



Direct Mortgage
Wholesale™

Program Guidelines

6199 Program Guideline

FHA \$100 Down Traditional
Purchase

6199

HUD \$100 Down Payment

HUD \$100 DOWN PAYMENT - Buy A HUD Home With Only \$100 Down!

The \$100 Down Payment Program Has the Following Requirements:

1. HUD Foreclosed Homes Only! This FHA \$100 Down Payment Loan is for the purchase of HUD foreclosure homes.
2. Have to use FHA financing. You cannot use conventional financing.
3. This program is for Owner-Occupants only, not for Investors. You have to sign a form at closing stating you are going to live in the property and not use it as an investment such as a rental property.
4. You still need to have the earnest money of \$1,000 for properties listed above \$50,000 and \$500 for properties listed for less than \$50,000. Earnest money will be returned to you at closing as a credit on the Closing Statement.
5. You can ask HUD to pay for closing costs up to 3% of purchase price.

What are HUD Homes?

A HUD Home is the result of a foreclosure on a FHA Home Loan. When someone with a Federal Housing Administration (FHA) insured mortgage can't make the payments, the lender forecloses on the home. FHA pays the lender what is owed and then the United States Department of Housing and Urban Development (HUD) takes ownership of the home.

Who Can Buy HUD Homes?

HUD does not provide financing for the purchase of HUD Homes. It is up to the buyer to locate the financing through a bank or mortgage company. Before you bid on a property, be sure you do have secured financing. If you place a winning bid and you cannot obtain financing within the specified time, you may lose the earnest money deposit that you submitted with your offer.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-8000
August 2, 2000

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

MORTGAGEE LETTER 00-27

**TO: ALL APPROVED MORTGAGEES
ALL FHA ROSTER APPRAISERS**

**SUBJECT: Appraising and Financing HUD Real Estate Owned (REO) Properties with FHA-Insured Financing
- Single Family Loan Production**

The purpose of this Mortgagee Letter is to provide approved FHA mortgagees with processing instructions for FHA-insured financing that involve a HUD Real Estate Owned (REO) property and to clarify FHA requirements regarding REO appraisals completed for both HUD's Management and Marketing contractors (the M&M contractor) and mortgage lenders. This letter emphasizes that all FHA approved Mortgagees and all FHA roster appraisers must comply with the appraisal requirements outlined in Mortgagee Letter 99-18 and the updated appraisal handbook 4150.2. This letter creates a new categorization "insurable with condition(s)" under which an appraiser may complete an appraisal on a HUD REO property when utilities cannot be activated at the time the appraisal is completed. FHA insurance will not be offered on any HUD REO property unless the mortgage lender or purchaser obtains a complete systems check or any other certifications needed to satisfy the insurability of the mortgage on the property.

The policies and instructions in this Mortgagee Letter are designed to provide clarification regarding the processing of HUD REO sales contracts. These requirements are **effective immediately** for all HUD REO sales transactions. The intent of these policies is to bring the processing of applications for FHA mortgage insurance on HUD REO properties more closely in line with those for other purchase mortgage transactions.

Appraisal Requirements for Marketing REO Properties

Appraisals for HUD REO properties may be performed only by an appraiser listed on the FHA Appraiser Roster. The appraisal must fully conform to the requirements and processing procedures prescribed in Mortgagee Letter 99-18 and the Appraisal Handbook 4150.2. There are, however, unique challenges in preparing a HUD REO appraisal. Issues that need additional instructions are discussed below.

Appraisal Type

Upon conveyance of properties to HUD's REO inventory, HUD's M&M contractor shall obtain an **as-is appraisal** (not as-repaired) for each HUD REO property to determine the listing price. In accordance with 4150.2, the appraiser is required to complete both the Valuation Condition Sheet (Form HUD-92564-VC) and Homebuyer Summary Form (HUD-92564-HS). The Valuation Condition Sheet must list needed repairs as identified in Mortgagee Letter 99-18.

Utility Issues

Utilities should be on at the time the appraisal is conducted, unless there are documented extenuating circumstances. In the event of extenuating circumstances, the appraiser should note the following:

- On the Uniform Residential Appraisal Report (URAR), the appraiser will annotate "The following utilities were not on at the time the appraisal was conducted (e.g., electric, gas, and/or water) - Unable to verify their functionality."
- On the VC sheet, it also should be clearly noted that "The following utilities were not on at the time the appraisal was conducted (e.g., electric, gas, and/or water). - Unable to verify their functionality." However, the appraiser should note any readily observable condition that is evident. Completion of the Valuation Condition Sheet requires observation of 13 areas that include, but is not limited to, the well and individual water supply, the septic system, structural conditions and mechanical systems, to ascertain any obvious defects (i.e., exposed wiring, frayed wiring, presence of leaks, and structural damage of plumbing fixtures). Extra attention should be given to the readily observable condition of the utility systems that are not activated at the time of the appraisal.
- HUD's M&M contractor shall permit entry to the purchaser(s) during the contract period to activate the utilities for the purposes of conducting a home inspection. If the HUD REO appraisal was completed without the utilities being activated, the mortgage lender or purchaser(s) must complete the systems check while the utilities are activated.

Release of the Appraisal to Lender/Purchaser

- HUD's REO appraisal is made available to the mortgage lender or purchaser(s) at no charge when a current appraisal is available. This is done to reduce out of pocket expenses by the purchaser(s). The mortgage lender should contact the M&M contractor to obtain a copy of the current appraisal.

Ordering Updated Appraisals

Mortgage lenders may not order an updated appraisal from a roster appraiser because the sales price exceeds the as-is value specified on the M&M contractor's appraisal. Mortgage lenders may order and the borrower may be charged for an updated appraisal only under the following circumstances:

- A. Section 203(k). Mortgage lenders must order, and the purchaser(s) may be charged for, an as-repaired appraisal on all Section 203(k) transactions. If the M&M contractor's as-is appraisal is more than six months old, mortgagees also have the option of ordering an updated as-is appraisal. However, an as-is appraisal is not mandatory if the underwriter believes the sales price is equal to the as-is value. In this case, the age of the appraisal is not an issue.
- B. Appraisals Over Six Months Old. Appraisals have a life of six months for existing construction. The original appraisal obtained by the M&M contractor must be used, provided the mortgage lender has approved the purchaser(s) or a valid HUD sales contract was executed prior to the expiration date of the appraisal. For reference, see HUD Handbook 4000.2 REV-2, dated 7/91, paragraph 4-2 and HUD Handbook 4000.4 REV-1 CHG-2, dated 7/94, paragraph 3-4. Mortgage lenders must exercise sound judgment in determining if documentation updates are required on the purchaser(s).

In those instances where the M&M contractor's appraisal is more than six months old and a valid HUD sales contract was not executed prior to the expiration date of the appraisal, the mortgage lender must order, and the purchaser(s) may be charged for, an updated appraisal. Mortgage lenders should instruct appraisers to perform an as-is appraisal, not an as-repaired appraisal, in accordance with the procedures outlined in Appendix A-1 of HUD Handbook 4150.2. If mortgage lenders request a copy of the M&M contractor's appraisal and such copy is not available, mortgage lenders should order a new appraisal.

If the updated appraisal results in a lower as-is value of the property, the purchaser(s) will be given the opportunity to proceed with the transaction with no adjustment made to the sales price, requiring an additional cash investment by the purchaser(s) or the purchaser(s) may withdraw their offer to purchase the property and receive a full refund of the earnest money deposit.

Should the updated appraisal result in a higher as-is value, the sales price will not be adjusted. In these situations, the mortgage amount will be based upon the value established by the updated appraisal. The mortgage amount, however, cannot exceed the sales price indicated on the sales contract.

Note: If an updated appraisal is ordered, the updated appraisal **must** be used when processing the application. Mortgage lenders **do not** have the option of ordering an updated appraisal and then deciding whether to use that appraisal or the M&M contractor's appraisal.

Inspection Requirements

Termite/Pest Inspections

The M&M contractor is required by HUD to obtain a termite and pest control inspection on all properties which the appraiser has recommended be offered with FHA mortgage insurance unless the property lies within a pre-designated geographic area not prone to termite and pest infestation. Mortgage lenders should contact the M&M contractor to obtain a free copy of this inspection report.

Well and Septic System Inspections

If the HUD REO property has a well and/or septic tank, mortgage lenders should contact the M&M contractor to determine if an inspection has been performed, and, if it has, to obtain a free copy of this inspection report. Where the M&M contractor has not ordered tests, mortgage lenders are responsible for ensuring that any tests and certifications required are obtained in accordance with HUD Handbook 4150.2, paragraph 3-6 A. 5 and Mortgage Letter 95-34. Mortgage lenders should contact the M&M contractor to arrange for testing.

HUD REO Marketing Approaches

This mortgagee letter introduces a new marketing approach for HUD's REO properties. That category is "Insurable with Condition(s)" and it is described in greater detail below. Each HUD REO property will be offered for sale using one of the following four approaches:

1. **Insurable.** Properties marketed as "insurable" are those which meet FHA's Minimum Property Requirements (MPR) at the time of the appraisal in their as-is condition without repairs necessary.
2. **Insurable With Condition(s).** Insurable properties may have conditions which must be satisfied to fully meet FHA's MPR. The M&M contractor's Internet listings will disclose what conditions

must be satisfied. For a property that is listed as "insurable with condition(s)" (property appraised without the benefit of the utilities being activated during the time of the appraisal, properties with flat roofs, and/or a property which appears to be insurable but a certification for a specific item(s) is required), the mortgage lender/purchaser(s) must have a complete systems check, the flat roof inspection to assure a two year life, and any other certification needed to satisfy the appraiser's concerns listed on the VC form performed by a reputable individual or firm at the purchaser(s) expense to ensure complete system functionality prior to loan closing. If repairs are required that do not exceed \$5,000, the loan may be financed as a 203(b) repair escrow and the lender may process the loan using the instructions for cases with repair escrow. If repairs are required that exceed \$5,000, the loan may be processed with Section 203(k) financing provided the cost of repairs are in compliance with REO program policies.

