

<b>SPECIAL PROGRAM NOTES:</b>	<b>Note: Please note that Mortgage Insurance may not be available for properties located in a declining/ distressed market. Please check with your MI provider for eligibility on properties located in Stable and/ or distressed/ declining markets.</b>				
<b>SECTION 1: PROGRAM CODES:</b>	<b>CODING</b>				
	<b>AUS PROGRAM CODES:</b>				
	20, 25, 30 Year term		2000-25		
	10, 15 Year term		2100-25		
	<b>SPECIAL PROGRAM CODES FOR HOBBY FARM PROPERTIES:</b>				
	20, 25, & 30 Year term		2025-25		
	10 & 15 year term		2125-25		
<b>Second Lien Program Codes:</b>	Not applicable				
<b>SECTION 2: FULL DOCUMENTATION:</b>	<b>LTV/CLTV/LOAN AMOUNTS BY DOC TYPE</b>				
<b>Purchase &amp; Rate/Term Refinance:</b>	<u>LTV</u>	<u>CLTV</u>	<u>OCC.</u>	<u>PROPERTY</u>	<u>COMMENT</u>
	95%*	95%	Owner	1 Unit	DU only
	80%	80%	Owner	2 Units	DU only
	75%	75%	Owner	3-4 Units	DU only
	90%	90%	2 <sup>nd</sup> Home**	1 Unit	DU only
	80%	80%	Non-Owner**	1 Unit	DU purchase only
	75%	75%	Non-Owner**	1 Unit	DU rate/term refinance only
	75%	75%	Non-Owner **	2-4 Units	DU only
	<b>*Properties in AZ, CA, FL &amp; NV: See MI Matrices for minimum credit scores for LTV &gt; 80</b>				
	<b>**Special requirements apply for 2<sup>nd</sup> home &amp; non owner occupied when borrowers own 5-10 financed properties. Please see the Multiple Properties section below:</b>				
	<u>LTV</u>	<u>CLTV</u>	<u>OCC.</u>	<u>PROPERTY</u>	<u>COMMENT</u>
	75%	75%	2 <sup>nd</sup> Home	1 Unit	720 credit score Purchase only
	70%	70%	2 <sup>nd</sup> Home	1 Unit	720 credit score Rate/term Refinance
	70%	70%	Non-Owner	1 Unit	720 credit score
	70%	70%	Non-Owner	1-4 Units	720 credit score
	<b>Note: Condos in Florida are not permitted.</b>				
<b>Cash-out Refinance:</b>	<u>LTV</u>	<u>CLTV</u>	<u>OCC.</u>	<u>PROPERTY</u>	<u>COMMENT</u>
	80%	85%	Owner	1 Unit	DU only
	75%	75%	Owner	2-4 Units	DU only
	75%	75%	2 <sup>nd</sup> Home**	1 Unit	DU only
	75%	75%	Non-Owner**	1 Unit	DU only
	70%	70%	Non-Owner **	2-4 Units	DU only
	<b>**Cash out refinance is not permitted on 2<sup>nd</sup> home &amp; non owner occupied when borrowers own 5-10 financed properties. Please see the Multiple Properties section below.</b>				
	<b>Note: Condos in Florida are not permitted.</b>				

<b>SECTION 3:</b>	<b>PROGRAM PARAMETERS</b>															
<b>MINIMUM LOAN AMT:</b>	\$40,000															
	<b>CONFORMING LOAN LIMITS:</b>															
	<table border="1"> <thead> <tr> <th><u># of Units</u></th> <th><u>Continental US</u></th> <th><u>Hawaii</u></th> </tr> </thead> <tbody> <tr> <td>1 Unit</td> <td>\$417,000</td> <td>\$625,500</td> </tr> <tr> <td>2 Units</td> <td>\$533,850</td> <td>\$800,775</td> </tr> <tr> <td>3 Units</td> <td>\$645,300</td> <td>\$967,950</td> </tr> <tr> <td>4 Units</td> <td>\$801,950</td> <td>\$1,202,925</td> </tr> </tbody> </table>	<u># of Units</u>	<u>Continental US</u>	<u>Hawaii</u>	1 Unit	\$417,000	\$625,500	2 Units	\$533,850	\$800,775	3 Units	\$645,300	\$967,950	4 Units	\$801,950	\$1,202,925
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2 Units	\$533,850	\$800,775														
3 Units	\$645,300	\$967,950														
4 Units	\$801,950	\$1,202,925														
<b>ALLOWABLE TERMS:</b>	10, 15, 20, 25 & 30 year fixed rate term permitted.															
<b>CASH PROCEEDS:</b>	No restrictions															
<b>SPECIAL PROGRAM REQUIREMENTS:</b>	Not applicable															
<b>ARM ADJUSTMENTS:</b>	Not applicable															
<b>INTEREST ONLY OPTION:</b>	Not allowed															
<b>TEMPORARY BUYDOWNS:</b>	Not allowed															
<b>PREPAYMENT PENALTY:</b>	Not applicable.															
<b>SECTION 4:</b>	<b>BORROWER ELIGIBILITY</b>															
<b>FIRST TIME HOMEBUYER:</b>	Allowed, no restrictions.															
<b>NON-OCCUPANT CO-BORROWER:</b>	<ul style="list-style-type: none"> <li>• Only allowed on primary residences.</li> <li>• Non-occupant co-borrower income may be used for qualifying to 90% LTV per DU findings.</li> <li>• Non-occupant co-borrowers may be family members or someone who has an established relationship to the occupant borrower.</li> <li>• The occupying borrower must contribute 5% from their own funds, unless the LTV/CLTV is ≤80%, then the entire down payment may come from a gift.</li> <li>• The owner occupant must qualify at 35%/43% ratios unless higher ratios are approved by AUS.</li> <li>• The non-occupant borrower should not be a party to the transaction such as the seller, builder or real estate broker.</li> </ul>															
<b>PERMANENT RESIDENT ALIEN:</b>	<ul style="list-style-type: none"> <li>• Allowed under the same terms as US citizens.</li> <li>• Permanent resident aliens must provide proof of their residency (i.e. green card).</li> <li>• The Permanent Resident Alien certification must be completed and included in the loan file.</li> </ul>															
<b>NON-PERMANENT RESIDENT ALIEN:</b>	Not eligible															
<b>FOREIGN NATIONAL:</b>	Not eligible															

**NON-ARMS LENGTH  
TRANSACTIONS:**

- A non-arms length transaction is defined as a direct relationship between any of the parties to the transaction including, buyer, seller, employer, lender, broker, appraiser, etc.
- Non-arms length transactions may be acceptable provided there is adequate verification the borrower is making the required minimum down payment from their own funds, there is an executed sales contract, and the appraisal supports the value and the appraiser comments on whether the market value is affected by the relationship of the parties.
- Non-arms length transactions that are specifically “at-interest transactions” involve persons who are not closely tied or related but may have a greater vested interest in the transaction, such as a party who plays more than one role in the same transaction (selling/listing agent and mortgage broker, for example). At-interest transactions carry increased risk due to the greater vested interest in the transaction by one of the parties.
- Second home and investment property transactions are not permitted for non arms length or at interest transactions. Investment property & 2<sup>nd</sup> home transactions may be granted an exception on a case by case basis; full file should be submitted to corporate support.
- A non arms length transaction may not be used to bail out a family member or any other owner with an established relationship to the borrower from a delinquent mortgage.
  - The title commitment may not show any evidence of foreclosure proceedings or NOD.
  - If the seller is a corporation, partnership or any other business entity, there must be proof that the borrower is not an owner of the business entity selling the subject property.

**NUMBER OF OTHER  
PROPERTIES:**

**Number of financed properties:**

- For Owner Occupied properties, there is no limit to the number of financed properties that the borrower may own.
- For second homes and non owner occupied properties, the borrower may not own more than **ten** 1 to 4 unit properties that are financed, including the subject property.
- Partial or joint ownership is considered the same as total ownership.
- A borrower who holds a Limited Partnership interest that has been formed for the purpose of real estate investment or development OR a General Partner who has personal liability and whose primary income is derived through the partnership’s long term investments **MUST** include all properties owned by that partnership.

