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1. Program Basics

1.1. Product Codes

Code	Description
JF302	30 Year Jumbo Non-Conforming Fixed
JF152	15 Year Jumbo Non-Conforming Fixed
JA5L2	5/1 Jumbo Non-Conforming 5/1 LIBOR ARM
JA7L2	7/1 Jumbo Non-Conforming 7/1 LIBOR ARM
JA10L2	10/1 Jumbo Non-Conforming 10/1 LIBOR ARM

1.2. Transaction Type

- Purchase
- Rate/Term Refinance
- Cash-Out (Maximum Cash Out $500,000)

1.3. Properties Purchased for Occupancy by a Direct Family Member

When the subject property is being purchased for occupancy by a direct family member (parents, siblings, children):

If	And the borrower's relationship is	Then occupancy is considered . . .	LTV/CLTV restriction
The non-occupant borrower's income is needed to qualify (occupant may or may not be on the loan)	Direct family members (parent/child or siblings)	Second Home	• If the non-occupant borrower's loan score is ≥ 740, the maximum LTV/CLTV is 5% below the second home policy. • If the non-occupant borrower's loan score is ≥700 and <740, the maximum LTV/CLTV is 10% below the second home policy.
Both the occupant and non-occupant borrowers' incomes are needed to qualify	N/A (borrowers do not to be related)	Investment Property	N/A

TEMPORARILY SUSPENDED

1.4. Eligible Terms

- Non-Conforming 15 and 30 Year Fixed
- Non-Conforming 5/1, 7/1 & 10/1 LIBOR ARMs

1.5. Eligible States

Eligible States Matrix

1.6. LTV/CLTV

See LTV Matrix

When subordinate financing is a HELOC, the credit line limit rather than the amount of the HELOC in use must be used.

- If an existing HELOC is not in the repayment period and is reduced without modifying the original Note, the original line limit must be used to calculate the CLTV ratio.
- If an existing HELOC is in the repayment period, the current balance is used to calculate the CLTV ratio.
- A copy of the line agreement is required to verify the customer can no longer draw on the account.

1.7. Interest Only

Not Allowed

1.8. Maximum Loan Amount

- $2,000,000

1.9. Median Home Price

See Median Home Price Table in Appendix

1.10. Downpayment Assistance and MCC Programs

Not allowed

1.11. Eligible Property Types

- Single family detached or attached dwellings
- 2-4 unit
- Condominiums/PUDs.
- Factory built except manufactured (mobile) homes

1.12. Ineligible Property Types

- Time-share projects
- Unimproved land
- Mobile homes
- Manufactured housing
- Condotels/Resort Condominiums
- Hotel Condominium
- New construction homes purchased through auction

- Log, earth or dome homes
- Hobby farms
- Property Flips
- Deed Restrictions
- Leaseholds

1.13. Ineligible Property Types LTV > 80%

- Properties with more than 10 acres
- Properties experiencing interrupted or unstable utility service hazards (such as severely curtailed water service, water contamination, or extended power shortages) as identified by the appraiser

1.1. Mortgage Insurance

Not required

1.2. Temporary Buydowns

Not Allowed

1.3. Assumability

Not Allowed

1.4. Doc Type

Full Doc Required

2. Borrower Eligibility

2.1. Eligible Borrowers

Eligible borrowers include natural persons with a valid social security number and one of the following Residency statuses as determined by the United States Citizenship and Immigration Services (USCIS):

- U.S. Citizen
- Permanent Resident Alien
- Non-Permanent Resident Alien

2.2. Maximum Number of Borrowers

Maximum number of borrowers is four (4).

2.3. Ineligible Borrowers

- Borrowers without a valid, legitimate Social Security number
- Foreign Nationals
- Borrowers with diplomatic immunity
- Corporations, estates, life estates, limited or general partnerships, not-for-profit organizations, schools, churches, etc
- Conservatorships

2.4. Citizenship

2.4.1. Diplomatic Immunity

Due to the inability to compel payment or seek judgment, loans to individuals who are not subject to U.S. jurisdiction are ineligible. This includes embassy personnel with diplomatic immunity. Verify the borrower does not have diplomatic immunity by reviewing the visa, passport, or the U.S. Department of State's Diplomatic List.

2.4.2. Foreign Nationals

Foreign nationals who have no lawful residency status in the U.S. are not considered nonpermanent resident aliens and are ineligible.

2.4.3. Non Permanent Resident Aliens

Required visas

All nonpermanent resident aliens must provide evidence of a valid, acceptable visa or an Employment Authorization Document (EAD). A copy of the unexpired visa (refer to Expired visa requirements below) or EAD must be included in the Loan file.

Eligible visa classes

- A Series (A-1, A-2, A-3) – Given to officials of foreign governments, immediate family members, and support staff. Only those without diplomatic immunity, as verified on the visa, are eligible.
- E-1 Treaty Trader and E-2 Treaty Investor – Essentially the same as an H-1 or L-1; the title refers to the foreign country's status with the U.S.
- E-3 – Given to Australian nationals employed in a specialty occupation.
- G Series (G-1, G-2, G-3, G-4, and G-5) – Given to employees of international organizations that are located in the U.S. Some examples include the United Nations, Red Cross, World Bank, UNICEF, and the International Monetary Fund. Verification that the applicant does not have diplomatic immunity must be obtained from the applicant's employer and/or by the viewing the applicant's passport.
- H-1 Temporary Worker (includes H-1B) – The most common visa given to foreign citizens who are temporarily working in the U.S.
- H-4 – Given to dependents (spouse and unmarried children under 21 years of age) of a qualified H-1 visa holder. When income is being used to qualify, a current (unexpired) EAD issued by United States Citizenship and Immigration Services (USCIS) is also required.
- L-1 Intra-Company Transferee – Given to professional employees whose company's main office is in a foreign country.

- L-2 - Given to dependents (spouse and unmarried children under 21 years of age) of a qualified L-1 visa holder. When income is being used to qualify, a current (unexpired) EAD issued by USCIS is also required.
- O-1A – Given to individuals with an extraordinary ability in the sciences, education, business, or athletics (not including the arts, motion pictures, or television industry).
- O-1B – Given to individuals with an extraordinary ability in the arts or extraordinary achievement in motion picture or television industry.
- O-2 – Given to individuals who will accompany an O-1, artist or athlete, to assist in a specific event or performance.
- TN (NAFTA visa) – Given to Canadian or Mexican citizens for professional or business purposes.

Expired visa requirements

A Loan to a borrower with an expired visa may be considered, subject to each of the following:

- Borrower has an eligible visa classification (refer to Eligible visa classes above).
- Documentation confirming the borrower has submitted an application for extension of the visa or an application for a green card is provided. Documentation includes, but is not limited to:
  - USCIS Form I-797 (issued when an application or petition is approved).
  - USCIS Form I-797C or I-797E (must not state that the application has been declined).
  - Application for extension of current visa (USCIS Form I-539 or equivalent) or copy of application for green card (USCIS Form I-485 or equivalent) and electronic verification of receipt from the USCIS web site.
  - Verification from the borrower’s employer that they are sponsoring the visa renewal.

Employment Authorization Document (EAD)

A current (unexpired) EAD issued by USCIS may be provided in lieu of a visa.

If the EAD will expire within one year, one of the following must be provided:

- Documentation of one previous EAD renewal
- If there are no prior EAD renewals, documentation from the USCIS confirming the likelihood of renewal

All standards for determining stable monthly income, adequate credit history, and sufficient liquid assets must be applied in the same manner to each borrower including borrowers who are nonpermanent resident aliens.

2.4.4. Permanent Resident Aliens

A copy of the front and back of the green card is required for all permanent resident aliens and must be included in the Loan file.

Note: The green card states “Do Not Duplicate” for the purpose of replacing the original card, USCIS allows photocopying the green card. Making an enlarged copy or copying on colored paper may alleviate any concerns the borrower may have with photocopying.

2.4.5. Social Security Number – US Citizen and Non-US Citizen

Each borrower on the Loan must have a valid Social Security number. Any borrower who is not a U.S. citizen must also meet the requirements in this section.

2.5. Inter Vivos Revocable Trust Lending California

See Trust Requirements

2.6. Social Security Numbers

All borrowers, including permanent and non-permanent resident aliens, are required to have a valid Social Security number.

2.7. Non-Occupant Co-Borrower

Non-Occupant co-borrowers are allowed*, but are not required to be a family member of the borrower. There should be, however, an established relationship and motivation not including equity participation for profit, which is not an acceptable motivation.

*Non-Occupant Co-Borrowers are not allowed with LTVs > 80%.

Occupant borrower’s maximum ratio when a non-occupant co-borrower exists cannot exceed 45%.

2.7.1. Direct Family Member

Loans for properties purchased for occupancy by a direct family member (parents, siblings, children) must meet the following occupancy guidance.

If	And borrower’s relationship is:	Then Occupancy is…
Only the occupant borrower’s income is needed to qualify	N/A (borrowers do not have to be related)	Primary Residence
Only the non-occupant borrower’s income is needed to qualify	Direct family members (parent/child or siblings)	Second home
	Not direct family	Investment Property

	members	
Both the occupant and non-occupant borrowers' incomes are needed to qualify	N/A (borrowers do not have to be related; relationship does not impact occupancy type)	Investment Property

When qualifying using only the non-occupant borrower's income, the following LTV restrictions apply:

Primary Income Earner's FICO	LTV Reduction
≥ 740	2nd Home Max LTV is reduced 5%
≥ 700 but < 740	2nd Home Max LTV is reduced 10%

2.8. Identity of Interest Transactions

Certain transactions pose an increased risk and additional precautions must be taken to evaluate and prudently underwrite for that risk. In-depth analysis of transactions between parties with family or business relationships may reveal unsupported values, straw borrowers, non-arm's length or at-interest influences, inflated sales prices, or excessive fees or disbursements. **Identity of Interest Transactions includes both Non-Arm's Length and At-Interest transactions.**

The table below is designed to provide examples of various Identity of Interest transactions, but is not meant to be all-inclusive.

Identity-of-interest may be considered subject to the following additional requirements:

- Copy of the canceled earnest money check to verify payment to the seller.
- Verification that the borrower is not now, nor has been in the previous 24 months, in title to the property.
- If there is a relationship between the borrower and the seller, the borrower must provide a written explanation stating the relationship to the seller and the reason for purchase.
- Sales contract assignments must also meet the following:

There is no increase in sales price.

- The explanation for the assignment is reasonable.
- If the earnest money is being transferred, it is treated as a sales concession and deducted from the sales price.

Non-Arms Length	At-Interest
A Non-Arm's Length transaction is one where the parties to the transaction are related such as family members, employer/employee, or principal/agent. This relationship may influence the transaction. Common types of Non-Arm's Length transactions include: • Seller is a corporation, partnership, or any other	An At-Interest transaction involves 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. Examples of

Non-Arms Length	At-Interest
business entity • Loan officers originating loans of their family members • Family Sales • Property in an estate • Employer/employee sale (This is a transaction in which a builder or developer is selling a property to one of its employees who does not hold a principal ownership interest)	At-Interest transactions include: • Seller and Buyer relationship • Borrower is currently a tenant and purchasing from landlord • Real Estate Agent/Broker is acting as the Loan Officer/Mortgage Broker on the subject property • Real Estate Agent/Broker and the Loan Officer are employed by the same business entity • Spouse of a loan officer is a notary • Builder acting as Realtor/Broker on subject property • Realtor/Broker selling own property

2.8.1. Ineligible Transactions

The following scenarios are ineligible if the transaction possesses any Identity of Interest characteristics:

- Property Flips
- 203k Loans
- Second Homes
- Investment Properties

2.8.2. Primary Occupancy

On a case-by-case basis, Non-Arm's Length, At-Interest or Identity of Interest transactions may be considered when the borrower is purchasing the property as a primary residence **AND** the following Additional Requirements are met (when applicable).

2.8.3. Additional Requirements

A Primary residence with Non-Arm's Length, At-Interest or Identity of Interest may be considered on a case-by-case basis subject to the following additional requirements, as applicable.

Transactions	Guideline
All Identity of Interest Transactions	Full/Alt documentation of the borrower's income, employment, and assets.
	The underwriter must be satisfied that the transaction makes sense and that the borrower will occupy the property as a primary residence.
	Borrower must provide a copy of the canceled earnest money check to verify payment to the Seller (may be satisfied through verification of Escrow Deposit).
	Verification that the borrower is not now, nor has been in the previous 24 months, in title to the property.

Transactions	Guideline
	Borrower must provide a written explanation stating the relationship to the seller (if any) and the reason for purchase. Payment history for the existing mortgage (verification of the seller's mortgage) on the subject property must be provided and show no pattern of delinquency within the past 12 months.
When the seller is a corporation, partnership, or any other business entity.	Ensure that the borrower is not an owner of the business entity selling the subject property.
When the Real Estate Agent is acting as the Broker or Loan Officer on the same subject property.	Additional discretionary QC review will be required.
When the Real Estate Agent and the Loan Officer are employed by the same business entity.	Additional discretionary QC review will be required.
The spouse of a loan officer is a notary.	The spouse of a loan officer cannot notarize the loan documents of the transaction.
Loan officers originating loans of their family members.	Additional discretionary QC review will be required.
Family Sales - one family member is selling to another. Often there is no real estate agent involved or the agent may also be a family member. These transactions carry the potential for increased risk as they may be bailout situations.	A payment history for the existing mortgage (verification of seller's mortgage) on the subject property must be obtained and show no pattern of delinquency within the past 12 months.

Valuation Requirements:

- A Generic Automated Valuation Model (AVM) is required to validate the first full appraisal.
  - If an AVM is not allowed, unavailable or reflects a value 10% or less than the full appraisal, then a field review or a second full appraisal is required.
  - Regardless of format, this supplemental report must be obtained from RELS Valuation at: www.relsvaluation.com, or 1-877-844-8573.
- Appraiser must verify the last sale date and sales price of the subject property, and must provide recent listing and/or marketing materials.
- Purchase contract review.

2.9. Multiple Financed and Owned Properties

The following guidelines apply to the total number of one to four unit residential properties the borrowers personally own free and clear or are personally obligated on a mortgage.

Property Type	Maximum number of 1 – 4 unit properties that may be FINANCED (including subject) is:	Maximum number of 1 – 4 unit properties that may be OWNED (including subject) is:
Primary	4[1]	Unlimited
Second Home	4[1]	Unlimited
Investment	4[1]	5

[1]The number of financed properties can exceed four when reserves/post-closing liquidity meet the following:

- When aggregate liens are < $3 million, 35% of the total of the aggregate liens

• When aggregate liens are > $3 million, 50% of the total of the aggregate liens

When aggregate financing for all properties owned by borrower exceeds $3 million, one of the following is required:

- Minimum reserve (post-closing liquidity) of 36 months' PITI or
- Maximum 50% LTV/CLTV

3. Underwriting

3.1. Manual Underwriting

All loans are manually underwritten

3.2. Documentation

The application package must contain acceptable documentation to support the underwriting decision.

When standard documentation does not provide sufficient information to support the decision, additional explanatory statements must be provided.

Verification forms must pass directly between lender and creditor without being handled by any third party.

Certified copies of exhibits will be accepted by MWF with verification of authenticity by the underwriter as necessary. This verification must be in the form of verbal verification performed by a MWF associate.

