ALT-DOC GUIDELINES
4/15/2017

Table of Contents

I. Underwriting Guidelines Overview

A. Purpose

iApprove Lending ("IAL") - Residential Mortgage Lending Unit ("RMLU") strives to expand sustainable homeownership opportunities by establishing and applying policies and guidelines to determine whether a borrower qualifies for a mortgage loan and if the borrower can successfully maintain homeownership. The purpose of credit and property underwriting is to ensure that each loan meets IAL's quality standards. A loan meets IAL's underwriting quality standards if the credit, character, capacity and collateral are consistent with the loan program under which the loan is originated. The likelihood of timely repayment is expected to be commensurate with the credit quality and the represented value of the subject property is expected to accurately reflect its market value.

This Underwriting Guidelines & Procedures (UG&P) sets out underwriting standards that apply to all RMLU's Portfolio loans. Each mortgage loan application is evaluated to determine whether it represents an acceptable risk to IAL; in short, IAL needs to assess the likelihood of the borrower repaying the mortgage debt. This evaluation includes an assessment of:

- The borrower's willingness and ability to repay the loan (specifically, the borrower's credit and income history, assets and liabilities);
- The borrower's commitment to the property (i.e. equity and down payment);
- The housing and economic conditions in the property's market;
- The marketability of the property and the justification of its value as documented in the appraisal or other acceptable alternative; and
- The loan program.

RMLU's UG&P establishes boundaries of acceptable risk for each of these individual factors. RMLU evaluates the total combination of these risk factors using common sense, experience, and judgment to make underwriting decisions. The presence of individual risk factors in a loan file does not necessarily threaten a borrower's ability to maintain homeownership. But when the layers of risk- i.e. a number of interrelated, higher-risk characteristics- are present, without sufficient offsets, their cumulative effect can dramatically increase the likelihood of default and foreclosure.

RMLU's focus is on whether the loan as a whole presents an acceptable risk considering the unique circumstance of the borrower. A careful evaluation of all information in a loan file will reveal the borrower's history of and approach to personal financial management.

B. Fair Underwriting Commitment

iApprove Lending's Residential Mortgage Lending Unit (RMLU) is committed to fairness in offering the loan products. RMLU does not consider a borrower's race, color, religion, national origin, gender, marital status, sexual orientation, or status as a disabled veteran or veteran of the Vietnam Era. RMLU also does not consider disability, age, or whether a borrower's income is either partially or wholly derived from public assistance, exercising in good faith consumer's right under the Consumer Protection Act, except when consideration of these factors is permitted under applicable laws.

C. Ability-to-Repay (ATR) Rule

In accordance with the general ATR standard, RMLU will make a reasonable, good-faith determination before or when RMLU consummates a mortgage loan that the consumer has a reasonable ability to repay the loan.

At minimum, RMLU will consider the following eight ATR underwriting factors:

- Current or reasonably expected income or assets (other than the value of the property that secure the loan) that the consumer will rely on to repay the loan.
- Current employment status (if RMLU relies on employment income when assessing the consumer's ability to repay).
- Monthly payment on the covered transactions. This will be calculated using the introductory or fully-indexed rate, whichever is higher, and monthly, fully-amortizing payments that are substantially equal.
- Monthly payment on any simultaneous loans secured by the same property.
- Monthly payments for property taxes and insurance that RMLU requires the consumer to buy, and certain other costs related to the property such as homeowners association fee or ground rent.
- Debts, alimony, and child support obligations.
- Monthly debt-to-income ratio or residual income, that RMLU calculated using the total of all of the mortgage and non-mortgage obligations listed above, as a ratio of gross monthly income.
- Credit history.

RMLU will generally use reasonably reliable third-party records to verify the information RMLU uses to evaluate the factors provided by applicants. Refer to the section V. Quality Income, VI. Credit History, VII. Assets and VIII. Liabilities & Qualification Ratio for the detail documents that are required to verify under the ATR rule. The Form RMLU039- 8 ATR Underwriting Factors Worksheet will be used to verify the ATR for the particular loans.

D. Portfolio Loan Product Overview

Portfolio loans are the loans retained in iApprove Lending's portfolio. Therefore, the product parameters, underwriting guidelines, and documentation requirements are designed to adopt regulatory rule for "Ability-to-Repay (ATR)" and also meet iApprove Lending's risk management standards and not those of secondary market investors.

1. Maximum Loan-to-Value (LTV) & Loan Amounts

Loan-to-Value (LTV) is the ratio of the unpaid principal balance of the first mortgage to the lesser of the property value or sales price. Combined-Loan-to-Value (CLTV) is the ratio of the total amount of all the unpaid principal balances of all mortgages that are on the property to the lesser of the sales price or appraised value.

The maximum LTV/CLTV and loan amounts for RMLU's ARM loans are as follows:

Property Type	Max Loan Amount	Max LTV	Max CLTV/HCLTV	Min Credit
1 Unit SFR & PUD	Up to $625,000	70%	70%	680*
	$625,001 to $1,000,000	65%	65%	680*
	$1,000,001 to $1,500,000	60%	60%	700*
	$1,500,001 to $2,500,000	60%	60%	720
Condominium	Up to $750,000	65%	65%	680
2-4 Unit	Up to $1,500,000	60%	60%	700*
Foreign Nationals	Up to $1,000,000	60%	60%	N/A
	$1,000,001 to $1,500,000	55%	55%	N/A
	$1,500,001 to $2,500,000	50%	50%	N/A
Cash Out Transaction	Max LTV/CLTV/HCLTV 60% (Foreign National Limited as above) 6 month seasoning required.			

