Conforming LIBOR ARM

Note: *Items in italics represent areas where HSOA requirements differ from FNMA. "*" indicates where exceptions to HSOA requirements will be considered.*

1. Eligibility

Product Information

Product Description

30-year term non-Convertible 3/1, 5/1, 7/1 or 10/1 ARM. Fixed for three, five, seven or ten years then adjusts to a 1 year ARM based on the one year LIBOR index. Under this program, the borrower pays interest only during the first 10 years.

Interest Only
Discontinued.

Program Codes:
C31L, C51L, C71L, C101L
CJ5/1L – FNMA High Balance

ARM Terms

Initial/Annual Adjustment Cap:

Term	Index	Cap Structure	Initial Interest Rate Adjustment Cap and Date
3/1	LIBOR	2/2/6	The interest rate is fixed for the first 36 months; thereafter, the interest rate adjusts annually. The maximum interest rate change at any one adjustment period is 2%, which will not cause deferred interest, and a life cap of 6%.
5/1	LIBOR	5/2/5	The interest rate is fixed for the first 60 months. The maximum interest rate adjustment at the first adjustment date is 5%. Thereafter the interest rate adjusts annually with a maximum interest rate change of 2%, which will not cause deferred interest, and a life cap of 5%.
7/1	LIBOR	5/2/5	The interest rate is fixed for the first 84 months. The maximum interest rate adjustment at the first adjustment date is 5%. Thereafter, the interest rate adjusts annually with a maximum interest rate change at any one adjustment date of 2%, which will not cause deferred interest, and a life cap of 5%.
10/1	LIBOR	5/2/5	The interest rate is fixed for the first 120 months. The maximum interest rate adjustment at the first adjustment date is 5%. Thereafter, the interest rate adjusts annually with a maximum interest rate change at any one adjustment date of 2%, which will not cause deferred interest, and a life cap of 5%.

Note: The interest rate must always be rounded to the nearest 1/8th of 1% (0.125%).

Index: The average of interbank offered rates for one (1) year U.S. dollar-denominated deposits in the London market (LIBOR) as published in the Wall Street Journal.

Margin: Margin is 2.25%. The margin is the floor.

Payment Cap: N/A

Payment Adjustment Date: The payment change date will be the first of the month following the interest rate adjustment, and every 12 months thereafter.

Conversion Option and fee: Not Convertible

Assumptions:
- **3/1** - Assumable at any time, subject to credit approval.
- **5/1, 7/1 and 10/1 ARM** - Not assumable during the fixed rate period. At the end of the fixed rate period,
- assumable subject to credit approval.

Prepayment Penalty: None

Qualifying Rate: The qualifying rate for the 3/1 and 5/1 Hybrid ARM is the greater of the fully indexed rate or the note rate plus 2%. The qualifying rate for the 7/1 and 10/1 Hybrid ARM is the note rate.

Minimum Loan Size
$30,000

Maximum LTV and Credit Score

(LTVs above 80% are subject to MI eligibility requirements, and cannot have secondary financing)

Purchase and Rate/Term Refinance		
Property Type	**Maximum LTV / CLTV**	**Minimum Credit Score**
1 Unit Primary Residence	95% / 95%	620 (680 above 80% LTV)
2 Units Primary Residence	80% / 80%	660
3-4 Units Primary Residence	75% / 75%	660
1 Unit Second Home	80% / 80% With exception approval: 90% / N/A	620 720
1 Unit Investment	80% / 85% purchase 75/% / 75% rate/term	620
2 Units Investment	75% / 75%	680
3-4 Units Investment	75% / 75%	680
Cashout Refinance		
Property Type	**Maximum LTV / CLTV**	**Minimum Credit Score**
1 Unit Primary Residence	80% / 80% ~~With exception approval:~~ 85% / N/A	620 720
2 Units Primary Residence	75% / 75%	680
3-4 Units Primary Residence	75% / 75%	680
1 Unit Second Home	75% / 75%	620
1 Unit Investment	75% / 75%	620
2 Units Investment	70% / 70%	680
3-4 Units Investment	70% / 70%	680
Interest Only - Discontinued		

Impound/Escrow Accounts

Impound/Escrow Accounts for property taxes and hazard insurance may be waived for a fee (see rate sheet) except escrows are mandatory for loan amounts at the following LTVs:

- CA >90%
- All other States >80%

Conforming Loan Amounts

Except in High Cost areas (See FNMA High Balance Overlay for loans above $417,000 on one unit properties), loan limits are:

<u>Contiguous States</u>
1-unit - $417,000
2-units - $533,850
3-units - $645,300
4-units - $800,000

Mortgage Insurance

LTV Ranges	10-, 15-, and 20- Year Term	25-, 30- and 40- Year term
90.01 – 95%	25%	30%
85.01 – 90%	12%	25%
80.01 – 85%	6%	12%

- ***MI coverage must meet the requirements grid above. HSOA will not accept DU findings that allow Reduced MI or Custom/Lower cost MI*** *(which requires a loan–level price adjustment).*
- Minimum credit score required for MI coverage is determined by the MI companies, which generally ranges from 680 to 720.
- *Lender Paid Mortgage Insurance (LPMI) is not accepted*
- Mortgage insurance is required on all first mortgage loans with a LTV greater than 80%.
- For all loans requiring mortgage insurance, borrowers must be supplied with a Mortgage Insurance Disclosure form. The disclosure must describe the reason the mortgage insurance is required, the guidelines for cancellation, and contact references for canceling the insurance.
- Approved Mortgage Insurance Companies include: Genworth, MGIC, Radian, and RMIC.
- The **monthly MI premium plan** is required for all loans requiring mortgage insurance. Level renewal option (not declining balance) should be chosen.

Note: Mortgage Insurance companies may have tighter requirements than FNMA or HSOA on credit guidelines, including DTI, tradelines, property, R/T definitions, credit scores, etc. Any loan exceeding 80% LTV must meet the respective requirements of FNMA, HSOA, and the MI Company.

Subordinate Financing

- Allowed to the maximum CLTV limits as shown in the Maximum LTV/CLTV heading, provided the first lien LTV <=80%.
- Secondary financing must be provided by an institutional lender. *Secondary financing provided by a property seller, a Community Second, or Employer-provided subordinate financing are not allowed.*
- Transactions may have no more than one subordinate lien.
- CLTV and HCLTV:HCLTV was formerly defined as subordinate financing that includes an **undrawn** home equity line of credit, whereas CLTV used the drawn amount. HCLTV and CLTV are now identical calculations, using the maximum line amount.
- When subordinating an existing HELOC where the maximum line amount has been reduced, a modification agreement evidencing the line reduction is required. See Ratios (section 6) for DTI calculations on HELOCs.

Temporary Buydowns

Temporary buydowns are not accepted on ARM programs.