Documentation must not contain any alterations, erasures, and correction fluid or correction tape. Copies must be stamped, "Certified, True and Exact Copies of the Original." Or a blanket certification can be provide.

3.2.1. Age of Credit Documents

The standard age of credit documents is FOUR months for existing and new construction. Credit documents include employment, credit reports, asset and income documentation.

The maximum age for appraisals is 120 days from the inspection date for Conventional. The age of documents is measured from the date of the document to the date the note is signed.

AGE OF CREDIT DOCUMENTS		
Document Title	**Max Age**	**To Date Of**
Credit Report	90 days 120 days for new construction	Signed Note
Verification of Employment (VOE)	120 days from date of application	Signed Note

AGE OF CREDIT DOCUMENTS		
Document Title	**Max Age**	**To Date Of**
Verification of Deposit (VOD) (Seasoning guidelines apply)	120 days from date of application	Signed Note
Verification of Mortgage	120 days	Signed Note
Demand	30 days	Signed Note
Preliminary Title Report	90 days	Signed Note
Pay Stubs	90 days (30 Days from date of application)	Signed Note
Appraisal	120 days	From Inspection Date
Pre-funding Verbal VOE	10 days	Closing/Funding

3.2.2. Verbal VOE Requirements

All Types of Salary and Wage Earner Income
Verbal VOE must be obtained not more than 20 business days prior to and including the date printed on the Note in non-escrow states (notary date on the Security Instrument for escrow states).

- If the verbal VOE is dated more than 20 business days prior to and including the date printed on the Note/Notary Date, another verbal VOE must be obtained prior to the Loan being purchased.
- If a verbal VOE was not obtained prior to and including the date printed on the Note/Notary Date, a verbal VOE mist be obtained prior to the Loan being purchased.

Self Employed Income
If any borrower on a loan is self-employed, a verbal VOE must be completed not more than 30 calendar days prior to and including the date printed on the Note in non-escrow states (notary date on the Security Instrument for escrow states).

- If the verbal VOE is dated more than 30 calendar days prior to and including the date printed on the Note/Notary Date, another verbal VOE must be completed prior to the loan being purchased.
- If a verbal VOE was not completed prior to and including the date printed on the Note/Notary Date, a verbal VOE must be completed prior to the loan being purchased.

Additional due diligence must be performed to verify income stability and continuance including, but not limited to:

- Confirm with a disinterested third party, for example, a CPA, regulatory agency, contractor, or professional organization, AND
- Provide supporting documentation verifying the existence of the business including, but not limited to:
  - Yellow page ads
  - Copies of business licenses
  - Internet websites. Acceptable internet websites include the borrower's business website and government, union, and professional association websites or accessing LexisNexis.

The verification must be documented in writing, including:

- Independently verified source of the employment information
- Name and title of the person who verified the borrower's employment

3.2.3. Additional Documentation

Tax returns, if required, must be true copies of filed returns and must be signed by the applicant on page 2 of the returns unless the lender has obtained one of the following signature alternatives:

- Documentation confirming that the tax returns were filed electronically, and
- A completed IRS Form 4506-T (signed by the borrower for the years in question
- OR
- IRS transcripts that validate the tax return.
- Do not accept copies that are signed by a tax preparer. Tax preparers only sign the filed original.
- Do not accept W-2 forms that are marked "Employer Copy". Employers do not distribute their copies.
- Letters of explanation regarding financial circumstances must specifically address the financial or credit concern presented and must contain a complete explanation in the applicant's own words, and be signed and dated by the applicant.

3.2.4. Tax Returns

The following table describes which tax-related documentation to obtain depending on the application date and disbursement date of the mortgage loan.

<table>
<tr><th>Application Date</th><th>Disbursement Date</th><th>Documentation Required</th></tr>
<tr><td rowspan="3">10/15 – 4/14</td><td>10/1 – 4/14</td><td>The most recent year’s tax return is required. Extensions are not permitted.</td></tr>
<tr><td>4/15 – 6/30</td><td>The previous year’s tax return is recommended, but not required.

If the borrower has filed returns with the IRS for the previous year, copies of that return are required. If not, the prior two years are required.

Only signed IRS Form 4506–T is required for tax returns received.</td></tr>
<tr><td>7/1 – 10/14</td><td rowspan="2">The most recent year’s tax return OR all of the following:
Copy of Extension (IRS 4868).
The 4868 should be compared to the borrower’s tax liability from the previous two years. If inconsistencies are noted, the current tax returns are required.
IRS Form 4506–T transcripts confirming “No Transcripts
Available” for the applicable tax year, and
Tax Returns for the prior two years</td></tr>
<tr><td rowspan="2">4/15 – 10/14</td><td>4/15 – 12/31</td></tr>
<tr><td>1/1 – 4/14</td><td>The most recent year’s tax return is required. Extensions are not permitted.</td></tr>
</table>

Note: For business tax returns, if the borrower’s business uses a fiscal year (a year ending on the last day of any month except December), the lender may adjust the dates in the above chart to determine what year(s) of business tax returns are required in relation to the application date/disbursement date of the new mortgage loan.

3.2.5. Acceptable Documentation

Alternative documentation provided in lieu of "Verification of Employment" and "Verification of Asset" forms must be legible originals or certified true and exact copies*. The documentation cannot contain any alterations, erasures or white-outs.

*Each copy must be stamped and signed by the loan processor or branch manager, certifying that they are true copies of the originals. The individual certifying the original must include a signature, which contains at least his/her first initial and full surname.

3.2.6. Fax Copies

Fax copies in lieu of original documents or certified copies are acceptable subject to the following:

- Verification transmitted directly from the loan processor to an employer, depository institution, mortgagee or landlord. The employer, depository institution, mortgagee or landlord must transmit the verification directly back to the loan processor.
- Photocopies or faxes received by the loan originator or loan processor directly from the borrower are acceptable.
- Copies or faxes from a builder, real estate agent, property seller or other third party are unacceptable.

3.2.7. Internet Documentation

Internet documents/downloads of credit reports as well as income, employment and asset verification are acceptable. This allowance for internet documents does not change the required content or level of documentation needed. The information must be easy to read, understandable, and have no evidence of alterations, erasures or white-outs, and must make sense based on the borrower profile and transaction terms.

The following source validation criteria apply to all documents obtained via the Internet:

- Identify the borrower as the employee or owner of the applicable account.
- Identify the credit reporting agency, employer, or depository/investment firm's name and source of information.
- Headers, footers, and the banner portion of the printout of the downloaded web page(s) must reflect the appropriate firm.
- Display the Internet uniform resource locator (URL) address and the date and time printed.
- If faxing an Internet download, make sure fax header does not cover URL information.

3.2.8. Verification of Employment

Employment and income for a salaried employee may be verified by obtaining all of the following documentation in lieu of a "Verification of Employment" (VOE):

- Consecutive 30 days of pay stubs.
- The borrower's W-2 forms for the past two years.
- The W-2 forms must be complete and legible.

Borrower's Pay Schedule	Number of Paystubs Required for Approved/Referred/Manual

	Underwritten Loans
If borrower is paid:	**Obtain:**
Monthly	At least 1 paystub covering most recent full month employment.
Bi-Weekly	At least 3 consecutive paystubs.
Semi-Monthly (15th & 30th)	At least 2 consecutive paystubs.
Weekly	At least 5 consecutive paystubs

3.2.9. Pre-Closing Verbal Verification of Employment

A pre-closing verbal verification of employment is required within 10 business days (prior to the note date).

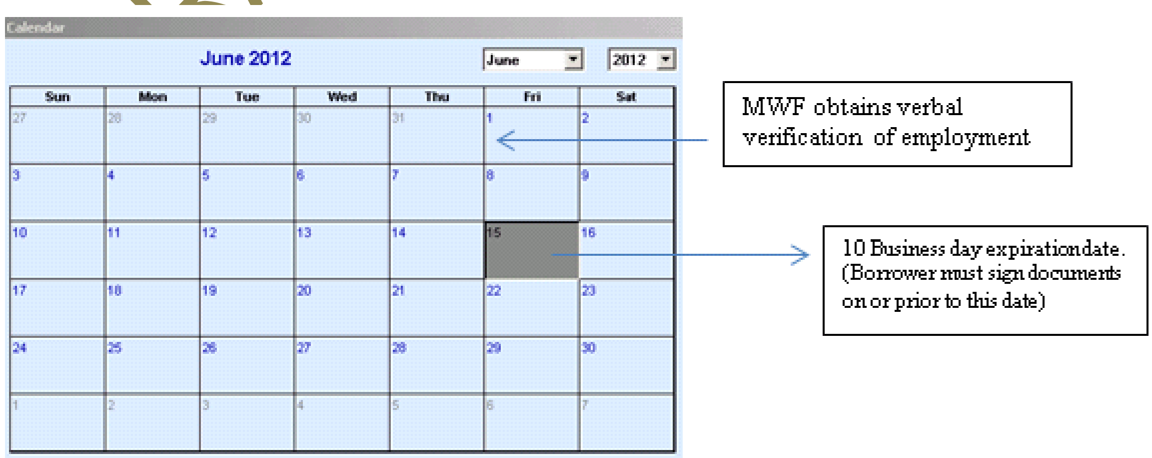
Note: "Business day" is defined as Monday through Friday, and does not include Saturday, Sunday or Federal Holidays.

The "note date" is the date the borrower actually signs the documents, not the date printed at the top of the note.

The verbal verification of employment will be completed at the time documents are drawn. Additionally, the Doc Drawer will add a PTF condition that the documents must be drawn and executed by the borrower on or prior to the VVOE expiration date.

The VVOE will be considered expired after 10 business days from the date it was obtained. For example: The verbal verification of employment was completed by MWF on Friday, June 1, 2012. The expiration date of the VVOE would be June 15, 2012.

The Borrower must sign loan documents on or prior to June 15, 2012.



If the Borrower does not sign the loan documents within the 10 day time frame, MWF must obtain a whole new VVOE and once again the borrower will be required to sign the loan documents on or before the expiration date.

If the loan documents have been sent to the Escrow and/or Title Company, but the borrower fails to sign on or prior to the expiration date. The loan documents will no longer be valid and a full redraw will be required and the VVOE process will start all over again.

3.3. Credit

3.3.1. Credit Reports

All Non-Conforming Credit Packages must include either a CoreLogic® Credco® or Equifax® credit report. The Loan Score from this credit report will be used to determine pricing and used during the underwriting process.

Loan Score Selection

After selecting the appropriate credit score for each borrower, the Loan Score must be determined.

- The credit score of the borrower with the highest income and a valid credit score is used as the Loan Score.
- When there is a non-occupant co-borrower, the credit score of the occupying borrower with the highest income is used as the Loan Score.
- If a borrower does not have a valid credit score, that score is not considered in the selection of the Loan Score, regardless of the borrower's income.
- In the event multiple borrowers have the same highest income, the borrower with the highest valid credit score is used as the Loan Score.
- Income sources must be verified and cannot be excluded in order to change the primary income earner.

3.3.2. Business Credit Reports

Business credit reports are not required; however, there are certain circumstances when it will be imperative to obtain a business credit report to determine the acceptability of a Loan.

When the Borrower's business entity is a corporation, subchapter "S" corporation or a partnership, it is at the sole discretion of the underwriter to determine the appropriate times to require a business credit report.

3.3.3. Minimum Credit Scores

Transaction Type	Min FICO
Primary Purchase/Rate & Term – Fixed	700
Primary Purchase/Rate & Term – ARM	720
Primary Cash-Out – Fixed	720
2nd Home Purchase/Rate & Term – Fixed	700
2nd Home Purchase/Rate & Term – ARM	720

Investment Purchase/Rate & Term/Cash Out	740

3.3.4. Insufficient Credit

Insufficient credit is defined as any of the following:

- Fewer than three tradelines.
- No tradeline with activity in the most recent 12 months.
- No tradeline with at least a 24-month history.

There may be instances where the borrower's credit score is valid, but insufficient credit exists. In addition, the credit risk of the entire borrower profile must be evaluated to determine if the credit history supports the borrower's ability and willingness to repay the loan.

3.3.5. Non-traditional credit

Not allowed.

3.3.6. Housing Payment History

If the borrower has less than 12 months or no housing payment history (mortgage or rental), the loan is ineligible.

- However, if there is no housing payment history in the most recent 12 months, but a prior acceptable mortgage history is verified on the credit report, it can be used to meet the housing payment history requirement.

If the borrower owns the property free and clear, and the mortgage was paid off, or the property was purchased for cash:

- Less than 12 months ago, a partial mortgage payment history showing no late payments must be provided.
- More than 12 months ago, no mortgage payment history is required. The tax and insurance payments on the property will constitute an acceptable housing payment history if there is no evidence of delinquency.

A professional management company or an individual landlord may verify rental housing payments.

If renting from a professional management company, provide one of the following:

- Verification of rent or reference on a credit report
- Most recent 12 months' cancelled checks or bank statements showing timely payments

If an individual landlord provides a reference, either by a verification of rent or on a credit report, the borrower must also provide evidence of timely payments for the most recent 12 months with one of the following:

- Cancelled checks
- Bank statements showing the payment

- Money order receipts
- Cash receipts are not allowed if the landlord:
  - Is a relative of the borrower, or
  - Has an established relationship, prior to the loan transaction with the borrower beyond their connection as renter and landlord (examples include, but are not limited to, co-workers, close personal friends, partner, business associate, realtor, etc.)
  - If using cash receipts, the name, address, and telephone number of the individual receiving the payments must be provided.

An individual landlord reference, either by a verification of rent or on a credit report, is not required if the borrower provides evidence of timely payment for the most recent 12 months with one of the following:

- Cancelled Checks
- Bank statements showing the payment

3.3.7. Co-Borrowers without Credit Scores

Not Allowed

3.3.8. Separated Borrower

If a borrower is separated, documentation is necessary to determine the division of assets, liabilities, and potential obligations.

If the borrower is legally separated, a copy of the recorded legal separation agreement is required in order to exclude specific obligations that would otherwise be included in the borrower's qualifying ratios.

3.3.9. Divorce Decrees and a/k/a

Multiple names (aka's) should trigger at a minimum a letter of explanation from the borrower regarding the multiple names and if at that point it is revealed that a previous marriage was involved request the divorce decree. If there is any other information to suggest a divorce such as child support, alimony payments, request the divorce decree. There is no maximum time period in which the divorce decree would not be called for but certainly if the borrower has been divorced for 20 years, a letter of explanation as to when the divorce took place and that no current alimony/child support is involved would suffice.

3.3.10. Delinquent Credit

3.3.10.1. Adverse Credit

When significant adverse credit is identified in a borrower's credit history, documentation must be provided evidencing whether the derogatory information was due to extenuating circumstances or financial mismanagement, and that an acceptable credit history has been re-established.

3.3.10.2. Derogatory Credit Waiting Period Requirements

The waiting period commences on the completion, discharge or dismissal date (as applicable) of the derogatory credit event and ends on the credit report date for loans receiving a DU Approval.