**Special requirements apply for 2<sup>nd</sup> home & non owner occupied when borrowers own 5-10 financed properties on purchases & rate/term refinances:**

<u>LTV</u>	<u>CLTV</u>	<u>OCC.</u>	<u>PROPERTY</u>	<u>COMMENT</u>
75%	75%	2 <sup>nd</sup> Home	1 Unit	720 credit score Purchase only
70%	70%	2 <sup>nd</sup> Home	1 Unit	720 credit score Rate/term Refinance
70%	70%	Non-Owner	1 Unit	720 credit score
70%	70%	Non-Owner	1-4 Units	720 credit score

- **Cash out refinances are not permitted on 2<sup>nd</sup> home and non owner occupied properties when borrowers own 5-10 financed properties.**
- In addition:
  - The borrower cannot have any history of bankruptcy or foreclosure within the past seven years.
  - The borrower cannot have any mortgage lates (0x30) within the last 12 months.
  - Rental income on the subject investment property must be fully documented, and income from other properties must be supported by 2 years tax returns. DU messages permitting reduced rental income documentation must be disregarded and full documentation must be obtained.
  - Additional reserve requirements apply: 2 months reserves on the subject property if it is a 2<sup>nd</sup> home, 6 months reserves on the subject property if it is an investment property, and 6 months of reserves on each other financed 2<sup>nd</sup> home or investment property.
- **Note that DU is not updated to reflect reserve requirements or to determine the exact number of financed properties, so these guidelines must be applied manually.**
- Special Feature Code 150 must be applied at delivery.

<p><b>NUMBER OF OTHER PROPERTIES:</b> (cont'd)</p>	<ul style="list-style-type: none"> <li>• Borrowers cannot have acquired any properties (including owner occupied, second home or non-owner) in the last 90 days AND no more than 2 non-owner occupied properties in the last 12 months (can be measured from acquisition date to the closing date of the subject transaction). An exception can be made if the subject transaction is an owner occupied rate/term refinance with the following: <ul style="list-style-type: none"> <li>○ The recently purchased properties are <b>clearly</b> documented as investment or 2<sup>nd</sup> homes with substantially lower values, in different locations, and there is no cash out in the transaction. Other scenarios must still be approved by corporate support.</li> </ul> </li> <li>• If the transaction is the purchase of a principal residence, but a previous mortgage transaction within the past 12 months was also the purchase of a principal residence, the borrower must provide reasonable documentation to justify the new transaction (e.g. a letter of explanation, or other acceptable documentation). Any address discrepancies or "red flags" must be fully addressed. <ul style="list-style-type: none"> <li>○ A borrower purchasing a new primary that is of lesser size or value should be carefully analyzed by the underwriter</li> <li>○ Relocation and/or extenuating circumstances must be documented and verified</li> <li>○ Non occupant coborrower/co-signer situations (where the previous owner occ purchase was a cosigned loan) must also be verified and fully documented.</li> <li>○ Stearns has the right to refuse the occupancy type if it cannot be adequately established.</li> </ul> </li> </ul> <p><b><u>Number of properties Stearns will finance:</u></b></p> <ul style="list-style-type: none"> <li>• Stearns Lending will finance up to 3 properties per borrower: <ul style="list-style-type: none"> <li>❖ One owner occupied property and one second home and one non-owner occupied property OR</li> <li>❖ One owner occupied property and 2 non-owner occupied properties.</li> </ul> </li> <li>• Stearns will make loans totaling \$4,000,000 on primary residences and second homes. The maximum total amount for non-owner occupied loans is \$1,000,000.</li> </ul>
<p><b>SECTION 5:</b></p>	<p><b>CREDIT CRITERIA</b></p>
<p><b>UNDERWRITING:</b></p>	<ul style="list-style-type: none"> <li>• All loans <b>must</b> be underwritten through Fannie Mae's Desktop Underwriter (DU) and receive an Approve/Eligible recommendation.</li> <li>• <b>Loans must be documented per the DU findings report</b></li> <li>• A verbal VOE that covers at least a 12 month period (or DU requirement) must be completed for all borrowers, including self-employed, by the underwriter, the funder or the QC department. The business phone number must be retrieved from 411 (directory assistance) or similar directory. The business phone number <b>MUST</b> be listed.</li> <li>• <b>Ratios are determined by DU, however, the maximum DTI is 50% regardless of AUS</b> <b>Manual Underwriting is not permitted.</b></li> </ul>
<p><b>CREDIT SCORES:</b></p>	<ul style="list-style-type: none"> <li>• A 3 bureau merged in-file report must be obtained that contains at least 2, preferably 3 credit scores for each borrower.</li> <li>• A "representative score" (lower of 2, middle of 3) will be chosen for each borrower on the loan. Then, the lowest of all the borrower's "representative scores" will be the score used for qualifying.</li> <li>• <b>All</b> borrowers must have credit scores. Co-borrowers with no scores are not permitted regardless of AUS.</li> <li>• <b>Minimum 620 credit score required for all borrowers regardless of AUS.</b> Please note that loans requiring MI will require higher credit scores depending on market restrictions.</li> <li>• For second home and investment property transactions where the borrowers own 5-10 financed properties, a 720 credit core is required.</li> <li>• <b>Properties in AZ, CA, FL &amp; NV: See MI Matrices/declining markets for minimum credit scores for LTV &gt; 80%.</b></li> </ul>

**CREDIT  
REQUIREMENTS:**

**Per DU**

Broker's credit report is acceptable as long as it is < 60 days old and matches the DU/DO input.

- Foreclosures: More than 5 years, within 7 years: Owner occupied purchase only will be permitted to a maximum LTV of 90%, minimum credit score of 680. Rate/term refinance allowed to standard LTV/CLTV. Cash out not allowed.
- Bankruptcy: Chapter 13 discharged in the last 24 months, dismissed within the last 48 months, or filed but neither discharged nor dismissed within the last 48 months are ineligible. Non-chapter 13 bankruptcies that were filed, discharged or dismissed within the last 48 months are ineligible.
- Prior preforeclosure sale/short sale waiting periods:
  - 2 years: Maximum 75% LTV allowed, limited to 1 unit owner occupied only.
  - 4 years: Maximum 90% LTV allowed, limited to 1 unit owner occupied only.
  - 7 years: standard eligibility applies.
  - Purchase transactions may not include gift funds.
  - Cash out refinances are not permitted.
  - Documentation of extenuating circumstances (job loss, reduction of income, medical, divorce) leading to the event required, as well as documentation that the borrower's situation has improved. A LOE from the borrower describing these events is also required.
  - Please note that this must be manually applied, as DU does not recognize preforeclosure sales/short sales
- Prior deed in lieu of foreclosure waiting period:
  - 2 years: Maximum 75% LTV allowed, limited to 1 unit owner occupied only.
  - 4 years: Maximum 90% LTV allowed, limited to 1 unit owner occupied only.
  - 7 years: standard eligibility applies.
  - Purchase transactions may not include gift funds.
  - Cash out refinances are not permitted.
  - Documentation of extenuating circumstances (job loss, reduction of income, medical, divorce) leading to the event required, as well as documentation that the borrower's situation has improved. A LOE from the borrower describing these events is also required.
  - Please note that this guideline must be followed regardless of DU findings.

**Loan modifications:**

- Refinance transactions on previously modified loans are not permitted.
- New purchase transactions where the borrower's previous loan was modified and the property is being retained as a 2<sup>nd</sup> home or investment property are not permitted.
- New purchase transactions where the borrower's previous loan was modified and the property is being sold should be treated with caution and reviewed for delinquencies and short payoffs.

**RATIOS:**

- Ratios are determined by DU, however, the maximum DTI is 50% regardless of AUS.
- For loans with buy downs, ratios can be determined by DU, however, if the ratios are ≥ 50%, a 2<sup>nd</sup> signature by a delegated 2<sup>nd</sup> signer is required.

**QUALIFYING:**

- **Child support/alimony** payments with ≤10 payments remaining are not included in the DTI.
- Loans secured by a liquid asset (i.e. 401K) are not included in the debt calculation.
- **Deferred student loans will be included** in the DTI regardless of the length of the deferment.
- **For revolving debt payment**, use the minimum payment from statement or credit report; or \$10 or 5% of the current balance, whichever is greater, if no payment is stated on the credit report.
- **Paying revolving debt** off to qualify is permitted provided it is allowed on the automated findings report, the borrower has the funds in verified assets to pay the account(s) and the payoff is documented (HUD-1). In addition, if any portion of the loan proceeds are being used to pay off debts for qualification purposes and the debt is not closed, a minimum of \$10 per month payment for revolving debts must be counted and included in the total debt ratio. Verification that the debt has been paid off must be provided by one of the following:
  - A copy of the HUD-1
  - A supplemental credit report
  - Verification from the creditor

**QUALIFYING:  
(cont'd)**

- In order to not count the \$10 per month payment, the account must be closed - a letter (signed by the borrower) must be sent from escrow to the creditor that the account is to be closed with the payoff.
- **Lease payments** will be included in the DTI regardless of the number of payments remaining in the lease.
- **Co-signed obligations** will not be included in the DTI if there is evidence the primary borrower has made payments as agreed for the last 12 months (copies of canceled checks, front and back). A copy of the note must also be provided to show that the person making the payments is an obligor on the note. Being placed on title only is not sufficient.
- **Contingent liabilities** (i.e. property settlement "buy-outs" or court-ordered assignment of debt) will not be included in the DTI if there is proof the debt belongs to another person. A copy of a court order, divorce decree or property settlement may provide proof of the contingent debt.
- **Loans with HELOC as subordinate financing:** To qualify a borrower for a new piggyback HELOC, use the highest rate payment at the full line amount. To subordinate an existing HELOC secured by the subject property, use the actual payment. To debt service an existing HELOC secured by other than the subject property, use the payment amount shown on the credit bureau. If there is no payment shown, or, if there is a HELOC on the application that does not show on the bureau, use 1% of the total line amount.
- Payments on bridge loans will not be included in the debt ratio only if the following documentation is provided:
  - A copy of the executed purchase contract for the property that is the security for the bridge loan, and
  - If a financing contingency is included in the sales contract, a copy of the mortgage commitment must be provided, and
  - The borrower must have 6 months PITI payments covering any liens on the property being used as the security for the bridge loan in addition to standard reserve requirements for the subject property.
- Existing negative amortization loans (on other properties held by the borrower) should be qualified at the fully indexed rate, fully amortized payment at the current loan balance.
- If rental income from the subject property is used to qualify, 6 months rent loss insurance coverage is required regardless of AUS findings. This includes rental income on 2-4 unit owner occupied properties.
- New purchase transactions where the borrower's previous loan was modified and the property is being retained as a 2<sup>nd</sup> home or investment property are not permitted.
- Mortgage Credit Certificates may not be used as income or to offset housing payment. Stearns is not participating in any MCC programs at this time.

