



Direct Mortgage
Wholesale™

Program Guidelines

6205 Program Guideline

USDA Purchase

6205

RURAL DEVELOPMENT (RD) GUARANTEED RURAL HOUSING (GRH) PRODUCT MATRIX

PROGRAM BENEFITS

Financing	102% financing based on appraised value
Term	30-year fixed
Mortgage insurance	No monthly mortgage insurance. One-time guarantee fee of 2.00%
Payment reserves	No payment reserve requirements
Down payment	No down payment
First-time homebuyer	No First-time homebuyer requirement
Seller concessions	6%
Gifts	100% gifting permitted. Donor must be disinterested third party.

INCOME RATIOS

Ratios	29/41 – exceptions encouraged with compensating factors and RD concurrence
Non-occupant Co-borrower	Non-occupant co-borrowers not permitted unless approved by RD
Installment debt	Include all installment debt greater than 6 months
Primary income	Two-year history
Self-employment	Two-years 1040s and P&L
Alimony/child support	12-month history, with proof of 3 years continuance
Part-time, Over-time & Bonus	12-month history
Disability benefits	Benefits letter , 3 years continuance and gross up 125%
SSI benefits	Awards letter or 2 months bank statements, 3 years continuance and gross up 125%
Salary increases	Salary increases with 30 days of the first payment due date are acceptable
Maximum income	Use RD Moderate Income Limits http://eligibility.sc.egov.usda.gov

CREDIT

Credit score	Minimum FICO score 620 (For loans locked prior to 12/21/09) Minimum FICO score 640 (For loans locked on or after 12/21/09)
Late payments *See refinance section	1 X 30 permitted in last 12 months with explanations – Exceptions may be granted if your borrowers have 620 or greater middle credit scores
Bankruptcy/Foreclosure	Chapter 7 and 13 must be discharged for 3 years.
Collections	Accounts cannot have been placed in collection status within the last 12 months.
Judgments	Must be paid off for at least 12 months.
Verification of Rent	A VOR is required for the most recent 12 months rent.
Previous Housing Payment	Not required
Credit report	RMCR or Tri-Bureau merged
Homebuyer education	Case by case basis or when required by RD
Collection Policy	All Derogatory Credit (i.e. Judgment, collection, charge-off, etc.) must be paid off prior to or at closing for individual accounts with a balance greater than \$1,000 or an aggregate amount of \$5,000.
Credit Bureau	Kroll Factual Data reports are required.

RURAL DEVELOPMENT (RD)
GUARANTEED RURAL HOUSING (GRH) PRODUCT MATRIX (Cont.)

FUNDS FOR CLOSING

Closing costs *See refinance section	All closing costs may be financed, except discount points unless borrower is below the RD low income limit, then discount points may be financed
Seller Concessions	All closing costs and prepaids may be paid by seller concessions
Gifting	100% gifting acceptable from disinterested third party
Cash contribution	No minimum cash contribution from borrowers
Unsecured funds	Borrowing of unsecured funds allowed with 660 credit score

PROPERTY REQUIREMENTS

Eligible Areas	Property must be located in a RD eligible area http://eligibility.sc.egov.usda.gov
Other Real Estate Owned	Borrowers must not own adequate housing.
Occupancy	Primary residence only
Property Type	Single family or RD eligible condo/PUD
Swimming Pools	No in-ground swimming pools (above ground permitted) Florida properties will be looked at on a case by case basis.
Thermal Certification	Thermal insulation certifications are no longer required.
Home Inspection Adequacy Certification	Homes must be certified as meeting HUD handbook guidelines 4150.2 & 4905.1. Some states may require specific inspection forms.
Termite Inspection	All areas as required by RD
Well/Septic Inspections	100% required - Septic inspection may be completed by FHA roster appraiser, Well test must be completed by state certified lab.
Escrow Holdback	ONLY ELIGIBLE AS AN EXCEPTION ON A CASE BY CASE BASIS WITH THE FOLLOWING REQUIREMENTS: <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. • Conventional 1004D 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.
Appraisal	Appraiser must be on an FHA roster and Fannie/Freddie appraisal form must be used.
Condos	Must be FannieMae or FHA approved.
Flood Zones	The National Office is no longer giving waivers for flood elevation surveys. This means that there has to be a survey done to ensure that the first floor of the house is above the 100 year flood plain. Also we need verification that there are no other houses in the area that are similar in price but not located in a flood zone.

PROGRAM ELIGIBILITY

Borrower Eligibility	The borrower must not have sufficient assets to obtain other traditional conventional financing. The borrower may, however, qualify for an FHA or VA loan. In other words, applicants may have liquid assets and be eligible to participate in the GRH Program. Those assets, however, should not be sufficient to meet the down payment and closing cost requirements associated with a conventional uninsured mortgage product (LTV < 80%). This means applicants do have a choice of USDA-Guaranteed Rural Housing, FHA, VA, or a conventional mortgage product with private mortgage insurance.
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REFINANCE TRANSACTIONS

