



Silver Underwriting Philosophy

PRIME LENDING

UNDERWRITING GUIDELINES

Table of Contents

GENERAL	3
DOCUMENTATION TYPES	4
TRANSACTION TYPES	5
CREDIT	7
EMPLOYMENT / INCOME	10
RATIOS	14
PAYMENT SHOCK	15
ASSETS	15
UNACCEPTABLE ASSETS	17
1031 EXCHANGE	17
SUBORDINATE FINANCING	17
AGE OF DOCUMENTATION	18
TITLE INSURANCE	18
INSURANCE REQUIREMENTS	19
SEASONING	20
CITIZENSHIP STATUS	21
INTERNATIONAL BORROWER	22
FOREIGN INCOME	23
BUY OUT EX-SPOUSES INTEREST	23
NON-ARM'S LENGTH TRANSACTION	24
NON-OCCUPANT CO-BORROWERS	24
LIVING "INTERVIVOS" TRUSTS	25
ACCOMMODATOR SIGNING	26
INITIAL 1003	26
CONTRIBUTIONS BY INTERESTED PARTIES	27
PROPERTY	27
ZONING	27
APPRAISAL REPORT FORMS	28
AGE OF APPRAISAL	31
INELIGIBLE PROPERTIES	31
NON-OWNER	32
WELL AND SEPTIC REPORTS	32
LISTED PROPERTIES	32

DECLINING VALUES	33
UNPERMITTED ADDITIONS	33
CONDOMINIUMS AND PUDS	34
CONDOTELS	39
NON-WARRANTABLE CONDOS	40
CONDO CONVERSIONS	41
HIGH-RISE CONDOMINIUM	41
LOFTS	41
APPRAISAL REVIEW GUIDELINES	42
FEMA DISASTER AREAS	44
PROPERTY OWNERSHIP LIMITATIONS	44
MULTIPLE LOANS TO ONE BORROWER	44
ACREAGE	44
TERMITE REPORT	44
HOLDBACKS	45
LEASEHOLD ESTATES	45
EQUITY TRADES	45
EXCEPTION PROCEDURE	46
LOANS GREATER THAN \$1M	46
PRIVATE MORTGAGE INSURANCE	48

GENERAL

Our underwriting and program guidelines describe specific requirements for each program, including criteria pertaining to employment, income, self-employed borrowers, liabilities, credit reports, and on some programs, qualifying ratios. This is not an all-inclusive standard, we have presented the minimum guidelines considered necessary for prudent mortgage compliance underwriting, the essential requirement being that the terms of the loan be related to the probability of the borrower's repayment and to the value and marketability of the mortgage property.

We believe that there is not one singular characteristic within a loan file that indicates the quality of a loan. The concept is incorporated throughout our guidelines. All loans will be reviewed with a common sense approach. Each loan is individually underwritten with emphasis placed on the overall quality of the loan. Although multiple risk factors are assessed, the underwriter will attempt to balance the evaluation between the borrower and the property.

The borrower's loan package must contain sufficient information to enable the underwriter to reach an informed and knowledgeable decision. Each loan will be reviewed for compliance within the established criteria for each program. All loans must be documented according to standard Fannie Mae requirements unless otherwise specified in the loan guideline.

We encourage exceptions to our loan eligibility requirements (i.e., higher LTV, loan amounts, credit scores, etc.). Additional pricing adjustments will apply to those exceptions based on the risk that we will incur. These special exceptions must be pre-approved in writing by our secondary marketing department.

***** NOTE ** These are general guidelines that apply to all programs. If the specific program matrix addresses a guideline that differs from the general guidelines, the matrix guideline supersedes the general guidelines...***

DOCUMENTATION TYPES

We currently offer six different options of income and asset documentation. All options are not available on all programs.

FULL DOCUMENTATION: Salaried – 2 year history with 30 days of pay stubs and 2 years W-2's. Self-Employed – 2 years tax returns and a year-to-date P & L. Fully executed 4506 required when tax returns are used to qualify. We will validate the 4506 with the IRS.

STATED INCOME (SIVA): This option does not require documentation of income. This program permits both salaried and self-employed borrowers. Borrower's qualifying ratios are calculated on the basis of information disclosed on the loan application. Liabilities and assets are verified according to full or alternative documentation guidelines. Employment must be verifiable. Two-year employment history required in same line of work – no gaps. Stated income must be reasonable and in line with position.

NO RATIO (NIVA): This option does not require the calculation of the applicant's debt ratios. This program permits both salaried and self-employed borrowers. Income should not be disclosed on the loan application or in the file documentation. However, the application must be complete as to employment, income liabilities, assets, schedule of real estate owned and all other documentation. Employment must be verifiable and assets must be verified. Two-year employment history required in same line of work – no gaps. Income stills needs to pass the reasonability test even though it is not stated.

NO DOC - STATED (SISA): This option does not require documentation of income. This program permits both salaried and self-employed borrowers. Borrower's qualifying ratios are calculated on the basis of information disclosed on the loan application. Employment and assets should be stated on the application but not documented in the file. Employment must be verifiable. Two-year employment history required in same line of work – no gaps.

NO DOC (NISA): This option does not require the calculation of qualifying ratios. Income should not be disclosed on the application or in the file. Employment and assets should be

disclosed on the application but not documented in the file. Employment must be verifiable. Two-year employment history required in same line of work – no gaps. All borrowers must meet minimum credit score requirements. For all Combo loans with a CLTV greater than 95%, the 2nd TD can only be by a SISA. Income must be stated with a 2-year history of employment.

SUPER NO DOC (NINA): This option does not require the calculation of qualifying ratios. Income and employment are not disclosed on the application or anywhere in the file. Assets and liabilities are not disclosed on the application or anywhere in the file. Schedule of REO should be completed excluding gross rents. Borrower must provide an alternative daytime telephone number in the employment section of the 1003. All borrowers must meet minimum credit score requirements.

TRANSACTION TYPES

PURCHASE: The LTV/CLTV will be calculated based upon the lower of the purchase price/acquisition cost or appraised value.

NO CASH OUT REFINANCE: The LTV will be based on the current value. If the property was purchased during the previous 6 months the appraisal should reflect and justify any increase in value. An enhanced field review should be ordered to support any large increase.

The following is considered a no cash out transaction:

- Paying off a first mortgage, regardless of its age
- Paying off any junior lien at least one year old, unless the loan was a purchase money second.
- Paying related closing costs, financing costs, property taxes and prepaid items.
- Incidental cash paid to the borrower not to exceed the lesser of \$2,000 or 2% of the new loan amount.

CASH OUT REFINANCE: The value will be based on the lower of purchase price/acquisition cost or current appraised value if the property has been owned less than 6 months. On programs that allow a 'no seasoning' history on the property value, the underwriter must evaluate the borrower history, the amount of increase of the property, the cash out purpose, etc., in determining the accurate value.

The following is considered cash out:

- Paying off non-purchase money junior liens, less than 12 months old.
- Disbursing cash out to the borrower greater than 2% of loan amount or \$2,000
- Funds to pay off non-mortgage liens or unsecured loans.

If the CLTV is less than 80%, the cash out can be considered as reserves. We will only require cash out letter when the actual cash in hand to borrower is greater than \$100,000.

If you are refinancing with a new 1st and 2nd Piggyback and the cash out is only coming from the 2nd TD, the 1st TD can be priced as a rate and term refinance. The loan amount on the 1st should be less than or equal to the existing total lien payoff including all closing costs. Do not include payoffs of Installment debt, revolving debt, tax liens, judgments, collections and payoff of an "unseasoned" 2nd TD in the lien payoff calculation as these are considered cash out. If the underwriter is concerned about the cash out issue, they may condition to review the HUD 1 prior to funding. This will apply to the Expanded Portfolio, Option Arm, and Subprime programs only. It does not apply to any D/U or Jumbo Program.

CONSTRUCTION TO PERMANENT LOANS: Borrowers who are already on title to the land that has been improved are eligible to convert their construction loan (or interim financing) to a permanent mortgage.

Refinance: Borrower must be on title and refinance for the balanced owed and can include normal closing costs. If the borrower wants to recapture their expenses and/or costs into the property, the LTV will be based on the documented hard construction costs plus land acquisition costs as verified by the HUD-1. If the land was acquired over 12 months ago, value based on current appraisal. All additional out of pocket costs must be documented. Material costs only will be considered - no personal labor fees allowed.

LEASE PURCHASE OPTION: A lease-purchase option is a contract for sale of property in which the purchaser leases the property for a prescribed period of time. During the lease period, a portion of the lease payment is held by the seller and credited towards down payment.