**Primary Residence that has not been sold or is being converted to a second home or non-owner property:**

Scenario	Required Action
Current primary residence is pending sale, but will not close prior to the new transaction.	Both the current and proposed mortgage payments must be used to qualify the borrower for the new transaction AND 6 months PITI required for reserves on both the new & current properties. Reserves of 2 months PITI for the retained property and the required reserves for the program for the subject property may be considered if there is documented equity of at least 30% in the existing property as determined by a 2055 appraisal minus outstanding liens. Note: Appraisal must comply with HVCC.
Conversion to 2 <sup>nd</sup> home	Both the current and proposed mortgage payments must be used to qualify the borrower for the new transaction AND 6 months PITI required for reserves on the current property AND the greater of 6 months PITI or the maximum required for the program is required on the new property. OR Reserves of 2 months PITI for the retained property and the required reserves for the program for the subject property may be considered if there is documented equity of at least 30% in the existing property as determined by a 2055 appraisal minus outstanding liens. Note: Appraisal must comply with HVCC.

<p><b>QUALIFYING:</b> (cont'd)</p>	<p>Conversion to Non-owner occupied property</p>	<p>Up to 75% of the rental income may be used to offset the mortgage payment in qualifying if there is documented equity of at least 30% in the existing property as determined by a 2055 appraisal minus outstanding liens. Note: Appraisal must comply with HVCC.</p> <p>The rental income must be documented with a copy of a signed lease agreement AND the receipt of a security deposit from the tenant and deposit into the borrowers account.</p> <p>A family member, individual with an established relationship with those involved in the transaction or an interested party may not sign the lease agreement as the renter.</p> <p>At the discretion of the underwriter, a "fair market rent" letter may also be required.</p> <p>If the borrower does not have at least 30% equity in the property both the current and proposed payments must be used to qualify for the current transaction AND 6 months PITI is required for reserves on both properties.</p>
<p><b>CALCULATING LTV/CLTV/VALUE</b></p>	<p><b>**Note: A 2055 Appraisal or RealQuest AVM must be obtained for the property to determine the equity. Appraisal must comply with HVCC. **</b></p> <ul style="list-style-type: none"> <li>• <b>For purchase transactions</b>, the lesser of the purchase price or appraised value will be used to determine the LTV/value.</li> <li>• <b>For refinance transactions</b>, the current appraisal is used to calculate LTV/value, regardless of the purchase date.</li> <li>• For loans with a HELOC 2<sup>nd</sup> that is being modified or reduced from the original line amount:             <ul style="list-style-type: none"> <li>○ If the line amount on the HELOC is being reduced, a <b>recorded</b> modification agreement and subordination agreement with the new line amount is required in order to calculate the CLTV/HCLTV on the modified line amount. A non-recorded letter from the 2<sup>nd</sup> lender <b>DOES NOT</b> satisfy the requirement.</li> <li>○ If there is no recorded modification agreement for the new line amount, the original line amount of the HELOC <b>MUST BE</b> used to calculate the CLTV/HCLTV.</li> </ul> </li> </ul> <p><b>Re-negotiated purchase agreement policy:</b></p> <ul style="list-style-type: none"> <li>• Stearns will not accept re-negotiated purchase agreements that increase the sales price <u>after</u> the appraisal has been completed if:             <ul style="list-style-type: none"> <li>▪ The appraised value is higher than the contracted sales price provided to the appraiser, and</li> <li>▪ The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received, and</li> <li>▪ The only change to the purchase agreement is an increase in sales price.</li> </ul> </li> <li>• If the purchase agreement is re-negotiated after the completion of the appraisal, the loan to value will be based on the lower of the <u>original</u> purchase price or the appraised value, unless:             <ul style="list-style-type: none"> <li>▪ A re-negotiation of seller paid closing costs and/or pre-pays occurs if customary for the market and supported by comparables, not to exceed standard seller contributions, or</li> <li>▪ An amended purchase agreement for a new construction property is obtained due to improvements that impact the value. In the event of such changes, an updated appraisal must be obtained to verify the value of the modifications.</li> </ul> </li> </ul>	
<p><b>SEASONING:</b></p>	<ul style="list-style-type: none"> <li>• For a cash-out refinance the borrower must own the property for at least six months. <b>Measured from HUD-1 date to application date.</b></li> <li>• Hud-1 settlement statement(s) are required from any transaction within past 6 months. If the previous transaction was a cash-out or if it combined a first and non-purchase money subordinate into a new first, the new loan will be considered cash out. If the new transaction combines a first and non-purchase money subordinate into a new first loan, it is considered cash out.</li> </ul>	

**REFINANCES:**

**Continuity of Obligation:**

- An acceptable continuity of obligation exists when one of the following exists:
  - ❖ At least one borrower obligated on the new loan was also a borrower obligated on the existing loan being refinanced.
  - ❖ The borrower has been on title and living in the property at least 12 months **and** has either paid the mortgage for the last 12 months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.
  - ❖ The existing loan being refinanced and the title have been held in the name of a natural person or LLC (Limited Liability Company) as long as the borrower was a member of the LLC prior to transfer.
    - The applicant(s) must be 100% owners of the LLC, otherwise the property must be considered investment property.
    - If the transaction is owner occupied, at least 6 months of occupancy prior to the transaction must be established.
    - Cash out is not permitted.
    - Payoff of joint owners of the LLC is not permitted.
    - Caution should be used when there are several members of an LLC with small percentages of ownership, especially when the borrower owns a smaller overall percentage than the majority of the owners.
    - Transfer of ownership from a corporation (such as an S corporation or a C corporation to an individual does not meet the continuity of obligation requirement.
  - ❖ The borrower has recently inherited or was legally awarded the property. (divorce, separation)
- Loans with an acceptable continuity of obligation are considered either a rate/term or cash-out refinance based on the criteria below.
- “Buy outs” from a divorce settlement or property inheritance will be considered rate/term refinances if the criteria below is met.
- If the borrower is currently on title, but is unable to demonstrate an acceptable continuity of obligation, or there is no outstanding lien against the property, the loan is eligible for financing as a cash-out refinance with the following additional restrictions:
  - ❖ If the property has no outstanding liens (e.g. was purchased for cash or prior loans have been paid off): If the property was purchased within 6-12 months prior to the application for new financing, the LTV will be based on the lesser of the sales price/acquisition (documented on the HUD-1) or the current appraised value. If the property was purchased >12 months prior to the application date for new financing, the current appraised value may be used to calculate the LTV.
  - ❖ If the borrower has been on title at least 6 months but continuity of obligation does not exist, the maximum LTV will be limited to 50% based on the current appraised value.

**A rate/term refinance may include:**

- Paying off the outstanding balance of the existing first mortgage, including any prepayment penalty.
- Paying off any subordinate lien used solely for the acquisition (purchase) of the property.
- Financing of closing costs, including pre-paid items.
- Cash back to the borrower not to exceed the lesser of 2% of the balance of the new loan amount or \$2,000.
- The payoff of any subordinate lien that doesn't meet the definition above will be considered a cash-out refinance, regardless of seasoning.
- When a subordinate lien is being paid off, there must be evidence the lien was used to purchase the property (HUD-1) or the loan will be classified as a cash-out refinance.
- Hud-1 settlement statement(s) are required from any transaction within past 6 months. If the previous transaction was a cash-out or if it combined a first and non-purchase money subordinate into a new first, the new loan will be considered cash out. If the new transaction combines a first and non-purchase money subordinate into a new first loan, it is considered cash out.