3. **Insurable With Repair Escrow.** A property that requires no more than \$5,000 for repairs to meet FHA's MPR as determined by the appraiser, is eligible to be marketed for sale in its as-is condition with FHA mortgage insurance available, provided the purchaser(s) establishes a cash escrow to ensure the completion of the required repairs. Purchaser(s) are permitted to include in their mortgage an amount equal to 110% of the estimated cost of the repairs.
4. **Uninsurable.** Properties offered for sale "Uninsured" do not meet, in their as-is condition, FHA's MPR and the cost of repairs identified by the appraiser to meet MPR are estimated to exceed \$5,000. Uninsurable properties qualify **only for Section 203(k) financing.**

The approach under which each property is being listed for sale is specified on the M&M contractor's Internet property listings and on the form HUD-9548, Sales Contract. Properties are marketed based on the condition of the property existing at the time of listing.

Sales Contract Requirements

Mortgage lenders may only accept a fully executed copy of form HUD-9548, Sales Contract from purchaser(s) applying for FHA-insured financing to purchase a HUD REO property. The sales contract will specify the sales price, the financing terms, the amount of closing costs HUD will pay at settlement, the real estate commission HUD will pay, the closing date, and any discount on the sales price that will be provided at settlement.

As required in Mortgagee Letter 99-18, where FHA-insured financing is specified on the sales contract, a Form HUD-92564-CN, ***For Your Protection: Get A Home Inspection***, must also be submitted to the lender through the broker or purchaser. If this form is signed after the date the sales contract was signed, the sales contract must be re-executed.

If the contract is not complete, if there are questions about the terms or conditions, or if the contract must be amended as a condition of loan approval, mortgagees should contact the M&M Contractor. Mortgagees should also be aware of the following:

- The sales contract must be signed by the M&M contractor. If the sales contract has not been signed by the M&M contractor, mortgage lenders should not process a mortgage application.
- In order to qualify for FHA-insured financing, the first block on Line 4 of the sales contract, as well as the applicable block for the FHA program - 203(b), 203(b) repair escrow, or 203(k) - must be checked. REO properties that are condominiums which are offered for sale with FHA mortgage insurance, should be processed under Section 234, even though Section 203(b) is specified on the sales contract.

- In the event the home inspection or the systems check reveals that repairs are needed which no longer makes the property eligible for an FHA-insured 203(b) mortgage, the mortgage lender should contact the M&M contractor to discuss alternatives to allow the sale to continue. The M&M contractor may allow the modification of the sales contract, as needed, to reflect either an Insured with Repair Escrow sale or to an FHA 203(k) sale in those instances where the mortgage lender provides them with sufficient documentation to support the change in financing. The sales contract must be revised to include this revision and initialed by both the purchaser and the M&M contractor.
- In the event the purchaser(s) wishes to finance eligible rehabilitation in the purchase mortgage through a 203(k) mortgage but the property was listed as "insurable", the mortgage lender should provide the M&M contractor with sufficient documentation to support the change in financing terms and obtain a modification to the sales contract.
- A specific down payment and mortgage amount is no longer required to be established on Line 4 of the form HUD-9548 Sales Contract. Under new direction to the M&M contractors, the mortgage amount and down payment amounts will be left blank. The purchaser(s) must, however, continue to indicate the type of financing being sought.
- The amount on Line 5 of the Sales Contract represents actual borrower financing and closing costs to be paid on their behalf by HUD (the seller) out of the sales proceeds. It does not represent an amount which the borrower may finance in the mortgage.
- Only the actual amount of closing and financing costs will be paid by HUD at settlement. The borrower will not be credited at settlement for any unused portion. Pre-paid items may not be paid out of the amount on Line 5 (See HUD Notice 99-04). The only exception to this policy is the Officer/Teacher Next Door Program.
- Specified on Line 8 of the Sales Contract will be the percentage discount, if any, that will be applied to the sales price at settlement. Where the price will be discounted, the mortgage amount will be based on that discounted sales price, not the contract sales price. See below for further information.
- Specified on Line 9 of the sales contract will be the number of days, normally 45 or 60, in which the sale must be closed. Mortgage lenders should be prepared to complete their processing in sufficient time to allow the borrower to meet this time frame.

Case Number Processing

In regard to case numbers, please note the following:

- Mortgagees must obtain a new FHA Case Number for applications for FHA-insured financing involving REO properties. When entering the case information in FHA Connection, mortgagees should select "Real Estate Owned" for Processing Type.
- During the case number processing procedure, CHUMS will require a response to the following question, "Was this case previously sold as a Property Disposition?" Mortgage lenders should always check **YES** when processing an application for FHA-insured financing on an REO property. The mortgagee should complete the 'Previous Case Number' field. This field is designed to track REO properties sold with FHA-insured financing and if they are subsequently sold by the individuals who purchased them from HUD. If entry of the previous case number triggers an error message, the mortgage lender should request that the

Processing and Underwriting Division of their Homeownership Center post the number in the CHUMS Property Disposition file.

- Mortgage lenders should not order an appraisal on REO property transactions unless they are processing a 203(k) sales transaction or the M&M contractor's appraisal is more than six months old. When not ordering an appraisal, the appraiser fields should be left blank.
- If the REO property is a condominium, FHA Connection will require the entry of the Condo ID. If FHA financing was approved on the sales contract, but the condominium development is not approved and the condominium project is in compliance with the Spot Loan procedure (ML 96-41), mortgagees should enter "Yes" in the Spot Lot field. For the property to be FHA insured, the condominium project must be approved and in compliance with FHA policies on condominiums (i.e., 51 percent owner occupancy).

Mortgagee Appraisal and Property Review Requirements

In order to calculate the maximum mortgage amount and underwrite the loan, mortgage lenders must obtain from the M&M contractor a complete copy of the as-is appraisal to include Form HUD-92564-VC, Valuation Conditions-Notice to Lenders, and Form HUD-92564-HS, Homebuyer Summary. Mortgage lenders should place two copies of the M&M contractor's appraisal in the case binder submitted for insurance endorsement.

Mortgage lenders are responsible for reviewing the property description, comparables and adjustments specified on the appraisal, and for otherwise ensuring that the stated value is accurate. Mortgage lenders should also ensure, to the best of their ability, that properties financed with FHA-insured mortgages meet the Department's Minimum Property Requirements the appraisal, the mortgage lender's underwriter notes that the appraiser called for repairs which relate to MPR. If the borrower has a home inspection performed, that inspection may also identify a need for repairs which were not identified on the appraisal. In such cases, it is important that the underwriter address such issues. Section 203(b) financing should not be automatically approved simply based on the terms of the sales contract. Mortgage lenders should discuss any discrepancies with the M&M contractor for resolution.

The reverse situation is possible as well. A property may have been offered for sale "uninsured" and the purchaser apply for Section 203(k) financing, but the appraisal reveals no repairs required. It is not HUD's intention to have purchaser(s) obtain financing for repairs which are not required.

As a rule, the M&M contractor will not make repairs to HUD REO properties which are necessary to bring them up to FHA's MPR. Where repairs are determined to be necessary, they will generally have to be accommodated through either Section 203(b) Repair Escrow or Section 203(k).

Where a repair escrow is required, the escrow account should be established and administered in accordance with the procedures outlined in HUD Handbook 4145.1. A completed Form HUD-92300, Mortgagee's Assurance of Completion, should be included in the case binder submitted for insurance endorsement. A completed Form HUD-92051, Compliance Inspection Report, must be submitted after the completion of repairs.

Maximum Mortgage Amount and Minimum Cash Investment

HUD may authorize the M&M contractor to offer sales incentives. Where such incentives have been made available, they shall be specified in writing by the M&M contractor on either the sales contract itself or on an accompanying letter.

Absent such written authorization, maximum mortgages and minimum cash investments shall be calculated in accordance with Mortgagee Letter 98-29, using Form HUD-92900-PUR, Mortgage Credit Analysis

Worksheet, Purchase Money Mortgage, except as noted in this Mortgagee Letter. The only exception to this policy is on applications involving Officer Next Door or Teacher Next Door. Specific instructions on processing applications for these properties are provided below.

This does represent a change from the way financing for HUD REO properties that have been traditionally processed. Mortgagees should note that:

- On Section 203(b) applications, the mortgage amount must be based on the lesser of the as-is value or the sales price. On Section 203(k) applications, the acquisition cost must be based on the lesser of the as-is value or the sales price. The reference to Notice H 98-32 on Line C.7. of Form HUD-92700, 203(k) Maximum Mortgage Worksheet, is no longer applicable.
- Where a discount on the sales price is being provided, the mortgage amount shall be based on the lesser of the as-is value or the discounted sales price, not the contract sales price. In the case of Section 203(k) applications, the acquisition cost shall be based on the lesser of the as-is value or the discounted sales price, not the contract sales price. Specific instructions on calculating the discounted sales price are provided below.
- Closing costs and pre-pays may not be included in the mortgage (see exceptions below for the Officer Next Door and Teacher Next Door programs).
- Investors are eligible for Section 203(b) financing only. Investors are not eligible for Section 203(k) financing. Maximum allowable financing for investors is 75% for one unit properties and 85% for two, three, and four unit properties.
- On Section 203(k) applications, mortgage lenders should first complete Form HUD-92700 (2/99), 203(k) Maximum Mortgage Worksheet. Information from that form should then be transferred to the Form HUD-92900-PUR in accordance with the instructions on page 2 of the Form HUD-92700.

Calculating the Discounted Sales Price

Nonprofit purchasers, law enforcement officers, and teachers participating in the Officer Next Door and Teacher Next Door programs are entitled to a discount against the **sales** price at settlement. The percentage discount to be applied will be specified on Line 8 of the sales contract. However, this discount will be reduced by the amount of any closing costs that the buyer requests HUD to pay (as specified on Line 5 of the Sales Contract) and any real estate commission that the borrower asks HUD to pay (as specified on Line 6a of the REO sales contract).

