Direct Mortgage Wholesale™

Program Guidelines

6059 Program Guideline

FHA Streamline

Streamline Guide

STREAMLINE REFINANCES GENERAL INFORMATION	• Streamline refinances are designed to lower the monthly principal and interest (P&I) on a current FHA mortgage and must involve no cash back to the borrower except for minor adjustments at closing not to exceed $500. • A mortgage on a principal residence may be refinanced to a shorter-term mortgage, provided the monthly principal and interest increases no more than 20%. Any increase exceeding 20% requires a credit review. • The existing loan, including subordinated financing, must be seasoned for six (6) months with an acceptable payment history (i.e., no late payments of 30 days or beyond). • A credit report is required for a Non-Credit Qualifying Streamline Refinance. • Streamline refinances can be insured with or without an appraisal. • Streamline refinances by investors or for secondary residences may only be made without an appraisal. • Repair costs may not be included in the mortgage amount. Although FHA does not require repairs (except for lead based paint repairs) on streamlined refinances with an appraisal, the underwriter may require completion of repairs as a condition of the loan. • HUD's "Limited Denial of Participation (LDP) List" and the government wide General Services Administration's (GSA) "List of Parties Excluded from Federal Procurement or Non-procurement Programs" are still required. • The results of reviewing these two lists must be documented in the file with a copy of the LDP/GSA computer printouts placed in the underwriting package BEFORE submitting the loan to the Underwriter. • The underwriter comments section of the FHA Loan Underwriting and Transmittal Summary (HUD-92900-LT) must be completed to reflect this information. • Prepaid expenses may include the per diem interest to the end of the month on the new loan, hazard insurance premium deposits, monthly mortgage insurance premiums, and any real estate tax deposits needed to establish the escrow account, regardless whether the mortgagee refinancing the existing loan is also the servicing lender for that mortgage. • Tax escrows are limited by the amount necessary to establish the required account. Depending on when taxes are due, this amount could vary from the 2 months cushion permitted under RESPA to as many as 14 months (a year's worth of taxes due before the first payment plus the cushion). • A refund of the previous upfront MIP (UFMIP), if there is one, must be included in determining the mortgage amount. The lesser of the new UFMIP or the "refund" process is used. • It is not appropriate to include in the new mortgage amount the sum of any mortgage payments due for a prior month by the homeowner. **Note**: If a payment is due June 1 and the loan closes/funds during that month, the payment may be "skipped," the June payment is considered as a past due payment on July 1 and may not be included in the loan amount. • Borrowers with bankruptcies that are discharged less than 1 year are only eligible for non-credit qualifying streamline refinance. • If a condominium project has its approval withdrawn, FHA will only insure streamline refinances without appraisals in that project. • The Streamline Refinance should not be run through TOTAL. If the loan is run through TOTAL for a risk assessment, it then becomes mandatory to provide documentation verifying the entries (i.e., income, liabilities, assets, and/or cash reserves).

STREAMLINE REFINANCES GENERAL INFORMATION *(CONTINUED)*	• The Streamline Refinance should not be run through TOTAL. If the loan is run through TOTAL for a risk assessment, it then becomes mandatory to provide documentation verifying the entries (i.e., income, liabilities, assets, and/or cash reserves). References: o See the *FHA Refinance Maximum Loan Amount Worksheet*, for assistance with the calculation. o See the heading *Additional Requirements For All Streamlined Refinance* o *Transactions* subsequently presented in this subtopic for additional information**.** • Eligible for owner occupied, secondary, or investment (with restrictions) loans. No credit qualifying. • The investor/borrower cannot receive any cash at closing. An owner-occupant/borrower can receive up to $500 as a closing adjustment. • The term of the new mortgage must be the lesser of 30 years or the unexpired term of the mortgage being refinanced plus 12 years.
STREAMLINE REFINANCE WITHOUT AN APPRAISAL	• The maximum loan amount, for an owner-occupied property, is the lesser of one of the following three (3) calculations: o the ORIGINAL principal (including the UFMIP) of the loan being refinanced, or o the sum of the outstanding principal balance and interest charged by the servicing lender of the existing mortgage plus accrued late charges, escrow shortages, closing costs, reasonable discount points, and prepaid expenses, or o the maximum statutory geographic limit. **Notes:** o Delinquent taxes are not included. o The monthly payment due for the month in which the loan will close/disburse does not need to be paid prior to or at closing. However, if the closing/disbursement rolls over to the following month that “skipped” payment may NOT be included in the loan amount and must be paid from borrower’s own funds. o Prepaid expenses may include the per diem interest to the end of the month on the new loan, hazard insurance premium deposits, monthly mortgage insurance premiums, and any real estate tax deposits needed to establish the escrow account (whether or not the mortgagee refinancing the existing loan is also the servicing lender for that mortgage). • Any refund of the existing loan’s UFMIP must be deducted in determining the mortgage amount. Use the lesser of the new MIP or the FHA refund for this calculation. • The borrower(s) for a non-owner occupied property, even if originally acquired as principal residences by the current mortgagors, may only refinance the outstanding balance of the existing mortgage. • FHA will compute a new loan to value (LTV) ratio by dividing the new loan amount, exclusive of any UFMIP, by the lower of the sales price or appraised value that is in their Single Family Insurance System (SFIS) database for the existing loan being refinanced. If there is missing information in the database and a computed value is not possible, only then will the new LTV default to 89.99%. o When the TLTV exceeds 105% based on the property value in FHA’s database, the loan must be processed as a Streamline Refinance WITH an appraisal to use a property value greater than FHA has in their database. • The transaction should not require repairs, except as pertains to lead-based paint issues on structures or property improvements built before January 1, 1978.

STREAMLINE REFINANCE WITHOUT AN APPRAISAL *(CONTINUED)*	• If refinancing an investment property that was originated as a 203(k), the streamline refinances can only be made under the "without an appraisal" refinance procedures. The new loan can only include the outstanding principal balance of the current loan, minus MIP refund, plus new UFMIP. Interest, closing costs, prepaids and discount points may not be included.
STREAMLINE REFINANCE (NO CREDIT QUALIFYING) WITH AN APPRAISAL	**Streamline Refinance (No Credit Qualifying) WITH an Appraisal** • Eligible for primary residences only. • Borrower must have a satisfactory twelve (12) month mortgage history on the property being refinanced. • If the property was acquired less than twelve (12) months prior to the refinance, then a minimum six (6) month pay history will be required. • Payment histories less than 6 months require full credit qualifying. **Note:** A satisfactory mortgage pay history is defined as no more than 0 x 30 days late within the 12-month (or 6-month, if applicable) period. • The existing loan must be seasoned with the current lender for at least six (6) months except as follows: o A loan transferred from one lender to another lender (i.e. through a bank or servicing sale), that does not result in a refinance is NOT covered by this restriction. **Note:** As long as the loan transfer is documented and a satisfactory six (6) month payment history is established, the transactions are eligible for a streamline refinance loan. • A 640 minimum credit score is required based upon the pay history and seasoning requirements above. • The mortgage maybe refinanced to a shorter-term mortgage provided that the monthly principal and interest increases no more than 20%; otherwise, the borrower must credit qualify. **Note:** An owner-occupant/borrower is allowed up to $500 for a closing adjustment only. Reference: See the *Eligible Transactions* topic previously presented in this product description for other investor loan requirements. • The maximum insurable mortgage, prior to adding the UFMIP, is limited to the lesser of one (1) of the following three (3) calculations: o The sum of the existing first lien (including interest), accrued late charges, escrow shortages, closing costs, prepaid expenses and reasonable discount points minus MIP refund (no delinquent interest except for the interest due in the current monthly payment providing the loan closes and funds during that month), or o Multiply the appraised value of the property by the appropriate factor, as shown in the chart above for the property's value and the high cost or low cost state where it is located, or o The maximum statutory geographic limit. o Any refund of UFMIP on the old mortgage (if originally financed) must be subtracted from the existing first lien (i.e., current loan payoff) in calculating the new mortgage amount. Reference: See *Additional Requirements For All Streamlined Refinance Transactions* subsequently presented within this subtopic.
ADDITIONAL GUIDELINES FOR STREAMLINE REFINANCE (NO CREDIT QUALIFYING) TRANSACTIONS WITH PROPERTIES LOCATED IN CO, IL, MN, NV	• If the credit overlays and guidelines below are not met, the borrower must credit qualify for the refinance. Standard FHA Streamline Refinance guidelines apply. o Borrowers can only refinance into a fixed rate loan. o If the borrower is refinancing from an ARM loan to a Fixed Rate loan, the housing payment must decrease. o The new payment must be at least $50 less than the current payment on conforming loan amounts.

