Verification:** Verbal Verification of Employment is required to be completed NO MORE than 10 calendar days prior to closing for all hourly, salary, and commission income borrowers, and not more than 30 calendar days prior to closing for all self-employed borrowers. The date the borrower's sign the note is considered the closing date. Current income reported on the VOE or pay stub may be used if it is consistent with W-2 earnings reported on the tax returns. If the tax returns do not include W-2 earnings or income is substantially lower than the current VOE or pay stub, further investigation is needed to determine whether income is stable.

➤ **Fees Paid Outside Closing:** Borrower's can pay up to a maximum of 2% of the loan amount toward the payment of common and customary fees paid outside of closing via credit card payment. These "common and customary" fees include: Credit report fees, Appraisal fees, Lock Fees, Registration Fees, Origination Fees and Commitment Fees.

➤ **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 to be used for downpayment, this tax credit **IS NOT ELIGIBLE** for use on this series of programs.

➤ **Gifts:** Gifts are allowed on primary residences and second homes, per DU/LP. The gift may be provided by a relative, domestic partner, or fiancé/fiancée only. Second homes allow gifts made by a relative only. A relative is defined as a borrower's spouse, child or other dependant, or any individual related by blood, marriage, adoption or legal guardianship. There is no minimum down payment requirement if the LTV/CLTV is 80% or less and the entire down payment is a gift. Executed gift letter is required. Gift of equity is allowed on the purchase of a primary residence only. The LTV should be based on the lesser of the purchase price or appraised value. The gift may not be deducted from the sales price before calculating the LTV. No cash may change hands; instead the seller agrees to donate a portion of the equity in the subject property in lieu of all or a portion of the down payment. All gift policy criteria must be met. If the LTV is > 80% at least 5% of the down payment must come from the borrowers own funds. If the gift of equity is 20% or more, 5% of the sales price must be verified as being saved by the borrower, however these funds do not have to be used toward the down payment. The relative may not be, or have any affiliation with the builder, developer, real estate agent or any other interested party to the transaction. Gift of equity must be acknowledged by the Appraiser on the appraisal.

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➤ **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.

➤ **IRS 4506-T:** ALL loan files must include a completed and signed 4506-T form with acceptable results by each borrower at the time of closing. Loan files must be delivered with two signed IRS 4506-T forms—one signed at the time of application AND one signed at the time of closing. Line 9 of the 4506-T form must be completed for requesting the tax transcripts for the most current two calendar years. In addition, any transcripts received as a result of processing the IRS Form 4506-T must be reconciled to the income information submitted to DU. If the information cannot be reconciled, written documentation explaining the differences must be included with the loan file. If the borrower is employed by a relative or a closely held family business, the following documentation must be obtained: IRS Form 4506-T must be included in the submission package and signed at closing. The 4506-T must be processed for comparison between transcripts and tax returns. Borrower’s signed and completed personal federal income tax returns for the most recent two year period, and Verification of their status should be provided by a written confirmation obtained from an accountant or legal counsel. Additionally, all loans submitted to the Investor for prior-approval underwriting must contain a 4506-T in the loan submission package regardless if a 4506-T has all ready been processed and tax transcripts are included in the loan file. Loans originated by any third party must have the processed tax transcripts for each borrower included in the closed loan file delivered to the Investor for purchase. These transcripts must not reflect a significant variance between the income reported to the IRS and the income disclosed on the loan application. When required, tax returns submitted as documentation to support income must be signed and dated by all borrowers. The signature on the tax returns document they are in fact the borrower’s returns and they represent the actual tax returns filed with Internal Revenue Service. This requirement applies to all return types, personal and business.

➤ **Self-Employed Borrower:** Effective for all loans received for purchase on or after **May 19, 2009**. A cash flow analysis must be provided on all Self Employed borrowers. You may use any of the cash flow analysis forms available to you. If a form is not used, the underwriter must be sure to provide clear and specific detail in the file to reflect how income was determined. The clarification should be included on the 1003, the 1008 or on a separate page and located behind the income documentation.

➤ **Seller Contribution:**

Primary Residence & Second Home		Investment Property	
LTV/CLTV	Max Contribution	LTV/CLTV	Max Contribution
> 90%	3%	All CLTVs	2%
≤ 90% and > 75%	6%		
≤ 75%	9%		

➤ **Title Policy:** Title commitments, title insurance policies, and closing protection letters without evidence of reinsurance are acceptable from the following LandAmerica companies: Commonwealth Land Title Insurance Company, Lawyers Title Insurance Corporation, LandAmerica NJ Title Insurance Company, United Capital Title Insurance Company. If not referenced above, any other LandAmerica Title companies remain ineligible. Title commitments, title insurance policies, insured closing protection letters, or any related title work from certain offices of Attorney’s Title Guaranty Fund, Inc are no longer acceptable. The following offices are identified for Attorney’s Title Guaranty Fund, Inc: CO (Home Office), 999 18th Street, Suite 1101, Denver, CO 80202 and UT Office, The Utah Law & Justice Ctr., 645 South 200 E, Suite 203, Salt Lake City, UT 84111. There are other title companies with similar names, so you must reference the addresses above to ensure you have the correct company. Loans with title work from the above listed offices of Attorney’s Title Guaranty Fund, Inc. must be purchased by April 22, 2009.