For the purposes of mortgage calculation, the sales price should be calculated according to the following formula:

	Contract Sales Price (from Line 3 of REO Sales Contract)	
-	Discount (from Line 8 of REO Sales Contract)	
+	HUD-Paid Closing Costs (from Line 5 of REO Sales Contract)	
+	HUD-Paid Sales Commission (from Line 6a of REO Sales Contract)	
=	Discounted Sales Price	

For example:

Contract Sales Price	\$100,000
- 50% Discount	<u>- 50,000</u>

=	\$50,000
+ Sales Commission	+ 5,000
+ HUD-paid closing costs	+ <u>3,000</u>
= Discounted Sales Price for Mortgage Calculation Purposes	\$ 58,000

If the purchaser is not requesting that HUD pay a sales commission or closing costs of course, the discounted price will be the contract sales price minus the amount of the discount. This calculation should also be undertaken when calculating the acquisition cost for Section 203(k) applications.

Calculating Mortgage Amount for Officer Next Door and Teacher Next Door Program

- The Officer Next Door and Teacher Next Door programs are specifically designed to provide a unique opportunity for law enforcement officers and teachers to purchase and occupy REO properties with a minimum cash contribution of \$100.00. In order to accomplish this, these borrowers must be able to finance in their FHA-insured mortgages all closing costs and pre-paid expenses.

NOTE: While nonprofit purchasers may be entitled to a discount on the sales price, they are not permitted to finance closing and financing costs in the mortgage. Aside from using the discounted sales price, applications for nonprofit purchasers shall be processed exactly like those for other owner-occupant borrowers, using Form HUD-92900-PUR (10/98) in accordance with the instructions in Mortgagee Letter 98-29. Only law enforcement officers and teachers participating in the Officer Next Door and Teacher Next Door programs may include closing and financing costs in the mortgage, and qualify with a cash investment of only \$100.00.

In order to calculate mortgage amounts under these circumstances, mortgage lenders must use Form HUD-92900-WS, Mortgage Credit Analysis Worksheet. Line-by-line instructions are as follows:

Enter on Line 4 the as-is value from the appraisal.

Enter on Line 5a all closing and financing costs.

Enter on Line 5b the amount of closing costs to be paid by HUD, if any (from Line 5 of the REO sales contract).

Enter on Line 5c the amount on Line 5a minus the amount on Line 5b.

Enter on Line 10.a. the discounted sales price (as calculated above). Note in the Remarks section that the discounted sales price has been used.

Enter on Line 10.b. the amount of the repair escrow, if any (from Line 4 of the REO Sales Contract).

Enter on Line 10.c. the amount from Line 5.c.

Enter on Line 10.e. the amount on Line 10.a. plus the amounts on Lines 10.b. and 10.c.

Leave Lines 10.f. (1) and (2) blank.

Enter on Line 10.g. the amount on Line 10.e. minus \$100.00.

Enter on Line 10.h. 100.00.

Leave lines 10.i., 10j., 10.k. and 10.l. blank.

Enter on Line 10.m. 100.00.

All other lines on Form HUD-92900-WS should be completed in accordance with outstanding instructions.

The credit and underwriting standards for officers and teachers are no different than those for other owner-occupant purchasers. Where there is a co-borrower, whether a spouse, another relative or an unrelated person, and whether that co-borrower will be occupying or not, the same standards apply.

NOTE: The officer or teacher must be the borrower and must qualify for the mortgage. It is not acceptable for a spouse or other parties to qualify for the mortgage in their name or names only.

Assistance

If you have questions about this Mortgage Letter, please contact your local Homeownership Center in Atlanta (1-888-696-4687), Denver (1-800-543-9378), Philadelphia (1-800-440-8647) or Santa Ana (1-888-827-5605).

Sincerely,

William C. Apgar
Assistant Secretary for Housing -
Federal Housing Commissioner



Direct Mortgage
Wholesale™

Program Guidelines

DMC FHA Guide

FHA Fixed Rate/ARM

General Description:

FHA Fixed Rate principal and interest level payments for the life of the loan.

Follow published FHA guidelines if item not addressed below.

Lenders are responsible for complying with all applicable FHA/HUD regulations as further modified by the guidelines within this product description.

APPRAISAL	<p>Appraisal Forms</p> <ul style="list-style-type: none"> 1 unit residence requires Form 1004. 2-4 unit residence requires Form 1025. Condo requires Form 1073. All appraisals of 1-4 unit properties dated on/after April 1, 2009 must contain the Market Conditions Addendum to the Appraisal Report (Form 1004MC). <p>Appraiser Requirements (See ML 2008-39 and ML 2009-36)</p> <ul style="list-style-type: none"> All FHA appraisals must be assigned to state certified (certified residential or certified general) FHA Roster Appraisers effective October 1, 2009. It is the responsibility of the submitting lender to verify the state certified status of the appraiser at the time of appraisal assignment. The appraiser status may be verified within FHA Connection under Single Family FHA/Single Family Origination/FHA Approval Lists/Appraisers. FHA Appraisals assigned to a non-certified appraiser on or after October 1, 2009 are unacceptable, and a second FHA appraisal must be completed by a state certified appraiser at the submitting broker's/lender's expense. Non-Permitted additions are not allowed. <p>Transferred Appraisals</p> <ul style="list-style-type: none"> DMC will accept FHA appraisals ordered by other lenders for FHA loans. The following conditions apply: <ol style="list-style-type: none"> The FHA case number date must be on or after February 15, 2010; The appraisal must have been ordered by the previous lender; The appraiser must provide an HVCC "Certificate of Compliance"; The previous lender must provide a transfer letter; The underwriting disposition sheet from the previously lender is required; and A desk review of the appraisal must be ordered through DMC's shopping cart. <p>Purchase Price Negotiations</p> <ul style="list-style-type: none"> DMC will no longer allow the purchase price to be renegotiated upwards if an appraisal has already been performed. This applies to all loans locked on or after <u>1/21/09</u>. <p>Short Sale Restrictions</p> <ul style="list-style-type: none"> Short sell negotiator fees may be paid by the buyer only if the contract is between the buyer and short sell negotiator. If the contract is between the seller and short sell negotiator, the buyer may not pay the associated fees. If the contract is between the seller and short sell negotiator and, the seller does not have sufficient funds to pay the associated fees, they may be charged to the seller side of the HUD-1 and paid for by the real estate sales agents. Additional monies to the seller's mortgage company may not be paid by the buyer. DMC will provide new financing to borrowers with previous short sales per <u>ML 2009-52</u>. However the need for a new primary residence must be driven by employment relocation and the subject property must be located 100+ miles from the prior residence. <p>Age of Appraisal</p> <ul style="list-style-type: none"> Maximum 120 days effective with case numbers assigned on or after January 1, 2010. This applies regardless of the property's construction stage (existing, new, under construction, or proposed). See <u>ML 2009-30</u>
BORROWERS (ELIGIBLE / INELIGIBLE)	<ul style="list-style-type: none"> Effective October 15, 2007, borrower social security information will no longer be validated in real time when a new case number assignment is requested in FHA Connection. The validation process will no longer provide an acceptable confidence rating at the time of case number assignment. Refer to the FHA Connection Message Board for the announcement dated October 10, 2007 for complete details and requirements. DMC will require evidence of the "passed" validation through the Holds Tracking Screen in FHA Connection. <p>Eligible</p> <ul style="list-style-type: none"> Individuals with a valid U.S. Social Security Number (SSN). Permanent and non-permanent Resident Aliens, provided they: <ul style="list-style-type: none"> - Have a valid SSN. - Are eligible to work in the U.S. - Occupy the property as a principal residence

BORROWERS (ELIGIBLE / INELIGIBLE) (CONTINUED)	Ineligible Any type of borrower not listed as eligible, including but not limited to: <ul style="list-style-type: none"> • Any individual without a valid U.S. SSN. • Individuals with a U.S. Individual Taxpayer Identification Number (ITIN). An ITIN is formatted like a SSN but begins with "9". No valid SSN begins with a "9". • Investors, except for streamline refinance without appraisal. • Foreign nationals and borrowers with diplomatic immunity. • Inter vivos or "living" revocable trusts.
CASH RESERVES	<ul style="list-style-type: none"> • AUS loans follow DU/LP guidelines. • 3 month's PITI is required on all 3-4 unit purchase transactions regardless of AUS findings. No reserves are required for all other transactions.
CLOSING COSTS	Borrowers may pay customary and reasonable closing costs, subject to these limitations: <ul style="list-style-type: none"> • Tax service fee not allowed. • Origination fee may not exceed 1% (For loans originated prior to January 1, 2010). • Third-party fees may not be "marked up". • Fees and charges must comply with all Federal, State and local regulations and predatory lending rules. • Effective with case numbers assigned on or after January 1, 2009, borrower-paid closing costs may no longer be used to count as part of the borrower's required investment
CLOSING REQUIREMENTS	<ul style="list-style-type: none"> - Interest credit allowed (calculated at 1/365th) - Loan must fund by the 7th calendar day of the month preceding the first payment date - A full 30 days of interest will be charged for the month in which the loan funds (as allowed by HUD and charged by servicers when the payoff is not received on the 1st day of the month) - Proof that the previous month's payment was made within the month due. (e.g. updated payoff statement). - As with all FHA no-cash-out refinance transactions, any cash received by the borrower at closing must be incidental due to changes in the payoff and cannot exceed \$500. • Termite, Well and Septic Inspections/Certifications are required as noted on appraisal and/or sales agreement. • A minimum of 24 months chain of title as evidenced by the title commitment satisfactory to DMC review and meeting FHA anti-flipping requirements • Maximum days rent back allowed are 60. On an owner-occupant loan the borrower is to be occupying the property within 60 days of the closing.
CONDOS/PUDS	<ul style="list-style-type: none"> • We now require a condominium borrower to obtain a "Walls In" coverage policy (commonly known as an HO-6 policy). Coverage is to include interior walls, floor coverings, fixtures, cabinetry, appliances, and improvements and betterments made to the unit's interior. The HO-6 policy must provide coverage is an amount that is no less 20% of the condominium unit's appraised value. Eligible <ul style="list-style-type: none"> • Condos must be FHA-approved or meet FHA guidelines for "Spot Approval." <i>Spot Approvals on exception, case by case and may be subject to a pricing adjustment.</i> • <i>Spot Approval allowed for case dates issued must be submitted and /or locked by September 30, 2009.</i> Ineligible <ul style="list-style-type: none"> • Multiple unit condos. • Leasehold condos not allowed.
CREDIT HISTORY	<ul style="list-style-type: none"> • Credit reports must be dated within 60 days of the date of the Note. Automated Underwriting 30-year terms as approved by DU/LP and successfully validated by DMC, except: Ineligible Credit Scenarios <ul style="list-style-type: none"> • Loans not meeting DMC minimum credit score requirements. • Streamline refinance transactions with > 0 x 30 on any mortgage account within the last 12 months. • Refinance transactions where any open debt secured by the subject property is delinquent or in arrears, not current for the month due, has been re-structured, or will be re-subordinated for less than the total amount due. • Cash loans (all types) – no mortgage lates in the last 12 months, regardless of AUS findings • Purchase, rate/term loans (all types) – max 1X30 mortgage in the last 12 months regardless of AUS findings • Community Property States (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin): <ul style="list-style-type: none"> - Debts of a non-purchasing spouse must be counted in the borrower's qualifying ratios. - The non-purchasing spouse's credit performance is not a consideration.