The following table summarizes the waiting period requirements for all significant derogatory credit events:

<table>
<tr><th>Derogatory Item</th><th>Waiting Period</th></tr>
<tr><td>Foreclosure</td><td rowspan="7">LTV/CLTV greater than 70 percent: Not allowed
LTV/CLTV less than or equal to 70% is allowed when:
• 5 Years and the adverse Credit was due to extenuating circumstances
• 7 Years and the Adverse Credit was due to financial mismanagement</td></tr>
<tr><td>Deed-in-Lieu of Foreclosure</td></tr>
<tr><td>Short Sale</td></tr>
<tr><td>Bankruptcy Chapter 7</td></tr>
<tr><td>Bankruptcy Chapter 13</td></tr>
<tr><td>Repossession</td></tr>
<tr><td>Loan Modification</td></tr>
</table>

Extenuating Circumstances Examples

Extenuating Circumstance Examples: non-recurring events that are beyond borrower control that result in a sudden and prolonged reduction in income or a catastrophic increase in financial obligations.

3.3.10.3. Charge-Offs

- Individual, paid or unpaid account that was charged-off within two years of the application date for an amount greater than $500 is not allowed.
- Individual, unpaid account that was charged-off more than two year from the application date for an amount greater than $500 is not allowed.

3.3.10.4. Open Collection Accounts

Loans with open collection accounts are ineligible for LTVs > 80%.

3.3.10.5. Purchase Previously Owned & Foreclosed by Borrower

MWF will allow mortgage financing for transactions where the borrower is purchasing a property previously owned by him/her, and who is currently living in the property and paying rent; provided the following guidelines are met:

- Satisfactory proof of rental payments for 6 months at market rent levels.
- Standard waiting period guidelines for severe derogatory credit have been met.
  - No extenuating circumstances allowed.
- Non Arm's Length Transactions are not allowed.

3.3.10.6. Short Refinance/Modification/Restructured Loan

A restructured loan is a mortgage in which the terms of the original transaction have changed resulting in either the forgiveness of the mortgage or a restructure of the mortgage. This is either through a modification or the origination of a new loan that results in any of the following:

- Forgiveness of a portion of the principal and/or interest on either the first or second lien.
- Application of a principal curtailment by or on behalf of the investor to simulate forgiveness.
- Conversion of any portion of the original mortgage debt to a soft subordinate mortgage.
- Conversion of any portion of the original mortgage debt from secured to unsecured.
- Payoff demands that are significantly lower than what is reported on the credit report or VOM as the high balance of loan will be carefully examined.

Existing Modification agreement to be received and reviewed to ensure that there was no debt forgiveness as part of the modification.

See additional requirements below:

Modified Loan on Subject Property (Refinance), and:

Includes Debt Forgiveness
No mortgage lates for the past 24 month period.

No Debt Forgiveness
No mortgage lates for the past 24 month period.

Modified Loan is not the Subject Property (New purchase or refinance of another property), and:

Includes Debt Forgiveness
If one or more of the borrowers on the Loan has entered into a Short Refinance or restructured mortgage loan transaction for a property **other than** the subject property in the past, credit must be reestablished in accordance with the Short Sale Requirements above.

No Debt Forgiveness
No waiting period necessary

3.4. Income / Employment

3.4.1. Evaluating Income

3.4.1.1. Stable Monthly Income

Any income to be considered in the Loan qualification analysis must be stable, regular, and recurring with evidence that a high probability exists for continued receipt at current or increasing levels for at least three years.

Generally, the greater the job tenure and stability, the greater the ability to repay obligations in a timely fashion.

3.4.2. Self Employed Borrowers

Borrowers are considered self-employed when their income is derived from a business in which they maintain a majority owner interest or can otherwise exercise control over the business' activities. Generally, a 25% or greater ownership interest in the business is considered a majority. There are circumstances where borrowers may be considered self-employed if they own less than 25% of a business.

Example:
In partnerships with each of five general partners owning 20%, the borrower is considered self-employed if this 20% ownership is the borrower's major source of income.

All self-employed Borrowers are required to provide copies of signed individual (and business if appropriate) tax returns, including all applicable schedules, for the previous two years. If the last two years of tax returns are currently on extension the loan is not eligible for purchase.

Year-to-date Income/Expense Statement and Balance Sheet are also required if more than 120 days have lapsed since the last fiscal year end.

Two-year History
Income from self-employment may be considered stable if the borrower has been self- employed two or more years. Stable income is the average income for the previous two years.

Less than two-year history
Income of a borrower with at least one year, but less than a two-year history of self- employment may be considered stable if both of the following requirements are met:

- Borrower must have had at least two years of previous successful employment in the same occupation.
- Borrower must be able to document a reasonable probability of business success based on market feasibility, research, or studies and pro forma financial statements.

Less than one-year history

Income from a self-employment of less than one year may not be considered effective income.

3.4.3. Tax Transcripts Required

It is the responsibility of Originators to request the most recent year's tax transcripts. An executed IRS 4506-T is required of all borrowers. MWF requires a minimum verification of tax returns via IRS transcripts of the most recent 2 years' tax returns.

3.4.4. Self Employed Declining Income

If the earnings trend for the previous two years is downward and the most recent tax return or P&L is less than the prior year's tax return, the borrower's most recent year's tax return or P&L must be used to calculate his/her income.

3.4.5. Employment Beginning After Subject Loan Closing

Loans may close prior to the start date with a New Employer provided the following requirements are met:

- Primary residence and 1-unit only.
- Maximum 80% LTV.
- Purchase transactions only.
- Salaried borrowers only.
- Fully executed non-contingent employment contract or offer letter indicating salary and start date is required. The contract must be fully guaranteed and non-revocable.
- The time period between closing date & commencement of employment must not exceed 60 days.
- Borrower must have adequate cash reserves to cover PITI during employment gap plus two additional months over and above any other reserve requirements that may apply.
- Post Close verbal Verification of Employment and Paystub not required.
- Documentation evidencing all contingencies have been satisfied must be provided prior to closing.

3.4.6. Child support, alimony, or separate maintenance income

Child support, alimony, or separate maintenance payments may be used as income only if this information is volunteered by the borrower, and if there is evidence that the court-ordered amount has been received on a continual basis for the most recent 12 months.

The income may not be considered for qualifying if any of the following apply:

- Payer has been obligated to make payments for less than 12 months

- Payments are not for the full amount
- Payments are not received on a consistent basis
- Income does will not continue for 3 years

To document, obtain one of the following:

- Court order
- Final divorce decree
- Legal separation agreement
- Voluntary payment agreement that has been approved by a court or is government-enforceable (for example, administered by a state agency) and acceptable evidence that payments have been received during the last 12 months, such as:
- Canceled checks
- Deposit slips or deposit receipts
- Bank or other account statements
- Complete individual federal income tax returns
- Court records

3.4.6.1. Alimony or maintenance income:

If the income is nontaxable:

- May not be grossed up when the final divorce decree or separation agreement is executed on or before December 31, 2018
- May be grossed up when the divorce decree or separation agreement is executed after December 31, 2018.

3.5. Income Analysis

3.5.1. Maximum DTI

Total Debt to Income Ratio	Occupant Borrower's Ratio w/Non-Occupant Co-borrower
40% (43% Primary Fixed Rate)	45%

3.5.2. Employment Gaps

The borrower must provide a detailed two-year employment history. Obtain a written explanation from the borrower for any gaps in employment that span one or more months. The underwriter must determine that any gaps do not affect employment stability. Gaps in employment due to the borrower attending training or schooling for a specific profession should be favorably considered. Verification of the schooling (for example, diploma, or transcripts) must be provided.

3.5.3. Bonus Income

Bonuses may be used as stable monthly income if the employer verifies all of the following:

- Two-year history of receipt.
- Probability of continued receipt.
- Dollar amount of bonuses paid in the last two years.

If the employment verification states that the bonus income is unlikely to continue, it may not be used in qualifying.

The underwriter must develop an average of bonus income for the past two years. Periods of bonus income less than two years may be acceptable, provided the underwriter can justify and document in writing the reason for using the income for qualifying purposes. To document, obtain all of the following:

- Most recent YTD paystub or salary voucher documenting at least one month of income.
- W-2s covering the most recent two years.
- Verbal VOE not more than 20 calendar days prior to the date printed on the Note.

In some financial professions when the borrower secures new employment the borrower is offered a bonus which will be awarded on a recurring monthly, quarterly, or annual basis. Treat this as eligible income pursuant to stability and continuance requirements.

3.5.4. Commission Income

Commission income must be averaged over the previous two years.

Commission income earned for less than one year is not considered stable income unless the underwriter can verify and document in writing that the borrower's compensation changed from salary to commission within a similar position with the same employer.

Borrowers whose commission income was received for more than one year, but less than two years, may be considered favorably if the underwriter can do both of the following:

- Document the likelihood that the income will continue.
- Soundly rationalize accepting the commission income.

Commission income received for a minimum of two years from similar positions with different employers within the same industry may be considered, if the underwriter can soundly rationalize accepting the commission income.

To document, obtain all of the following:

- Most recent YTD pay stub(s) documenting at least one month of income.
- Most recent two years' W-2s.

- Verbal VOE not more than 20 business days prior to the date printed on the Note.

A WVOE covering a two year history may be acceptable in lieu of W-2s and pay stub(s).

3.5.5. Long Term Disability

Permanent/Long-term disability benefits may be paid to the applicant by a Federal agency, such as the Social Security Administration or Veterans Administration, a State agency, a private insurance company, workers compensation insurance, an employer, or other disinterested third party.

3.5.5.1. Continuance

Continuance is not required for Social Security Disability Income (SSDI). For all other types of long-term disability income, the income must be likely to continue for the next 5 years. The continuance requirement may be reduced to 3 years if this income source contributes 25% or less of the qualifying income.

- If documentation does not contain any indication that the income will terminate within the next 5 years, assume income will continue for the next 5 years.
- If documentation indicates a termination date or conditions for termination of the payment, the termination must not occur within the next 5 years.

Note: If the documentation indicates the borrower's benefits are subject to periodic reviews or evaluations, this is not an indication that the income is unlikely to continue and does not require additional documentation for determining likelihood of continuance.

- If documentation indicates an expiration or modification date (such as reaching a certain age, etc.), verify that the remaining term is for at least 5 years.

3.5.5.2. Documentation

An Award Letter or equivalent written documentation confirming the source, amount, frequency, and borrower as the recipient of the payments must be provided.

3.5.6. Notes Receivable, Installment Sales and Land Contracts

Secured or Unsecured:

A copy of the Note is required to establish the payment amount and length of payment. Payments must continue for at least five years beyond the date of the mortgage application; however, the continuance requirement may be reduced to three years if this income source contributes less than 25% of the qualifying income. Evidence that these payments have been consistently received for the last 12 months must be verified through one of the following:

- Bank deposit slips or deposit receipts
- Canceled checks
- Bank or other account statements
- Tax returns

3.5.7. Non-Taxable Income

Nontaxable income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- Child Support
- Disability benefits
- Retirement Income
- Worker's Compensation Benefits
- Military Allowances
- Other income that is documented as being exempt from federal income taxes

Nontaxable income must be grossed up, if needed for qualifying and documentation verifying the following must be obtained:

- Income is nontaxable
- Both the income and its nontaxable status are likely to continue

Acceptable documentation includes award letters, complete individual federal tax returns, policy agreements, account statements, or other documentation evidencing the income, or a portion of the income, is tax exempt.

If the income meets these requirements, add 25% of the nontaxable income to the borrower's qualifying income to develop an adjusted gross income. The adjusted gross income is used in calculating the income and debt ratios. Standard qualifying ratios should not be exceeded when using grossed-up income.

3.5.8. Other Income Sources/Unearned Income

Five years of continuation is required for income types with finite period of receipt, such as, but not limited to the following:

- Alimony or separate maintenance payments
- Child support
- Note income
- Trust Income
- IRA/401K/Keogh income
- Certain types of retirement income, such as annuities (excluding social security income)
- Social Security survivor benefits for children
- Foreign income

- Certain types of benefit income, such as worker's compensation
- Public assistance income
- Mortgage differential
- Relocation compensation
- Royalty income

The continuance requirement may be reduced to three years if the income source contributes to less than 25% of the total qualifying income.

Effective income for borrowers planning to retire during the first three-year period of the loan must include the applicable amount of:

- Documented retirement benefits
- Social Security payments
- Other Payments expected to be received in retirement

The borrower's continued ability to repay the loan must be considered when the income source expires or the distributions will deplete the asset prior to maturity of the loan, including:

- Replacement income such as Social Security income, deferred compensation, or trust income, that will begin before the income source expires
- Strong equity position in other real estate or assets that may be liquidated in the future to provide an additional income stream
- Strong financial experience evidenced by asset and credit profile
- Sale of the subject property cannot be the sole reason for approval or denial

3.5.9. Personally Held Commercial Properties

Rental income must be documented if used to qualify. Documentation requirements are as follows:

- Most current two years filed and signed Federal Individual Income Tax Returns including Schedule E evidencing a two-year history of receipt of rental income.

3.5.10. Rental Income

Rent received from investment properties or other units of an owner-occupied multifamily property may be considered stable income.

Rents received from a live-in aide, generated from a disabled borrower's 1 unit, primary residence may be used for qualifying purposes, in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage.

Typically, a live-in aide will receive room and board payments through Medicaid waiver funds from which the live-in-aide then makes rental payments to the borrower. This source of income is non-taxable and is not reported on the borrower's personal tax returns.

This income source may be considered stable monthly income, if both of the following are met:

- The borrower has received rental payments from a live-in aide for the past 12 months on a regular basis
- The live-in aide plans to continue to reside with the borrower for the foreseeable future.

3.5.10.1. Insurance Requirements

Rent loss insurance covers rental losses that are incurred during the period that the property is being rehabilitated following a casualty. Rent loss insurance is required:

- For 1-unit investment property where borrowers are relying on rents from the units they will not be occupying.
- If the income from those units is used to qualify the borrowers.
- The insurance must provide coverage for an amount equal to a minimum of six months of the rental income.

3.5.10.2. Income Analysis – Rental Income

Stability of Rental Income

The stability of the rental income must be documented with two years of rental management experience or rental income history. This can include any rental property, not exclusive to the subject.

Rental Management Experience or Rental Income History

Rental management experience and rental income history is verified by obtaining the most recent two years of filed and signed federal IRS 1040 tax returns.

The two-year rental management experience and rental income history requirement may be waived for rental income from the subject property only, if all of the following apply:

- Purchase transaction
- One – two-unit property
- Primary residence
- LTV less than or equal to 75%
- Loan score greater than or equal to 740

When waiving the property management experience, use the Small Residential Income Property Appraisal Report (Form 72/1025) to support rental income (a current lease is not required). A 25% vacancy/maintenance expense factor must be deducted from the gross rental income.

Eligible Rental Income

The following are acceptable sources of rental income:

- Rent received from investment properties or other units of an owner-occupied multifamily property may be considered stable income.
- Rents received from a live-in aide, generated form a disabled borrower's 1 unit, primary residence may be used for qualifying purposes, in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage.

Typically, a live-in aide will receive room and board payments through Medicaid waiver funds from which the live-in-aide then makes rental payments to the borrower. This source of income is non-taxable and is not reported on the borrower's personal filed and signed federal IRS 1040 tax returns.

This income source may be considered stable monthly income, if both of the following are met:

- The borrower has received rental payments from a live-in aide for the past 12 months on a regular basis.
- The live-in aide plans to continue to reside with the borrower for the foreseeable future.

Ineligible Rental Income

The following are ineligible rental income types:

- Rent from boarders in a single-family property that is also the borrower's primary residence.
- Rent from a property that is the borrower's second home.

Non-Subject Investment Property Pending Sale

If non-subject investment property is pending sale, review the following documents to consider the principal, interest, taxes, insurance (PITI) payment:

- Lease duration, and
- Three months of cancelled checks or bank statements verifying receipt of rental income.