**REFINANCES:  
(cont'd)**

- A rate/term refinance must provide some benefit to the borrower, including but not limited to the following:
  - Decreased PITIA payments or overall monthly obligations
  - Shorter term
  - Fixed rate from balloon, ARM, neg am or interest only
  - Payoff of purchase money 2<sup>nd</sup> lien
- Some states require Net Tangible Benefit or Benefit to Borrower calculation – please see State Guidelines. For other states, there is a Statement of Borrower Benefit in J:\Operational Tools\FORMS\Underwriting that may be used as a tool.
- Caution should be used when borrowers refinance in a very short time, to avoid “churning” of loans for the benefit of the originator rather than the borrower.

**Buyouts of an ex-spouse or joint owner** may be treated as a rate/term refinance if the following conditions are met:

- The property has been owned and occupied for the previous 12 months by the borrower and joint owner, except in the case of an inheritance.
- The borrower’s income, assets and debts are fully verified.
- The file contains documentation of the divorce property settlement or estate disposition.
- The loan proceeds must be disbursed directly to the ex-spouse or joint owner (or his/her authorized agent) and not to the borrower.

**Cash-out Refinance:**

- A cash-out refinance is any refinance transaction that does not meet the requirements above.
- A short term refinance that combines an existing first mortgage and non-purchase money subordinate lien into a new first mortgage is considered a cash-out refinance. In addition a refinance of this loan within 6 months will also be considered a cash-out refinance.

**SUBORDINATE  
FINANCING:**

- Allowed per the LTV/CLTV limits stated above.
- The junior lien may not amortize or mature <5 yrs from the note date.
- The subordinate financing may **not** come from the broker, developer or realtor.
- Seller subordinate financing is permitted as long as agency requirements below for subordinate liens are met. A review appraisal, or AVM is required to confirm the property value.
- Builder subordinate financing is permitted if the builder is the seller of the property. Note that extra diligence should be used when reviewing the seller concessions and the value of the property should be well supported.
- If the subordinate lien has a variable payment, other than a HELOC, the monthly payment must remain constant for at least 12 months and cannot have more than a 1% increase in the interest rate.
- The payments must cover at least interest only and cannot provide for neg am.
- If a borrowers’ employer provides a subordinate lien, the financing may be structured in any of the following ways:
  - Fully amortizing level monthly payments
  - Deferred payments for some period before changing to fully amortizing level payments
  - Deferred payments over the entire term, or
  - Forgiveness of the debt over time
  - The financing terms may provide for the employer to require full repayment of the debt if the borrower’s employment is terminated either voluntarily or involuntarily before the maturity date.
- The subordinate lien must allow for repayment at any time (prepayment penalties are not permitted).

**SUBORDINATE  
FINANCING:  
(cont'd)**

- HELOCs with “early termination fees” as a flat fee not to exceed \$500 (fee as a percentage of loan amount is not permitted) allowed per FNMA announcement 09-19: HELOCs or closed-end second mortgages that pay for some or all of the borrower’s closing costs with terms that allow the lender to recoup the closing costs paid on behalf of the borrower if the borrower pays the HELOC or second mortgage off early. This cost is not considered a prepay penalty, although it may be called a prepayment fee in the verbiage. However, state guidelines must be adhered to.
- A copy of the subordinate lien note AND subordination agreement must be obtained for the loan file.
- Secondary financing provided by any type of DAP/Community 2nd program, regardless of its source, is unacceptable at this time.
- Multiple subordinate liens permitted.

**EMPLOYMENT/INCOME**

**Income/employment must be documented per DU unless otherwise specified.**

- Reminder: Income for each borrower to be obligated for the mortgage debt must be analyzed whether it can reasonably be expected to continue through at least the first 3 years of the mortgage loan.
- A verbal verification of employment that covers at least 12 months (or DU requirement) is required for salaried **and** self-employed borrowers. The business phone number must be retrieved from 411 (directory assistance) or similar directory. The business phone number **MUST** be listed. A printout of the information should be provided in the file.
- A salaried borrower’s employment/income is verified with their current employer. A self-employed borrower’s employment/income is verified by obtaining the business number through directory assistance and through the borrower’s CPA, business license or professional organization. A printout of the information should be provided in the file.
- **Self employed borrowers:** Provide documentation per AUS findings. Fannie Mae’s Cash Flow Analysis (Form 1084) or any other type of cash flow analysis that applies the same principals as this form is required in file. **Exceptions to following the DU Findings:**
  - If business funds are used as the down payment or reserves, the borrower must also provide the most recent business returns.(in addition to the CPA letter stating that use of business funds will not have a material affect on the cash flow of the business).
  - If the borrower is not using the most recent year’s tax returns you must also obtain and analyze their business tax returns if it’s a S-Corporation, Corporation or Partnership along with the appropriate K1’s. Example: Today you receive a file with an extension for 2009 tax returns and the borrower is self-employed through his corporation. DU findings are asking for one year most recent 1040’s. Since the qualifying income we are looking at is from 2008, we would also require their business returns from 2008, a copy of their extension for 2009 and a P & L for 2009 along with YTD P & L for 2010.
- Tip income can only be used in qualifying income if they are included in 2 years taxable income. UW should develop an average income trend over the past 2 years, and the employer must indicate that the tip income will in all likelihood continue.
- **4506T / Tax transcripts:** Follow AUS findings for the level of income documentation required. A signed 4506-T will be processed for at least 1 year regardless of AUS findings except as noted. The most recent year’s tax transcript is required if income information was used in the underwriting decision regardless of AUS results. If the most current year’s tax transcripts are not available the following must be provided:
  - the previous year’s transcripts
  - evidence that the extension was filed & IRS payment made / or refund received for the most current year
  - most recent 30 days paystubs & most current W2s
  - For **self employed** borrowers, a P&L for the most current tax year is also required. 1040s that can not be validated, along with payment, can be used in lieu of this P&L.
  - **Please note that if income for more than the most current year is used, tax returns and 4506Ts must still be obtained for all years of income used.**
  - 4506T must be processed for most current year and show “no record”

**EMPLOYMENT/INCOME  
(cont'd)**

- If rental income from the subject property is used to qualify, 6 months rent loss insurance coverage is required regardless of AUS findings. This includes rental income on 2-4 unit owner occupied properties. 2 year rental property management history only needs to be evidenced if required by AUS findings.
- Income from accessory or "in-law/granny" units is not permitted. Income may only be used if the property is taxed as a 2 unit property, and is not permitted if classified as an SFR with accessory unit.
- Trailing co-borrower income is **not** permitted.
- **Retirement Income:** Per FNMA guidelines, retirement and/or pension income must be verified by one of the following: letters from the organizations providing the income, copies of retirement award letters, copies of signed tax returns, W-2 or 1099 forms, or copies of the borrowers' 2 most recent bank statements and retirement account statements showing **regular distributions**. If retirement income is paid in the form of a monthly distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least 3 years after the application date.
- **Mortgage Credit Certificates** may not be used as income or to offset housing payment. Stearns is not participating in any MCC programs at this time.

**ASSETS:**

**Assets may be documented per DU unless otherwise specified.**

- Borrowers must have sufficient verified liquid assets for the down payment, closing costs and reserves.
- Liquid assets include checking accounts, savings accounts, CD's, gifts, money market, mutual funds, stock, trust funds, net equity, bridge loans, bonds, secured borrowed funds, etc.
- Stocks, bonds and mutual funds: 70% of the value may be used as reserves
- Retirement accounts (IRA, 401K, etc): 60% of the vested value may be used as reserves
- Stock options and non-vested restricted stock are not eligible for use as reserves.
- Funds from personal assets that are sold prior to closing are acceptable as long as the individual purchasing the asset is not a party to either the property sale transaction or the mortgage financing transaction. The borrower must document ownership of the asset, the value of the asset, provide a bill of sale and proof of receipt of funds.
- Assets are verified with a VOD or 2 months bank statements.
- Business assets may be used for down payment and closing costs as follows:
  - The borrower must be the sole proprietor or 100% owner of the business or provide verification from the other owners that the borrower has access to the funds.
  - The accountant must comment on what impact the withdrawal of the funds will have on the business. If the accountant states that there will be a negative impact, the use of the funds will not be permitted.
  - Business funds are not an eligible source of funds for cash reserves.

**CASH RESERVES:**

Gift funds may not be used for reserves.

- Investment property transactions require 6 months' reserves, regardless of AUS.
- Second home transactions require 2 months' reserves, regardless of AUS.
- When the subject property is an investment property or second home, and the borrower owns one to four financed properties, 2 months reserves are required on each additional financed second home or investment property.
- When the subject property is an investment property or 2<sup>nd</sup> home, and the borrower owns 5-10 financed properties, additional reserve requirements apply: 2 months reserves on the subject property if it is a 2<sup>nd</sup> home, 6 months reserves on the subject property if it is an investment property, and 6 months of reserves on each other financed 2<sup>nd</sup> home or investment property.
- Reserve calculation must include all of the components of the monthly housing expense (PITIA): principal and interest; hazard, flood and MI premiums (as applicable); real estate taxes; ground rent; special assessments; any HOA dues (excluding any individual unit utility charges); and any subordinate financing payments on mortgages secured by the property.
- Business funds are not an eligible source of funds for cash reserves.