CREDIT HISTORY
(CONTINUED)

Refer to the *Credit History and Refinance sections* of this chapter for further clarification and requirements.

- Derogatory Credit Policy:
 - Individual accounts equal to or greater than \$1,000 and accounts that total more than \$5,000 must be paid in full prior to or at closing.
 -
- Per Mortgagee Letter 2009-52, DMC will allow “Short Pay Offs”. All requirements outlined in Mortgage Letter 2009-52 must be met. Additionally, HUD requires the TOTAL Scorecard decision to be manually downgraded to Refer and these loans traditionally underwritten. As such, DMC has put in place several underwriting overlays:
 - a. Minimum credit score is 680
 - b. Maximum debt-to-income ratios are 31/43
 - c. No derogatory credit of any nature is allowed within the most recent 12 months
 - d. No exceptions to our existing employment stability policy will be granted.
- HUD requires lenders to downgrade the TOTAL Scorecard decision to Refer – and manually underwrite loans – in the following instances:
 - a. In the presence of outstanding delinquent federal debt. Federal debt is defined as:
 - i. a VA-guaranteed mortgage
 - ii. a Title I loan
 - iii. a Federal student loan
 - iv. a Small Business Administration loan
 - v. delinquent Federal taxes
 - vi. having a lien, including taxes, placed against the borrower’s property for a debt owed to the U.S.
 - b. CAIVRS indicates a Federal delinquency, default, claim or lien.
 - c. Suspended or debarred individuals.
 - d. Previous mortgage foreclosure within the most recent 3 years.
 - e. Previous bankruptcy within the most recent 2 years.
 - f. Late mortgage payments in excess of 2X30 days late.
 - g. Disputed accounts, regardless of the disposition of account.
 - h. Short sale or short payoff.
 - i. The file cannot be documented according to the TOTAL Scorecard Findings. For instance, the TOTAL Scorecard Findings require a paystub with 30 days earnings and the borrower has recently started at new job.
- DMC will decline loans with characteristics described in letters a, b, c, d, e, and f. DMC has a separate policy regarding disputed accounts, regardless of their disposition. DMC will consider downgrading the TOTAL Scorecard Decision to Refer – and manually underwriting loans – with characteristics described in letters h and i. However, all other requirements outlined in HUD Handbook 4155.1 must be met, including maximum debt to income ratios of 31/43. Additionally, see previous DMC policy and ML 2009-52 in regards to letter h. No exceptions.

Disputed Tradelines Policy Clarification:

- Effective Immediately -- All disputed tradelines must be resolved prior to closing. To be considered resolved, disputed tradelines must be removed entirely from the credit report or the dispute language must be removed from the tradelines. A new credit report must be obtained and reissued into DirectWare once each disputed tradeline is resolved. Tradeline updates are not allowed to resolve disputed tradelines because the tradelines are not updated directly with the three credit bureaus which provide the borrower’s credit scores. This policy clarification is effective immediately and applies to all loans.

Bankruptcy

- A Chapter 7 bankruptcy does not disqualify a borrower from obtaining an FHA-insured mortgage if at least two years have elapsed since the date of the discharge of the bankruptcy. Additionally, the borrower must have re-established good credit or chosen not to incur new credit obligations. The borrower also must have demonstrated a documented ability to responsibly manage his or her financial affairs.
- Chapter 13 bankruptcy does not disqualify a borrower from obtaining an FHA insured mortgage provided the lender documents that one year of the payout period under the bankruptcy has elapsed and the borrower’s payment performance has been satisfactory (i.e., all required payments made on time). In addition, the borrower must receive permission from the court to enter into the mortgage transaction.

	<p>Short Sales and Short Payoff / Restructured loans</p> <ul style="list-style-type: none"> Regardless of DU or LP findings, the credit guidelines below for Short Sales or Short Payoff/Restructured loans must be met as automated underwriting systems may not detect the presence of these items. <table border="1" data-bbox="391 247 1495 688"> <thead> <tr> <th data-bbox="391 247 594 275">Lender Action</th> <th data-bbox="594 247 951 275">Definition</th> <th data-bbox="951 247 1495 275">Eligibility Requirements</th> </tr> </thead> <tbody> <tr> <td data-bbox="391 275 594 688"> Short Sale, Short Payoff/ Restructured Loans </td> <td data-bbox="594 275 951 688"> <p>Short Sales, the servicer agrees to accept a payoff less than the balance owed on the borrower's mortgage that is NOT delinquent.</p> <p>Short Payoff / Restructured Loans are mortgage loans in which the terms of the original transaction have been changed, resulting in either the absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan.</p> </td> <td data-bbox="951 275 1495 688"> <p>Borrowers purchasing a home that is being sold under a short sale are eligible provided the transaction is arms length.</p> <p>Borrowers who have entered into a short refinance / restructured debt on the subject property are not eligible.</p> <p>Borrowers who have completed a short refinance or restructured loan and are purchasing or refinancing a property which is not the subject of the short refinance / restructured loan must have re-established credit for a minimum of four (4) years since completion of short refinance / restructure and no more than 1 x 30 days late on any mortgage in the past 12 months.</p> </td> </tr> </tbody> </table>	Lender Action	Definition	Eligibility Requirements	Short Sale, Short Payoff/ Restructured Loans	<p>Short Sales, the servicer agrees to accept a payoff less than the balance owed on the borrower's mortgage that is NOT delinquent.</p> <p>Short Payoff / Restructured Loans are mortgage loans in which the terms of the original transaction have been changed, resulting in either the absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan.</p>	<p>Borrowers purchasing a home that is being sold under a short sale are eligible provided the transaction is arms length.</p> <p>Borrowers who have entered into a short refinance / restructured debt on the subject property are not eligible.</p> <p>Borrowers who have completed a short refinance or restructured loan and are purchasing or refinancing a property which is not the subject of the short refinance / restructured loan must have re-established credit for a minimum of four (4) years since completion of short refinance / restructure and no more than 1 x 30 days late on any mortgage in the past 12 months.</p>
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CREDIT SCORES / NON- TRADITIONAL CREDIT	<p>As determined by Underwriter or DU/LP, except</p> <ul style="list-style-type: none"> Minimum 620(For loans locked prior to 12/21/09) Decision Score, regardless of AUS findings, including streamline refinance transactions, (see <i>REFINANCE TRANSACTIONS</i>.) The indicator score is the lowest of each borrower's middle score. Borrowers with non-traditional credit are no longer acceptable. A loan considered to have non-traditional credit is when all borrowers do not have a credit score and/or are establishing a credit history through non-traditional means such as a rental history, utility payments, etc. At least one borrower qualifying for the loan must have a decisioning credit score. Minimum 640(For loans locked on or after 12/21/09) 						
DOCUMENTATION	<ul style="list-style-type: none"> As determined by DU/LP <p>Minimum Documentation Requirements</p> <ul style="list-style-type: none"> A signed IRS Form 4506-T must be included in all loan files where the following apply: Loan transmittal (HUD 92900-LT) replaces the MCAW Loan Application Addendum (HUD 92900-A) revised 5/2008 						
DOWN PAYMENT	<ul style="list-style-type: none"> Effective with case numbers assigned on or after January 1, 2009 (ML 2008-23): <ul style="list-style-type: none"> The borrower must make a minimum cash investment of 3.5% (Statutory Investment Requirement), based on lesser of Sales Price or Appraised Value. Closing costs paid by the borrower may no longer count towards the 3.5% cash investment. The \$8,000 First-Time Homebuyer Tax Credit authorized by the Housing and Economic Recovery Act of 2008 may not be used as any credit towards minimum contribution requirements, closing costs or prepaids. <i>See Gift Funds section for additional direction and requirements</i> 						
ESCROWS	<ul style="list-style-type: none"> Escrow waivers not allowed under any circumstances. No exceptions. 						
ESCROW HOLDBACKS	<p>Only eligible on HUD Repos or as an exception on a case by case basis with the following requirements:</p> <ul style="list-style-type: none"> 2X the bid amount Maximum \$3,500 2 Bids from 2 different companies. Escrow funds to be held by DMC. \$250 Fee paid to DMC at closing. FHA Compliance Inspection Report required before funds will be released. Work must be completed within 7 days of funding. DMC to hold Broker check until the work has been completed. 						
FLIPPING REQUIREMENTS	<ul style="list-style-type: none"> Any property being sold within 90 days of the seller's acquisition date is not eligible for FHA financing, unless exempt under a recent temporary waiver which exempts from the 90-day resale restriction, those properties that are being sold by the foreclosing lender, or on their behalf by their documented subsidiary or agent. This temporary waiver applies to sales contracts signed on or before June 8, 2009. If property is being sold between 91 and 180 days of the seller's acquisition and the sales price has increased by 100% or more, a second FHA appraisal is required. No exceptions. The borrower may not be charged for the appraisal. Loan must be based on the lower of the two values. If property is being sold within 12 months of the seller's acquisition and the sales price increased significantly. A second FHA appraisal may be required at the discretion of the underwriter. See ML 2008-37 for exemptions in Presidentially Declared Major Disaster Areas. 						