Note: Any additional income, above the PITI offset, from the non-subject investment property cannot be used as qualifying income.

Documentation Requirements – Rental Income Used to Qualify
Rental management experience and rental income history is verified by obtaining the most recent 2 years filed and signed federal IRS 1040 tax returns, including Schedule E., regardless of how long the property has been owned. Refer to Rental Management Experience or Rental Income History requirements above for when this can be waived.

Rental income from commercial rental properties requires two years' complete filed and signed federal IRS 1040 tax returns, including schedule E.

Any indication of a gap in rental history/income greater than three months requires a written explanation from the borrower.

For subject property, rental income used to qualify must be supported by the Small Residential Income Property Appraisal Report (72/1025) or comparable rent schedule (1007).

Tax Returns Aged Nine Months or More from the Date of the Last Tax Year Filed
Verification of current lease agreement and three months cancelled checks to verify current cash flow/rental management experience OR 10% Post Close Liquidity (PCL) based on the total aggregate liens on the subject property, in addition to standard PCL, is required unless:

- The rental income makes up less than 25% of the total qualifying income; or
- Appraisal indicates that units generating rental income used to qualify are tenant occupied.

Property Owned Less Than 12 Months
When property has been owned less than 12 months and is not reflected on the borrower's most recent, filed and signed federal IRS 1040 tax returns, the following is required:

- Copies of the present, signed lease may be used only if the borrower has a two-year history of property management experience as evidenced by the most current two years' filed and signed federal IRS 1040 tax returns.
- A vacancy/maintenance expense factor of 25% should be deducted from the rental income verified by the current lease agreement for determining qualifying income.

In addition:

- For refinance transactions, three months of cancelled checks or bank statements verifying receipt of rental income, or
- For purchase transactions, existing tenant lease agreement may be used when transferred as part of the sale of the property. Three months cancelled checks are not required.

Insurance Requirements – Subject Property
Rent loss insurance is required:

- For 1-unit investment property and 2 – 4-unit residence where borrowers are relying on rents from the units they will not be occupying.
- If the income from those units is used to qualify the borrowers.

The insurance must provide coverage for an amount equal to a minimum of six months of the rental income

Documentation Requirements – Rental Income Not Used to Qualify
Documentation is not required when rental income is not used to qualify.

Determining Qualifying Rental Income
Determine qualifying rental income utilizing the following Cash Flow calculation only with IRS Form 1040 tax return or other business returns, including Schedule E.

Make the following adjustment to the net income shown on Schedule E to determine the monthly operating income:

	Net Income
+	Depreciation, mortgage interest, real estate taxes, insurance and homeowners association fees, if any
-	Unallowed losses, if any
+	Loss carry-overs from previous years, if any
-	Annualized mortgage payments for rental property
=	Annual operating income
÷	Annual operating income 12 months
=	Monthly operating income

When the monthly housing expense is included in the rental cash flow, it should not also be added to the long-term debt.

Monthly Operating income:

- Positive net rental income may be considered stable monthly income.
- Negative net rental income must be considered a liability for qualification purposes.

When using rental income to qualify from 2-4 unit primary residence that is the subject property:

- The current monthly principal, interest, taxes, insurance (PITI) payment on the borrower's primary residence must be included in the liabilities as the housing payment.
- The monthly operating income should be included in qualifying income.

When using rental income to qualify from a 2-4 unit primary residence that is not the subject property:

- The current monthly principal, interest, taxes, insurance (PITI) payment on the borrower's primary residence must be included in the liabilities.
- The monthly operating income should be included in qualifying income.

For an investment property, subtract the monthly housing expense from the monthly operating income to determine the net cash flow.

Lease Agreement

A vacancy/maintenance expense factor of 25% should be deducted from the rental income verified by the current lease agreement for determining qualifying income. However, when a lease agreement is sued to support higher income, review the prior year's filed and signed federal IRS 1040 tax returns to determine the appropriate vacancy/maintenance factor to use, which may be higher than 25%.

For subject property, rental income used to qualify must be supported by the Small Residential Income Property Appraisal Report (Form 72/1025) or comparable rent schedule (1007).

Positive net rental income from Schedule E of the borrower's tax returns may be considered stable monthly income.

Negative net rental income from Schedule E of the borrower's tax returns must be considered a liability for qualification purposes.

When using rental income to qualify from a 2-4 unit primary residence that is not the subject property:

- The current monthly principal, interest, taxes, insurance (PITI) payment on the borrower's primary residence must be included in qualifying ratios.
- The monthly operating income should be included in qualifying income.

For an investment property, subtract the monthly housing expense from the monthly operating income to determine the net cash flow.

- If net cash flow is positive, include it in qualifying the income.
- If net cash flow is negative, include it with the long-term debts.

Aggregate net rental income may be counted as stable monthly income, provided reliability of receipt is clearly supported by the documentation in the file.

Aggregate net rental loss from investment properties and 2-4 unit primary residences must be considered a liability for qualification purposes.

The monthly housing expense is already accounted for in the net cash flow so it should not be added to the long-term debts.

Baseline Method
Only Depreciation shown on Schedule E may be added back to the net income or loss.

Positive rental income is considered gross income for qualifying purposes, while negative income must be treated as a recurring liability.

3.5.11. Restricted Stock Income

Restricted stock refers to stock of a company that is not fully transferable until certain conditions have been met. Upon satisfaction of those conditions, the stock becomes transferable to the person holding the grant. Restricted stock is not the same as stock options. Restricted stock must be vested and received on a regular, recurring basis.

Restricted stock tied to new employment and/or receipt of restricted stock income for less than two years may be eligible, provided the underwriter can confirm and document the reason for using the income for qualifying purposes. Examples of these type of situations include, but are not limited to:

- Restricted stock is common for the employer/industry.
- Borrower has a history of receiving restricted stock at a previous employer in a similar position and/or industry.

To document, obtain all of the following:

- Vesting schedule (must contain grants received per year and when grants will vest).
- Evidence that stock is publicly traded
- Evidence of payout of the restricted stock (e.g., YTD pay stub and most recent two years' W-2s).

When determining recurring income, the complexity of varying stock prices and vesting scenarios must be considered. Some examples include:

- A single one-time large grant would impact prior year's income, but is not likely to continue. If a significantly higher one-time grant appears in certain years, it may be tied to a special project/milestone or promotion, which is not likely to continue.
- If the stock price has increased substantially, the company may adjust the number of shares granted to align with overall cash amount.

- Future income will be driven more by recent grants versus older grants that may have inflated income due to being granted when the stock price was much lower.
- Recent, significant drop in stock price.
- Trading volume, giving special consideration to potential stock price volatility of smaller companies with lower trading volume.

The amount of restricted stock income relative to total income is not limited; however, income continuance requirements must be met. The stock price influence on the income (past/present/future) must be considered when the restricted stock income makes up a considerable part of the total compensation.

Some companies separate different levels of employee compensation with base pay, restricted stock, and bonus. For example, a company may pay a maximum base salary of $185,000, all other income differences are compensated through restricted stock and/or bonus. At midlevel and higher employment, restricted stock will make up the majority of the income and should not hinder the decision process when this is the compensation model chosen by that specific company.

Calculation of income:

- To determine the restricted stock price use the lower of:
  - Current stock price
  - Two year stock price average
- Qualifying income will be calculated using an average of the restricted stock income for the past two years and YTD stock earnings. The average stock price should be applied to the number of stock units vested each year. If stock income is declining refer to Declining Income policy (self employed).
- Future vesting must support qualifying income.

3.5.12. Seasonal Income

Seasonal part time or seasonal second job income can be considered stable income when the borrower has a two year history of receipt in the same line of work and there is no indication that the borrower will not be rehired over the next three years.

To document, obtain all of the following:

- Two most recent years' federal tax returns
- Year-to-date (YTD) paystub or salary voucher documenting at least one month of income
- Form W-2's covering the two most recent years
- Verbal VOE within 20 day business days prior to the date printed on the Note

Every attempt should be made to obtain a VVOE. However, if the VVOE is unattainable due to business closure during specified times of the year, the underwriter should use his/her judgment to determine if the income source is likely to continue. The borrower does not have to be currently employed in order to use seasonal income, if received for the last two years and is reasonably expected to continue.

Income that fluctuates throughout the year must be evaluated for risks of delinquencies during cycles of reduced/lower income. The continuance of income must be fully investigated to understand the borrower's ability to repay the loan. The following considerations must be documented:

- Type of seasonal employment and how income fluctuates throughout the year
- If seasonal employment supplements the primary income source, and what impact the seasonal income has on the overall DTI
- History of savings/post-closing ability liquidity (PCL) to cover expenses during periods of lower income/unemployment cycles as a compensating factor
- Borrower's credit history for managing debt with limited to no delinquencies

When additional risks are present, an explanation from the borrower may be necessary to determine the borrower's ability to manage expenses/debt through fluctuating income cycles.

Seasonal Employment with Associated Unemployment Compensation
Seasonal employment with associated unemployment compensation can be considered stable income when the borrower has a two year history of receipt in the same line of work and there is no indication that the borrower will not be rehired over the next three years.

To document, obtain all of the following:

- Two most recent years' federal tax returns
- YTD paystub or salary voucher documenting at least one month of income
- Form W-2's covering the two most recent years
- Verbal VOE within 20 business days prior to the date printed on the Note
- Proof of receipt of unemployment compensation for two years

Every attempt should be made to obtain a VVOE. However, if the VVOE is unattainable due to business closure during specified times of the year, the underwriter should use his/her judgment to determine if the income source is likely to continue. The borrower does not have to be currently employed in order to use seasonal income, if received for the last two years and reasonably expected to continue.

Income that fluctuates throughout the year must be evaluated for risks of delinquencies during cycles of reduced/lower income. The continuance of income must be fully investigated to understand the borrower's ability to repay the loan. The following considerations must be documented:

- Type of seasonal employment and how income fluctuates throughout the year
- If seasonal employment supplements the primary income source, and what impact the seasonal income has on the overall DTI
- History of savings/post-closing liquidity (PCL) to cover expenses during periods of lower income/unemployment cycles as a compensating factor
- Borrower's credit history for managing debt with limited to no delinquencies

When additional risks are present, an explanation from the borrower may be necessary to determine the borrower's ability to manage expenses/debt through fluctuating income cycles.

3.5.13. Temporary Leave

Temporary leave from employment is typically short in duration and may be for many reasons, including parental (maternity or paternity) leave, short-term disability, and family leave. It may be taken with or without pay.

A borrower that is on, or scheduled to be on, temporary leave may still qualify for approval.

The borrower must state they intend to return to work. The borrower is not required to return to work prior to closing.

A verbal verification of employment is required. If the employer confirms that the borrower is currently on temporary leave, the investor considers the borrower employed.

The investor allows underwriters to require documentation to verify income before and during temporary leave as necessary and appropriate to qualify the borrower for a mortgage loan.

If a borrower will not return to active work status on or before the first mortgage payment due date, temporary income received (if any) during the leave period and verified liquid assets after closing and reserves may be evaluated for use as qualifying income.

A Loan with a borrower on temporary leave, including parental leave, is not ineligible for purchase merely because of such leave status. The investor may purchase a Loan with a borrower on temporary leave provided:

- The application meets applicable underwriting and regulatory requirements, and
- The income used to qualify the borrower is sufficient to meet applicable debt-to-income ratios

3.5.13.1. Calculation Requirements

For borrowers returning to work with their current employer prior to or on the first Mortgage payment due date:

- Qualify using pre-leave regular gross monthly employment income unless the borrower or employer has provided information about a reduction in that income upon the borrower's return to active work status.

For borrowers that will not return to work prior to or on the first Mortgage payment due date:

- Qualify using the lesser of:
  - The borrower's temporary leave income (if any) combined with any available supplemental asset income.

OR

  - Pre-leave regular gross monthly employment income unless the borrower or employer has provided information about a reduction in that income upon the borrower's return to active work status.
- f the temporarily leave income is less than the borrower's pre-leave regular gross monthly employment income, available verified liquid assets may be used as a partial or complete income supplement to the temporary leave income if all of the following requirements are met:
  - The total qualifying income (supplemental asset income plus temporary leave income) must not exceed the borrower's pre-leave regular gross monthly employment income.
  - Only verified liquid assets can be used to supplement temporary leave income.
  - Assets that are required for the subject transaction (e.g., down payment, closing costs, and reserves) may not be used to supplement the borrower's temporary leave income.
  - Supplemental asset income amount must be calculated as follows:
    - Available, verified liquid assets divided by the number of months of supplemental asset income.
    - The number of months of supplemental asset income is determined by the number of months from the first Mortgage payment due date to the date the borrower will begin receiving regular employment income after returning to work (i.e. pre-

leave income unless the borrower or employer has provided information about a reduction in that income upon the borrower's return to active work status), rounded to the next whole number.

Note: If using assets to supplement income, manually reduce the assets before data entry of assets to avoid counting the same portion of these assets for both income and assets.

- Written rationale explaining the analysis used to determine the qualifying income.

3.5.13.2. Documentation Requirements

All of the following:

- Documentation of the borrower's pre-leave income and employment, regardless of leave status. And,
- Written statement from the borrower confirming he or she intends to return to active work status at the current employer and the intended date of return (must be consistent with employer-generated document). And,
- Documentation generated by current employer confirming the borrower's eligibility to return to the current employer after temporary leave and the duration or end date of the leave period.
  - Acceptable forms of employer documentation include, but are not limited to:
    - An employer-approved leave request, or
    - A Family Medical Leave Act (FMLA) document, or
    - Other documentation generated by the employer or a third-party verifier on behalf of the employer

AND

The following documentation is required if the borrower will not return to work prior to or on the first Mortgage payment due date AND where the borrower relies upon temporary leave income (not limited to short term disability benefits) for qualification purposes:

- Award Letter or equivalent written documentation confirming the following:
  - The amount and duration of the temporary leave income, and
  - The borrower as the recipient of the payments, and
  - The name of the payer (insurance company, employer, agency, or other qualified and disinterested party)

3.5.14. Tip Income

Tip income must be verified with a two year history of receipt. To document, obtain all of the following: Most recent YTD paystub or salary voucher documenting at least one month of income; W-2s covering the most recent tow years; Verbal VOE within 20 business days prior to the date printed on the Note; The employer must verify that the tip income is expected to continue with a written VOE or in a separate statement.

Tip income that is not reported to the employer may be used as qualifying income when two year history of receipt is documented by the most recent two years' tax returns, including IRS Form 4137.

3.5.15. Unacceptable Income

The following types of income or compensation cannot be included when calculating the borrower's qualifying income:

- Expense account payments.
- Automobile allowances.
- VA education benefits; education benefits used to offset education expenses are not acceptable.
- Retained earnings in a company.
- Rent from boarders living in the borrower's primary residence or second home.
- Proceeds from a reverse mortgage or other financing.

3.6. Assets

3.6.1. Large Deposits

For all transactions, generally, single deposits that are greater than 50% of the borrower's monthly qualifying income should be investigated. Consideration will also be given to total monthly income, type of employment, total amount of all assets and reasonableness based on borrower's overall credit and transaction profile.