If the original "lease with option" agreement is less than 12 months old by the date of application, the transaction will be treated as a purchase, and the LTV will be based on the original purchase price.

If the original "lease with option" agreement is 12 months old or greater by the date of application, the transaction will still be treated as a purchase (since the borrower is using proceeds to obtain title) and the LTV will be based on the lower the original purchase price or current appraised value.

Copies of cancelled rent checks are required to verify the length of the contract, as well as, the payment history.

The portion of rent credited towards down payment is determined by the difference between the actual rent and the fair market rent established by the appraiser. If a down payment was made, a copy of the cancelled check is required in order to allow it as a borrower credit.

CREDIT

Lender will accept a tri-merged 'in file' credit report from three different repositories or the standard factual credit report. On third party loans, we must use the credit score from our own in-house credit report for all programs.

Exclusive of credit requirements as outlined in the program descriptions, the borrower's overall credit history should demonstrate the ability to meet monthly obligations in a timely manner. Derogatory credit that demonstrates a pattern of slow payment history will be taken into consideration in addition to the specific credit requirements within the last 24 months.

CREDIT SCORE: Middle score of three/lower of two of primary wage earner from internal credit report. All borrowers must qualify for the lowest allowable credit score per program guidelines. When income is not stated on the 1003, it will be at the underwriter's discretion as to who is the primary wage earner. The primary wage earner needs to pass the reasonability factor based on the occupation of both borrowers. On all Super No Doc (NINA) programs, the lowest middle score of all borrowers will be used.

TRADELINE REQUIREMENT: Minimum of 3 trade lines @ 24 months OR 4 trade lines @ 12 months history (Mortgage/Rental history must be at least rated for 12 months and one trade line must be open and active). For \$1.5M+ minimum of 5 trade lines with 3 @ 48 months. Even though the borrower meets the trade line requirement, credit depth must be considered when underwriting a stated income file. Does the “high credit” support the income stated. Accounts listed on the credit report, showing the borrower as an authorized user, are not eligible as valid and usable accounts of the borrower.

MORTGAGE/RENT HISTORY: We require a favorable mortgage/rent rating with a minimum 12-month history. If the borrower has a previous mortgage history rated on the CR for a minimum of 12-months but are lacking a current rental rating, no exception is needed as long as the LTV/CLTV is 80% or less. VOR is acceptable from a property management company with QC confirmation; VOR from a private party is acceptable with QC confirmation that the person completing the form is the owner of the property and not a family member; VOR completed by a family member requires 12-months canceled checks.

MAJOR DEROGS – Allowed to 80% (Pricing adjustment may apply); all collections, liens, charge-offs, judgments must be paid off in escrow. None in 48 months for \$1.5 Million+. Collections/charge-offs to an aggregate of \$1,000 and medical collections are not considered major derogos.

COLLECTIONS AND CHARGE-OFFS – For owner occupied and 2nd home transactions, collections and charge-offs totaling more than \$5,000 and < 12 months old must be paid off at closing. For non-owner, individual accounts equal to or greater than \$250 and accounts that total more than \$1,000 must be paid off at closing.

EQUITY LINE PAYOFF: If paying off of an equity line of credit on any type of rate and term refinance, the one-year seasoning requirement is established from the date of the most recent draw against the line of credit. Minimal draws, not exceeding the greater of a total of \$2000 or 5% of the credit line limit, are exempt from this seasoning requirement. Documentation must be obtained from the Borrower or the equity line lender to support the date and amount of the latest draws against the equity line. Equity line must be paid off and evidence that it has been closed.

NO RENT OR MORTGAGE HISTORY: Borrowers that have no housing payment due to “free and clear” ownership of their current residence can establish a housing payment history via supplying a payment history of taxes and hazard insurance for a 12-month period.

DEBT PAYOFF: Installment accounts may not be “paid down” to 10 months or less to allow the borrower to qualify. Payoff of installment and revolving accounts for qualifying purposes is acceptable.

STUDENT LOANS: We will need proof that the student loan is deferred for a minimum of one year in order not to count the payment against them. Student loans that are deferred can not be counted as a valid trade line.

TIME-SHARE LOANS: The payment history of a time-share account is treated the same as an installment late. If the loan is currently delinquent, it will need to be paid current.

BANKRUPTCY: Refer to program guidelines for loan specifics.

- The bankruptcy must have been fully discharged and the borrower must have re-established good credit and demonstrated an ability to manage financial affairs for a minimum elapsed time, consult specific program matrix for guideline, between the discharge of the bankruptcy and the loan application.
- Re-established or reaffirmed credit (3 trade lines with at least a 24-months history; or 4 trade lines with at least a 12-month history; Revolving and installment: Max 2 x 30; Mortgage/Rent: verified for 24-months 0 x 30; all other accounts must be current.
- If there are open accounts that appear to have been included in the bankruptcy, but they still show on the credit report, request the bankruptcy papers to clarify the current status. If there are accounts that are included in the BK , write this on the credit report.
- If a BK has been discharged over five (5) years ago, consideration for Post BK lates is not required. As long as the trade lines have been re-established, file can be underwritten disregarding BK.
- Consumer Credit Counseling will be treated the same as a bankruptcy.

EMPLOYMENT / INCOME

GENERAL: Employment must be stable with at least a two-year history in the same job or jobs in the same or related field. Self-employed applicants must have been in business for at least two years. Employment must be verbally verifiable through an independent third party on Stated Income, No Ratio and the No Doc programs.

SALARIED: Must supply 2 years W-2's and current pay stub to cover a 30-day period. If borrower receives commission, bonus, overtime or other additional income, we must have a two-year history and it must show that it is likely to continue. If the commission income is more than 25% of their total earnings, we will require 2 years tax returns to review the 2106 deductions. These deductions will be averaged over a 2-year period and deducted from the income. If the borrower is paid on a straight salaried basis, this is the income we will use for qualification purposes. If there is a 2-year history of overtime, commission and bonus income and it will continue, we will use a 2-year average for qualifying purposes. If the borrower exhibits declining income, the lowest income will be used for qualifying purposes and we will require a letter of explanation regarding the declining income.

SECOND JOB: Must have a 2-year history of working two jobs in order to include the second income.

EMPLOYED BY FAMILY MEMBER: A borrower employed by a family-owned business is only eligible for full-documentation or super no doc programs. This will require 2 years 1040's, fully executed 4506 and a current pay stub. The file must also document that the borrower has less than 25% interest in the family business. If the borrower's interest exceeds 25%, the borrower will be considered self-employed for qualifying purposes and appropriate documentation must be submitted in the loan file.

SELF-EMPLOYED: Full doc will require 2 years 1040s, 1120s, 1065s, etc. and a current Year-To-Date profit and loss statement. A fully executed 4506 must be provided and we will process through the IRS to validate the returns. We will average income off of the 2 years 1040's and utilize the P & L just to make sure that the earnings are still in line. The P & L is not used in the calculations for the income.

On a Stated, No Ratio or No Doc file, we will need either a CPA letter stating that the borrower has been self-employed for a minimum of two years and that the CPA has prepared or reviewed their tax returns for that period of time or a copy of the business license to cover the two-year period in the same line of business. Original CPA letter not required.

General Partnership: A business owned by two or more persons who share in the right and responsibility to manage the business, with each partner responsible for all the debts and obligations of the business. The partnership is immediately dissolved upon the incapacity or withdrawal of any of the partners.

Limited Partnership: A partnership that consists of one or more general partners who are fully liable, and one or more limited partners who are liable only for the amount of their investment. The limited partner has limited decision-making ability, to the extent of their investment into the partnership. A limited partnership is not dissolved upon the incapacity or withdrawal of any of the partners. Individual partners pay taxed on their proportionate share of the net income on the individual income tax return (IRS Form 1040).

S Corporation: A legal entity organized to have legal power to carry on certain activities. Ownership in a corporation is through shares of stock, but a corporation's stockholders may not be held personally or financially liable for the activities of the corporation. Income for the corporate officers is folded into the officer's individual tax returns (IRS Form 1040).

Self-employed Borrower: A borrower who has an ownership interest of 25% or more in a business. The business may be a sole-proprietorship, a general or limited partnership, or a corporation.

Sole Proprietorship: A sole proprietorship is a business owned by one person. The individual owner is personally liable for all debts of the business and, therefore, has unlimited liability. There is no distinction between the owner's personal assets and the assets used in the business. Business income or loss is reported on Schedule C of the borrowers' individual tax return (IRS Form 1040).

Unallowed Loss: A cash loss for self-employed borrowers that could not be deducted from income for tax purposes.