Property Eligibility

Property Types

<u>Eligible</u>

- Detached Condominiums for Primary Residence or Second Homes *(Investment properties allowed with exception approval and DU acceptance)*
- Condominiums with FNMA project approval or Established Project Criteria
- 2-4 Units (not allowed on second homes; *Refer to section 4 for Rent Loss Insurance).*
- Rural Properties *up to 10 acres*
- Mixed Use
- Properties with age restrictions are accepted, subject to Exception approval
- *Log Homes allowed on one-unit Primary and Second Homes: maximum $417,000 Loan amount; max 75% LTV/CLTV, must have 2 recent sold log home comps; Second homes restricted to purchase or R/T transactions.*

Ineligible

- Non-warrantable Condos, *and projects not meeting Established Project criteria*
- *Manufactured Homes*
- *Properties sold at auction by the builder, developer or construction lender*
- Condotels
- Live Work Style Condos
- Condo/PUD Projects with pending litigation
- Timeshare Units
- Cooperatives
- Houseboats
- *Properties exceeding 10 acres*
- *Residences lacking full kitchen and bathroom facilities*
- Working farms, ranches, orchards and/or commercial operations
- *Properties without a permanent heat source and, if typical for the area, cooling. Space heaters and similar sources are not considered permanent, even if affixed to a wall**
- Properties on FNMA's ineligible projects list
- *Deed/Resale restricted properties. Restrictions include those that limit the use of all or part of the land on one or any number of owner characteristics or other requirements, income limits, occupancy, homebuyer status, employment (employer provided subsidy), or resale price.*
- Leasehold Estates
- Unique Properties: Dome, geothermal, foundation on stilts, one of a kind luxury residences

Condominium Project Eligibility

- FNMA Limited Review, <u>if allowed by DU (</u>Includes detached, 2-4 unit projects) or full lender review on established projects. "Established Project" means 100% complete AND 90% conveyed AND control of HOA turned over to HOA.
- FNMA High Balance: Limited Review not accepted

Condominium Insurance Requirements

Walls-in Policy
A "walls-in" (HO-6) condominium insurance policy endorsement is now an Agency requirement, and applies to all conventional loans. **This coverage covers fixtures, equipment, and other personal property inside individual units**. HSOA must consider this insurance policy as part of the borrower's housing expense in qualification (when the association's master policy does not provide this coverage). Also, the "walls-in" policy must be escrowed on any loan where impounds are required.

This applies to all condominium projects with attached units, including two-to four-unit projects, and is required unless the lender can document that the master policy provides the same interior unit coverage. The master policy must include replacement of improvements and betterment coverage to cover any improvements that the borrower may have made to the unit.

The HO-6 insurance policy must provide coverage in an amount that is no less than 20 percent of the condominium unit's appraised value.

Condominium Project Replacement Cost Coverage
Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units in a condo project. An insurance policy that includes either of the following endorsements ensures full insurable value replacement cost coverage:

- A Guaranteed Replacement Cost Endorsement (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).
- A Replacement Cost Endorsement (under which the insurer agrees to pay up to 100% of the property's insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).

Fidelity Bond/Fidelity Insurance
Fidelity Bond/Fidelity Insurance is required for new and established condominium projects with 20 or more units. The HOA must maintain this insurance for all officers, directors, and employees of the association and all other persons handling or responsible for funds administered by the association. The coverage must be no less than a sum equal to three months aggregate assessments on all units plus reserve funds, unless a lesser amount is allowed by state law.

Rural Properties

- A rural area relates to the country or anything beyond the suburban area.
- The primary dwelling for properties in rural areas must represent 70% or more of the total appraised value of the property. Outbuildings such as barns or stables are not considered in the 70% calculations.
- Working farms, ranches, orchards, and/or commercial operations are not permitted.
- Properties with outbuildings require special consideration.
- Properties with *minimal* outbuildings, such as a small barn or stable that are of relatively insignificant value in relation to the total appraised value are acceptable if they are typical residential improvements and support the residential use for the location and property type.
- Comparable sales with similar improvements should show they are typical and have an existing market. A property with an atypical minimal outbuilding is still acceptable as long as the appraiser's analysis reflects little or no value for it.
- Properties with *significant* outbuildings must be reviewed with great care, regardless of whether the appraiser assigns any value to them or not. Their existence may indicate the property may be used for agriculture or other income producing purposes.

Mixed Use Properties

Considered on 1-unit owner-occupied transactions operating a sole proprietorship out of the home. Property must have had minimal structural modifications to accommodate the business purpose. Business use cannot exceed 25% of the improvements or the property.

Mixed use properties may require additional comparables to support the appraiser's conclusion that the property is primarily residential, the value is based on residential use, and there is a ready acceptance in the area marketplace of such properties as residences.
At least three of the following comparable sales listed in the report must be:

- Similar to and located near the subject.
- Recently sold (if the sale of the comparable property occurred more than 6 months before the date of the appraisal, the appraiser must justify in the appraisal report the use to the comparable property).

Geographic Restrictions

Eligible in all communities nationwide, subject to the following limitations.

The following counties in Florida are ineligible for financing: Broward, Collier, Glades, Hendry, Lee, Miami-Dade, Monroe, and Palm Beach.

The following restrictions also apply for properties located in Florida:

- *No condos, 2-4s, second homes or investment properties*
- *Detached one-unit properties are limited to 90% LTV/CLTV/ HCLTV*
- *Attached properties (attached PUDs, townhomes, etc) are limited to 80% LTV/CLTV/HCLTV*

Properties in Rhode Island, Michigan and Oregon are not accepted on wholesale loans.

Hawaii properties located in Lava zones 1 or 2 are not eligible.

Loans requiring mortgage insurance are subject to additional restrictions; refer to current soft market policies available on the MI company website.

Home Inspections

Home inspection Reports are required on conventional loan purchase transactions when a Home Inspection Report is a contingency of the purchase contract. This applies to all inspection purposes, including Home Inspections or specific purpose inspections such as roof, electrical or mechanical, radon, termite or other insects, foundation, or structural inspection.

The underwriter should condition the loan for repairs or addition inspections only those inspection report items that indicates major repair/condition deficiencies or health and safety concerns.

If significant items are indicated on the Inspection report, a copy is to be provided to the appraiser, who should acknowledge reviewing it and address those items as to any value or condition adjustments being necessary

Borrower Eligibility

Occupancy

Owner Occupied, Second Homes & Investment. *For owner occupied transactions, when an existing owner occupied loan is less than one year old, and borrowers will be retaining that property, exception approval is required.*

Second homes must be in vacation/resort areas.

Maximum of 4 borrowers are accepted on any loan transaction.

Investment Properties

- *See Rental income in Section 4 for details on accepting rental income.*
- *<u>Distant Properties</u>: Purchases and refinances of properties owned less than one year should be within 50 miles of borrower's primary residence. Exceptions considered for borrowers with a two year history of owning and managing rental properties. On refinances of distant properties, document 12 months prompt mortgage payments if file documentation does not include tax returns covering a full calendar year of ownership).*
- *Properties occupied by others, including family members, must be considered classified as Investment properties.*

First Time Homebuyers

Defined as not having owned a home for the past 3 years, or for less than one year on current residence. Not eligible for 3-4 unit properties, second homes, or investment properties.