**GIFTS/ DOWN  
PAYMENT:**

**Down Payment:**

- On an owner occupied property borrowers must make a minimum 5% down payment from their own funds. If the LTV is  $\leq 80\%$  and there is no subordinate financing, the entire down payment may come from a gift.
- For second homes and non-owner occupied properties, the initial down payment must come from the borrowers own funds.

**Gifts may be documented per DU unless otherwise specified:**

- Gifts are permitted on primary residence purchase transactions after the borrower has made the initial down payment from their own funds. (see down payment requirements above)
- Gift funds will be permitted on second home transactions if the LTV is  $\leq 80\%$  **and** the borrowers are bringing in at least 20% of the down payment from their own funds.
- Gifts are not permitted on non-owner occupied properties.
- Gifts must come from a relative, domestic partner or fiancé.
- A gift letter must include the name, address and telephone number of the donor, the relationship to the borrower, state the dollar amount of the gift and that no repayment is expected or required.
- If the gift funds are not already in the borrowers account, transfer of the gift funds to the borrowers account or to escrow (or the closing agent) must be documented.

**Gifts of Equity:**

- A gift of equity is permitted for a primary residence purchase. 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. No cash changes hands. Gifts of equity must meet the following requirements:
  - ❖ The gift must be provided by a relative or any other person related by blood, marriage, adoption or legal guardianship, fiancé or domestic partner.
  - ❖ The donor may not have any affiliation with the builder, developer, real estate agent or any other interested party to the transaction.
  - ❖ If the LTV is  $>80\%$  at least 5% of the down payment must come from the borrowers own funds
  - ❖ Gift letter is required.
  - ❖ The gift of equity must be identified on the sales contract and the sales price of the property must be at current market rate.
  - ❖ The gift of equity must be transferred to the borrower as a credit in the transaction and must be documented on the HUD-1.

**1031 Exchange:**

- Permitted on investment properties only.
- Escrow instructions required on both the relinquished and acquired properties.
- Closing must be handled by a qualified intermediary. (Accommodator)
- 1031 exchange agreement required.
- HUD-1 required for both properties.
- Verification of receipt of funds by the accommodator or exchange holder from the property being relinquished and credit of those funds to subject property.
- Exchange must be in individual's name
- Relinquished property must close before or at same time. Reverse exchanges are not permitted.
- Appraisal required.
- Statement of borrowers equity required: Calculated at lower of sales price from sales contract OR gross trade value from sales contract less sum of transfer fees and all lien balances on currently owned property and transfer fees on new property OR appraised value of borrowers currently owned property plus any new transfer fees on new property.

<p><b>DOCUMENTATION TYPES:</b></p>	<p>Loan applications on this program must be fully documented. Income, employment and assets are fully verified.</p> <p><b>For all transactions:</b></p> <ul style="list-style-type: none"> <li>• A verbal VOE that covers a minimum of 12 months employment history (or DU requirement) is required for all types of borrowers prior to closing, including self employed borrowers.</li> <li>• The salaried borrower's employment/income is verified with their current employer.</li> <li>• The self-employed borrower's employment/income is verified by obtaining the business number through directory assistance and through the borrower's CPA, business license or professional organization. A printout of the information should be provided in the file.</li> <li>• <b>4506T / Tax transcripts:</b> Follow AUS findings for the level of income documentation required. A signed 4506-T will be processed for at least 1 year regardless of AUS findings except as noted. The most recent year's tax transcript is required if income information was used in the underwriting decision regardless of AUS results. If the most current year's tax transcripts are not available the following must be provided:             <ul style="list-style-type: none"> <li>• the previous year's transcripts</li> <li>• evidence that the extension was filed &amp; IRS payment made / or refund received for the most current year</li> <li>• most recent 30 days paystubs &amp; most current W2s</li> <li>• For <b>self employed</b> borrowers, a P&amp;L for the most current tax year is also required. 1040s that can not be validated, along with payment, can be used in lieu of this P&amp;L.</li> <li>• <b>Please note that if income for more than the most current year is used, tax returns and 4506Ts must still be obtained for all years of income used.</b></li> <li>• 4506T must be processed for most current year and show "no record"</li> </ul> </li> <li>• <b>Age of credit documentation:</b> The maximum age of all credit documents (including credit report, employment, income and asset documents) is <b>60 days at the time of underwriting, 90 days at the time of funding</b>, regardless of AUS requirements. <b>No exceptions will be permitted.</b></li> </ul>
<p><b>SECTION 6: ELIGIBLE PROPERTIES:</b></p>	<p><b>PROPERTY/APPRAISALS</b></p> <p><b>Eligible Properties</b> are attached &amp; detached SFR, 2-4 units, warrantable condo and PUD units, rural properties and modular homes.</p> <p><b>Agency Warrantable condo projects</b> allowed. See condo section for more info.</p> <p><b>2<sup>nd</sup> Homes</b> must be suitable for year round occupancy. Timeshares, condotels, mandatory rental pools and properties with recreational leases are not allowed. Multi-units and mixed-use properties are not eligible for second homes.</p> <p><b>Modular Housing</b> is acceptable. Modular housing is prefabricated, panelized or sectional housing that assumes the characteristics of a site built home, meets all local and state building codes, is permanently affixed to the land and is legally classified as real estate. At least one comparable sale must be of a modular home.</p> <p><b>Leaseholds</b> permitted. The term of the lease must extend at least 5 years beyond the term of the loan. All other FNMA requirements must be met.</p> <p><b>Listed Properties/Refinance Transactions:</b> Properties may not be currently listed at the time of application.</p> <ul style="list-style-type: none"> <li>• The property listing agreement must be cancelled a minimum of 1 day prior to the application date.</li> <li>• A copy of the cancelled/expired listing must be included in the file.</li> <li>• Appraiser must note that the property is not currently listed.</li> <li>• For owner occupied transactions, the borrower must confirm the intent to occupy the property.</li> <li>• For cash out refinances where property has been previously listed within the last 6 months, the maximum LTV/CLTV/HCLTV is 70% (or the maximum per the program guidelines if lower than 70%).</li> </ul>

**ELIGIBLE  
PROPERTIES:  
(cont'd)**

**Property Flipping:** If the owner (individual or entity other than the Mortgage holder) sells a property within 90 days after the date of acquisition, the value may not have increased more than 25%, otherwise a 2<sup>nd</sup> appraisal will be required to validate the value. Please note that MI companies have flipping policies in place: properties that do not have 90 days seller seasoning are not permitted for LTVs > 80%. Please see MI matrix for additional information regarding property flipping policies.

Note the following additional guidance regarding property flips:

- Maximum 2 title transfers in last 90 days
- Non arms length transactions not permitted on flips
- No double escrows or assignment of sales contract
- 2<sup>nd</sup> appraisal required if there is more than 1 title transfer regardless of increase in value
- 2<sup>nd</sup> signature required from corporate support if there is more than 1 title transfer
- Seller of record must own the property at the time of the purchase contract

**Rural Properties:**

- No maximum acreage, but must have a size that is common & customary for the market, that can be supported by the appraisal and comparables.
- Land value should typically not exceed 30% of the total property value
- Property and subject neighborhood must be residential in nature
- Conform to the existing zoning with any residential use permissible under zoning and land use regulations, and be typical to the market area
- Properties must be readily accessible by roads that meet local standards, and must have adequate utilities.