- The interest rate of the new loan must be at least 100 basis points (1.0%) below the interest rate of the existing loan to be refinanced.
- On streamlined refinances where no appraisal is required, the maximum amount to be financed can be no greater than the principal balance of the existing loan. The guarantee fee may be financed up to the original loan amount of the existing loan being refinanced. In summary, the new loan amount cannot exceed the old loan amount on streamlined refinances.
- The existing loan to be refinanced must be current for the 12 months prior to application. No loan can be refinanced unless 6 payments have been made.
- For non-streamlined refinances, a new appraisal is required whenever the refinanced loan amount exceeds the original loan amount regardless of the age of the loan, or if the application date is greater than 12 months from the original date of the loan.
- Discount points paid to the originator representing application fees, or broker fees cannot be assessed to the borrower. Discount points associated with a permanent interest rate reduction may be assessed to the borrower. These points may not be financed, however, unless the applicants have household incomes defined as "RHS Low-Income."
- Reasonable and customary closing costs may be collected from the borrower, but may not exceed the actual cost incurred for the service provided. **The maximum for all origination related fees paid to the Broker is 1.0%.**
- No properties with in-ground swimming pools are permitted.



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Program Guidelines

DMC Conventional Guide

Product Description – Conforming Fixed

General Description:

Conventional Conforming fixed rate principal and interest level-payments for the life of the loan.

PURCHASE AND RATE TERM REFINANCE⁴				
Property Type	Units	Credit Score⁷	DU LTV/CLTV/HCLTV^{1, 2, 6}	LP LTV/CLTV/HCLTV^{1, 2, 6}
Primary Residence	1	680 ⁵	95/95/95	95/95/95
	2	640	80/80/80	80/80/80
	3	640	75/75/75	75/75/75
	4	640	75/75/75	75/75/75
Second Home	1	640	80/80/80	80/80/80
Investment Property ³	1	640	75/75/75	75/75/75
	2	640	Purchase 80/80/80 Rate/term 75/75/75	75/75/75
	3	640	65/75/75	65/75/75
	4	640	65/75/75	65/75/75
CASH OUT REFINANCE				
Property Type	Units	Credit Score⁷	DU LTV/CLTV/HCLTV^{1, 2, 6}	LP LTV/CLTV/HCLTV^{1, 2, 6}
Primary Residence	1	640	80/85/85	80/85/85
	2	640	80/80/80	75/75/75
	3	640	75/75/75	75/75/75
	4	640	75/75/75	75/75/75
Footnotes:				
<p>1. CLTV represents the loan amount of a closed-end second or the disbursed amount of the HELOC plus the first mortgage amount, divided by the sales price/appraised value of the subject property. LTV must be reduced 5% with subordinate financing.</p> <p>2. HCLTV represents the HELOC credit line limit plus the first mortgage amount, divided by the value of the subject property. If the secondary financing is a HELOC, the loan amount plus the draw amount cannot exceed the CLTV and the loan amount plus the total line amount cannot exceed the HCLTV. LTV must be reduced 5% with subordinate financing.</p> <p>3. Not Allowed in Florida.</p> <p>4. If LTV's > 80% check with MI companies for product eligibility.</p> <p>5. Purchase and rate term refinances with LTV/CLTV/HCLTV ≤ 80% minimum credit score 620.</p> <p>6. Condo maximum LTV/CLTV/HCLTV is 90%. - Florida condos & attached PUDs. - The following counties are not eligible: Broward, Miami Dade, or Lee</p> <p>7. 620 for loans locked prior to 12/21/09.</p>				

<p>APPRAISAL</p>	<p><u>General Guidelines</u></p> <ul style="list-style-type: none"> • As determined by DU/LP. • Age of appraisal: <ul style="list-style-type: none"> - DMC will not accept appraisals dated more than 12 months prior to the note date. - An Appraisal Update is required on all appraisals dated more than 120 days prior to the note date. The new Update Appraisal Form (1004D) must be used. <ul style="list-style-type: none"> - If the value of the property is less than the original appraised value then a new appraisal will need to be ordered. - If the value of the property is more than the original appraised value then the appraiser must notate on the appraisal the reason for the change and the underwriter may request a new appraisal. • If the appraisal indicates that the subject property was previously sold within the last 12 months, the underwriter is required to determine the change in value. If the value has increased 20% or more, the underwriter must require document improvements that support the increase and/or the appraiser must document rapid increases in value within the market. • All appraisals must reflect the current transaction information. When using an appraisal for a refinance that was previously used by the current borrowers to purchase the subject property, the Fannie Mae form 1004D may be used to update the current owner and recent transfer information since the previous appraisal date, as well as other required information in accordance with Fannie Mae guidelines. • All appraisals of one to four unit properties dated on/after April 1, 2009 must contain the Market Conditional Addendum to the Appraisal Report (Form 1004MC). • Purchases of REO or foreclosure properties require a full appraisal. • Appraisals on new construction properties can not be dated more than 120 days from the Note Date. If the appraisal is dated more than 120 days from the note date, a new appraisal will be required, appraisal updates are not allowed. <p><u>Appraisal Documentation</u></p> <ul style="list-style-type: none"> • The minimum allowed appraisal documentation is an exterior only appraisal • Property Inspection Waiver (PIW) is not allowed.
<p>BORROWERS (ELIGIBLE/INELIGIBLE)</p>	<p><u>Eligible:</u></p> <ul style="list-style-type: none"> • Individuals only. • Social security number required. A Tax I.D. Number will not be acceptable. <p><u>Permanent Resident Aliens:</u> As long as the borrower holds a "Green Card" (an Alien Registration Receipt Card, INS Form I-551), the loan is eligible under the same guidelines/terms as a loan made to a U.S. citizen. A copy of the front and back of the Green Card must be included in the file. An approved Green Card application will not be acceptable.</p> <p><u>Non-Permanent Resident Aliens:</u> Temporary residents. Granted the right to live and/or work in the U.S. for a specified period of time.</p> <ul style="list-style-type: none"> • One of the following valid Visas are required: <ul style="list-style-type: none"> • H-1B, Temporary Worker. • L-1, Intra-Company Transferee. • E-1, Treaty Trader. • G series (G-1, G-2, G-3, G-4). • TN or TC NAFTA VISA - Used by Canadian or Mexican citizens. • The loan file must contain a copy of the front and back of the eligible Visa. The approved application for one of the visas listed above will not be acceptable and a copy of the actual visa must be obtained. • All Non-Permanent Resident Aliens must have a minimum 2 year history of residency, credit, employment, currently reside and work in the U.S. Income should be expected to continue for at least 3 years. • If tax returns are required, they must be U.S. federal returns. If income is in foreign currency, 75% of the currency exchange value may be used for qualifying the borrower. • Funds for closing must be in U.S. bank accounts. If funds were transferred from a foreign depository, the borrower must provide evidence that they owned the funds prior to the transfer.

