



MICHIGAN MUTUAL, INC.

YOUR HOME LOAN PARTNER

FHA Underwriting Guidelines

MICHIGAN MUTUAL UNDERWRITING PHILOSOPHY

Michigan Mutual underwrites and purchases all types of residential mortgages. These programs and products can be found in our Product Guidelines (located on our website) and on our daily rate sheet. The Product Guidelines will reference specific product features and requirements (such as maximum Loan-to-Value ratios and minimum credit score requirements, if any). This guide is intended to address unique underwriting situations.

Michigan Mutual uses Automated Underwriting Systems (AUS). Generally, Underwriters validate to the conditions set forth by the AUS. However, there are circumstances where underwriters will need to add conditions to the loan. These guidelines are meant to serve as a guide for obtaining adequate documentation to enable us to satisfy those conditions.

Michigan Mutual underwrites a borrower's creditworthiness based solely on information that we believe is indicative of the applicant's willingness and ability to pay the debt they would be incurring. We prudently underwrite to the standards and guidelines of the US Department of Housing and Urban Development (FHA). Due to a multitude of factors involved in a loan transaction, no set of guidelines can contemplate every potential situation. Therefore, each case is weighed individually on its own merits. Michigan Mutual's underwriting philosophy is to weigh all risk factors inherent in the loan file, giving consideration to the individual transaction, borrower profile and the level of documentation provided and the property used to collateralize the debt.

Our commitment to fairness and equal opportunity is clear and unequivocal. The application of fair and consistent underwriting practices is mandated in the underwriting guidelines outlined in this guide. All loans considered for denial will be subject to a second level review prior to a final decision.

As our guidelines and processes are impacted by external market conditions, it will be necessary for us reevaluate the guidelines in this manual from time to time. Occasionally, revisions will be made. As applicable, corporate written notifications and updates will be provided you and incorporated into these guidelines.

Program Description

The Federal Housing Administration (FHA) was established as a division of the U.S. Department of Housing and Urban Development (HUD) in 1934 to expand national homeownership opportunities, increase minority homeownership, make the home buying process less complicated and expensive, and keep existing homeowners from losing their homes. The FHA administers a variety of residential mortgage insurance programs.

Note: The underwriting information contained in this section is intended for use in conjunction with HUD/FHA Guidelines. Unless otherwise stated all FHA loans must conform to applicable FHA one-to-four family housing requirements as well as federal, state and local law compliance. All loans must be insurable by FHA and eligible for inclusion in pools of mortgage-backed securities fully guaranteed by the Government National Mortgage Association (Ginnie Mae). Michigan Mutual reserves the right to deny any loan which does not meet these guidelines/requirements. To the extent that any conflicts exist between the provisions set forth in the HUD/FHA guidelines and Michigan Mutual's guidelines described then the guidelines described by Michigan Mutual will prevail.

All loans must be prudently underwritten by MMI and be of sound investment quality. Loans having serious credit and/or property deficiencies may be denied at the option of Michigan Mutual.

❖ Loan Requirements

- 15, 20, 25 and 30 year fixed rate terms available.
- Minimum 620 credit score regardless of Automated Underwriting System (AUS) decision.
- Minimum loan amount is \$40,000.
- Maximum base mortgage amount of \$417,000 and is subject HUD county limits.
- DO/DU findings reflecting Approve/Eligible and Refer/Eligible (manual underwrites) are acceptable.
- Maximum 96.50% LTV on Purchase Transactions.
- CLTV Maximums for purchase transactions must meet FHA requirements for subordinate financing on purchase transactions.
- 100% CLTV on all Refinance Transactions.

❖ Loan Restrictions

- MMI does not offer Cash out refinances > 85% LTV.
- MMI does not offer FHA 203K Renovation loans or streamline 203K.
- MMI does not offer FHA Section 8 loans.
- MMI does not offer FHA Military Impact Loans.
- MMI does not offer FHA loans to Non-Profit Organization borrowers.
- MMI does not offer HOPE for Homeowner's Program.
- MMI does not offer HUD 184 Program – Indian Reservations.
- MMI does not offer FHA loans on Manufactured Homes.
- MMI does not offer FHA loans approved based on non-traditional credit history, (a traditional credit report with Credit Scores is required).
- MMI does not offer FHA HECM's (Reverse Mortgages).
- MMI does not refinance loans that are restructured/short payoff loans.

Collateral Requirements

To be eligible for FHA Insurance a property is to be free of health and safety hazards and major structural problems.

❖ Eligible Collateral

- Single Family Residence.
- 2-4 Unit Dwellings.
- Planned Unit Dwellings (PUD's).
- Townhome/Rowhome.
- Condominiums - See HUD requirements.
- Log; Dome; Berm Homes; Pier Foundations; Homes with extreme functional obsolescence (i.e. one bedroom) – Must be common and typical for the area and have like comparables.
- Modular Homes – See MMI Glossary for distinction between Modular and Manufactured homes.

❖ Ineligible Collateral

- Mobile/Manufactured Homes.
- Agricultural; Commercial/Industrial use.
- Income producing properties.
- Mixed Use Properties.
- Properties currently listed for sale (refinances).
- Non-Owner Occupied Properties.
- 2nd Homes.
- Time-Share Units.
- Construction Financing.
- Properties vested in Life Estates/Trusts.
- Multiple dwellings on a single parcel of Land.

❖ **Appraisal:** MMI does not use an approved appraiser list. Therefore, a copy of the appraiser's license and current Errors & Omissions insurance will be required. All appraisals will be underwritten on a case-by-case basis. Appraisals older than 180 days will require a new appraisal (with the exception of new construction, which is good for up to one year). Appraisals cannot be re-used after the mortgage for which the appraisal was ordered has closed. For example, an appraisal used for the purchase of a property cannot be used again for a subsequent refinance, even if six months has not passed. A new appraisal is required for each refinance transaction requiring an appraisal.

❖ **Repair Escrows:** MMI does allow repair escrows – see Repair Escrow guidelines for specific eligibility criteria.

❖ Minimum Square Footage

- All properties must have a minimum of 750 square feet.
- Exceptions will be considered for properties between 650 and 749 square feet if two thirds of the comparables also have <750 square feet.