*680-719 Fico: Additional Fees may apply. Refer to the IAL Portfolio Matrix for required overlays to guidelines and specific Minimum FICO Requirements.

2. Maximum Loan Amortization Period

RMLU requires a maximum amortization period of 30 years to fully amortize the principal balance for all home mortgage loan products.

3. Adjustable Rate Mortgages (ARMs)

ARMs are mortgage in which the interest rate and payment are periodically adjusted to reflect current market rates. All indexed ARMs must be based on index that is published, accessible by the borrower and beyond the lender's control, such as Wall Street Prime Rate, the Treasury Bill, and LIBOR. There is only one type of adjustable rate mortgage offered by RMLU; a positive fully amortizing hybrid ARM. Fully amortizing ARMs are loans whose rate and payment adjustments are equal and simultaneous. Negative amortization cannot occur for fully amortizing ARM. A hybrid ARM refers to an ARM that has an initial fixed period. After the initial fixed rate period, the rate adjusts to reflect the current market rates.

RMLU's ARMs also have the following conditions:

- Minimum initial fixed-rate/fixed payment period: 7 years.
- Maximum annual interest rate adjustment: Refer to the rate caps on the rate sheet.
- Maximum life cap: Refer to the rate sheet.
- Assumability: Not assumable.
- Index: Refer to the rate sheet.

E. Exceptions

iApprove Lending will approve exceptions on an individual loan, case-by-case basis. All exceptions will require 2ND level Approval and must have multiple and sufficient compensating factors to warrant an exception. Acceptable compensating factors include, but are not limited to:

- High number of Months in Reserve after closing.
- LTV below required levels
- Detailed and lengthy Credit History with no derogatory payments
- FICO Scores well above requirements
- Length and Consistency of Employment

II. Foreign National Loan Program

Foreign National Loan Program applies to individuals who are not U.S. citizens, or Permanent Resident Aliens.

A. Ability-to-Repay for Foreign National Loans

Foreign National Loan Program will comply with the ATR rules as follows:

1. Current or reasonably expected income or assets

- Asset and Reserve Requirements:
  - Foreign assets used for down payment, closing costs, and reserves must be transferred to U.S. institution account prior to ordering loan docs.
  - Most recent 3 month asset statements must be provided.
  - 24 months P&I reserves are required for subject property. 12 months P&I reserves are to be deposited into IAL account.
  - Joint bank accounts with non-borrowers are not acceptable.

  For detailed guidelines on foreign assets, refer to section VII. C. 5. Foreign Assets of the Underwriting Guideline.

- Income Requirements:

Foreign income is income that is earned by a borrower employed by a foreign corporation or a foreign government and paid in foreign currency. All income must be translated to English and U.S. currency. Borrowers may use foreign income to qualify with the following documentation:

<u>Documentation Requirement</u>

- For self-employed borrower: Income documentation equivalent of U.S. Tax Returns or P&L statement prepared by third party for 1 year. In addition, business license for the past 2 years and a CPA letter verifying the borrower has been self-employed for the past 2 years
- Salaried borrower: written employment verification letter from employer verifying borrower's position, years worked, and salary. Borrower must show at minimum two years of employment history. Employment verification must be in company letterhead and must show the name, address, and phone number of the company and contact information of the person verifying the information.

2. Current employment status

Borrower must provide at minimum two years of employment history and must be able to demonstrate that he/she is currently employed. In addition to the income documentation verifying employment information, current employment status must be verified again via verbal verification of employment prior to closing.

3. Monthly mortgage payment for the loan

Monthly mortgage principal and interest payment must be calculated by underwriter and disclosed on the 1003 and 1008 just as it would for a borrower who is U.S. citizen.

4. Monthly payment on any simultaneous loans secured by the same property.

Monthly payment on any simultaneous loans secured by the same property must be calculated and disclosed on the 1003 and 1008, if applicable, just as it would for a borrower who is U.S. citizen. Supporting documents for the simultaneous loans such as HELOC Agreement must be in file.

5. Monthly payments for property taxes and insurance that the consumer is required to buy and certain other costs related to the property such as homeowners association fees or ground rent.

Monthly payments for tax, insurance, and other assessments must be calculated and reviewed by the underwriter and disclosed on the 1003 and 1008 just as it would for a borrower who is U.S. citizen.

6. Debts, alimony, and child-support obligations

If borrower has any recurring liabilities, alimony, or child-support obligations overseas or in the U.S., they must be verified with proper documentation and considered.

7. Monthly debt-to-income ratio

DTI ratio must be calculated and disclosed on the 1008, just as it would for a borrower who is U.S. citizen.