➤ **Uniform Instruments Requirement:** The FNMA/FHLMC or FHLMC tagline, which contains the agency form name and number in the footer of the document, must be present on each page of the FNMA/FHLMC or FHLMC Uniform Instruments. Under no circumstances should the tagline be removed or altered.

BORROWER ELIGIBILITY: Social security number required. A Tax I.D. Number will not be acceptable.

➤ **Non-Occupant Co-Borrower:** As allowed per DU/LP on Primary Residence only. DU/LP Findings must identify that a non-owner occupant was used for qualification. Non-occupant co-borrower must be an immediate family member and sign the Note if their income is used for qualification. They must also execute the Deed of Trust if they have an ownership interest in the subject property. Maximum 90% LTV. If the LTV is greater than 80% and the non-occupant co-borrower’s income is used to qualify, the owner-occupant must have 5% of the purchase price in their own funds. The occupying borrower may not exceed 35/43 ratios, regardless of LTV or AUS findings.

➤ **Permanent Resident Alien:** As long as the borrower holds a “Green Card” (an Alien Registration Receipt Card, INS Form I-551), the loan is eligible under the same guidelines/terms as a loan made to a U.S. citizen. A copy of the front and back of the Green Card must be included in the file. An approved Green Card application will not be acceptable.

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➤ **Non-permanent Resident Alien:** Temporary residents. Granted the right to live and/or work in the U.S. for a specified period of time. One of the following valid Visas are required: H-1B, Temporary Worker; L-1, Intra-Company Transferee; E-1, Treaty Trader; G series (G-1, G-2, G-3, G-4); TN or TC NAFTA VISA - Used by Canadian or Mexican citizens. The loan file must contain a copy of the front and back of the eligible Visa. The approved application for one of the visas listed above will not be acceptable and a copy of the actual visa must be obtained. All Non-Permanent Resident Aliens must have a minimum 2 year history of residency, credit and employment and currently reside and work in the U.S. Income should be expected to continue for at least 3 years. If tax returns are required, they must be U.S. federal returns. If income is in foreign currency, 75% of the currency exchange value may be used for qualifying the borrower. Funds for closing must be in U.S. bank accounts. If funds were transferred from a foreign depository, the borrower must provide evidence that they owned the funds prior to the transfer.

➤ **Ineligible:** Foreign nationals. Borrowers with diplomatic immunity. Borrowers without social security numbers. Land Trusts, except Illinois.

➤ **Non-arms length transaction:** Second Homes and Investment Properties ineligible.

BUYDOWNS:

- Maximum 1 to 3 year term.
- Owner occupied principal residence 1-2 unit and second homes allowed. Investment properties ineligible.
- Purchase & Rate term Refinance only.
- The plan must include an effective interest rate increase of no more than 1% each year during the term of the buydown.
- Buydown terms must be entered into DU/LP.
- Compressed Buydowns not allowed. Constant payments for each 12 month period.
- Present value buydowns not allowed.
- Qualifying rate as determined by DU/LP.
- 38% Max DTI for all LTV's.
- Buydown may not be funded with premium pricing by Seller or the Investor on a conforming rate/term refinance transaction.
- Minimum 680 credit score for self employed borrowers.

CREDIT: All files must be checked through MERS to confirm that no undisclosed mortgage debts exist.

➤ **Age of Credit Documents:** The maximum age for credit documents is 90 days for existing property and 120 days for new construction. Document age is measured from the date of the document to the date the note is signed. Credit documents include all income, employment, asset information and credit reports.

➤ **Credit History:** As determined by DU/LP. **Unpaid charge-offs, collection accounts and past due accounts must be paid in full at or before loan closing.** All Borrower(s) must have sufficient credit experience regardless of AUS findings (generally defined as a minimum of three open trade lines for 12 months or more).

➤ **Credit Score:** All minimum credit scores must be met regardless of DU/LP. Credit scores are required on the credit report for all borrowers and co-borrowers. If three scores are provided, the middle score will be used. If two of the three scores are the same, the duplicate score will be used to qualify. If two scores are provided, the lower of the two scores are used. If one score is provided, the borrower is not eligible. The lowest of the scores for the borrower or co-borrower, as determined by the credit report, will be viewed as the credit score for the loan file.

➤ **Consumer Credit Counseling Service (CCCS):** If the loan is approved through DU/LP with the CCCS being addressed or released then no further evaluation is needed.

➤ **Bankruptcy:**

- All LP loans follow LP findings.
- DU loans must meet the DU findings, no bankruptcy can be filed within 48 month period prior to the credit report date and must be discharged at the time of the loan application.

➤ **Foreclosure:** Five (5) years must have passed from the completion date of the foreclosure to the date of the credit report.

➤ **Fraud Detection:** If the credit report indicates that the borrower has made inquiries for new or additional credit within 90 days of the credit report date, the Underwriter must determine whether additional credit was obtained. If new credit was obtained and there is a balance on the account, the debt must be taken into consideration during the underwriting process. Underwriters may require a corrected application if substantial discrepancies in the file are evident. In all cases when a borrower is obligated on a mortgage loan, land contract or any other debt that is NOT listed on the credit report the underwriter must require a written verification of the debt and a minimum of 12 months cancelled checks or bank statements reflecting the timely payment of this debt. When the creditor of the undisclosed debt is a verifiable bank or credit union, a direct verification may be acceptable.