3.6.2. Liquidity Requirements

Liquid assets verified to meet the reserve (post-closing liquidity) requirements may be in the form of:

- Cash equivalents (checking, savings, or money market accounts)
- 100% of the vested value of Publicly Traded Stocks, Mutual Funds and Government Securities may be used.
- Cash surrender value of life insurance (less outstanding loans, if repayment not included in debt ratio calculation)
- For borrowers eligible to make penalty-free withdrawals:
  - 70% of vested pension, profit sharing, 401K, or Traditional IRA (less outstanding loans)

  - 100% of Roth IRA (less outstanding loans)
- Equity proceeds from the sale of a residence.
- Funds held in business accounts may be eligible for use if the requirements detailed in Section 825.07(b) are met.

3.6.3. Required Reserves

Occupancy	Combined Loan Amount*	Poperty Type	Minimum # Months PITI Reserves
Primary	≤ $1,000,000 $1,000,001 - $2,000,000 $2,000,001 - $3,000,000	SFR, Condo, PUD	12 Months 12 Months 24 Months
	≤ $1,000,000 $1,000,001 - $2,000,000	2 Unit	12 Months 18 Months
	≤ $2,000,000	3 – 4 Unit	36 Months
2nd Home	≤ $1,000,000 $1,000,001 - $2,000,000 $2,000,001 - $3,000,000	All	18 Months 24 Months 36 Months
Investment	≤ $1,000,000 $1,000,001 - $2,000,000	All	24 Months 30 Months

Note: If one of the combined mortgages is a HELOC, the outstanding balance (rather than the line limit) is used to determine the combined Loan amount.

Additional Reserves Requirements:
Conversion of Principal Residence

3.6.4. Eligible Sources of Reserves

Acceptable liquid financial assets that can be used for reserves include:

- Checking or savings accounts.
- Investments in stocks, bonds, mutual funds, certificates of deposit and money market funds.
- The amount vested in a retirement savings account (60% of vested balance).
- Retirement funds may be used to meet up to 50% of the minimum reserve (post-closing liquidity) requirement.
- Tax deferred gross retirement assets must be reduced by 30% to account for tax consequences (less any outstanding loan balances) to determine the actual assets available for post-closing liquidity requirements.
  - There must be an additional 10% reduction if early withdrawal penalty exists.

3.6.5. Ineligible Sources of Reserves

The following assets are ineligible for purposes of meeting the minimum reserve requirement:

- Gift funds
- Borrowed funds
- Stock in a closely held corporation
- Proceeds from the sale of assets other than the sale of a residence.
- Proceeds from a cash-out refinance transaction

Additional Reserves Requirements:
Conversion of Principal Residence

3.6.6. Business Use of Funds

When a Borrower has insufficient personal liquid assets to qualify or close, but has sufficient verified funds in a 100 percent owned business, the business funds may represent an adequate source of down payment and reserves both of the following conditions are met:

- Business average annual cash flow is greater than the amount to be withdrawn/reserves.
- Cash on company year-end balance sheet for each of the previous three years is greater than the amount to be withdrawn/reserves. This information is found on line 1 of the schedule L for the Partnership, S-Corporation and the Corporation. A three-year history of a balance greater than or equal to the amount being considered for reserves or down payment is required. Two years of the schedule L will show three years of cash on hand for the company.

Full analysis of the business must consider the effect of the withdrawal of the assets and how it will impact the strength and viability of the business in the future. The following questions need to be considered:

- What is the pattern of company cash flows? Do we have declining gross or net income?
- Do we have concerns about the type of business? Is the business experiencing a downturn?

Extreme care needs to be taken when considering business use of funds and in some cases even though a business is profitable, it may not be prudent to use the business assets in our transaction.

3.6.7. Equity Trading

Equity from trading a Borrower's existing property is acceptable after the borrower has made a five percent cash down payment. The amount of equity is determined by subtracting the outstanding Loan balance of the property that is being traded, plus any transfer costs, from the lesser of that property's appraised value or its trade-in value, as agreed to by both parties.

A separate written appraisal for the property that is being taken in trade is required. A search of the land records to verify ownership of the property and to document if there are any existing liens on the property is also required.

3.6.8. Gifts

- LTV ≤ 80%
  - 100% gift funds are allowed for Primary Residence
- LTV > 80%
  - Gift funds are not allowed

3.6.8.1. Eligible Donors

- relatives, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship;
- or
- a fiancé, fiancée, or domestic partner.
- The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

3.6.8.2. Documentation Requirements

Gift letter showing the following information:

- specify the dollar amount of the gift;
- specify the date the funds were transferred;
- include the donor's statement that no repayment is expected; and indicate the donor's name, address, telephone number, and relationship to the borrower.

3.6.8.3. Documenting the Transfer of Funds

Prior to Close

- Document the gift funds are either in the donor's account or have been transferred to the borrower's account through any one of the following:
  - Copy of the donor's withdrawal slip and the borrower's deposit slip
  - Copy of the donor's check, cashier's check, certified check or other official check and the borrower's deposit slip

Provided at Closing

- Document funds received by the closing agent through any one of the following:
  - Copy of the donor's check showing the donor as the remitter and one line of the settlement statement clearly indicating the exact amount of the gift funds received from the donor.

3.6.9. Gifts of Equity

Gift of equity in the subject property is an acceptable source of down payment, as long as the amount of equity has been verified. The donor must provide a gift letter. Equity gifts are only allowed on Primary Residence transactions only.

3.6.10. Gift or Grant from a Municipality, Non-profit or Employer

Not Allowed

3.6.11. Interest Party Contributions

The maximum allowable contributions from interested parties are based on the lesser of the purchase price or appraised value.

Property Type	LTV/CLTV	Maximum Contribution
Primary Residence	>80% ≤80%	3% 6%
Second Home	≤80%	6%
Investment	Any	2%

3.6.11.1. Homeowners Association Dues

The property seller, builder, developer, real estate agent, or any other interested party to the transaction, including any affiliates, may pay up to 12 months of homeowners association (HOA) fees/dues on behalf of the borrower when all of the following requirements are met:

- Monthly HOA dues are counted in the DTI
- Total amount is included in the interested party contributions
- Fees/dues are paid directly to the HOA and not the borrower
- HOA fees/dues paid by an interested party must be reflected on the Closing Disclosure

3.6.12. Use of Credit Card

A credit card may be used to pay for the following acceptable fees:

- Appraisal
- Credit Report
- Origination fee
- Commitment fee
- Lock-in fee
- Extended lock fee

Acceptable credit cards are:

- Visa
- MasterCard

- Discover

General Requirements
Borrower must have sufficient liquid assets to pay the amount charged (in addition to all other closing costs)

- Purchase or rate/term refinance only
- Credit card payment of 3% of the new balance must be included in the borrower's debt ratio for qualifying purposes
- A copy of the charge receipt must be included in the file
- HUD-1 must reflect a paid outside of closing (POC) credit to the borrower for the amount charged

Additional Purchase Requirements:

- Maximum amount charged may not exceed 1.5% of the Mortgage amount
- The credit report and appraisal fees may be charged in addition to the 1.5% of the Mortgage amount.

Additional Rate/Term Refinance Requirement:

- The total amount charged to a credit card may not exceed $3,000.00

3.6.13. Retirement Plans

IRA, SEP IRA, 401(k), KEOGH, 403(b) and other IRS qualified retirement plans may be verified with a copy of the most recent monthly/quarterly statement evidencing the Borrower as the owner and the value of the account. When the asset is needed to complete the transaction verify:

- the borrower's ownership of the asset,
- the value of the asset at the time of sale or liquidation, and
- the borrower's actual receipt of funds realized from the sale or liquidation.

3.6.14. Sale of Personal Property

The following documentation is required to evidence the sale of personal assets for funds to close:

- Personal property previously liquidated:
    - Bill of sale reflecting:
        - Date of sale;
        - Description of asset sold;
        - Sales price;
        - Signatures of buyer and seller; and
        - Copy of the check from the purchaser of the asset or the borrower's bank statement verifying the deposit of proceeds from the sale.
- Personal property to be liquidated:

- Document the existence and the borrower's ownership of the asset (e.g. car title);
- Document the value of the asset through a third party source (e.g. appraisal or blue book); and
- Letter of intent, contract or other evidence that a buyer exists at the specified price.

- Evidence of the actual sale, sufficient proceeds received from the sale, and proof that any outstanding liability owed against the asset was paid in full will be required at closing.

3.6.15. Savings Bonds

A copy of the bond certificate(s) must be provided evidencing the Borrower is the owner and the current value of the bonds, OR

Include a statement from the Seller or a financial institution attesting that it has seen the bonds and listing the serial numbers of the bonds, dates of maturity, type and amount, and stating that the borrower is the owner. A copy of the appropriate U.S. Treasury Table evidencing the current values of the bonds should also be provided. When the asset is needed to complete the transaction verify:

- the borrower’s ownership of the asset,
- the value of the asset at the time of sale or liquidation, and
- the borrower’s actual receipt of funds realized from the sale or liquidation.

3.6.16. Stock, Bonds, Mutual Funds, Securities

Publicly traded stocks, bonds, mutual funds, U.S. Government Securities. A copy of the account statement for the most recent two months or the most recent quarter is required, evidencing the borrower as the owner and the value of the account. When the asset is needed to complete the transactions verify the following:

- The borrower's ownership of the asset
- The value of the asset at the time of sale or liquidation
- the borrower's actual receipt of funds realized from the sale or liquidation.

3.6.17. Subordinate Financing

Subordinate financing is permitted on most loan programs. There are two types of subordinate financing:

- Home Equity Line of Credit (HELOC): a mortgage loan that allows the borrower to obtain multiple advances from a line of credit at his/her discretion and that is typically in a subordinate position.
- Closed End Loan: a mortgage providing a single advance of funds at the time of loan closing and that is not eligible for additional draws.

Note: Subordinate financing is not allowed for LTVs > 80%

3.6.17.1. Terms of the Subordinate Financing

For transactions including subordinate financing, the following requirements apply for both HELOC and Closed End Loans:

- The subordinate financing must be recorded and clearly subordinate to MWFs first mortgage.
- The maximum LTV/TLTV*/CLTV** may not exceed the guideline limits for the product and occupancy type shown in Section 900.
- If there is/will be an outstanding balance at the time of closing, the payment on the subordinate financing must be included in the calculation of the borrower's debt-to-income ratio(s).
- Negative amortization is not allowed; scheduled payments must be sufficient to cover at least the interest due.
- Equity share or shared appreciation is not allowed.
- Subordinate financing from the borrower's employer may not include a provision requiring repayment upon termination.
- Subordinate financing from the property seller (seller carry-back, including any property seller or other private party carried financing)
  - Is allowed only after the borrower has made a 5% minimum down payment / cash investment.
  - Is allowed only when the maximum CLTV is the lesser of 95% or the published CLTV limits for the product/program.
  - Affects interested party Contribution Limits, refer to Section 820.30
  - Should be at market rate. If the interest rate is more than 2% below Fannie Mae's posted net yield in effect for second mortgages at time of closing it must be treated as a sales concession and a dollar for dollar reduction made to the sales price.

3.6.18. 1031 Exchanges

Section 1031 of the Internal Revenue Code allows investors to defer payment of state and federal capital gain taxes by exchanging investment property rather than selling investment property. This code section provides a strategy for the deferral of capital gains taxes, which in turn provides a property owner with substantially more proceeds to reinvest in a replacement property.

A tax deferred exchange, therefore, is the process of rolling over funds from one investment property into another, without having access to those funds. In a taxable sale, the property owner is taxed on any gain realized by the sale of the property. In an exchange; however, the tax is deferred. This section of the IRS code does not apply to primary residences.

Restrictions

MWF will allow 1031 exchanges to be used towards down payment for second home and investment property purchases only with the following restrictions:

- Reverse exchanges are not allowed because the borrower is not in title to the property at the time of closing.
- Product grade must allow second homes and investment properties.
- No Seller provided subordinate financing.
- The Loan closing must be handled by a qualified intermediary. A qualified intermediary is an entity (usually a subsidiary of a title company) who enters into a written agreement with the taxpayer. The qualified intermediary cannot be an agent, attorney, accountant, investment banker or broker. This Exchange Agreement requires the qualified intermediary to acquire and transfer the relinquished property and to acquire and transfer the replacement property. The relinquished property is the property "sold" and the replacement property is the property "acquired".
- Copies of all closing documents and Purchase Agreement on the relinquished property must be obtained. Required documentation includes:
  - 1031 Exchange Agreement
  - Settlement Statement
  - Title Transfer
- Both Purchase Agreements (relinquished and replacement properties) must contain appropriate language to identify the 1031 exchange. An example of satisfactory language is:
  - **Phase I (Sale):** "Buyer is aware that Seller is to perform a 1031 Tax Deferred Exchange. Seller requests Buyer's cooperation in such an exchange and agrees to hold Buyer harmless from any and all claims, liabilities, costs or delays in time resulting from such an exchange. Buyer agrees to an assignment of this contract by the Seller."
  - **Phase II (Buy):** "Seller is aware that Buyer is to perform a 1031 Tax Deferred Exchange. Buyer requests Seller's cooperation in such an exchange and agrees to hold Seller harmless from any and all claims, liabilities, costs or delays in time resulting from such an exchange. Seller agrees to an assignment of this contract by the Buyer.

Seller Accommodation

If a borrower is purchasing a Seller's 1031 investment property to occupy as a primary residence, the borrower is accommodating the Seller. The transaction is not considered a 1031 Tax Deferred Exchange and is eligible for financing.

Equity from exchange can be used for all or part of the down payment.

3.6.19. Ineligible Sources of Downpayment

The following assets are ineligible for purposes of meeting the minimum Downpayment requirement:

- Group Savings
- Pooled Funds
- Saving Cash to Close

3.6.20. Unsecured Employer Loans

Unsecured loans from employers are acceptable for down payment and closing costs only, not reserves. Borrower's monthly payment on this debt must be included in the total monthly obligations. A copy of the promissory note is required.

3.7. Liabilities

3.7.1. Contingent Liabilities

Contingent liabilities are debts in which the borrower has become a cosigner / guarantor with another person. A contingent liability exists when an individual is held responsible for payment of a debt if another party defaults on the payment. These could be a present co-signed loan, a loan that was assumed, or a loan assigned to another party by court order. Contingent liabilities must be included in liabilities if there are 10 or more monthly payments remaining.

Co-Signed Loans

The monthly payment on a co-signed loan with 10 or more monthly payments remaining may be excluded from long term debt if there is documentation that the primary obligor has been making regular payments during the previous 12 months and does not have a history of delinquent payments on the loan during that time.

If the payments have not been paid on time or if there is no evidence that someone other than the borrower is making payments, the co-signed loan is treated as the borrower's own obligation.

Copies of canceled checks for the last twelve months or a statement from the creditor are acceptable documentation. This applies to:

- A car loan
- A student loan
- A mortgage
- Any other obligation

3.7.2. Conversion of Principal Residence

<table>
<tr><th></th><th>Conversion to Second Home</th><th>Conversion to Investment</th><th>Primary Residence Pending Sale</th></tr>
<tr><td>< 30% Equity on Departure</td><td rowspan="2">Greater of:
6 Months Reserves on both properties; or Standard Reserve requirements; or Per AUS

Both PITI payments in ratios.</td><td>Greater of:
6 Months Reserves on both properties; or Standard Reserve requirements; or Per AUS

Both PITI payments in ratios

Rental income can NOT be used.</td><td rowspan="2">Greater of:
6 Months Reserves on both properties; or Standard Reserve requirements; or Per AUS

Both PITI payments in ratios

Rental income can NOT be used.