**Hobby Farms:** Stearns Lending will accept properties that may have an additional use as a “hobby farm”. Examples of this would be a semi-rural or rural property, residential in nature, where some of the acreage is used to grow grapes, have a small orchard, or a small barn and riding rings, etc. The requirements for the property to be considered are:

- Property must be residential in nature, and an SFR only
- Primary residence only
- Appraiser must state property’s highest and best use is as Residential
- Appraiser must supply photos of the non-residential use
- Property must be appraised as residential real estate, with commercial/agricultural value not included in the appraiser’s market value
- Appraiser must comment on any affect the commercial/agricultural use has on marketability and compatibility with the subject’s neighborhood
- Agricultural use should generally not exceed 20% of the total acreage
- Minimal outbuildings, such as small barns or stables, that are of relatively insignificant value in relation to the total appraised value, provided the outbuildings are typical of other residential properties in the subject area, and the appraiser can demonstrate (via comparable sales) that there is an active, viable market
- Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals may indicate that property is agricultural in nature, and regardless of whether the appraiser assigns a value, would be ineligible for financing
- Income generated (gross, not net) should be minimal. (this is more telling than a loss, because any loss is probably a write-off of more than just the hobby itself) *Any loss must be considered in the DTI*
- Commercial use should not result in any significant alterations
- The market value of the property is primarily a function of its residential characteristics rather than of the business use
- The commercial/agricultural use must be allowed by zoning and the subject must conform to zoning.
- A pricing adjustment will apply to these types of properties, as well as special program codes to identify them to Secondary Marketing (see Program Codes in Section 1). **Loans to be underwritten by designated branch underwriters - see branch manager for details.**

**ELIGIBLE  
PROPERTIES:  
(cont'd)**

**Resale Restrictions:**

- Resale restrictions may be found in terms and conditions in a subordinate lien, or in the covenants or provision of an agreement that is recorded against the land based on a subsidy program.
- Eligible subsidy providers or sponsors of resale restrictions must be nonprofit organizations, churches, employers, universities, municipalities (including local housing agencies) or entities that are otherwise administering government sponsored subsidy programs. The subsidy provider must have established procedures for screening or processing applicants.
- 1-2 unit properties are eligible for resale restrictions, owner occupied only.
- The following types of resale restrictions are eligible (some are likely to occur in combination with others):
  - Income limits
  - Age limits (senior communities must comply with applicable laws)
  - Purchasers must be employed by the subsidy provider
  - Principal residence requirements
  - First time homebuyer requirements as designated by the subsidy provider
- Duration of resale restrictions permitted
  - When the restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period,
  - Upon the recordation of a deed in lieu of foreclosure; or
  - When the resale restrictions survive foreclosure
- If the resale restrictions survive foreclosure, the resale restrictions must not impair the servicer's ability to foreclose on the property.
- If the resale restrictions terminate at foreclosure, the subsidy provider is not entitled to obtain any proceeds from the future sale or transfer of the property after foreclosure or acceptance of the deed in lieu of foreclosure.
- If the resale restrictions survive foreclosure, the subsidy provider is not entitled to obtain any proceeds from the initial sale or transfer of the property after foreclosure, from the foreclosing mortgage holder who obtained the property at foreclosure, or pursuant to a deed in lieu of foreclosure.
- The subsidy provider may retain the right of first refusal or option to purchase a resale restricted property when the borrower is in default or the property is in foreclosure. The terms of the right of first refusal or option to purchase must be specified in the terms of the resale restrictions.
- The subsidy provider may permit borrowers to refinance their mortgage and take cash out of the transaction. However, the resale restrictions may limit the cash out amount in order to protect the subsidy invested in the property. Documentation that the subsidy provider has approved the refinance transaction and that the cash amount complies with the provisions of the resale restrictions is required.

**INELIGIBLE  
PROPERTIES:**

- Ineligible properties:** condotels, kiddie condos, timeshares, cooperatives, commercial properties, unimproved land, income producing properties or farms (except hobby farms – see above), manufactured housing, properties with deed restrictions other than resale restrictions above, properties on Indian leased land.
- FHA approved (FNMA Type U) condos not permitted. All projects must meet FNMA/FHLMC requirements.
  - Properties with unexpired redemption period are ineligible: Certain state laws provide for a "redemption period" after a foreclosure or tax sale has occurred, during which time the prior owner may reclaim the property upon payment of all amounts owed. Unexpired redemption periods create an unacceptable title defect on the subject property, and do not conform to the existing policy that requires the property to have "good and marketable" title. The purchase of additional insurance, a redemption bond or similar coverage during the redemption period does not remedy the title defect. **Please consult state lending guidance and review the prelim for title defects especially on purchases of foreclosed properties.**

**INELIGIBLE  
PROPERTIES:  
(cont'd)**

**Re-negotiated purchase agreement policy:**

- Stearns will not accept re-negotiated purchase agreements that increase the sales price after the appraisal has been completed if:
  - The appraised value is higher than the contracted sales price provided to the appraiser, and
  - The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received, and
  - The only change to the purchase agreement is an increase in sales price.
- If the purchase agreement is re-negotiated after the completion of the appraisal, the loan to value will be based on the lower of the original purchase price or the appraised value, unless:
  - A re-negotiation of seller paid closing costs and/or pre-pays occurs if customary for the market and supported by comparables, not to exceed standard seller contributions, or
  - An amended purchase agreement for a new construction property is obtained due to improvements that impact the value. In the event of such changes, an updated appraisal must be obtained to verify the value of the modifications.

**STATE RESTRICTIONS:**

- Loans allowed in states where Stearns Lending is approved.
- Properties located on the island of Hawaii and are located in Lava Flow Hazard Zones 1 or 2 as determined by the US Geological Survey are not eligible.
- **Condos are not permitted in Florida.**
- **Cash out refinances on Homestead properties (owner occupied properties) in Texas are not permitted.** Cash out refinances on 2nd homes & non owner occupied properties are permitted, however the following documentation must be provided to prove that the subject property is not considered the borrowers homestead in Texas:
  - A copy of their most recent filed tax return showing the property has been a second home or non-owner for the most recent 12 months AND
  - The title company must verify the property is not considered the borrowers homestead, and the **borrower must submit an affidavit to that effect.**
  - Note that if the borrower does not have a primary residence in Texas, and only a 2nd home or non owner, the title company in Texas may not insure except as a 50(a)(6) loan, verify with the title company before proceeding.
- A minimum 2055 (or full 1004 appraisal if AUS requires) is required for properties in **West Virginia**. 2075 & PIW options are not permitted regardless of AUS.

**CONSTRUCTION/PERM**

Construction to perm financing is defined as providing financing for a long-term mortgage for the purpose of replacing the interim construction financing that was used to construct the property.

**Note –investment properties are not permitted.**

Construction to Perm loans may be classified as a purchase or refinance:

Purchase:

- The transaction must occur within 180 days after completion of the construction, the borrower may not receive any cash out and the acquisition cost is documented.
- The borrower may not receive any cash proceeds unless they are used to reimburse the borrower for documented costs (paid receipts) paid outside of closing.
- If the purpose of the long-term mortgage is to make a single disbursement to a builder/contractor, the transaction is considered a purchase.
- A minimum 5% down payment is required.
- The LTV is determined based on how long the borrower has owned the land.
  - ❖ If the borrower has owned the land <12 months, the LTV is based on the lesser of the current appraised value OR the sales price of the land plus any documented improvement costs.
  - ❖ If the borrower has owned the land for at least  $\geq 12$  months, or the land was received as a gift, the LTV is based on the lesser of the current appraised value OR the appraised value of the land plus any documented improvements.

Refinance:

- May be a cash-out or no cash out transaction.
- There is no time limitation on a refinance transaction. If the transaction occurs >180 days after the construction is completed, it will be considered a refinance.
- If the proceeds from the permanent loan are used to pay off all construction financing, allowable closing costs AND the borrower received no cash back, the transaction will be considered a rate/term refinance.
- If the borrower has owned the land for at least 12 or more months, the LTV is based on the current appraised value of the property.
- If the borrower has owned the land <12 months, the LTV is based on the lesser of the current appraised value OR the sales price of the land plus any documented improvement costs.
- If the land was received as a gift, the LTV is based on the lesser of the current appraised value OR the appraised value of the land plus any documented improvements.

General Requirements:

- Borrowers must have title to the lot AND be the primary obligor on the construction financing. The construction financing must be obtained through a legitimate financial institution.
- The borrower must be on the note for the permanent financing.
- Appraisal and credit documents cannot be >180 days old as of the note date.