FLIPPING REQUIREMENTS <i>(CONTINUED)</i>	<ul style="list-style-type: none"> • HUD has issued a Waiver of Requirements regarding transactions that are considered property flips. The waiver will take effect on February 1, 2010 and is effective for one year, unless otherwise extended or withdrawn by the FHA Commissioner. To protect FHA borrowers against predatory practices of "flipping" where properties are quickly resold at inflated prices to unsuspecting borrowers, this waiver is limited to those sales meeting the following general conditions: • FHA Case Numbers must be assigned on or after February 1, 2010 and the Purchase Contract must be executed on or after February 1, 2010 • All transactions must be arms-length, with no identity of interest between the buyer and seller or other parties participating in the sales transaction. • In cases in which the sales price of the property is 20 percent or more above the seller's acquisition cost, a second appraisal is required.
GEOGRAPHIC RESTRICTIONS	<ul style="list-style-type: none"> • Properties may be located in the District of Columbia and any state. • U.S. Territories not allowed (e.g. Puerto Rico, American Samoa, Guam, etc.) • Community Property States (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin): <ul style="list-style-type: none"> - Debts of a non-purchasing spouse must be counted in the borrower's qualifying ratios. - The non-purchasing spouse's credit performance is not a consideration • High Cost loans in the state of South Carolina allow a maximum DTI of 50% • Cash Out Refinance is not eligible in the state of Texas.
GIFT FUNDS	<p>Gift Donors</p> <ul style="list-style-type: none"> • Eligible: Borrower's relative, spouse, domestic partner, or close friend with a clearly defined and documented interest in the borrower. Borrower's employer or labor union. A charitable organization that does not replenish available gift funds with seller contributions. A governmental agency or public entity that has a program to provide homeownership assistance to low- and moderate-income families or first-time homebuyers, • Ineligible: Any person or entity with an interest in the sale of the property, such as the seller, real estate agent or broker, builder, or any entity associated with them. <p>"Seller-funded" Down Payment Assistance (DPA)</p> <ul style="list-style-type: none"> • DMC does not underwrite or purchase loans with "seller funded" DPA's of any kind. <p>AUS-underwritten loans</p> <ul style="list-style-type: none"> • Gift deposited prior to closing <ul style="list-style-type: none"> - A gift letter and full documentation of the gift transfer is required, including: <ul style="list-style-type: none"> i. evidence of donor's account ownership and ability to give the gift, ii. copy of donor's cancelled check or bank-validated withdrawal slip, and iii. Evidence of deposit into borrower's account. - Donor's cash-on-hand is not an acceptable source. - Gift letter must contain donor's name, address, phone, and relationship to borrower; match the exact amount of gift, state that gift is not repayable, and be signed by donor and borrower. - Gifts deposited prior to closing and documented in this manner may be included in the borrower's account balance when submitting to TOTAL, but should be identified separately as gift funds on the MCAW and 1003. - Excess gift funds may be used as cash reserves (1- and 2-unit properties only). • Gift received at closing <ul style="list-style-type: none"> - Full gift letter required. - Gift must be submitted to TOTAL as "gift funds" and <i>not</i> included in borrower's account balance. • Excess gift funds may NOT be used as cash reserves.
GIFT FUNDS <i>(CONTINUED)</i>	<ul style="list-style-type: none"> - <i>By check:</i> Copy of cashier's check or other bank check purchased by donor, and evidence that funds used to purchase check were withdrawn from donor's own account. Donor's personal check or cash-on-hand is not acceptable. NOTE: To avoid funding delays, copies of these documents must be provided and cleared prior to docs. - <i>By wire:</i> Copy of incoming wire evidencing deposit into settlement agent's account on or before the day of closing. <p>DMC to validate relationship between the borrower and the donor by a third party service. If unable to validate by this service, then legal documents will be required to validate the relationship.</p>
INVESTMENT PROPERTIES	<ul style="list-style-type: none"> • Streamline refinance without appraisal only. • Term is limited to the lesser of 30 years or the unexpired term of the existing mortgage plus 12 years. • See <i>REFINANCE TRANSACTIONS – STREAMLINE (without appraisal)</i>.
JUMBO	<ul style="list-style-type: none"> • 1-Unit property with base loan amount > \$417,000, Alaska and Hawaii > \$625,500. • 2-unit property with base loan amount > \$533,850, Alaska and Hawaii > \$800,775. • See <i>FHA Jumbo Addendum</i>.
LOAN TERM	<ul style="list-style-type: none"> • 15, 20, 25 and 30 years

LOAN-TO-VALUE	Type of Loan		Maximum LTV/CLTV (1)																																								
	Purchase		96.5% (2)																																								
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<p>(1) In addition to the appropriate LTV and Maximum Mortgage Worksheet calculations, the base loan amount may not exceed the lesser of the local Statutory Mortgage Loan Limit as published by HUD, or the applicable limit set for this product (see <i>MAXIMUM / MINIMUM LOAN AMOUNT</i>)</p> <p>(2) As of 1/24/09, DU is applying the 2009 3.5% down payment requirement to all submissions and resubmissions. Case numbers assigned prior to 1/1/09 may use the previous 3% down payment calculation. DU Approve / Ineligible recommendations are acceptable if the underwriter notes on the transmittal and the DU findings that:</p> <ul style="list-style-type: none"> - the FHA case number was assigned before 1/1/09, - the 3% down payment applies, and - the "Ineligible" is only due to the erroneous 3.5% down payment requirement. <p>(3) Max CLTV is 100%</p>																																											
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<p>Ineligible:</p> <p>Any Section of the Act not listed above, including but not limited to:</p> <ul style="list-style-type: none"> • 203(k) Rehabilitation loan • 238(c) Military impact area (UFMIP waived) • Section 8 Loans • FHA Loans to Non-profit organization borrowers • Hope for Homeowners Program • HUD 184 Program – Indian Reservations 																																											
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MORTGAGE INSURANCE	<u>CASE NUMBERS ASSIGNED PRIOR TO 7/14/08 (ML2000-38):</u>																																										
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MORTGAGE INSURANCE (CONTINUED)	<p><u>CASE NUMBERS ASSIGNED 7/14/08 THROUGH 9/30/08 (ML2008-16):</u> Streamline Refinances – 1.0 UFMIP and .5% annual UFMIP and Annual Insurance Premiums for Purchase Money and Fully Qualifying Refinances with loan terms > 15 years</p> <table border="1" data-bbox="537 216 1349 352"> <thead> <tr> <th>LTV</th> <th>850-680</th> <th>679-640</th> <th>639-600</th> <th>599-580</th> </tr> </thead> <tbody> <tr> <td>≤ 90.00</td> <td>125/50</td> <td>125/50</td> <td>125/50</td> <td>150/50</td> </tr> <tr> <td>90.01 – 95.00</td> <td>125/50</td> <td>125/50</td> <td>150/50</td> <td>175/50</td> </tr> <tr> <td>> 95.00</td> <td>125/55</td> <td>150/55</td> <td>175/55</td> <td>200/55</td> </tr> </tbody> </table> <p>UFMIP and Annual Insurance Premiums for Purchase Money and Fully Qualifying Refinances with loan terms ≤ 15 years</p> <table border="1" data-bbox="545 432 1341 569"> <thead> <tr> <th>LTV</th> <th>850-680</th> <th>679-640</th> <th>639-600</th> <th>599-580</th> </tr> </thead> <tbody> <tr> <td>≤ 90.00</td> <td>100/0</td> <td>100/0</td> <td>125/0</td> <td>150/0</td> </tr> <tr> <td>90.01 – 95.00</td> <td>100/25</td> <td>125/25</td> <td>150/25</td> <td>175/25</td> </tr> <tr> <td>> 95.00</td> <td>125/25</td> <td>150/25</td> <td>175/25</td> <td>200/25</td> </tr> </tbody> </table> <p><u>CASE NUMBERS ASSIGNED 10/01/08 AND AFTER (ML2008-22):</u> Upfront Premiums - Purchase Money Mortgages and Full Credit Qualifying Refinances – 1.75% Streamline Refinances (all types) – 1.5% Annual Premiums - Purchase Money Mortgages, Full-Qualifying Refinances and Streamline Refinances with Terms of More Than 15 Years:</p> <table border="1" data-bbox="451 726 1435 846"> <thead> <tr> <th>LTV Ratio</th> <th>Premium (Monthly)</th> <th>Years</th> </tr> </thead> <tbody> <tr> <td>95% and under</td> <td>.50%</td> <td>*</td> </tr> <tr> <td>Over 95%</td> <td>.55%</td> <td>*</td> </tr> </tbody> </table> <p>*Years will be determined when the loan balance equals 78%, provided the mortgagor has paid the annual mortgage insurance premium for at least 5 years.</p> <p>Purchase Money Mortgages, Full-Qualifying Refinances and Streamline Refinances with Terms of 15 Years and Less:</p> <table border="1" data-bbox="451 982 1435 1085"> <thead> <tr> <th>LTV Ratio</th> <th>Premium (Monthly)</th> <th>Years</th> </tr> </thead> <tbody> <tr> <td>90% and under</td> <td>None</td> <td>N/A</td> </tr> <tr> <td>Over 90%</td> <td>.25%</td> <td>**</td> </tr> </tbody> </table> <p>**Years will be determined when the loan balance equals 78%.</p> <p><u>CASE NUMBER ASSIGNED 4/5/10 AND AFTER (ML2010-02):</u> Upfront Premiums - Purchase Money Mortgages and Full Credit Qualifying Refinances – 2.25% Streamline Refinances (all types) – 2.25%</p> <p><u>FHA UFMIP & MIP Payment Process</u> Detailed information for this process can be found on the Internet at http://www.hud.gov/offices/hsg/comp/premiums/sfpaygov.cfm</p>	LTV	850-680	679-640	639-600	599-580	≤ 90.00	125/50	125/50	125/50	150/50	90.01 – 95.00	125/50	125/50	150/50	175/50	> 95.00	125/55	150/55	175/55	200/55	LTV	850-680	679-640	639-600	599-580	≤ 90.00	100/0	100/0	125/0	150/0	90.01 – 95.00	100/25	125/25	150/25	175/25	> 95.00	125/25	150/25	175/25	200/25	LTV Ratio	Premium (Monthly)	Years	95% and under	.50%	*	Over 95%	.55%	*	LTV Ratio	Premium (Monthly)	Years	90% and under	None	N/A	Over 90%	.25%	**
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NON-OCCUPANT CO-BORROWERS/ CO-SIGNERS	<ul style="list-style-type: none"> Allowed per FHA published guidelines. May not be added to meet qualifying requirements for a cash-out refinance. Non-occupant co-borrowers already on the loan may remain in title, but may not remain on the loan to meet qualifying requirements for a cash-out refinance. In the presence of a non-occupant co-borrower, the max housing and debt ratio for the occupant borrower is being reduced from 55% to 50%. This applies to all loans locked on or after <u>1/11/10</u>. 																																																										
NUMBER OF LOANS/ PROPERTIES	<p>Number of Loans per Borrower</p> <ul style="list-style-type: none"> A borrower may not have more than 1 FHA loan at a time, except under situations described in 4155.1 Section 1-2 A-D. <p>Number of Properties per Borrower</p> <ul style="list-style-type: none"> Maximum number of properties a borrower can have financed is 4. 																																																										
OCCUPANCY	Owner-occupied primary residence only on all transactions except streamline refinance without appraisal.																																																										
PROPERTY ELIGIBILITY (CONTINUED)	<p>Eligible</p> <ul style="list-style-type: none"> 1-4 unit attached or detached primary residence including condos and PUDs. Condos must be FHA-approved or meet FHA guidelines for “Spot Approval.” See “Condos/Puds section of this guide. HUD Repo properties – See ML-00-27 <p>Ineligible</p> <ul style="list-style-type: none"> Any property where the seller is not the owner of record. Any property being re-sold within 90 days of the seller’s acquisition date unless exempt. All non-owner occupied properties (except streamline refinance without appraisal). Properties that are not primarily residential in nature and use. 																																																										