STREAMLINE REFINANCES (CREDIT QUALIFYING) WITH OR WITHOUT AN APPRAISAL	• Borrower must have a satisfactory twelve (12) month mortgage pay history on the property being refinanced. If the property was acquired less than 12 months prior to the refinance, then the pay history for the life of the loan is required. • If one of the original borrowers is being deleted, evidence must be provided that the remaining borrower(s) have an acceptable credit history and the ability to make the mortgage payments. • The maximum mortgage amount is calculated as either a streamline without an appraisal or a streamline with an appraisal. • Documentation includes the following: o verification of income, o a credit report, o calculation of debt ratios, and o an appraisal (if applicable). • Eligible transactions for streamline refinancing with credit qualifying: o change in mortgage term that results in more than a twenty percent (20%) monthly principal and interest increase (allowed only for principal residences, second homes meeting HUD requirements, and investment properties purchased by governmental agencies and eligible nonprofit organizations as approved by HUD), o change in mortgage term that results in a mortgage payment increase, o deletion of a borrower(s) that triggers the due-on-sale clause, o assumption of a mortgage that does not contain restrictions (i.e., due-on-sale clause) limiting assumptions only to creditworthy borrowers and the assumption occurred less than six (6) months previously, or o assumption of a mortgage where the transferability restriction (i.e., due-on-sale clause) was not triggered, such as in a divorce the divorce decree calls for a property transfer or by devise or descent where the assumption occurred less than six (6) months prior to loan application. o The following section titled “Additional Requirements for All Streamlined Refinance Transactions” also applies to a Streamlined Refinance with credit qualifying. **<u>HVCC Transferred Appraisals</u>** • DMC no longer accepts HVCC appraisals ordered by other lenders. This is applicable whenever an HVCC appraisal is required. “Transfer” or “Assignment” letters will no longer be accepted.

ADDITIONAL REQUIREMENTS FOR ALL STREAMLINE REFINANCES	• Additional documentation:
	  o A copy of the original HUD-1 or equivalent information (i.e., to verify date of loan closing and the current FHA case number).
	• Documentation NOT required:
	  o CAIVRS codes, and
	  o Verification of cash to close.
	• When refinancing to a shorter term, the following applies:
	  o If the mortgage payment (P&I only)does not increase more than twenty percent (20%), the borrower does not have to credit qualify (not available for investor loans or second homes unless meeting HUD guidelines), or
	  o If the P&I payment increases more than twenty percent (20%), the borrower must credit qualify (available for owner-occupied principal residences, secondary residences meeting HUD guidelines, and investor properties purchased by governmental agencies or eligible non-profit organizations meeting HUD guidelines).
	• An “eligible” investor with a financial interest in more than seven (7) rental units may only refinance without appraisals.
	• If the principal and interest payments are less than the current payment, the loan may be processed as a “no credit qualifying” transaction.
	• Buydowns are not eligible.
	• If a condo project has been withdrawn from HUD’s approved list, the transaction must be completed WITHOUT an appraisal.
	• Lead-base paint issues must be met on Streamline refinance loans with an appraisal.
	• If the appraised value is such that it would be advantageous for the borrower to proceed as if no appraisal was completed, the appraisal may be ignored and a notation made in the “underwriter comments” section of the FHA Loan Underwriting and Transmittal Summary (HUD-92900-LT).
	• If the new loan is an ARM, the property must be a primary residence.
	• The following information specifically addresses the requirement when the refinance is from one FHA loan type to a different FHA loan type.
	  o *1-Year ARM to 1-Year ARM* - must be an immediate payment reduction and the maximum interest rate on the new loan cannot exceed the maximum interest rate on the old loan.
	  o *Fixed Rate to a 1-Year ARM* – interest rate on the new loan must be at least at 2% below the interest rate on the old loan.
	  o *Fixed Rate to* 3/1 or 5/1 ARM – must result in an immediate payment reduction.
	  o *GPM to ARM* – must be a reduction to the current P&I payments
	  o *GPM to Fixed Rate* – provided the new mortgage payment will not exceed the current payment.
	• The following information specifically addresses the requirement when the refinance is from one FHA loan type to a different FHA loan type, (continued)
	  o *1-Year ARM to Fixed Rate* - the rate on the new loan cannot exceed 2% over the current ARM rate on the old loan. In addition, all mortgage payments must have been made within the month due for the last 12 months (or the period that the loan has been in force if less than 12 months) and the owner must be the occupant. However, if the new fixed rate mortgage will be lower than the existing rate of the ARM thus reducing the homeowner’s monthly mortgage payment, the “within the month due,” i.e., not more than 30 days late, rule is not applicable.
	  o *Hybrid ARM (3/1 and 5/1) to a Fixed Rate* – the Hybrid ARM may be streamlined to a fixed rate mortgage, with or without an appraisal, provided that the payment will not increase by more than 20%, and all mortgage payments have been made within the month due for the past 12 months, or the period the mortgage has been in force, if shorter.

ADDITIONAL REQUIREMENTS FOR ALL STREAMLINE REFINANCES *(CONTINUED)*	o *203(k) to 203(b)* – all work must be complete (i.e., fully executed certificate of completion, final release from the closed rehabilitation escrow account), and the close out information has been entered into the FHA connection.
	
	Title issues:
	• When adding an individual to title, the new individual must make loan application and sign all necessary documents.
	• When deleting an individual from title, the only eligible transaction is a "credit qualifying" streamline refinance.
	• An exception to deleting individuals from title applies if interest in the property was transferred at least six (6) months prior to the loan application date and both of the following can be provided:
	  o A copy of the quit claim deed reflecting a date six (6) months prior to the application date, AND
	  o Verification that the remaining titleholder(s) paid the entire mortgage payment without assistance for the last six (6) months (i.e., copies of bank statements for the last six (6) months to verify payment of the mortgage and no unusual pattern of deposits other than payroll).
	• Subordinate financing may remain in place, with or without an appraisal.
	  o The subordinate lien must be clearly subordinate to the new HUD-insured mortgage.
	  o The subordinate lien must have been seasoned for at least six (6) months prior to application for the new Direct Mortgage loan.
	  o The maximum TLTV for DMC is 105%.
	• If new subordinate financing exist on a Streamline Refinance, the combined first and second mortgages may not exceed the maximum mortgage limit and LTV limit for the area.
	• Termite inspections are not required on streamline refinances without an appraisal. Termite inspections may be required if the appraiser requires it on streamline refinances with an appraisal.
	• An eligible investor that has a financial interest in more than seven (7) units in a contiguous area (i.e., two [2] block radius) must receive approval from the local HUD Field office for streamline refinancing with an appraisal.
	• For loan amount greater than $417,000 a 660 minimum credit score is required.
	• Loan amounts greater than $417,000 are not eligible in AK, CA, HI, and Miami-Dade County, Florida.
	• DMC now requires (6) months current mortgage seasoning and pay history with the current lender for a loan to be eligible for a VA or FHA no credit qualifying streamline refinance. Loans with less the (6) months current mortgage seasoning may use a full credit qualifying program.
	• **FHA Streamline & VA IRRRL**
	  o The minimum credit score requirement for an FHA Streamline and a VA IRRRL has been increased to 640.

FOR CASE NUMBERS ASSIGNED ON OR AFTER 11/17/09 THE FOLLOWING ADDITIONAL CONDITIONS APPLY:	**I. <u>Revisions for ALL Streamline Refinance Transactions</u>** **A. Seasoning** At the time of loan application, the borrower must have made at least 6 payments on the FHA-insured mortgage being refinanced. **B. Net Tangible Benefit** The lender must determine that there is a net tangible benefit as a result of the streamline refinance transaction, with or without an appraisal. Net tangible benefit is defined as: • reduction in the <u>total</u> mortgage payment (principal, interest, taxes and insurances, homeowners' association fees, ground rents, special assessments and all subordinate liens), • refinancing from an adjustable rate mortgage (ARM) to a fixed rate mortgage, *OR* • reducing the term of the mortgage.

FOR CASE NUMBERS ASSIGNED ON OR AFTER 11/17/09
(CONTINUED)

Reduction in Total Mortgage Payment: The new total mortgage payment is 5 percent *lower* than the total mortgage payment for the mortgage being refinanced. Example: Total mortgage payment on the existing FHA-insured mortgage is $895; the total mortgage payment for the new FHA-insured mortgage must be $850 or less.

This requirement is applicable when refinancing from a Fixed Rate to Fixed Rate, from Fixed Rate to Hybrid ARM, from an ARM to ARM, from a Graduated Payment Mortgage (GPM) to Fixed Rate, from GPM to ARM, from a 203(k) to 203(b) and from a 235 to 203(b).

Fixed Rate to ARM: Fixed rate mortgages may be refinanced to a one-year ARM provided that the interest rate on the new mortgage is at least 2 percentage points below the interest rate of the current mortgage

ARM to Fixed Rate: The interest rate on the new fixed rate mortgage will be no greater than 2 percentage points above the current rate of the one-year ARM. For hybrid ARMs, the total mortgage payment on the new fixed rate mortgage may not increase by more than 20 percent . Example: total mortgage payment on the hybrid ARM is $895; the total mortgage payment for the new fixed rate mortgage must be $1,074 or less.

