FUNDNATION
UNDERWRITING GUIDELINES

FUNDNATION's Underwriting Guidelines addresses the types of loans we are most likely to purchase. FUNDNATION is committed to insuring quality loans that make sense for everyone: lenders, investors, and borrowers. Even so, we recognize there are occasions when loans submitted to FUNDNATION may exceed our standard guideline requirements. When this happens, we'll work to identify any compensating factors that offset potential additional risk.

FAIR LENDING STATEMENT

FUNDNATION believes in fair treatment of all borrowers regardless of race, color, religion, national origin or sex. We operate in accordance with the provisions of the Fair Housing Act and Equal Credit Opportunity Act. The Fair Housing Act makes it unlawful to discriminate in housing related activities against any person because of race, color, religion, national origin, sex, handicap, or familial status. The Equal Credit Opportunity Act prohibits discrimination with respect to any aspect of a credit transaction on the basis of sex, race, color, religion, national origin, marital status, age (provided the applicant has the capacity to enter into a binding contract), receipt of public assistance, or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. FUNDNATION fully supports the letter and the spirit of both of these laws and will not condone discrimination in any mortgage transaction.

RESPONSIBLE LENDING STATEMENT (ANTI - "PREDATORY LENDING")

FUNDNATION supports all efforts to ensure that true predatory lending practices are eliminated. Loans made pursuant to the following lending practices are not eligible for purchase: steering a consumer who otherwise qualifies for a lower cost loan to a higher cost loan; frequent refinancing with no appreciable benefit to the borrower; charging excessive fees and points that strip equity; undisclosed prepayment penalties; and approving a loan without regard to the borrower's ability to repay the loan.

DOCUMENTATION

Age of Documents

Credit documentation may not be over 60 days old for existing construction and 120 days for new construction (with the exception of W-2s and tax returns). For appraisals, a recertification of value is required after 120 days.

Documentation Type

<u>Full/Alternative</u> (ALT Doc)

Salaried Borrowers:

- 1003 Application
- 2 pay stubs from the past 60 days with YTD earnings
- 2 years W-2's
- Written Verification of Deposit (VOD) with 2 months average balance or
- 2 months bank statements from the past 60 days
- Appraisal with color photos

Non-Salaried Borrowers:

- 1003 Application
- 2 years complete tax-returns, including all schedules

- IRS from 4506, signed (SSF will send to IRS prior to closing)
- Written Verification of Deposit (VOD) with 2 months average balance or
- 2 months bank statements from the past 60 days
- Appraisal with color photos

Stated Income / Verified Assets

Allowed for Self-employed and commission borrowers:

- Signed 1003 Application with employment stated and income stated
- Income must be reasonable for employment stated
- Ratios are calculated using stated income
- 2 years business license or other acceptable source
- Letter from the CPA stating the borrower has been self-employed for the past 2 years with the same business, in the same state
- Letter from employer stating borrowers income is at least 25% commission and has been on the job 2 years or more
- Written verification of deposit (VOD) with 2 months average balance or
- 2 months bank statements from the past 60 days

No Ratios / Verified Assets

Allowed for Self-employed or commission borrowers:

- Signed 1003 Application with employment stated but no income stated
- No Ratios are calculated
- 2 years business license or other acceptable source
- Letter from the CPA stating the borrower has been self-employed for the past 2 years with the same business, in the same state
- Verbal verification of employment , verify the borrower has been a commission employee
- Written verification of deposit (VOD) with 2 months average balance or
- 2 months bank statements from the past 60 days

OCCUPANCY

Owner-Occupied Primary Residences

- U.S. Citizens
- Permanent resident aliens
- Non-permanent resident aliens, owner occupied only

Owner-Occupied Second/Vacation Homes

- U.S. Citizens
- Permanent resident aliens

Non-Owner Occupied Homes

- U.S. Citizens
- Permanent resident aliens

ELIGIBLE PROPERTIES

- Single Family (1-4 unit)
- PUD
- FNMA Warrantable Condominiums
- Town Homes

INELIGIBLE PROPERTIES

- Log Houses
- Unimproved Land
- Mobile Homes
- Kiddy Condos
- Unique Properties
- Tax-Sheltered Syndications
- Timeshare units
- Multi-Family dwellings containing more than 4 units
- Working farms
- Ranches and orchards
- Any residential properties zoned commercial and Properties listed for sale in the last six (6) months
- Cooperatives
- Condo Hotels
- Earth Homes