Unallowed Loss Carryover: An unallowed loss from previous years that may reduce the income amount for tax purposes in the current year.

Business Type	Income Documentation Required
Sole Proprietorship	<ul style="list-style-type: none"> • IRS 1040 (individual) with all schedules • Two years most recent tax returns. • <i>The following may be requested on a case-by-case basis:</i> <ul style="list-style-type: none"> • Year-to-date profit and loss statement if application is dated more than 120 days after the year end, and only if not a service business, and • Year-to-date profit and loss statement and balance sheets matching the tax return dates, and only if not a service business.
Corporation	<ul style="list-style-type: none"> • IRS 1040 (individual) with all schedules , and IRS 1120 (Corporation), with all schedules • Two years most recent tax returns. • <i>The following may be requested on a case-by-case basis:</i> <ul style="list-style-type: none"> • Year-to-date profit and loss statement if application is dated more than 120 days after the fiscal year end.
S Corporation	<ul style="list-style-type: none"> • IRS 1040 (individual) with all schedules , and IRS 1120S (S Corporation), with all schedules , and W-2 • Two years most recent tax returns. • <i>The following may be requested on a case-by-case basis:</i> <ul style="list-style-type: none"> • Two years most recent W-2s from the S Corporation. • Year-to-date profit & loss statement if application is dated more than 120 days after the fiscal year end.

General and Limited Partnership

- IRS 1040 (individual) with all schedules , and IRS 1065 (Partnership), with all schedules, and Partners Share of Income (K-1)
- Two years most recent tax returns, and Two years most recent K-1s.
- *The following may be requested on a case-by-case basis:*
- Year-to-date profit and loss statement if application is dated more than 120 days after the fiscal year end.

IRS-issued transcripts are acceptable in lieu of tax returns provided they contain information from all of the applicable schedules.

NON-TAXABLE INCOME: May be grossed up 125% for qualifying purposes as long as the borrower is of retirement age. This is allowed on Full Doc only.

PASSIVE INCOME: Full Doc will require award letter and 2 months bank statements verifying direct deposits and 2 years 1099. Stated income will allow passive income with the following conditions:

- Max CLTV 80%
- 1003 to reflect complete breakdown of all income; i.e., Social Security, Pension, Retirement, etc.

ALIMONY/CHILD SUPPORT: Full doc only. Need divorce decree and cancelled checks for 6 months or other verification. Must continue for a minimum of 2 years.

TRUST INCOME: Full Doc only. Copy of trust agreement, proof of receipt for a minimum of 1 year with 2 years remaining.

DIVIDEND/INTEREST INCOME: Allowed on Full doc only with 2 years 1040's and verification of assets to substantiate Schedule B income.

FOSTER CARE: Full Doc Only. Need 2 years 1040's and documentation to show continuing for a minimum of 2 years along with satisfactory evidence they are currently receiving this income.

DISABILITY: Full Doc Only. Must be on permanent disability. Need award letter to show continuing for a minimum of 3 years.

VERBAL VOE: All loan programs require a verbal VOE on all salaried, non-salaried and self-employed borrowers with the exception of the Super No Doc (NINA) program. The verbal VOE establishes the existence and stability of the borrower's source(s) of income and does not verify the amount of the income. This should be performed prior to funding the loan.

Loans with borrowers whose employment cannot be verbally verified (applicable only to alimony, pension, social security, or permanent disability income) a Verbal VOE is not required. A Borrower's Income Certification signed by the borrower is required in lieu of the Verbal VOE on Stated, No Ratio and No Doc loan programs.

Salaried borrowers' employment may be verified through the employer's Human Resources (personnel) department. At a minimum, the borrower's current employment status, hire date and the name and title of the person providing the information must be verified with the employer. Information such as the borrower's title and probability of continued employment is helpful, but not required.

Non-salaried borrowers' employment should be verified by a neutral third party such as a Certified Public Accountant. Borrowers whose income is derived solely from assets must provide evidence of sufficient assets to support the necessary cash flows.

Self-employed borrowers employment should be verified by a neutral third party such as a Certified Public Accountant, Regulatory Agency or Professional Organization.

RATIOS

On Full doc loans, ratios greater than 50% will require the following disposable income; \$500 for one and \$200 each for every additional member of the household.

PAYMENT SHOCK

Payment shock calculations are required, in addition to debt-to-income ratios, and is applicable on transactions as follows:

- Full Doc, SIVA, SISA; and
- LTV/CLTV is 90.01% and above; and
- Owner Occupied; and
- Credit score is 679 or less
- Payment shock exceeding 300% of the current housing payment requires the LTV/CLTV to be reduced by 5%.

Calculate the payment shock as follows:

Proposed housing payment		\$4,000
Current housing payment	minus	\$1,000
Housing difference	equals	\$3,000

Housing difference		\$3,000
Current housing	divided by	\$1,000
Payment shock	equals %	300%

Borrowers who do not have a housing history or live with relatives do not qualify for the No Doc programs. Exceptions may apply if the borrower has had a previous mortgage or a current investment property with a mortgage history.

ASSETS

Assets listed on the Uniform Residential Loan Application (1003) must be sufficient to cover reserves, closing costs and any other funds needed to close the transaction. All liquid assets must be stated on the application and the borrower must show a savings pattern.

On all programs where asset verification is required, the earnest money deposit amount must be verified when it exceeds 2% of the sales price of the property. A copy of the canceled check for verification is required and the source of funds for the deposit must also be verified as seasoned and the borrower's own funds.

CHECKING AND SAVINGS ACCOUNTS must be verified on most programs. Acceptable verifications are as follows:

- VOD with an average balance for each account for the past 1 month;
- 1 months bank statement for each account, (automatic payroll deposits should not show on any Stated, No Ratio loans; and
- If there has been a large transaction resulting in a recent increase in the balance of an account, the source of funds must be explained by the borrower and verified.
- Internet statements are acceptable if they can be tied back to the borrower with name, address and account number.
- We can only use 70% of retirement funds for reserves or down payment unless it is tax-free.

GIFT FUNDS/GIFT OF EQUITY are only accepted on Full Doc, owner occupied transactions. If CLTV is greater than 80%, borrower must have 5% of their own funds sourced and seasoned for 30 days. 80% CLTV or less - all funds can be a gift. Must be from an immediate family member only. Will require gift letter, proof of ability and proof of transfer of funds. Gift of equity is acceptable at 80% CLTV or less. A gift letter is required and the gift funds must be shown on the final HUD 1 as source of down payment.

BUSINESS FUNDS (Schedule "C"), trust funds, Corporation (single owner), Partnership (husband and wife), and LLC (single owner) are acceptable when the borrower is 100% owner. Requires CPA letter to state 100% ownership & no effect on business/trust (Trust must be revocable). No exception required. No other business fund scenarios will be acceptable.

IRA/KEOGH accounts are subject to penalties and income tax. Acceptable documentation is required to evidence that the amount has been 'cashed in'. We will consider 70% of the balance as reserves.

CASH-ON HAND FUNDS are not an acceptable source of funds.

RESERVES are defined as funds remaining after the loan has closed and all closing costs and down payment have been deposited into the closing company Reserve requirements are as follows for **1st TD** loans up to \$1M: Owner Occupied - 2 months PITI; Non-owner/2nd Home - 4 months PITI

Reserve requirements are as follows for **Fixed 2 TD** loans: Owner Occupied - 2 months PITI; Non-owner/2nd Home - 6 months PITI

Reserve requirements are as follows for **HELOC** loans: Full doc - 2 months PITI; Stated and No Doc - 3 months PITI; Non-owner and 2nd Home - 6 months PITI

Acceptable sources of reserves are:

- 1 month Bank statement - if stated loan, please make sure no payroll deposits are listed.
- VOD showing 1 month average balance
- 401 K statement (70% will be used)
- If the borrower cannot verify 2 months PITI of their own funds, we can use the cash out from their refinance for the additional reserves on all LTV/CLTV of 80% or less.
- Internet print out is acceptable as long as it shows the borrower's name, address and account number.
- Gift funds are not allowed for reserve purposes.

UNACCEPTABLE ASSETS

- Personal Loans
- Unsecured lines of credit
- Cash on hand
- Business funds (accepted on some programs on a case-by-case)

1031 EXCHANGE

We will only accept the exchange for non-owner purchases with satisfactory documentation from the exchange company.

Documentation needed is the HUD 1 from the sale and the exchange agreement from the exchange company.

SUBORDINATE FINANCING

Subordinate financing is permitted for most programs provided the following minimum criteria are met:

- The subordinate financing must be recorded and clearly subordinate to our first mortgage.
- Copies of the subordinate financing mortgage Note.