8. Credit history

For a borrower with valid social security number, tri-merge credit report must be pulled with the borrower's social security number and credit history must be reviewed and considered. For a borrower without valid social security number, tri-merge credit report must be pulled using borrower's name and address only to confirm the borrower does not have any adverse credit history in the U.S. If a credit score is returned, it must meet minimum fico requirement of 680 and above to be eligible for financing.

B. Other Requirements

Copy of passport, I-94 or online verification print out from U.S. Customs and Border Protection (https://i94.cbp.dhs.gov/I94/#/home), and valid VISA required (Note: F-1 & F-2 VISA types are not allowed).

- Copy of valid passport and either I-94W, or online verification print out from U.S. Customs and Border Protection, or proof of ESTA approval required for borrowers on VISA waiver program.
- Borrower must have U.S. address when applying for a loan.
- Letter of explanation stating the reason for purchasing a home in the US is required.
- Automatic debit payment required from U.S. banking institution.
- Must comply with the Department of Treasury's Office of Foreign Assets Control (OFAC) regulations.

C. Verification of source of fund

At the time of loan origination, RMLU will take reasonable steps to verify a borrower's source of funds used for down payments, P&I reserve, and future mortgage payment proceeds. The verification process should include the collection of and review of financial documents and other relevant documents that would assist IAL in understanding the true source of funds. Such documents may include bank reference letters from the borrower's banks located in the country of origin, employment verification documents, business licenses, proof of real estate sales/inheritance/lawsuit settlements/alimony, etc.

III. Borrower Eligibility

A. Eligible Borrowers

1. Natural Persons

Any person that meets the minimum state age requirements governing ownership of real estate and has the legal capacity to contract for a mortgage is an eligible borrower. Natural persons must fall under one of the following and show required documentation if any:

(a) U.S. Citizen

U.S. citizen must provide a valid identification card (e.g. driver's license) to document the residency. In addition, if social security issued date disclosed on the credit report is less than 5 years old, copy of passport or proof of the citizenship will be required.

(b) Permanent Resident

A permanent resident is a non-U.S. citizen who is legally eligible to maintain permanent residency in the U.S. and holds a Permanent Resident Card. A permanent resident must document legal residency with one of the following:

- A valid and current Permanent Resident card (form I-551) with photo.
- A passport stamped "processed for I-551, Temporary evidence of lawful admission for permanent residence. Valid until________. Employment authorized." This evidences that the holder has been approved for, but not issued, a Permanent Resident card.

See http://www.uscis.gov/ for more information.

(c) Non-permanent Resident

A non-permanent resident is a non-U.S. citizen who lawfully enters the United States for specific time-periods under the terms of a Visa. A non-permanent resident status may or may not permit employment.

(d) Foreign National

Foreign National is a citizen of another country who visits the United States periodically and is purchasing a property to reside in during visits to the U.S. A foreign national is not a permanent or non-permanent resident alien, and does not have full or partial diplomatic immunity.

2. Loans to Trusts

An inter-vivos revocable trust/living trust/revocable living trust are not allowed.

3. Power of Attorney ("POA")

A Power of Attorney is acceptable for the signing of loan documents, as long as the POA is executed prior to signing the loan documents and the signature is complete on each document. POA must be specific to the transaction and specifically identify the subject property address, be signed and dated by the party granting the power of attorney and be notarized. POA cannot be an interested party in the transaction (i.e. real estate agent, seller, or closing agent). Power of Attorney is not acceptable on foreign national loans.

If using POA to sign the loan documents, a letter of explanation stating the relationship between the borrower and attorney-in-fact and the reason for using POA must be obtained from the borrower. Customer Identification Program Form for the borrower must be completed and acknowledged by notary public or escrow officer or IAL Loan Officer even if loan docs are signed using POA.

4. Non-occupant Co-Borrower

Non-occupant co-borrower is not allowed.

B. Occupancy Types

When underwriting a loan, the occupancy type of the property must be considered. The property may be a primary residence, a second/vacation home, or an investment property. For primary residence, the feasibility of a borrower occupying the subject property must be considered. On refinance transactions, the current address reported on the loan application must be compared to the addresses listed on the credit report and other documents. A full explanation is required for any red flags or inconsistencies noted in the past 12 months.

1. Primary Residence

A property is considered a primary residence if it is occupied by the borrower for at least 6 months during the year. RMLU may require verification of intent to occupy. In order to be considered a primary residence, property must be physically occupied by the borrower within 30 days of closing and the property is within reasonable commuting distance from the borrower's employment. Rent back to seller is allowed up to 30 days. Purchases with evidence (listed on Appraisal, purchase contract, et al.) of a rent-back to the seller for greater than 30 days are required to close as an investment property.

2. Second/Vacation Home

A second home is a property that the borrower occupies for some portion of the year, in addition to their primary residence. The property must be located in an area that can reasonably function as a second home and must be suitable for year-round occupancy. Second home must be located near either a resort or vacation area, such as mountains, oceanfront, and desert. Second home may also be located in a major metropolitan area that the borrower visits on a regular basis. If the property is not located in a vacation/resort area, a letter of explanation from the borrower stating the reason for purchasing the property must be obtained. The borrower must have exclusive control over the property and the property must not be subject to any kind of time sharing agreement, rental pools, or agreements that require the borrower to rent, share or give management firm control over occupancy. Rental income may not be used to qualify the borrower.