GEOGRAPHIC RESTRICTIONS

- Will not purchase loans in Alaska or Hawaii
- Cash Out Refinance in Texas are not eligible for purchase.
- States where FUNDNATION is not licensed (contact your FUNDNATION Account Executive)

MINIMUM LOAN AMOUNT

$100,000

LTV / LOAN AMOUNTS

See program matrices for specifics.

TRANSACTION TYPES

Purchase Transactions

Purchase transactions must adhere to standard Fannie Mae guidelines except as noted in the Program Matrix.

Refinance Transactions

Rate/Term Refinance

- Maximum cash back to the borrower limited to 2% of the loan amount, not to exceed $2,000.
- Reasonable and customary closing costs may be included in the loan amount. Generally, the cost should not exceed 5% of the loan amount.
- The LTV is based on the current appraised value
- A refinance that includes the pay off of a first or second with less than 12 month seasoning will be considered cash back to borrower with the following exceptions:
  Liens were purchase money liens
  Liens were from a rate and term refinance (HUD-1) would be required
- Paying off an equity line of credit will always be considered

Cash Out

- Maximum cash-out is based on LTV – See Program Matrix. [If the borrower has taken equity out of the property within the last 12 months, either through a first lien or subordinate lien(s) on the subject property, that cash is considered when determining the maximum cash-out]
- **Cash Out Refinance in Texas are not eligible for purchase.**

CONSTRUCTION / PERMANENT LOANS

- May be treated as a refinance or purchase transaction
- Construction loan must be in the borrower's name
- No Cash Out allowed
- If the land has been owned less than 12 months, the LTV will be based on the lesser of acquisition cost (sales price of lot, plus cost of improvements) or appraised value
- If the land has been owned more than 12 months, the LTV will be based off of appraised value
- Construction of permanent is not available to builders

MINIMUM EQUITY REQUIREMENT

Minimum of 5% cash down payment from Borrower's own funds, except on 100% CLTV transaction where borrower must pay 3% towards closing cost.

- No borrower down payment contribution is required when gift funds are at least 20% of the property value for full doc primary residence 80% LTV loans (primary residence only).

MORTGAGE INSURANCE

Mortgage Insurance is required on all mortgage loans with an original loan to value ratio of **greater than 80.00%.**

Coverage

- 80.01% - 85.00% 12.00%
- 85.01% - 90.00% 25.00%
- 90.01% - 95.00% 30.00%

Approved

- RMIC
- MGIC

TITLE VESTING

- Individuals
- Joint Tenants
- Tenants in Common
- Ownership must be fee simple interest or leasehold only and must be in the name of the individual borrower(s)
- Inter Vivos Revocable Trusts, provided:
  - All Borrowers will execute the Note and Security Instrument.
  - Revocable Trust that complies with Fannie Mae eligibility criteria. The borrower and the property will be underwritten as if title were held in the name of the individual borrower.
  - The borrower is qualified under FUNDNATION's standard underwriting guidelines.
  - Only one-family principal residences and one-family second homes are eligible.
  - The property may be a condominium, PUD, or SFR.
- All sellers of properties must have been on title 12 months

MULTIPLE PROPERTY OWNERSHIP

Borrower may own a primary residence as well as 9 other properties that are financed.

