



Direct Mortgage
Wholesale™

Program Guidelines

6199 Program Guideline

FHA \$100 Down Traditional
Purchase

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 (SEE FLIPPING REQUIREMENTS)	<p><u>Appraisal Forms</u></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><u>Appraiser Requirements (See ML 2008-39 and ML 2009-36):</u></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. <p><u>HVCC Transferred Appraisals</u></p> <ul style="list-style-type: none"> • DMC no longer accepts HVCC appraisals ordered by other lenders. This is applicable whenever an HVCC appraisal is required. "Transfer" or "Assignment" letters will no longer be accepted.
BORROWERS (ELIGIBLE / INELIGIBLE)	<p>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> <p><u>Eligible</u></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. <p><u>Ineligible</u></p> <p>Any type of borrower not listed as eligible, including but not limited to:</p> <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	<p>Borrowers may pay customary and reasonable closing costs, subject to these limitations:</p> <ul style="list-style-type: none"> • Tax service fee not allowed. • Origination fee may not exceed 1%. • 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. • Total Broker compensation limited to 4%.

<p>CLOSING REQUIREMENTS</p>	<ul style="list-style-type: none"> • Interest credit allowed (calculated at 1/365th). <ul style="list-style-type: none"> - 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. <p>A minimum of 24 months chain of title as evidenced by the title commitment satisfactory to DMC review and meeting FHA anti-flipping requirements.</p>						
<p>CONDOS/PUDS</p>	<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 in an amount that is no less 20% of the condominium unit's appraised value. <p>Eligible</p> <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> <p>Ineligible</p> <ul style="list-style-type: none"> • Multiple unit condos. • Leasehold condos not allowed. 						
<p>CREDIT HISTORY (ALSO SEE REFINANCE TRANSACTIONS, CREDIT SCORES AND UNDERWRITING) (CONTINUED)</p>	<p>Automated Underwriting 30-year terms as approved by DU/LP and successfully validated by DMC, except:</p> <p>Ineligible Credit Scenarios</p> <ul style="list-style-type: none"> • Loans not meeting DMC minimum credit score requirements. • Loans requiring manual downgrade to "Refer" with review by a DE Underwriter, as per the FHA TOTAL Scorecard User Guide, Chapter 2, "System Overrides and Manual Downgrades". • 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. <p>Refer to the <i>Credit History</i> and <i>Refinance</i> sections of this chapter for further clarification and requirements.</p> <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="380 1503 1552 1944"> <thead> <tr> <th>Lender Action</th> <th>Definition</th> <th>Eligibility Requirements</th> </tr> </thead> <tbody> <tr> <td>Short Sale, Short Payoff/ Restructured Loans</td> <td> <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> <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><u>Minimum Documentation Requirements.</u></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"> • <u>Escrow waivers not allowed under any circumstances. No exceptions.</u>
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. • <u>See ML 2008-37 for exemptions in Presidentially Declared Major Disaster Areas.</u>
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><u>Gift Donors</u></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><u>"Seller-funded" Down Payment Assistance (DPA)</u></p> <ul style="list-style-type: none"> • DMC does not underwrite or purchase loans with "seller funded" DPA's of any kind.