BORROWERS (ELIGIBLE/INELIGIBLE) (CONTINUED)	<u>Ineligible:</u> <ul style="list-style-type: none"> Foreign nationals. Borrowers with diplomatic immunity. Borrowers without social security numbers. Land Trusts. Inter vivos or "living" revocable trusts.
CASH RESERVES	<ul style="list-style-type: none"> Primary Residence - As determined by DU/LP. Second Homes – Minimum 2 months reserves. Investment Properties – Minimum of 6 months reserves is required. Stocks, bonds, mutual funds: 70% of the value may be used as reserves Retirement accounts: 60% of the vested value may be used as reserves.
CLOSING REQUIREMENTS	<ul style="list-style-type: none"> Standard fixed rate documentation. Interest credit allowed; loan must fund by the 10th calendar day of the month preceding the first payment date. Limited Power of Attorney allowed. Well, Septic and Termite 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.
CONDOS/PUDS	<ul style="list-style-type: none"> Condos must be either Fannie Mae approved or FHA Approved. Florida: Condos/PUDS in Miami-Dade, Lee, and Broward counties are <u>not</u> allowed. 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 than 20% of the condominium unit's appraised value.
CREDIT HISTORY	<ul style="list-style-type: none"> As determined by DU/LP. Derogatory Credit Policy: <ul style="list-style-type: none"> 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. Consumer Credit Counseling Service (CCCS): <ul style="list-style-type: none"> If the loan is approved through DU/LP with the CCCS being addressed or released then no further evaluation is needed. <u>Bankruptcy</u> <ul style="list-style-type: none"> Borrowers whose credit history includes a previous Bankruptcy must have re-established a credit record for an elapsed time of 4 years from the date the bankruptcy was filed. <u>Foreclosure, Deed in Lieu of Foreclosure, Pre-Foreclosure Sales, Short Sales and Short Payoff / Restructured loans</u> <p>Regardless of DU or LP findings, the credit guidelines below for Foreclosure, Deed-in-Lieu of Foreclosure, Pre-Foreclosure Sales, Short Sales or Short Payoff/Restructured loans must be met as automated underwriting systems may not detect the presence of these items. As there is not a standard for reporting these items to the credit bureau, underwriters are responsible for reviewing the credit report, loan application and preliminary title opinion and any other information in the loan file to determine whether such an action has been completed. Requirements are as follows:</p>
CREDIT SCORES	<ul style="list-style-type: none"> All minimum credit scores must be met regardless of DU/LP. See LTV Matrix for minimum credit scores. At least one borrower must have qualifying credit scores. If three scores are provided, the middle score will be used. If two of the three scores are the same, the duplicate score will be used to qualify. If two scores are provided, the lower of the two scores are used. If one score is provided, a zero credit score will be used. The lowest of the scores for the borrower or co-borrower, as determined by the credit report, will be viewed as the credit score for the loan file.