NUMBER OF LOANS PER BORROWER

- 2 loans per borrower generally allowed up to $1 million exposure to FUNDNATION. One may be a primary residence and the other either investment or a second home
- Exceptions granted on a case-by-case basis provided the borrower has a minimum 12 months' cash reserves in EACH property

RESIDENT ALIENS

Permanent Resident Aliens

Made under the same terms as a U.S. citizen under the following criteria:

- Must hold acceptable evidence of permanent residency issued by the U.S. Immigration and Naturalization Service (I.N.S.)
- Must have a minimum two (2) year employment history with a United States based employer. Income for qualifying purposes must be from the United Stated
- Must have a minimum two (2) year United States credit history
- Must have an established asset base in the United States. Funds from outside the United States are not acceptable

Must provide documented evidence of permanent residency. Documents acceptable:

- Alien Registration Receipt Card I-151 (referred to as a "green card").
- Alien Registration Receipt Card (Resident Alien Card) I-551 that does not have an expiration date on the back (also referred to as a "green card").
- Alien Registration Receipt Card (Conditional Resident Alien Card) I-551 that has an expiration date on the back, as long as it is accompanied by a copy of a filed INS form I-751.
- Must have a work VISA that does not have diplomatic immunity
- Must have 3yr work history with United States based employer
- Income and Asset must be in U.S. currency
- Must have 3yr United States credit history
- Must have a Social Security number
- Maximum LTV/CLTV 80%

Non- Permanent Resident Aliens

- Must have a work visa that does not have diplomatic immunity
- Must have a 3 year work history with a United States based employer
- Must have income and assets in U.S. currency
- Must have a social security number
- Must have maximum LTV/CLTV 80%

CREDIT STANDARDS

Length of Credit History

- FUNDNATION will provide loans to borrowers who have an established credit history. An established credit history is defined as a minimum of 5 traditional credit references that have been opened for at least 24 months and are active during that time period.

Minimum Credit Score Requirement

- See Program Matrix for Program specifics.

Debts

Installment Debts

- Included as monthly obligation if more than ten payments remain.
- All car lease payments are included as a monthly obligation regardless of the number of payments remaining on the lease.
- Debts secured by a financial asset are included as an obligation [401(k), Keogh, etc.].
- Although installment debts of ten or less payments remaining are generally excluded, FUNDNATION analyzes the number and size of all such debts to determine whether the borrower has the ability to carry such short-term debts.
- You can pay off debts to qualify

Revolving Debts

- Included as monthly obligation regardless of the number of payments remaining except if the balance on the credit card is less than $250.
- The monthly payment verified on the credit report may be used as the payment in calculating the total debt ratio.
- If the payment amount is not verified on the credit report, the payment disclosed by the borrower's statement or 5% of outstanding balance can be used.
- You can pay off debts to qualify

Student Loans

- Payment must be included in DTI even if deferred

Residential Pay History

- All borrowers must be able to verify a 24 month residential pay history. If renting or buying from a private individual, canceled checks will be required

Bankruptcies and Foreclosures

- Bankruptcies must be discharged five (5) years with good re-established credit. Re-established credit is 5 traditional credit references that have been open at least 24 months and are active during that time period
- No Foreclosures in the past seven (7) years

INCOME

Must meet standard agency guidelines unless restricted based on "Documentation Type"

Alimony/Child Support

- Should continue for at least three years.

- Received on a regular basis for the last 6 months.
- Documentation to verify amount, regularity of payments and the length remaining is required.

Car Allowance

- Used as an offset to borrower's monthly auto payment.
- Should have been received for at least one year.

Bonus / Commission

- As documented by employer.
- If bonus/commission income is equal to 25% or more of the total income, the last two years' signed federal income tax returns should be obtained.

Overtime

- As documented by employer.
- If overtime income is equal to 25% or more of the total income, the last two years' signed federal income tax returns should be obtained.

Part-Time/Second Job

- As documented by employer
- Must evidence a minimum of two year history of working a second or part-time job.

Military Income

- Flight or hazard pay, rations, clothing allowance, quarters allowance, proficiency pay, and hardship pay are all included as income.

Notes Receivable

- Copy of the executed and recorded note should be obtained.
- Evidence of receipt for the previous 12 months should be obtained.
- Should continue for at least three years.

Dividends/Interest

- 3 years signed federal income tax returns required.
- Reserves should be sufficient to continue generating income.

Retirement/Pension

Monthly payment from these accounts can be used as income.

Social Security

Considered as income when verified by:

- Award Letter; or
- Bank statements confirming regular deposits of payments.
- Can gross 125%
- Social security income paid to the surviving children of a deceased spouse should continue for at least three years.