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➤ **Deed-in-Lieu of Foreclosures/Pre-Foreclosure:** Four (4) years must have passed from the date the deed was executed, or Pre Foreclosure sale was completed, to the date of application. A minimum two (2) year seasoning is required to re-establish credit following the sale of the property. Additionally, requirements below must be applied after four (4) years and up to seven (7) years following the completion date: Purchase transactions, the borrower must contribute the greater of 10% minimum down payment or the minimum required for the loan program (no gifts).

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

➤ **DISASTER REQUIREMENTS:** For a complete list of Disaster Counties and their Effective Dates, visit the Investor's Consolidated Disaster County list. Please note it is the Correspondent Lender's responsibility to monitor the Consolidated Disaster County list and to follow the requirements listed below.

Prior to Funding Requirements:

• **Conventional Loans with Full Appraisals:**

- An exterior-only property re-inspection by a licensed Appraiser or Property Inspector (new photos requested but not required) performed after the Effective Date.
- The re-inspection must verify that the property is undamaged and the disaster has had no effect on value or marketability. As long as the inspection is signed and verifies the required information, it may be accepted in various formats including Inspector's Letterhead and Appraisal Addendum. The re-inspection may NOT be documented on a "Satisfactory Completion Certificate" (Freddie Mac Form 442). This form, with photos, should only be used to document *correction* of any damage that was noted by the re-inspection.

• **Conventional loans with Non-Standard Appraisals or Waivers (PIW, PIA, 2075, 2055, etc):**

- A FULL 1004 APPRAISAL performed after the Effective Date. Regardless of product guidelines or AUS findings, PIW's, PIA's, and other non-standard appraisals are not allowed for one year after the Effective Date.

• **Limited Lending Areas:**

- The Consolidated Disaster County List should be reviewed for counties with limited lending requirements. These counties are highlighted in green on the Consolidated Disaster County List.
- Eligible Products in Limited Lending Areas include Conventional Conforming Fixed including 97% and 100% LTV's.
- Ineligible Products in Limited Lending Areas include loans with Financed MI, 80/20's, Expanded Approval loans, Interest Only loans, SISA loans, and Closed End Second lien products.

• **If DAMAGE IS NOTED on any of the inspections above:** Freddie Mac Form 442 – Appraisal Update and/or Completion Report with Photos is required to be performed after the completion of repairs to document restoration to pre-disaster condition.

ESCROW (IMPOUNDS): Required if LTV > 80%, except where prohibited by state law. Escrow waivers allowed with LTVs ≤ 80%. **Impounding not allowed for HO-6 "Walls-In" condominium insurance.**

- **California:** The requirement for an escrow/impound account for the payment of property taxes, property insurance, and mortgage insurance premiums may be waived if *all* of the following conditions are met: 1) Borrowers must sign an escrow account waiver statement; 2) Conventional loans only; 3) Loan to value (LTV) ratio must not exceed 89.99%. Price adjustments apply.

GEOGRAPHICAL RESTRICTIONS: Eligible states: AK (investment properties ineligible; cash out max 85% LTV), AZ, CA, CO, CT, GA, HI (Properties located in Lava Hazard Zones 1 or 2, as determined by the U.S. Geological Survey, are not eligible; DU Refi Plus ineligible), ID (max 40 acres), IN, MD, MI, MO, NV, NM, OK, OR, TX (Cash out refi ineligible, 50(a) (6) Homestead properties ineligible), UT, VA, WA, WY.

➤ **Disaster Policy:** See last page of guidelines.

HAZARD INSURANCE: Must obtain documentation from the insurer of a) insurable value and b) how insurable value was determined. Typically insurance companies use the Marshall & Swift / Boeckh (MS/B) guide to determine values based on input describing size, baths, type of construction, etc.

Insurable value must be documented with one of the following:

- Guaranteed replacement cost policy endorsement to the policy, OR
- Written evidence from the insurer that the coverage equals the insured value and how the insured value was determined; OR
- Documentation from the appraiser of the replacement cost of the improvements.
- Condominium Requirements: Insurance should cover 100% of the insurable replacement cost of the project improvements, including the individual units in a condominium project.
- Coverage does not need to include land, foundations, excavations, or other items that are usually excluded from insurance coverage.

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An insurance policy that includes either of the following endorsements will assure full insurable value replacement cost coverage:

- Guaranteed Replacement Cost Endorsement (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance); OR
- Replacement Cost Endorsement (under which the insurer agrees to pay up to 100% of the property's insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).

Follow these rules for coverage requirements:

If total of all liens is:	Required Coverage is:
Greater than 100% of insurable value	100% of insurable value
From 80% to 100% of insurable value	Total of all liens
Less than 80% of insurable value	80% of insurable value

The maximum ever required is 100% of insurable value. The minimum ever required is 80% of insurable value. Require total of all liens if that is greater than 80% of insurable value and less than 100% of insurable value.

Examples of required coverage:	Insurable Value is:	Required Coverage is:
Total of all liens is \$330,000	\$200,000	\$200,000
Total of all liens is \$185,000	\$200,000	\$185,000
Total of all liens is \$100,000 (less than 80% of Ins Val)	\$200,000	\$160,000
Replacement cost from Appraisal is \$250,000	\$200,000	\$200,000
Guaranteed Replacement Cost Endorsement	\$200,000	Whatever policy is.