3. Investment Property

An investment property is owned but not occupied by the borrower. The property must be suitable for year-around rental and occupancy.

C. Multiple Financed Properties for the Same Borrower

A borrower may finance multiple properties if he or she is qualified and if the following requirements are met:

1. Limits on the Number of Financed Properties

A borrower may own or be obligated on up to 8 financed properties. If borrower owns 5 to 8 financed properties, maximum LTV allowed is 50% if subject property is investment property. If the subject property is primary residence, there is no additional LTV restriction other than the regular guideline.

The financed property limit applies to the borrower's ownership of one-to four-unit financed properties or mortgage obligations on such properties and is cumulative for all borrowers. These limitations apply to the total number of properties financed, not to the number of mortgages on the property or the number of mortgages originated by or sold to iApprove Lending.

2. Aggregate Lending Limit for Borrowers with Multiple Financed Properties with IAL

If a borrower financed multiples properties with IAL, following restrictions must be applied:

- Aggregate loan amount to one borrower may not exceed $5 million.
- For foreign national borrower, maximum number of loans allowed to one borrower is 4.

IV. Eligible Transactions

RMLU will consider the reason for applying for a loan when making an underwriting decision. Eligible loan purposes include purchasing a new home for living or for investment, rate-and-term refinances, cash-out refinances, and home improvements.

A. Purchase

Purchase loans are those in which the proceeds are used solely to pay the property seller. To determine underwriting value on a purchase loan, use the lesser of the current property value or sales price. Purchase loans require copies of the sales contract and/or escrow instructions and all other agreements between the buyer and seller related to the property. All documents should be fully executed by all parties. Proof/Source of earnest money deposit is required unless it is backed out.

1. Ineligible Purchase Transactions

- Non-arm's length transactions
  Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property. Non-arm's length transactions are not permitted.
- For sale by owner transactions.
- At-Interest Transactions

An at-interest transaction involves persons who are not closely tied or related, but may have a greater vested interest in the transaction, such as a party who plays more than one role in the same transaction. Acceptable examples of at-interest transactions include builder also acting as realtor/broker, dual real estate agent (selling/listing agent), and realtor/broker selling own property. Unacceptable examples of at-interest transactions include realtor/broker acting as listing/selling agent as well as the mortgage loan originator, seller acting as the mortgage loan originator, borrower's family member acting as the mortgage loan originator and real estate broker at the same time. Transaction includes unacceptable at-interest characteristics are not permitted.

2. Property Flips

A transaction in which a property is purchased and resold quickly for a significant profit is commonly referred to as a flip. If the subject property is owned by the seller for less than 90 days, transaction must be arm's length, with no identity of interest between the buyer and seller or other parties participating in the sales transaction and the sales price of the property cannot be 30% or more above the seller's acquisition cost (acquisition cost includes any documented improvements to the subject property).

3. Purchase Agreement/Sales Contract

A fully executed sales contract or purchase agreement is required to be received and reviewed on all purchase transactions.

- At least one borrower must have signed the sales contract as the buyer.
- All Seller concessions listed on the sales contract must be addressed by the appraiser.

B. Rate-and-Term (No Cash-Out) Refinance

A rate-and-term refinance transaction represents a loan that is used to pay off an existing loan by obtaining a new first mortgage secured by the same property. This type of refinance is allowed under the following conditions:

- Closing costs, including prepaid items, may be included in the new loan amount provided that they are reasonable and customary for the market.
- Cash back to the borrower(s) cannot exceed 2% of the new loan amount or $2,000, whichever is less.
  - Note: Principal reductions at close are not acceptable on any loan. Loan amount must be reduced to ensure that cash back limits are not exceeded.
- Delinquent real estate taxes (past due by more than 60 days) may not be included in the loan amount.
- Subject property cannot be listed for sale and listing must be withdrawn prior to the application date.

1. Rate-and-term refinances with 2ND trust deed mortgage pay-off

Rate-and-term refinances whose proceeds are being used to pay off a junior lien are allowed with the following conditions:

- The junior lien must have 12 months seasoning from the closing date of the refinanced mortgage in order to be considered a rate-and-term refinance. If the junior lien is not seasoned for at least 1 year and it is being paid off with the new mortgage loan, the new mortgage is considered a cash-out refinance and must meet the cash-out refinance guidelines. The 12 months will be calculated from the closing date of the current junior lien to the consummation date of the new rate and term refinance.
- If a non-purchase money junior lien is seasoned for 12 months, it does NOT require proof of no withdrawals in the past 12 months.
- The seasoning may be waived if the junior lien was originated as a purchase-money second mortgage (seller or institutional financing) with the first and second lien was recorded simultaneously.

C. Cash-Out Refinance

A cash-out refinance is a loan whose proceeds exceed the outstanding principal balance of the existing liens plus reasonable and customary closing costs. RMLU requires 6 months title seasoning on cash out loans, and continuity of obligation must exist. This is measured from the date on which the property was purchased to the loan application date. Subject property cannot be listed for sale and listing must be withdrawn prior to the application date. Any refinance done as a cash-out transaction within six months prior to new loan application date is also considered as a cash-out.

