MICHIGAN MUTUAL, INC.
YOUR HOME LOAN PARTNER

Conventional 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 Matrixes (located on our website) and on our daily rate sheet. The Product Matrixes 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 FNMA. 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 to 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 These underwriting guidelines describe FNMA underwriting guidelines for one to four family conventional mortgages. This set of underwriting guidelines does not represent the entire FNMA underwriting manual

Note: The underwriting information contained in this section is intended for use in conjunction with FNMA Guidelines. Unless otherwise stated all FNMA loans must conform to applicable FNMA one-to-two family housing requirements as well as federal, state and local law compliance. 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 FNMA 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

- 10, 15, 20, 25 and 30 year fixed rate terms available.
- Minimum 640 credit score regardless of (AUS) decision.
- Minimum loan amount is $40,000 ($75,000 for investment properties).
- Maximum mortgage amount of $417,000 (high balance loans not eligible).
- DO/DU findings reflecting Approve/Eligible version 8.1
- Maximum 80% LTV on all transaction.
- CLTV Maximums for purchase transactions must meet MMI requirements for subordinate financing on purchase and refinance transactions.
- See individual product descriptions below for CLTV limits on all Refinance Transactions.

❖ Loan Restrictions

- MMI does not offer Cash out refinances > 80% LTV.
- MMI does not offer Cash out refinance on 2 Unit or Investment Properties
- MMI does not offer 3-4 unit properties programs.
- MMI does not finance Investment Condo's in Florida.
- MMI does not finance Manufactured Homes.
- MMI does not offer loans approved based on non-traditional credit history, (a traditional credit report with Credit Scores is required).
- MMI does not refinance loans that are restructured/short payoff loans.
- MMI does not manually underwrite conventional loans (loans that receive a Refer or that do not otherwise receive an Approve/Eligible).

Collateral Requirements

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

❖ **Eligible Collateral**

- Single Family Residence.
- 1-2 Unit Dwellings.
- Planned Unit Dwellings (PUD's).
- Townhome/Rowhome.
- Condominiums
- Log; Dome; Berm Homes; Pier Foundations; Auxiliary/Accessory Dwelling Units; 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.
- Leasehold Properties (title must be held in Fee Simple interest only).
- Properties currently listed for sale (refinances).
- Time-Share Units.
- Construction Financing.
- Properties vested in Life Estates/Trusts.
- Multiple dwellings on a single parcel of Land.
- Unwarrantable Condominiums

❖ **Appraisal - Home Valuation Code of Conduct (HVCC):** MMI conforms to HVCC and as such is prohibited from accepting appraisals prepared by appraisers who are selected, retained or compensated in any manner by a mortgage broker (or any member of a lender's staff who is compensated on a commission basis). MMI requires that all conventional appraisals are ordered through your designated Appraisal Management Company (AMC). Please note that HVCC does not apply when only a Form 2075 is obtained (per the DU Findings).

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.

Appraisal Order Process:

1. Broker/customer orders appraisal from designated AMC on MMI website reflecting MMI as lender.
2. Appropriate payment must be made at time of order. COD is not an allowable option according to the HVCC.
3. AMC will select appraiser and appraiser will schedule appointment with the borrower or realtor as appropriate.

4. Upon completion the broker will receive the final appraisal. It is the broker's responsibility to submit the appraisal with the initial loan submission or loan conditions as appropriate.
5. A copy of the appraisal report is required to be provided to the borrower not less than 3 business days prior to closing. Documentation evidencing the borrower's receipt of appraisal is required to be provided to the underwriting department.

To accommodate those instances where a loan may be switched from Conventional financing to FHA financing it is MMI policy that all appraisals will be ordered and performed by an FHA Roster appraiser. This will enable the properties to be inspected for FHA requirements at the time of initial inspection so it will not be necessary for a new appraiser to inspect the property.