When the departure residence will not be sold at the time of closing and is in a negative equity position, the following may be required to reduce the overall risk:
• Additional reserves to cover the negative equity of the departure residence, OR
• Pay down the lien on the departing residence to eliminate the negative equity.</td></tr>
<tr><td>≥ 30% Equity on Departure (AVM or Full Appraisal is required as listed below)</td><td>Greater of:
6 Months Reserves on both properties; or Standard Reserve requirements; or Per AUS

Both PITI payments in ratios

75% Gross Rental income can be used.
-Fully executed lease agreement & proof of deposit into borrower's account.
Borrower must have 2 year history or managing investment properties as evidenced by 1040s</td></tr>
</table>

If the current principal residence is retained and converted to a second home or investment property, and the equity position in the application is listed as ≥ 30%, verification of the equity position is required. The equity position in the existing principal residence must be documented with a Full Appraisal.

Note: For properties with equity < 30%, verification of equity is not required if rental income is not used to qualify the borrower and they meet the reserve requirements as stated in the "Conversion of Principal Residence" guidelines.

Examples of Acceptable AVM Products include:

- MWF Mortgage Works AMC
- ClearValue by Interthinx

- RealAVM by Corelogic
- ValueSmart by DataQuick
- IVR or EIVR by First American
- Collateral Validation by DataQuick

3.7.3. Loans Secured by Retirement Accounts

Payments associated with loans against 401k, 403b and KEOGH plans must be included in the debt ratio unless there is significant liquid reserves to pay off debt. If sufficient liquid assets exist, the payment may be excluded.

3.7.4. Payoff or Paydown of Debt for Qualification

Accounts may not be "paid down" to less than 10 months to allow the Borrower to qualify. Installment or Mortgage accounts must be paid in full. Payoff of revolving accounts in order to qualify the Borrower is not allowed.

3.7.5. Revolving Accounts

If the credit bureau does not reflect a payment on a current reporting liability, payment should be calculated as follows:

- Revolving: The greater of $10.00 or 5% of outstanding balance. If the actual monthly payment is documented by a letter from the creditor or a current monthly statement, the actual payment may be used for qualifying.
- HELOC: Full principal and interest payments are used for all mortgages, included HELOCs on other real estate held by the borrower. Refer to the table in HELOC section for methods of calculating HELOC payments.

3.7.6. Installment Debt

Installment accounts are accounts that fully amortize or have a balloon payment at a predetermined date. The account balance cannot be increased during the term of the loan. Payments are made on a regular basis and may be fixed or adjustable.

Whenever the installment debt's payment amount is not provided on the credit report then documentation of the payment amount must be obtained. Examples of documentation of the payment include but are not limited to:

- Direct verification from the creditor.
- Copy of the installment loan agreement.

Installment debts with less than 10 monthly payments remaining may be excluded from the qualifying ratios, but must be listed on the application. It is not acceptable to pay down installment debts to less than 10 months in order to qualify. Installment debts must be verified as paid-in-full at closing in order to exclude the debt from the borrower's qualifying ratios..

3.7.7. Deferred Payments

Some debts may have deferred payments or are in a period of forbearance. These debts must be included in the qualifying ratios if scheduled to begin or come due within 12 months of the mortgage Loan closing. Examples of installment debts with deferred payments include:

- Debts on automobiles, furniture, and appliances for which the initial payment is delayed for a period of time as part of a promotional campaign by the retailer.

Some deferred payments must be included in the qualifying ratios even if deferred 12 months or more. Examples include:

- Deferred payments must be included if the amount of the debt or payment affects the borrower's ability to pay the mortgage after Loan closing, especially if the borrower will have limited or no cash assets after Loan closing, (such a borrower with high ratios / no or low cash assets after closing with a sizable debt event that is just outside of the 12 month window for inclusion in ratios).
- Deferred payments on student loans and deferred payments on revolving accounts must be included in the total debt ratio.
- Balloon payment Notes must be considered in the underwriting analysis:
    - If sufficient liquid assets (excluding assets used to meet reserve (post-closing liquidity)/down payment/closing costs requirements) can be verified to payoff the balloon Note, the balloon Note does not need to be included in the ratios.
    - If sufficient liquid assets cannot be verified, verify the term of the balloon Note, and include a payment in the ratios based on amortization over remaining term of the balloon Note.

3.7.8. Closed End Second (Not HELOC)

For closed end subordinate loans with an interest only feature, qualify the borrower using the monthly principal and interest payment, based on full amortization over the terms of the remaining loan, utilizing the fully indexed rate or introductory rate (whichever is greater).

Note: Closed end loans with balloon payments are not allowed.

3.7.9. Existing HELOC Payment Calculations

To verify HELOC payments, the underwriter may use a copy of the note, using the fully indexed/fully amortized payment based on a 20 year term or the calculation stated in the following:

Wells Fargo HELOC	Non-Wells Fargo HELOC

• Outstanding balance
• 20-year amortization term
• Fully indexed rate (prime + margin) from
	• Outstanding balance
	• 20-year amortization term
	• Current prime rate
	  • + 1.50 margin
	  • + 2.0 Wells Fargo

Wells Fargo HELOC	Non-Wells Fargo HELOC
the Note • + 2.0 Wells Fargo qualifying economic adjuster	• Qualifying economic adjuster OR • Obtain the Note and use: • Outstanding Balance • 20 Year amortization term • Fully indexed rate (prime + margin) from the Note + 2.00 qualifying economic adjuster • When no payment is reported on the credit bureau and the Note cannot be obtained, use the higher of: • Outstanding balance • 20 Year amortization term • Current Prime rate + 1.5 margin +2.00 qualifying economic adjuster OR • 5% of the outstanding Balance

3.7.10. HELOCs on Non Subject Property

When the HELOC is aged 12 months or greater, the outstanding balance is used to qualify.

When the HELOC is aged less than or equal to 12 months and there are sufficient liquid assets, in addition to post close liquidity, to pay-off the full credit limit, then the outstanding balance is used to qualify.

For HELOCs that do not meet the criteria above, the payment used for qualifying must be based on:

Wells Fargo HELOC	Non-Wells Fargo HELOC
• Full credit line limit • 20-year amortization term • Current prime rate • + 1.50 margin • + 2.0 Wells Fargo • Qualifying economic adjuster	• Outstanding Balance • 20-year amortization term • Current prime rate • + 1.50 margin • + 2.0 Wells Fargo • Qualifying economic adjuster

3.7.11. Business Debt

Business installment debts with 10 or more monthly payments remaining and revolving debts may be excluded if the account has a satisfactory payment history and all of the following is provided as evidence that the business is paying the debt:

- The account does not have a history of delinquency.
- Minimum of 12 months of consecutive canceled checks from the business.

- The cash flow analysis of the business takes the payment obligation into consideration.

3.7.12. Student Loans

For student loans that are deferred, in forbearance, or not reporting a payment:

- Calculate a payment using 1.15% of the higher of the original high credit limit or current balance.
- Documentation for the actual payment may be requested in lieu of the 1.15% calculation. Documentation options include, but are not limited to the following:
  - Direct verification from the creditor
  - A copy of the installment loan agreement

For student loans that are reporting a payment on the credit report:

- Compare the reported payment to 1.15% of the current balance and use the higher of the two payments.
  - If using the 1.15% calculated payment for qualifying and the DTI exceeds the maximum, the actual payment must be documented.
- Documentation options include, but are not limited to the following:
  - Direct verification from the creditor
  - Copy of the installment loan agreement
    - The documentation must be reviewed to confirm the reported payment is reasonable.
    - If the student loan is an income-based repayment plan, the documentation must be reviewed to confirm it is reasonable that the qualifying income on the loan application matches the qualifying income used to assess the student loan payment.
    - If the student loan payment will be reassessed less than 12 months after the borrower started the most recent job, the underwriter must perform additional investigations to validate the borrower will not experience payment shock upon reassessment. The 1.15% calculation should be used for qualifying unless the underwriter can document rationale for using the lower payment.

If the student loan payment will be reassessed more than 12 months after the borrower started the most recent job, the documented payment may be used for qualification purposes.

3.7.13. Alimony and Separate Maintenance Payment

Alimony and separate maintenance payments must be deducted from income and should not be included in monthly liabilities when the divorce decree or separation agreement is executed on or before December 31, 2018.

Alimony and separate maintenance payments must be included as a monthly liability when the divorce decree or separation agreement is executed after December 31, 2018.

Alimony or separate maintenance with less than 10 monthly payments remaining does not need to be deducted from income.

To document, obtain a copy of the court order (such as a divorce decree).

3.7.14. Court Order

Loans Prior to 02/15/16	Loans After to 02/15/16
If the obligation to make payments on a debt has been assigned to another person by a court order such as a divorce decree, the payment may be excluded from the total monthly obligations regardless of the number of payments remaining. The following documents are required: • A copy of the court order or divorce decree. • For mortgage debt, a copy of the documents transferring ownership of the property. • Any late payments associated with loans on the property should be taken into account when reviewing the borrower's credit profile.	If the obligation to make payments on a debt has been assigned to another person by a court order such as a divorce decree, the payment may be excluded from the total monthly obligations regardless of the number of payments remaining. The following documents are required: • A copy of the court order or divorce decree. • For mortgage debt, a copy of the documents transferring ownership of the property. • Any late payments in the last 12 months associated with the debt must be evaluated. Potential impacts to the capacity to repay must be taken into account, as well as potential impacts to the borrower's credit profile if the account is significantly delinquent.

3.7.15. Bankruptcy

If a debt has been included in a court order such as a bankruptcy, the payment may be excluded from the total monthly obligations regardless of the number of payments remaining. The following documents are required:

- A copy of the bankruptcy papers detailing the debt to be excluded.
- For mortgage debt, a copy of the documents transferring ownership of the property.

3.8. Property Flips

Not Allowed.

3.9. Property/Appraisal

3.9.1. Appraisal Requirements

Appraisal and review products must be ordered through Corelogic. Only Corelogic valuations products are permitted.

3.9.2. Number of Appraisals Required

Appraisal requirements are determined by the total loan amount.

Total Loan Amount	Appraisal Documentation Required[1]
< $1,000,000	One full appraisal[2]
>$1,000,000 - $2,000,000	One full appraisal[2] completed by a certified appraiser
>$2,000,000	One full appraisal[2] completed by a certified appraiser and one of the following: • Second full appraisal[2] completed by a certified appraiser • Interior field review[3]

- [1]A second level review, exterior field review, or interior field review may be required based on identified collateral or valuation risks. MWF must order the second level/exterior/interior review.
- [2]A full appraisal must be prepared on Form 1004/70, Form 2090, or Form 1073. A Freddie Mac Automated Collateral Evaluation (ACE)/Fannie Mae Appraisal Waiver, Form 2055, Form 1075, or Form 2095 summary report is not acceptable.
- [3]An interior field review must be prepared on Fannie Mae Form 2000/2000Aor Freddie Mac Form 1032/1072.

LTV/CLTV Determination

LTV/CLTV is determined as follows:

- When two full appraisals are obtained, the LTV/CLTV is based on the lower of the appraised values or the sales price.
- When an interior field review is obtained, the LTV/CLTV is based on the lower of the field review value or the sales price.

3.9.3. Agency Guidelines

A full form 1004 appraisal is required on all loans, regardless of DU Findings requirement, except for DU Refi Plus. DU may require a PIW/AW (Property Inspection/Appraisal Waiver). On DU Refi Plus loans, these options are acceptable provided a copy of the final DU Underwriting Findings and Underwriting Analysis allowing an appraisal alternative is included with the loan file and provided the applicable product guideline is not more restrictive. Loans with a PIW/AW will be subject to an additional delivery fee of $75.00 as stated on the DU Findings.

The following is represented and warranted when using any alternative to a full URAR appraisal as described above:

- The Mortgage is a DU Approve mortgage meeting the requirements of applicable sections of the Fannie Mae Selling Guide, and

- All data entered into DU on which the final DU Underwriting Findings was based were true and accurate and remained unchanged as of the closing date of the Mortgage, and
- The property address on the final DU Underwriting Analysis is the correct address for the Mortgaged Premises, and
- The subject property has been occupied as a residence, is an existing building, and is not undergoing renovation.

3.9.4. Conventional Refinance Transactions

- Must meet "continuity of obligation" (see definition).
- The applicant must have taken title to the subject property more than 180 days prior to the loan application date for any cash-out refinance transactions.
- A rate-term refinance transaction on loans where the borrower has taken title to the subject property at least 30 days prior to the loan application date is typically acceptable if there is a reasonable relationship between the acquisition cost and the current appraised value.
- Increased values as a result of improvements to the subject property by the current owner may be acceptable with adequate documentation regarding the improvements.
- If the property has been acquired within 120 days of the application date, consider the lower of the documented acquisition cost or the new appraised value for determining LTV/TLTV/CTLTV.
- A new appraisal will be required for all transactions regardless of the date of the original appraisal.
- The prior purchase transaction must be documented with one or more of the following:
  - HUD-1 Settlement Statement.
  - Conveyance Deed (with Sales Price Information).
  - Proof of Paid Real Estate Transfer Taxes (with Sales Price Information).
  - • Chain of Title (with Transfer Dates and Sales Price Information).
- Inherited properties are exempt from these requirements.
- Evidence of required seasoning must be submitted in the underwriting file. Underwriters must verify borrower is the owner of record.
- Appraisals must indicate required sales history information as required by regulation.

3.9.5. Maximum Acreage

Land value can not exceed 30% of Total value of property.

4. Product Guidelines

4.1. General Refinance Guidelines

4.1.1. Eligibility to Refinance

The underwriter should analyze transactions involving the payoff of a first lien that has been seasoned for less than one year.

If the first lien being paid off was a purchase transaction, and the original purchase price, as stated on the application, is less than the new appraised value the file should contain documentation supporting the increase in value (e.g. appraisal indicates increasing values for the market, appraisal comparables support increasing values, documented home improvements, or a copy of the original appraisal showing the original appraised value higher than the original sales price).

If the increase in value is unsupported, the underwriter should use the lower of the original purchase price or the new appraised value to determine LTV/TLTV/CLTV.

4.1.2. Less than 1 Year Seasoning

The underwriter must analyze transactions involving the payoff of a first lien that has been seasoned for less than one year.

If the first lien being paid off was a purchase transaction, the LTV/CLTV must be determined as follows:

- For properties with no home improvements completed, use the lower of: Original documented purchase price OR New appraised value.
- For properties with home improvements completed, use the lower of: Original documented purchase price plus documented home improvements OR New appraised value.

Home improvements must have been completed since the lien was originated, construction costs must be documented (paid receipts, cancelled checks, construction contracts, etc.) and the improvements must be supported by the current valuation. Home improvements may not equate to a dollar for dollar increase in value, and contributory value should be considered.

4.1.3. Rate/Term

MWF will consider transactions meeting the following criteria to be Rate/Term:

- Payoff of the current mortgage (principal balance plus accrued interest, and any required prepayment penalty, only; other costs such as late fees and past-due amounts may not be paid with the new loan)
    - If the first mortgage is a Home Equity Line of Credit (HELOC) a copy of the HUD-1 Settlement Statement from the borrower's purchase of the subject property, or documentation of home improvements made

to the property, must be provided evidencing the proceeds were used in their entirety to acquire or improve the subject property.