PROPERTY ELIGIBILITY	Ineligible <ul style="list-style-type: none"> • Manufactured or mobile housing. • Leasehold condos. • Co-ops.
PROPERTY INSPECTIONS	Termite, Well and Septic Inspections <ul style="list-style-type: none"> • Properties under one year old require mandatory inspection, treatment and testing, even if previously occupied. • For exting properties over one year old, inspection and/or testing is only required if: <ul style="list-style-type: none"> - The appraisal indicates there may be a problem or that problems are common in the area. - Mandated by the state or local jurisdiction (see below). - Required by the sales contract. - A water purification system is present. If the water supply does not test safe without the purification system, then the requirements must be met. • Wells and Other Water Systems: <u>FHA Single Family Reference Guide Ch 1, Pg 1-21</u> • Septic Systems: <u>FHA Single Family Reference Guide Ch 1, Pg 1-20</u> State and Local Requirements <ul style="list-style-type: none"> • DMC will generally rely on the appraiser and Realtor (via the sales contract) for notification of mandatory state or local inspections. • DMC is aware of mandatory inspections required in the following areas: Arizona: Septic or other on-site sewage system (purchases only).
RATIOS	<ul style="list-style-type: none"> • Qualifying ratios are 31% / 43%, unless there are significant compensating factors or an AUS approval is received. • Max DTI is 55% for loans locked prior to 12/21/09 and 50% for loans locked on or after 12/21/09. • When a non-occupant co-borrower is present and as allowed by DU, LP or TOTAL Scorecard – whichever is applicable – the occupant borrower’s housing ratio may be as high as 50%. There is no limit to the occupant borrower’s total expense ratio when the total expense ratio of all borrowers combined is less than or equal to 50% and the loan receives an AUS approval.
REFINANCE TRANSACTIONS	General Guidelines <ul style="list-style-type: none"> • See LTV section for links to new 2009 Maximum Mortgage Worksheets. • Refinance transactions where any open debt secured by the subject property is delinquent or in arrears, not current for the month due, has been re-structured, or will be re-subordinated for less than the total amount due are not eligible. • Direct Mortgage will exercise sound judgment and due diligence in the underwriting of loans to be insured by FHA. In order to comply with HUD’s directive, refinance transactions should “make sense” and be in the borrower’s best interest. • In states with predatory lending laws, the state-specific refinance or “Tangible Net Benefit “worksheet will supersede guidelines. Cash Out Refinance Transactions: <ul style="list-style-type: none"> • Allowed • Maximum LTV is based on Length of Ownership: <ul style="list-style-type: none"> - 12 Months or More: The subject property must have been owned by the borrower as his or her principal residence for at least 12 months preceding the date of the loan application in order to obtain the maximum 85% of the appraiser’s estimate of value. - Less than 12 Months: If the subject property has been owned less than 12 months preceding the date of the loan application as the borrower’s principal residence, the mortgage amount is limited to the lesser of 85% of the sales price of the property when acquired OR 85% of the current appraised value. - A sales price, however, need not be considered if the property was acquired as the result of inheritance and is or will become the heir’s principal residence. • Owner-occupied primary residence only • Not allowed in the state of Texas • New simultaneous subordinate liens not allowed. Rate/Term Refinance Transactions: <ul style="list-style-type: none"> • Allowed. • Owner-occupied primary residence only. • Cash back at closing limited to \$500, (\$0 in Texas), and must be due to changes in the payoff and/or closing costs and prepaids. At time of origination and loan approval, the 1003, GFE and MCAW must show no cash back. (ML 05-43) • No holding period but acquisition cost must be considered if owned < 1 year and not already FHA-insured (see <i>MAXIMUM LOAN AMOUNT</i>). • Existing subordinate financing may remain in place. • When paying off subordinate liens, if any portion of the funds in excess of \$1000 on an existing equity line of credit was advanced within the past 12 months and was not used for repairs or rehabilitation of the property, the line of credit is not eligible to be paid off in the new mortgage unless the new transaction will be treated as a Cash-Out refinance (ML 2008-40).

<p>REFINANCE TRANSACTIONS (CONTINUED)</p>	<p>Streamline Refinance Transactions</p> <ul style="list-style-type: none"> • Prohibited in some states. See <i>GEOGRAPHIC RESTRICTIONS</i>. • Must meet minimum credit score requirements (see <i>CREDIT SCORES</i>). • Applicable FICO-based price adjustments will apply. • 12-month mortgage history reported from all 3 repositories. • Streamline refinances must be current and the previous payment history can not contain a 30-day late or greater payment in the most recent 12 months. The following documentation is required: <ul style="list-style-type: none"> - Evidence the existing loan is current. - If the loan is seasoned 12 months or more, evidence of no 30-day late payments in the most recent 12 months. • Full credit reports are required. • Owner-occupied primary residence only except streamline refinance without appraisal • Cash back at closing limited to \$500, (\$0 in Texas), and must be due to changes in the payoff and/or closing costs and prepaids. At time of origination and loan approval, the 1003, GFE and MCAW must show no cash back. (ML 05-43) • Streamline refinance without appraisal: <ul style="list-style-type: none"> - Term of the new mortgage is the lesser of 30 years or the un-expired term of the existing mortgage plus 12 years. (4155.1 REV-5 Par 1-12-A). - Use the “Original Principal Balance” from the Refinance Authorization screen in the FHA Connection. This will reflect the true loan amount after any principal reductions. - The maximum base loan amount is the lower of these calculations: <ul style="list-style-type: none"> - <i>Original Loan Amount</i>: The “Original Mortgage Amount” from the Refinance Authorization in the FHA Connection (which includes any financed UFMIP), or - <i>Existing Debt</i>: The outstanding principal balance of the existing FHA-insured first lien, plus closing costs, prepaid expenses, discount points, minus any refund of UFMIP. - For Truth in Lending Disclosure purposes, calculate the LTV by using the “Original Property Value” from the Refinance Authorization in the FHA Connection. • Any streamline refinance of a 30-year mortgage on a principal residence may be refinanced to a shorter term mortgage; however, the new monthly principal and interest may not increase more than 20%. (ML 05-43) • Fixed-to-Fixed streamline refinances must lower the monthly P&I and/or decrease the term of the mortgage. • A Hybrid ARM may be streamline refinanced to a fixed rate mortgage, with or without appraisal, provided that the payment will not increase more than 20% and all mortgage payments have been made within the month due for at least the last 12 months or the period the mortgage has been in force, if shorter. (ML 05-43) • A holding period of six months applies when: (1) the borrower obtained the loan via non-qualifying assumption; or (2) when a borrower is deleted due to devise or descent of law (e.g., divorce, death, etc.) and a quit-claim of interest has been executed. Full credit qualifying is required if held less than six months and/or if due-on-sale clause is triggered. (4155.1 REV-5 Par 1-12-C) <ul style="list-style-type: none"> - FHA Connection (which includes any financed UFMIP), or - <i>Existing Debt</i>: The outstanding principal balance of the existing FHA-insured first lien, plus closing costs, prepaid expenses, discount points, minus any refund of UFMIP. - For Truth in Lending Disclosure purposes, calculate the LTV by using the “Original Property Value” from the Refinance Authorization in the FHA Connection. • Any streamline refinance of a 30-year mortgage on a principal residence may be refinanced to a shorter term mortgage; however, the new monthly principal and interest may not increase more than 20%. (ML 05-43) <p>A holding period of six months applies when: (1) the borrower obtained the loan via non-qualifying assumption; or (2) when a borrower is deleted due to devise or descent of law (e.g., divorce, death, etc.) and a quit-claim of interest has been executed. Full credit qualifying is required if held less than six months and/or if due-on-sale clause is triggered. (4155.1 REV-5 Par 1-12-C)</p>
<p>SELLER CONTRIBUTION (CONTINUED)</p>	<p>Purchase Transactions</p> <ul style="list-style-type: none"> • Secondary financing includes any financing that creates a subordinate lien against the subject property, even if it is a “soft”, “silent”, or “forgivable” second. • Borrower must be qualified with any required payment unless repayment is deferred at least three years. (ML 07-11) • Secondary financing for the borrower’s required investment may only be provided by a valid city, county, state or Federal governmental agency, or a HUD-approved non-profit that is also considered an instrumentality of government. FHLB silent or soft seconds and grants are considered under instrumentality of government. • Additionally, the actual lien must be held by and the Note must be payable to: <ul style="list-style-type: none"> - The governmental agency or HUD-approved non-profit that provided the funds, or, - Another approved governmental agency or HUD-approved non-profit appointed as Agent for the entity that provided the funds.