MAXIMUM LOAN AMOUNT:

Units	Contiguous States	Alaska and Hawaii
1	\$417,000	\$625,500
2	\$533,850	\$800,775
3	\$645,300	\$967,950
4	\$801,950	\$1,202,925

MINIMUM LOAN AMOUNT: \$25,000

MORTGAGE INSURANCE: Acceptable MI insurers: RMIC, MGIC, PMI, RADIAN. Reduced mortgage insurance is allowed if stated in DU/LP Findings. Lower cost, Financed or Custom MI is not allowed even if permitted by the AUS Findings. Properties located in adverse markets are further restricted by transaction type, LTV limitations, higher Fico requirements, etc. and are subject to current MI availability. **Additional restrictions may be placed by the individual MI insurer and can be found on the website of the MI insurer.**

LTV	10 – 20 year term	25 – 40 year term
90.01 - 95%	25%	30%
85.01 - 90%	12%	25%
80.01 - 85%	6%	12%

➤ **Lender Paid Mortgage Insurance (LPMI):** Not allowed.

➤ **Split Premium Mortgage Insurance:** Split Premium Mortgage Insurance is an alternative method of payment of mortgage insurance consisting of two parts; an Upfront and a Monthly Premium. The upfront premium is due at closing while the monthly premium is billed with the first payment due. The upfront premium may be paid by the borrower, lender, seller, builder or realtor. Interested Party/Seller contribution limits apply. The upfront premium is *Non-refundable*. Reduced mortgage insurance coverage is allowed if indicated by DU/LP findings.

- **Eligible:** 1 unit primary residences only. Purchase and rate term refinances transactions only.
- **Ineligible:** Loans on properties in Alaska. Loans with temporary buydowns. Lower cost, Financed or Custom MI is not allowed even if permitted by the AUS findings.

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MULTIPLE PROPERTIES:

- **Number of Loans per Borrower:** The Investor will make a total of 4 loans per borrower: 1 primary residence and 1 second home and 2 investment properties.
- **Number of Properties per Borrower:** For a primary residence, there is no limit on the number of properties owned and/or financed by the borrower. For second homes and investment properties: Unlimited # of properties may be owned but only 4, including the borrowers' primary residence may be financed. This limitation includes joint or total ownership and is cumulative across all borrowers on the loan and must be manually applied on all loans as applicable regardless of DU/LP tolerances. A minimum of two months reserves on the subject property is required on all second homes, regardless of DU/LP Findings. If the borrower has an interest in or owns multiple financed investment properties (including the subject property), a minimum of six months reserves on the subject property is required, regardless of DU/LP Findings. When a borrower has multiple financed properties, a minimum of two months reserves for each additional financed second home or investment property is required. Non-Arms length transactions not allowed.

OCCUPANCY:

- **Primary Residence:** 1-4 unit. On a primary residence, at least one borrower obligated on the note must occupy the subject property.
- **Second Home:** 1-unit. For sale by owner transactions are not allowed.
- **Investment Property:** 1-4 unit properties allowed. Refinances, the borrower(s) must have been listed as the owner of record for a minimum of 6 months from the date of application. Title transfers to or from the borrower during the previous six month period is not allowed regardless of the nature of the relationship between the transferees. History of managing rental properties and rent loss insurance as determined by DU/LP for 1-4 unit investment properties. A copy of the fully executed lease agreement (if applicable) must be provided for all purchases and refinances. Investment properties require a minimum of six months reserves for all investment property transactions regardless of DU/LP Findings. For properties located in TX – Borrower must be a current homeowner. An Operating Income Statement (Fannie Form 216) and Appraisal Addendum supplying the market rents for the subject property are required on all investment properties. On single family investment properties where full debt is counted against the borrower, if AUS allows the Operating Income Statement (Fannie Mae 216) to be waived, the Investor requires one of the following: Single Family Comparable Rent Schedule (1007), or A letter from the appraiser on his letterhead stating eligible market rents for the subject property, or The income approach section on page 3 of the appraisal to be completed. *Ineligible Transactions:* Gifts; Inter vivos or "Living" revocable trusts; Properties located in Alaska; Temporary Buydowns; Non-Arm's Length transactions; Construction to permanent loan; Cash-out refinances are not allowed; Reverse exchanges are not allowed because the borrower is not on title to the property at the time of closing; For sale by owner transactions.

PREPAYMENT PENALTY: None.