- ❖ **Acreage**
 - No maximum number of acres, however property cannot have agricultural use and comparables must have similar acreage.

- ❖ **2nd Appraisal Requirements**
 - As required by FHA in cases of property flipping.

- ❖ **Condominiums** – see FHA guidelines for specific lending criteria. *Note: If the word “condo” appears in the legal description, the property will be deemed a condo and must meet FHA condo requirements.*
 - If complex is FHA approved, no additional documentation is required.
 - If complex is **not** FHA approved, the property must meet the spot loan approval requirements (see MMI website for FHA Condo Spot Loan Checklist).
 - If complex has been denied, or withdrawn from FHA, the property is no longer eligible for a spot loan approval and must be reinstated by FHA prior to approval.
 - Site Condominiums (single family detached condominiums) are subject to the same standards as traditional condominiums.

- ❖ **Commercial/Industrial Zoning**
 - While there are no zoning classification restrictions, the property must have residential use and all comparables must have similar influence. The Zoning Compliance must be Legal or Legal Non-Conforming. The highest and best use of the subject property as improved (or as proposed) must be the present use. Illegal properties are not eligible for FHA financing.

- ❖ **Properties listed for sale within the last 12 months (refinances)**
 - These properties may pose an increased risk to MMI, therefore may be subject to additional documentation and/or limitations.

- ❖ **Multiple Parcels of Land**
 - Properties with multiple parcels are only acceptable if one of the following is criteria is met:
 - All parcels were part of the original acquisition of the property as verified by the warranty deed.
 - Any additional parcels included on title/appraisal, are designated as non-buildable and cannot be legally split from the subject property. Appraiser must comment on this.

- ❖ **Property Seasoning**
 - For refinance transactions that are not already FHA insured, properties must be owned for a minimum 12 months in order to use the appraised value. Properties owned less than 12 months, the lesser of sales price/acquisition cost or appraised value will be used.
 - New Construction/less than 1 year old versus existing construction will be determined by the date on the Certificate of Occupancy.
 - Purchase transactions require the seller to be in title for a minimum of 90 days to be eligible for FHA financing.

Credit

❖ Documentation Requirements

- **Verification of Institutional Mortgage history** – A current payoff is required (on all refinance transactions) and one of the following:
 - Verification of Mortgage dated within thirty days of closing.
 - If mortgage history is current on credit bureau and last reported date is within sixty days, and payoff shows current, no Verification of Mortgage is required. This applies to subject property and any other properties owned. (If mortgage is included as part of a bankruptcy or is otherwise not reported accurately on credit report, a payment history/ledger will be required).
 - 12 months canceled checks (front and back) or 12 consecutive months bank statements showing payments.
- **Verification of Rental Payment history** – one of the following will be required:
 - VOR from an uninterested party.
 - 12 months canceled checks (front and back) or 12 consecutive months' bank statements showing payments.
- **Land Contract/Contract for Deed**
 - Copy of Land Contract.
 - Last 12 consecutive months canceled checks (front and back), or bank statements showing payments.
- **Lease With Option to Purchase**
 - Copy of Lease w/Option Agreement.
 - Last 12 consecutive months canceled checks (front and back), or bank statements showing payments.

All lease Options are treated as purchase transactions. Any deposit put down at the time agreement was executed, can be used toward the down payment as long as a copy of cancelled check can be provided as verification. Rent credit can be applied for the amount of rent paid over and above the standard market rents (as evidenced by a comparable rent schedule provided with the FHA appraisal).

❖ Credit Requirements

- **Bankruptcy:**
 - MMI will deem the age of the bankruptcy by the discharge/dismissal date for chapter 7. Chapter 7 BK's discharged less than 2 years will not be eligible. (Exceptions may be made and files will be reviewed on a case-by-case basis with documentable extenuating circumstances).
 - Chapter 13 bankruptcy does not disqualify a borrower provided that one year of the payout period under the bankruptcy has elapsed and the borrower's payment performance has been satisfactory (i.e., all required payments made on time). In addition, the borrower must receive permission from the BK court to enter into the mortgage transaction.

- **Consumer Credit Counseling:**
 - Acceptable on Approve/Eligible AUS findings with no additional documentation required.
 - Loans that receive a Refer/Eligible (manual underwrites) will require a minimum 12 month payment history from CCC showing 0 X 30. In addition, a letter of authorization from the CCC Agency is required, allowing borrower to obtain new mortgage financing. CCC plan payment must be included in DTI calculation.

- **Credit Score:** MMI will require a minimum credit score of 620. MMI will take the middle score from the three reporting credit repositories. If only 2 of 3 scores report, the lower of the 2 scores will be used. Borrowers with only 1 credit score may be considered with traditional credit depth. MMI does not underwrite loans for borrowers with only non-traditional credit. *Note: At times non-traditional credit may be requested/utilized to supplement/strengthen a borrower's credit profile.*

- **Valid Credit Score:** validating credit scores is subjective and it typically requires 2-4 tradelines to validate a credit score (we don't accept non-traditional credit only although at times it may be requested to supplement/strengthen a borrower's credit profile) depending on depth of credit, the type of tradeline and length of time established. If you are in doubt email our scenario help desk (see our website) or contact your account executive. Submission of a full credit package including all income and asset information for underwriter review may be required.

- **Borrowers/Co-borrowers:**
 - **Occupying** – MMI requires a minimum 620 middle credit score for all borrowers. However, loan transactions with multiple borrowers, may allow for one of the borrowers to not have a credit score. In these instances it is required the 3 repositories report "N/A" for the credit score (a score of zero is not acceptable and will be considered sub-620).
 - **Non-Occupying Co-borrowers:** Are acceptable per FHA guidelines and require *all* borrowers to have a minimum 620 middle credit score.

- **Accounts with no monthly payment reported:** For revolving and installment debt, MMI will use 5% of the monthly balance if the credit report does not reflect a monthly payment or satisfactory documentation of the monthly payment cannot be provided (for revolving accounts the greater of 5% of the balance or \$10 will be used).