Reduction in Term: For transactions that include a reduction in the mortgage term, that loan must be underwritten and closed as a rate and term (no cash-out) refinance transaction.

Investment Properties/Secondary Residences: In addition to meeting the requirement for a reduction in the total mortgage payment, investment properties or secondary residences are *not* eligible for streamline refinancing to ARMs.

C. Certifications and Verifications

When submitting the loan for insurance endorsement, the lender must include a signed and dated cover letter on their letterhead certifying that the borrower is employed and has income at the time of loan application.

If assets are needed to close, the lender must verify and document those assets.

The lenders must also include the pay-off statement in the case binder.

D. Maximum Combined Loan to Value

If subordinate financing is remaining in place, the maximum combined loan-to-value ratio is 125 percent. (as of 12-4-09 the max CLTV is 100%)

- For streamline refinance transactions WITHOUT an appraisal, the CLTV is based on the original appraised value of the property.

- For streamline refinance transactions WITH an appraisal, the CLTV is based on the new appraised value.

E. TOTAL Scorecard

II. Revised Streamline Refinance Transactions WITHOUT an Appraisal

The maximum insurable mortgage cannot exceed:

- The outstanding principal balance[1] *minus* the applicable refund of the UFMIP,

  PLUS

- The new UFMIP that will be charged on the refinance.

FOR CASE NUMBERS ASSIGNED ON OR AFTER 11/17/09 *(CONTINUED)*	**III.** **<u>Revised Streamline Transaction WITH an Appraisal</u>** The maximum insurable mortgage is the *<u>lower</u>* of: 1) Outstanding principal balance[1] *minus* the applicable refund of UFMIP, plus closing costs, prepaid items to establish the escrow account and the new UFMIP that will be charge on the refinance; *OR* 2) 97.75 percent of the appraised value of the property plus the new UFMIP that will be charged on the refinance. Discount points may not be included in the new mortgage. If the borrower has agreed to pay discount points, the lender must verify the borrower has the assets to pay them along with any other financing costs that are not included in the new mortgage amount.

[1] The outstanding principal balance may include interest charged by the servicing lender when the payoff is not received on the first day of the month but may not include delinquent interest, late charges or escrow shortages.

Direct Mortgage Wholesale™

Program Guidelines

DMC FHA Guide

FHA Fixed Rate/ARM

General Description:
FHA Fixed Rate principal and interest level payments for the life of the loan.
Follow published FHA guidelines if item not addressed below.
Lenders are responsible for complying with all applicable FHA/HUD regulations as further modified by the guidelines within this product description.

APPRAISAL	**Appraisal Forms** • 1 unit residence requires Form 1004. • 2-4 unit residence requires Form 1025. • Condo requires Form 1073. • All appraisals of 1-4 unit properties dated on/after April 1, 2009 must contain the Market Conditions Addendum to the Appraisal Report (Form 1004MC). **Appraiser Requirements (See ML 2008-39** and **ML 2009-36)** • All FHA appraisals must be assigned to state certified (certified residential or certified general) FHA Roster Appraisers effective October 1, 2009. • It is the responsibility of the submitting lender to verify the state certified status of the appraiser at the time of appraisal assignment. • The appraiser status may be verified within FHA Connection under Single Family FHA/Single Family Origination/FHA Approval Lists/Appraisers. • FHA Appraisals assigned to a non-certified appraiser on or after October 1, 2009 are unacceptable, and a second FHA appraisal must be completed by a state certified appraiser at the submitting broker's/lender's expense. • Non-Permitted additions are not allowed. **Transferred Appraisals** • DMC will accept FHA appraisals ordered by other lenders for FHA loans. The following conditions apply: 1. The FHA case number date must be on or after February 15, 2010; 2. The appraisal must have been ordered by the previous lender; 3. The appraiser must provide an HVCC "Certificate of Compliance"; 4. The previous lender must provide a transfer letter; 5. The underwriting disposition sheet from the previously lender is required; and 6. A desk review of the appraisal must be ordered through DMC's shopping cart. **Purchase Price Negotiations** • DMC will no longer allow the purchase price to be renegotiated upwards if an appraisal has already been performed. This applies to all loans locked on or after 1/21/09. **Short Sale Restrictions** • Short sell negotiator fees may be paid by the buyer only if the contract is between the buyer and short sell negotiator. If the contract is between the seller and short sell negotiator, the buyer may not pay the associated fees. If the contract is between the seller and short sell negotiator and, the seller does not have sufficient funds to pay the associated fees, they may be charged to the seller side of the HUD-1 and paid for by the real estate sales agents. • Additional monies to the seller's mortgage company may not be paid by the buyer. • DMC will provide new financing to borrowers with previous short sales per ML 2009-52. However the need for a new primary residence must be driven by employment relocation and the subject property must be located 100+ miles from the prior residence. **Age of Appraisal** • Maximum 120 days effective with case numbers assigned on or after January 1, 2010. This applies regardless of the property's construction stage (existing, new, under construction, or proposed). See ML 2009-30
BORROWERS *(ELIGIBLE / INELIGIBLE)*	• Effective October 15, 2007, borrower social security information will no longer be validated in real time when a new case number assignment is requested in FHA Connection. The validation process will no longer provide an acceptable confidence rating at the time of case number assignment. Refer to the FHA Connection Message Board for the announcement dated October 10, 2007 for complete details and requirements. DMC will require evidence of the "passed" validation through the Holds Tracking Screen in FHA Connection. **Eligible** • Individuals with a valid U.S. Social Security Number (SSN). • Permanent and non-permanent Resident Aliens, provided they: - Have a valid SSN. - Are eligible to work in the U.S. - Occupy the property as a principal residence

<table>
<tr><td>BORROWERS
(ELIGIBLE / INELIGIBLE)
(CONTINUED)</td><td>Ineligible
Any type of borrower not listed as eligible, including but not limited to:
Any individual without a valid U.S. SSN.
Individuals with a U.S. Individual Taxpayer Identification Number (ITIN). An ITIN is formatted like a SSN but begins with "9". No valid SSN begins with a "9".
Investors, except for streamline refinance without appraisal.
Foreign nationals and borrowers with diplomatic immunity.
Inter vivos or "living" revocable trusts.</td></tr>
<tr><td>CASH RESERVES</td><td>AUS loans follow DU/LP guidelines.
3 month's PITI is required on all 3-4 unit purchase transactions regardless of AUS findings. No reserves are required for all other transactions.</td></tr>
<tr><td>CLOSING COSTS</td><td>Borrowers may pay customary and reasonable closing costs, subject to these limitations:
Tax service fee not allowed.
Origination fee may not exceed 1% (For loans originated prior to January 1, 2010).
Third-party fees may not be "marked up".
Fees and charges must comply with all Federal, State and local regulations and predatory lending rules.
Effective with case numbers assigned on or after January 1, 2009, borrower-paid closing costs may no longer be used to count as part of the borrower's required investment</td></tr>
<tr><td>CLOSING REQUIREMENTS</td><td>- Interest credit allowed (calculated at 1/365th)
- Loan must fund by the 7th calendar day of the month preceding the first payment date
- A full 30 days of interest will be charged for the month in which the loan funds (as allowed by HUD and charged by servicers when the payoff is not received on the 1st day of the month)
- Proof that the previous month's payment was made within the month due. (e.g. updated payoff statement).
- As with all FHA no-cash-out refinance transactions, any cash received by the borrower at closing must be incidental due to changes in the payoff and cannot exceed $500.
Termite, Well and Septic Inspections/Certifications are required as noted on appraisal and/or sales agreement.
A minimum of 24 months chain of title as evidenced by the title commitment satisfactory to DMC review and meeting FHA anti-flipping requirements
Maximum days rent back allowed are 60. On an owner-occupant loan the borrower is to be occupying the property within 60 days of the closing.</td></tr>
<tr><td>CONDOS/PUDS</td><td>We now require a condominium borrower to obtain a "Walls In" coverage policy (commonly known as an HO-6 policy). Coverage is to include interior walls, floor coverings, fixtures, cabinetry, appliances, and improvements and betterments made to the unit's interior. The HO-6 policy must provide coverage is an amount that is no less 20% of the condominium unit's appraised value.
Eligible
Condos must be FHA-approved or meet FHA guidelines for "Spot Approval." Spot Approvals on exception, case by case and may be subject to a pricing adjustment.
Spot Approval allowed for case dates issued must be submitted and /or locked by September 30, 2009.
Ineligible
Multiple unit condos.
Leasehold condos not allowed.</td></tr>
<tr><td>CREDIT HISTORY</td><td>Credit reports must be dated within 60 days of the date of the Note.
Automated Underwriting
30-year terms as approved by DU/LP and successfully validated by DMC, except:
Ineligible Credit Scenarios
Loans not meeting DMC minimum credit score requirements.
Streamline refinance transactions with > 0 x 30 on any mortgage account within the last 12 months.
Refinance transactions where any open debt secured by the subject property is delinquent or in arrears, not current for the month due, has been re-structured, or will be re-subordinated for less than the total amount due.
Cash loans (all types) – no mortgage lates in the last 12 months, regardless of AUS findings
Purchase, rate/term loans (all types) – max 1X30 mortgage in the last 12 months regardless of AUS findings
Community Property States (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin):
- Debts of a non-purchasing spouse must be counted in the borrower's qualifying ratios.
- The non-purchasing spouse's credit performance is not a consideration.</td></tr>
</table>