PROPERTY REQUIREMENTS:

➤ **Eligible:**

- 1 - 4 unit primary residence and investment properties.
- Single family attached and detached.
- 1 Unit Second Homes.
- Approved Condo's and PUD's.
- **Modular Homes:** Composed of factory-built modules that are transported to the home site and assembled. Built to the state building code requirements of the state in which it is to be installed. Conforms to all codes adopted by the jurisdiction in which the property is permanently situated, including industrialized building codes; local zoning requirements; and International Code Council (ICC) building codes. Marketing time must not exceed six (6) months. Minimum of 2 similar factory-built comparables.
- **Mixed use properties** are eligible if it can be determined that the nature, intent, and primary purpose of the property is residential in use. The following should be considered in making this determination: The commercial/agricultural use must be allowed by zoning and the subject must conform to zoning. In general, the commercial use should not exceed 20% of total gross living area of the property. Agricultural usage should generally not exceed 20% of the total acreage. Income generated on property used for agricultural purposes should be minimal. Commercial use should not result in significant alteration to the property or one which could not be easily converted back to residential. The commercial use should generate a minimal amount of traffic noise. The subject must be a single family primary residence. The room layout must be reasonable for a residential home. The property must be appraised as residential real estate, with commercial/agricultural value not included in the appraiser's market value. The appraiser must comment on any affect the commercial/agricultural use has on marketability and compatibility with the subject's neighborhood. Industrial or manufacturing use not allowed. Borrower must be both the owner and the operator of the business.

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➤ **Ineligible:**

- Manufactured housing.
- Investment/Leasehold condos.
- Ranches, Orchards, Working or Hobby Farms.
- Dome, Log or Geothermal homes.
- A property currently listed for sale or for sale within the last 6 months is not eligible for a refinance transaction. (*Calculate the date subject property was removed from MLS listing to the date of application*).
- Properties without a permanent source of heat and, if typical for the area, cooling. Space heaters and similar sources are not considered permanent heating sources.
- Properties sold at auction.
- Properties with right of redemption.
- Loans on Builder/Developer owned properties.
- Non arms length transactions for second homes and investment properties.
- Properties with less than 600 sq ft.
- Co-ops.
- Builder trade equity.

➤ **Condominium:** Borrowers must obtain a “walls-in” coverage policy (commonly known as HO-6 policy) unless the master policy provides the same interior unit coverage. The master policy must include replacement of fixtures, equipment and coverage of any improvements that the borrower may have made to the unit. The HO-6 policy must be in an amount not less than 20% of the condominiums appraised value. The standard requirement for a 5% deductible applies. May not be impounded.

➤ **Conversion of Principal Residence:** Borrowers who currently own a primary residence and are purchasing a new primary residence, typically have the option to either sell the previous residence, or convert the previous residence to a second home or an investment property. Full PITI must be documented on any conversion transaction. General underwriting and qualification requirements for each type are as follows:

- 0 x 30 on previous mortgage for the past 12 months is required.
- Current Principal residence is a pending sale but will not close prior to or simultaneous with the new transaction: Both the current and proposed mortgage payments must be used to qualify the borrower. If 30% equity in existing residence can be documented with a current appraisal or AVM, dated within 60 days of the Note Date, the PITI for the current principal residence is not required to be used in qualifying the borrower and the following additional documentation is provided: Executed sales contract for the current residence; and Confirmation that any financing contingencies have been cleared. DU will determine the level of reserves. LP requires 6 months reserves for **both** properties, or 2 months for **both** properties if 30% equity has been established and must be manually applied to all LP loans (LP has not been updated).
- Conversion to Second Home: Both the current and proposed mortgage payments must be used to qualify the borrower. At least 30% equity must be documented in the previous residence, derived from an appraisal or AVM, dated within 60 days of the Note Date, minus outstanding liens. Required reserves greater of AUS or minimum 2 months required for **both** properties. If 30% equity can not be documented in the previous residence, required reserves greater of AUS or minimum 6 months required for **both** properties.
- Conversion to Investment Property: Both the current and proposed mortgage payments must be used to qualify the borrower. Reserves- greater of AUS or 2 months are required for **both** properties. The underwriting process will include an independent, verbal verification of all leases as well as the Underwriter’s condition for cancelled checks for the security deposit or payment of the first month’s rent. At least 30% equity must be documented in the previous residence, derived from an appraisal or AVM, dated within 60 days of the Note Date, minus outstanding liens. 75% of rental income may be used to offset the mortgage payment in qualifying. Rental income must be documented with a copy of the fully executed lease; and The receipt of a security deposit from the tenant and proof of deposit into the borrowers account. If 30% equity in previous residence can not be documented, rental income can not be used to qualify the borrower. Reserves- greater of AUS or 6 months required for **both** properties.

QUALIFYING:

➤ **Ratios:** As determined by DU/LP. Exception: loans ≤ 80% LTV will require a maximum DTI ratio of 55% regardless of AUS Findings. With the exception of DU Refi Plus loans, LTV’s > 80% will continue to follow MI Company guidelines which generally limit the DTI to 41%. DU Refi Plus loans > 80% will have a maximum DTI of 45%.

➤ **Revolving Debt:** It is unacceptable for a borrower to pay down a revolving debt to qualify for a mortgage.

REFINANCE TRANSACTIONS: At least one borrower must be on title prior to application date to eligible for a refinance transaction. All closed loan files for refinance transactions received for purchase on or after **May 19, 2009** must include a final payoff statement that reflects the following: 1) If any late charges are present, loan must be less than 30 days late, 2) Payoff does not indicate any curtailments of principal and/or interest (indicating potential short payoffs), charges associated with default/forbearance, 3) No indication of derogatory requirements (regardless of AU approval).

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➤ **Continuity of Obligation:** Must be established for both rate/term and cash out refinance transactions.