**APPRAISAL:**

- The appraiser must be on Stearns approved appraiser list.
- **Appraisal form as determined by DU.**
- **A full interior/exterior appraisal (1004/1073 as applicable) is required for all LTVs > 80% regardless of AUS requirements.**
- **Property inspection waivers (PIW) offered by DU are available for LTV < = 80%, however a \$75 charge applies.**
- A full appraisal (1004/1073 as applicable) is required when the transaction is a result of the sale of an REO property, or if the previous transaction on the property was foreclosure, regardless of AUS determination.
- A minimum 2055 (or full 1004 appraisal if AUS requires) is required for properties in **West Virginia**. 2075 & PIW options are not permitted regardless of AUS.
- 1007 (Single-Family Comparable Rent Schedule) is required for all one-unit investment properties **if required by DU**
- A 216 (Operating Income Statement) is required for all one-unit investment properties and for all 2-4 unit properties (including owner occupied) **if required by DU.**
- Appraisals may be no older than 90 days at funding. If the appraisal is older than 90 days a new appraisal must be obtained.
- Per FNMA 2010-09 effective September 1, 2010:
  - Minimum requirements for interior photographs: kitchen, all bathrooms, main living area, examples of physical deterioration (where applicable), examples of recent updates such as restoration, remodeling & renovation (where applicable).
  - If the underwriter considers an appraisal deficient, the underwriter has the following options for addressing the deficiencies:
    - contacting the appraiser to address deficiencies contained in the appraisal report,
    - obtaining a desk review or a field review of the original appraisal, or
    - obtaining a new appraisal of the subject property.
  - When a review appraisal or new appraisal is obtained, the underwriter must use the opinion of market value as stated in the review or new appraisal because the underwriter has, at that point time, rejected the original appraisal. It is not acceptable for the underwriter to exercise blanket discretion by arbitrarily changing the opinion of market value. For example, it is not within the underwriter's discretion to simply average the two opinions of market value in order to arrive at a final value conclusion
- All appraisals with an effective date on or after April 1, 2009 will require Form 1004MC Market Conditions Addendum to the Appraisal Report. 1004MC is not required in conjunction with form 2075 (DU Property Inspection Report)
- All appraisals for loans with an initial application date on or after May 1, 2009 must be HVCC (Home Value Code of Conduct) compliant. Transferred or ported appraisals are allowed per HVCC guidelines **on this program only.**
- If a supervisory appraiser signs the appraisal report on behalf of an appraiser, the supervisory appraiser must have performed the inspection of the property.
- A 3-year sales history for the subject property is required. The appraiser must also report any existing sale or option contracts on the subject property. If the estimated value of the property "as is" varies by >5% from the sale or option contract amount, the appraiser should explain the difference.
- The cost approach is no longer required on all appraisals, but the site value must be completed.
- Note: **For all transactions > 75% LTV**, the underwriter must pull additional comps if there is **more than one** comparable sale on the appraisal older than 90 days from the date of the appraisal **OR** located >1 mile from the subject property for urban & suburban properties and > 5 miles away for rural properties. The additional comps must support the appraised value. If the comps do not support the appraised value an AVM must be obtained. The value on the AVM must be within 10% of the appraised value. If the AVM is not within 10% of the appraised value, an enhanced desk review must be obtained and must support the appraised value. If the enhanced desk review does not support the appraised value, the value must be reduced, or a field review obtained through our AMC portal.

**CONDO PROJECTS:**

- **Condo projects are not permitted in Florida.**
- Agency warrantable (FNMA) condo projects are permitted.
- FHA approved (FNMA Type U) condos not permitted. All projects must meet FNMA/FHLMC requirements.
- Manufactured homes not permitted in condo projects.
- Low and high-rise projects are permitted. Low-rise projects have  $\leq 4$  stories, high rise projects have  $>4$  stories.
- Site condos are eligible as long as the project consists of detached SFRs and have no common improvements other than greenbelts, private streets and parking areas.
- “Walls In” (HO-6) hazard insurance coverage for condos: If the blanket insurance policy does not provide coverage of the interior of the unit, the borrower will be required to obtain “walls in” coverage. See hazard insurance section below for details.
- **Ineligible condo projects** are timeshare or segmented ownership projects, own your own property, houseboat project, kiddie condos, project with non-conforming zoning, projects in litigation or condotels.
- Note: Condo projects in litigation may be eligible for an exception from corporate:
  - Litigation can not be structural/defect construction litigation.
  - Slip and fall/nuisance lawsuits, HOA dues suits may be acceptable
  - Provide HOA documents with file to corporate support for review
- New projects where the seller is offering sale/financing structures in excess of FNMA’s eligibility policies for individual loans are ineligible. These excessive structures include, but are not limited to builder/developer contributions, sales concessions, HOA or principal abatements and interest payment abatements, and/or contributions not disclosed on the HUD-1.
- **Condo projects** where a single owner may hold a single deed evidencing ownership of more than one unit is an ineligible project type.
- **FNMA Limited Review** may be permitted for attached condos based on the LTV and occupancy. Limited review is only permitted on established projects that meet the following requirements:

Occupancy	AUS Approve recommendation
Primary Residence	$\leq 90\%$
Second Home	$\leq 75\%$
Non-owner	Not permitted

- ❖ The project must meet the warranty requirements in the seller guide.
- ❖ All units, common area and facilities must be 100% complete and cannot be subject to additional phasing.
- ❖ The project must be covered per agency insurance requirements.
- **Site/detached condos/PUDS** are permitted for new or existing detached condos/PUDS. Permitted on primary residences and second homes. There are no pre-sale or occupancy requirements for the project. Completion is only required for the subject unit.
- **Full Lender Review for New and Established Projects:** please refer to the matrices located in the shared J drive/Operational Tools/Underwriting/Condominiums, for documentation that is required for the Full Lender Review.
- **2-4 Unit projects** must meet the following requirements:
  - ❖ Small projects must be typical for the market area and this must be supported by the appraisal.
  - ❖ All but one unit in the project must be sold as a primary residence or second home. Only one unit may be non-owner occupied.
  - ❖ No single entity may own more than one unit in the project.
  - ❖ All units, common elements and facilities must be 100% complete and the project may not be subject to any additional phasing or annexation.
  - ❖ The unit owners must have the sole ownership interest in and rights to the use of the project facilities, limited common elements and common elements.
  - ❖ Each unit must be separately metered.
  - ❖ The project must be covered by all applicable insurance.
  - ❖ The projects legal documents must contain an arbitration agreement for dispute resolution.