CREDIT HISTORY *(CONTINUED)*	Refer to the *Credit History and Refinance sections* of this chapter for further clarification and requirements. • Derogatory Credit Policy: - Individual accounts equal to or greater than $1,000 and accounts that total more than $5,000 must be paid in full prior to or at closing. - • Per Mortgagee Letter 2009-52, DMC will allow “Short Pay Offs”. All requirements outlined in Mortgage Letter 2009-52 must be met. Additionally, HUD requires the TOTAL Scorecard decision to be manually downgraded to Refer and these loans traditionally underwritten. As such, DMC has put in place several underwriting overlays: **a.** Minimum credit score is 680 **b.** Maximum debt-to-income ratios are 31/43 **c.** No derogatory credit of any nature is allowed within the most recent 12 months **d.** No exceptions to our existing employment stability policy will be granted. • HUD requires lenders to downgrade the TOTAL Scorecard decision to Refer – and manually underwrite loans – in the following instances: **a.** In the presence of outstanding delinquent federal debt. Federal debt is defined as: i. a VA-guaranteed mortgage ii. a Title I loan iii. a Federal student loan iv. a Small Business Administration loan v. delinquent Federal taxes vi. having a lien, including taxes, placed against the borrower’s property for a debt owed to the U.S. **b.** CAIVRS indicates a Federal delinquency, default, claim or lien. **c.** Suspended or debarred individuals. **d.** Previous mortgage foreclosure within the most recent 3 years. **e.** Previous bankruptcy within the most recent 2 years. **f.** Late mortgage payments in excess of 2X30 days late. **g.** Disputed accounts, regardless of the disposition of account. **h.** Short sale or short payoff. **i.** The file cannot be documented according to the TOTAL Scorecard Findings. For instance, the TOTAL Scorecard Findings require a paystub with 30 days earnings and the borrower has recently started at new job. • DMC will decline loans with characteristics described in letters a, b, c, d, e, and f. DMC has a separate policy regarding disputed accounts, regardless of their disposition. DMC will consider downgrading the TOTAL Scorecard Decision to Refer – and manually underwriting loans – with characteristics described in letters h and i. However, all other requirements outlined in HUD Handbook 4155.1 must be met, including maximum debt to income ratios of 31/43. Additionally, see previous DMC policy and ML 2009-52 in regards to letter h. No exceptions. **<u>Disputed Tradelines Policy Clarification:</u>** • Effective Immediately -- All disputed tradelines must be resolved prior to closing. To be considered resolved, disputed tradelines must be removed entirely from the credit report or the dispute language must be removed from the tradelines. A new credit report must be obtained and reissued into DirectWare once each disputed tradeline is resolved. Tradeline updates are not allowed to resolve disputed tradelines because the tradelines are not updated directly with the three credit bureaus which provide the borrower’s credit scores. This policy clarification is effective immediately and applies to all loans. **Bankruptcy** • A Chapter 7 bankruptcy does not disqualify a borrower from obtaining an FHA-insured mortgage if at least two years have elapsed since the date of the discharge of the bankruptcy. Additionally, the borrower must have re-established good credit or chosen not to incur new credit obligations. The borrower also must have demonstrated a documented ability to responsibly manage his or her financial affairs. • Chapter 13 bankruptcy does not disqualify a borrower from obtaining an FHA insured mortgage provided the lender documents that one year of the payout period under the bankruptcy has elapsed and the borrower’s payment performance has been satisfactory (i.e., all required payments made on time). In addition, the borrower must receive permission from the court to enter into the mortgage transaction.

Short Sales and Short Payoff / Restructured loans

- Regardless of DU or LP findings, the credit guidelines below for Short Sales or Short Payoff/Restructured loans must be met as automated underwriting systems may not detect the presence of these items.

Lender Action	Definition	Eligibility Requirements
Short Sale, Short Payoff/ Restructured Loans	**Short Sales**, the servicer agrees to accept a payoff less than the balance owed on the borrower's mortgage that is NOT delinquent. **Short Payoff / Restructured Loans** are mortgage loans in which the terms of the original transaction have been changed, resulting in either the absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan.	Borrowers purchasing a home that is being sold under a short sale are eligible provided the transaction is arms length. **Borrowers** who have entered into a short refinance / restructured debt **on the subject property** are not eligible. **Borrowers who have completed a short refinance or restructured loan** and are purchasing or refinancing a property which is **not the subject** of the short refinance / restructured loan must have re-established credit for a minimum of four (4) years since completion of short refinance / restructure and no more than 1 x 30 days late on any mortgage in the past 12 months.

CREDIT SCORES / NON- TRADITIONAL CREDIT

As determined by Underwriter or DU/LP, except

- Minimum 620(For loans locked prior to 12/21/09) Decision Score, regardless of AUS findings, including streamline refinance transactions, (see *REFINANCE TRANSACTIONS.).*
- The indicator score is the lowest of each borrower's middle score.
- Borrowers with non-traditional credit are no longer acceptable. A loan considered to have non-traditional credit is when all borrowers do not have a credit score and/or are establishing a credit history through non-traditional means such as a rental history, utility payments, etc.
- At least one borrower qualifying for the loan must have a decisioning credit score.
- Minimum 640(For loans locked on or after 12/21/09)

DOCUMENTATION

- As determined by DU/LP

Minimum Documentation Requirements

- A signed IRS Form 4506-T must be included in all loan files where the following apply:
- Loan transmittal (HUD 92900-LT) replaces the MCAW
- Loan Application Addendum (HUD 92900-A) revised 5/2008

DOWN PAYMENT

- Effective with case numbers assigned on or after January 1, 2009 (ML 2008-23):
  - The borrower must make a minimum cash investment of 3.5% (Statutory Investment Requirement), based on lesser of Sales Price or Appraised Value.
  - Closing costs paid by the borrower may no longer count towards the 3.5% cash investment.
- The $8,000 First-Time Homebuyer Tax Credit authorized by the Housing and Economic Recovery Act of 2008 may not be used as any credit towards minimum contribution requirements, closing costs or prepaids.
- *See Gift Funds section for additional direction and requirements*

ESCROWS

- Escrow waivers not allowed under any circumstances. No exceptions.

ESCROW HOLDBACKS

Only eligible on HUD Repos or as an exception on a case by case basis with the following requirements:

- 2X the bid amount
- Maximum $3,500
- 2 Bids from 2 different companies.
- Escrow funds to be held by DMC.
- $250 Fee paid to DMC at closing.
- FHA Compliance Inspection Report required before funds will be released.
- Work must be completed within 7 days of funding.
- DMC to hold Broker check until the work has been completed.

FLIPPING REQUIREMENTS

- Any property being sold within **90 days** of the seller's acquisition date is not eligible for FHA financing, unless exempt under a recent temporary waiver which exempts from the 90-day resale restriction, those properties that are being sold by the foreclosing lender, or on their behalf by their documented subsidiary or agent. This temporary waiver applies to sales contracts signed on or before June 8, 2009.
- If property is being sold between **91 and 180 days** of the seller's acquisition and the sales price has increased by **100%** or more, a second FHA appraisal is required. No exceptions. The borrower may not be charged for the appraisal. Loan must be based on the lower of the two values.
- If property is being sold within **12 months** of the seller's acquisition and the sales price increased significantly. A second FHA appraisal may be required at the discretion of the underwriter.
- See ML 2008-37 for exemptions in Presidentially Declared Major Disaster Areas.