- **Appraisal Report Forms:**
  - Uniform Residential Appraisal Report (Form 1004) – Used for single family properties, including those with an accessory unit, an individual unit in a PUD project, or a site condominium.
  - Small Residential Income Property Appraisal Report (Form 1025) – Used for 2 unit properties (including those that are located in a PUD project.
  - Individual Condominium Unit Appraisal Report (Form 1073) – Used for individual units in condominium projects.
  - Exterior-Only Residential Appraisal Report (Form 2055) – Used for single family properties, including an individual unit in a PUD project or a site condominium when determined by the AUS findings.
  - Exterior-Only Inspection Individual Condominium Appraisal Report (Form 1075) - Used for individual units in condominium projects when determined by the AUS findings.
  - Desktop Underwriter Property Inspection Report (Form 2075) – Used for single family properties, including an individual unit in a PUD project or a site condominium when determined by the AUS findings. HVCC does not apply when obtaining the 2075.
  - Comparable Rent Schedule (Form 1007) – Required on all investment property transactions, including 2 unit properties in which the borrower will occupy one unit as a primary residence and regardless if rental income is used in the qualification.
  - Operating Income Statement (Form 216) – Required on all investment property transactions, including 2 unit properties in which the borrower will occupy one unit as a primary residence and regardless if rental income is used in the qualification.
  - Market Conditions Addendum (Form 1004MC) – Required for all Conventional loans with appraisals.
  - Appraisal Update and/or Completion Report (Form 1004D) – Required to report the completion of repairs and/or the satisfaction or requirements and conditions noted in the original appraisal report for existing, proposed/new construction or to extend the validity period of an existing appraisal that is due to expire (the appraisal may only be extended one time and must be extended before the expiration date of the existing appraisal).
- Fannie Mae Property Inspection Waiver (PIW) – May be used if the DU findings Property and Appraisal Information section indicate a finding stating DU accepts the value submitted as the market value for the subject property and the loan is eligible for delivery to Fannie Mae without an appraisal. A $75 fee will be charged to exercise this waiver. If the waiver is not exercised, at least the minimum level of fieldwork recommended for the transaction must be obtained. The **Property Inspection Waiver may not be used on: Investment Properties, New/Proposed Construction and bank/HUD/Fannie Mae/Freddie Mac owned properties.**

- **Appraisal Rebuttal Process:**
  1. Loan in processing stage: If the appraised value is such that processing of the loan cannot continue, it is the broker's responsibility to rebut the appraisal through the AMC's website. Ensure you provide supporting documentation such as comparables, recent listings, etc. **Under no circumstances are broker's allowed to directly contact the appraiser.**
  2. Loan in underwriting stage: If an underwriter is requesting additional comparables (as well as any clarifications and/or corrections), from the appraiser, as a requirement of loan approval then the MMI underwriter will contact the appropriate AMC. The MMI D.E. Underwriter who has responsibility for the quality of the appraisal report is allowed to request clarifications and discuss with the appraiser components of the appraisal that influence its quality.

- **Appraisal Portability:** In transactions where the appraisal is done and submitted in the name of another lender and is transferred to MMI the file must contain a fully completed and executed HVCC Compliance Lender Acknowledgment Form (may be located on our website if the lender does not have their own format). If the loan is withdrawn or denied and the borrower applies with another lender MMI will complete and execute the Compliance Lender Acknowledgment Form and assign the appraisal to another lender. In these instances please contact Client Relations or your Account Executive. In accordance with the Uniform Standard of Professional Appraisal Practice (USPAP), the broker/lender **is not** permitted to request that the appraiser change the name of the client within the appraisal report. Michigan Mutual will accept the appraisal report in the name of the original Lender. It is the broker's responsibility to obtain and provide the initial appraisal completed for the transaction.

- **Appraisal Validity Period:** Conventional appraisals will be valid for **120 days** for all property types: existing, proposed construction and under construction (formerly 6 months for existing property that is complete and 12 months for proposed and under construction). The Appraisal Update Form FNMA 1004D will be required to extend the validity period of an existing appraisal that is due to expire, for existing, proposed or new construction that is incomplete an additional 120 days. The appraisal may only be updated one time.

- **2nd Appraisal Requirements**
  - As required for investment properties valued under $100,000. Must meet HVCC.

- **Repair Escrows:** Are not allowed on conventional loans.

- **Minimum Square Footage**
  - All properties most 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.