1. Home Improvement Loans

Home improvement loans are those in which all or substantial portion of the loan proceeds are used for making improvements to the subject property.

D. Delayed Financing Exception

Cash-Out loans for borrowers who purchase the subject property within the past six months (measured from the date on which the property was purchased to the disbursement date of the new mortgage loan) may be eligible for a delayed financing exception, provided that the transaction meets the following requirements:

- The original purchase transaction was an arms-length transaction. If the seller of the property was an LLC, the principals of the LLC must be documented.
- The original purchase transaction is documented by a HUD-1 Settlement Statement, which confirms that no mortgage financing was used to obtain the subject property.
- The preliminary title search or report must confirm that there are no existing liens on the subject property (i.e. "free & clear" property).
- The source of funds used for the purchase transaction must be documented and must be borrower's own funds.
- All other cash-out refinance eligibility requirements must be met and cash-out pricing is applied.

E. Continuity of Obligation

Continuity of obligation occurs on a refinance transaction when at least one of the borrower(s) on the existing mortgage is also a borrower on the new refinance transaction secured by the subject property. Continuity of obligation requirements do not apply when there is no existing mortgage on the subject property as a result of the borrower either having purchased the subject property with cash or when any prior mortgage for which the borrower was an obligor was paid in full.

If any of the following parameters can be met, loan may be eligible for refinance transaction even if the continuity of obligation does not exist:

- The borrower on the new refinance transaction was added to title prior to loan application date. (6 month title seasoning for cash out transaction still required.)
- The borrower acquired the property through an inheritance or was legally awarded the property (e.g. divorce, separation, or dissolution of a domestic partnership).
- The borrower on the new refinance transaction has been added to title through a transfer from any legal entity (LLC, Corporation, Limited Partnership & Etc.) and the borrower is 100% owner prior to the transfer. The transferring entity and/or the borrower has had a consecutive ownership (on title) for at least the most recent 6 months prior to disbursement of the new loan.
- The borrower on the new refinance transaction has been added to title through a transfer from a trust and the borrower is a beneficiary/creator of the trust.

V. Qualifying Income

Income stability generally reflects a borrower's future ability to maintain mortgage payments as well as or better than employment stability does. For qualification purposes, income must be stable and likely to continue. When evaluating income stability, RMLU generally requires a work history of two years at the same place of employment or in a similar field. If the borrower has had more than one job, RMLU considers the reasons for job changes and length of time employed, as well as transferability of job skills. If a borrower has changed jobs in order to increase pay or benefits incrementally, or to gain greater job security, these circumstances are viewed as positive underwriting offsets. Extended periods of unemployment represent a major concern. All employment gaps should be explained in a letter from the borrower. Any gaps in employment over 120 days should be explained in a letter.

Income documents including Verification of Employment, Profit & Loss Statement, and CPA Letter must be no more than 90 days old on the date of loan closing. When consecutive income documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. If income documents are older than allowed, updated documents must be obtained.

A. Salaried Borrowers

Salaried borrowers receive a consistent wage or salary from an employer in return for a service rendered and have no ownership or less than 25% ownership interest in the business. Compensation may be based on an hourly, weekly, biweekly, monthly, or semi-monthly basis. If hourly, the number of scheduled hours must be addressed. The income that is verified must be converted into a monthly dollar amount for use on the formal application (FNMA Form 1003). At the discretion of the underwriter, supplementary documentation of income may be requested.

The probability of continued employment must be considered. Caution should be exercised in considering this item as negative comments from an employer could indicate a possible problem in the applicant's ability to repay the loan.

All applicants must have two years of verified employment. If the applicant has not been on their present job for two years, verification of previous employment must be obtained to cover a two-year period.

<u>Documentation Requirements</u>
A written verification of employment ("VOE") form must contain the following information:

- Dates of employment.
- Position.
- Prospect of continued employment, when available.

- Base pay amount and frequency. For employees paid on an hourly basis, the verification must state the hourly wages, including the number of hours worked each week.
- Additional salary information, which itemizes bonus, overtime, tip, or commission income, if applicable.

A written verification of employment form (FNMA Form 1005) must be used and it must be sent directly to the employer to the attention of the personnel department, accounting department, or any other personnel who has the authority to verify such information.

1. Raises

Raises can be considered in qualifying if the borrower has sufficient work history with his/her employer (at least 2 years) and the new increase is consistent with previous increases and verified by the employer. The raise in pay must be effective before the funding date.

2. Bonus or Overtime

Bonus or overtime income is variable compensation paid in addition to an employee's straight salary or hourly wage. Bonus or overtime will be accepted if it has been received for at least two consecutive years. If the borrower has recently changed positions with his or her employer, determine the effect of the change on the borrower's eligibility and opportunity to receive bonus or overtime pay in the new position. Documentation from the employer is required to verify two year history of receipt of this income and the likelihood of its continuance at least the same or greater level. If bonuses and overtime represent 25% or more of the applicant's total income, additional supporting documentation and letter of explanation will be required.