<p>SELLER CONTRIBUTION</p>	<ul style="list-style-type: none"> • In other words, no entity that is not either a valid governmental agency or a HUD-approved non-profit may be involved in the providing or lending of funds for financing that will subordinate to an FHA loan. • Underwriter must examine a sample of the note and deed to verify that the allowable governmental agency or the HUD-approved non-profit is the <i>actual lien holder</i>. • HUD-approved non-profits that are not also considered an instrumentality of government may provide secondary financing for closing cost and prepaids assistance <i>only</i>. • The borrower must make a 3.5% cash investment and the combined 1st and 2nd liens may not exceed the FHA statutory limit. • Secondary financing that requires a special designated servicer for the first lien or imposes any servicing or resale restrictions on the first lien is not allowed. • No "Bond" Programs. • Must meet all additional requirements for secondary financing as stated in HUD Handbook 4155.1 REV-5, Par 1-13-A and -B. • May be subject to a pricing adjustment - contact the Pricing Desk. • Other secondary financing providers may be allowed on an exception basis subject to additional LTV/CLTV restrictions and statutory loan limits as stated in the 4155.1 REV-5, Par 1-13-C. <p>Refinance Transactions</p> <ul style="list-style-type: none"> • Existing subordinate financing may remain in place without regard to CLTV on streamline refinance transactions of 1-unit properties. • Existing subordinate financing that will be re-structured or re-subordinated for less than the total amount due is not eligible for re-subordination on a new FHA refinance transaction. • See <i>REFINANCE TRANSACTIONS</i> for additional rules applicable to refinance transactions.
<p>PROGRAMS & SPECIAL FEATURES</p>	<p>Energy Efficient Mortgage (EEM) Program</p> <p>Standard FHA guidelines apply except for the following:</p> <ul style="list-style-type: none"> • <i>DMC exception processing is required due to LTV and county loan limit issues; pricing adjustment may apply.</i> • This program allows qualified borrowers to finance up to 100% of the eligible expense of a cost-effective "Energy-Efficient" (EE) package. • Borrower does not have to qualify for the additional financing or provide additional down payment. • The appraisal does not need to reflect the EE package value for either new or existing construction. • Purchase and refinance transactions, including streamlines, are eligible. <ul style="list-style-type: none"> - New and existing 1-4 family properties, including 1-unit condos, are eligible. The allowable EEM dollar amount is for the entire property and not based on a per unit basis for multiple unit properties. - The EEM may be used with Sections 203(b), 234(c) Condos, and 203(h) Disaster loans. - Underwriter will determine how much of the EE cost may be added to the loan amount by using the <u>Home Energy Rating System (HERS) report</u> and the <u>EEM Worksheet</u>. - The amount added for the EE package cannot exceed the greater of (a) \$4,000 or (b) the lesser of \$8,000 or 5% of the property value. - The allowable EE amount is added to the base loan amount before UFMIP. - The FHA county loan limit may be exceeded by the amount added for the EE package. - In the Remarks section of the MCAW, underwriter must indicate that the loan is for an EEM, list borrower qualifying ratios prior to adding the EE cost, and show the final loan amount calculations. - For a streamline refinance, the borrower's P&I on the new loan including the EE package can exceed the P&I payment on the current loan, provided the estimated monthly energy savings shown on the HERS report exceeds the P&I increase. - For a streamline refinance without appraisal, the Original Principal Balance substitutes for an appraised value – for the EEM calculations only. The LTV on a streamline refi w/o appraisal continues to be determined by the <i>Original Property Value</i>. Both of these figures must be taken from the FHA Connection Case Number Assignment or Refinance Authorization. • Documentation, Fees, Escrow Requirements: <ul style="list-style-type: none"> - Home Energy Rating System (HERS) report, copy to borrower and lender. - <u>HUD-92300 Mortgagee's Assurance of Completion</u> (prepared by DMC). 90 days allowed for completion, no extensions or exceptions. After 90 days, unused funds must be applied to reduce the principal balance. - EE packages on new construction must be complete prior to funding (no escrows). - The borrower cannot be paid for his/her own labor nor receive cash back, except for documented material costs. - Fees charged to the borrower for the HERS report must be reasonable and customary for the area. These fees may be financed as part of the EE package if the eligible amount allows for inclusion.

PROGRAMS & SPECIAL FEATURES <i>(CONTINUED)</i>	<p>If not, such fees are considered allowable closing costs.</p> <ul style="list-style-type: none"> - Underwriting: Submit loan amount including the EE package to the FHA Total Scorecard. An "AUS- Refer" rating for the loan amount including the EE costs is acceptable <i>only if</i> the loan receives an "AUS-Accept" rating for the loan amount prior to adding the EE costs, or if the loan otherwise qualifies for manual override approval of an AUS-Refer (see <i>UNDERWRITING</i>). "Ineligible" ratings are acceptable if the ineligible determination is strictly due to exceeding the county loan limit by the amount of the EE package.
TEMPORARY BUYDOWNS	<ul style="list-style-type: none"> • Allowed on purchases only • 2-1 only • No buy down on 15-year loans
UNDERWRITING	<p>Brokers are responsible for complying with all applicable FHA/HUD regulations as further modified by the guidelines within this product description.</p> <ul style="list-style-type: none"> • ALL loan files must include an IRS Form 4506T executed by each borrower at the time of closing. <p>Automated Underwriting System (AUS)</p> <ul style="list-style-type: none"> • All FHA loans must be submitted through DU or LP. <p>General Underwriting Information</p> <ul style="list-style-type: none"> • Real estate commission that is in excess of 8% must be deducted from the sales price/appraised value LTV calculation when determining maximum LTV. • Rental income supported by a lease with a family member or other interested party is not acceptable. • Conversion of Principal Residence to Investment Property: Rental income on the property being vacated may be used, after reducing by the appropriate Vacancy Factor, only under the following circumstances. The following guidance applies solely to the conversion of a primary residence to an investment property is not applicable to existing rental properties disclosed and confirmed by tax returns (Schedule E of form IRS 1040). See <i>ML 08-25</i> for further details. • Relocations: The homebuyer is relocating with a new employer, or is transferred by the current employer to an area not within a reasonable and locally recognized commuting distance. A properly executed lease agreement of at least one year's duration is required from the date the loan closes, along with the receipt of a security deposit from the tenant and proof of deposit into the borrowers account. • Sufficient Equity in Vacated Property: The homebuyer has a loan-to-value ratio of 75% or less, as determined by either a current (less than six months old) residential appraisal or by comparing the unpaid principal balance to the original sales price of the property. The appraisal, in addition to using forms Fannie Mae 1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae 1075/Freddie Mac 466. • If the borrower's current residence is secured by an FHA mortgage, additional criteria will apply per Handbook 4155.1 REV-5, paragraph 1-2. • A borrower is now allowed to purchase a new primary residence when their departure residence is underwater if all of the following criteria are met: <ul style="list-style-type: none"> - The departure residence is being rented. A bona fide lease agreement must be provided. Just like in other situations, a copy of the renter's photo ID and 1st month's rent or security deposit check must be provided. - An appraisal OR AVM is required to determine the amount of negative equity. Additionally, a comparable rent schedule is required to establish the market rents. - The maximum amount of negative equity is 150% of the current value OR \$100,000, whichever is less. - The borrower must qualify with both payments. - 6 months of PITI for both properties is required to be in reserves. • The existing mortgage on the departure residence must be fully amortizing. No Interest Only or Negatively Amortized loans allowed. <p>Job Stability</p> <ul style="list-style-type: none"> • Current employment must be equal to or greater than 90 days. • Cumulative gap in employment must be no more than 60 days during the past 2 years - for more than 2 jobs - and 90 days gap will be allowed if there have only been 2 employers in 2 years. • Only 4 total jobs are allowed during the past 2 years, without an exception request approved. <p>FHA Streamlines</p> <ul style="list-style-type: none"> • Current employment information is required on the loan application. • Self employed borrowers must provide a CPA Letter or Business license. • For retired borrowers or borrowers receiving social security we will accept a letter of explanation. • A verbal VOE will be performed prior to the loan closing and at funding. • If the borrower(s) have been in the subject property for 24+ months AND have no mortgage lates (subject property), then we will not consider unrelated mortgage lates (other properties) in underwriting. • If the borrower(s) have been in the subject property for less than 24 months and/or have any mortgage lates (subject property), we will consider unrelated mortgage lates (other properties) in underwriting. Having worse than a 60 day unrelated mortgage late would disqualify the borrower(s).