Condominiums

- ❖ **Condominiums –** *Note: If the word "condo" appears in the legal description, the property will be deemed a condo.*
  - ➢ If complex is FNMA approved (any conditions of approval must be met).
  - ➢ Conventional HOA Questionnaire (located on MMI website) must be included at time of initial underwriting (must be included regardless if AUS findings indicate a limited review).
  - ➢ Limited Review/Condo Project Manager. See below for eligibility requirements for Limited Review and Condo Project Manager. If complex is **not** FNMA approved the condo must meet Fannie Mae requirements (see below for documentation requirements) and additional documentation such as complete Master Deed, Bylaws and Budget may be required.
  - ➢ **<u>Site Condominiums</u>** (single family detached condominiums) Condominium project approval is not required for Site Condominiums. Site Condominiums are single family totally detached dwellings (no shared garages of any other attached building) encumbered by a declaration of condominium covenants or condominium form of ownership. Condominiums (including detached condominiums) that do not meet this definition will require project approval. The Uniform Residential Appraisal Report (Form 1004) will be required (the Individual Condominium Unit Appraisal Report (Form 1073) is no longer required and the Condominium Rider to the Mortgage/Deed of Trust (prepared by MMI) must be fully executed at closing. Site Condominium comparables should be used in completing the appraisal report. If the appraiser uses comparables other than site condos they must provide an explanation in the appraisal report.
- ➢ **Eligible Projects:**
  - ❖ The units in the project must be owned in fee simple (leasehold not eligible).
  - ❖ No more than 20% of the total square footage of the project can be used for commercial purposes.
  - ❖ No more than 15% of the total units in a project may be 30 days or more past due on their homeowners' association (HOA) dues. For example, a 100 unit project may not have more than 15 units that are 30 days or more delinquent.
  - ❖ No single entity; the same individual, investor group, partnership, or corporation may own more than one unit within the project.
  - ❖ All units, common elements, and facilities within the project, including those that are owned by any master association, must be 100% complete.

- ➢ **Ineligible Projects:**
  - ❖ New Construction and condominium Hotels/Condotels are not eligible.
  - ❖ Projects that restrict the owner's ability to occupy the unit.
  - ❖ Projects that are managed and operated as a hotel or motel, even though the units are individually owned.
  - ❖ Right of First Refusal is not permitted.
  - ❖ If the mortgagee is responsible for more than 6 months of delinquent HOA dues.
  - ❖ Manufactured Home Condominiums and Houseboat projects are not eligible.
  - ❖ Projects where more than 20% of the total space is used for nonresidential purposes
  - ❖ Any project for which the homeowners' association or co-op corporation is named as a party to current litigation or, any project for which the project sponsor or developer is named as a party to current litigation that relates to the project, if the project has not been turned over to the association or corporation.
  - ❖ Projects where a single entity (the same individual, investor group, partnership, or corporation) owns more than 10% of the total units in the project.

- ❖ Projects in which the developer or sponsor has an ownership interest or other rights in the project real estate or facilities other than the interest or rights it has in relation to unsold units.

Florida condos have additional restrictions:
LTV on Primary is limited to 75%, Second Home is limited 70% and Investment is not eligible

- ➢ **Condominium Documentation Requirements:**

- ❖ **Limited Review:** The Limited Review process is intended to be used on a ***"spot loan" basis***, meaning that brokers may originate loans that arise through the ordinary course of business. A broker may originate more than one loan in a particular project under the Limited Review process provided the project is an established project and meets the requirements for Limited Review. However, if the broker has targeted the project with specific marketing efforts or is named as a preferred broker by either the developer or the project's home owner's association, the project is ineligible for Limited Review and the broker must use one of the other project review processes. Limited Review eligibility criteria for condominium units differ depending upon the occupancy status. In addition DU will issue a Limited Review eligibility finding.

  The following chart provides the maximum LTV and CLTV ratios based on occupancy types.

Limited Review: Attached Established Projects - (excludes Florida - see below)	
Occupancy Type	**Maximum LTV/CLTV%**
Principal Residence	≤80%
Second Home	≤75%
Investment Property	Not Allowed

Limited Review: Detached Established Projects - (excludes Florida - see below)	
Occupancy Type	**Maximum LTV/CLTV%**
Principal Residence	≤80%
Second Home	≤75%
Investment Property	≤75%

Limited Review: Attached Established Projects - State of Florida	
Occupancy Type	**Maximum LTV/CLTV%**
Principal Residence	≤75%
Second Home	≤70%
Investment Property	Not Allowed

Limited Review: Detached Established Projects - State of Florida	
Occupancy Type	**Maximum LTV/CLTV%**
Principal Residence	≤80%
Second Home	≤75%
Investment Property	≤75%

- **Limited Review Documentation Requirements:**
    a. **<u>The Conventional Condominium Homeowner's Certification form found on the MMI website must be utilized for a Limited Review.</u>** This form must be completed in its entirety by the Condominium Homeowner's Association.
    b. Master Insurance Policy for unit including General Liability, Fidelity Bond and Flood Insurance, if applicable.