B. Self-Employed Borrowers

If an applicant is self-employed, the stability of the applicant's income must be established. A self-employed applicant is an individual who has total or proportionate ownership of a business. That business may be a sole proprietorship, a partnership or a corporation. Normally, an individual who has 25% or more ownership in a business should be considered self-employed. At least a two-year history of self-employment is required to establish and document a stable income level. No gaps in verified income should exist. Less than two years of self-employment may be acceptable if an employment history has been established in the same or a related field and the applicant can document a reasonable probability of success based on market feasibility studies and/or operating statements.

Documentation Requirements

- For application received on or before 6/30- YTD and one (1) full year of Profit & Loss statement.
- For application received on or after 7/1 – YTD Profit & Loss statement.
- All Profit & Loss statements must be completed by a verified, independent third-party.
- CPA letter verifying business ownership in the same line of business over the last two years at the same location. CPA license must be verified. CPA letter must be provided by the CPA who filed borrower's tax returns. Self-employed borrower who filed his/her own tax returns is not eligible.
- Business license needs to be included in addition to the CPA letter.

C. Other Acceptable Income

Borrowers may also have other sources of income besides being paid for employment at a full-time job. Documentation of other sources of income differs depending on the type of income. Refer to the list below for different types of "other" income and their documentation and verification requirements.

1. Alimony and Child Support Payments

Alimony and child support payments may be considered provided the payment terms confirm that the income will continue for at least three years from the date of application.

The borrower's regular receipt of the full payment due and any limitations on the continuance of the income must be determined:

- If the age of the child is not clearly defined, additional confirmation must be obtained to document the age of the child and income continuance.
- The duration of the alimony payments must be determined for continuance.

Income may be considered stable with documentation evidencing that the borrower has been receiving full, regular, and timely payments for the past twelve months.

Income may not be considered stable when the borrower:

- Has been receiving full, regular, and timely payments for less than twelve months or has been receiving full or partial payments on an inconsistent or sporadic basis.
- Does not have a court order that specifies alimony or child support.
- Will receive proposed or receives voluntary payments.

Documentation Requirements
One of the following types of income documentation is required:

- A copy of a written legal agreement or court decree describing the payment terms for the alimony or child support, the amount of the award and the period of time over which it will be received.
- Any applicable state law document that mandates alimony or child support, which must specify the conditions under which payments must be made.
- In addition, one of the following is required to document regular receipt of the full payment:
  - Court records.
  - Bank statements showing regular deposit of funds.
  - Cancelled checks.

2. Auto Allowances

Auto allowances will be considered stable income for a borrower who has been receiving the income for the past two years. Auto allowance must be verified and specified by the employer on the written verification of employment form from employer.

3. Commission Income

Commission income is variable income defined as a fee or percentage paid to an employee for performing a service and may be acceptable as stable income if the income has been received for at least two consecutive years. If commission income represents 25% or more of the borrower's total annual income, borrower is considered self-employed and must follow the self-employed borrower income documentation requirement.

4. Housing or Parsonage Allowance

A non-military housing or parsonage allowance may be considered qualifying income, if the income has been received for the most recent 12 months. The housing allowance may not be used to offset the monthly housing payment.

Documentation Requirements
All of the following income documentation is required:

- Written Verification of Employment, letter from employer, or paystubs reflecting the amount of the housing or parsonage allowance.
- Terms under which the housing or parsonage allowance is paid.
- Proof of receipt of housing allowance for most recent 12 months.

5. **Long-Term Disability**

Long-term disability payments (Veterans disability compensation benefits, etc.) may be treated as acceptable, stable income, unless the terms of the disability policy specifically limit the stability or continuity of the benefit payments. Generally, long-term disability will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date.

Documentation Requirements

Obtain a copy of the borrower's disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified and disinterested party) to determine:

- The borrower’s current eligibility for the disability benefits.
- The amount and frequency of the disability payments.
- If there is a contractually established termination or modification date.

6. **Non-Taxable Income**

Some examples of non-taxable, fixed income are Social Security retirement benefits, disability awards, municipal bond dividends, etc. Military personnel receive non- taxable income in the form of housing allowance, rations, clothing and VHA allowance. All of these sources of income can be counted as effective income if it can be documented and established to be long term. Non-taxable income may be grossed up to 125%.

7. **Retirement, pension, annuity, and IRA distributions**

Monthly annuity payments, 401K, or IRA monthly distributions require evidence of continuance for three years from the date of application. The borrower must have unrestricted access without penalty to the accounts.

Documentation Requirements

All of the following types of income documentation are required:

- Copy of award letter or letters from the organizations providing the income.
- Past 12 months bank statements showing deposit of funds.

8. **Rental Income**

All properties that the applicant owns and their statistics must be listed either in the Schedule of Real Estate Owned section of the 1003, or on an attached Schedule of Real Estate Owned, signed by the applicant. Rental income received from other properties should be verified from fully executed lease agreement. If the borrower’s principal residence is a 2-4 unit property, rental income from the principal residence can be used to qualify the borrower. If the borrower is purchasing a principal residence and is retaining his or her current residence as a rental property, rental income from the departing residence can be used to qualify the borrower. Net rental income shall be calculated by subtracting the PITIA from 75% of the gross rental income figure. If the result is a positive cash flow, it will be added to gross income. If the result is negative cash flow, it must be considered a liability. On non-subject investment properties in which the borrower holds title with a third party (non-spouse), the % of the borrower's ownership interest must be multiplied by 75% of the gross income to calculate the borrower's rental income on said property.