<table>
<tr><td>FLIPPING REQUIREMENTS
(CONTINUED)</td><td>HUD has issued a Waiver of Requirements regarding transactions that are considered property flips. The waiver will take effect on February 1, 2010 and is effective for one year, unless otherwise extended or withdrawn by the FHA Commissioner. To protect FHA borrowers against predatory practices of "flipping" where properties are quickly resold at inflated prices to unsuspecting borrowers, this waiver is limited to those sales meeting the following general conditions:
FHA Case Numbers must be assigned on or after February 1, 2010 <u>and</u> the Purchase Contract must be executed on or after February 1, 2010
All transactions must be arms-length, with no identity of interest between the buyer and seller or other parties participating in the sales transaction.
In cases in which the sales price of the property is 20 percent or more above the seller's acquisition cost, a second appraisal is required.</td></tr>
<tr><td>GEOGRAPHIC RESTRICTIONS</td><td>Properties may be located in the District of Columbia and any state.
U.S. Territories not allowed (e.g. Puerto Rico, American Samoa, Guam, etc.)
Community Property States (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin):
- Debts of a non-purchasing spouse must be counted in the borrower’s qualifying ratios.
- The non-purchasing spouse’s credit performance is not a consideration
High Cost loans in the state of South Carolina allow a maximum DTI of 50%
Cash Out Refinance is not eligible in the state of Texas.</td></tr>
<tr><td>GIFT FUNDS</td><td>Gift Donors
Eligible: Borrower’s relative, spouse, domestic partner, or close friend with a clearly defined and documented interest in the borrower. Borrower’s employer or labor union. A charitable organization that does not replenish available gift funds with seller contributions. A governmental agency or public entity that has a program to provide homeownership assistance to low- and moderate-income families or first-time homebuyers,
Ineligible: Any person or entity with an interest in the sale of the property, such as the seller, real estate agent or broker, builder, or any entity associated with them.
“Seller-funded” Down Payment Assistance (DPA)
DMC does not underwrite or purchase loans with “seller funded” DPA’s of any kind.
AUS-underwritten loans
Gift deposited prior to closing
- A gift letter and full documentation of the gift transfer is required, including:
i. evidence of donor’s account ownership and ability to give the gift,
ii. copy of donor’s cancelled check or bank-validated withdrawal slip, and
iii. Evidence of deposit into borrower’s account.
- Donor’s cash-on-hand is not an acceptable source.
- Gift letter must contain donor’s name, address, phone, and relationship to borrower; match the exact amount of gift, state that gift is not repayable, and be signed by donor and borrower.
- Gifts deposited prior to closing and documented in this manner may be included in the borrower’s account balance when submitting to TOTAL, but should be identified separately as gift funds on the MCAW and 1003.
- Excess gift funds may be used as cash reserves (1- and 2-unit properties only).
Gift received at closing
- Full gift letter required.
- Gift must be submitted to TOTAL as “gift funds” and not included in borrower’s account balance.
Excess gift funds may NOT be used as cash reserves.</td></tr>
<tr><td>GIFT FUNDS
(CONTINUED)</td><td>- By check: Copy of cashier’s check or other bank check purchased by donor, and evidence that funds used to purchase check were withdrawn from donor’s own account. Donor’s personal check or cash-on-hand is not acceptable. NOTE: To avoid funding delays, copies of these documents must be provided and cleared prior to docs.
- By wire: Copy of incoming wire evidencing deposit into settlement agent’s account on or before the day of closing.
DMC to validate relationship between the borrower and the donor by a third party service. If unable to validate by this service, then legal documents will be required to validate the relationship.</td></tr>
<tr><td>INVESTMENT PROPERTIES</td><td>Streamline refinance without appraisal only.
Term is limited to the lesser of 30 years or the unexpired term of the existing mortgage plus 12 years.
See REFINANCE TRANSACTIONS – STREAMLINE (without appraisal).</td></tr>
<tr><td>JUMBO</td><td>1-Unit property with base loan amount > $417,000, Alaska and Hawaii > $625,500.
2-unit property with base loan amount > $533,850, Alaska and Hawaii > $800,775.
See FHA Jumbo Addendum.</td></tr>
<tr><td>LOAN TERM</td><td>15, 20, 25 and 30 years</td></tr>
</table>

LOAN-TO-VALUE

Type of Loan	Maximum LTV/CLTV (1)
Purchase	96.5% (2)
Rate-and-Term Refinance*	97.75% (3)
FHA-to-FHA Streamline Refinance w/Appraisal*	97.75% (3)
FHA-to-FHA Streamline Refinance w/o Appraisal*	See Refinance section (3)
Cash-Out Refinance	85% / 85% (3)

(1) In addition to the appropriate LTV and Maximum Mortgage Worksheet calculations, the base loan amount may not exceed the lesser of the local Statutory Mortgage Loan Limit as published by HUD, or the applicable limit set for this product (see *MAXIMUM / MINIMUM LOAN AMOUNT)*

(2) As of 1/24/09, DU is applying the 2009 3.5% down payment requirement to all submissions and resubmissions. Case numbers assigned prior to 1/1/09 may use the previous 3% down payment calculation. DU Approve / Ineligible recommendations are acceptable if the underwriter notes on the transmittal and the DU findings that:

- the FHA case number was assigned before 1/1/09,
- the 3% down payment applies, and
- the "Ineligible" is only due to the erroneous 3.5% down payment requirement.

(3) Max CLTV is 100%

LOAN TYPE /ELIGIBLE SECTION OF THE ACT

Eligible

Section of the Act	ADP Code	Brief Description
203(b)	703	Fixed Rate Loan
203(b)	796	Temporary Buydown
234(c)	734	Fixed Rate Condominium
234(c)	797	Condo-Temporary Buydown

Ineligible:

Any Section of the Act not listed above, including but not limited to:

- 203(k) Rehabilitation loan
- 238(c) Military impact area (UFMIP waived)
- Section 8 Loans
- FHA Loans to Non-profit organization borrowers
- Hope for Homeowners Program
- HUD 184 Program – Indian Reservations

MAXIMUM/MINIMUM LOAN AMOUNT

General Guidelines:

- In addition to the appropriate LTV and Maximum Mortgage Worksheet calculation, the base loan amount may not exceed the lesser of :
  (a) the local Statutory Mortgage Loan Limit as published by HUD, or
  (b) the applicable limit set for this product:
  1-unit $417,000, AK & HI $625,500
  2-unit $533,850, AK & HI $800,775
  3-unit $645,300, AK & HI $967,950
  4-unit $801,950, AK & HI $1,202,925
- UFMIP may be added to the calculated base loan amount.
- All loans must be submitted in whole dollar amounts.
- See LTV section for links to new 2009 Maximum Mortgage Worksheets

Minimum Loan Amount:

$50,000

MORTGAGE INSURANCE

CASE NUMBERS ASSIGNED PRIOR TO 7/14/08 (ML2000-38):

LOAN TERM > 15 YEARS			
UFMIP	**LTV**	**MONTHLY MIP**	**Years**
1.500%	All%	.500%	*
1.500%	90.00% - 95.00%	.500%	*
1.500%	$\leq$ 89.99%	.500%	*
LOAN TERM $\leq$ 15 YEARS			
UFMIP	**LTV**	**MONTHLY MIP**	**Years**
1.500%	> 95%	.250%	*
1.500%	90.00% - 95.00%	.250%	*
1.500%	$\leq$ 89.99%	N/A	N/A

* Years will be determined when the loan balance equals 78%, provided the mortgagor has paid the mortgage insurance premium for at least five years (scheduled or actual, refer to Mortgagee Letter 2000-46).

MORTGAGE INSURANCE
(CONTINUED)

CASE NUMBERS ASSIGNED 7/14/08 THROUGH 9/30/08 (ML2008-16):

Streamline Refinances – 1.0 UFMIP and .5% annual

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

LTV	850-680	679-640	639-600	599-580
≤ 90.00	125/50	125/50	125/50	150/50
90.01 – 95.00	125/50	125/50	150/50	175/50
> 95.00	125/55	150/55	175/55	200/55

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

LTV	850-680	679-640	639-600	599-580
≤ 90.00	100/0	100/0	125/0	150/0
90.01 – 95.00	100/25	125/25	150/25	175/25
> 95.00	125/25	150/25	175/25	200/25

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

Upfront Premiums - Purchase Money Mortgages and Full Credit Qualifying Refinances – 1.75% Streamline Refinances (all types) – 1.5%

Annual Premiums - Purchase Money Mortgages, Full-Qualifying Refinances and Streamline Refinances with Terms of More Than 15 Years:

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

*Years will be determined when the loan balance equals 78%, provided the mortgagor has paid the annual mortgage insurance premium for at least 5 years.

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

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

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

CASE NUMBER ASSIGNED 4/5/10 AND AFTER (ML2010-02):

Upfront Premiums - Purchase Money Mortgages and Full Credit Qualifying Refinances – 2.25% Streamline Refinances (all types) – 2.25%

FHA UFMIP & MIP Payment Process

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

NON-OCCUPANT CO-BORROWERS/ CO-SIGNERS

- Allowed per FHA published guidelines.
- May not be added to meet qualifying requirements for a cash-out refinance.
- Non-occupant co-borrowers already on the loan may remain in title, but may not remain on the loan to meet qualifying requirements for a cash-out refinance.
- In the presence of a non-occupant co-borrower, the max housing and debt ratio for the occupant borrower is being reduced from 55% to 50%. This applies to all loans locked on or after 1/11/10.

NUMBER OF LOANS/ PROPERTIES

Number of Loans per Borrower

- A borrower may not have more than 1 FHA loan at a time, except under situations described in 4155.1 Section 1-2 A-D.

Number of Properties per Borrower

- Maximum number of properties a borrower can have financed is 4.

OCCUPANCY

Owner-occupied primary residence only on all transactions except streamline refinance without appraisal.