GIFT FUNDS	<p><u>AUS-underwritten loans</u></p> <ul style="list-style-type: none"> • <i>Gift deposited prior to closing</i> <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"> - evidence of donor's account ownership and ability to give the gift, - copy of donor's cancelled check or bank-validated withdrawal slip, and - 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 FUNDS	<ul style="list-style-type: none"> • <i>Gift received at closing</i> <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 <i>NOT</i> be used as cash reserves. - <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 FHA Jumbo Addendum 												
LOAN TERM	15, 20, 25 and 30 years												
LOAN-TO-VALUE (ALSO SEE MAXIMUM / MINIMUM LOAN AMOUNT AND REFINANCE TRANSACTIONS)	<table border="1" data-bbox="399 1062 1528 1285"> <thead> <tr> <th>Type of Loan</th> <th>Maximum LTV/CLTV (1)</th> </tr> </thead> <tbody> <tr> <td>Purchase</td> <td>96.5% (2)</td> </tr> <tr> <td>Rate-and-Term Refinance*</td> <td>97.75% (3)</td> </tr> <tr> <td>FHA-to-FHA Streamline Refinance w/Appraisal*</td> <td>97.75% (3)</td> </tr> <tr> <td>FHA-to-FHA Streamline Refinance w/o Appraisal*</td> <td>See Refinance section (3)</td> </tr> <tr> <td>Cash-Out Refinance</td> <td>85% / 85% (3)</td> </tr> </tbody> </table> <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) Existing subordinate financing may remain in place without regard to CLTV on refinance transactions of 1-unit properties.</p>	Type of Loan	Maximum LTV/CLTV (1)	Purchase	96.5% (2)	Rate-and-Term Refinance*	97.75% (3)	FHA-to-FHA Streamline Refinance w/Appraisal*	97.75% (3)	FHA-to-FHA Streamline Refinance w/o Appraisal*	See Refinance section (3)	Cash-Out Refinance	85% / 85% (3)
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MAXIMUM / MINIMUM LOAN AMOUNT (ALSO SEE LOAN-TO-VALUE AND REFINANCE TRANSACTIONS)	<p>General Guidelines:</p> <ul style="list-style-type: none"> • In addition to the appropriate LTV and Maximum Mortgage Worksheet calculation, the base loan amount may not exceed the lesser of : <ul style="list-style-type: none"> (a) the local <u>Statutory Mortgage Loan Limit</u> as published by HUD, or (b) the applicable limit set for this product: <p style="margin-left: 40px;">1-unit \$417,000, AK & HI \$625,500 2-unit \$533,850, AK & HI \$800,775 3-unit \$645,300, AK & HI \$967,950 4-unit \$801,950, AK & HI \$1,202,925</p> • UFMIP may be added to the calculated base loan amount. • All loans must be submitted in whole dollar amounts. • <u>See LTV section for links to new 2009 Maximum Mortgage Worksheets.</u> <p>Minimum Loan Amount: \$50,000</p>																																								
MORTGAGE INSURANCE (UP-FRONT AND MONTHLY MORTGAGE INSURANCE PREMIUM)	<p><u>CASE NUMBERS ASSIGNED PRIOR TO 7/14/08 (ML2000-38):</u></p> <table border="1"> <thead> <tr> <th colspan="4">LOAN TERM > 15 YEARS</th> </tr> <tr> <th>UFMIP</th> <th>LTV</th> <th>MONTHLY MIP</th> <th>Years</th> </tr> </thead> <tbody> <tr> <td>1.500%</td> <td>All%</td> <td>.500%</td> <td>*</td> </tr> <tr> <td>1.500%</td> <td>90.00% - 95.00%</td> <td>.500%</td> <td>*</td> </tr> <tr> <td>1.500%</td> <td>< 89.99%</td> <td>.500%</td> <td>*</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th colspan="4">LOAN TERM ≤ 15 YEARS</th> </tr> <tr> <th>UFMIP</th> <th>LTV</th> <th>MONTHLY MIP</th> <th>Years</th> </tr> </thead> <tbody> <tr> <td>1.500%</td> <td>> 95%</td> <td>.250%</td> <td>*</td> </tr> <tr> <td>1.500%</td> <td>90.00% - 95.00%</td> <td>.250%</td> <td>*</td> </tr> <tr> <td>1.500%</td> <td>< 89.99%</td> <td>N/A</td> <td>N/A</td> </tr> </tbody> </table> <p>* Years will be determined when the loan balance equals 78%, provided the mortgagor has paid the mortgage insurance premium for at least five years (scheduled or actual, refer to Mortgagee Letter 2000-46).</p> <p><u>CASE NUMBERS ASSIGNED 7/14/08 THROUGH 9/30/08 (ML2008-16):</u></p> <p>Streamline Refinances – 1.0 UFMIP and .5% annual</p> <p>UFMIP and Annual Insurance Premiums for Purchase Money and Fully Qualifying Refinances with loan terms > 15 years</p>	LOAN TERM > 15 YEARS				UFMIP	LTV	MONTHLY MIP	Years	1.500%	All%	.500%	*	1.500%	90.00% - 95.00%	.500%	*	1.500%	< 89.99%	.500%	*	LOAN TERM ≤ 15 YEARS				UFMIP	LTV	MONTHLY MIP	Years	1.500%	> 95%	.250%	*	1.500%	90.00% - 95.00%	.250%	*	1.500%	< 89.99%	N/A	N/A
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MORTGAGE INSURANCE (UP-FRONT AND MONTHLY MORTGAGE INSURANCE PREMIUM CONTINUED)

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

UFMIP and Annual Insurance Premiums for Purchase Money and Fully Qualifying Refinances with loan terms ≤ 15 years

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

CASE NUMBERS ASSIGNED 10/01/08 AND AFTER (ML2008-22):

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:

LTV Ratio	Premium (Monthly)	Years
95% and under	.50%	*
Over 95%	.55%	*

*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.