Disability Income

- Permanent and temporary disability can be used as income with receipt of the award letter.
- For temporary disability, a letter from the employer should be provided, stating that the employee will receive the disability benefits as long as he or she is

disabled and, when no longer disabled, the employee will return to his or her previous position.

- Must prove this will continue for 3 years

Unemployment Benefits

- Seasonal unemployment income may be used if a two-year history is established.
- Verification from the employer verifying that fluctuations are normal for the industry and that the borrower is currently working.
- Unemployment income should be averaged with W-2 earnings over a two-year period.

Rental Income

- One or more investment properties owned
- Lease agreements or federal tax return for most recent year.
- When using lease agreements, 75% of rents -- minus PITI -- can be used in qualification.
- When using federal income tax returns, all depreciation can be added back to the total net income or loss for each property.
- A negative cash flow will be included as an obligation and a positive cash flow as income.
- 75% of actual rents on non-owner-occupied units can be added to income.

Other Income

- If the borrower chooses to disclose income from sources other than the ones addressed above, FUNDNATION will consider these sources as long as there is a history of receipt for two years and the other income is properly documented. FUNDNATION generally requires the other income to continue for a minimum of three years. A longer time period may be required, depending on the circumstances. This is especially true when other income exceeds 25% of total income.

EQUITY / ASSETS

Minimum Downpayment/Equity

- When the borrower is required to make a downpayment, the source of assets must be present for at least 60 days prior to the date of the loan application.
- Funds needed for closing must be verified.
- Source of funds should be verified for funds on deposit less than 60 days or substantial increases in account balances.

Deposit on Sales Contract

- All Earnest Money must be verified with canceled checks. If over 1% of the purchase price, the funds must be Sourced and Seasoned for 60 days.

Borrowed Funds

- Borrowed funds secured using the borrower's assets may be used as a source of downpayment. Acceptable sources of secured assets are certificates of deposit, stocks, bonds, real estate, life insurance policies, and 401(k) savings. All must provide proof of liquidations. The term of the loan and the collateral must be verified. Loans secured by the borrower's financial assets are included as debt in qualification.

Gifts

Acceptable provided:
- Primary Residence only
- A gift letter is obtained indicating the amount of gift, date gift will be given, donor's name and address, relationship to borrower, and that no repayment is expected.
- The borrower makes required contribution toward downpayment from own savings funds.
- The donor is an immediate family member.
- The funds are verified in either the borrower or donor's account.

IRA/Keogh, 401(k)

- Only the net funds after any penalties and taxes are considered.
- Proof of the availability of these funds is required.
- If funds are being considered for reserves only, verification of the account is sufficient. 70% of value will be used

Sale of Personal Assets

- The sale is adequately documented with a bill of sale and valuation of the asset.
- There is evidence that the net proceeds have been deposited into the borrower's checking and/or savings account. (The sale of a car should be questioned if it leaves the borrower unable to get to and from work or to perform other necessary travel.)

RATIOS

- See programs matrix for specifics

SELLER CONTRIBUTIONS

Primary Residence

- If the LTV is > 90%, maximum contribution is 3%
- If the LTV is less than or equal to 90%, maximum contribution is 6%

Second/Vacation Home

- If the LTV is > 80% maximum contribution is 3%
- If the LTV is $\leq$ to 80%, maximum contribution is 6%

Investment Property

- The maximum contribution is 2%

SECONDARY FINANCING

- Subordinate and junior liens are allowed.
- In the case of a refinance, the subordinate lender must execute a subordination agreement.
- The maximum CLTV allowed is 100% or where stated on the product matrices (note: some matrices do not allow any second mortgages, i.e.: Expanded or Super Jumbo)

ASSUMABILITY

Not permitted.

PARTIAL RELEASES

Not permitted.

LATE CHARGES

15 days / maximum late charge permitted in the related State.

ESCROWS

- Not required.
- FUNDNATION will charge .25% fee for borrower to establish taxes and insurance escrows.
- Escrows must conform to RESPA "Escrow Accounting Procedures" under the "Aggregate at Closing" method and must be reflected on the HUD-1.