Borrower Eligibility

Borrower Type	Requirements
All borrowers, including U.S. Citizens	Allowed with a valid Social Security Number and which must be on all applicable income, asset, or credit documentation contained in the loan file.
Permanent Resident Aliens	Eligible under same conditions as a U.S. Citizen. Permanent Resident Alien Card (Green Card) required.
Non-Permanent Resident Aliens	Eligible under same conditions as a U.S. Citizen. Legal resident with valid social security number, employed in U.S. ITIN not acceptable.

Non-Occupying Co-Borrowers

If there is a non-occupant co-borrower, the owner-occupant must meet the following requirements:

- **Purchase Transaction Assets**– If the LTV is greater than 80%, the owner-occupant must have 5% of the purchase price in their own funds.
- **Qualifying Ratios** – The owner-occupant must qualify without the benefit of the non-occupying co-borrower income, as accepted by DU. DU does not recognize income or liabilities from non-occupying co-borrowers.
- **LTV** – Up to 90% LTV allowed if co-borrower does not need to occupy property. LTV greater than 90%, co-borrower must occupy property.
- Not eligible for Interest-only loans

Non-occupant co-borrowers are not allowed on Texas (a)(6) loans. Any consumer initiated conveyances of the property adding new owners on a Texas (a)(6) must be completed at least 12 days prior to closing. Additionally, the new owners must receive the "Notice Concerning Extensions of Credit" at least 12 days prior to closing.

Title Vesting

Title may be held as individuals, or in a FNMA-eligible revocable living trust. Vesting as a corporation, LLC, Partnership, Land Trust, Nominee Trust, irrevocable trust, or otherwise not eligible for financing by FNMA, is not accepted.

Tenants in common ownership with a Tenancy in Common Agreement is not allowed.

If title vesting is in a trust:

- *The trust may be the only title holder. A Trust in title jointly with an individual or another Trust is not allowed*.
- *If the subject property is not included in the listing of the Trust's assets, exception processing is required*.
- Accepted on all occupancies and number of units.

Transaction Requirements

Chain of Title

24 month chain of title required, indicating buyers, sellers, price and date. Any increases in value/price must be justified. The appraisal is not an acceptable source for chain of title information

Flipping Restrictions

The following restrictions apply to all transactions <u>except properties being sold by the foreclosing institutional lender</u>.

<u>Notes</u>: Seller's ownership must be recorded on title.

Date comparison will be from seller's acquisition date to the earliest of the purchase contract, application/origination date, or case assignment date (FHA and VA Loans).

If the recording date of seller's acquisition is delayed beyond normal recording office delays (generally more than 45 days), underwriters may require 90 days from recording date, or additional documentation to prove the actual date of deed transfer (ex: settlement statement and proof of funds being paid).

Owned <= 90 days:

- *Maximum 10% increase without documented improvements*
- *Maximum increase of 20% or $100,000, whichever is less, with documented improvements.*
- *Transactions with sales price greater than or equal to a 20% increase over seller's acquisition cost are not allowed.*

Regardless of who the property seller is, if the resale occurs within 0 to 90 days, all transactions must be arms-length; no identity of interest between buyer, property seller or third parties.

Specific ways to ensure an arms-length transaction include:

- *Seller holds title to the property*
- *LLCs, corporations or trusts serving as property sellers must meet all applicable state and federal law.*
- *No pattern or previous flipping activity exists on the property (as evidenced by multiple title transfers within 12 months.*
- *The property was marketed openly and fairly (Any sales contracts with "assignment of contract of sale" is not allowed).*

Owned 91 days-One year:

Any price increase greater than 20% must be based on documented detailed improvements made to the property. Appraisers should provide itemized details and project costs, and pictures of the significant improvements made.

Extra due diligence is required whenever the seller is an LLC. Desk or field review by Landsafe is required if the LLC has owned the property less than one year.

Non-Arm's Length transactions

~~Accepted only on one-unit owner-occupied purchases and refinances on existing properties.~~ Exception approval is required.

A non-arms length transaction exists whenever the applicant has a personal or business relationship with the seller, builder, developer, real estate agent, appraiser, lender providing the financing, title company or any other interested party. These relationships may influence the transaction and should be reviewed thoroughly. Non-arms length transactions include, but are not limited to affiliates of the applicant;

- Family members related by blood or marriage to the seller.
- Owners, employees or family members of origination lender.
- Builders or developers.
- Renters buying from landlord.
- Trading properties with the seller.
- Employed by family members.

If the borrower is employed by the

- o property seller, or
- o submitting mortgage broker, or
- o lender and was involved in the origination/processing of the loan, then

the following restrictions apply:

- Borrowers must be classified and documented as a self-employed borrower. The DU submission must reflect 'Self-employed'.
- Self Employed Income Analysis Form (Fannie Mae Form 1084) must be completed on every transaction and included in the loan file.
- Borrower must be employed by the current employer (mortgage broker, lender or property seller) for at least the length of time DU requires as the 'self-employment' period.
- Calculate the income from the tax returns as required by DU, or a current pay stub, whichever is lower.
- Exception approval is required.

If the borrower is employed by the lender and was not involved in the origination/processing of the loan, exception approval is required, but the restrictions listed above as to self-employment classifications and employment history do not apply.

Seasoning

- ~~*During first year of ownership* (ownership date to earliest date of new application documents) *use the lesser of current value or acquisition cost to calculate LTV/CLTV.*~~
- Cash out refinances during first 6 months of ownership is not allowed (ownership date to earliest date of new application documents)
- Borrowers that have taken a cash-out loan on the subject property within the last 6 months (funding date to earliest date of new application documents) *require exception approval.**

Properties Recently Listed for sale

Refinances on properties currently listed for sale are not permitted. If the listing was cancelled prior to the date of loan application and appraisal:

- Rate/Term transactions are allowed without further restrictions.
- On cash out transactions, the listing agreement must be cancelled six months prior to the application date, or the loan is limited to 70% LTV/CLTV.

Continuity of Obligation

Loans with acceptable continuity of obligation may be underwritten and priced as rate-and-term or cash-out refinances according to the standard definitions. An acceptable continuity of obligation 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 recently inherited or was legally awarded the property (for example. divorce or separation), or
- The borrower has been on title and residing in the property for at least 12 months, and has either paid the mortgage for the last 12 months or can demonstrate a relationship(relative, domestic partner) with the domestic partner) with the current obligor, or
- The loan being refinanced and the title to the property are in the name of a natural person or a limited liability company (LLC), provided the borrower(s) have always been the only LLC member(s) prior to the transfer. If the LLC had multiple members, all members must be borrowers on the new loan.