Purchase Money Mortgages, Full-Qualifying Refinances and Streamline Refinances with Terms of 15 Years and Less:

LTV Ratio	Premium (Monthly)	Years
90% and under	None	N/A
Over 90%	.25%	*

**Years will be determined when the loan balance equals 78%.

FHA UFMIP & MIP Payment Process

Detailed information for this process can be found on the Internet at <http://www.hud.gov/offices/hsg/comp/premiums/sfpaygov.cfm>

NON-OCCUPANT CO-BORROWERS/ CO-SIGNERS

- 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 1/11/10.

NUMBER OF LOANS/ PROPERTIES

Number of Loans per Borrower

- 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.

Number of Properties per Borrower

- 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.

<p>PROPERTY ELIGIBILITY</p>	<p><u>Eligible</u></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><u>Ineligible</u></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. • Manufactured or mobile housing. • Leasehold condos. • Co-ops.
<p>PROPERTY INSPECTIONS</p>	<p><u>Termite, Well and Septic Inspections</u></p> <ul style="list-style-type: none"> • Properties <i>under one year old</i> require mandatory inspection, treatment and testing, even if previously occupied. • For existing properties <i>over one year old</i>, 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> <p><u>State and Local Requirements</u></p> <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: <ul style="list-style-type: none"> - Arizona: Septic or other on-site sewage system (purchases only).
<p>RATIOS</p>	<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.
<p>REFINANCE TRANSACTIONS</p>	<p><u>General Guidelines</u></p> <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. <p><u>Cash Out Refinance Transactions:</u></p> <ul style="list-style-type: none"> • Allowed • Maximum LTV is based on Length of Ownership: <ul style="list-style-type: none"> • <u>12 Months or More</u>: 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. • <u>Less than 12 Months</u>: 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. <ul style="list-style-type: none"> • 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. <p><u>Rate/Term Refinance Transactions:</u></p> <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>).

REFINANCE
TRANSACTIONS
CONTINUED

- 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).

Streamline Refinance Transactions:

- Prohibited in some states. See *GEOGRAPHIC RESTRICTIONS*.
- Must meet minimum credit score requirements (see *CREDIT SCORES*).
- 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:
 - 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:
 - 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:
 - *Original Loan Amount:* The "Original Mortgage Amount" from the Refinance Authorization in the FHA Connection (which includes any financed UFMIP), or
 - *Existing Debt:* 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)
 - FHA Connection (which includes any financed UFMIP), or
 - *Existing Debt:* 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)

<p>SELLER CONTRIBUTION</p>	<p><u>Purchase Transactions</u></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. • 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><u>Refinance Transactions</u></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><u>Energy Efficient Mortgage (EEM) Program</u></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 <i>Home Energy Rating System (HERS) report</i> and the <i>EEM Worksheet</i>. • 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 <i>the EEM calculations only</i>. 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.

PROGRAMS & SPECIAL FEATURES (CONTINUED)	<ul style="list-style-type: none"> • Documentation, Fees, Escrow Requirements: <ul style="list-style-type: none"> - Home Energy Rating System (HERS) report, copy to borrower and lender. - HUD-92300 Mortgagee's Assurance of Completion (prepared by DMC). 90 days allowed for completion, no extensions or exceptions. After 90 days, unused funds <i>must</i> 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. If not, such fees are considered allowable closing costs. - 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 buydown 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"> • <u>ALL</u> loan files must include an IRS Form 4506T executed by each borrower at the time of closing. <p><u>Automated Underwriting System (AUS)</u></p> <ul style="list-style-type: none"> • All FHA loans must be submitted through DU or LP. <p><u>General Underwriting Information</u></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. • If the Borrower is upside-down in their current property they may not purchase a new Primary Residence. <p><u>Job Stability</u></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><u>FHA Streamlines</u></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).

UNDERWRITING	<p><u>Purchase Price Updates</u></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><u>Tax Transcripts</u></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><u>Broker Compensation</u></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><u>Departure Residences</u> - 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><u>Additional Requirements</u></p> <p>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>
ARM PARAMETERS	<p>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.</p> <ul 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
INDEX	<p>Weekly average yield on U.S. Treasury Securities, adjusted to a constant maturity of one (1) year.</p>
MARGIN	<p>One, Three and Five Year ARMs: 2.25%</p> <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).
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.
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

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