- Amount of subordinate financing, when added to the amount of the loan, does not exceed a combined LTV ratio as outlined in the loan product description.
- Subordinate financing must have a minimum term of not less than five years remaining unless the financing fully amortizes prior to that time.
- If the subordinate financing will not fully amortize under a level monthly payment plan, it may not have a maturity or balloon payment date of less than five years.
- Financing must have at least regular monthly payments of principal or interest only, and must be included in the calculation of the Borrower's housing expense ratio.
- Subordinate financing cannot have a negative amortization feature.
- Terms of the secondary financing should be at a market interest rate.
- If you have subordinate financing behind a Neg Am 1st; the 1st TD needs to be grossed up to the maximum Neg Am (110%) and the CLTV and pricing calculations need to be based on this figure. Maximum Neg AM allowed is (110%)

Seller financing is permitted on most programs.

AGE OF DOCUMENTATION

Documents are considered stale dated 90 days at underwriting and 120 days at funding. The appraisal is good for 120. If it is older than 120 days but less than 6 months, we will need a recertification of value with 2 additional comps. If the appraisal is greater than 6 months old, we will need a complete new appraisal.

TITLE INSURANCE

Full Title is always required and must contain a 12-month chain of title. The appraisal data regarding sales and transfers in the past year must be consistent with the chain of title findings. If mortgage rated on credit report for 12 months or more, no chain of title required. It is only required on purchases and if property owned less than 12 months. Not required on new construction.

INSURANCE REQUIREMENTS

All loans closed through Lexington are required to have satisfactory Hazard Insurance covering the secured property. Hazard Insurance requirements are as follows:

ACCEPTABLE FORMS

- Declaration Page of Policy; or
- Certificate of Insurance; or
- Evidence of Insurance; or
- Binder

SFR / MULTIPLE UNIT / DETACHED PUD HOME REQUIREMENTS

- Loan Amount
- 100% of the insurable replacement cost new
- Unpaid principal balance; Provided it is equal to 80% of the insurance value of the improvements (appraised value)
- Guaranteed replacement cost
- Maximum Deductibles: \$1,000 or 1% of the amount of the policy face amount whichever is higher.

CONDOMINIUM / ATTACHED PUD REQUIREMENTS

- Homeowners association must maintain blanket "all risk" coverage
- Coverage should be equal to 100% of the insurable replacement cost of the improvements including the individual units in a condominium
- The unpaid principal balance provided it equals 80% of the insurable value of the improvements
- Guaranteed replacement cost
- \$1,000,000 liability per occurrence clause
- Coverage should include guaranteed replacement or replacement cost endorsements.
- Maximum Deductibles: \$10,000 or 1% of the policy face amount whichever is less. For an individual unit in a condominium and PUD project, \$1,000 or 1% of the policy face amount of the unit whichever is higher.

TERM REQUIREMENTS

- Effective date must be prior to or the same date of closing.
- Purchase Transaction

- 1 Year from the month of closing. Premium to be collected through escrow, or borrower to provide evidence premium was paid outside of escrow
- Refinance
 - Coverage must have 6 months remaining at the time of closing
 - Collect sufficient funds renew coverage at expiration date
 - Validate dwelling coverage amount, if less than required amount, requires increase in dwelling coverage
 - Evidence of insurance must reflect Mortgagee has been changed to Lexington.

GENERAL INFORMATION

- Policies/Binders must be signed by the Insurance Agent
- Policies must be in effect and not expired
- Loan number must be on the evidence of insurance
- Applications for insurance are not acceptable evidence of hazard insurance

Lender Loss Payee:

Lexington, its successors and/or assigns

3 Imperial Promenade Suite 100

Santa Ana, CA 92707

SEASONING

We will allow the payoff of subordinate mortgage liens seasoned less than one year to qualify as a rate/term refinance if the subordinate financing was used for the purchase of the subject property.

Most programs do not allow cash out based on the current appraised value without six (6) months seasoning. On an exception basis, we may permit cash out with a reasonable cash out purpose (i.e., home improvement, medical) or low LTV based on the current value. Enhanced Field reviews are required on all unseasoned cash out transactions.

If a borrower has been added to title less than 6 months and the original person is still on title and is remaining on title proceed without an exception. If a borrower has been added to title less than 6 months and can document that they have been making the payments for the past 6 months, you may proceed with an

exception. If a borrower has been added to title less than 6 months and the original person is no longer on title and the borrower cannot document making the payments for 6 months, the loan will be denied.

CITIZENSHIP STATUS

PERMANENT RESIDENT ALIENS: We will loan to Borrowers who are lawful permanent resident aliens of the United States under the same terms that are available to U.S. Citizens. The following documentation is acceptable evidence of permanent residency:

- Alien Registration Receipt Card (Green Card) I-551, which has an expiration date on the back, and has not expired (copy of front and back of the card)
- A certified statement from Escrow Company on 'Resident Alien Certification Form'.

NON-PERMANENT RESIDENTS: We will loan to a Borrower who is a non-permanent resident alien provided the following are met:

- The borrower must have an established two-year credit history in the United States.
- Two-year employment history in the United States.
- Passport with H1 visa work permit that shows a 2-year expiration date and current employer must be shown as sponsor on the Visa.
- The borrower occupies the property as a primary residence
- Purchase or Rate/Term Refinance only to 90% LTV/CLTV.
- A certified statement from Escrow Company on 'Resident Alien Certification Form'.
- For second homes and non-owner occupied transactions, the following countries do not require a Visa, however, will require a copy of their passport.

Andorra	Iceland	Portugal
Australia	Ireland	San Marino
Austria	Italy	Singapore
Belgium	Japan	Slovenia
Brunei	Liechtenstein	Spain
Denmark	Luxembourg	Sweden
Finland	Monaco	Switzerland
France	Netherlands	United Kingdom
German	Norway	

INTERNATIONAL BORROWER

Foreign Nationals; non-permanent resident aliens employed in the U.S; U.S. citizens who have been employed abroad and have no recent established credit in the U.S.; and U.S. citizens employed abroad (2nd home only)

DIPLOMATIC IMMUNITY: Due to the inability to compel payment or seek judgment, transactions with individuals who are not subject to United States jurisdiction are not eligible. This includes embassy personnel with diplomatic immunity.

ELIGIBILITY: Borrower's visa status must be documented to determine eligibility. Alien Status Certification must be used to ensure compliance with eligibility requirements.

CREDIT SCORE: A credit score is not required. However, if the borrower has the required trade lines on a credit report, that credit score must be used. If the borrower does not have a valid credit score, 620 will be used in pricing a loan product. If the borrower has a credit score, we will not use any score that is under 620 or if they have derogatory trade lines.

CREDIT CRITERIA: U.S. and Canadian credit reports are required. If the credit report is not valid, 3 credit references rated for 24 months must be obtained from either lending institutions or from an established business relationship from the country of origin. Quality Control needs to call and verify the information contained in this letters to insure the validity of the rating. The International credit report can be used for trade lines only in lieu of credit reference letters. Score is based on Lexington internal credit report.

TRANSLATION: All documents must be translated to English by an independent third party.

VERIFICATION OF ASSETS: For Stated Income and No Ratio doc types, the down payment, closing costs and 2 months PITI reserves, owner occupied and 4 months PITI reserves for non-owner/2nd home; 2nd TD require 6 months PITI reserves must be verified with a VOD or computer bank statement as deposited in a United States bank prior to closing. The borrower must provide the last months bank statements or most current quarterly statement, together with a copy of the Wall Street Journal's conversion table as of the same date as the bank statements, for the purpose of converting the borrower's foreign currency to United States dollars. If the document type does not require verification of assets – no documentation is required for reserves

SIGNING LOAN DOCUMENTS: We require that if an International borrower is signing loan documents outside of the U.S. they must sign the documents at the U.S. Embassy. If not, we require a specific insured letter from the title company to state that they are insuring us.

The insured letter must be on title company letterhead addressed to our company and it needs to specify the title commitment number and the name of borrower(s). It needs to be signed by the title officer above the printed name and title. Fax letter coming from the title company directly to us is acceptable.

FOREIGN INCOME

Acceptable only if income can be verified on U.S. personal tax returns.

BUY OUT EX-SPOUSES INTEREST

This type of transaction will be considered a rate/term refinance transaction (and thus subject to the higher maximum loan-to-value ratio), as long as the borrower who will be acquiring sole ownership of the property receives no cash out of the proceeds from the transaction. Documentation to support this treatment, such as a copy of the divorce decree (or the property settlement agreement), must be obtained. Payoff to the ex-spouse must be reflected on the HUD 1.