ESCROW HOLDBACKS

Escrow holdback is based on inability to complete on-site existing work due to weather related conditions. Generally, funds equal to one and one-half times the cost of completion should be collected (items cost must be less than 1% of the purchase price).

- A signed escrow agreement is required and evidence of satisfactory completion of work must be forwarded within 15 days of closing.
- On existing construction, improvements must be complete when the loan is closed; an appraisal based on "as is" condition of the property is acceptable if minor conditions do not effect the livability or safety of the property; the appraisal value must reflect the existence of these conditions.

RESERVES

See Program Matrix

PROPERTY AND APPRAISAL ANALYSIS

Subject Property

- The appraisal must identify and describe the location of the subject property
- Provide information about property taxes and special assessments
- Indicate the occupancy status of the property
- Describe the property rights to be appraised
- Summarize financing data and sales concessions
- Identify the borrower, the current owner, the client, and the appraiser.
- The appraiser must identify the subject property by its complete property address and legal description; a post office box number is not acceptable.
- The appraiser should indicate the nearest intersection if a house number is not available. When the legal description is lengthy, the appraiser may attach the full description as an addendum to the appraisal report, or may refer simply to its location in the public records.
- All comparable sales must be within 5 miles of subject.

CONDOMINIUM REQUIREMENTS

Warrantable condominiums

- Project must be 100% complete
- 70% of all units within the project must be sold or under contract
- 60% of units must be owner occupied or used as second homes.
- No more than 1 entity can own more than 10% of the project
- No more than 10% of the complex can be used for commercial purposes and must be typical for the area.

High-rise condominiums

- Must be typical for the area
- Must be Fannie Mae Warrantable

Site condominiums

- A project that consists only of detached one-unit dwellings and does not include manufactured or mobile housing units.
- Subject property must be an Owner Occupied, Primary residence or Second/Vacation home
- The mortgage must be covered by a title insurance policy that included an ALTA 4, condominium endorsement, and complies with all other tile insurance requirements
- Subject property must be covered by all required hazard, liability and flood insurance, as applicable, in acceptable form

Condo Hotels

A Condo Hotel is not allowed on Capital products.

Leasehold Condominiums

- Not Allowed

NEIGHBORHOOD ANALYSIS

Neighborhood refers to the location market appeal of the subject property. The appraiser indicates whether the property is located in an urban, suburban, or rural area.

- *"Built Up"* describes the percentage of land (available in the neighborhood) that has been improved. Over 75% and 25% are the most desirable ratings. A rating of "less than 25% built up" usually indicates non-residential use, and requires more consideration when reviewing the entire appraisal. A rapid or stable growth rate and increasing or stable property values indicate desirable marketability, while slow growth rate and declining property values usually indicate the opposite.
- When *"shortage" or "in-balance"* ratings are used to describe demand/supply, marketability in the area is considered good. An oversupply of housing is not desirable, and may indicate either a slow market or an unmarketable property type. It is important for the borrower to sell the property within a reasonable period, therefore, a marketing time of six months or less is preferred.
- In the Property Land Use section, the predominant occupancy in the area and the housing price ranges. The subject property should conform to these figures and the appraised value must be in line with predominant value.

Rural Properties

Rural can pose valuation problems since, by their very nature, comparable sales are hard to find. Properties classified as rural must:

- Have a high degree of marketability
- Must be custom & common for area, supported by comparable sales
- May not be agricultural in nature
- Land-to-Value is limited to 40%
- Be accessible from a publicly maintained road
- Have adequate sewage, water, and utilities
- No value given to out buildings
- All comparable must be within 5 miles of subject property

Mixed-Use Properties

- Considered on a case by case basis
- Less than 10% of property can be used as business
- Cannot be any business that would use hazardous chemicals
- Limited to single-family, primary residence.

- Must be common for area.
- The mixed use of the property should represent a legal, permissible use of the property under the local zoning requirements.
- The borrower should be both the owner and operator of the business.
- The property should be primarily residential in nature.
- The mixed use of the property should have minimal affect on the value and marketability of the property.
- Careful review of mixed-use neighborhoods must be done to determine the influence investor properties have on property values and marketability in the neighborhood. Properties in mixed-use neighborhoods
- Maximum LTV is limited to 80%

Acreage

FUNDNATION will purchase loans with a maximum parcel size of 10 acres. Comparables must have similar acreage and be within 5 miles

Zoning

Industrial, agricultural, or commercial zoning is unacceptable

Water Supply

Properties using alternative water supplies are acceptable provided the appraiser demonstrates that such water supply is typical for the immediate area and that area residents accept them.