  Note: Title to the new loan must be as individuals or in an eligible Trust. While a transfer from an LLC to individuals is allowed as identified above, transfer of ownership from any other form of ownership, including corporations or partnerships, does not meet the continuity of obligation requirement.

If the borrower is currently on title but is unable to demonstrate an acceptable continuity of obligation, or there is no outstanding lien against the property, the loan must be underwritten and priced as a cash-out refinance transaction. Additionally, the following restrictions apply:

- Loans with no outstanding liens:
  - Property purchased within the past 6 months are not eligible
  - Property purchased within six to 12 months prior to the application date for the new loan transaction: The loan-to-value is based on the lesser of the original sales price (documented by the HUD-1 Settlement Statement) or the current appraised value.
  - Property was purchased more than 12 months prior to the application date for new loan transaction; the current appraised value is used to calculate the loan-to-value.

- Loans with outstanding liens but with no continuity of obligation:
  - At least one borrower must have been on title for at least six months, and the maximum loan-to-value (based on the current appraised value) is 50%.

Rate/Term Refinance

A rate and term refinance is a new mortgage loan that pays off in full the sum of the liens noted in the following. It is acceptable to include closing costs, discount points, prepayment penalties, and any prepaid items, such as hazard insurance and property taxes for the current year, as part of the transaction.

The inclusion of any delinquent property taxes or HOA dues in the loan amount is not allowed on a rate and term refinance.

- Unpaid principal balance of an existing first lien
- Junior liens that were used for the original purchase of the home (note: not allowed by MI companies).

Other than payment of the first and eligible second liens and closing costs, incidental cash back may not exceed the lesser of 2% of the principal amount of the new mortgage or $2000. Properties located in Texas – borrower must receive no cash back at closing. DU Refi Plus loans (in all states except Texas) may not receive more than $250 cash back.

Cash out Refinance

A cash out refinance involves a new mortgage loan in which the cash back exceeds the lesser of 2% of the new mortgage principal balance or $2,000 and is used to pay off the unpaid principal balance of the existing first mortgage and the amount required to satisfy any outstanding subordinate mortgage liens, no matter how old. Any additional cash back received may be used by the borrowers for any purpose. A statement from the borrowers disclosing the purpose for the cash out is required. There is no limit to the amount of cash back on an owner occupied one-unit property. For all other occupancies and properties, HSOA reserves the right to limit the amount on a case-by-case basis.

It is acceptable to include closing costs, discount points, prepayment penalties, and any prepaid items, such as hazard insurance and property taxes (current and previous year), as part of the transaction.

Texas Owner Occupied Refinances

See Texas Owner Occupied Refinance Overlay for additional details and requirements.

Financed Properties

Maximum number of residential properties owned by borrower with outstanding mortgage liens

Occupancy Type	Total Financed Properties
Primary Residence	unlimited
Second Home and Investment Property	*4*

Seller/Interested Party Contributions

Maximum allowed listed below, not to exceed the actual charges for:

- non-recurring closing costs
- prepaid escrows - provided escrow/impounds are established for taxes, insurance and mortgage insurance.

Borrower must pay the per diem interest collected at closing.

The sales price on a finalized purchase contract cannot be increased to cover closing costs. The LTV/CLTV must be based on the lesser of the original sales price or appraised value if there is evidence in the loan file that the sales price was increased to include the borrowers closing costs.

Occupancy	CLTV	Maximum Seller Contributions
Owner Occupied	>90% <=90% and >75% <=75%	3% 6% 9%
Second Home	>90% <=90% and >75% <=75%	3% 6% 9%
Investment	All LTVs	2%

Exposure Limitations

The policy on mortgage ownership limits is designed to protect the company from excessive risk exposure with the same borrower.

- HSOA will finance up to 3 properties (including the subject property) at conforming loan limits,
- *Maximum 20% concentration in any one project or subdivision.*
- New multiple loans must be underwritten simultaneously.
- If the aggregate dollar amount of all loans to one applicant from HSOA (including the amount of the new loan) exceeds $1,000,000, the loan request may require approval by Credit Policy

2. Documentation

Underwriting Decision

All loans must be run through an automated underwriting engine (DU) and receive an Approve/Eligible recommendation.

Fannie Mae Guidelines.

All loans must meet Fannie Mae and HSOA guidelines. Loans that are underwritten using DU must be documented according to the requirements of the findings report.

Exceptions:

- *See Minimum Trade Lines and Credit Inquiries (section 3) and Rent Loss insurance requirements (section 4)*
- *A 4506-T must be executed before closing, with findings acceptably validated. An additional 4506-T must also be signed at closing.*
- *Transactions determined to be Higher Priced Mortgage Loans are not eligible for any documentation relief. Files must have traditional income documentation covering two years, all assets verified and a full appraisal.*
- *Child support and spousal income requires 12 months proof of receipt, 6 months if the support income <=30% of the gross qualifying income.**
- *Foster Care income requires 24 month proof of receipt, 12 months if foster care income <=30% of the gross qualifying income.**
- *YTD P&L and balance sheets for applicable year(s) are required on self-employed borrowers whenever the closing date is more than 90 days after the most recent tax returns.**
- See Section 7-Appraisal Forms for exceptions to following DU appraisal requirements.

EA levels I & II

Discontinued.

Age of Documentation

90 days for all documents. . In addition, monthly bank statements must be dated within 45 days of the initial application date, Appraisal updates (1004D) are not accepted, a new appraisal is required. See appraisal requirements in Section 37 for age of comparable sales comps.

Updated credit reports are required when the existing credit report is expiring, or when there are material changes to the reported information. *HSOA will NOT accept an updated credit report solely because the credit score has improved.*

Project Questionnaires

Project Questionnaires are required on all condominiums and attached PUDs. HSOA forms are provided on the HSOA website at www.myhsoa.com/broker_login/broker_resources.php. Competitor forms are accepted, provided they contain all the required information.

3. Credit

Credit and Credit Scores

All borrowers must have a minimum representative credit score of at least 620, except where a higher credit score requirement is indicated throughout this Product Summary, or as may be required by the mortgage insurance company.

Minimum trade lines

Each borrower must have three trade lines, regardless of credit score or AUS findings:

- *One with >= 24 month reporting history.*
- *The other two with >= 12 months reporting history.*
- *At least one of the three is currently open and has a "Last Activity Date" within the past 12 months.*

- *Eligible trade lines are standard reporting creditors, and do not include authorized user accounts, judgments, collections or charge-offs, non-traditional creditors, or student loans that were in deferment status during the required time frame.*

Exceptions for borrowers not meeting these minimum trade line requirements (but who meet all other credit and credit score requirements) will be considered with a documented recent 12 month prompt rental payment and a housing payment shock not exceeding 50% (example: payment increasing from $1,000 to $1,500).