- **Expedited Review/Condo Project Manager (CPM):** Condo Project Manager (CPM) is a web-based tool designed to help MMI determine if a project will meet Fannie Mae's eligibility requirements. Loans not meeting the eligibility requirements for a Limited Review are required to be entered into CPM. MMI will input loans in CPM and the loan file must be documented according to the CPM decision. **<u>The Conventional Condominium Homeowner's Certification form found on the MMI website must be utilized for all loans requiring the use of CPM.</u>**

    Condo Project Manger:
    a. **<u>The Conventional Condominium Homeowner's Certification form found on the MMI website must be utilized for loans reviewed by Condo Project Manager.</u>** This form must be completed in its entirety by the Condominium Homeowner's Association.
    b. Master Deed/By Laws/Articles of Incorporation
    c. Current Budget with Reserves
    d. Master Insurance Policy for unit including General Liability, Fidelity Bond and Flood Insurance, if applicable.

- **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 Conventional financing.

- **Properties listed for sale within the last 6 months (refinances)**
    - Cash/Out transactions require the MLS to be cancelled at least six months prior to the application date or the loan is subject to a maximum 70% LTV. In all circumstances, listing agreements must be cancelled prior to the loan application. The listing agreement, cancelled listing agreement and signed/dated explanation from the borrower with the reason why the property was for sale is required at the time of loan submission.
    - Rate/Term transactions require the MLS to be cancelled prior to loan application date. The listing agreement, cancelled listing agreement and signed/dated explanation from the borrower with the reason why the property was for sale is required at the time of loan submission.
    - 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.

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 month's bank statements showing payments.

- **Land Contract/Contract for Deed**
    - Copy of Land Contract.
    - Last 12 (or from inception of the contract) 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:**
    - **Chapter 7 Bankruptcy** - MMI will deem the age of the bankruptcy by the discharge/dismissal date for chapter 7. Chapter 7 BK's discharged less than 4 years will be ineligible.
    - **Chapter 13 Bankruptcy –** MMI will deem the age of the bankruptcy by the discharge/dismissal date for chapter 13. Chapter 13 discharged/dismissed within the last 2 years.
    - **Foreclosure/Deed-in-Lieu –** MMI will deem age of the foreclosure by the completion date (Sheriff's Deed) - must be 5yrs or more. Borrower must have a 680 credit score and purchase is for primary residence only.

- **Consumer Credit Counseling:**
  - Acceptable on Approve/Eligible AUS findings with no additional documentation required.

- **Credit Score:** MMI will require a minimum credit score of 640. 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.

- **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 640 middle credit score for all borrowers.
  - **Non-Occupying Co-borrowers:** Are acceptable per FNMA guidelines and require ***all*** borrowers to have a minimum 640 middle credit score (not allowed on refinance transactions). See Non-Occupying Co-Borrower guidelines below.

- **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. (In cases of Divorce when the Judgment for Divorce indicates the ex-spouse has received the marital property and is liable for the debt, Total Scorecard/DU Approve/Eligible transactions may only require the Judgment for Divorce/Divorce Decree in which case cancelled checks would not be required).

Credit, continued

- **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 is scheduled to begin within twelve months of the mortgage loan closing, the anticipated monthly obligation will be included in the DTI. 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.
  Note: Student loans are required to be included in the DTI on all conventional loans regardless of deferment period.

- **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.
    - Non-computer generated or handwritten pay stubs require last two years W-2's and Verification of Employment.

  - **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.

  - **Commission Income:** Commission (including borrower's paid, piece work/piece job, truckers paid per mile, etc.) 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 commission income received for less than two years may be acceptable and will be considered on a case-by-case basis (commission income earned for less than one year is not considered effective income). In addition to normal employment documentation copies of tax returns for the last two years are required and any unreimbursed business expenses (see Unreimbursed Employee Business Expenses below) must be subtracted from the gross income prior to calculating the borrower's housing and debt-to-income ratios.

  - **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.

Employment/Income, continued

- **Unreimbursed Employee Business Expenses/Automobile Allowances:** Unreimbursed Employee Business Expenses from Schedule 2106 must be deducted from the borrower's income.
  - Only the amount by which the borrower's automobile allowance exceeds the automobile allowance may be used as income (the difference between the automobile allowance and the 2106 expense may be added to income if positive or must be treated as a liability if negative).
  - In addition, the borrower's auto loan payment must be counted as a debt and may not be offset by the automobile allowance.

- **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 – VA Benefit
  - Foster Care
  - Military Allowances such as: Basic Allowance for Housing (BAH), Basic Allowance for Subsistence (BAS), clothing allowances, hazard pay, rations allowance, combat pay, flight pay, overseas pay, etc.