CREDIT HISTORY (Continued)	Lender Action	Definition	Eligibility Requirements
	Foreclosure	Legal proceeding in which a servicer obtains a court ordered termination of a borrower's equitable right of redemption or ownership.	Five (5) years must have passed from the completion date of the foreclosure to the date of the credit report.
	Deed-in-Lieu of Foreclosure	Borrower, failing to satisfy the loan obligation, assigns title to the property through executing a deed to the lender and avoids foreclosure proceedings.	Four (4) years must have passed from the date the deed was executed, or Pre Foreclosure sale was completed, to the date of application. A minimum two (2) year seasoning is required to re-establish credit following the sale of the property.
	Pre-Foreclosure Sale	Servicer agrees to accept a payoff less than the balance owed on the borrowers delinquent mortgage to avoid the time and expense of a foreclosure action.	Additionally, requirements below must be applied after four (4) years and up to seven (7) years following the completion date: Purchase transactions, the borrower must contribute the greater of 10% minimum down payment or the minimum required for the loan program (no gifts).
	Short Sale, Short Payoff/ Restructured Loans	Short Sales, the servicer agrees to accept a payoff less than the balance owed on the borrowers mortgage that is NOT delinquent. 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.	Borrowers purchasing a home that is being sold under a short sale are eligible provided the transaction is arms length. Borrowers who have entered into a short refinance /restructured debt on the subject property are not eligible. 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 on short refinance / restructure and no more than 1 x 30 days late on any mortgage in the past 12 months.
DOCUMENTATION	As determined by DU/LP		
DOWN PAYMENT	<ul style="list-style-type: none"> As determined by DU/LP. Grants allowed after borrower has made minimum down payment of at least 5%. Sweat equity is not allowed. 		
ESCROWS	<ul style="list-style-type: none"> Required if LTV > 80%, except where prohibited by state law. Escrow waivers allowed with LTVs ≤ 80%. 		
ESCROW HOLDBACKS	<p>Only eligible 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. Conventional 1004D 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. 		
GEOGRAPHIC RESTRICTIONS	<ul style="list-style-type: none"> High Cost loans in the state of South Carolina allow a maximum DTI of 50%. Investment properties are not eligible in the state of Florida. Condos and attached PUD's are not eligible in Florida in the following counties: Miami-Dade, Broward, and Lee. Cash Out Refinance is not eligible in the state of Texas. Mortgage Insurance Guidelines apply to all states. 		
GIFTS	<ul style="list-style-type: none"> Gifts are allowed on primary residences and second homes, per DU/LP. The gift may be provided by a relative, domestic partner, or fiancé/fiancée only. <ul style="list-style-type: none"> Second homes allow gifts made by a relative only. A relative is defined as a borrower's spouse, child or other dependant, or any individual related by blood, marriage, adoption or legal guardianship. There is no minimum down payment requirement if the LTV/CLTV is 80% or less and the entire down payment is a gift. Executed gift letter is required. Gift of equity is allowed on the purchase of a primary residence or a second home. <ul style="list-style-type: none"> The LTV should be based on the lesser of the purchase price or appraised value. <ul style="list-style-type: none"> The gift may not be deducted from the sales price before calculating the LTV. No cash may change hands; instead the seller agrees to donate a portion of the equity in the subject property in lieu of all or a portion of the down payment. All gift policy criteria must be met. 		

GIFTS	<ul style="list-style-type: none"> - There is no minimum down payment requirement if the LTV/CLTV is 80% or less and the entire downpayment is a gift. - The relative may not be, or have any affiliation with the builder, developer, real estate agent or any other interested party to the transaction. - Gift of equity must be acknowledged by the Appraiser on the appraisal. <ul style="list-style-type: none"> ● 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.
INVESTMENT PROPERTIES	<p><u>General Guidelines:</u></p> <ul style="list-style-type: none"> ● 1-4 unit properties allowed. ● Refinances, the borrower(s) must have been listed as the owner of record for a minimum of 6 months from the date of application. Title transfers to or from the borrower during the previous six month period is not allowed regardless of the nature of the relationship between the transferees. ● History of managing rental properties and rent loss insurance as determined by DU/LP for 1-4 unit investment properties. ● See <i>matrix for minimum credit score requirements.</i> ● Investment properties require a minimum of six months reserves regardless of DU/LP Findings ● For properties located in TX – Borrower must be a current homeowner. ● An Operating Income Statement (Fannie Form 216) and Appraisal Addendum supplying the market rents for the subject property are required on all investment properties. <ul style="list-style-type: none"> - On single family investment properties where full debt is counted against the borrower, if AUS allows the Operating Income Statement (Fannie Mae 216) to be waived, DMC requires one of the following: <ul style="list-style-type: none"> - Single Family Comparable Rent Schedule (1007), or - A letter from the appraiser on his letterhead stating eligible market rents for the subject property, or - The income approach section on page 3 of the appraisal to be completed, or - An executed lease agreement. ● With landlord history. With 2 most recent years experience, 680 FICO, and can count rents as income (proposed rents for purchase – as taken from the OIS or comparable rent schedule, whichever is lower -- or the actual rents for a refinance – as taken from the tax return). 1x30 (12 months), 0x60 (12 months), 0x90 (24 months) mortgage lates. ● Without landlord history. 720 FICO score, qualifying with both payments, and max debt ratio of 45%. Mortgage Payments on time last 12 months. <p><u>1031 Tax Deferred Exchange</u></p> <ul style="list-style-type: none"> ● Allowed for source of assets with the following restrictions: <ul style="list-style-type: none"> - Funds from exchange are only acceptable when both the property that was sold and the subject property being purchased are investment properties. - The sales contract from both the sale of the previous properties from which the 1031 assets are acquired and the purchase of the subject properties must state that a 1031 Deferred Tax Exchange is being utilized. - The loan closing for the property that was sold and the subject property being purchased through the use of the 1031 exchange must be handled by a qualified intermediary. . The intermediary must be an independent third party such as a title company, escrow agent, or exchange Company and not a real estate agent or broker, attorney, accountant, banker or investment advisor. - Subordinate financing is not allowed. - The following documentation is required: <ul style="list-style-type: none"> - Copy of the sales contract from the sale of the previous property and the purchase of the subject property. - 1031 Exchange Agreement. - HUD-1 from the sale of the previous property and the purchase of the subject property. - Title Transfer. - Verification of receipt of funds from the intermediary.
INVESTMENT PROPERTIES (CONTINUED)	<p><u>Ineligible Transactions</u></p> <ul style="list-style-type: none"> ● Gifts ● Temporary Buydowns ● Cash-out refinances are not allowed. ● Reverse exchanges are not allowed because the borrower is not on title to the property at the time of closing.
LEASEHOLD	<ul style="list-style-type: none"> ● Allowed per Fannie Mae/Freddie Mac guidelines.
LOAN TERM	10, 15, 20, 25, and 30 years.