Late payments are considered accounted for in the credit score. However, the following items are subject to individual evaluation, no matter how high the credit score:

- Judgments, collections, charge-offs, tax liens.
- Bankruptcy
- Foreclosure including deed-in-lieu, and short sales, Notice of Default, 120-day lates Mortgage late payments – 0x60 in the last 12 months. Foreclosure rules apply to any property owned or occupied by the borrower (except for renting from a landlord), or properties owned or occupied by other parties on title to the subject property.

Each borrower must have at least 2 credit scores. HSOA requires that a single representative credit score be selected for each borrower. A representative score is determined for the borrower and the loan, as follows:

Borrower Representative Score:

- If a total of 3 scores are obtained for a borrower, the designated score for that borrower shall be the middle score.
- If a total of 2 scores are obtained, the lower score will be the designated score for that borrower.
- If only one score is obtained, *the loan is ineligible.*

Loan Representative Score:

- If there are co-borrowers on the loan, the credit score applicable to the loan itself will be the lowest of the respective borrowers' scores.

*Credit report must indicate all 3 repositories were accessed and the score was not available.

Bankruptcy

For all bankruptcy types, the time period required to reestablish credit is measured from the bankruptcy discharge or dismissal date.

For Chapter 7 and Chapter 13, the time period to reestablish credit is four years.

Multiple Bankruptcy Filings

For borrowers with multiple bankruptcy filings during the last seven years, a five-year seasoning from the most recent discharge or dismissal date is required to reestablish credit.

Foreclosure

For borrowers with a past foreclosure the time period required to reestablish credit is 5 years from the completion date. The following additional requirements apply after 5 years and up to seven years from the completion date:

- For purchase transactions, the borrower must contribute the greater of 10% minimum down payment or the minimum required for the loan program (no gifts). The borrower must have the greater of a 680 credit score or the loan program minimum.
- For rate and term and cash-out refinances, the time elapsed must be seven-years or greater.

Short Sales or Pre-Foreclosures, Short Pay-offs or Re-Structured Debt

For borrowers who sold *or refinanced (or* are selling *or refinancing)* a property for less than the amount owed on the mortgage (as agreed to by the lender, investor, and mortgage insurer), a four-year seasoning for reestablishing credit following the sale or refinance of the property is required.

Deed-in-Lieu of Foreclosures

For deed-in-lieu of foreclosures, the time period from the completion date or the date the deed-in-lieu was executed, is reduced to four years. However, additional requirements apply after four years and up to seven years following the completion date:

- For purchase transactions, the borrower must contribute the greater of 10% minimum down payment or the minimum required for the loan program (no gifts). The borrower must have the greater of a 680 credit score or the loan program minimum.
- For rate and term and cash-out refinances, the time elapsed must be seven-years or greater.

Pay-off Demand Statements

Current pay off demand statements are required on all refinances, and must show that the loan:

- is not 30 days delinquent
- does not contain charges associated with default/forbearance
- does not indicate a curtailment of principal/interest (e.g. short pay)
- meets the program requirements for mortgage delinquencies

Credit Inquiries

If the credit report indicates that a creditor has made an inquiry within the previous 90 days, a letter from the creditor or signed statement from the borrower is required to determine if additional credit was obtained. Any new debt must be included in qualifying the borrower.

Disputed Tradelines

If the tradeline **does not** belong to the borrower, or the reported payment history is **inaccurate**, written documentation is required to evidence the erroneous information. Under these circumstances, when the information is validated, DU may require no further action.

If the tradeline **does** belong to the borrower and the reported payment history is **accurate**, the disputed tradeline(s) must be considered in the credit risk assessment. <u>To ensure the disputed tradeline is considered by DU, a new credit report must be obtained with the tradeline no longer reported as disputed and resubmitted the loan casefile to DU.</u>

If neither of the above steps are available options, refer to the Manual Underwrite Overlay for a possible solution.

4. Employment/Income

Verification of Employment (VOE)

Follow DU for documentation requirements, subject to the following:

- If a written VOE is utilized for current employment, it must be accompanied by a computer generated pay stub showing YTD income, with all information consistent with the VOE.

Verbal Verification of Employment (VVOE)

HSOA will obtain a verbal confirmation of current employment or self-employment within 5 business days prior to funding the loan.

Verbal VOE requirements for self-employed income:

HSOA must verify the existence of the borrower's business

- from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible; **<u>and</u>**
- by verifying a phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance.

If the contact is made verbally, HSOA must document the source of the information obtained and the name and title of the person who obtained the information for HSOA.

FNMA 1084 Self-employed Income Analysis form

Submission documents for self-employed borrowers are to include a completed 1084 form, which will show the calculations for determining a borrower's self-employed income.

Rent Loss Insurance

Required on all subject property 1-4 unit investment properties and 2-4 unit properties where rental income is used to qualify. This insurance covers the borrower for rental income losses in the event of physical damage to the home.

Rental Income

Topic	**Rental income is from:**		
	Subject property owner occupied 2-4 unit	**Subject property 1-4 investment**	**Other real estate owned**
Landlord experience required (applicable if rental income is needed to qualify)	None	As required by DU	As required by DU
Rental Documentation Required			
Purchase	Document with fully executed lease agreement; and the receipt of a security deposit and rent checks from the tenant and deposit into the borrower's account.		N/A
Most recent tax returns reflect a full or partial year ownership	Tax returns		
Property was acquired after most recently filed tax returns	Fully executed lease agreement with canceled security deposit and rent checks deposited into borrower's account.		
Calculating rental income			
	Purchase: 75% of the monthly lease amount added to borrower's income. Refinance: tax returns or leases as per above and as required by DU	**<u>Purchase and transactions where property was acquired after most recently filed tax returns:</u>** Subtract mortgage payment from 75% of the rental income. **<u>For properties currently owned, DU determines the number of years of tax returns to use</u>** Complete the Self-employment analysis, FNMA Form 1084 section for Schedule E income; use one form for each property reflected on the tax return. <u>Partial year ownership - for properties purchased or sold during the calendar year</u>	

<table>
<tr><td></td><td></td><td colspan="2">Calculating monthly income off tax returns:
a. Property purchased during the year:
• If net income is positive, divide the income by 12 months
• If net income is negative, divide the loss by the number of months owned

b. Property no longer owned: remove that property's income/loss from the calculations.
• If the tax returns reflect the property as having been sold, no further documentation is required.
• If the property was sold after the last tax returns, provide HUD-1 to document proof of sale.

<u>Summary</u>: If positive net rental income, add to income; if negative, add as a long term debt.</td></tr>
<tr><td colspan="4">Other requirements</td></tr>
<tr><td>Appraisal requirements (required in ALL instances, even if rental income is not required)</td><td>FNMA 1025 with 216 - Operating income statement</td><td>FNMA 1004 with 1007 and 216, or 1025 with 216</td><td>N/A</td></tr>
<tr><td>Rent loss insurance</td><td colspan="2">Required if rental income is used to qualify</td><td>N/A</td></tr>
<tr><td>Reserves required</td><td>If rental income is not used to qualify, follow DU.