  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

- **Social Security Income as Disability Income:** requires documentation the income will continue for at least the first full three years of the loan (from loan closing date) or the income may only be considered as a compensating factor. Documentation required:
  - The initial Award Letter indicating the borrower has been disabled for at least 5 years will be accepted as documentation of continuance of income along with the most current Award Letter; or
  - Written statement from the borrower's doctor on letterhead indicating the borrower is permanently disabled along with the most current Award Letter.

- **Social Security Income received for a child:** requires documentation the income will continue for at least the first full three years of the loan (from loan closing date) or the income may only be considered as a compensating factor. Documentation required:
  - The child's Award Letter and birth certificate reflecting the child is ≤14 years old (if the child is 15 or older there is not a 3 year continuance of income).

- **Social Security Income received for an adult child (18 or older) or parent:** requires documentation the income will continue for at least the first full three years of the loan (from loan closing date) or the income may only be considered as a compensating factor. Documentation required:

- The initial Award Letter reflecting the borrower as payee/guardian, indicating the adult child/parent has been disabled for at least 5 years will be accepted as documentation of continuance of income along with the most current Award Letter; or
- Written statement from the borrower's doctor on letterhead indicating the borrower is permanently disabled along with the most current Award Letter; and
- Legal Guardianship documents reflecting the borrower as legal guardian for the adult child/parent are required.

➢ **Foster-Care Income –** Verify the foster-care income with:
- Letter of verification from the organization providing the income; and
- Copies of the borrower's most recent 3 months bank statements confirming regular deposit of payments; and
- Most recent 2 years tax returns with all schedules/pages (must document a 2 year history of receipt).

➢ **Short Term Disability/Workman's Comp:** Not eligible. No Exceptions. **Borrowers on maternity leave must be back to work as evidenced by a pay check stub with 30 days worth of earnings.**

➢ **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). MMI will use the vacancy factor of 25% for all properties.
  1. **Principal residence being vacated in favor of another principal residence**: rental income, reduced by the appropriate vacancy factor (25%), on principal residence being vacated in favor of another principal residence may only be considered under the following circumstances:
  2. Sufficient Equity in Vacated Property: The homebuyer has a loan-to-value ratio of 70 percent or less, as determined by a current 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.
  3. The borrower has reserves to cover 6mos PITI on both properties

     Note: If the borrower's current principal residence is pending sale, and he/she is purchasing a new residence, both the current and proposed mortgage payments must be used in qualifying the borrower for the new mortgage loan (rental income may not be used for qualifying).

- Subject Property Rental Income from Owner-Occupied 2-4 Units. The rent, after subtracting the estimate for vacancies and maintenance from other units, may be added to the borrower's gross income.

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 blood relative is acceptable (documentation of relationship may be required). Mortgage Payoff (if any) must reflect no more than 29 days delinquent at time of closing. Any history of major delinquencies (30 days or more) reflected on title or payoff, will require additional information and may not be eligible. Spouse to Spouse purchases are not acceptable except in instances such as divorce, where legal documentation (such as a divorce decree) indicates the seller/spouse will be vacating the property. **Note: investment property transactions not eligible.**

➢ **Gift Funds:** An outright gift 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.** The file must also contain a Gift Letter which can be found on the MMI website. **Note: Gift funds not allowed on investment property transactions.**

➢ **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.

Assets, continued

- **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 and 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.

Refinance Transactions

Mortgage Payoffs: All refinance transactions will require current payoffs (all mortgages) - (Restructured/Short payoffs are not eligible).

- **Property Seasoning (Assuming Continuity of Obligation has been met)**
  - For No Cash-Out/Limited Cash-Out – There is not a minimum length of time the borrower must have owned the property; the current appraised value may be used to calculate LTV (**see Continuity of Obligation immediately below** for further seasoning requirements). **However, if the borrower refinanced within 6 months predating the loan application the HUD-1 from the last refinance must be obtained. If the last transaction was a cash-out transaction then the new mortgage must be treated as a cash-out refinance.**
  - Cash-Out – The borrower must have owned the property for more than six months predating the loan application to be eligible for cash-out. The LTV will be based on the lesser of original sales price/documented acquisition cost or the current appraised value. If the property was purchased more than 12 months predating the loan application, the current appraised value may be used to calculate LTV.
  - New Construction/less than 1 year old versus existing construction will be determined by the date on the Certificate of Occupancy.