MAXIMUM / MINIMUM LOAN AMOUNT	<p>Maximum Loan Amount:</p> <table border="1" data-bbox="412 184 1263 405"> <thead> <tr> <th>Units</th> <th>Contiguous States</th> <th>Alaska and Hawaii</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>\$417,000</td> <td>\$625,500</td> </tr> <tr> <td>2</td> <td>\$533,850</td> <td>\$800,775</td> </tr> <tr> <td>3</td> <td>\$645,300</td> <td>\$967,950</td> </tr> <tr> <td>4</td> <td>\$801,950</td> <td>\$1,202,925</td> </tr> </tbody> </table> <p>Minimum Loan Amount:</p> <ul style="list-style-type: none"> \$50,000, Texas \$80,000. 	Units	Contiguous States	Alaska and Hawaii	1	\$417,000	\$625,500	2	\$533,850	\$800,775	3	\$645,300	\$967,950	4	\$801,950	\$1,202,925
Units	Contiguous States	Alaska and Hawaii														
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3	\$645,300	\$967,950														
4	\$801,950	\$1,202,925														
MORTGAGE INSURANCE	<p>General Guidelines</p> <ul style="list-style-type: none"> Reduced mortgage insurance is not allowed. Standard mortgage insurance is required. Maximum DTI is 41% 2 months PITI required Properties located in adverse markets are further restricted by transaction type, LTV limitations higher FICO requirements, etc. and are subject to current MI availability. The LTV is limited to 90% for properties located in Arizona, California, Florida, Nevada, Michigan and Ohio The minimum FICO score requirement is 740 for properties located in Arizona, California, Florida, Nevada, Michigan and Ohio, and 680 in all other states. Condo/Attached PUD – Mortgage insurance is no longer available if the loan amount is greater than \$417,000. <p>Standard MI Coverage:</p> <table border="1" data-bbox="412 863 1190 1041"> <thead> <tr> <th>LTV Ranges</th> <th>10-20 Yr. Terms</th> <th>25-40 Yr. Terms</th> </tr> </thead> <tbody> <tr> <td>90.01% - 95%</td> <td>25%</td> <td>30%</td> </tr> <tr> <td>85.01% - 90%</td> <td>12%</td> <td>25%</td> </tr> <tr> <td>80.01% - 85%</td> <td>6%</td> <td>12%</td> </tr> </tbody> </table>	LTV Ranges	10-20 Yr. Terms	25-40 Yr. Terms	90.01% - 95%	25%	30%	85.01% - 90%	12%	25%	80.01% - 85%	6%	12%			
LTV Ranges	10-20 Yr. Terms	25-40 Yr. Terms														
90.01% - 95%	25%	30%														
85.01% - 90%	12%	25%														
80.01% - 85%	6%	12%														
NON-OCCUPANT CO-BORROWER	<ul style="list-style-type: none"> As allowed per DU/LP on primary residence only. DU/LP Findings must identify that a non-owner occupant was used for qualification. Non-occupant co-borrower must be an immediate family member and sign the Note if their income is used for qualification. They must also execute the Deed of Trust if they have an ownership interest in the subject property. Maximum 90% LTV. If the LTV is greater than 80% and the non-occupant co-borrower's income is used to qualify, the owner-occupant must have 5% of the purchase price in their own funds. The occupying borrower may not have ratios that exceed 55%. 50% for loans locked on or after 1/11/10. 															
NUMBER OF LOANS/ PROPERTIES	<p>Number of Properties per Borrower:</p> <ul style="list-style-type: none"> For a primary residence, there is no limit on the number of properties owned and/or financed by the borrower. For second homes and investment properties: <ul style="list-style-type: none"> Unlimited # of properties may be owned but only 4, including the borrowers' primary residence may be financed. This Limitation includes joint or total ownership and is cumulative across all borrowers on the loan and must be manually applied on all loans as applicable regardless of DU/LP tolerances. A Minimum of two months reserves on the subject property is required on all second homes, regardless of DU/LP Findings. If the borrower has interest in or owns multiple financed investment properties (including the subject property), a minimum of six months reserves on the subject property is required, regardless of DU/LP Findings. 															
OCCUPANCY	<ul style="list-style-type: none"> Owner occupied primary residence, second home and investment properties. <ul style="list-style-type: none"> On a Primary Residence, at least one borrower obligated to the note must occupy the subject 															