If rental income is used to qualify: 6 months reserves; or as required by DU with exception approval</td><td colspan="2">6 months on subject property plus 2 month on all other financed properties</td></tr>
</table>

Documentation Consistency in all Scenarios
Documents in the file must be consistent. When the loan file contains operating income statement, the income approach on the appraisal and/or copies of the present lease(s), they must support the net rental income used to qualify the borrower.

Conversion of Primary Residence

Converting existing primary residence – properties previously converted

<u>With exception approval,</u> the policy allowing rental income when converting a primary residence may be accepted on 'conversions' that occurred earlier in the current calendar year.

To be eligible for exception approval:

- The DU findings:
  - Must include the standard rental income/conversion verbiage (see below), and
  - Do NOT require a prior history of owning rental property.

If the above two criteria are met, the conversion requirements may be utilized on properties vacated earlier in the calendar year.

- The required 30% equity must be based on value as of the new loan's application date (not the value at the time of vacating the property), using either a Landsafe AVM or an appraisal ordered through Landsafe (2055 with 1004MC is accepted on 1 unit detached properties).
- Documentation requirements:
    - Copy of Leases and proof of receiving security deposits
    - Proof of receiving rents since vacating the property.
    - Document and explain the circumstances that now require a new loan application since the recent conversion.
    - Document and explain the reasons for any delays in renting after vacating the property, if applicable.

If the vacated property rental started in 2009, or does not have at least 30% equity, then property must be considered as other real estate owned. For properties where rental started in 2009, the 2009 tax returns must be used for calculating rental income. For properties with less than 30% equity, rental income cannot be used to offset any portion of the property's PITI.

Note: The standard DU rental income/conversion verbiage referenced above is as follows:

"Verify the net rental income or loss with the borrower's most recent signed federal income tax return (Pages 1, 2 and Schedule E). A copy of the current lease agreement may be used only if the property is not on the Schedule E because it was acquired subsequent to filing the tax returns. If the property is currently the borrower's primary residence, a fully executed lease agreement, receipt of a security deposit, and documented equity in the property of at least 30 percent must be provided. If the total expense ratio already includes the entire rental property payment (i.e., income from the property not considered), no documentation is required. Net rental income is not allowed on second homes and should not be used for income on the subject property. Refer to the Selling Guide for additional information."

Conversion of Primary Residence – Concurrently funded transactions

To determine equity in all scenarios below:

If a property is owned free and clear, underwriting will obtain a DataQuick or HistoryPro report on the property to confirm there are no outstanding liens. Exception approval is not required.

For properties with liens, exception approval is required in all cases. Options for determining value are:

- Landsafe AVM (accepted on one-unit properties), or
- HVCC compliant appraisal (2055 with 1004MC accepted on 1 unit detached properties), or
- Appraisal ordered through Landsafe (2055 with 1004MC accepted on 1 unit detached properties).
- **Note: Landsafe AVM will be ordered by HSOA; appraisals must be dated within 60 days of closing date.**

Reserve requirements in all scenarios below:

- Subject property being financed by HSOA is a one-unit owner occupied property: follow DU
- Subject property being financed by HSOA is a 2-4-unit owner occupied property: 6 months reserves for subject property, (with exception approval, follow DU); for property being converted, follow DU
- Subject property being financed by HSOA is a second home or investment property: not eligible for 'conversion' rules.
- Note: DU will typically require 6 months reserves on both properties if the converting property has less than 30% equity; 2 months reserves on both properties if >=30% equity.

Current Residence is For Sale or Pending Sale

If the current residence is a pending sale, but will not close prior to the new transaction (for instance, title transfer to the new owner) qualify the borrower(s) using the following:

- Both the current and proposed mortgage payments, and
- Evidence of PITI reserves as outlined above

The current mortgage payment (but not the reserves requirement) may be omitted with the following documentation

- The executed sales contract for the current primary residence, and
- Confirmation that any financing contingencies have been cleared, and
- Evidence of PITI reserves as outlined above

Conversion to a Second Home:

- Both the current and the proposed mortgage payments (PITI) must be used to qualify the borrower for the new transaction; and
- Evidence of PITI reserves as outlined above

Conversion to an Investment Property:
Property being converted is a one-unit building

- 75 percent of the rental income may be used to offset the mortgage payment (PITI) in qualifying if there is documented equity of at least 30 percent in the existing property

The rental income must be documented with:

- a copy of the fully executed lease agreement; and
- The receipt of a security deposit from the tenant and deposit into the borrower's account.

If the 30 percent equity in the property cannot be documented, rental income may not be used to offset the mortgage payment.

- Both the current and the proposed mortgage payments (PITI) must be used to qualify the borrower for the new transaction; and
- Evidence of PITI reserves as outlined above

Property being converted is a 2-4 unit property.
The 30% equity rule applies to the rental income from the unit currently occupied by the borrower.

Rental income from the other units in that building may be used, provided the borrower meets the documentation requirements for rental income, above.

5. Assets

Borrower Investment

The borrowers must have enough liquid assets to cover the down payment, closing costs, any prepaid items, and reserves as required.

Acceptable Sources

- Borrower's own funds, including checking, savings, certificate of deposit, or other depository accounts.
- Proceeds from loans secured by the borrower's own assets, such as a 401(k) loan.
- Gifts from acceptable sources
- Funds from a HELOC, subject to exception approval
- *Joint accounts with non-borrowing spouses are accepted. All other accounts held jointly with another party will be accepted if all the following are met:*
    - *Account holder address on bank statement is the same as the borrower's*
    - *Other account holder affirms borrower's rights to full access on the account*

Assets brought to closing must be from sources and amounts as have been verified. Transfers between verified assets to consolidate funds into one check must be documented. If the source of funds for down payment or closing costs is from the sale of stock, or the withdrawal or loan from a retirement account, the file documentation must evidence the receipt of funds and the sale, liquidation or withdrawal of the asset.

Bank statements: Documenting the source is generally required when non-payroll deposits exceed $1,000, either individually or in aggregate, over one month's statement.

Business funds

Business funds/Corporate accounts are accepted for down payment, closing costs and reserves as allowed below. Any recent transfers from business to personal accounts on any of the bank statements included in the loan file must also meet these requirements.

Bank Account Holder's names	***Eligibility***
Personal	*Accepted without restriction*
Personal and a business name, or business name	*Allowed, subject to:* • *Exception approval* • *tax returns are filed as a Sole Proprietor using Schedule C* • *borrower is the sole owner of the business* • *Two year financial review is made of the business tax returns.* • *Determination by HSOA Underwriting that the withdrawal of the funds will not negatively impact the business. If the tax returns were professionally prepared, a CPA letter is required as part of this determination.*

Determining the value of the asset when used for reserves

- **Stocks, bonds, and mutual funds**: 70% of the value may be used as reserves (reduced from 100%).
- **Retirement accounts**: 60% of the vested value may be used as reserves (reduced from 70%).
- **Stock options and non-vested restricted stock** are not eligible for use as reserves.