- **Continuity of Obligation –** The borrower on title must be able to demonstrate an acceptable continuity of obligation to be eligible for a no cash-out/limited cash-out or a cash-out refinance. An acceptable continuity of obligation (assuming there is an outstanding lien against the property) exists when:
  - There is at least one Borrower obligated on the new loan who was also a Borrower obligated on the existing loan being refinanced; or
  - The Borrower has been on title (as a natural person and not in a trust) and residing in the property for at least 12 months and has paid the mortgage for the last 12 months (as evidenced by cancelled checks) and can demonstrate a relationship (spouse, blood relative, domestic partner, etc.) with the current obligor; or
  - The existing loan being refinanced and the title have been held in the name of an LLC (corporations not eligible) for a minimum of 12 months and the borrower is and has been a member of the LLC for at least 12 months. MMI does not close loans in the name of the LLC therefore title will be required to be transferred from the LLC to the borrower at closing. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement; or
  - The borrower has recently inherited or was legally awarded the property (such as in the case of a divorce). Must provide current 12 month mortgage history evidencing no 30 day (or greater) late payments.

  If the borrower is currently on title but is unable to demonstrate an acceptable continuity of obligation:

  Loans with no outstanding lien against the property (property owned free and clear) the loan is still eligible as a cash-out refinance under the following conditions:
  - If the property was purchased within 6-12 months of the application date and the property is owned free and clear the LTV will be based on the lesser of the original sales price/acquisition cost or the current appraised value; **or**
  - If the property was purchased more than 12 months prior to the loan application date (for the new loan) use the current appraised value.

Loans with outstanding liens but no continuity of obligation:

- At least one borrower must have been in title for at least six months predating the loan application; and
- The maximum loan-to-value is 50% of the appraised value; and
- Must document borrower has paid the mortgage payment for at least the last six months (as evidenced by cancelled checks).

Note: In all of the above instances a twelve month mortgage history (or from inception of the mortgage if the property was acquired less than 12 months) is still required reflecting 0X30.

Cash-Out Refinances: The borrower must have owned the property for more than six months predating the loan application to be eligible for cash-out. The LTV will be based on the lesser of original sales price/documented acquisition cost or the current appraised value. If the property was purchased more than 12 months predating the loan application, the current appraised value may be used to calculate LTV. **Also see Continuity of Obligation above.**

Additional underwriting and eligibility criteria:

- Maximum cash to borrower is maximum conforming loan limit of $417,000
- 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 FNMA 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 FNMA 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.
- Cash/Out transactions listed for sale require the MLS to be cancelled at least six months prior to the application date or the loan is subject to a maximum 70% LTV. In all circumstances, listing agreements must be cancelled prior to the loan application. The listing agreement, cancelled listing agreement and signed/dated explanation from the borrower with the reason why the property was for sale is required at the time of loan submission. These properties may pose an increased risk to MMI, therefore may be subject to additional documentation and/or limitations.

Rate & Term Refinances/Limited Cash-Out: There is not a minimum length of time the borrower must have owned the property; the current appraised value may be used to calculate LTV. **Also see Continuity of Obligation above.**

- <u>LTV Ratio applied to Appraised Value</u>: 80%
- <u>Existing Debt</u>: Add together the amount of the existing first lien, any purchase money second mortgage (any HELOC or second mortgage not used a purchase money must be treated as a cash-out).

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.

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 and subject to 95% 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 1st mortgage and are subject to 95% CLTV. The borrower must qualify with the scheduled monthly payments.
- At closing the borrower may not receive cash back in excess of $2000 or 2% of loan amount.
- For rate/term refinances property listed for sale require the MLS to be cancelled prior to loan application date. The listing agreement, cancelled listing agreement and signed/dated explanation from the borrower with the reason why the property was for sale is required at the time of loan submission. These properties may pose an increased risk to MMI, therefore may be subject to additional documentation and/or limitations.