PROPERTIES (ELIGIBLE/INELIGIBLE)	<p>Eligible:</p> <ul style="list-style-type: none"> • 1 - 4 unit primary residence and investment properties. • Single family attached and detached. • 1 Unit Second Homes. • Approved Condo's and PUD's. • Modular Homes: <ul style="list-style-type: none"> - Composed of factory-built modules that are transported to the home site and assembled. - Built to the state building code requirements of the state in which it is to be installed. - Conforms to all codes adopted by the jurisdiction in which the property is permanently situated, including industrialized building codes; local zoning requirements; and International Code Council (ICC) building codes. - Marketing time must not exceed six (6) months. - Minimum of 2 similar factory-built comparables. • Mixed use properties are eligible if it can be determined that the nature, intent, and primary purpose of the property is residential in use. The following should be considered in making this determination: <ul style="list-style-type: none"> • The commercial/agricultural use must be allowed by zoning and the subject must conform to zoning. • In general, the commercial use should not exceed 20% of total gross living area of the property. • Agricultural usage should generally not exceed 20% of the total acreage. • Income generated on property used for agricultural purposes should be minimal. • Commercial use should not result in significant alteration to the property or one which could not be easily converted back to residential. The commercial use should generate a minimal amount of traffic noise. • The subject must be a single family primary residence. • The room layout must be reasonable for a residential home. • The property must be appraised as residential real estate, with commercial/agricultural value not included in the appraiser's market value. • The appraiser must comment on any affect the commercial/agricultural use has on marketability and compatibility with the subject's neighborhood • Industrial or manufacturing use not allowed. • Borrower must be both the owner and the operator of the business. <p>Ineligible:</p> <ul style="list-style-type: none"> • Manufactured housing. • Mobile Homes. • Ranches, Orchards, Working or Hobby Farms. • Dome, Unique, or Geothermal homes. • Properties without a permanent source of heat and, if typical for the area, cooling. Space heaters and similar sources are not considered permanent heating sources. • Properties with right of redemption. • Co-ops. • Builder trade equity.
RATIOS	<ul style="list-style-type: none"> • As determined by DU/LP. • Max DTI 55% (For Loans locked prior to 12/21/09) • Max DTI 50% (For loans locked on or after 12/21/09)
REFINANCES	<p>General Information:</p> <ul style="list-style-type: none"> • At least one borrower must be on title prior to application date to be eligible for a refinance transaction. • Continuity of obligation must be established for both rate/term and cash out refinance transactions. <ul style="list-style-type: none"> • If at least one borrower who will be obligated on the new loan was also a borrower on the existing loan being refinanced, continuity of obligation is established. • If the borrower refinancing is not on the existing note, continuity of obligation may be established through one of the following: <ul style="list-style-type: none"> • The borrower has been on title and residing in the property for at least 12 months and has either paid the mortgage for the last 12 months or can demonstrate a relationship (spouse, relative, domestic partner, etc.) with the current obligor. • The borrower has recently inherited or was legally awarded the property (divorce, separation). • If the borrower is currently on title but is unable to document continuity of obligation, or there is no outstanding lien against the property the loan will be considered a cash out refinance with the following additional restrictions: <ul style="list-style-type: none"> • <u>No outstanding liens</u> <ul style="list-style-type: none"> • If the property was purchased within 6 to 12 months prior to the application date, the LTV will be based the lesser of the original sales price/acquisition cost (documented by HUD-1 Settlement Statement) or the current appraised value. • If the property was purchased more than 12 months prior to application date, the current appraised value may be used to calculate the LTV. • <u>Outstanding liens with no continuity of obligation</u> <ul style="list-style-type: none"> • If the borrower has been on title for at least 6 months but continuity of obligation does not exist, the maximum LTV will be limited to 50% based on current appraised value.

**REFINANCES
(CONTINUED)**

- If the property was purchased within the last 12 months and the appraisal shows a substantial increase in value from the original purchase price, the file should contain documentation supporting the increase. If documentation cannot be obtained then the LTV will be based on the original sales price.
- Properties listed for sale in the last six months are ineligible.

Cash-out Refinance Transactions:

- The mortgage may include the unpaid principal balance of the existing first mortgage, closing costs, prepaid items such as hazard insurance and property taxes, discount points, amounts required to satisfy outstanding subordinate mortgage liens and additional cash that the borrower may use for any purpose.
- A minimum 6 months seasoning of ownership is required on any cash out transaction. If the property was purchased by the borrower within 6 months preceding the application for new financing, the borrower is ineligible for a cash out refinance.
- Any previous Cash-Out transaction, on the subject property, must be seasoned at least 6 months prior to the application date for any a new Cash-Out transaction. This seasoning requirement applies to all liens (including subordinate liens) on the subject property.
- Subordinate liens require no seasoning.
- Pay off of a Contract for Deed/Land Contract not allowed; *See Refinances-Rate/Term.*

Rate/Term Refinance Transactions:

- The mortgage amount is limited to the sum of the unpaid balance of the existing first mortgage, closing costs, points, pre-paid items, and if applicable, the amount required to satisfy certain subordinate lien(s) which were used for the original purchase of the home.
- There is no minimum seasoning for a first lien to be paid off for a rate/term refinance, however, if the most recent transaction was a cash out refinance or if it combined a first and non-purchase money subordinate lien into a new first lien, any refinance of that loan within 6 months will also be considered a cash out transaction (calculate 6 months from note date to note date).
 - Investment properties require 6 months seasoning, *see Investment Property Section.*
 - Any refinance transaction within the past 6 months will require the previous HUD-1 Settlement Statement(s) to document the previous refinance was not a cash out refinance or combined a non-purchase money subordinate lien into a first lien.
- Any additional cash back to the borrower must not exceed the lesser of 2% of the new loan amount or \$2,000, except on Texas primary residence; no cash can go back to borrower.
- Buyout of an ex-spouse or joint owner may be treated as a rate/term refinance if all of the following requirements are met:
 - Property is jointly owned by the borrower and the ex-spouse or other owner.
 - Property has been owned and occupied for at least the preceding 12 months by the borrower and joint owner, except in the case of inheritance.
 - The borrower's income, assets and debts are verified with full or alternative documentation.
 - Documentation of the divorce property settlement or estate disposition is in the file.
 - Proceeds are disbursed directly to the ex-spouse or joint owner, of his or her authorized agent – not to the borrower – and are reflected on the Settlement Statement.
 - Borrower who will be acquiring sole ownership must receive no cash out from the transaction.
- There are no seasoning requirements on second liens that are being subordinated.

Subordinate liens may be paid off provided:

- If a HELOC the amount being paid off (entire balance or partial balance) may not exceed the amount that was used to acquire the subject property, regardless of the amount of subsequent draws after the property was acquired. Otherwise the transaction will be considered a Cash-Out transaction.
- A Closed End Second Lien may be paid off provided it was used entirely to acquire the subject property.

Pay off of a Contract for Deed/Land Contract allowed with the following restrictions:

- The Land Contract must be seasoned for at least 12 months. Appraised value can be used.
- If seasoned less than 12 months, transaction will be considered a purchase.
- Proceeds from the refinance may include the sum of the outstanding balance of the installment sales contract.
- The Land Contract does not need to be recorded.
- Cash-out refinances are not allowed.

Purchase Price Negotiations

- 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 1/21/10

SELLER CONTRIBUTION	<table border="1"> <thead> <tr> <th colspan="2">Owner-Occupied & Second Home</th> <th colspan="2">Investment Property</th> </tr> <tr> <th>LTV/CLTV</th> <th>Max Contribution</th> <th>LTV/CLTV</th> <th>Max Contribution</th> </tr> </thead> <tbody> <tr> <td>> 90%</td> <td>3%</td> <td rowspan="3">All CLTVs</td> <td rowspan="3">2%</td> </tr> <tr> <td>≤ 90% and > 75%</td> <td>6%</td> </tr> <tr> <td>≤ 75%</td> <td>9%</td> </tr> </tbody> </table>	Owner-Occupied & Second Home		Investment Property		LTV/CLTV	Max Contribution	LTV/CLTV	Max Contribution	> 90%	3%	All CLTVs	2%	≤ 90% and > 75%	6%	≤ 75%	9%
Owner-Occupied & Second Home		Investment Property															
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SUBORDINATE FINANCING	<p><u>Allowed subject to the following restrictions:</u></p> <ul style="list-style-type: none"> • Must meet all Fannie Mae/Freddie Mac guidelines • A copy of the subordinate financing Mortgage/Deed of Trust and Note must be obtained. • Community or soft seconds are not allowed. • Institutional Closed End Second/HELOC allowed on all loan terms. Minimum documentation requirements and all product parameters must be met for both the first and second lien. • Seller carried second liens are allowed on owner occupied primary residences only. • The repayment terms for any subordinate financing must provide for regular payments that cover at least interest due so negative amortization will not occur. At minimum, the interest rate should be at market rate. • The loan term of the subordinate financing must be for at least 5 years, unless fully amortizing and clearly subordinate to the first Mortgage. • The payment for subordinate financing must be included in the calculation of the borrower's qualifying ratio. <ul style="list-style-type: none"> - If the subordinate financing is a HELOC, calculate the monthly payment using the current interest rate and maximum credit line and a monthly payment equal to 1% of the full line amount, regardless of the credit line balance. • If the first mortgage has an interest rate buydown, the payment for subordinate financing must be fixed. • The terms of the subordinate financing may not provide for a balloon or call option within the first five year after the Note date of the first Mortgage. <p><u>If subordinate financing is a HELOC:</u></p> <ul style="list-style-type: none"> • The CLTV ratio is calculated by adding the disbursed (or to be disbursed at closing) amount of the HELOC to the first mortgage amount and dividing the sum by the value of the mortgaged premises. • The HCLTV ratio is calculated by adding the HELOC credit line limit (rather than the amount of the HELOC in use) to the first mortgage amount and dividing that sum by the value of the mortgaged premises. 																
UNDERWRITING	<p><u>Automated Underwriting Systems (AUS):</u></p> <ul style="list-style-type: none"> • All loans must be underwritten through DU/LP and receive an Approve or Accept/Eligible. <p><u>Manual Underwriting:</u></p> <p>Not allowed.</p> <p><u>General Underwriting:</u></p> <ul style="list-style-type: none"> • ALL loan files must include an IRS Form 4506T signed by each borrower within 60 days. • If the borrower is employed by a relative or a closely held family business, the following documentation must be obtained: <ul style="list-style-type: none"> • IRS Form 4506-T must be included in the submission package and signed at closing. The 4506-T must be processed for comparison between transcripts and tax returns. • Borrower's signed and completed personal federal income tax returns for the most recent one-year period, and • Written Verification of Employment form or pay stub(s) with W-2 form(s). • Current income reported on the VOE or pay stub may be used if it is consistent with W-2 earnings reported on the tax returns. If the tax returns do not include W-2 earnings or income is substantially lower than the current VOE or pay stub, further investigation is needed to determine whether income is stable. <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. 																