NON-ARM'S LENGTH TRANSACTION

A non-arms length transaction exists whenever the applicant has a personal or business relationship with the seller, builder, or any other interested party. These relationships may influence the transaction and may not be eligible for financing. However, on a case-by-case basis, transfer among family members will be considered. Owner occupied properties may be questioned if the borrower has not already moved into the subject property. The appraiser must address the affect the non-arm's length transaction has on the subject's market value.

A letter detailing the relationship must be addressed in the loan package.

Realtor/brokers own commission on a sales transaction is acceptable as long as it does not exceed the maximum seller credit allowed.

Mortgage broker/agent own commission on a purchase loan transaction acceptable not to exceed maximum seller credit allowed. HUD 1 must be reviewed by an underwriter for compliance.

Contractors and appraisers own transactions are accepted with third party verifications of the information.

NON-OCCUPANT CO-BORROWERS

Non-occupant co-borrowers are not permitted on our portfolio programs. We will consider them as a non-owner transaction and will be subject to Non-owner guidelines and pricing. Unless full doc and the occupant borrower qualifies on their own.

LIVING "INTERVIVOS" TRUSTS

1. Living ("inter vivo") trusts must comply with local state regulations and the following requirements to be eligible for financing:
 - a. To be eligible the borrower must be:
 - i. The settler, or the person who created the trust, and ii. The beneficiary, or the person who is designated to benefit from the trust, and iii. The trustee, or the person who will administer the trust for the benefit of the beneficiary, the borrower.
 - b. Eligible borrowers include:
 - i. One or more borrowers with one living trust, or ii. Two or more borrowers with separate living trusts, or iii. Multiple borrowers with one or more holding title as an individual and one or more holding title as a living trust.
 - c. Eligible property includes:
 - i. 1-4 unit primary
 - ii. 1-2 unit second homes
2. The following documentation is required:
 - a. Attorney's Opinion letter from the borrower's attorney verifying all of the following:
 - i. The trust was validly created and is duly existing under applicable law, ii. The trust is revocable, iii. The borrower is the settler of the trust and the beneficiary of the trust, iv. The trust assets may be used as collateral for a loan, v. The trustee is:
 - vi. Duly qualified under applicable law to serve as trustee, vii. Is the borrower, viii. Is the settler, ix. Is fully authorized under the trust documents and applicable law to pledge or otherwise encumber the trust assets
 - b. Complete copy of the trust documents certified by the borrower to be accurate, OR A copy of the abstract or summary for jurisdictions that require a lender to review and rely on an abstract or summary of trust documents instead of the trust agreements.

ACCOMMODATOR SIGNING

If you have an individual that is going to be on title only and not on the loan or the note, this is called an accommodator signing. In this case, the non-borrowing individual needs to sign the Mortgage, TIL and in case of a refinance, the Right of Rescission. They should not sign the note and the entire vesting on page 1 of the Deed of Trust should include the non-borrowing individual. If the name is added to the Deed of Trust at time of signing, the addition needs to be initialed by both parties.

Accommodator signor allowed with on the following circumstances:

- Purchase - spouse only
- Refinance - any one currently on title, 6 month seasoning required, may remain on title only.

INITIAL 1003

The initial 1003 needs to match the typed 1003 in the following areas at all times:

FULL DOC: the final 1003 is our final document and does not need to match the initial as things will change during the process

STATED INCOME: income must match exactly as on the final

NO DOC: Income must be left blank and the stated assets must match exactly

SUPER NO DOC: employment, income, assets and liabilities must be left blank – alternative daytime phone number supplied.

A signature is not required on the initial 1003 as long as you have a signed credit authorization dated within 3 days of the GFE.

CONTRIBUTIONS BY INTERESTED PARTIES

Contributions by seller, builder or real estate agents are allowed towards all closing costs. Credit for closing costs cannot exceed the actual closing costs incurred. No credit to principal allowed making up any remaining credit. The following maximum percentage of the lesser of sales price or appraised value will apply according to transaction type.

- 3% for second home and non-owner up to 90% LTV/CLTV
- 2% for second home and non-owner over 90% LTV/CLTV
- 3% for owner occupied loans over 90% LTV/CLTV
- 6% for owner occupied loans up to 90% LTV/CLTV
- 9% for owner occupied loans up to 75% LTV/CLTV

PROPERTY

We lend on owner occupied, non-owner occupied and second home residential property only. Acceptable property types include SFRs, Condominiums (including high rise), Attached and Detached PUDs, Condotels, Lofts and 2-4 unit properties.

Maximum financing is not allowed in areas where property values are declining. Real estate appraisers are to be state certified or state licensed

ZONING

No commercial, manufacturing or industrial zoning. Commercial and industrial zoning will be considered on a case-by-case basis with the following:

- Price exception required
- Appraiser must state no commercial or industrial use within a one block radius of subject property
- Zoning is typical for the area and has no effect on marketability
- Highest and best use as residential

APPRAISAL REPORT FORMS

For uniformity and efficiency, all appraisers are required to use appraisal report forms that are acceptable to Fannie Mae (Form 1004) and Freddie Mac (Form 72). Any appraisal completed after November 2005, needs to be on the new FNMA/FREDDIE MAC form dated March 2005. The following items must be contained in the appraisal report:

- Certification and Statement of Limiting Conditions
- A Street map showing the location of the subject property and all comparables used.
- An exterior building sketch of the improvements indicating dimensions. A floor plan sketch is not required unless the floor plan is functionally obsolete resulting in a limited market appeal for the property in comparison to competitive properties in the neighborhood. For units in condominium or cooperative projects, interior perimeter unit dimensions are required instead of exterior building dimensions.
- Original color photographs of the front, street and rear views of the subject property. Emailed appraisals are acceptable in lieu of color photographs as long as they are legible.
- Original color photographs of the front view of each property used as a comparable. Emailed appraisals are acceptable in lieu of color photographs as long as they are legible.
- Interior photos of the subject are required when any of the following are applicable:
 - Loan amount exceeds \$650,000;
 - To support statements regarding recently completed repairs or improvements when necessary.
- Single-Family Comparable Rent Schedule (FNMA 1007) for non-owner occupied single-family dwellings. If the borrower qualifies for the entire payment without using the rental income, this form is not required.
- Operating Income Statement (FNMA 216) is required for Non-Owner Occupied and 2-4 family properties. If the borrower qualifies for the entire payment without using the rental income, this form is not required.

APPRAISAL TIPS: Areas less than 25% developed or 25% to 75% developed with a slow growth rate must factor the effect of the slow growth on the subject properties market value.

When property values are declining, or where an oversupply of homes, extended marketing times (greater than 6 months), or present land use that is predominantly non-residential, maximum financing should not be considered.

Over-improvements on a property are likely when:

- The property is not comparable with other properties in the 1 mile radius surrounding it
- The property sales price or indicated value greatly exceeds the predominant value for the neighborhood

Minor outbuildings must be compatible with and support the residential character of the neighborhood and the subject property. Properties with significant outbuildings (large barn, storage areas or facilities for animals, silo) must be reviewed cautiously, regardless of whether appraiser assigns value to the outbuilding. Existence of significant outbuildings indicates a property that is either rural or agricultural in nature, and may not be eligible for maximum financing.

Properties with external obsolescence (adjacent shopping centers or freeways, poorly maintained neighboring properties, swamps, etc) or functional obsolescence (bedrooms and baths on different levels, access to a bedroom only through another bedroom, holding tanks for water storage) represent risks that are not eligible for maximum financing.

Cost approach estimates should be reviewed to include adjustments for external obsolescence, exclusion of outbuildings or super-improvements (unless insured and common to the area).

Dwellings with guesthouses or mother-in-law apartments that are income producing must be appraised on 2-4 family income property forms with an accompanying 216 Operating Income Statement.

The appraiser should try to select at least two comps that “bracket” the subject property, adjusting the inferior property up and the superior property down, when 3 like properties cannot be located.

Comps should be no more than 1 mile away in urban or suburban rated neighborhoods without a detailed explanation from the appraiser and no greater than 10 miles away in acceptable rural settings.

When an estimate of value is subject to completion of repairs or completion of improvement according to plans and specs, the appraiser must execute a satisfactory completion certificate prior to closing.

Even though a property is appraised in an “as is” condition. The appraisal still needs to be reviewed in its entirety and any negative notations need to be addressed and cured. If there are security bars on the bedroom windows, we need the appraiser to comment that they have releases. If not, they need to be installed. All swimming pools and spas need to be filled so that there is no risk of a health and safety hazard.