For example, a borrower that has 50% ownership in a non-subject investment property, will calculate the qualifying income as such:

Gross Rental Income x .75 x .5 = Qualifying Rental Income.

9. Second Job

Second jobs will be considered stable income if a two-year history of a second job can be verified.

10. Social Security Income

Social security is an acceptable source of income when supported with proper documentation. Acceptable documentation includes bank statements showing regular deposit of funds and verification by government agency with an award letter. If benefits are being received for a minor, the income can be used if it will continue for at least 3 years. A copy of the award letter must be in file.

11. Tip/Gratuity Income

Tip/Gratuity income is considered compensation in addition to an employee's regular wages and must be received for the past two years. Documentation from the employer is required to verify two-year history of receipt of this income and the likelihood of its continuance at least the same or greater level.

Income calculation:

- If the trend of the amount of income is stable or increasing, the income should be averaged.
- If the trend was declining, but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used.
- If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the declination occurred.

D. Unacceptable Sources Income

Income from sources considered ineligible includes, but is not limited to the following:

- Future Income.
- Employed by relatives
- Income derived from gambling.
- Income determined to be temporary or one-time in nature.
- Lump sum payments such as inheritances or lawsuit settlements.
- Notes receivable income.
- Rental income received from the borrower's single family primary residence or second home (boarder income).
- Stock options.
- Unverifiable income.
- Use of assets as income.
- Dividend and interest income.

- Capital gain.
- Trust income.
- Expense reimbursement.
- Employment by a relative, property seller or real estate broker.
- Self-employed borrower without proper business license
- Freelance borrower without verifiable business license

E. Verbal Verification of Employment (VVOE) or Confirmation of Employment

A verbal verification to confirm the borrower's current employment status is required for each borrower within 10 business days from the funding date for salaried borrower. Verification of the existence of the borrower's business must be obtained through a third-party source within 30 calendar days from the funding date for self-employed borrower. To comply with a verbal verification of employment (or telephone confirmation) requirement, independently obtain the phone number and address for the borrower's employer. This can be accomplished using a telephone book, directory assistance, Superpages.com, Yellowbook.com, Yellowpages.com, etc., or by contacting the applicable licensing bureau.

1. Verbal Verification of Employment Requirements

A verbal verification of employment must contain the following information:

- Date of contact
- Borrower's date of employment
- Borrower's employment status and job title
- Name, phone number and title of individual contacted at entity
- Name of the entity contacted
- Name and title of associate contacting employer
- Method and source used to obtain the phone number

2. Self-Employed Confirmation of Employment Requirements

- Verification of the existence of the borrower's business from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau
- Verify the listing and address for the borrower's business using a telephone book, the internet, or directory assistance

VI. Credit History

RMLU underwrites and evaluates each borrower's willingness and ability to manage debt by reviewing credit history. Each borrower should have an adequate credit history, defined by the number of accounts and length of time the accounts have been established.

Credit documents including credit reports must be no more than 90 days old on the date of loan closing.

A. Payment History

IAL reviews the frequency and severity of adverse credit events to determine whether a borrower's credit history presents an acceptable risk. Borrower must have at least 3 tradelines in good standing seasoned for at least 12 months. If borrower cannot demonstrate 3 tradelines in good standing on traditional credit report, borrower may provide a non-traditional credit reference from US institutions for the past 12 months. Non-traditional credit may not be used when the borrower's traditional credit history indicates derogatory references, such as late payments, collection accounts, or judgments. Non-traditional credit cannot be used as a means to offset derogatory references or enhance a poor credit history with the traditional providers of credit. Authorized user account may be counted as borrower's tradeline and the payment must be included as borrower's liability. The adverse credit events, if any, should not reflect disregard for, or mismanagement of, financial obligations.

The table below outlines the acceptable number of late payments, but in general, isolated instances of a late payment will not adversely affect the underwriting decision:

Mortgage/Rent			
Maximum allowed	Past 12 months	Past 24 months	Past 36 months
x 30	1	2	4
x 60	0	1	2
x 90	0	0	0

No Limit if past 36 months

<table>
<tr><td colspan="4">Installment/Revolving Debt</td></tr>
<tr><td>Maximum allowed</td><td>Past 12 months</td><td>Past 24 months</td><td>Past 36 months</td></tr>
<tr><td>x 30</td><td colspan="2">3</td><td>4</td></tr>
<tr><td>x 60</td><td>0</td><td>1</td><td>2</td></tr>
<tr><td>x 90</td><td>0</td><td>1</td><td>1</td></tr>
</table>

No Limit if past 36 months

Bankruptcy/SS&DIL/Foreclosure	3 yrs/2yrs/5yrs
Loan Modification	2 yrs

When a borrower has late payments, underwriting judgment is required to determine the intent of the borrower. The determination must be made whether the borrower's late payments were due to a disregard of financial obligations or whether outside factors beyond the borrower’s control contributed to the late payment. Indictors of borrower’s intent include the frequency and timing of late payments, when they occurred, their severity, and the size of the account balance.