Sewage Systems

If cesspools and septic tanks are acceptable provided the appraiser demonstrates that such water supply is typical for the immediate area and that area residents accept them.

Private Roads

Properties located on private roads are acceptable provided a signed and recorded maintenance agreement has been obtained. The appraiser must comment on the marketability of a home with a private road.

DESCRIPTION OF IMPROVEMENTS

Improvements must generally conform to the neighborhood in terms of age, type, design and materials used for construction. As a general rule, a well-maintained property will have an effective age of less than the actual age.

In-Law Units

Examples of such properties include a house with a unit above a detached garage and a house with a guest apartment or basement unit.

- A single-family property that includes an additional unit is acceptable provided it conforms to the subject neighborhood and to the market.
- Comparables must include second units
- Second unit must be incidental to the overall value and to appearance of the property

- No income may be used to qualify the borrower

Comments

Comments regarding the improvements should be carefully analyzed. The appraiser must describe repairs required on the property or the impact of any sales concession. Seller's concessions, whether cash or assets may have a negative effect on the subject property value. Personal property cannot be appraised as if it was real property and FUNDNATION will reduce the value of the property by the amount of any excessive concessions.

APPRAISER REQUIREMENTS

The appraiser must:

- Be a State licensed or certified appraiser;
- Meet the appraiser independence requirements for staff appraisers or, as appropriate, fee appraisers specified by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC and the Office of Thrift Supervision in their respective real estate appraisal regulations adopted in accordance with Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (regardless of whether the Seller is subject to those regulations)
- Be experienced in the appraisal of properties similar to the type being appraised
- Be actively engaged in appraisal work
- Subscribe to a code of ethics that is at least as strict as the code of the American Institute of the Real Estate Appraisers or the Society of Real Estate Appraisers.
- An appraiser trainee can sign an appraisal as long as a state certified or state licensed appraiser closely supervises the trainee, signs the appraisal report and inspects the property.

In addition, the appraiser should:

- Have successfully completed courses in real estate appraisal
- Have a knowledge of current real estate market conditions and financing trends in the area
- Have a working knowledge of construction costs, materials, methods, and standards in the area
- Maintain a file on real estate sale transactions, including the financing involved.

APPRAISAL REQUIREMENTS

- Full walk-through appraisals on the FNMA form #1004 the Uniform Residential Appraisal Report are required on all loans

- On property values of $650,000 to $999,000 will require an appraisal and field review. On values of $1 Million and greater, two full appraisals will be required. Values of $1 Million and greater, also require 5 comparable sales and interior photos.
- All appraisals shall be in writing and performed in strict accordance with all applicable local, State and federal laws, regulations and orders, and the Seller is responsible for ensuring such.
- All appraisals shall conform to the current Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation.
- The Broker is expected to review each appraisal in detail for completeness, accuracy and appraising logic in accordance with the Fannie Mae and Freddie Mac Guidelines and the Seller assumes sole responsibility for the quality of the appraisal report and for ensuring that each appraisal is performed in strict accordance with all applicable local, State and federal laws, regulations and orders.

Age Of Appraisal

- Appraisals must be less than 90 days old at time of closing.
- Re-certifications of value are acceptable from 91 days to 179 days
- A new appraisal is required at 180 days.

FINAL EVALUATION

Land Value

The land value should not exceed 40% of the property value. If the land value exceeds 40% the appraiser must include the reasons, state whether the land value is consistent with other homes in the area, and show evidence in the comparables.

Comparables Adjustments

Gross adjustments should not exceed 25% of the sales price of the comparable, while *net adjustments* should not exceed 15% of the sales price of the comparable.

Proximity to Subject

The comparables should be within a distance that appears reasonable for the area and the property type. FUNDNATION will not lend on properties where comparables cannot be provided within a 5 mile radius.