- **Contingent Liability:** Contingent liability exists when an individual will be held responsible for payment of a debt should another joint obligated party default on the payment. Unless the borrower can provide conclusive evidence from the debt holder that there is no possibility the debt holder will pursue debt collection against him or her should the other party default the full payment will be included in the DTI (e.g. in a divorce situation we require the divorce decree with the property settlement indicating which spouse obtains the marital property and that the other spouse is released from liability). If the account is paid as agreed and the last 12 months canceled checks are provided (showing the co-obligor is making the payments), this monthly payment will not be included in the borrower's debt ratio. Accounts listed on the credit report that are not paid as agreed, and/or accounts in borrower's name only (individual accts) will be included in the debt ratio.

- **Joint/Co-signed Debts by Applicants:** If the account is paid as agreed and the last 12 months canceled checks are provided (showing the co-obligor is making the payments), this monthly payment will not be included in the borrower's debt ratio. Accounts listed on the credit report that are not paid as agreed, and/or accounts in borrower's name only (individual accts) will be included in the debt ratio.
- **Installment Debt:** Installment accounts (excluding leases) with less than 10 payments remaining on the balance may be excluded from the debt-to-income ratio (DTI). If the amount of the debt affects the borrower's ability to make the mortgage payment during the months immediately after loan closing MMI will include the debt in the DTI (particularly if the borrower will have limited or no cash assets after loan closing). *Lease accounts are always included in debt ratio regardless of number of months remaining on the lease agreement.*
- **Projected Obligations:** If a debt payment, such as a student loan is scheduled to begin within twelve months of the mortgage loan closing, the anticipated monthly obligation will be included in the DTI unless the borrower provides written evidence that the debt will be deferred for 12 months from loan closing. MMI will use 5% of the monthly balance if the credit report does not reflect a monthly payment or satisfactory documentation of the monthly payment cannot be provided Similarly, balloon notes, "12 months same as cash", etc. will be considered in the DTI.
- **Obligations Not Considered Debt:** Obligations *not* to be considered debt (or subtracted from the borrower's gross income) for qualifying purposes include federal, state and local income taxes; FICA or other retirement contributions such as 401K contributions (including 401K Loans); union dues child care; open accounts with zero balances and voluntary deductions to one's bank/investment account.
- **Payment plans:** MMI will accept payment plans (in lieu of payoff) for collections/charge-offs, tax liens, etc., if the payment arrangement has been established for at least 12 months. However, if borrower has the ability to pay the account off with loan proceeds, account must be paid in full.
- **Subordinating a lien:** If a lien is being subordinated, MMI will require a fully executed subordination agreement prior to closing. Tax liens may be subordinated, provided there is an acceptable payment plan in place for a minimum of 12 months.

Employment/Income

- ❖ **Employment:** Generally borrowers must be employed for 2 years in the same line of work. MMI will use a college degree and/or transcripts to document previous history, if dated within 6 months of current employment start date. **MMI will do a phone verification of employment on all loans within 5 days of closing.**
- **Hourly or salaried employees** (one of the following)
 - One computer generated most recent year-to-date pay stub documenting one full month's earnings and last two years W-2's.
 - One computer generated most recent year-to-date pay stub documenting one full month's earnings and a signed Verification of Employment no more than 90 days old at closing.
 - Non-computer generated or handwritten pay stubs require last two years W-2's and Verification of Employment no more than 90 days old at closing.
- **Overtime and Bonus Income:** Overtime and bonus income can be used to qualify if the borrower has received this income for the past two years and the income stream has been consistent and is likely to continue. If the income has not been stable and/or is not likely to continue, it may not be used to qualify. Periods of overtime and bonus income received for less than two years may be acceptable and will be considered on a case-by-case basis.
- **Second Jobs/Part-Time Income:** Second Jobs/Part-Time Income can be used to qualify if the borrower has received this income for the past two years and the income stream has been consistent and is likely to continue. If the income has not been stable and/or is not likely to continue, it may not be used to qualify. Periods of Second Jobs/Part-Time Income received for less than two years may be acceptable and will be considered on a case-by-case basis.
- **1099 employees** (one of the following)
 - Last two years tax returns and one computer generated pay stub no more than 30 days old at time of closing, showing year-to-date earnings.
 - Last two years tax returns and a signed Verification of Employment no more than 90 days old at time of closing, showing year-to-date earnings.
- **Self-employed**
 - Last two years tax returns and signed year-to-date profit and loss statement.
P & L will be used to support a two year income average, however will not be used for qualifying purposes.

➤ **Non-taxable income will be grossed-up by 125%** - examples of non-taxable income are as follows:

- Social Security
- Child Support
- Foster Care

All of these income types require a minimum 3 years continuance to be used for qualifying.

Note: the following “other” income types are taxable benefits and may not be grossed-up:

- Pension (in most circumstances)
- Alimony

➤ **Short Term Disability/Workman’s Comp:** Not eligible. No Exceptions.

➤ **Rental Income**

- If property acquired in previous tax year, tax returns will be required for documentation of rental income.
- If property was acquired during the current tax year, a one year signed lease agreement is acceptable with evidence of security deposit received (cancelled check or bank statement verifying deposit). The vacancy factors developed by the appropriate FHA Homeownership Center (HOC) will be applied. See below for HOC vacancy factors.
- Rental income, reduced by the appropriate vacancy factor as determined by the jurisdictional FHA Homeownership Center (see below for HOC vacancy factor), on principal residence being vacated in favor of another principal residence may only be considered under one of the following circumstances:
 1. Relocations: The homebuyer is relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance. A properly executed lease agreement (i.e., a lease signed by the homebuyer and the lessee) of at least one year's duration after the loan is closed is required. In addition evidence of receipt and deposit of the security deposit and/or evidence the first month's rent paid to the homeowner must be provided.
 2. Sufficient Equity in Vacated Property: The homebuyer has a loan-to-value ratio of 75 percent or less, as determined by a current (no more than six months old) residential appraisal. The appraisal, in addition to using forms Fannie Mae1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae1075/Freddie Mac 466.
- Subject Property Rental Income from Owner-Occupied 2-4 Units. The rent, after subtracting the local FHA Homeownership Center’s (HOC’s) estimate for vacancies and maintenance from other units, may be added to the borrower’s gross income.

Vacancy factors have been developed by HOC jurisdictions as follows:

Santa HOC - 10% vacancy rate

Philadelphia HOC - 15% vacancy rate.