- If at least one borrower who will be obligated on the new loan was also a borrower on the existing loan being refinanced, continuity of obligation is established.
- If the borrower refinancing is not on the existing note, continuity of obligation may be established through one of the following: The borrower has been on title and residing in the property for at least 12 months and has either paid the mortgage for the last 12 months or can demonstrate a relationship (spouse, relative, domestic partner, etc.) with the current obligor; The borrower has recently inherited or was legally awarded the property (divorce, separation).
- If the borrower is currently on title but is unable to document continuity of obligation, or there is no outstanding lien against the property the loan will be considered a cash out refinance with the following additional restrictions:
 - No outstanding liens: If the property was purchased within 6 to 12 months prior to the application date, the LTV will be based the lesser of the original sales price/acquisition cost (documented by HUD-1 Settlement Statement) or the current appraised value. If the property was purchased more than 12 months prior to application date, the current appraised value may be used to calculate the LTV.
 - Outstanding liens with no continuity of obligation: If the borrower has been on title for at least 6 months but continuity of obligation does not exist, the maximum LTV will be limited to 50% based on current appraised value.

➤ **Rate/Term Refinance:** The mortgage amount is limited to the sum of the unpaid balance of the existing first mortgage, closing costs, points, pre-paid items, and if applicable, the amount required to satisfy certain subordinate lien(s) which were used for the original purchase of the home. There is no minimum seasoning for a first lien to be paid off for a rate/term refinance, however, if the most recent transaction was a cash out refinance or if it combined a first and non-purchase money subordinate lien into a new first lien, any refinance of that loan within 6 months will also be considered a cash out transaction (calculate 6 months from note date to note date). Investment properties require 6 months seasoning. Any refinance transaction within the past 6 months will require the previous HUD-1 Settlement Statement(s) to document the previous refinance was not a cash out refinance or combined a non-purchase money subordinate lien into a first lien. Any additional cash back to the borrower must not exceed the lesser of 2% of the new loan amount or \$2,000, except on Texas primary residence; no cash can go back to borrower. Buyout of an ex-spouse or joint owner may be treated as a rate/term refinance if all of the following requirements are met: Property is jointly owned by the borrower and the ex-spouse or other owner; Property has been owned and occupied for at least the preceding 12 months by the borrower and joint owner, except in the case of inheritance; The borrower's income, assets and debts are verified with full or alternative documentation; Documentation of the divorce property settlement or estate disposition is in the file; Proceeds are disbursed directly to the ex-spouse or joint owner, of his or her authorized agent – not to the borrower – and are reflected on the Settlement Statement; Borrower who will be acquiring sole ownership must receive no cash out from the transaction. There is no minimum seasoning requirement for a first lien mortgage to be paid off in a rate/term refinance; LTV is based on the current appraised value on most transactions. However, if the property was purchased within the last 12 months and the appraisal shows a substantial increase in value from the original purchase price, the file should contain documentation supporting the increase. If documentation can not be obtained then the LTV will be based on the original sales price. There are no seasoning requirements on second liens that are being subordinated.

➤ **DU Refi Plus:** Effective Wednesday, June 17, 2009 locks will be accepted on loans originated under Fannie Mae's DU Refi Plus program which do not require mortgage insurance per the DU Findings. The DU Findings must contain the Refi Plus messaging (as detailed by Fannie Mae in recent Announcements) and meet all FAMC product parameters as provided in the FAMC DU Refi Plus Product Description. Program highlights are as follows:

- **Appraisal:** Full appraisal with interior and exterior inspection (Form 1004). Property Fieldwork Waiver is available on certain loans as determined by DU. DU will issue **two** property fieldwork recommendation messages. One message will indicate that the loan casefile is eligible for the DU Refi Plus Property Fieldwork Waiver and the other message will indicate the minimum level of property fieldwork required if the property fieldwork waiver is not exercised.
- **Borrowers:** Borrower(s) must be receiving a benefit through the DU Refi Plus transaction. The borrower benefit requirement has three distinct standards based on the borrower's payment change: Borrower's principal and interest payment is decreasing, i.e. 15 year to a 30 year; Borrower's principal and interest payment is staying the same or increasing, i.e. moving to a more stable mortgage product (ARM to Fixed); Borrower's principal and interest payment is staying the same or increasing, i.e. building equity faster (30 year to 15 year). Borrowers on existing mortgage must match borrowers on the new loan. Occupying borrowers may be added in the new transaction provided the original borrowers remain on the loan. Borrowers may not be removed in the new transaction.
- **Reserves:** As determined by DU.
- **Cash Back:** Application dates on or after July 1, 2009 must meet new Fannie Mae cash back limits of \$250 as announced in Fannie Mae 09-13.