<p>UNDERWRITING (CONTINUED)</p>	<p>Tax Transcripts</p> <ul style="list-style-type: none"> As part of Direct Mortgage's firm commitment to quality, it is necessary for us to execute form 4506-T on ALL loans, including salaried borrowers and wage earners. To avoid unnecessary delays in the processing of your loans, please make sure form 4506-T is uploaded into Scanned Images at the time of submission. Form 4506-T must be signed and dated within the last 60 days. Tax transcripts are required for the current year if the tax return income is used to qualify (i.e.; self employed borrowers, dividend income, etc). Tax extensions are not allowed. A filed tax extension is okay if a wage earner. <p>Broker Compensation</p> <ul style="list-style-type: none"> Max Broker Compensation is 4% of the loan amount. When the broker compensation exceeds 2.5% management approval is required and a second appraisal may be required. When the Real Estate Broker Compensation exceeds 6.5% management approval is required and a second appraisal may be required. <p>Departure Residences - Policy regarding departure residences when they are mobile homes.</p> <ul style="list-style-type: none"> Whether the borrower owns the land or pays lot rent, rental income may never be considered when the departure residence is a mobile home. If the borrower is moving out of a mobile home and owns the land, an appraisal or AVM must be provided to verify that they are not upside down in value and mortgage. If the borrower is moving out of a mobile home and pays lot rent, no appraisal or AVM is required. However, we must verify the amount of lot rent and hold it against them as a net rental loss. <p>Additional Requirements</p> <ul style="list-style-type: none"> Repair escrows are only allowed on program 6199. All NAL and Identity-of-Interest transactions where buyer and seller are related will require a copy of the seller's payoff and mortgage history. Whenever a non-occupant co-borrower is present, the occupant borrower's housing ratio cannot exceed 55%. <p>Debts paid off at (or prior to) closing:</p> <ul style="list-style-type: none"> Revolving and installment debt paid off prior to the date of the loan application and credit report does not need to be included in the debt to income ratios. However, funds used to pay these items may need to be sourced and seasoned. Here is our policy regarding debts paid after the date of the loan application: <ol style="list-style-type: none"> Purchase & Rate/Term Loans: <ol style="list-style-type: none"> Revolving debts may not be paid off or paid down in order to qualify. Installment loans may not be paid down in order to qualify. Installment loans may be paid off in order to qualify. A borrower may not use gifts funds to pay off an installment loan in order to qualify. Cash-out Loans: <ol style="list-style-type: none"> Revolving debts may be paid off in order to qualify, as long as they are paid through closing using loan proceeds. Installment loans may not be paid down in order to qualify. Installment loans may be paid off in order to qualify. They may be paid off with borrower funds or loan proceeds. A borrower may not use gift funds to pay off an installment loan in order to qualify. <p>Self Employed Documentation Requirements</p> <ul style="list-style-type: none"> Self employed borrowers will need to provide tax returns on April 16, 2010. January 1, 2010 through April 15, 2010, financial statements (profit/loss & balance sheet) along with Oct – Dec 2009 business bank statements will be required. <p>Non-Arms Length and Identity-of-Interest</p> <ul style="list-style-type: none"> Non-Arms Length and Identity-of-Interest transactions are NOT allowed when the occupancy type is second Home or Investment. Non-Arms Length and Identity-of-Interest transactions are NOT allowed when the seller has entered into a short sell agreement with the existing lien holder or when a bank is the seller and the buyer is related to the previous owner. Non-Arms Length and Identity-of-Interest transactions ARE allowed – on a case by case basis for primary homes. DMC does not allow "bailouts." <p>Properties previously listed for sale</p> <ul style="list-style-type: none"> DMC allows financing on properties recently listed for sale. However, the subject property listing must be removed, withdrawn or cancelled at least 1 day prior to the date of the loan application. Cash-out loans are limited to 70% LTV until the subject property listing has been removed, withdrawn or cancelled for a period of 6 months prior to the date of the loan application. Rate/term refinance loans are limited to 90% LTV until the subject property listing has been removed, withdrawn or cancelled for a period of 6 months prior to the date of the loan application.
<p>ARM PARAMETERS</p>	<ul style="list-style-type: none"> HUD offers FHA 1-Year, 3-Year, and 5-Year ARM loans under the same requirements as the fixed rate loan with the exceptions as provided in this section. The ARM is offered under the FHA 203(b) program. The ARM Plan ID numbers are listed below: <ol style="list-style-type: none"> The 1 Year ARM Plan number for Desktop Underwriter is 251 The 3/1 and 5/1 ARM Plan number for Desktop Underwriter is FHA HYBRID
<p>INDEX</p>	<ul style="list-style-type: none"> Weekly average yield on U.S. Treasury Securities, adjusted to a constant maturity of one (1) year.

INTEREST RATE CAPS	<ul style="list-style-type: none"> • Annual: One percent (1.00%) up or down, from the rate in effect during the preceding year. • Lifetime: Five percent (5.00%) up or down, from the rate on the note.
INTEREST RATE CHANGES	<ul style="list-style-type: none"> • After the initial interest rate change, the interest rate will be adjusted every 12 months on the Change Date by adding the Margin to the Index. The result is rounded to the nearest one eighth percent (1/8%). • The date of the each interest rate adjustment (change date) is shown on the note and security instrument. • Payments cannot change earlier than one (1) month after the change date.
MARGIN	<ul style="list-style-type: none"> • One, Three and Five Year ARMs: 2.25% <p>Note: Other margins may be offered. Refer to the Rate Sheet for additional information.</p> <p>First Adjustment Dates</p> <ul style="list-style-type: none"> • The first adjustment for the One (1) Year ARMs will be twelve (12) to eighteen (18) months after the first installment payment is due in order to permit pooling the mortgage for sale in the secondary market. GNMA allows four adjustment dates (January 1, April 1, July 1 and October 1). • The first adjustment for the Three (3) Year ARMs will be thirty-six (36) to forty-two (42) months after the first installment payment is due in order to permit pooling the mortgage for sale in the secondary market. GNMA allows four adjustment dates (January 1, April 1, July 1 and October 1). • The first adjustment for the Five (5) Year ARMs will be sixty (60) to sixty-six (66) months after the first installment payment is due in order to permit pooling the mortgage for sale in the secondary market. GNMA allows four adjustment dates (January 1, April 1, July 1 and October 1).

FHA 1 Year ARM

The following table shows FHA 1 Year ARM Change Dates. Each change date will occur annually (every 12 months) after the first change date.

Closing	Interest Starts Accruing	First Payment Date	First Interest Change Date	Maturity Date 30 Yr Term	Number of Months Until 1st change
12/2-01/1/09	01/01/09	02/01/09	04/01/10	01/01/39	15
01/2-02/1/09	02/01/09	03/01/09	04/01/10	02/01/39	14
02/2-03/1/09	03/01/09	04/01/09	07/01/10	03/01/39	16
03/2-04/1/09	04/01/09	05/01/09	07/01/10	04/01/39	15
04/2-05/1/09	05/01/09	06/01/09	07/01/10	05/01/39	14
05/2-06/1/09	06/01/09	07/01/09	10/01/10	06/01/39	16
06/2-07/1/09	07/01/09	08/01/09	10/01/10	07/01/39	15
07/2-08/1/09	08/01/09	09/01/09	10/01/10	08/01/39	14
08/2-09/1/09	09/01/09	10/01/09	01/01/11	09/01/39	16
09/2-10/1/09	10/01/09	11/01/09	01/01/11	10/01/39	15
10/2-11/1/09	11/01/09	12/01/09	01/01/11	11/01/39	14
11/2-12/1/09	12/01/09	01/01/10	04/01/11	12/01/39	16
12/2-01/1/10	01/01/10	02/01/10	04/01/11	01/01/40	15
01/2-02/1/10	02/01/10	03/01/10	04/01/11	02/01/40	14

FHA 3/1 ARM

Closing	Interest Starts Accruing	First Payment Date	First Interest Change Date	Maturity Date 30 Yr Term	Number of Months Until 1st change
11/2-12/1/08	12/01/08	01/01/09	04/01/12	12/01/38	40
12/2-01/1/09	01/01/09	02/01/09	04/01/12	01/01/39	39
01/2-02/1/09	02/01/09	03/01/09	04/01/12	02/01/39	38
02/2-03/1/09	03/01/09	04/01/09	07/01/12	03/01/39	40
03/2-04/1/09	04/01/09	05/01/09	07/01/12	04/01/39	39
04/2-05/1/09	05/01/09	06/01/09	07/01/12	05/01/39	38
05/2-06/1/09	06/01/09	07/01/09	10/01/12	06/01/39	40
06/2-07/1/09	07/01/09	08/01/09	10/01/12	07/01/39	39
07/2-08/1/09	08/01/09	09/01/09	10/01/12	08/01/39	38
08/2-09/1/09	09/01/09	10/01/09	01/01/13	09/01/39	40
09/2-10/1/09	10/01/09	11/01/09	01/01/13	10/01/39	39
10/2-11/1/09	11/01/09	12/01/09	01/01/13	11/01/39	38
11/2-12/1/09	12/01/09	01/01/10	04/01/13	12/01/39	40
12/2-01/1/10	01/01/10	02/01/10	04/01/13	01/01/40	39
01/2-02/1/10	02/01/10	03/01/10	04/01/13	02/01/40	38

FHA 5/1 ARM

Closing	Interest Starts Accruing	First Payment Date	First Interest Change Date	Maturity Date 30 Yr Term	Number of Months Until 1st change
11/02-12/01/08	12/01/08	01/01/09	04/01/14	12/01/38	64
12/02-01/01/09	01/01/09	02/01/09	04/01/14	01/01/39	63
01/02-02/01/09	02/01/09	03/01/09	04/01/14	02/01/39	62
02/02-03/01/09	03/01/09	04/01/09	07/01/14	03/01/39	64
03/02-04/01/09	04/01/09	05/01/09	07/01/14	04/01/39	63
04/02-05/01/09	05/01/09	06/01/09	07/01/14	05/01/39	62
05/02-06/01/09	06/01/09	07/01/09	10/01/14	06/01/39	64
06/02-07/01/09	07/01/09	08/01/09	10/01/14	07/01/39	63
07/02-08/01/09	08/01/09	09/01/09	10/01/14	08/01/39	62
08/02-09/01/09	09/01/09	10/01/09	01/01/15	09/01/39	64
09/02-10/01/09	10/01/09	11/01/09	01/01/15	10/01/39	63
10/02-11/01/09	11/01/09	12/01/09	01/01/15	11/01/39	62
11/02-12/01/09	12/01/09	01/01/10	04/01/15	12/01/39	64
12/02-01/01/10	01/01/10	02/01/10	04/01/15	01/01/40	63
01/02-02/01/10	02/01/10	03/01/10	04/01/15	02/01/40	62