Atlanta HOC - 15% vacancy rate.

Denver HOC - 10% for Colorado, Iowa, Minnesota, Montana and Wisconsin - 15% for Kansas, Louisiana, Missouri, Nebraska, New Mexico, North Dakota, South Dakota, Texas and Wyoming - 20% for Arkansas, Oklahoma and Utah

Assets

❖ Funds to Close

- **Borrower's own funds – MMI follows AUS findings for acceptable documentation.**
 - When using most recent two month's bank statements. Large deposits must be explained and documented.
 - When using Verification of Deposit, two month average balance must be reflected (current balance must show sufficient funds required). Large increases must be explained and documented.
 - HUD-1 from sale of current residence is acceptable documentation.
- **Cash Back on Purchases:** Not allowed, however items the borrower has paid outside of closing (i.e. appraisal, homeowner's insurance) may be reimbursable through seller contributions at the time of closing. Borrower must provide satisfactory documentation of payment for these services prior to closing.
- **Gift of Equity:** A gift of equity from a relative is acceptable. Mortgage Payoff (if any) must reflect no more than 29 days delinquent at time of closing. Any history of major delinquencies (60 days or more) reflected on title or payoff, will require additional information and may not be eligible.
- **Grant Money down payment:** Grant money is acceptable if from a city, state, or federal government agency only. All documentation from the agency will be required.
- **Gift Funds:** An outright for the borrower's investment into the transaction is acceptable if the donor is a relative, the borrower's employer, or a close friend with a clearly defined and documented interest in the borrower. The gift funds cannot be provided by any person or entity with an interest in the sale of the property, including the seller, real estate agent or broker, builder, loan officer or any other entity associated with the transaction. Transfer of funds must be documented from the donor to the recipient by a copy of the cancelled gift check and deposit slip (computer generated and identifying borrower) or bank statement showing the deposit of funds into the borrower's bank account. If by Certified Check obtain copy of Certified Check as well as a bank statement showing the withdrawal of funds from the donor's bank account and deposit slip (computer generated and identifying borrower) or bank statement showing the deposit of funds into the borrower's bank account. **Cash gifts are not allowed per FHA guidelines.** The file must also contain an FHA Gift Letter which can be found on the MMI website.
- **Gift Funds/Grants by Charitable Organizations:** Gifts administered by charitable organizations are acceptable. The gift from the charitable organization to the homebuyer must meet FHA requirements and the transfer of funds must be properly documented. Gifts from charitable organizations where the seller makes a contribution are not acceptable.

- **Collateralized loans:** Funds can be borrowed for the total required investment as long as satisfactory evidence is provided that the funds are fully secured by an asset. Such assets may include stocks, bonds, real estate (other than the property being purchased), etc.

In addition, certain types of loans secured against deposited funds, such as signature loans, the cash value of life insurance policies, loans secured by 401(k)s, etc., in which repayment may be obtained through extinguishing the asset; do not require consideration of a repayment for qualifying purposes. However, in such circumstances, the asset securing the loan may not be included as assets to close or otherwise considered as available to the borrower.

An independent third party must provide the borrowed funds. The seller, real estate agent or broker, lender, or other interested third party may not provide such funds. Unacceptable borrowed funds include signature loans, cash advances on credit cards, borrowing against household goods and furniture and other similar unsecured financing.

- **Sale of Personal Property:** If the borrower intends to sell personal property items (cars, recreational vehicles, stamps, coins, baseball card collections, etc.) to obtain funds required for closing, the borrower must provide a satisfactory estimate of their worth, in addition to conclusive evidence the items have been sold. The estimated worth of the items being sold may be in the form of published value estimates, such as those issued by automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified appraiser with no financial interest in the loan transaction. Only the lesser of this estimate of value or the actual sales price is considered as assets to close.

- **Cash Saved at Home:** Borrowers who have saved cash at home and are able to demonstrate adequately the ability to do so are permitted to have this money included as an acceptable source of funds to close the mortgage. To include such funds in assessing the homebuyer's cash assets for closing, the money must be verified -- whether deposited in a financial institution or held by the escrow/title company -- and the borrower must provide satisfactory evidence of the ability to accumulate such savings.

The asset verification process requires the borrower to explain in writing how such funds were accumulated (borrower must provide a budget) and the amount of time taken to do so. We will determine the reasonableness of the accumulation of the funds based on the borrower's income stream, the time period during which the funds were saved, the borrower's spending habits, documented expenses and the borrower's history of using financial institutions. (All other factors being equal, individuals with checking and/or savings accounts are less likely to save money at home than an individual with no history of such accounts.)

Refinance Transactions

Cash-Out Refinances: If the subject property has been owned by the borrower for at least 12 months preceding the date of the loan application the maximum base mortgage is 85% of the appraiser's estimate of value. If the subject property has been owned less than twelve (12) months preceding the date of the loan application the mortgage amount is limited to the lesser of 85% of the appraiser's estimate of value or 85% of the sales price of the property when acquired (or documented acquisition cost). The base mortgage amount may never exceed the geographical statutory limit (okay to exceed the geographical statutory limit by the amount of any new UFMIP):

Additional underwriting and eligibility criteria:

- The mortgage being refinanced must be current for the month due, e.g., a refinance of a mortgage anytime in March must have had the February payment made (borrowers who are delinquent or in arrears under the terms and conditions of their mortgage are not eligible).
- Subordinate liens, including credit lines, regardless of when taken, may remain outstanding (but subordinate to the FHA-insured mortgage) and are subject to 85% CLTV. A copy of the current note is required and the borrower must qualify with the scheduled monthly payments. A subordination agreement will be required. Modified existing subordinate liens are acceptable and are not considered a new subordinate lien.
- New subordinate liens may be placed behind the FHA-insured mortgage and are subject to 85% CLTV. The borrower must qualify with the scheduled monthly payments.
- Non-Occupant Co-Borrowers are not allowed on cash-out refinance transactions.