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- Subordinate Financing: All existing subordinate financing must be re-subordinated, new subordinate financing is not permitted, and existing purchase money subordinate financing may not be satisfied with the proceeds of the new mortgage loan. Must meet all Fannie Mae/Freddie Mac guidelines. A copy of the subordinate financing Mortgage/Deed of Trust and Note must be obtained. Community and soft seconds are not allowed. Institutional Closed End Second/HELOC allowed on all loan terms. The repayment terms for any subordinate financing must provide for regular payments that cover at least interest due so negative amortization will not occur. At minimum, the interest rate should be at market rate. The loan term of the subordinate financing must be for at least 5 years, unless fully amortizing and clearly subordinate to the first mortgage. The payment for subordinate financing must be included in the calculation of the borrower's qualifying ratio: If the subordinate financing is a HELOC, the monthly payment must be calculated using a payment equal to 1% of the full line amount; If the first mortgage has an interest rate buydown, the payment for subordinate financing must be fixed. The terms of the subordinate financing may not provide for a balloon or call option within the first five year after the Note date of the first Mortgage. If the loan has a variable rate, the monthly payment must remain constant for each 12 month- period over the term of the loan. If subordinate financing is a HELOC: The CLTV ratio is calculated by adding the disbursed (or to be disbursed at closing) amount of the HELOC to the first mortgage amount and dividing the sum by the value of the mortgaged premises. The HCLTV ratio is calculated by adding the HELOC credit line limit (rather than the amount of the HELOC in use) to the first mortgage amount and dividing that sum by the value of the mortgaged premises.
- Condo/PUD: Since the loan is currently owned or securitized by Fannie Mae it met their review standards in effect at the time it was originated. No further review is required, except confirming that the property is not a condominium hotel or motel and adequate hazard, flood, liability and fidelity insurance coverage is in place.
- Credit History: 0 x 30 in the last 12 months mortgage history, regardless of DU. Bankruptcy: 4 years since discharge, multiple Bankruptcies in the last 84 months are not allowed, regardless of DU. Foreclosure: 7 years since discharge, regardless of DU.
- Credit Score: Minimum 620 on primary residences regardless of DU.
- Documentation: Minimum documentation is determined by DU. In addition to DU requirements, the most current year W2 is required. A payoff statement is required at the time of underwrite if underwritten by Investor.
- Geographic Restrictions: Hawaii ineligible.
- Primary residence only.
- 15 and 30 Year Fixed Rate.
- Maximum LTV: 95%.
- Maximum CLTV/HCLTV: 110%.
- High Balance loans ineligible.
- Mortgage Insurance: Loans where DU Findings do not require Mortgage Insurance are acceptable. The following message will be issued: *Fannie Mae's records indicate that the existing Fannie Mae loan does not currently have mortgage insurance coverage in effect. Mortgage insurance is not required for this DU Refi Plus loan casefile.* Loans requiring Mortgage Insurance are ineligible.
- Non-Occupant Co-Borrower: Allowed if an existing borrower on the note is no longer occupying the subject property. Adding a new non-occupant co-borrower is not allowed.
- 1-2 units attached and detached SFR.
- Ratios: As determined by DU. DU Refi Plus loans > 80% will have a maximum DTI of 45%.
- Temporary Buydowns: Not Allowed.
- The payoff of the unpaid principal balance on the existing first mortgage may be paid off with the proceeds of the new mortgage. DU confirms this by comparing the balance of the first mortgage being paid off in the Liabilities section to the refinance amount on line "d" of Details of Transaction – the two values must match. Payoff to be reviewed by underwriter prior to closing.
- AUS: All loans must be underwritten through DU and receive an Approve Eligible Finding. LP loans are not allowed. Manual underwriting not allowed.
- DU Findings:
 - Eligible Messaging: Final DU Underwriting Findings must indicate that the loan was underwritten according to DU Refi Plus eligibility guidelines and receive the following message: *This loan casefile was underwritten according to the DU Refi Plus expanded eligibility offered on certain limited cash-out refinance loan casefiles where the borrower's existing loan is identified by DU as a Fannie Mae loan.* If the original LTV on the existing Fannie Mae loan was $\leq 80\%$ the following message will be issued: *Fannie Mae's records indicate that the existing Fannie Mae loan does not currently have mortgage insurance coverage in effect. Mortgage insurance is not required for this DU Refi Plus loan casefile.*

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- Ineligible Messaging: When the original LTV on the existing Fannie Mae loan was > 80%, and the existing Fannie Mae loan currently has MI the following ineligible message will be issued: *Mortgage insurance is required for this DU Refi Plus loan casefile... Fannie Mae's records indicate that the amount of MI in effect on the existing Fannie Mae loan is <existing MI>%, and the standard level of MI coverage for this loan casefile is <standard MI>%. Verify the MI premium is accurately reflected in the loan application.*
- June 27, 2009 DU Release Updates: A Product Description field will be added to the Additional Data section of the loan application that will instruct DU to underwrite the loan as a Refi Plus loan. It will be imperative that no value be entered in the Product Description field to allow DU to underwrite the loan according to DU Refi Plus eligibility guidelines. If “Standard LCOR” is entered in the Product Description field, the loan must be underwritten as a standard Rate Term Refinance and follow all Rate Term Refinance guidelines in the Conforming Fixed Rate Product Description. Loan applications dated on or after July 1, 2009 or new case files submitted to DU on or after June 27, 2009, must meet new Fannie Mae cash back limits of \$250 as announced in Fannie Mae 09-13. Any excess cash representing the difference between the estimated and the actual payoff of the original loan plus closing costs and prepaid fees that is more than \$250 will require a loan amount adjustment. Principal curtailments are not permitted. Loans not meeting the new cash back limits must be purchased by September 8, 2009.
- Troubleshooting Messaging: When the subject property address entered on the loan application does not match a property address associated with an existing Fannie Mae loan that is eligible to be refinanced as a DU Refi Plus transaction, the following message will be issued: *This limited cash-out loan casefile was not underwritten according to the DU Refi Plus expanded eligibility guidelines because the subject property was not identified as a Fannie Mae loan that is eligible to be refinanced with DU Refi Plus. Refer to the Selling Guide for additional information regarding why an existing loan may not be eligible to be refinanced using DU Refi Plus.* When the subject property address entered on the loan application does match a property address associated with an existing Fannie Mae loan, but the Social Security number(s) entered on the loan application does not match the Social Security number(s) on the existing Fannie Mae loan, the following message will be issued: *This limited cash-out loan casefile was not underwritten according to the DU Refi Plus expanded eligibility guidelines because the Social Security number(s) on the existing Fannie Mae loan associated with the subject property does not match those entered on the loan application.* When the borrower's existing loan was identified as a Fannie Mae loan, and it appears that the borrower is paying off more than the unpaid principal balance of the existing first mortgage, the following message will be issued: *The borrower's existing loan has been identified as a Fannie Mae loan. The loan casefile was not underwritten according to the DU Refi Plus expanded eligibility guidelines because the payoff amount, as shown on line “d” of the Details of Transaction, exceeds the balance of the subject property mortgage being paid at closing, as shown in the liabilities section of the loan application.*