DU Refi Plus – current mortgage is FNMA with no existing Mortgage Insurance

- ❖ Rate term refinance only up to LTV 97% (of the current appraised value) with maximum 110% CLTV/110% HCLTV
- ❖ An Approved/Eligible recommendation with the DU Refi Plus findings is required to be eligible for purchase by Michigan Mutual. No manual underwrites
- ❖ Michigan Mutual will not accept loans with Approved/Ineligible recommendation including when the Ineligible recommendation is due to an LTV >97%
- ❖ Michigan Mutual will only accept loans that don't require Mortgage Insurance.
- ❖ LTV <= 80% and the current loan has a LTV > 80%, but no MI is required per Fannie Mae's MI waiver with this DU Refi Plus program guidelines
- ❖ 640 minimum FICO score regardless of DU decision with 0 x 30 Mortgage late payments
- ❖ 1-4 units Owner Occupied Only, condo acceptable per FNMA guidelines for acceptable Condo projects. (Condo checklist required for all condo).
- ❖ No condominium hotel or motel or high rise condo projects. Florida Condominium must continue to meet FNMA state of Florida warranty requirements, Occupancy, and loan to value restrictions Ineligible properties are manufactured home and co-op
- ❖ Appraisal requirements will be determined by DU. Some properties may be eligible for Property Inspection Waiver for a fee of $75

Purchase Transactions

❖ **Property Seasoning**
- 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 financing.

Fully executed Residential Purchase Agreement: All purchase transactions require this document to be signed by ALL parties. The current owner of record must execute as the seller of subject property. All borrowers on the loan application must sign the agreement. All sellers that sign purchase agreement must be authorized by that entity.

Identity of Interest Transactions/Non-Arm's Length Transactions: A non-arm's length transaction occurs when a personal or business relationship exists between the borrowers and the builder/seller or lender. These transactions include:
- Family sales or transfers
- Corporate sales or transfers
- Mortgagors employed in the real estate or construction trades who are involved in the construction, financing, or sale of the subject property
- Some transactions involving principals or a lender or other vendor (such as an appraiser, settlement agent, title company) who is involved in the lending process of the subject property

Note: Non-arm's length transactions may require additional documentation depending on the underwriter's assessment of the loan file/risk of the loan.

- Purchasing from a Builder – If borrowers are purchasing a property from a builder who is purchasing the borrowers' existing residence, it is considered a non-arm's length transaction and is not permitted.
- Non-arm's length transactions with non-family members will be considered only if they are bona fide sales transactions and the borrowers will occupy the property as their primary residence.

  Non-arm's length transactions with family members are generally acceptable if:
  1. The family member or relative is the borrowers' spouse, child, parent, or any other individual related to the borrowers by blood, adoption, or legal guardianship.
  2. The source and ownership of funds for down payment, closing costs, and reserves are well documents in the loan file.
  3. The appraised value of the property is well supported, particularly for gift of equity or gifts of more than 20% of the LTV.
  4. Gifts are not allowed on second homes or investment properties (primary residence only).
  5. Gift of equity is allowed for owner occupied transactions only. The entire down payment may be gift however the LTV/CLTV cannot exceed 80%.
  6. Gift letter must be provided for gift funds and/or gift of equity. Gift of equity must also be reflected on the purchase agreement.
- The transaction is not allowed if the builder, property seller, and/or any party currently on title on the subject property is any of the following:
  1. A company owned by the borrower
  2. A borrower who is related to the builder, property seller, or any party currently on title as a registered agent, sales agent, partner and/or employee.

A borrower may act as an interested party to a sales transaction for the subject property; however, the borrower may not use any payment for services rendered from the sales transaction of the subject property towards the down payment, closing costs and/or reserve requirements. (payment for services rendered means payment for, but is not limited to: realtor commissions, broker commissions, sales associates commissions).

- **Non Occupying Co-Borrowers:** A Non-Occupying borrower transaction is a transaction involving two or more borrowers where one or more borrower(s) will not occupy the property as his/her primary residence. Financing is available for borrowers related by blood, marriage, or law (such as spouses, parent-child, siblings, etc.) or unrelated individuals that can document evidence of a family-type, longstanding, and substantial relationship *not arising from the loan transaction.* A non-occupying co-borrower who has an interest in the property sales transaction (such as the seller, the builder, the real estate agent, etc.) is not eligible as a non-occupying co-borrower even if they are a family member. When a non-occupant co-borrower is used the owner occupant borrower must still demonstrate an ability and willingness to make the mortgage payment and maintain homeownership. Non-Occupying Co-Borrower's cannot be added to compensate for a borrower with a derogatory credit history (the borrower must be credit worthy). If the combined CLTV is greater than 80% the borrower must make the first five (5%) percent down payment from his/her own funds. Cosigners are acceptable and do not execute the mortgage/security instrument or take title to the property, but they must sign the Note and all other loan documents.