No Cash-Out Refinances/Rate & Term Refinances: The maximum base mortgage is the lesser of 97.75% of the appraiser's estimate of value **or** the sum of the existing debt and related closing costs and prepaid expenses for the refinance (as shown below). The base mortgage amount may never exceed the geographical statutory limit (okay to exceed the geographical statutory limit by the amount of any new UFMIP):

- LTV Ratio applied to Appraised Value: Multiply the appraised value of the property by 97.75%.
- Existing Debt: Add together the amount of the existing first lien, any purchase money second mortgage and/or any junior liens over twelve (12) months old, closing costs, prepaid expenses, discount points (if any) and then subtract any refund of the UFMIP. If any portion of the funds of an equity line of credit in excess of \$1000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the property, the line of credit is not eligible for inclusion in the new mortgage (or may be included in the new loan considered a cash-out refinance transaction).

The amount of the existing first mortgage may include the interest charged by the servicing lender when the payoff will not likely be received on the first day of the month (as is typically assessed on FHA-insured mortgages). In determining the existing debt as part of the mortgage amount calculation, accrued late charges and escrow shortages may be included. (Fax Fees and delinquent interest **may never** be included).

Prepaid expenses may include the per diem interest to the end of the month on the new loan, hazard insurance premium deposits, monthly mortgage insurance premiums and any real estate tax deposits needed to establish the escrow account regardless whether the mortgagee refinancing the existing loan is also the servicing lender for that mortgage.

Refinance Transactions, continued
No Cash-Out Refinances/Rate & Term Refinances, continued

If the purpose of the new loan is to refinance an existing mortgage to buy out an ex-spouse's or other the specified equity to be paid is considered property-related indebtedness and is eligible for inclusion in calculating the new mortgage. The divorce decree or settlement agreement must be provided to document the equity awarded to the ex-spouse or co-borrower.

If the property was acquired less than one year before the loan application and is not already FHA-insured, in addition to the calculations described above, the original sales price of the property also must be considered in determining the maximum mortgage. With conclusive documentation, expenditures for repairs and rehabilitation incurred after the purchase of the property may be added to the original sales price in calculating the mortgage amount.

Additional underwriting and eligibility criteria:

- The mortgage being refinanced must be current for the month due, e.g., a refinance of a mortgage anytime in March must have had the February payment made (borrowers who are delinquent or in arrears under the terms and conditions of their mortgage are not eligible).
- Subordinate liens, including credit lines, regardless of when taken, may remain outstanding (but subordinate to the FHA-insured mortgage) and subject to 100% CLTV. A copy of the current note is required and the borrower must qualify with the scheduled monthly payments. A subordination agreement will be required.
- New subordinate liens may be placed behind the FHA-insured mortgage and are subject to 100% CLTV. The borrower must qualify with the scheduled monthly payments.
- At closing the borrower may not receive cash back in excess of \$500.
- Non-Occupant Co-Borrowers are allowed on No Cash-Out/Rate & Term Refinance transactions.

General Provisions

Citizenship: Citizenship of the United States is not required for eligibility. Borrowers must be one of the following: a U.S. Citizen or a Permanent Resident Alien or a Non-Permanent Resident Aliens. We will lend under the same terms and conditions for all three designations.

Permanent resident aliens are non-United States citizens who hold acceptable evidence of permanent residency issued by the U.S. Citizenship and Immigration Services (USCIS). Lawful Permanent Resident Alien must have any of the following:

- A legible copy of the front and back of the Permanent Resident Card/Alien Registration Card (USCIS Form I-551) otherwise known as a “Green Card”. (While the Green Card itself states “Do Not Duplicate” for the purpose of replacing the original card, U.S. Citizenship and Immigration Services (USCIS) allows photocopying of the Green Card. Making an enlarged copy or copying on colored paper may alleviate any concerns the borrower may have with photocopying.)
- A legible copy of the unexpired foreign passport that contains an unexpired stamp reading “Processed for I-551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid until (mm-dd-yy). Employment authorized”.
- Any other evidence of permanent residency issued by the INS.

Non-Permanent Resident Aliens are non-United States citizens who are permitted to reside in the United States on a temporary basis and may have been granted authorization to work in the U.S. by the U.S. Citizenship and Immigration Services (USCIS). Lawful Non-Permanent Resident Alien status must have the following:

- A legible copy of a valid (unexpired), acceptable visa (a copy of valid work permit only is unacceptable) with a copy of the I-94 Arrival/Departure Record. The I-94 indicates the immigration status. (In order for us to have the most recent and accurate property visa class it is important to copy the Arrival/Departure Record and not just the visa since the non-permanent resident alien’s status can change for example from student to worker). The Visa must evidence one of the following visa classes:
 1. A Series (A-1, A-2, A-3)
 2. E-1
 3. G Series (G-1, G-2, G-3, G-4, G-5)
 4. H-1B, H-2A, H-2B, H-3
 5. L-1
 6. TN, TC – See NAFTA below

Foreign Nationals who have no lawful residency status in the U.S. are not considered to be Non-Permanent resident aliens and are not eligible for financing. Foreign nationals from Canada and Mexico who are working in the U.S. under the terms of NAFTA are eligible. Refer to North American Free Trade Agreement Workers below.

Additional Immigration Status: Loans to non-citizens who have been granted political asylum require underwriting to Non-Permanent Resident Aliens guidelines. Asylees and refugees must provide their Arrival and Departure Records (INS Form I-94) and copies of their employment authorization documents. A grant of asylum is for an indefinite period.

General Provisions, continued

Citizenship, continued

North American Free Trade Agreement (NAFTA) Workers: Canadian and Mexican citizens who are working in the United States under the terms of NAFTA must be treated as Non-Permanent Resident Aliens when determining their eligibility. They must meet the standard requirements established for Non-Permanent Resident Aliens. NAFTA workers must provide a NAFTA Worker's Visa (see above TN and TC Visa classifications).

Diplomatic Immunity: Due to the inability to compel payment or seek judgment, transactions with individuals who are not subject to United States jurisdiction are not eligible. This includes embassy personnel with diplomatic immunity. Verification that the borrower does not have diplomatic immunity will be determined by reviewing the visa, passport or the U.S. Department of State's Diplomatic List at www.state.gov/s/cpr/rls/dpl/.

Social Security Number: a valid Social Security Number is required for all borrowers. Evidence of social security number must be provided in each case file. Individual Tax Identification Number (ITIN) is not acceptable.