PROPERTY ELIGIBILITY
(CONTINUED)

Eligible

- 1-4 unit attached or detached primary residence including condos and PUDs.
- Condos must be FHA-approved or meet FHA guidelines for "Spot Approval." *See "Condos/Puds section of this guide.*
- HUD Repo properties – *See ML-00-27*

Ineligible

- Any property where the seller is not the owner of record.
- Any property being re-sold within 90 days of the seller's acquisition date unless exempt.
- All non-owner occupied properties (except streamline refinance without appraisal).
- Properties that are not primarily residential in nature and use.

PROPERTY ELIGIBILITY	**Ineligible** • Manufactured or mobile housing. • Leasehold condos. • Co-ops.
PROPERTY INSPECTIONS	**Termite, Well and Septic Inspections** • Properties ***under one year old*** require mandatory inspection, treatment and testing, even if previously occupied. • For exting properties ***over one year old,*** inspection and/or testing is only required if: - The appraisal indicates there may be a problem or that problems are common in the area. - Mandated by the state or local jurisdiction (see below). - Required by the sales contract. - A water purification system is present. If the water supply does not test safe without the purification system, then the requirements must be met. • Wells and Other Water Systems: FHA Single Family Reference Guide Ch 1, Pg 1-21 • Septic Systems: FHA Single Family Reference Guide Ch 1, Pg 1-20 **State and Local Requirements** • DMC will generally rely on the appraiser and Realtor (via the sales contract) for notification of mandatory state or local inspections. • DMC is aware of mandatory inspections required in the following areas: Arizona: Septic or other on-site sewage system (purchases only).
RATIOS	• Qualifying ratios are 31% / 43%, unless there are significant compensating factors or an AUS approval is received. • Max DTI is 55% for loans locked prior to 12/21/09 and 50% for loans locked on or after 12/21/09. • When a non-occupant co-borrower is present and as allowed by DU, LP or TOTAL Scorecard – whichever is applicable – the occupant borrower's housing ratio may be as high as 50%. There is no limit to the occupant borrower's total expense ratio when the total expense ratio of all borrowers combined is less than or equal to 50% and the loan receives an AUS approval.
REFINANCE TRANSACTIONS	**General Guidelines** • See LTV section for links to new 2009 Maximum Mortgage Worksheets. • Refinance transactions where any open debt secured by the subject property is delinquent or in arrears, not current for the month due, has been re-structured, or will be re-subordinated for less than the total amount due are not eligible. • Direct Mortgage will exercise sound judgment and due diligence in the underwriting of loans to be insured by FHA. In order to comply with HUD's directive, refinance transactions should "make sense" and be in the borrower's best interest. • In states with predatory lending laws, the state-specific refinance or "Tangible Net Benefit "worksheet will supersede guidelines. **Cash Out Refinance Transactions:** • Allowed • Maximum LTV is based on Length of Ownership: - 12 Months or More: The subject property must have been owned by the borrower as his or her principal residence for at least 12 months preceding the date of the loan application in order to obtain the maximum 85% of the appraiser's estimate of value. - Less than 12 Months: If the subject property has been owned less than 12 months preceding the date of the loan application as the borrower's principal residence, the mortgage amount is limited to the lesser of 85% of the sales price of the property when acquired OR 85% of the current appraised value. - A sales price, however, need not be considered if the property was acquired as the result of inheritance and is or will become the heir's principal residence. • Owner-occupied primary residence only • Not allowed in the state of Texas • New simultaneous subordinate liens not allowed. **Rate/Term Refinance Transactions:** • Allowed. • Owner-occupied primary residence only. • Cash back at closing limited to $500, ($0 in Texas), and must be due to changes in the payoff and/or closing costs and prepaids. **At time of origination and loan approval, the 1003, GFE and MCAW must show no cash back.** (ML 05-43) • No holding period but acquisition cost must be considered if owned < 1 year and not already FHA-insured (see *MAXIMUM LOAN AMOUNT*). • Existing subordinate financing may remain in place. • When paying off subordinate liens, if any portion of the funds in excess of $1000 on an existing equity line of credit was advanced within the past 12 months and was not used for repairs or rehabilitation of the property, the line of credit is not eligible to be paid off in the new mortgage unless the new transaction will be treated as a Cash-Out refinance (ML 2008-40).

REFINANCE TRANSACTIONS *(CONTINUED)*	**Streamline Refinance Transactions**
	• Prohibited in some states. See *GEOGRAPHIC RESTRICTIONS*.
	• Must meet minimum credit score requirements (see *CREDIT SCORES*).
	• Applicable FICO-based price adjustments will apply.
	• 12-month mortgage history reported from all 3 repositories.
	• Streamline refinances must be current and the previous payment history can not contain a 30-day late or greater payment in the most recent 12 months. The following documentation is required:
	  - Evidence the existing loan is current.
	  - If the loan is seasoned 12 months or more, evidence of no 30-day late payments in the most recent 12 months.
	• Full credit reports are required.
	• Owner-occupied primary residence only except streamline refinance without appraisal
	• Cash back at closing limited to $500, ($0 in Texas), and must be due to changes in the payoff and/or closing costs and prepaids. **At time of origination and loan approval, the 1003, GFE and MCAW must show no cash back.** (ML 05-43)
	• Streamline refinance without appraisal:
	  - Term of the new mortgage is the lesser of 30 years or the un-expired term of the existing mortgage plus 12 years. (4155.1 REV-5 Par 1-12-A).
	  - Use the "Original Principal Balance" from the Refinance Authorization screen in the FHA Connection. This will reflect the true loan amount after any principal reductions.
	  - The maximum base loan amount is the lower of these calculations:
	  - *Original Loan Amount:* The "Original Mortgage Amount" from the Refinance Authorization in the FHA Connection (which includes any financed UFMIP), or
	  - *Existing Debt:* The outstanding principal balance of the existing FHA-insured first lien, plus closing costs, prepaid expenses, discount points, minus any refund of UFMIP.
	  - For Truth in Lending Disclosure purposes, calculate the LTV by using the "Original Property Value" from the Refinance Authorization in the FHA Connection.
	• Any streamline refinance of a 30-year mortgage on a principal residence may be refinanced to a shorter term mortgage; however, the new monthly principal and interest may not increase more than 20%. (ML 05-43)
	• Fixed-to-Fixed streamline refinances must lower the monthly P&I and/or decrease the term of the mortgage.
	• A Hybrid ARM may be streamline refinanced to a fixed rate mortgage, with or without appraisal, provided that the payment will not increase more than 20% and all mortgage payments have been made within the month due for at least the last 12 months or the period the mortgage has been in force, if shorter. (ML 05-43)
	• A holding period of six months applies when: (1) the borrower obtained the loan via non-qualifying assumption; or (2) when a borrower is deleted due to devise or descent of law (e.g., divorce, death, etc.) and a quit-claim of interest has been executed. Full credit qualifying is required if held less than six months and/or if due-on-sale clause is triggered. (4155.1 REV-5 Par 1-12-C)
	  - FHA Connection (which includes any financed UFMIP), or
	  - *Existing Debt:* The outstanding principal balance of the existing FHA-insured first lien, plus closing costs, prepaid expenses, discount points, minus any refund of UFMIP.
	  - For Truth in Lending Disclosure purposes, calculate the LTV by using the "Original Property Value" from the Refinance Authorization in the FHA Connection.
	• Any streamline refinance of a 30-year mortgage on a principal residence may be refinanced to a shorter term mortgage; however, the new monthly principal and interest may not increase more than 20%. (ML 05-43)
	
	A holding period of six months applies when: (1) the borrower obtained the loan via non-qualifying assumption; or (2) when a borrower is deleted due to devise or descent of law (e.g., divorce, death, etc.) and a quit-claim of interest has been executed. Full credit qualifying is required if held less than six months and/or if due-on-sale clause is triggered. (4155.1 REV-5 Par 1-12-C)

SELLER CONTRIBUTION *(CONTINUED)*	**Purchase Transactions**
	• Secondary financing includes any financing that creates a subordinate lien against the subject property, even if it is a "soft", "silent", or "forgivable" second.
	• Borrower must be qualified with any required payment unless repayment is deferred at least three years. (ML 07-11)
	• Secondary financing for the borrower's required investment may only be provided by a valid city, county, state or Federal governmental agency, or a HUD-approved non-profit that is also considered an instrumentality of government. FHLB silent or soft seconds and grants are considered under instrumentality of government.
	• Additionally, the actual lien must be held by and the Note must be payable to:
	  - The governmental agency or HUD-approved non-profit that provided the funds, or,
	  - Another approved governmental agency or HUD-approved non-profit appointed as Agent for the entity that provided the funds.