Unacceptable Sources

- Cash-on-hand
- Sweat Equity
- Cash advance on a revolving charge account, unsecured or secured line of credit.~~, including HELOCs~~

Verification of Deposit (VOD)

Acceptable if accompanied by one month of current account statements.

Earnest money deposits

Generally expected to be documented as being paid and the funds sourced as coming from borrowers' accounts.

Gifts

Gift Funds – Purchase or Rate/Term transactions only	
Type	**Owner Occupied** **(not accepted on *second home* & investment properties)**
Source	• Relatives • Domestic partner • Fiance'/Fiancee' • Church • Municipality • Non-profit organizations
Percentage of Borrower's Funds	Minimum 5% down payment must be from the borrower's own funds. **Note:** The entire down payment may be a gift if <=80% LTV/CLTV.

Reserves
Reserves required are based on the occupancy of the subject property:

Owner Occupied	Second Home	Investment
2 months, unless DU allows a lower amount *2-4 unit properties: 6 months*	2 months reserves for each residential property owned, excluding the primary residence or those owned free and clear.	6 months reserves on subject property investment property, plus 2 months reserves for each other residential property owned, excluding the primary residence or those owned free and clear.

- The reserves are calculated using the full PITI for each property - P&I, taxes, insurance, HOA dues (excluding any utility charges), mortgage insurance, ground rents, special assessments, subordinate financing, etc.
- DU will calculate the required reserves only for the subject property. It cannot calculate the number of other financed properties owned. Therefore, underwriters must manually apply the reserve requirements to second home or investment property transactions.

6. Ratios

Qualifying Ratios
Maximum qualifying ratios are determined by DU, unless otherwise limited within this document or by the MI companies on loans >80% LTV. Current DTI limitation by MI companies is 41-45%, depending on LTV, credit score, property location, and transaction.

ARM loans with initial fixed rate periods of less than seven years qualify at the higher of the Initial Note rate or the fully indexed rate.

See Non-Occupying Co-Borrowers (section 1) for ratio requirements on affected loans

Liabilities
- Deferred student loan payments not listed on the credit report, creditors to provide actual scheduled payment amount for inclusion in the qualifying ratios.
- *Revolving accounts where the credit report does not include a payment, or the payment is less than 1% of the balance, use the greater of $10 or 5% of the balance unless a monthly billing statement is provided.*
- *Co-signed obligations are to be included in the DTI calculation unless the most recent 12 months of cancelled checks from the primary obligor are provided showing prompt payment.*
- Payments on "Authorized User" accounts should always be included in the debt-to-income ratio unless written documentation (i.e. 12 months cancelled checks) is provided proving that the owner of the account is making the payments. If an authorized user's account is used to meet the minimum credit requirements, then both the payment history, including any late payments, and the monthly obligation must be considered in the credit analysis and included in the DTI ratios. If the AUS approval is based on authorized user account trade lines, underwriter must confirm these accounts accurately reflect the borrower's credit history.
- HELOC payment amounts are to be calculated according to the matrix below:

Property that secures the HELOC	Payment reflected on credit report*	No payment on credit report*
Subject property	With exception approval, use credit report payment; otherwise 1% of max line	1% of max line
Non-subject property	credit report payment	1% of max line

*If the source for any down payment funds or recent deposits (if any) is from the HELOC in question, use 1% of the maximum line amount.

Paying off or paying down debt to qualify

Action	Revolving Debt	Installment Debt
Paying off debt	Allowed without limitation if the current monthly payment for accounts being paid are included in the DTI calculation. Allowed if <=80% LTV/CLTV, subject to exception approval, provided $10 payment is included in the DTI calculation for each revolving account being paid off. Not allowed if >80% LTV/CLTV.	Allowed, no further consideration required
Paying down debt or amortizing payments have reduced number of payments to less than 10	Not allowed on revolving accounts. For installment accounts, generally not allowed when large payments are involved. Underwriter must consider effect of remaining payments on borrower's ability to make payments, including amount of excess reserves available that could be used to make the remaining payments	

Qualifying amount for Property Taxes

For qualifying purposes for the property tax payment, for California purchase transactions use 1.25% of the sales price. In all other cases, compare the following sources and use the highest of: appraisal; title commitment binder/prelim; tax bill, if provided; or for new construction properties, 1.25% of the sale price unless a higher percentage is typical and customary.

7. Appraisers and Appraisals

Appraisers

Must be state licensed with no prior disciplinary action. Must not be on any Exclusionary list.

Appraisal Forms

Follow DU for appraisal requirements except in the scenarios below*:*

Scenario	Appraisal requirements
Cash out refinances	*With exception approval, follow DU; otherwise obtain 1004/1073/1025 as applicable for property type*
LTV exceeding 80% (restriction not applicable for DU Refi Plus)	*1004/1073 appraisal (required by MI companies)*
Refinances in Texas that are Texas 50-a-6 transactions	*Obtain 1004/1073 as applicable for property type. Exceptions are not allowed*
Loans with a PIW waiver ***and:*** • *the last transaction was the purchase of a foreclosed property, or* • *A disaster was declared within one year of the application date.*	*2075 or 2055 or 1004/1007/1025*

Reminder: Appraisal form 2075 and Loans with a PIW acceptance by DU must have PIW fee charged at closing and borrower sign the PIW waiver form.

General Appraisal requirements

- The most recent and similar comparable sales available as part of the sales comparison approach must be used. Any change in market conditions from the date the contract of sale was signed and date of the appraisal must be considered.
- Verification of comparable sales with a reliable party that is not associated with the subject property or the subject property’s development, and at least two comparables, must be verifiable through the Multiple Listing Service (MLS) as arms length transactions.
- Two of the comparable sales must have closed **within 90 days of the appraisal effective date.**
- Two additional comps of current listings or pending sales must be provided.
- Comparable sales must be mapped in the appraisal.
- Days-on-market (DOM) for subject and comparable sales must be provided, if applicable. The average days-on-market for the comparable sales must not exceed the “Marketing Time” box marked by the appraiser.
- If the appraiser is unable to meet any of the above requirements, the appraiser must provide a detailed explanation as to why the requirements were not met, and if it resulted in making an adjustment to the property value.
- The Home Ownership and Equity Protection Act (HOEPA) directs that anyone involved in originating a loan must not directly or indirectly coerce, influence, or otherwise encourage an appraiser to misstate or misrepresent the value of the subject property.
- The appraiser must be provided with a copy of both the purchase contract and **all addenda** to ensure any financing and/or sales concessions are considered when determining impact on the value of the property. Amendments or adjustments received after the appraisal must be complete and supplied to the appraiser for review.
- If a supervisory appraiser signs the appraisal, the Supervisory appraiser must perform the property inspection.
- If an appraiser uses comparable sales outside the subject neighborhood when comparable sales are available, an explanation must be provided.
- Appraisers must provide a 12-month listing history for the property. Frequent listings and/or sales require explanation on each occurrence or listing and should include the data source(s), offering prices, and date(s), and any further evaluation as they may indicate "flipping."
- In the analysis and completion of the sales comparison approach, the appraiser may determine that time adjustments are required. These adjustments may be either positive or negative. The adjustments must reflect the difference in market conditions between the date of sale of the comparable and the effective date of appraisal for the subject property.