Combine Loan To Value (CLTV): All refinance transactions with subordinate financing (existing or new), are subject to 100% CLTV restrictions. Note: for existing liens subordination agreements and a copy of the note/loan agreement are required prior to closing. Purchase transactions, are subject to FHA guidelines.

Maximum Number of Financed Properties/Multiple Properties: When multiple properties are owned, all mortgages must be current at time of closing. Also, If borrower is purchasing a new home (as owner occupied), however, is not selling current residence, MMI may consider the subject as non-owner occupied if the value of the subject is not greater than current residence (case by case). The borrower(s) can have no more than four properties financed including the subject property.

Purchase Transactions with Identity of Interest: Identity-of-interest transactions on principal residences are restricted to a maximum LTV of ratio of 85%. Identity-of-interest is defined as a sales transaction between parties with family relationships or business relationships. However, maximum financing above 85% LTV is permissible under the following circumstances:

- A family member purchases another family member's home as a principal residence. If a property is sold from one family member to another and is the seller's investment property, the maximum mortgage is the lesser of either:
 - a. 85% of the appraised value, or
 - b. The appropriate LTV ratio percentage applied to the sales price, plus or minus required adjustments. (The 85% limit may be waived if the family member has been a tenant in the property for at least six months immediately predating the sales contract. Written documentation must be submitted to verify occupancy.)
- An employee of a builder purchases one of the builder's new homes or models as a principal residence.
- A current tenant purchases the property that he or she has rented for at least six months immediately predating the sales contract. (A lease must be submitted to verify occupancy.)
- A corporation transfers an employee to another location, purchases that employee's home, and then sells the home to another employee.

General Provisions, continued

Rescission: MMI will not waive a borrower's three-day right to rescind. No exceptions.

Taxes and Insurance Escrows: Escrows for taxes and insurance are required on all FHA loans.

Title Companies/Settlement Agents: We do not use an approved title company list. However, we reserve the right to refuse any title company/settlement agent. A loan specific Insured Closing Protection Letter must be received prior to closing.

Delinquent Property Taxes: Any delinquent property taxes being paid at closing on a refinance transaction will be considered a cash-out transaction. Transactions with severely delinquent property taxes must be manually underwritten and are subject to underwriter discretion.

Paying Debt at Closing: MMI will not allow debt to be paid at closing on a purchase transaction. Any debt being paid at closing (other than existing mortgages on subject property) will be considered a cash-out transaction.

Mortgage Payoffs: All refinance transactions will require current payoffs (all mortgages) reflecting a maximum of 59 days interest prior to closing.

4506T Processing: MMI will order and review all 4506T requests for IRS Transcripts. Billing will be reflected on the HUD-1, at closing, as a charge to the borrower. It is the responsibility of the broker to properly disclose this fee for income verification to each borrower appropriately on the Good Faith Estimate.

Credit Report and Verifications/Age of Documents: All documents may be up to 120 days old at the time the loan closes (180 days for new construction) unless the nature of the document is such that its validity for underwriting purposes is not affected by being older than the number of prescribed days (e.g. divorce decrees, tax returns). Updated, written verifications (or alternative documentation) must be obtained when the age of the documents exceed these limits. Verification forms or documents used as an alternate to these verifications must pass directly between the broker and the provider without being handled or transmitted by any third party or using any third party's equipment. No document used in the processing or underwriting of a loan may be handled or transmitted by or through the borrower, a real estate agent or any other interested third party to the transaction. The Verification of Deposit (VOD) and Verification of Employment (VOE) may be faxed documents or printed pages from the Internet if they clearly identify their sources (e.g., contain the names of the borrower's employer or depository/investment firm). The document must contain all headers/footers. Fax transmissions must clearly identify the source and a printed web page also must show its uniform resource locator (URL) address as well as the date it was printed.

LDP/GSA Lists: The broker must examine HUD's Limited Denial of Participation (LDP) and the U.S. General Services Administration's "List of Parties Excluded from Federal Procurement and Nonprocurement Programs" (GSA) list and document this review on the FHA Loan Underwriting and Transmittal Summary (HUD-92900-LT). The LDP and GSA must be checked on all loans including FHA Streamline Refinance Loans. If the name of the borrower, seller, listing or selling real estate agent, or loan officer appears on either list the application is not eligible. The LDP may be checked by going to www.hud.gov and the GSA by going to <http://epls.gov> or both may be checked by logging onto the FHA Connection.

General Provisions, continued

CAIVRS: HUD's CAIVRS is a Federal government wide repository of information on those individuals with delinquent or defaulted Federal debt and on those for whom a payment of an insurance claim has occurred. The broker must obtain a CAIVR for all borrowers (except on streamline refinances) via the FHA Connection and document the findings on the FHA Loan Underwriting and Transmittal Summary (HUD-92900-LT). If CAIVRS indicates the borrower is presently delinquent or has had a claim paid within the previous three years on a loan made or insured by HUD on his or her behalf, the borrower is not eligible except as described below. Exceptions to this rule may be granted under the following situations:

- **Assumptions:** If the borrower sold the property, with or without a release of liability, to an individual who subsequently defaulted, the borrower is eligible, provided he/she can prove the loan was not in default at the time of the assumption.
- **Divorce:** A borrower may be eligible if the divorce decree or legal separation agreement awarded the property and responsibility for payment to the former spouse. A mortgage history must be provided to evidence the mortgage was paid as agreed prior to the divorce or legal separation. However, if a claim was paid on a mortgage in default prior to the divorce, the borrower is not eligible.
- **Bankruptcy:** When the property was included in a bankruptcy that was caused by documentable extenuating circumstances beyond the borrower's control (such as the death of the principal wage earner or serious long-term uninsured illness), the borrower may be eligible if the borrower meets the bankruptcy requirements for reestablished good credit. The borrower must have demonstrated a documented ability to responsibly manage his/her financial affairs. Additionally, documentation must be provided that the borrower's current situation indicates that the events that led to the bankruptcy are not likely to recur. An elapsed period of less than two years, but not less than 12 months may be acceptable.