APPRAISAL RED FLAGS: The following are the most common red flags to look for when reviewing a property valuation:

Appreciation: If the property is owned less than 12 months and the appraisal exhibits an unreasonable increase in value the appraiser needs to address the reasons for the increase very specifically so that it justifies the increase. i.e. extensive remodeling, foreclosure sale, etc. An Enhanced field review should be ordered by the underwriter to support the increase.

Site Value: Ensure the land value is not excessive for the area. If the land value is greater than 30%, the appraiser must comment that it is common to the area.

Square Footage: Minimum square footage we will allow on an SFR is 600 square feet with a minimum of 1 bedroom and 1 bath. The square footage and the room count must be common to the area and the appraisal should contain a minimum of two (2) like comps. The comps should be within 1 mile of subject with no less than a 50 square foot variance in total square footage to be considered as a like comp.

Hypothecated Value: Basing the value on a lesser amount of acreage than the actual lot size. This is not an acceptable practice.

Selection of Comparables: Comparable sales should be just that "comparable sales". Distance from subject, bed and bath count, square footage should all be comparable to our subject property. Check the location map to see if the appraiser has gone into a different town.

Adjustments: Ensure that adjustments fall within approved percentages of the comparable property's sales price. Large adjustments may indicate the property does not conform to the general market area, or that the comparables used were not the best available. Since they are subjective, time adjustments are normally unacceptable and should be carefully reviewed for consistency with market trends.

Reconciliation: The final value must never be achieved by averaging the three approaches. The appraiser must rank all three approaches and give primary consideration to one, providing the reason for that decision. If there is "subject to" completion or repairs, the property must be re-inspected before closing and a completed Certificate of Completion and/or Certificate of Occupancy should be obtained.

AGE OF APPRAISAL

Appraisal reports are good for six (6) months. After 120 days, a recertification of value with two additional comps and photos is required. After six (6) months, a complete new appraisal will be required.

INELIGIBLE PROPERTIES

- Commercial properties
- Geodesic, Earth and Dome homes
- Property used for agriculture, farming or commercial enterprise
- Property containing more than 4 units
- Property without adequate legal ingress or egress
- Property that represents an illegal use under zoning regulations
- Manufactured Homes
- Property that is subject to hazards, noxious odors, offensive sights or excessive noises to the point of endangering the physical improvements or seriously affecting the livability of

the property, its marketability or the health and safety of its occupants.

- Vacant Land
- Property in fair or below average condition
- Hawaii properties located within Lava Flow Zones 1 and 2

NON-OWNER

Investment properties must meet standard Fannie Mae guidelines. An Operating Income Statement (form 216) and a single Family Comparable Rent Schedule (form 1007) will be required for single-family properties and a Small Residential Income Property Appraisal Report (1025) for 2-4 Family properties must be provided.

If the borrower qualifies counting the entire PITI against them, the 216 & 1007 will not be required. Underwriter should show their workup on the 1008 to validate that this not needed. All D/U loans require these forms.

WELL AND SEPTIC REPORTS

Well and Septic reports will be required when the appraiser recommends a report, if conditioned in the purchase contract or at the underwriter's discretion.

LISTED PROPERTIES

Properties that have been listed during the previous six (6) months are not eligible for purchase. Exceptions will be considered as follows:

- Cash Out – Max 70% LTV/CLTV
- Rate and Term – Max 80% LTV/CLTV
- 1 year hard prepay We will require a copy of the cancelled MLS listing and an LOE signed by the borrower explaining the circumstances.

DECLINING VALUES

We will not allow declining values for maximum financing. If an appraisal or a review indicates there are declining values in the neighborhood, the maximum financing allowed for the borrower needs to be reduced by 10%. If the borrower would qualify for 100% financing, we would only allow for 90%. If they are already at 90%, no reduction is necessary as long as it is not an Option ARM.

UNPERMITTED ADDITIONS

Properties where the un-permitted living area is less than or equal to 25% of the square footage of the permitted structure will be allowed with the following conditions:

- The appraiser must state that the area was built in a workman like manner conforming to the original structure and must provide clear photos of both the inside and outside of the addition.
- 100% of the replacement value of the improvements as established by the property insurer with guaranteed replacement coverage is required.

Properties where the un-permitted living area is 25.01% to 50% of the square footage of the permitted structure require the following in addition to the above stated requirements:

- A licensed contractor must inspect the property for health-safety and conformity to original structure and provide written confirmation.
- No functional obsolescence can be noted.
- An enhanced field review is required.

Properties where the un-permitted addition is 50.01% or more than the square footage of the permitted structure are not considered eligible. No exceptions granted.

CONDOMINIUMS AND PUDS

LIMITED PROJECT REVIEW is available for primary residence and second home transactions with LTV/ TLTV/CLTV \leq 80% - 75% for second homes - in condos where the project or phase and amenities are substantially complete. Presale and occupancy requirements are waived. Only the appraisal is required to verify property and project marketability.

STREAMLINED PROJECT REVIEW is for primary residence and second home transactions with LTV/TLTV/CLTV greater than 75% to 95% in condos where the project or phase and amenities are substantially complete. Specific presale and occupancy requirements apply. Only the appraisal is required to verify property and project marketability.

HOMEOWNERS ASSOCIATION CERTIFICATION REVIEW is for transactions or projects that do not meet the requirements for a Streamlined Project Review. Presale and occupancy requirements apply. Property and project marketability are verified by the appraisal. The 921 form must be completed to validate project and insurance information.

1028 FANNIE MAE APPROVAL is used for newly constructed projects where the developer or other lender has submitted the appropriate legal documents to Fannie Mae and an approval has been issued. Typically, only an appraisal and 1028 documentation are required, except where there are additional requirements shown on the 1028 approval.

These are high-level definitions. Please see the following sections for additional project review eligibility requirements.

SITE CONDOMINIUM property that consists of single family detached homes follow standard property guidelines for single family residences. No project analysis is required for primary residence, second home or investment property site condos.

Manufactured housing and Leasehold are not eligible as a Site Condo.

MULTIPLE OWNERSHIP

A maximum of 10% of the units may be sold to one party.

COMMERCIAL USE

Commercial use within the project should not exceed 25% of the total square footage for the project and should be compatible with residential use.

RIGHT OF REFUSAL

Any right of first refusal in the condominium constituent documents will not impair the rights of a first mortgagee to:

- Foreclosure or take title to a condominium unit pursuant to the remedies in the mortgage
- Accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor
- Sell or lease a unit acquired by the mortgagee

ADVERSE ENVIRONMENTAL FACTORS

- Any adverse environmental factors, affecting the condominium project, must be addressed by the appraiser.
- Any factors which affect the marketability and salability of the project will not be allowed.

PROJECTS THAT ARE LEGAL, NONCONFORMING TO ZONING

The project must be able to be rebuilt to its current density in the event the property is partially or completely destroyed

NIGHTLY RENTALS

Nightly rentals are allowed in a project under the following conditions provided the project is not classified as a condotel:

- No mandatory rental pool
- No timeshare units

No other condotel features (e.g. registration desk, daily maid service, etc.) See EFA

LITIGATION

If the Homeowners Association is involved in any litigation, obtain the details from the HOA and evaluate the risk. This information should be verified with an attorney's letter, insurance information, structural engineer's report, or other documentation as appropriate.

The following types of litigation generally pose little or no risk to the project and are acceptable:

- HOA is suing individual owners for unpaid dues.
- HOA is being sued for a "slip and fall" liability issue and project has adequate liability
- The following types of litigation may impact the project's marketability and are generally not acceptable:
 - HOA suing the developer for structural defects or other property deficiencies that impact health and safety. The project may be acceptable if the defects have been corrected and the project is financially sound and marketable.
 - Suits filed against the HOA in which the damages exceed or are not covered by the HOA's insurance.

Projects involved in pending litigation (lawsuit has not yet been filed) may be approved when the risk to the project is assessed and it is determined that:

- HOA insurance will cover potential damages, OR
- HOA is in a position to benefit from the lawsuit.

PENDING SPECIAL ASSESSMENTS

Newly constructed projects generally have pending special assessments. Details of the special assessments are evaluated to determine impact on all units and marketability. A negative impact may make the loan ineligible for financing.

DELINQUENT HOA DUES

If more than 15% of the units are delinquent on their HOA dues, the HOA must explain the reason(s) for the delinquency and the steps being taken to cure the delinquency. The overall financial risk of the delinquent dues must be considered before approving the project.

Mortgagee cannot be liable for more than six months accrued dues when acquiring unit through foreclosure or deed in lieu.