- Payoff (as defined above) of any subordinate mortgage lien used in its entirety to acquire or improve* the subject property
- Payoff (as defined above) any other mortgage lien against the subject, provided:
  - The lien has been open at least 12 months, and
  - Total draws in the past 12 months do not exceed 2% of the new first mortgage amount.
- Standard loan fees (e.g., closing costs on the new mortgage; prepaids, such as interest, taxes and insurance, etc; and points).
- Incidental cash to the borrower not to exceed 1% of the principal balance of the new loan amount.

Please note: Home improvement costs may include the following:

- Materials
- Architectural fees
- Supplies
- Labor
- Liability insurance on laborers
- Installation costs (water, sewer, well, etc).
- Permits
- Non-recurring costs of obtaining financing, including origination fees, discount points, title searches, recording fees.
- Temporary buydowns are not allowed.

4.1.4. Properties Listed For Sale

MWF will not provide financing on any refinance transaction secured by a property:

- Currently listed for sale, or
- Listed for sale within the six months prior to the loan application..

4.1.5. Title Changes

These are transactions where the borrowers have been transferred into title, perhaps by a quit claim deed, and may include a transfer from one individual to another or from an LLC or another business entity to an individual to another – or from an LLC or another business entity to an individual.

The borrowers are attempting to refinance the existing mortgage from the previous owner's name to their name. This situation presents red flags for credit and transaction risk similar to the risks of a flip transaction.

These transactions are ineligible, unless the title change is due to marriage, divorce, or death and:

- Borrower must qualify under normal underwriting.
- Transaction may be considered as a rate-term or cash-out refinance (refer to eligible transaction requirements specified previously in this section).
- The reason for the title transfer must be explained.
- To evidence the relationship in this chain of title and to show that there is not an unrelated party entering the chain of title, one of the following must be met:
  - Appropriate legal documents (such as divorce decree, marriage certificate, or estate documents) must be obtained.
  - Status of the new title holders must be identified and fulfilled in Schedule B-1 of the title work.

Or the borrower has been in title for more than six months, and:

- Meets the Identity of Interest guidelines, along with the following additional requirements:
  - Transaction may be considered as a rate / term or cash-out refinance (refer to eligible transaction requirements specified previously in this section).
  - The reason for the title transfer must be explained.

4.1.6. Delayed Financing/Allowable Cash-out for Properties Recently Purchased with Cash

If borrowers have purchased a primary or second home for cash within the preceding 90 days, an application may be considered to provide cash-out as a reimbursement of the borrower's cash investment providing all of the following are met:

- HUD-1 or Closing Disclosure indicating cash purchase within 90 days prior to the application.
- Maximum LTV/CLTV based on the purchase LTV/CLTV matrix.
- Maximum DTI based on the purchase DTI requirements.
- Minimum Loan Score based on the purchase Loan Score requirements.
- The LTV/CLTV will be based off the lesser of the original purchase price or current appraised value.
- Borrower has exhibited a historic level of assets to support the cash purchase (supported by Schedule B of the last two years' tax returns) or other supportive documentation to verify receipt of such funds. A paper trail evidencing the funds used to acquire the subject property is acceptable as long as the funds had been on deposit at least 90 days prior to the date of the original transaction.
- Funds used for the original purchase cannot be borrowed, except by means of a fully secured Loan (for example, margin account, or other real estate). These will be treated on a case-by-case basis.

- The Loan must be registered and Closed as a Cash-out refinance since the borrower is already in title to the property.

4.1.7. ARM Guidelines

4.1.7.1. Qualifying Rate

ARM Program	Qualifying Rate
5/1 ARM	Qualify using the greater of the fully indexed rate or note rate + (Plus) 2.00%
7/1 & 10/1 ARMs	Qualify using the greater of fully index rate or note rate (not to exceed start rate + lifetime cap).
ARM products with Interest-Only features must be qualified at the fully indexed rate as well as the fully amortizing payment	

4.1.7.2. ARM Info

5-2-5	5/1 ARM	7/1 ARM	10/1 ARM
Index	**LIBOR:** The average of the interest offered rates for 1-year U.S. dollar denominated deposits in the London Market, as published in the Wall Street Journal. The index figure is the most recent index figure from the Wall Street Journal that is available on the day that is 45 days before the interest rate change date.		
Margin	2.250%		
First Adjustment Cap	May change the interest rate by no more than 2% up or down.		
Subsequent Adjustment Cap	Each subsequent adjustment may change the interest rate by no more than 2% up or down.		
Lifetime Cap	5% over the initial note rate.		
First Interest Rate Change Date	59 months from the first payment due date.	83 months from the first payment due date.	119 months from the first payment due date.
Subsequent Interest Rate Change Date	Once every 12 months after the first interest rate change date.		
Conversion Option	Conversion to a fixed rate is not allowed.		

4.1.8. Impound Requirements

- California: Impounds required for loans with LTV ≥ 90%
- All other: Impounds required for loans with LTV ≥ 80.01%

4.1.9. Escrow/Impound Rollover

Not allowed

4.1.10. Maximum Number of Financed Properties

See Maximum Number of Financed Properties

4.2. Relocation

The monthly PITI on the property pending sale does not need to be included in the monthly debt payment-to-income ratio when the mortgage file contains **all** of the following documentation:

- The borrower's executed non-contingent sales contract for the previous residence and
- A Lender's Commitment to the buyer of the previous residence if the executed sales contract includes a financing contingency and
- Reserve requirements are the greater of six months PITI or the standard post-closing/reserve requirements.

The Seller does not need to include the amount of the payment on the property pending sale in the monthly debt payment-to-income ratio when the mortgage file contains the following documentation:

- An executed buyout agreement that is part of an employer relocation plan where the employer/relocation company takes responsibility for the outstanding mortgage(s)

Non-Conforming Relocation Policy on and after September 13, 2016

Transaction Type and Occupancy

- Purchase transactions
- Primary residence

Documentation Requirements

Written documentation of the borrower's employee relocation program must be obtained.

Employer Financing

Financing provided by the employer, whether secured by the property or unsecured, must be treated as secondary financing and meet section 820.07a: Subordinate Financing and section 900: Conforming Conventional LTV/TLTV/CLTV Matrices.

Lump-Sum Cash Payments

Transferring borrowers often receive a substantial lump-sum cash payment from their employer as an incentive to move to a new location. When this occurs and the two following criteria are satisfied, the lump-sum payment may be used as a source of funds for the initial down payment:

- The lump-sum cash payment is non-revocable.
- The down payment is made in after tax-dollars.

5. Specific - Eligible Property Types Products

5.1. Properties Subject to Age Restrictions

If a housing development has an age restriction, it must comply with one of the following Fair Housing Act exemptions:

5.1.1. Age Restrictions - Any Age Restriction

The prohibitions against discrimination on the basis of age or familial status do not apply with respect to dwellings intended and operated for occupancy by persons 55 years of age or older provided that all of the following apply:

- At least 80% of the occupied units are occupied by persons 55 years of age or older; and
- The housing facility or community publishes and adheres to policies and procedures that demonstrate the intent to provide housing to persons 55 years of age or older; and
- The housing facility or community can provide documentation for verification of occupancy, by means of:
    - Reliable surveys and affidavits;
    - Examples of published written policies and procedures for determination of compliance with the Fair Housing Act.

5.1.2. Required Documents for Age Restricted Properties

When it is determined that a housing development is subject to age restrictions, the Homeowners Association must complete and sign the form Housing Developments Subject to Age Restrictions). By signing this form the association certifies that the housing development is in compliance with the Fair Housing Act.

- The fully executed form must be included in the underwriting package.

5.2. Condominium Projects

In addition to the condo review options reflected in this section, Fannie Mae and Freddie Mac published project guidelines are acceptable. Fannie Mae's project acceptance processes, including Condo Project Manager, are allowed with Conforming DU Loans and per the terms of Freddie Mac's Seller/Servicer Guide (Chapter 42.11) for Conforming LP Loans.

This section provides guidelines for evaluating new and existing condominium projects. The intent of the project review is to assess the marketability and long-term stability of the project. Current market conditions and comparable sales on the appraisal provide information on the subject property's marketability.

The following condominium project guidelines and documentation requirements are applied in addition to the standard property appraisal review guidelines:

5.2.1. General Condo Eligibility Requirements

The following guidelines apply to all condominium projects. Project information may be reported by the appraiser, or obtained through review of the Homeowners Association Certificate as well as from other types of condominium documents. 50% owner occupancy in the project is required if the transaction is for a Second Home or Investment property.

5.2.2. Ineligible Projects

Ineligible projects are as defined by Fannie Mae and Freddie Mac and reference to those Agencies' published guidelines should be made for specific details.

The following are characteristics within resort destination areas that should be utilized to identify projects that are ineligible:

- Factory built housing may NOT be part of a PUD or Condo Project.
- Projects with HOA litigation (see section for "litigation").
- Voluntary or mandatory revenue sharing agreements.
- Mandatory rental pool agreements.
- Occupancy restrictions mandated by the zoning.
- Timeshare, live/work or segmented ownership projects.
- Transactions under which the borrower will own more than one unit in the project.
- Units less than 600 sq. ft.
- The project name includes "hotel", "motel", "inn", "resort" or "lodge."
- The project shares facilities with a hotel or motel.
- The project is in an area zoned primarily for transient accommodations.
- The unit is in a building that functions like a traditional condominium, yet the project contains additional resort type amenities or other buildings with resort type amenities.
- The unit is fully furnished.

- The unit does not have a full kitchen.
- The project provides any of the following services:
- Management Desk
    - Bellman
    - Daily Maid Service
    - Food Service
    - Telephone Service
    - Centralized Utilities (e.g., central telephone or cable)
    - Centralized Key System not in Negotiated Terms

5.2.3. Completion

All common areas and amenities within the project (or subject phase) must be complete. If completion is in question, obtain the Final Certification of Substantial Completion (FNMA 1081) or equivalent document (appraisal addendum, builder's certification, etc.), which lists the common amenities and facilities that are incomplete.

All condominium projects having incomplete items are not eligible for the HOA Certification.

5.2.4. Single Entity Ownership in a Project

Properties in a project where a single entity (the same individual, investor group, partnership, or corporation) owns more than 25% of the total units in the project are ineligible for financing.

Units owned by the developer that are currently subject to any lease arrangement must be included in the calculation.

Units owned by the developer that are vacant and are being actively marketed for sale are not included in the calculation.

5.2.5. 2-4 Unit Project

- No single entity may own more than one unit within the project;
- All units, common elements, and facilities within the project, including those that are owned by any master association, must be 100% complete;
- All but one unit in the project must have been conveyed to owner-occupant principal residence or second home purchasers; and
- All units in the project must be owned in fee simple or leasehold, and the unit owners must be the sole owners of, and have rights to the use of, the project's facilities, common elements, and limited common elements.

5.2.6. Commercial Use

Commercial space within the condo project (or building in which the project is located) must not exceed 35% of the total square footage for the project/building, including commercial parking, and must be compatible with residential use. The appraiser must confirm the commercial space in the project is compatible with the overall residential nature of the project.

5.2.7. Right of Refusal

Any right of first refusal in the project's constituent documents will not impair the rights of a first mortgagee to:

- Foreclose or take title to a condominium unit pursuant to the remedies contained within the security instrument.
- Accept a deed in lieu of foreclosure in the event of default by a mortgagor.
- Sell or lease a unit acquired by the mortgagee.

5.2.8. Adverse Environmental Factors

Any adverse environmental factors affecting the condominium project must be addressed by the appraiser.

Any factors affecting safety, habitability or marketability of the unit or project will render the project ineligible.

5.2.9. Litigation

If the HOA is involved in any litigation, arbitration, mediation or other dispute resolution process, obtain the details from the HOA. This information should be verified with an attorney's letter, insurance information, structural report, and/or other documentation.

- The following types of litigation generally pose little or no risk to the project and are acceptable:
  - HOA is suing individual owners for unpaid dues.
  - HOA is being sued for a "slip and fall" liability issue and project has adequate liability insurance to cover the damages being sought by the plaintiff.
  - Other suits filed by the HOA that do not impact the value or livability of the project.
  - HOA is a plaintiff in the litigation and upon investigation and analysis, it has been determined that the matter is minor and will result in an insignificant impact to the project's financial stability.
  - Litigation concerning localized damage to a unit in the project that does not impact the overall safety, structural soundness, habitability, or functional use of the project.
  - Reasonably anticipated or known damages, and legal expense are not expected to exceed 10% of the project's funded reserves.

- The following types of litigation may impact the project's marketability and are generally not acceptable:
  - Suits filed against the HOA in which the damages exceed or are not covered by the HOA's insurance.
- Projects involved in pending litigation (lawsuit has not yet been filed) may be approved when the risk to the project is assessed and it is determined that:
  - HOA insurance will cover potential damages; or
  - HOA is in a position to benefit from the lawsuit.

MWF to review all litigation prior to loan approval.

5.2.10. Delinquent HOA Dues

If more than 15% of the units are delinquent on their HOA dues, the project is ineligible for financing.

In the event the mortgagee acquires a unit through foreclosure or deed-in-lieu, the mortgagee may not be responsible for more than 6 months of delinquent HOA dues.

5.2.11. Hazard Insurance Requirements

Minimum requirements for hazard (including applicable unit interior coverage, commonly known as H06), general liability, and flood insurance are as established by Fannie Mae.

5.2.12. Flood Insurance Requirements

Flood insurance must be in force on all properties located in a Special Flood Hazard Area (SFHA). A SFHA is a high-risk flood area that is designated by a flood zone that begins with A or V. The following are required;

- An escrow/impound account must be established for payment of the flood insurance premiums for all Loans, regardless of LTV and/or federal exemptions.
- Evidence that a flood insurance policy is in force for the subject property and that the first year's premium has been paid in full is required as documented by one of the following:
- Flood policy declarations page (or policy), or
- Complete flood insurance application (signed and dated by the insurance agent) and proof that premium has been paid.

Note: All flood insurance documents provided must reflect the flood zone that is listed on the Standard Flood Hazard Determination form or indicate that the flood zone used to rate the policy was grandfathered.

Unless stated otherwise in this section, the applicable agency guidelines should be followed with respect to flood insurance coverage requirements. As a clarification, the following specific requirements apply to meet agency guidelines:

- Replacement cost value is defined as 100% of the insurable value of the improvements (also known as 100% replacement cost, or RCV) as determined by the hazard insurance provider or the flood insurance provider, whichever is greater.
- A PUD unit requires its own separate flood insurance policy unless the Home Owner's Association (HOA) has worked with FEMA to be covered by a Residential Condominium Building Association Policy (RCBAP) in the HOA's name.

Individual Flood Insurance for Condominium Projects
An individual (borrower maintained) flood insurance policy is allowed for loans secured by two- to four-unit, horizontal (nonstacked), condominiums, when allowed by the HOA documents.

Detached Structures
Residential detached structures (generally defined as having a food preparation area, bathroom, and/or sleeping area) valued greater than $10,000 in a Special Flood Hazard Area require flood insurance coverage at 100% of the insurable value.

For detached structures that include some but not all three facilities (food preparation area, bathroom, and sleeping area), A good faith determination is required to be made and provide documentation clearly detailing whether the detached structure serves as, or is intended to serve as, a residence.

If the structure is not intended to serve as a residence, follow the applicable agency guidelines with respect to flood insurance requirements on non-residential detached structures.