SELLER CONTRIBUTION	• In other words, no entity that is not either a valid governmental agency or a HUD-approved non-profit may be involved in the providing or lending of funds for financing that will subordinate to an FHA loan. • Underwriter must examine a sample of the note and deed to verify that the allowable governmental agency or the HUD-approved non-profit is the *actual lien holder.* • HUD-approved non-profits that are not also considered an instrumentality of government may provide secondary financing for closing cost and prepaids assistance *only*. • The borrower must make a 3.5% cash investment and the combined 1st and 2nd liens may not exceed the FHA statutory limit. • Secondary financing that requires a special designated servicer for the first lien or imposes any servicing or resale restrictions on the first lien is not allowed. • No "Bond" Programs. • Must meet all additional requirements for secondary financing as stated in HUD Handbook 4155.1 REV-5, Par 1-13-A and -B. • May be subject to a pricing adjustment - contact the Pricing Desk. • Other secondary financing providers may be allowed on an exception basis subject to additional LTV/CLTV restrictions and statutory loan limits as stated in the 4155.1 REV-5, Par 1-13-C. **Refinance Transactions** • Existing subordinate financing may remain in place without regard to CLTV on streamline refinance transactions of 1-unit properties. • Existing subordinate financing that will be re-structured or re-subordinated for less than the total amount due is not eligible for re-subordination on a new FHA refinance transaction. • *See REFINANCE TRANSACTIONS* for additional rules applicable to refinance transactions.
PROGRAMS & SPECIAL FEATURES	**Energy Efficient Mortgage (EEM) Program** Standard FHA guidelines apply except for the following: • *DMC exception processing is required due to LTV and county loan limit issues; pricing adjustment may apply.* • This program allows qualified borrowers to finance up to 100% of the eligible expense of a cost-effective "Energy-Efficient" (EE) package. • Borrower does not have to qualify for the additional financing or provide additional down payment. • The appraisal does not need to reflect the EE package value for either new or existing construction. • Purchase and refinance transactions, including streamlines, are eligible. - New and existing 1-4 family properties, including 1-unit condos, are eligible. The allowable EEM dollar amount is for the entire property and not based on a per unit basis for multiple unit properties. - The EEM may be used with Sections 203(b), 234(c) Condos, and 203(h) Disaster loans. - Underwriter will determine how much of the EE cost may be added to the loan amount by using the Home Energy Rating System (HERS) report and the EEM Worksheet. - The amount added for the EE package cannot exceed the greater of (a) $4,000 or (b) the lesser of $8,000 or 5% of the property value. - The allowable EE amount is added to the base loan amount before UFMIP. - The FHA county loan limit may be exceeded by the amount added for the EE package. - In the Remarks section of the MCAW, underwriter must indicate that the loan is for an EEM, list borrower qualifying ratios prior to adding the EE cost, and show the final loan amount calculations. - For a streamline refinance, the borrower's P&I on the new loan including the EE package can exceed the P&I payment on the current loan, provided the estimated monthly energy savings shown on the HERS report exceeds the P&I increase. - For a streamline refinance without appraisal, the Original Principal Balance substitutes for an appraised value – for the EEM calculations only. The *LTV* on a streamline refi w/o appraisal continues to be determined by the *Original Property Value*. Both of these figures must be taken from the FHA Connection Case Number Assignment or Refinance Authorization. • ***Documentation, Fees, Escrow Requirements:*** - Home Energy Rating System (HERS) report, copy to borrower and lender. - HUD-92300 Mortgagee's Assurance of Completion (prepared by DMC). 90 days allowed for completion, no extensions or exceptions. After 90 days, unused funds must *be* applied to reduce the principal balance. - EE packages on new construction must be complete prior to funding (no escrows). - The borrower cannot be paid for his/her own labor nor receive cash back, except for documented material costs. - Fees charged to the borrower for the HERS report must be reasonable and customary for the area. These fees may be financed as part of the EE package if the eligible amount allows for inclusion.

PROGRAMS & SPECIAL FEATURES *(CONTINUED)*	If not, such fees are considered allowable closing costs. - ***Underwriting:*** Submit loan amount including the EE package to the FHA Total Scorecard. An "AUS- Refer" rating for the loan amount including the EE costs is acceptable *only if* the loan receives an "AUS-Accept" rating for the loan amount prior to adding the EE costs, or if the loan otherwise qualifies for manual override approval of an AUS-Refer (see *UNDERWRITING)*. "Ineligible" ratings are acceptable if the ineligible determination is strictly due to exceeding the county loan limit by the amount of the EE package.
TEMPORARY BUYDOWNS	• Allowed on purchases only • 2-1 only • No buy down on 15-year loans
UNDERWRITING	**Brokers are responsible for complying with all applicable FHA/HUD regulations as further modified by the guidelines within this product description.** • ***<u>ALL</u>*** loan files must include an IRS Form 4506T executed by each borrower at the time of closing. **Automated Underwriting System (AUS)** • All FHA loans must be submitted through DU or LP. **General Underwriting Information** • ***Real estate commission*** that is in excess of 8% must be deducted from the sales price/appraised value LTV calculation when determining maximum LTV. • ***Rental income*** supported by a lease with a family member or other interested party is not acceptable. • ***Conversion of Principal Residence to Investment Property:*** Rental income on the property being vacated may be used, after reducing by the appropriate Vacancy Factor, only under the following circumstances. The following guidance applies solely to the conversion of a primary residence to an investment property is not applicable to existing rental properties disclosed and confirmed by tax returns (Schedule E of form IRS 1040). See *ML 08-25* for further details. • **Relocations:** The homebuyer is relocating with a new employer, or is transferred by the current employer to an area not within a reasonable and locally recognized commuting distance. A properly executed lease agreement of at least one year's duration is required from the date the loan closes, along with the receipt of a security deposit from the tenant and proof of deposit into the borrowers account. • **Sufficient Equity in Vacated Property:** The homebuyer has a loan-to-value ratio of 75% or less, as determined by either a current (less than six months old) residential appraisal or by comparing the unpaid principal balance to the original sales price of the property. The appraisal, in addition to using forms Fannie Mae 1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae 1075/Freddie Mac 466. • If the borrower's current residence is secured by an FHA mortgage, additional criteria will apply per Handbook 4155.1 REV-5, paragraph 1-2. • A borrower is now allowed to purchase a new primary residence when their departure residence is underwater if all of the following criteria are met: - The departure residence is being rented. A bona fide lease agreement must be provided. Just like in other situations, a copy of the renter's photo ID and 1st month's rent or security deposit check must be provided. - An appraisal OR AVM is required to determine the amount of negative equity. Additionally, a comparable rent schedule is required to establish the market rents. - The maximum amount of negative equity is 150% of the current value OR $100,000, whichever is less. - The borrower must qualify with both payments. - 6 months of PITI for both properties is required to be in reserves. • The existing mortgage on the departure residence must be fully amortizing. No Interest Only or Negatively Amortized loans allowed. **Job Stability** • Current employment must be equal to or greater than 90 days. • Cumulative gap in employment must be no more than 60 days during the past 2 years - for more than 2 jobs - and 90 days gap will be allowed if there have only been 2 employers in 2 years. • Only 4 total jobs are allowed during the past 2 years, without an exception request approved. **FHA Streamlines** • Current employment information is required on the loan application. • Self employed borrowers must provide a CPA Letter or Business license. • For retired borrowers or borrowers receiving social security we will accept a letter of explanation. • A verbal VOE will be performed prior to the loan closing and at funding. • If the borrower(s) have been in the subject property for 24+ months AND have no mortgage lates (subject property), then we will not consider unrelated mortgage lates (other properties) in underwriting. • If the borrower(s) have been in the subject property for less than 24 months and/or have any mortgage lates (subject property), we will consider unrelated mortgage lates (other properties) in underwriting. Having worse than a 60 day unrelated mortgage late would disqualify the borrower(s).