Maximum Real Estate Commission: Any aggregate real estate commission cannot exceed 8% of the sales price of the subject property. Any portion of the real estate commission that exceeds 8% will be considered a seller concession and will be deducted from the sales price (for underwriting purposes) prior to calculating the LTV. Cumulative fees (including but not limited to) real estate marketing fees, finder's fees, referral fees, auction fees, consulting fees or assignment of sale fees will be included in the 8%.

Non-purchasing spouse: On a purchase transaction a non-purchasing spouse (or any other party) is not to appear on the security instrument or otherwise take title to the property at loan settlement. On a refinance transaction if required by state law (dower right/homestead states) in order to perfect a valid and enforceable first lien, the non-purchasing spouse may be required to sign either the security instrument or documentation (usually, the mortgage/deed of trust, Truth-In-Lending and Notice of Right to Cancel) evidencing that he or she is relinquishing all rights to the property. If the non-purchasing spouse executes the security instrument for such reasons, he or she is not considered a borrower for our purposes and need not sign the loan application.

Where there are non-purchasing spouses who sign security instruments relinquishing their rights to the property pursuant to applicable state laws, these non-purchasing spouses do not have to sign the mortgage note. Signing the security instrument for such purposes does not make the non-purchasing spouse a co-borrower.

General Provisions, continued

Non-purchasing spouse, continued

Except for the obligations specifically excluded by state law, the debts of the non-purchasing spouse must be included in the borrower's qualifying ratios if the borrower resides in a community property state or the property to be insured is located in a community property state. Although the non-purchasing spouse's credit history is not to be considered a reason for credit denial, a credit report that complies with the FHA requirements must be obtained for the non-purchasing spouse in order to determine the debt-to-income ratio.

Living Trusts: MMI does not underwrite or purchase loans titled in a Living Trust.

Borrowers Age: There is no maximum age limit for a borrower. The minimum age is 18.

Debt-To-Income Ratios: Ratios are used to determine whether the borrower can reasonably be expected to meet the expenses involved in home ownership, and otherwise provide for the family. Two ratios must be computed:

- **Mortgage payment expense to effective income (the housing ratio):** If the total mortgage payment (principal and interest; escrow deposits for real estate taxes, hazard insurance, the mortgage insurance premium, homeowners' association dues, ground rent, special assessments, and payments for any acceptable secondary financing) on a manual underwritten mortgage does not exceed 31% of the gross effective income the relationship of the mortgage payment to income is considered acceptable. Manually underwritten loans exceeding 31% may be acceptable if compensating factors (see below) are documented within the loan file. Typically, for borrowers with limited recurring expense, greater latitude is permissible on this ratio than on the total fixed payment ratio (DTI).
- **Total fixed payment to effective income (the debt ratio):** If the total of the mortgage payment and all recurring charges does not exceed 43% of the gross effective income, the relationship of total obligations to income is considered acceptable. A ratio exceeding 43% may be acceptable if compensating factors (see below) are documented within the loan file.

Compensating Factors: Compensating Factors that may be used to justify an approval of a mortgage loan with ratios exceeding the benchmark guidelines are listed below. Any compensating factors used to justify mortgage approval must be supported by documentation and listed on the FHA Loan Underwriting and Transmittal (HUD-92900-LT 5/2008):

- The borrower has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the new mortgage over the past 12-24 months.
- The borrower makes a large downpayment (ten percent or more) toward the purchase of the property.
- The borrower has demonstrated an ability to accumulate savings and a conservative attitude toward the use of credit.
- Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expenses.
- The borrower receives documented compensation or income not reflected in the effective income, but directly affecting the ability to pay the mortgage, including food stamps and similar public benefits.
- There is only a minimal increase in the borrower's housing expense.

General Provisions, continued

Compensating Factors, continued

- The borrower has substantial documented cash reserves (at least 3 months worth) after closing. In determining if an asset can be included as cash reserves or cash to close the asset must be liquid or readily convertible to cash and can be done so, absent retirement, death or job termination (only 60% of the vested balance of a 401K/retirement account may be used). Funds borrowed against these accounts may be used for loan closing but are not to be considered as cash reserves. Assets such as equity in other properties and the proceeds from a cash-out refinance are not to be considered as cash reserves. Gifts funds that remain in the borrower's account following closing, subject to proper documentation, may be considered as cash reserves when the loan application is scored through Total Scorecard.
- The borrower has substantial non-taxable income (in no adjustment was made previously in the ratio computations and the income was not "grossed up").
- The borrower has potential for increased earnings, as indicated by job training or education in the borrower's profession.
- The home is being purchased as the result of relocation of the primary wage-earner and the secondary wage-earner has an established history of employment (yet has not secured new employment), is expected to return to work, and reasonable prospects exist for securing employment in a similar occupation in the new area. The availability of such possible employment must be documented in the loan file.

Automated Underwriting Systems/Total Mortgage Scorecard

Approve/Eligible Risk Classification:

If the AUS using the TOTAL Mortgage Scorecard rates the mortgage loan application as an accept or approve, based on the analysis of the credit and capacity to repay and certain other loan characteristics, the loan is eligible for FHA's insurance endorsement provided:

- The data entered into the AUS are true, complete, properly documented, and accurate; and
- The entire loan package meets all other FHA requirements (except for those specifically not required because the loan was evaluated by an AUS). FHA requires adherence to all eligibility rules and the documentation requirements described elsewhere in the Total Mortgage Scorecard User Guide and HUD Handbook 4155.1 REV-5.

Approve/Ineligible Recommendation:

The AUS may also provide "approve/ineligible" recommendations. Loans receiving this recommendation have been determined to have met FHA's Mortgage Scorecard threshold but do not meet certain FHA eligibility requirements. The AUS findings will provide detailed information advising why the loan did not meet FHA's eligibility requirements. Such as: Loan amount exceeds the FHA maximum; Property type submitted does not correspond to the Section of the Act selected in the AUS; Insufficient reserves on a 3- or 4-unit property; and Insufficient funds for closing.

General Provisions, continued

Automated Underwriting Systems/Total Mortgage Scorecard, continued

Loans that receive a recommendation of "approve/ineligible" may still be eligible for FHA insurance. To achieve eligibility status, we must analyze the findings report and determine that the reason for the ineligibility is one that can be resolved in a manner complying with FHA underwriting requirements. Loans that receive a recommendation of "approve/ineligible" will receive the benefit of all other accept or approve documentation and credit policy revisions.