INSURANCE REQUIREMENTS

The following insurance levels are required for each project, unless otherwise dictated by state statute.

HAZARD INSURANCE

The Homeowners Association (HOA) must be named as the insured on the insurance policy. The builder's risk insurance is not acceptable coverage. It is also not acceptable for the policy to be in the name of the HOA in care of the builder. Requirements are:

- "Blanket, all risk" policy at full insurable value of all individual units, common elements, recreational facilities and other property
- Loss settlement payable on a replacement cost basis
- The insurance policy must identify the buildings or units covered by the policy.
- Deductible cannot exceed the lesser of (\$0-\$10,000) or 1% of the policy face amount.
- The policy's expiration date must be obtained and the policy cannot be expired.

An individual hazard insurance policy for an attached condominium unit is not acceptable.

LIABILITY INSURANCE

General liability coverage for \$1 million per occurrence for personal injury and/or property damage is required.

FLOOD INSURANCE

If the condominium project is located in flood zone A or V, the condominium association must maintain blanket coverage for all common elements and property to 100% of their insurable value or the maximum coverage required under FEMA. Other requirements are:

- The Homeowners Association (HOA) must be named as the insured on the insurance policy.
- Deductible cannot exceed the lesser of (\$0-\$5000) or 1% of the policy's face amount.

FIDELITY BOND (EMPLOYEE DISHONESTY)

Fidelity bond coverage is required for projects over 20 units or per the requirements of state law. Coverage must:

- Meet the minimum coverage required by state law in those state having statutory fidelity bond requirements, or
- If no state law an amount sufficient to cover three months of homeowners association dues, plus the amount of annual dues allocated to reserves is required, and
- Insurance policy must name the owners association as the insured; the premiums must be paid as a common expense by the HOA.

REDUCTION OF FIDELITY BOND

Coverage is sufficient to cover three months of homeowners association dues, and

- Separate accounts for working and reserve account are maintained by HOA or management company and the bank sends statements directly to the HOA, or
- The management company does not have authority to draw checks or transfer funds from reserve account, or
- Two or more board members sign checks drafted against the reserve account.

MORTGAGEE CLAUSE

On all above insurance types, policy provides that insurance company will notify mortgagee at least 10 days before reduction or cancellation.

LIMITED PROJECT REVIEW - Eligibility Requirements The Limited Project Review is allowed for the lowest risk transactions. Pre-sale and owner-occupancy requirements are waived for loans that meet all of the following requirements:

- Primary residence - maximum 80% LTV/TLTV
- Second home - maximum 75% LTV/TLTV
- Unit owners or developer may be in control of the homeowners association.
- The project is not an ineligible project (i.e. condotel, timeshare, non-conforming to zoning, etc.)
- Project may be subject to additional phasing and add-ons.
- Project has demonstrated market acceptance.
- Manufactured housing is not eligible.
- All common areas and amenities within the project (or subject phase) must be substantially complete. If completion is in question, obtain the Final Certification of Substantial Completion (FNMA 1081) or equivalent document (appraisal addendum, builder's certification, etc.) which lists the common amenities and facilities that are incomplete and the estimated cost for completion.

The documentation must list the common amenities and facilities that are incomplete and the estimated cost for completion. The appraiser, builder, developer, architect or engineer may provide the information. Generally, the appraiser will not be able to provide cost estimates. The builder, developer, architect or engineer may provide the estimated cost for completion. This estimate should be supported with bids, acquisition and development analysis for the project construction loan, or other third party documentation.

If the incomplete items are substantial and impact marketability obtain a copy of the surety bond or other financial guaranty of completion for the incomplete items. Examples of significant incomplete items include: clubhouse, golf course, or a combination of recreational facilities. Green belts, a swimming pool or a tennis court are generally not considered significant.

Incomplete items must not impact safety or habitability. Private streets and sidewalks for the completed buildings should be complete prior to closing.

Projects are assumed to meet the general condominium eligibility guidelines unless information on the purchase contract, appraisal, title work or other document indicates that the project does not meet the guidelines. If the underwriter becomes aware that a project does not meet the general condominium eligibility guidelines, a more detailed review of the project is required.

Note: If project is new construction or conversion, ensure that insurance policies for the project name the homeowners association (not the builder) as the insured party.

DOCUMENTATION REQUIREMENTS

- Individual Condominium Appraisal Report (Fannie Mae Form 1073/Freddie Mac Form 465)
- Limited Project Review Checklist ([Form 26](#)) (or similar form is recommended)

If the loan or project does not meet the eligibility requirements for a Limited Project Review, refer to the Streamlined Project Review for eligibility requirements. If loan does not meet Limited Project Review or Streamlined Project refer to Expanded Portfolio program.

CONDOTELS

A Condotel, or Condo Hotel, is a condominium project that has rental or registration desks, short term occupancy, food and telephone service, daily cleaning services and which operates as a commercial hotel even though the units are individually owned,

- Subject must be 600 square feet or larger
- All units, common elements and facilities, including those that are part of any master association, are complete.
- The project is not subject to additional phasing or annexation
- The project must have a minimum of 20 units

At least 75% of the total units must be sold and closed or under contract for sale

No single entity owns more than 10% of the total units in the project.

The units in the project are owned fee simple

Commercial space is no more than 20% of the project

The project is not involved in any litigation with the HOA pertaining to structural defects

The project does not have any mandatory rental requirements

Voluntary rental pools are acceptable only for Second Homes and Investment properties

All units in the project must have separately metered utilities

All the units must have a complete kitchen which includes the following:

- o Two burner stove

- o Full size refrigerator

- o Full size kitchen sink

The project is covered by sufficient hazard, liability and fidelity insurances.

Appraiser has specified that Condotels are common for the area; resale-marketing time is not over 6 months and the

market supports strong rental activity Project and units must be suitable for year-round living. Ineligible Transactions

- o Secondary financing

- o Gift Funds

- o Rental Income from the Condotel used in qualifying purposes

- o Non-permanent resident alien

- o International Borrowers

- o Non-occupying co-borrowers

- o Properties less than 600 square feet.

NON-WARRANTABLE CONDOS

We will lend in a non-warrantable condominium project as long as there is only one non-warrantable issue. Price exceptions are required for non-warrantable condos (refer to rate sheet). No other exceptions of any kind will be allowed.

- Purchase or rate/term refinance
- The condominium project must not be an ineligible type.
- The minimum pre-sale requirement is 40% for the subject phase 30% case by case with exception.

- 50% of all units, common areas, and facilities within the project must be complete.
- The maximum investor concentration is 70% of the units sold in the project.
- No one entity may own more than 10% of the project.
- The HOA's insurance coverage (hazard, liability, flood, and fidelity) must be verified to be adequate (see below for details).

CONDO CONVERSIONS

- 100% of the total number of units within a legal phase must be complete
- 100% of the common areas and facilities within a legal phase must be complete
- Maximum AB financing will be 90% LTV/CLTV
- Minimum pre-sale requirement for each project is 33% of a legal phase
- Project must not be in litigation with the HOA pertaining to structural defects
- No single entity may own more than 10% of the project
- Owner Occupancy must meet minimum of 30%
- Commercial space cannot exceed 20% of the total project.
- Projects less than 10 units must meet the following additional guidelines
 - o Binding arbitration agreement must be in place for resolution of any type of dispute
 - o Investor concentration is limited to the following:
 - One unit in projects with more than five units
 - None if the project has four or fewer units
 - The appraiser must state that the project size is common for the area
 - o Maximum AB financing will be 90% LTV/CLTV

HIGH-RISE CONDOMINIUM

Is defined as any condominium project that exceeds 4 stories.