<p><b>SECTION 7:</b> <b>MORTGAGE INSURANCE:</b></p> <p><b>SELF-INSURED OPTION</b></p>	<p><b>INSURANCE</b></p> <ul style="list-style-type: none"> <li><b>Standard MI is required. Minimum coverage MI option offered by DU with LLPAs are not offered at this time.</b></li> <li><b>Reduced MI/Lower Cost/Custom MI (fee based) is not allowed regardless of AUS</b></li> </ul> <table border="1"> <thead> <tr> <th colspan="3"><u>Standard MI Coverage:</u></th> <th colspan="2"><u>Reduced MI per DU:</u></th> <th colspan="2"><u>Lower Cost/Custom MI</u></th> </tr> <tr> <th><u>LTV</u></th> <th><u>15 yr</u></th> <th><u>30 yr</u></th> <th><u>LTV</u></th> <th><u>30 yr</u></th> <th><u>LTV</u></th> <th><u>30 yr</u></th> </tr> </thead> <tbody> <tr> <td>90.01-95%</td> <td>25%</td> <td>30%</td> <td>90.01-95%</td> <td>25%</td> <td>90.01-95%</td> <td>18%</td> </tr> <tr> <td>85.01-90%</td> <td>12%</td> <td>25%</td> <td>85.01-90%</td> <td>17%</td> <td>85.01-90%</td> <td>12%</td> </tr> <tr> <td>80.01-85%</td> <td>6%</td> <td>12%</td> <td colspan="2" style="text-align: center;"><b>NOT PERMITTED</b></td> <td colspan="2" style="text-align: center;"><b>NOT PERMITTED</b></td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li><b>Properties in AZ, CA, FL &amp; NV: See MI Matrices for minimum credit scores</b></li> <li><b>Single Premium MI is permitted.</b> The premium may be paid upfront, or it may be financed. If the premium is <b>financed</b>, the following requirements apply:             <ul style="list-style-type: none"> <li>The loan amount and LTV/CLTV can <b>not</b> exceed standard guidelines with inclusion of the financed MI.</li> <li>Limited to 1 unit only (max <b>total</b> loan amount \$417,000)</li> <li>A Landsafe LARA is required on all loans with <u>financed</u> Single Premium MI.</li> <li>Not allowed in conjunction with a buydown.</li> </ul> </li> <li><b>Split Premium MI permitted:</b> An upfront fee is calculated on the base loan amount and must be paid up front, cannot be financed. This will lower the monthly MI payments.             <ul style="list-style-type: none"> <li>❖ <b>Pay Option:</b> the borrower pays an upfront fee to reduce the MI factor. The borrower may choose from 3 different up front fees to lower the monthly MI payment. The fee for this option must be obtained from the MI company rate card. Eligible terms for the Pay Option are 10, 15, 20, 25 &amp; 30 year fixed terms.</li> <li>❖ The seller may pay the upfront fee, subject to interested party contribution limits.</li> <li>❖ <b>In addition the following requirements must be met:</b> <ul style="list-style-type: none"> <li>Minimum credit score 720 for all LTVs</li> <li>Permitted on purchases, and rate/term refinances.</li> <li>Primary residences.</li> <li>Buydowns not permitted.</li> <li>The respective mortgage insurance company guidelines for full doc loans in the applicable market type (either stable or declining) must be adhered to.</li> <li>MGIC and Radian are approved providers for split premium MI.</li> </ul> </li> </ul> </li> </ul> <p>Approved MI companies are: Radian and MGIC. PMI is available for Retail ONLY (NO TPO)</p> <p><b>Please note that MI companies have flipping policies in place: properties that do not have 90 days seller seasoning are not permitted for LTVs &gt; 80%. Please see MI matrix for additional information regarding property flipping policies.</b></p> <p><b>Note: Investment properties are ineligible for Mortgage Insurance.</b> <b>Note: Some mortgage insurance companies will continue to impose the declining/distressed market policy. Please check with your MI provider for eligibility.</b></p> <p><b>Refer to the Mortgage Insurance Restrictions Matrix in J:/Loan Programs /Product Matrices for the mortgage insurance providers restrictions.</b></p> <p>Not permitted</p>	<u>Standard MI Coverage:</u>			<u>Reduced MI per DU:</u>		<u>Lower Cost/Custom MI</u>		<u>LTV</u>	<u>15 yr</u>	<u>30 yr</u>	<u>LTV</u>	<u>30 yr</u>	<u>LTV</u>	<u>30 yr</u>	90.01-95%	25%	30%	90.01-95%	25%	90.01-95%	18%	85.01-90%	12%	25%	85.01-90%	17%	85.01-90%	12%	80.01-85%	6%	12%	<b>NOT PERMITTED</b>		<b>NOT PERMITTED</b>	
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<b>HAZARD INSURANCE:</b>	<ul style="list-style-type: none"> <li>• Hazard insurance is required for each property.</li> <li>• The amount of hazard insurance coverage must be the lesser of 100% of the insurable value of the improvements as established by the property insurer OR the unpaid principal balance as long as it equals at least 80% of the insurable value of the improvements.</li> <li>• “Walls In” (HO-6) hazard insurance coverage for condos: If the blanket insurance policy does not provide coverage of the interior of the unit, the borrower will be required to obtain “walls in” coverage. The HO-6 policy must provide coverage in an amount that is no less than 20% of the condo unit’s appraised value.</li> <li>• HO-6 “walls in” will also be required on <b>PUDs</b> in cases where the master policy does not include interior unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the borrower may have made to the unit.</li> <li>• For properties located in California, lenders may not require hazard insurance in an amount exceeding the replacement value of the improvements on the property.</li> <li>• The maximum deductible may be up to 5% of the amount of the policy.</li> </ul>
<b>FLOOD INSURANCE:</b>	<ul style="list-style-type: none"> <li>• A flood hazard determination is required for all loans.</li> <li>• Flood insurance is required if the property is located in a special flood hazard area or flood zone.</li> <li>• Flood insurance is required on properties located within the following special flood hazard area zones: A, AE, AH, AO, A1-30, A-99, V, VE, V1-30</li> <li>• The maximum amount of flood insurance required is the lowest of: 100% of the replacement cost of the dwelling, calculated as appraised value minus land value OR the unpaid principal balance of the mortgage OR the maximum insurance available under the National Flood insurance program. (Currently \$250,000 per dwelling.) The deductible for 1-4 unit properties may not exceed a maximum of \$5,000 unless a higher deductible is required by state law.</li> </ul>
<b>RENT LOSS INSURANCE:</b>	If rental income from the subject property is used to qualify, 6 months rent loss insurance coverage is required regardless of AUS findings. This includes rental income on 2-4 unit owner occupied properties.
<b>IMPOUNDS:</b>	<ul style="list-style-type: none"> <li>• Required if LTV &gt; 80% unless state law supersedes.</li> <li>• In California, impounds are required on 1 unit, primary residences when the LTV is ≥90% and are required on second homes and non-owner occupied properties when the LTV is &gt;80%.</li> <li>• Impounds for taxes, insurance and mortgage insurance (when applicable) required on all non-owner occupied properties when the LTV is &gt;80%.</li> <li>• This includes impounds for “walls-in” HO-6 policy premiums.</li> </ul>
<b>SECTION 8:</b>	<b>TITLE/CLOSING AGENTS</b>
<b>TITLE DOCUMENTATION:</b>	<p><b><u>Title History Review Policy:</u></b> The preliminary title report must reflect a minimum 6-month title history.</p> <p><b><u>Title Insurance:</u></b> A full ALTA title policy is required.</p>
<b>PLAT/SURVEYS:</b>	<ul style="list-style-type: none"> <li>• Surveys are required in some areas. See Stearns state lending information for survey requirements.</li> <li>• If surveys are not commonly required in the area where the property is located an ALTA 9 endorsement or its equivalent should be provided.</li> <li>• If it is not customary to supply either a survey or an endorsement, the title policy must not have a survey exception.</li> </ul>

<b>INTER VIVOS REVOCABLE TRUSTS:</b>	Not eligible
<b>POWER OF ATTORNEY:</b>	<p>A Specific (or Limited) power of attorney must meet the following requirements:</p> <ul style="list-style-type: none"> <li>• Clearly reference the subject property (if a legal description is referenced, it must be stated or attached accordingly)</li> <li>• Authorize the attorney-in-fact to enter into a real estate transaction and to mortgage the property (for refinance transactions, must specify the terms of the transaction)</li> <li>• Indicate clearly that the mortgagor is appointing an attorney-in-fact</li> <li>• Precisely identify who is being appointed</li> <li>• Identically match the legal name(s) on the POA to the typed name(s) and signature(s) for the Borrower and POA. If the legal signature differs from the typed name, a notarized Signature/Name Affidavit is required.</li> <li>• Must be signed and dated by the borrower (aka principal)</li> <li>• Must be notarized (notary must be complete, contain a valid date, and no blank fields)</li> <li>• Must be signed no more than 90 days prior to, or concurrent with, the date of the security instrument</li> <li>• Must be recorded prior to, or concurrent with, the date of the security instrument.</li> <li>• May not contain any blank fields.</li> <li>• Must be acceptable to the title company issuing the title policy.</li> <li>• General POA's are not acceptable.</li> <li>• In all states, documents executed by the attorney-in-fact must include the principal's name, the agent's name, and the agent's capacity (attorney-in-fact) in the signature. The agent's capacity (attorney-in-fact) must be written out in its entirety as abbreviations (AIF, POA, etc) are not acceptable. The same information must be typed on the documents.</li> </ul>
<b>SECTION 9:</b>	<b>FEES/MISCELLANEOUS</b>
<b>FEE LIMITATIONS:</b>	<ul style="list-style-type: none"> <li>• Agency/HOEPA Rule: The borrower may not pay &gt;5% in fees that affect the APR on any loan.</li> <li>• Loans where the "points and fees" or "annual percentage rate" exceed the maximum thresholds described under HOEPA (Section 32) are not eligible for purchase. This applies to all types of mortgages (Purchases and refinances) except second homes, non-owner occupied properties or HELOC.</li> <li>• Reminder: Section 32 (HOEPA) thresholds are: APR that exceeds the yield on the Treasury securities for the same term of the loan by &gt;10% OR the total points and fees paid by the borrower exceeds the greater of 8% or the maximum dollar amount set annually by the Federal Reserve.</li> <li>• For a purchase transaction the maximum real estate commission cannot exceed 8% of the sales price.</li> <li>• <b>Broker compensation is limited to a maximum of 4% of the loan amount.</b></li> </ul> <p><b>Fees and Payments for the Purchase of Preforeclosure or Short Sale Properties:</b></p> <ul style="list-style-type: none"> <li>• Borrowers may pay additional fees or payments in connection with acquiring a property that is a preforeclosure or short sale that are typically the responsibility of the seller or another party. Examples of additional fees or payments include, but are not limited to, the following: <ul style="list-style-type: none"> <li>○ short sale processing fees (also referred to as short sale negotiation fees, buyer discount fees, short sale buyer fees); Note: this fee does not represent a common and customary charge and therefore must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction.</li> <li>○ payment to a subordinate lien holder; and</li> <li>○ payment of delinquent taxes or delinquent HOA fees.</li> </ul> </li> <li>• The following requirements apply: <ul style="list-style-type: none"> <li>○ The borrower (buyer) must be provided with written details of the additional fees or payments and the additional necessary funds to complete the transaction must be documented.</li> </ul> </li> </ul>

**FEE LIMITATIONS:  
(cont'd)**

- The servicer who is agreeing to the preforeclosure or short sale must be provided with written details of the fees or payments and has the option of renegotiating the payoff amount to release its lien.
- All parties (buyer, seller and servicer) must provide their written agreement of the final details of the transaction which must include the additional fees or payments. This can be accomplished by using the "Request for Approval of Short Sale" or "Alternative Request for the Approval of Short Sale" forms published by the U.S. Treasury [Supplemental Directive 09-09](#) or any alternative form or addendum.
- The HUD-1 Settlement Statement must include all fees and payments included in the transaction.

**SELLER/INTERESTED  
PARTY  
CONTRIBUTIONS:**

<u>Owner occupied and second homes:</u>	
<u>CLTV</u>	<u>% Contributions</u>
>90%	3% max.
75.01-90%	6% max.
≤75%	9% max.

<u>N/O/O:</u>	
All CLTV	2% max.

Note: Seller/interested party contributions may be used for closing costs and pre-paids. HOA subsidies are not permitted. HOA fees due at closing may be paid with interested party contributions; however, payments due after closing can not be paid in advance through interested party contributions.

Please see the LTV/CLTV/value and Ineligible Properties sections above for instances where a re-negotiated purchase agreement is issued after the appraisal is completed.