The broker may also need to correct the issue(s) that caused the loan to be ineligible and resubmit the loan to attempt to obtain an "accept/approve" recommendation such as when a mortgage amount exceeds statutory limits.

Refer/Eligible Classification:

MMI must conduct a manual underwriting review according to FHA requirements for all loan applications that generate a "refer" rating. The MMI underwriter must determine if the borrower is creditworthy in accordance with FHA standard credit policies and requirements. It is FHA policy that no borrower will be denied a FHA insured mortgage loan solely on the basis of a risk assessment generated by the TOTAL Mortgage Scorecard.

System Overrides and Manual Downgrades

A system override and/or manual downgrade of an "accept/approve" to a "refer" classification may be required if a particular loan application variable is revealed during loan processing.

A system override occurs when a loan application variable triggers a requirement (a "review rule") that an underwriter review the loan file. A manual downgrade becomes necessary if additional information, not considered in the AUS decision, affects the overall insurability or eligibility of a mortgage otherwise rated as an accept or approve. Both system overrides and manual downgrades may be triggered by inaccuracies in credit reporting, by eligibility issues, and for other reasons including the unlikely failure of the TOTAL Mortgage Scorecard or AUS to recognize a derogatory credit variable. Unless specifically permitted to continue to use the "accept/approve" documentation class, such as following a favorable resolution of a credit issue due to an error in reporting, MMI must document as a "refer" risk class and is accountable for the credit and ratio warranties on these loans. MMI is required to manually downgrade the loan to a "refer" under any of the following conditions:

- **FEDERAL ELIGIBILITY**

Certain individuals may not be eligible for federal benefits due to delinquent federally-related obligations or actions taken by a federal government agency. If a borrower is discovered to be ineligible due to any of the conditions described below, the lender must downgrade the loan to a Refer status (if the AUS does not do so) and determine what actions—if any—may be taken to allow the borrower to qualify for the mortgage. If it is determined that the information originally relied on to determine a borrower to be ineligible was erroneous, the lender may document the file accordingly and if the loan application is rated as an "accept/approve," use the credit waivers and reduced documentation accordingly.

- **Delinquent Federal Debt**

If the borrower, as revealed by public records, credit information, or HUD's Credit Alert Interactive Voice Response System (CAIVRS), is presently delinquent on any federal debt, the borrower is not eligible for a mortgage insured by FHA.

General Provisions, continued

Automated Underwriting Systems/Total Mortgage Scorecard, continued

- **CAIVRS**

If CAIVRS indicates a federal delinquency, default, claim payment, or lien, the borrower is not eligible for additional federally related credit. Exceptions and error resolution are discussed in Chapter 2 of Handbook HUD 4155.1 REV-5. A check of CAIVRS is not required for streamline refinances.

- **Suspended and Debarred Individuals**

A borrower suspended, debarred, or otherwise excluded from participation in the Department's programs is not eligible for a FHA-insured mortgage. Both the General Services Administration (GSA) "List of Parties Excluded from Federal Procurement and Non-Procurement Programs" and HUD's Limited Denial of Participation (LDP) list are available through the FHA Connection.

- **CREDIT ISSUES**

Previous mortgage foreclosure

A borrower whose previous residence or other real property was foreclosed on or has given a deed-in-lieu of foreclosure within the previous three years is generally not eligible for an insured mortgage. We may, with documented exceptions, continue processing and manually underwrite the loan application. Refer to Handbook HUD 4155.1 REV-5 for exceptions.

Provided that the foreclosure was completed at least three years previously and the risk-classification from TOTAL is an "accept/approve," no further documentation regarding the foreclosure is required.

- **Bankruptcy**

Both Chapter 7 liquidations and Chapter 13 bankruptcies discharged within two years of loan application require a referral to an underwriter and compliance with the instructions regarding bankruptcies described in Handbook HUD 4155.1 REV-5. A borrower whose bankruptcy has been discharged less than one year is not eligible for FHA mortgage insurance. (Provided that the bankruptcy was discharged at least two years previously *and* the risk-classification from TOTAL is an "accept/approve," no further documentation regarding the bankruptcy is required.)

- **Late Mortgage Payments**

If any mortgage trade line including mortgage line-of-credit payments, during the most recent 12 months, shows:

3 or more late payments of greater than 30 days; or

1 or more late payments of 60 days plus one or more 30-day late payments; or

1 payment greater than 90 days late, the loan application must be referred to a DE underwriter for review.

- **Disputed Accounts**

If the credit report reveals that the borrower is disputing any credit accounts or public records, the mortgage application must be referred to a DE underwriter for review.

General Provisions, continued

UPFRONT DISCLOSURE POLICY: At the time of loan submission MMI requires evidence that initial disclosures were delivered to the borrower within compliance. The date indicated on the disclosures must reflect they were prepared/delivered in compliant timeframes. The broker must submit copies of all HUD/FHA, federal, state and local disclosures which will be monitored on every transaction.

Underwriting Status/Decisions:

- Pre-Qualification: 1003 has been uploaded or loan has been locked (no underwriting package had been submitted).
- Incomplete: Insufficient documentation was submitted for the loan file to be underwritten.
- Submitted: Loan package has been received, 1003 has been uploaded, and loan has been submitted to an underwriter.
- Suspended: Crucial documentation was missing from the submission for the underwriter to render a sound decision.
- Approved with Conditions: Underwriter has approved the loan with conditions which need to be met before the loan is “cleared to close”.
- Approved: Loan is approved, all underwriting conditions have been met and the loan is moved to pre-closing review.
- Withdrawn: Loan file was withdrawn by the borrower or the broker.
- Declined: Only after all alternatives are explored. MMI may make recommendations or offer a counter proposal regarding the terms and conditions required for loan approval.
- Clear to Close: All prior to closing conditions have been met and cleared by the underwriter and loan is ready to close. All “at closing” or “prior to funding” conditions must be forwarded to MMI prior to funding for underwriter approval or with the closed loan package as noted on the MMI Underwriting Report “conditions to be Cleared at Closing”.