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. We will lend under the same terms and conditions for both 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) allow photocopying of the Green Card. Making an enlarged copy or copying on colored paper may alleviate any concerns the borrower may have with photocopying.)
- 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) (borrowers with diplomatic immunity not eligible see below)
  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

  Note: Non Permanent Resident Aliens with Temporary Protected Status are not eligible

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.

North American Free Trade Agreement (NAFTA) Workers:
Canadian and Mexican citizens who are working in the Unites Dates 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).

General Provisions, continued

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 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/ (then click "search list").

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.

Legal Names: MMI requires the pertinent loan documentation (FHA Case Number Assignment, loan application, credit report and closing documentation) to be prepared in the borrower's legal name. In most cases the name reflected on the driver's license will be utilized to determine the borrower's legal name. However, in those instances where there is a variance between the driver's license and the Social Security card (or other documentation within the loan file) utilize the following examples for further guidance (Note: an AKA/FKA affidavit will be required at closing):

- **Nicknames** - If the driver's license reflects Mike Smith and the Social Security Card (or other documentation within the loan file) reflects Michael Smith then the pertinent loan documentation must reflect the name Michael Smith.
- **Married Names** - If a borrower has recently married (or married during loan processing), the new married name will be utilized for all pertinent loan documentation. MMI will require a copy of the marriage license if the new name is not reflected on both the driver's license and the social security card.
- **Multiple Name Variations** – If a borrower has multiple names/hyphenated variations, the name that appears on the social security card will be utilized for all pertinent loan documentation.

General Provisions, continued

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.

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 however may be waived on a case by case.

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 downgraded to a Refer/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 (short payoffs are not eligible on refinance transactions).

4506T Processing: MMI will require IRS transcripts for the most recent two tax periods including W-2's, 1040's and corporate returns (if applicable). MMI will accept IRS transcripts processed by the broker (see vendor links on our website). If transcripts are not provided MMI will process transcripts, the fee will be charged to the borrower and reflected on the HUD-1 at closing. It is the responsibility of the broker to properly disclose this fee for income verification to each borrower appropriately on the Good Faith Estimate.

Verifications: Verification forms (VOE's/VOD's/VOR's, etc.) 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. Verifications must be addressed to the employer or financial institution and may not be directed to an individual (such as may be directed to Account Verification Department or Human Resources but not to John Doe). 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 clear 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.

Age of Documents: Credit document expiration dates are listed below 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).

- Credit Report - 90 days
- Paystub – 30 days
- VOE - 30 days
- VOD/Bank Statement – 30 days if using for funds to close (60 days allowed if only using for reserves)
- VOR/VOM – 30 days
- Appraisal – 120 days
- Title Commitment – 60 days

General Provisions, continued

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) ***may*** appear on the security instrument or otherwise take title to the property at loan settlement. On a purchase or 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.

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: Maximum Debt ratios can exceed:

LTV/CLTV	DTI cap
≤ 75%	50%
> 75%	45%

Automated Underwriting Systems

Approve/Eligible Risk Classification:
If the AUS (using Desktop Underwriter or eMagic) rates the mortgage loan application as an Approve/Eligible, based on the analysis of the credit and capacity to repay and certain other loan characteristics, the loan is eligible for MMI underwriting provided:

- The data entered into the AUS are true, complete, properly documented, and accurate; and

The entire loan package meets all other conventional requirements (except for those specifically not required because the loan was evaluated by an AUS).

General Provisions, continued

Loans that receive a recommendation of "approve/ineligible" ***are not*** eligible for approval. The broker will need to correct the issue(s) that caused the loan to be ineligible and resubmit the loan to attempt to obtain an "Approve/Eligible" recommendation such as when a mortgage amount exceeds statutory limits, debt-to-income ratios, etc.

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. MMI will not override a Refer decision and manually approve the loan.

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, when a casefile cannot be documented according to the AUS/FHA Total Scorecard Findings, and for other reasons including the unlikely failure of the 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:

- **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 a mortgage. We may, with documented exceptions, continue processing and manually underwrite the loan application. Provided that the foreclosure was completed at least three years previously and the risk-classification is an "accept/approve," no further documentation regarding the foreclosure is required.
- **Delinquent Federal Debt (such as a Federal Tax lien)**
  If the borrower, as revealed by public records, credit information, that may appear on title or elsewhere in the loan file that is not considered in the AUS analysis the loan must be downgraded to a refer.

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 federal, state and local disclosures which will be monitored on every transaction. MMI complies with federal, state and local policies and procedures such as Fair Housing, ECOA, SAFE ACT, RESPA, HVCC, MDIA, etc.

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”.