UNDERWRITING *(CONTINUED)*	**Tax Transcripts** • As part of Direct Mortgage's firm commitment to quality, it is necessary for us to execute form 4506-T on ALL loans, including salaried borrowers and wage earners. To avoid unnecessary delays in the processing of your loans, please make sure form 4506-T is uploaded into Scanned Images at the time of submission. Form 4506-T must be signed and dated within the last 60 days. • Tax transcripts are required for the current year if the tax return income is used to qualify (i.e.; self employed borrowers, dividend income, etc). Tax extensions are not allowed. A filed tax extension is okay if a wage earner. **Broker Compensation** • Max Broker Compensation is 4% of the loan amount. When the broker compensation exceeds 2.5% management approval is required and a second appraisal may be required. • When the Real Estate Broker Compensation exceeds 6.5% management approval is required and a second appraisal may be required. **Departure Residences -** Policy regarding departure residences when they are mobile homes. • Whether the borrower owns the land or pays lot rent, rental income may never be considered when the departure residence is a mobile home. • If the borrower is moving out of a mobile home and owns the land, an appraisal or AVM must be provided to verify that they are not upside down in value and mortgage. • If the borrower is moving out of a mobile home and pays lot rent, no appraisal or AVM is required. However, we must verify the amount of lot rent and hold it against them as a net rental loss. **Additional Requirements** • Repair escrows are only allowed on program 6199. • All NAL and Identity-of-Interest transactions where buyer and seller are related will require a copy of the seller's payoff and mortgage history. • Whenever a non-occupant co-borrower is present, the occupant borrower's housing ratio cannot exceed 55%. **Debts paid off at (or prior to) closing**: • Revolving and installment debt paid off prior to the date of the loan application and credit report does not need to be included in the debt to income ratios. However, funds used to pay these items may need to be sourced and seasoned. Here is our policy regarding debts paid after the date of the loan application: a) Purchase & Rate/Term Loans: i) Revolving debts may not be paid off or paid down in order to qualify. ii) Installment loans may not be paid down in order to qualify. Installment loans may be paid off in order to qualify. A borrower may not use gifts funds to pay off an installment loan in order to qualify. b) Cash-out Loans: i) Revolving debts may be paid off in order to qualify, as long as they are paid through closing using loan proceeds. ii) Installment loans may not be paid down in order to qualify. Installment loans may be paid off in order to qualify. They may be paid off with borrower funds or loan proceeds. A borrower may not use gift funds to pay off an installment loan in order to qualify. **Self Employed Documentation Requirements** • Self employed borrowers will need to provide tax returns on April 16, 2010. January 1, 2010 through April 15, 2010, financial statements (profit/loss & balance sheet) along with Oct – Dec 2009 business bank statements will be required. **Non-Arms Length and Identity-of-Interest** • Non-Arms Length and Identity-of-Interest transactions are NOT allowed when the occupancy type is second Home or Investment. • Non-Arms Length and Identity-of-Interest transactions are NOT allowed when the seller has entered into a short sell agreement with the existing lien holder or when a bank is the seller and the buyer is related to the previous owner. • Non-Arms Length and Identity-of-Interest transactions ARE allowed – on a case by case basis for primary homes. DMC does not allow "bailouts." **Properties previously listed for sale** • DMC allows financing on properties recently listed for sale. However, the subject property listing must be removed, withdrawn or cancelled at least 1 day prior to the date of the loan application. • Cash-out loans are limited to 70% LTV until the subject property listing has been removed, withdrawn or cancelled for a period of 6 months prior to the date of the loan application. • Rate/term refinance loans are limited to 90% LTV until the subject property listing has been removed, withdrawn or cancelled for a period of 6 months prior to the date of the loan application.
ARM PARAMETERS	• HUD offers FHA 1-Year, 3-Year, and 5-Year ARM loans under the same requirements as the fixed rate loan with the exceptions as provided in this section. The ARM is offered under the FHA 203(b) program. The ARM Plan ID numbers are listed below: **1)** The 1 Year ARM Plan number for Desktop Underwriter is 251 **2)** The 3/1 and 5/1 ARM Plan number for Desktop Underwriter is FHA HYBRID
INDEX	• Weekly average yield on U.S. Treasury Securities, adjusted to a constant maturity of one (1) year.

INTEREST RATE CAPS	• Annual: One percent (1.00%) up or down, from the rate in effect during the preceding year. • Lifetime: Five percent (5.00%) up or down, from the rate on the note.
INTEREST RATE CHANGES	• After the initial interest rate change, the interest rate will be adjusted every 12 months on the Change Date by adding the Margin to the Index. The result is rounded to the nearest one eighth percent (1/8%). • The date of the each interest rate adjustment (change date) is shown on the note and security instrument. • Payments cannot change earlier than one (1) month after the change date.
MARGIN	• One, Three and Five Year ARMs: 2.25% **Note**: Other margins may be offered. Refer to the Rate Sheet for additional information. **First Adjustment Dates** • The first adjustment for the One (1) Year ARMs will be twelve (12) to eighteen (18) months after the first installment payment is due in order to permit pooling the mortgage for sale in the secondary market. GNMA allows four adjustment dates (January 1, April 1, July 1 and October 1). • The first adjustment for the Three (3) Year ARMs will be thirty-six (36) to forty-two (42) months after the first installment payment is due in order to permit pooling the mortgage for sale in the secondary market. GNMA allows four adjustment dates (January 1, April 1, July 1 and October 1). • The first adjustment for the Five (5) Year ARMs will be sixty (60) to sixty-six (66) months after the first installment payment is due in order to permit pooling the mortgage for sale in the secondary market. GNMA allows four adjustment dates (January 1, April 1, July 1 and October 1).

FHA 1 Year ARM

The following table shows FHA 1 Year ARM Change Dates. Each change date will occur annually (every 12 months) after the first change date.

Closing	Interest Starts Accruing	First Payment Date	First Interest Change Date	Maturity Date 30 Yr Term	Number of Months Until 1st change
12/2-01/1/09	01/01/09	02/01/09	04/01/10	01/01/39	15
01/2-02/1/09	02/01/09	03/01/09	04/01/10	02/01/39	14
02/2-03/1/09	03/01/09	04/01/09	07/01/10	03/01/39	16
03/2-04/1/09	04/01/09	05/01/09	07/01/10	04/01/39	15
04/2-05/1/09	05/01/09	06/01/09	07/01/10	05/01/39	14
05/2-06/1/09	06/01/09	07/01/09	10/01/10	06/01/39	16
06/2-07/1/09	07/01/09	08/01/09	10/01/10	07/01/39	15
07/2-08/1/09	08/01/09	09/01/09	10/01/10	08/01/39	14
08/2-09/1/09	09/01/09	10/01/09	01/01/11	09/01/39	16
09/2-10/1/09	10/01/09	11/01/09	01/01/11	10/01/39	15
10/2-11/1/09	11/01/09	12/01/09	01/01/11	11/01/39	14
11/2-12/1/09	12/01/09	01/01/10	04/01/11	12/01/39	16
12/2-01/1/10	01/01/10	02/01/10	04/01/11	01/01/40	15
01/2-02/1/10	02/01/10	03/01/10	04/01/11	02/01/40	14

FHA 3/1 ARM

Closing	Interest Starts Accruing	First Payment Date	First Interest Change Date	Maturity Date 30 Yr Term	Number of Months Until 1st change
11/2-12/1/08	12/01/08	01/01/09	04/01/12	12/01/38	40
12/2-01/1/09	01/01/09	02/01/09	04/01/12	01/01/39	39
01/2-02/1/09	02/01/09	03/01/09	04/01/12	02/01/39	38
02/2-03/1/09	03/01/09	04/01/09	07/01/12	03/01/39	40
03/2-04/1/09	04/01/09	05/01/09	07/01/12	04/01/39	39
04/2-05/1/09	05/01/09	06/01/09	07/01/12	05/01/39	38
05/2-06/1/09	06/01/09	07/01/09	10/01/12	06/01/39	40
06/2-07/1/09	07/01/09	08/01/09	10/01/12	07/01/39	39
07/2-08/1/09	08/01/09	09/01/09	10/01/12	08/01/39	38
08/2-09/1/09	09/01/09	10/01/09	01/01/13	09/01/39	40
09/2-10/1/09	10/01/09	11/01/09	01/01/13	10/01/39	39
10/2-11/1/09	11/01/09	12/01/09	01/01/13	11/01/39	38
11/2-12/1/09	12/01/09	01/01/10	04/01/13	12/01/39	40
12/2-01/1/10	01/01/10	02/01/10	04/01/13	01/01/40	39
01/2-02/1/10	02/01/10	03/01/10	04/01/13	02/01/40	38

FHA 5/1 ARM

Closing	Interest Starts Accruing	First Payment Date	First Interest Change Date	Maturity Date 30 Yr Term	Number of Months Until 1st change
11/02-12/01/08	12/01/08	01/01/09	04/01/14	12/01/38	64
12/02-01/01/09	01/01/09	02/01/09	04/01/14	01/01/39	63
01/02-02/01/09	02/01/09	03/01/09	04/01/14	02/01/39	62
02/02-03/01/09	03/01/09	04/01/09	07/01/14	03/01/39	64
03/02-04/01/09	04/01/09	05/01/09	07/01/14	04/01/39	63
04/02-05/01/09	05/01/09	06/01/09	07/01/14	05/01/39	62
05/02-06/01/09	06/01/09	07/01/09	10/01/14	06/01/39	64
06/02-07/01/09	07/01/09	08/01/09	10/01/14	07/01/39	63
07/02-08/01/09	08/01/09	09/01/09	10/01/14	08/01/39	62
08/02-09/01/09	09/01/09	10/01/09	01/01/15	09/01/39	64
09/02-10/01/09	10/01/09	11/01/09	01/01/15	10/01/39	63
10/02-11/01/09	11/01/09	12/01/09	01/01/15	11/01/39	62
11/02-12/01/09	12/01/09	01/01/10	04/01/15	12/01/39	64
12/02-01/01/10	01/01/10	02/01/10	04/01/15	01/01/40	63
01/02-02/01/10	02/01/10	03/01/10	04/01/15	02/01/40	62