LOFTS

We will lend on lofts with the following restrictions:

- Not to exceed 90% CLTV to \$750,000 or 70% to \$1M
- 70% Owner occupancy

Fee Simple only
 Must meet FNMA guidelines
 Minimum one (1) bedroom and 600 square feet
 Zoning exceptions – like comps and lofts common for the area.
 Commercial exposure not to exceed 20% of the total square footage of the project

APPRAISAL REVIEW GUIDELINES

Program	Review Type	Requirement
Expanded Portfolio & 100% Solution Loan Jumbo	AVM	All loans to 70% to 90% CLTV to \$1,000,000 (Except Super No Doc over \$650,000)
	BPO and/or Enhanced Field Review	All loans over 70% to 100% CLTV to \$1,000,000; Super No Docs over \$650,000; over 90% CLTV
	Enhanced Field Review	Loans over \$1,000,000 to \$1,500,000
	*Second Appraisal	Loans over \$1,500,000 (Loans over \$3,500,000 also require an enhanced field review.)
Expanded 2nd	BPO	Non Owner or Cash Out to 90% CLTV
	BPO and/or Enhanced Field Review	90%+ CLTV, Loan amount > \$150,000 or over 80% and values over \$1M
Option ARM Programs	AVM or BPO	All loans to \$1M
	*Second Appraisal	Loans over \$1M
Scoreless	AVM	All loans to 70% LTV, except Super No Doc to \$650,000
	BPO and/or Enhanced Field Review	All loans over 70% LTV; Super No Docs over \$650,000; over 90% CLTV
HELOC	AVM	90% CLTV to \$150,000 and Non Owner
	BPO and/or Enhanced Field Review	90%+ CLTV, Loan amount > \$150,000 and values over \$1M

*** The Second appraisal must be ordered from the National Appraisal companies OR up to \$3.5M can be from any appraisal company of your choice along with an Enhanced Field review of that appraisal by an approved National Appraisal Company**

Enhanced Field Reviews and Second Appraisals must be ordered from one of the following National Appraisal Companies. We will allow a 10% variance on the BPO up to 95% and only a 5% variance for loans over 95%; an AVM will allow a 15% variance.

To calculate the variance: Appraised Value or Sales Price whichever is less minus the AVM/BPO value (this gives you the variance) divide that variance by the Appraised Value or Sales Price whichever is less and this gives you your variance percentage.

APPRAISAL COMPANIES	ADDRESS	CITY	STATE	ZIP	PHONE	FAX	STATE
PROPERTY SCIENCE (to \$1.5 Million)	936 DETROIT AVE, #A	CONCORD	CA	94518	925-246-7300	925-988-6850	CALIFORNIA
US PROPERTY & APPRAISAL	1370 WASHINGTON PIKE FL 5	BRIDGEVILLE	PA	15017	800-837-8450	800-837-8445	NATIONWIDE
ACRANET	2139 TAPO ST. SUITE 209	SIMI VALLEY	CA	93063	800-435-7193 EXT. 107	805-527-0550	NATIONWIDE
E APPRAISE IT	12395 FIRST AMERICAN WAY	POWAY	CA	92064	800-281-6200	800-681-6023	NATIONWIDE

FEMA DISASTER AREAS

A property inspection post any FEMA disaster area will be required prior to funding. Secondary will notify the branches when these disasters occur.

PROPERTY OWNERSHIP LIMITATIONS

There are no limits on the total number of properties financed up to 80% CLTV. From 80.01% - 90% CLTV – max 10 financed properties; From 90.01% - 100% - max three financed properties (Subject plus 2). Commercial properties and free and clear properties a not counted in the total.

MULTIPLE LOANS TO ONE BORROWER

We restrict the number of loans to one borrower with no exception needed as follows:

- Up to 100% financing and a total of \$1M aggregate
- Up to 90% financing and a total of \$2M aggregate
- Up to 80% financing and a total of \$5M aggregate

ACREAGE

Properties with acreage are considered on a case-by-case basis. The following guidelines will apply:

- Comparable sales with similar site sizes.
- Minimal value attributed to outbuildings.
- Land use cannot be for commercial or agricultural purposes.

TERMITE REPORT

Termite report and clearance will be required when the appraiser recommends a report, if conditioned in the purchase contract or at the underwriter's discretion. All pages of the report and clearance are required.

HOLDBACKS

As a general rule, we do not allow loans that are subject to holdback agreements. If you need to fund the loan with a holdback, the exception needs to be submitted to the helpdesk for approval.

LEASEHOLD ESTATES

We will lend on leasehold property. We must review documentation on the lease. The leasehold estate and the improvements must constitute real property, be subject to the mortgage lien, and be insured under standard title coverage. The term of the lease MUST run at least 5 years beyond the term of the mortgage. The lease must be assignable or transferable, and must contain provisions that protect our interest in the event of foreclosure or property condemnation. The property must be located in an area where leases are accepted and similar property comparables can be found by the appraiser.

Leaseholds are not allowed on the Portfolio Alt A 2nd or the HELOC.

EQUITY TRADES

Equity from trading a borrower's existing property is acceptable for owner occupied primary transactions only. The amount of equity is determined by subtracting the outstanding loan balance of the property that is being traded, plus any transfer costs, from the lesser of that property's appraised value or its trade-in value, as agreed to by both parties.

A separate written appraisal and preliminary title report for the property that is being taken in trade is required. A search of the land records to verify ownership of the property and to document and verify if there are any existing liens on the property is also required.

EXCEPTION PROCEDURE

If a loan is underwritten at the branch level and needs a Secondary Program and pricing exception. The loan is approved subject to this exception listed as a condition. Prior to sending the approval to the broker, an exception form is completed and sent to the help desk along with any pertinent documentation needed to make an educated decision, 1003, 1008, Credit report, appraisal, etc., to the brokerdesk@lexingtonlending.com.

The exception will be analyzed based on the layers of risk involved and either approved with a pricing exception or denied. The reason for denial will be clearly posted. The approval will show what exception is being approved. If other issues change during the path of that loan, i.e. program, property type, doc type, etc., the exception needs to be resubmitted. All exceptions should be requested at the same time. We are not underwriting the file; we are strictly looking at the information provided and the specific exception being requested. Make sure that **ALL** exceptions are specifically listed and that compensating factors are noted as well. The exception form needs to be in the file once it is closed and the file is sent to the fulfillment center.

LOANS GREATER THAN \$1M

All loans with a loan amount greater than \$1M need to be underwritten at the branch level first and a condition added which indicates that there needs to be an Underwriting Committee decision as a PTD condition. Once the file is underwritten and all pertinent documentation is in the file, the complete file needs to be sent to the Brisbane Underwriting Center for second signature. Submit all loans in proper stacking order held down in a manila folder with fasteners.

The file will be reviewed and a list of conditions will be sent to the appropriate branch. All PTD conditions need to be reviewed by the Underwriting Committee prior to documents being issued.

The quality control package for all loans 1st TD loans over \$1M or any combo loan over \$1M total, needs to be sent to the Underwriting Center for completion prior to documents being issued. Please allow 24-hours for the completion of this process.

Branches have the authority to draw documents and fund all loans up to \$1.5M. Any loan greater than \$1.5M needs to be handled by the Home Office Operations Department.

Pertinent underwriting issues that apply to loans over \$1M are as follows:

- Mortgage or Rent History: Loans over \$1M - 0 x 30 in the last 24 months; Loans \$1.5M + - x lasts in the last 48 months.
- Installment/Revolving: \$1M - \$1.5M: 2 x 30 installment, 3 x 30 and 1 x 60 revolving in last 24-monnts; \$1.5M - \$2.5M: case-by case basis; Over \$2.5M: No lates in the past 48 months
- Major Derogs: \$1.5M +: None in the past 48 months
- BK & Foreclosure: \$1.5M+ - None allowed
- Trade lines: \$1.5M+: minimum five (5) trades lines with three at 48 months.
- Reserves: Over \$1M - \$1.5M - 3 months PITI (6 months for non-owner) OR 1 months income, whichever is greater. Loans over \$1.5M - Greater of 6 months PITI or 20% of loan amount (70% & over), 15% for 65 -69%, 10% for 60-64%, 5% for 55-59%. Loans over \$3.5M 36 months PITI.
- Appraisal Review: loans over \$1M - \$1.5M - Enhanced Field Review by an AB approved National Company. Second Appraisal by an AB approved National Company: Loans over \$1.5M (loans over \$3.5M also require an Enhanced Field Review)
- Gift Funds: \$3.5M and up - no gifts allowed except on Full Doc.
- Seasoning for Cash Out: Over \$3.5M - 12 months seasoning required.
- Ratios: Loans over \$1.5M - 45% DTI

PRIVATE MORTGAGE INSURANCE

Private mortgage insurance pricing must be obtained when the LTV exceeds 80%.

COVERAGE: Standard fixed-rate private mortgage insurance is required on all fixed-rate and ARM loans, which have an initial fixed-rate period for the first five or more years. Non-fixed payment mortgage insurance is required on ARMs with initial change dates less than five years and any loan subject to a temporary buy down. Monthly mortgage insurance payment plans are acceptable.

ACCEPTABLE MORTGAGE INSURANCE COMPANIES: Acceptable private mortgage insurance companies are identified below. Not all MI companies will provide insurance under the guidelines set forth in this Underwriting Guide.

Radian Mortgage Insurance Company, Genworth and PMI have agreed to insure most loans as defined by the Product Profiles.

Underwriting reserves the right to require mortgage insurance coverage on any loan.