➤**Cash Out Refinance:** Investment properties ineligible. The mortgage may include the unpaid principal balance of the existing first mortgage, closing costs, prepaid items such as hazard insurance and property taxes, discount points, amounts required to satisfy outstanding subordinate mortgage liens and additional cash that the borrower may use for any purpose. A minimum 6 months seasoning of ownership is required on any cash out transaction. If the property was purchased by the borrower within 6 months preceding the application for new financing, the borrower is ineligible for a cash out refinance. Any previous refinance transaction on the subject property (rate term or cash out) must be seasoned at least 6 months prior to the application date of the new cash out transaction. This seasoning requirement applies to all liens (including subordinate liens) on the subject property. Cash out refinances on second homes require a copy of the borrowers most recently filed tax returns evidencing the property has been a second home for at least the most recent 12 months. It must be verified with the title company that the property is not the borrowers homestead and the borrower must submit an affidavit that the property is not his/hers homestead. Maximum cash out 85% LTV on properties located in Alaska. Subordinate liens require no seasoning. Pay off of a Contract for Deed/Land Contract not allowed. Cash out refinances not allowed on properties located in Texas.

➤**Subordinate liens may be paid off provided:** If a HELOC the amount being paid off (entire balance or partial balance) may not exceed the amount that was used to acquire the subject property, regardless of the amount of subsequent draws after the property was acquired. Otherwise the transaction will be considered a Cash-Out transaction. A Closed End Second Lien may be paid off provided it was used entirely to acquire the subject property.

➤**Pay off of a Contract for Deed/Land Contract allowed with the following restrictions:** The Land Contract must be seasoned for at least 12 months. Appraised value can be used. If seasoned less than 12 months, transaction will be considered a purchase. Proceeds from the refinance may include the sum of the outstanding balance of the installment sales contract. The Land Contract does not need to be recorded. Cash-out refinances are not allowed.

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RESERVES:

- Primary Residence: As determined by DU/LP.
- Second Home: Minimum 2 months reserves.
- Investment Property: Minimum 6 months reserves is required.
- 2 months reserves for each additional financed second home or investment property.
- Stocks, bonds, and mutual funds as assets to count toward reserves, 70% of the value may be used.
- Retirement accounts, 60% of the vested value may be used.
- Stock options and non-vested restricted stock are not eligible for use as reserves.

SECONDARY FINANCING:

➤ **Allowed subject to the following restrictions:**

- Must meet all Fannie Mae/Freddie Mac guidelines.
- A copy of the subordinate financing Mortgage/Deed of Trust and Note must be obtained.
- Community or soft seconds are not allowed.
- Institutional Closed End Second/HELOC allowed on all loan terms. Minimum documentation requirements and all product parameters must be met for both the first and second lien.
- Seller carried second liens are allowed on owner occupied primary residences only.
- The repayment terms for any subordinate financing must provide for regular payments that cover at least interest due so negative amortization will not occur. At minimum, the interest rate should be at market rate.
- The loan term of the subordinate financing must be for at least 5 years, unless fully amortizing and clearly subordinate to the first Mortgage.
- The payment for subordinate financing must be included in the calculation of the borrower's qualifying ratio.
- If the subordinate financing is a HELOC, calculate the monthly payment using the current interest rate and maximum credit line and a monthly payment equal to 1% of the full line amount, regardless of the credit line balance.
- If the first mortgage has an interest rate buydown, the payment for subordinate financing must be fixed.
- The terms of the subordinate financing may not provide for a balloon or call option within the first five years after the Note date of the first Mortgage.

➤ **If subordinate financing is a HELOC:**

- The CLTV ratio is calculated by adding the disbursed (or to be disbursed at closing) amount of the HELOC to the first mortgage amount and dividing the sum by the value of the mortgaged premises.
- The HCLTV ratio is calculated by adding the HELOC credit line limit (rather than the amount of the HELOC in use) to the first mortgage amount and dividing that sum by the value of the mortgaged premises.

TRAILING CO-BORROWER: Loans on transactions involving a corporate-sponsored relocating employee may not use trailing co-borrower income to qualify.