UNDERWRITING
(CONTINUED)

- If the credit report indicates that the borrower has made inquiries for new or additional credit within 90 days of the credit report date, the Underwriter must determine whether additional credit was obtained. If new credit was obtained and there is a balance on the account, the debt must be taken into consideration during the underwriting process.
- Underwriters may require a corrected application if substantial discrepancies in the file are evident.
- Loans on transactions involving a corporate-sponsored relocating employee may not use trailing co-borrower income to qualify.
- Excessive real estate commission (> 8%) is not allowed and will be deducted from the sales price/appraised value LTV calculation when determining maximum LTV.
- In all cases when a borrower is obligated on a mortgage loan, land contract or any other debt that is NOT listed on the credit report the underwriter must require a written verification of the debt and a minimum of 12 months cancelled checks or bank statements reflecting the timely payment of this debt. When the creditor of the undisclosed debt is a verifiable bank or credit union, a direct verification may be acceptable
- **Conversion of Principal Residence:** Borrowers who currently own a primary residence and are purchasing a new primary residence, typically have the option to either sell the previous residence, or convert the previous residence to a second home or an investment property. General underwriting and qualification requirements for each type are as follows:
 - All Conversions: 0 x 30 on previous mortgage for the past 12 months is required; full PITI must be documented.
 - **Current Principal residence is a pending sale** but will not close prior to or simultaneous with the new transaction:
 - Both the current and proposed mortgage payments must be used to qualify the borrower.
 - If 30% equity in existing residence can be documented with a current appraisal or AVM, dated within 60 days of the Note Date, the PITI for the current principal residence is not required to be used in qualifying the borrower and the following additional documentation is provided:
 - Executed sales contract for the current residence; and
 - Confirmation that any financing contingencies have been cleared.
 - DU will determine the level of reserves.
 - LP requires 6 months reserves for **both** properties, or 2 months for **both** properties if 30% equity has been established and must be manually applied to all LP loans (LP has not been updated).
 - **Conversion to Second Home:**
 - Both the current and proposed mortgage payments must be used to qualify the borrower.
 - At least 30% equity must be documented in the previous residence, derived from an appraisal or AVM minus outstanding liens.
 - Required reserves greater of AUS or minimum 2 months required for **both** properties.
 - If 30% equity cannot be documented in the previous residence, required reserves greater of AUS or minimum 6 months required for **both** properties.
 - **Conversion to Investment Property:**
 - Both the current and proposed mortgage payments must be used to qualify the borrower.
 - If using rental income to offset payment:
 - At least 30% equity must be documented in the previous residence, derived from an appraisal or AVM, dated within 60 days of the Note Date, minus outstanding liens.
 - 75% of rental income may be used to offset the mortgage payment in qualifying.
 - Copy of the fully executed lease (all pages/schedules)
 - Copy of cancelled check for the security deposit or payment of first month's rent from the tenant and proof of deposit into the borrowers account.
 - FAMC underwriters will complete a verbal verification of all leases.
 - Reserves – greater of AUS or 2 months required for both properties.
 - If 30% equity in previous residence cannot be documented, rental income cannot be used to qualify the borrower
 - Reserves – greater of AUS or 6 months required for both properties
 - If the borrower is upside down in their current property they may not purchase a new primary residence.
 - If borrower has moved out of their departure residence and they want to use rental income to qualify, then the property must be reported on their most recent tax return as a rental property and the property must have been rented out for at least 6 months.

Policy regarding departure residences when they are mobile homes.

 - Whether the borrower owns the land or pays lot rent, rental income may never be considered when the departure residence is a mobile home.

UNDERWRITING
(CONTINUED)

- 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.

Properties previously listed for sale.

Direct Mortgage will allow conforming refinance transactions where the subject property was listed for sale within the last six months, but was taken off the market at least one (1) day prior to the application date and the appraisal date. The value will be based off the lesser of the appraised value or lowest listing price.

See basic guidelines below:

Rate/Term Refinance Transaction

- The maximum LTV/TLTV/CLTV is the lower of 80 percent or the maximum for product/occupancy/property type.
- The maximum loan amount is \$417,000.
- The minimum credit score is 700.

Cash-Out Refinance Transactions

- The maximum LTV/TLTV/CLTV is the lower of 70 percent or the maximum for product/occupancy/property type.
- The maximum loan amount is \$417,000.
- The minimum credit score is 700.

Tax Transcripts

- 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 (ie; self employed borrowers, dividend income, etc). Tax extensions are not allowed. A filed tax extension is okay if a wage earner.

Broker Compensation

- Max Broker Compensation is 4% of the loan amount.
- We only allow discount points for the cost of the lock. We do not allow additional discount points to be charged on any loan program.

Verification of Deposit (VOD)

- Handwritten VOD needs to be accompanied by a transaction history or bank statement.