Flood Zone Dispute
If the borrower questions the flood zone determination, the Lender and borrower may jointly appeal directly to FEMA. The Lender cannot require the borrower to purchase flood insurance until FEMA issues a final opinion on the flood zone determination.

The servicer can require the borrower to obtain flood insurance based upon any subsequent determination by FEMA that the property is located in an area that requires flood insurance coverage.

Premium Payment
For purchase transactions, evidence of premium payment is required. On all refinance transactions, the Lender is responsible for all insurance premiums due within 45 days of funding.

5.2.13. Fidelity Insurance

Fidelity insurance is required if the condominium project has more than 20 units and fidelity crime insurance coverage is greater than $5,000. The policy must name the condominium project as the insured and premiums must be paid as a common expense by the condominium project, apportioned to each shareholder, or by the HOA.

- The condominium project must carry fidelity bond or employee dishonesty insurance to cover losses resulting from dishonest or fraudulent acts committed by the directors, managers, trustees, employees, or volunteers who manage the funds collected by the project. A management company must be covered as well, typically via an endorsement to the HOA's policy that recognizes the management company as a designated agent. A management company may carry their own fidelity bond insurance that meets or exceeds the level of coverage the management company is required to have by the HOA if one of the following controls are met:
  - The management company has separate accounts for each HOA managed and cannot access the reserve account.
  - Two member of the Board of Directors must sign any checks written to the reserve account.
- Directors and officers insurance is not the same as fidelity insurance.
- Crime insurance alone is not the same as fidelity insurance.
- Employee dishonesty insurance is the same as fidelity insurance.

5.2.13.1. Coverage Requirements

The amount of coverage must be equal to the greater of either:

- three months of assessments/maintenance fees for all units in the project or
- the sum of all cash and reserve fund monies that are in the custody of the condominium project or its management agent.

5.2.13.2. Reduced Coverage Requirements

If the sum of all cash reserves is the greater amount, but the fidelity insurance coverage is at least equal to three months of maintenance fees, the three months' coverage may be acceptable if the project's legal documents require the condominium project and any management company to adhere to certain financial controls listed below.

Reduced fidelity insurance coverage may be acceptable (three months' coverage) only when the financial controls take one or more of the following forms:

- The condominium project or the management company maintains separate bank accounts for the working account and the reserve account, each with appropriate access controls, and the bank in which funds are deposited sends copies of the monthly bank statements directly to the condominium project;
- The management company maintains separate records and bank accounts for each condominium project that uses its services and the management company does not have the authority to draw checks on, or to transfer funds from, the condominium project's reserve account; or

  - Two members of the board of directors must sign any checks written on the reserve account.

5.2.14. Pooled Insurance

Any project identified with a pooled insurance policy is ineligible.

5.3. Detached Condominiums

The condo project must meet the definition of a detached condo project, which is a condo project comprised solely of detached, 1-unit dwellings.

Units in projects with the following characteristics do not require any project approval or review.

- The mortgage is secured by a single detached unit in a condo project.
  - Manufactured dwelling is not allowed.
  - Project must be an eligible project.
- New projects require at least one detached condo unit comparable sale, located in a competing project or the subject project.
- Title insurance policy must satisfy Fannie Mae's special title insurance requirements for units in condo projects.
- Insurance Requirements:
  - Must be covered by the type of hazard and flood insurance coverage required for single-family detached dwellings, if the condo unit consists of the entire structure as well as the site and air space;
  - or
  - The project's master hazard and flood insurance policies, if the condo unit consists only of the air space for the unit and the improvements and site are considered to be common areas or limited common areas.
- SFC 588 is required when delivering detached condo units.

5.4. Planned Unit Developments

A Planned Unit Development (PUD) is a parcel of land that contains common elements and improvements that are owned and maintained by a homeowner's association, corporation or trust. The common elements are for the benefit and use of the individual homeowners within the PUD. The housing units may be attached or detached.

Attached PUDs are treated like condos.

The pre-sale and owner occupancy requirements that apply to condominium projects do not apply to PUDs provided the appraiser does not indicate marketability problems.

If the appraiser indicates marketability problems, a review of the project should be performed to determine whether there may be an adverse impact on the value or marketability of the subject unit.

Multi-dwelling unit PUD projects that permit an owner to hold title to more than one dwelling unit, with ownership of all of his or her units evidenced by a single deed and mortgage are ineligible.

- Factory built housing may NOT be part of a PUD or Condo Project.

5.5. Illegal Accessory Units

An illegal one or two unit property that includes an accessory unit (sometimes referred to as a mother-in-law or granny unit) will be considered a one unit property with the following conditions:

- Use conforms to the subject neighborhood and to the market.
- The borrower qualifies for the mortgage without considering any rental income from the unit.
- The appraisal report must demonstrate that the improvements are typical for the market through an analysis of at least three comparable properties that have the same use.
- The lender ensures that the existence of the illegal additional unit will not jeopardize any future hazard insurance claim that might need to be filed for the property.
- No exceptions may be noted on insurance policy with respect to additional unit.

5.6. Non-Permitted Additions, Improvements or Conversions

Properties with non-permitted additions, improvements or conversions may be acceptable.

A non-permitted addition or modification/conversion to the subject property should comply with local building codes and zoning.

The property must be safe and structurally sound in accordance with the Minimum Property Requirements below:

- Appraiser to comment that the addition or conversion was completed in a workmanlike manner.
- Property must conform to the subject neighborhood and the market.
- Appraiser needs to provide a minimum of one (1) "like for like" comparable.
- Hazard policy to cover the estimated cost new shown on the appraisal (including unpermitted area), or the loan amount, whichever is less.
  - No exceptions may be noted on insurance policy with respect to additional unit.
- If the addition or conversion is conforming to the subject neighborhood building and zoning codes, it may be included in the market value.
- Appraiser should not include square footage on the non-permitted addition in GLA and should report on a separate line item in sales comparison grid with adjusted market reaction value (+ or -) to unpermitted improvement.

5.7. Solar Panel Systems

Properties with Solar Panel Systems must have the solar panel system lease or PPA approved by investor prior to a complete underwrite. MWF will request the prior approval upon receipt of the following information:

- Is solar panel system subject to a Lease or power purchase agreement (PPA)?
- Name of Solar Company.
- Solar company address (including street #, street, city, state and zip code.
- Complete copy of the current lease or PPA including any and all amendments and exhibits.

6. Appendix

6.1. MWF Inter Vivos Revocable Trust Lending California

6.1.1. Definition

An Inter Vivos Revocable Trust (also known as a Family Trust or Inter Vivos Trust) is a Trust whose terms become effective while the person who creates the Trust (also called the Settlor, Grantor or Trustor) is still alive and because it is revocable in the sense that the Trust can be changed or cancelled at any time for any reason during the Settlor's lifetime. The Trust becomes the legal owner of property, investments, and assets in a process called funding. Those assets are used for the benefit of another person, called a Beneficiary. A Trustee manages the Trust and has legal capacity to act on the Trust's behalf according to the terms of the Trust.

6.1.2. Key Compliance Components

- Must be an Inter Vivos Revocable Trust
- One borrower (credit applicant) must be a Settlor, Trustee & Beneficiary
- Title to the property must be vested solely in the Trust or in the trust and an individual not a party to the Trust
- Trustees must have the authority under the Trust documents to mortgage the real property securing the loan
- All Trustees must sign the Notice of Right to Cancel, initial TIL and final TIL
- MWF California Certification of Trust (notarized and signed by all Trustees) or acceptable Attorney's Opinion Letter is required
- Property and Trust must be in California

6.1.3. Trust Requirements

Inter Vivos Revocable Trusts are the only types of Trusts that are acceptable under MWF guidelines. Other types of Trusts such as Nominee, Irrevocable or Testamentary Trusts are not eligible.

A loan transaction where title to the real property is vested in an Inter Vivos Revocable Trust is eligible for financing under MWF policy as long as the Trust has been established in the State of California, has complied with local and state regulations and the transaction meets the following criteria:

- There must be a borrower (credit applicant) and a validly existing Trust
- At least one borrower (credit applicant) must be a Settlor, Trustee & Beneficiary. This person is considered the Primary Borrower. In the case of an owner-occupied property, this Primary Borrower must occupy the mortgaged property, become personally liable on the Note and acknowledge the security instrument as Settlor
- All Settlors are required to sign the Inter Vivos Revocable Trust as Borrower Acknowledgement to the security instrument
- All parties whose income or assets will be used to qualify for the mortgage loan must sign the Note
- If the Trust is established jointly, there may be more than one Primary Beneficiary as long as the income or assets of at least one of the individuals establishing the Trust will be used to qualify for the mortgage loan
- The Trustee(s) must have the power under the terms of the Trust to mortgage the real property that will secure the mortgage loan

6.1.4. Trust Vesting

An attorney opinion letter from a licensed attorney is required on all transactions that are vested in a trust. The opinion letter must address the following:

- Ensure that the trust is enforceable and in compliance with state and local laws and regulations.
- Ensure documentation is executed in an identical and consistent manner.

6.1.5. Eligible Property and Occupancy Types include

- 1-4 Unit Dwelling (Owner Occupied or Non Owner Occupied)
- 1 Unit Second Home

6.1.6. Eligible Programs

- Conventional
- FHA
- USDA
- VA

6.1.7. Documentation Requirements

- Copy of Trust document
- MWF California Certification of Trust executed by the Trustee or an acceptable attorney opinion letter. If using an attorney opinion letter, it must verify at a minimum the following:
    - The Trust was validly created and is duly existing under applicable law
    - The Trust is revocable
    - The borrower (credit applicant) is the Settlor of the Trust and the Beneficiary of the Trust
    - The Trust assets may be used as collateral for a loan
    - The Trustee is:
        - Duly qualified under applicable law to serve as Trustee,
        - Is the borrower,
        - Is the Settlor,
        - Is fully authorized under the Trust documents and applicable law to pledge or otherwise encumber the Trust assets

6.1.8. Signature Requirements

The examples of signatures shown below are appropriate for California transactions only. Under California law, the term "Settlor" refers to the individual(s) establishing the Trust; therefore MWF uses this terminology in the signature examples. MWF has also used the term "credit applicant" to refer to an individual whose income and assets are used to qualify for the transaction.

- All borrowers (credit applicants) must execute the Note individually (if there are any co-signers, each co-signer must also execute the Note as an individual)
- All borrowers who are named as Trustee must execute the Note as Trustee
- The full title of the Trust including the date the Trust was established must appear below the signature line for every Trustee

Example Trust Signature Information:
For this example, assume Sally Smith is the Trustor, Trustee and the Settlor of the Sally Smith Family Trust, Dated January 1, 2000. Sally will be using her income and assets to qualify. Title is vested 100% in the Trust.

Also assume Joe Smith is a Trustee, but not a Settlor and will not be a borrower (credit applicant) on the loan transaction.

Note Agreement (aka Note) Signatures:
The Note must be signed individually by the borrower(s) (credit applicant(s)) whose income and assets were used to qualify for the loan and by all Trustees.

Signature example on the Note for Joe Smith, a Trustee who is not a Settlor and is not a Credit Applicant:

Joe Smith 1/1/2013

Joe Smith, as Trustee of the Sally Smith Family Trust under the Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Note: Joe Smith is signing his / her name as Joe Smith and it is dated as of the date the loan documents are signed. Nothing else should be added to his signature. For example, the signature should not be Joe Smith Trustee or anything similar – just have Joe sign his name.

Typed below the signature line is Joe Smith's name and the Trust information.

Signature example on the Note for Sally Smith, who is a Trustee, Settlor and a borrower (credit applicant):

Sally Smith 1/1/2013

Sally Smith, Individually and as Trustee of the Sally Smith Family Trust under Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Note: Sally Smith is signing her name individually as the borrower (credit applicant) and on behalf of the Trust as Trustee at the same time.

Addendum to Note - Inter Vivos Trust (aka Trust Addendum) Signatures:
The Trust Addendum to the Note is signed by Sally Smith individually and as Trustee on one line and on a separate line as a Settlor. Joe Smith signs as Trustee. See the formats for these signatures below.

Sally Smith 1/1/2013

Sally Smith, Individually and as Trustee of the Sally Smith Family Trust under Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Sally Smith 1/1/2013

Revocable Trust Settlor –Sally Smith

Joe Smith 1/1/2013

Joe Smith, as Trustee of the Sally Smith Family Trust under the Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Deed of Trust and PUD, 1-4, Condo Riders Signatures:
The Deed of Trust, PUD, Condo and 1-4 Family Riders are signed by Sally Smith as Trustee and Joe Smith as Trustee in the formats shown below. Remember, title is fully vested solely in the Trust for this example.

Sally Smith 1/1/2013

Sally Smith, as Trustee of the Sally Smith Family Trust under Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Joe Smith 1/1/2013

Joe Smith, as Trustee of the Sally Smith Family Trust under the Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Inter Vivos Revocable Trust as Borrower Acknowledgement to the Deed of Trust:
This document is signed by Sally Smith as Settlor. The format for this signature is as follows:

Sally Smith 1/1/2013

Revocable Trust Settlor -Sally Smith

Inter Vivos Revocable Trust Rider to Deed of Trust:
This document is signed by Sally Smith as Settlor and Trustee. Joe Smith signs as Trustee. The formats for these signatures are as follows:

Sally Smith 1/1/2013

Sally Smith, as Trustee of the Sally Smith Family Trust under Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Joe Smith 1/1/2013

Joe Smith, as Trustee of the Sally Smith Family Trust under the Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Sally Smith 1/1/2013

Revocable Trust Settlor -Sally Smith

Federal Truth-in-Lending & Itemization of Amount Financed (Initial & Final):
These documents are signed by Sally Smith as borrower (credit applicant) and Trustee. Joe Smith signs as Trustee.

Sally Smith 1/1/2013

Borrower-Sally Smith

Sally Smith 1/1/2013

Sally Smith, as Trustee of the Sally Smith Family Trust under Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Joe Smith 1/1/2013

Joe Smith, as Trustee of the Sally Smith Family Trust under the Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Notice of Right to Cancel (Refinance Transactions):
The Notice of Right to Cancel is signed by Sally Smith as borrower (credit applicant) and Trustee. Joe Smith signs as Trustee.

Sally Smith 1/1/2013

Borrower-Sally Smith

Sally Smith 1/1/2013

Sally Smith, as Trustee of the Sally Smith Family Trust under Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

Joe Smith 1/1/2013

Joe Smith, as Trustee of the Sally Smith Family Trust under the Trust Instrument Dated January 1, 2000 for the Benefit of Sally Smith

6.1.9. Title and Title Insurance Requirements

- The title to the property is vested solely in the Trust (or Trustee on behalf of the Trust) or in the Trust and an individual not a party to the Trust.
- Title insurance may not contain any exceptions to coverage based on the mortgaged property being in the living Trust (note: the title insurance company will require their own separate certification of Trust from the Trustee).

6.1.10. Loan File Requirements

Prior to docs, the loan file must contain all of the following:

- A completed Mountain West Financial Underwriting Trust Lending Checklist
- A completed Mountain West Financial Doc Tech and Funder Lending Trust Checklist
- A complete copy of the Trust instrument
- A complete copy of the Title Company Trust Certification executed and notarized and
- The MWF California Certification of Trust notarized and signed by all Trustees or acceptable attorney's opinion letter addressed to MWF

6.2. Median Home Price & Market Classification

Investor Market Classification table located here.