New construction Projects and Developments - Additional Requirements

- The appraiser must use at least one current sale from the subject builder/developer in the project, and either:
- One current sale from a competing builder/developer, or
- A resale from within the subject property's development that has closed within the last 30 days.
- If the appraiser is unable to meet any of the above requirements, the appraiser must provide a detailed explanation as to why the requirements were not met, and if it resulted in making an adjustment to the property value.
- When appraising new construction, both the contract/sales date (when the buyer entered into the contract with the builder), and the closing date must be reported and analyzed. Differences in market conditions between the contract/sales date and the effective date must be analyzed.
- The appraiser must provide the builder names of the subject property, and the comparables (if new construction also).

Market Conditions Addendum to the Appraisal Report

The Market Conditions Addendum to the Appraisal Report (Form 1004MC) is required for all conventional loans. Form 1004MC will:

- provide the appraiser with a structured format to report market data,
- help further clarify conclusions made by the appraiser, and
- supply the lender with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood.

Home Value Code of Conduct

Effective with all applications that started on or after May 1, and with any appraisals received in underwriting after June 1 (regardless of application date) must be HVCC compliant.

Operating Income Statement (216) and Comparable Rent Schedule (1007)

The operating income statement is required on all 2-4 unit properties, and all one-unit rental properties. The comparable rent schedule is required on all one-unit rental properties. These requirements apply on all subject property transactions, including transactions where the rental income is not used in qualifying.

Unpermitted Space

This is applicable when there has been an increase in the overall finished above grade improvements (generally excludes basements except for bath or kitchenette improvements, or remodeling that does not change the footprint – example: updated kitchen and/or bath, but still the same lay-out).

If the appraiser comments that an addition or conversion was made with permits, a copy of the permit(s) is not required.

If the appraiser makes no comments about there being any additions – no requirements unless the photos or description shows there was recent additional living space added, or the property had an obvious garage conversions.

If the Appraiser comments about additional space, but is silent on permits, either the city or appraiser is to confirm if permits were obtained.

All work performed must be to professional work standards. If not completed in professional quality, property is not eligible for financing. Summary of the following: the property is not eligible for financing through HSOA if any additions or space conversions involved mechanical, electrical or plumbing work without permits.

Type of improvement	**No permits, but the work DID NOT entail additional plumbing, electrical or mechanical changes**	**No permits, but the work DID entail additional plumbing, electrical or mechanical changes**
Room expansions	Acceptable, but exclude additional space from square footage calculations	Not eligible for financing; Cannot exclude additional space from square footage calculations
Garage conversions	The appraiser must show the value and description/floor plan as a garage/original use and not as a converted room. The appraiser must also estimate (and include in the valuation) a reduction for the amount of the cost to cure for re-conversion back to its original use. Municipality or appraiser must also confirm property does not violate any ordinances regarding off-street parking requirements.	Not eligible for financing Cannot exclude garage/conversion space from square footage calculations
Patio/porch enclosures	The appraiser must show the value and description/floor plan as a patio/porch/original use and not as a converted room. The appraiser must also estimate (and include in the valuation) a reduction for the amount of the cost to cure for re-conversion back to its original use.	Not eligible for financing Cannot exclude enclosed area from square footage calculations.

Work Completion Escrows

Subject to approval by HSOA management, escrow holdback allowed for minor repairs not exceeding $3,333 in cost; contractor bids/invoices are required. All work must be completed within 10 business days. Final inspection and photos required. Originator's fees will be withheld until all funds disbursed.

Construction-to-Perm

All construction-to-permanent loans must adhere to these requirements:

- The property must be complete at the time of the permanent financing funding.
- A final Certificate of Completion must be obtained.
- Photographs of the completed property are required.
- **All construction-to-permanent loans must be secured by owner-occupied primary residences**.
- The borrower must the primary obligor on the construction financing which is obtained through a legitimate financial institution **AND** the borrower is the owner of the lot on which the residence is constructed.
- Detached single family residences only.
- HSOA transaction will be as a Refinance. The borrower may or may not receive cash out.

These properties are not eligible for construction-to-permanent financing:

- Investment properties.
- Properties in which the borrower has a development interest (for example, if the borrower is also the builder).

The LTV depends on how long the borrower has owned the land.

Ownership of Land	Determination of LTV
Borrower owned the land for less than 12 months	LTV is based on the lesser of the: • Current appraised value **Or** Sales price of the land plus any documented improvement costs.
Borrower owned the land for at least 12 months	LTV is based on the current appraised value.

The cost of the land acquisition is determined by a certified copy of the closing statement (HUD-1) from the purchase of the land.

- If the land was a gift use the current appraised value of the land.

Labor performed by the buyer, also referred to as sweat equity, or the trade of any labor or goods from the buyer to the builder is not an eligible source of funds.

If the borrowers employ a general contractor, the following documentation is required to verify the cost of construction:

- Signed construction contract
- Copy of the improvement plans and complete breakdown of construction costs and specifications.
- Copies of canceled checks and receipts of bills for payment of any supplied, materials, labor, or funds paid directly to subcontractors by the borrower.

If a general contractor is not used to construct the building, the construction costs must be documented with copies of receipts or invoices and cancelled checks for materials, supplies and/or labor.

8. Compliance/Special Considerations

HSOA does not make any loans, which are defined, as “high-cost” under Section 32 or any State or locally governed legislation.

HSOA reserves the right to amend the requirements set out in this document without providing prior notice.

All loans must meet Program Guidelines and HSOA Conventional Underwriting guidelines.

- All Refinances must provide a tangible benefit to the borrower.
- Maximum allowable fees charged to borrower is the greater of 5% or $1,000 (excludes prepaids and charges from un-affiliated vendors (title co, appraiser, etc).
- Maximum Realtor fees allowed on any purchase transaction, including auction charges is 8%.

Cook County, Illinois

A copy of the Predatory Lending Database counseling determination and proof of counseling (if required) must be included in the loan file. If the loan is exempt from the requirements, a certificate of exemption must be included in the loan file.

Mortgage Broker Fee Agreement (applies to wholesale transactions only)

The HSOA Mortgage Broker Fee Agreement - completed, signed and dated is required with every wholesale submission. Any amendments (required for any increases in fees) must be signed and dated by all parties prior to drawing docs. State Fee disclosures are accepted in CA, CO, NY, SC, and WI, in lieu of the Mortgage Broker Fee Agreement.