Although a borrower’s history may include an acceptable level of late payments, the reasons for failure to pay as agreed must be reasonable, corrected, and not likely to reoccur. These reasons should be stated in a letter explaining the time frame around the late payment. All obligations of the borrower must be current at the time of closing.

1. Bankruptcy

Before considering a loan application from someone who has history of filing bankruptcy, consideration must be given to the following:

- Letter of explanation (prepared, signed and dated by the borrower);
- Residential mortgage credit report verifying that satisfactory credit has been re-established, and the bankruptcy must be discharged for at least 3 years prior to application. Re-established credit is defined as a minimum of 2 accounts that have been open and active for the past 1 year. These accounts must be in good standing (no late payments) and documented by a traditional credit report.
- No multiple bankruptcies allowed per borrower.

2. Short-sale and Deed in Lieu

A borrower who has had a short-sale or deed in lieu completed within the last 2 years is not eligible.

- New application date must be at least 2 years from the close and/or transfer of title due to short-sale or deed in lieu
- No multiple short-sales or deed in lieu allowed per borrower.

3. Foreclosure

A borrower who has had an ordinary foreclosure commenced within the last 5 years is not eligible.

- No multiple foreclosures allowed per borrower.

4. Judgments

All judgments, liens, garnishments, etc. which have a balance greater than $1,000.00 must be paid in full with borrower’s own funds prior to closing the loan. All tax liens must be paid in full with borrower's own funds prior to closing the loan.

5. Collections/Charge-Off of Non-Mortgage Accounts

For a collection account or non-mortgage charge-offs with less than $250 balance or an aggregate balances of less than $1,000.00, the collection(s) or non-mortgage charge-offs need not be paid prior to closing. All other collections or non-mortgage charge-offs must be paid with borrower’s own fund at or prior to closing (including medical collections).

6. Loan Modification

A borrower who has applied for or received a loan modification is eligible if the loan modification has been seasoned for at least 2 year prior to loan application date. Details of the modification must be reviewed to ensure the eligibility of the transaction. Following documents must be provided:

- Letter of explanation required from borrower
- Document to verify the loan modification date if not presented on credit report

7. Disputed Accounts

When there is a disputed tradeline with a reported derogatory payment within the last two years, the accuracy and completeness of the information reported on the borrower's credit report for the disputed tradeline must be confirmed. If it is determined that the disputed tradeline information is accurate and complete, the lender must ensure the disputed tradelines are considered in the credit risk assessment and all payments are included in the debt to income ratios. If documentation can be provided to substantiate the dispute, updated information can be utilized. For instance, if a collection is currently showing an outstanding balance and is in dispute, but the borrower is able to provide a letter from the creditor confirming payment has been made, the collection is not required to be paid.

B. Credit Scores

RMLU requires minimum credit score 680 and will make price adjustment according to credit scores. Credit scores, often called the FICO score, are documented on traditional credit reports. At least two credit scores are required to obtain a loan from RMLU. If there are two scores, IAL uses the lower one. If there are three, IAL uses the middle score of the three. If only one score is available, the borrower is not eligible.

C. Credit Documentation

A traditional credit report must be included for each borrower whose income is being relied upon for qualification. Credit Report may not be more than 90 days old at the time of closing. If the credit report exceeds the 90-day limit, a new or updated (not revised) report is required. Note: Rapid Rescores to improve FICO scores are not acceptable. Worst-case scores and liabilities amounts will be used to qualify.

If required information is not included in the traditional report, alternative credit references should be submitted along with the report. Direct verification is required for any accounts not on the credit report that is being used as a reference. If adverse items exist on the credit report, a letter of explanation is required.

1. Established Credit

A borrower with established credit has a history that can be verified through traditional credit reports. The report used by IAL is a tri-merge credit report from the three major credit bureaus: Experian, Equifax, and Transunion.

2. Non-established Credit /No Credit History

Borrowers whose credit cannot be verified through traditional sources are considered to have non-established credit or no credit history. These borrowers may pose a higher risk because there is no information to substantiate their ability to manage debt. Alternative credit references may be used for these borrowers. Alternative sources may come from rental history, utility bills, and insurance coverage. These borrowers can only qualify for Foreign National program that requires no minimum FICO score.

D. Credit Inquiries

Excessive inquiries by credit bureaus in the past 90 days before the date of application must be explained and investigated when there was no account opened as a result of the inquiry. A letter of explanation from the borrower stating the reason for each inquiry must be obtained.

VII. Assets

A. Minimum Borrower Contribution

Evidence must be provided to determine that the borrower has sufficient funds to pay the down payment, prepaid items, and closing costs as well as adequate additional cash reserves the required by the Underwriting Guidelines. Borrower's minimum contribution towards down payment is detailed by the following table:

Loan Type	Occupancy	Minimum Down Payment Contribution	Minimum Closing Cost Contribution
Purchase	Owner Occupied/Second	0%	100%
	Investment (≤ 60% LTV)	50%	
	Investment (> 60% LTV)	100%	
Refinance	Owner Occupied/Second	0%	0%
	Investment	100%	100%
Foreign National	All	50%	100%

Interested party contributions (IPCs) are costs that are normally the responsibility of the property purchaser that are paid directly or indirectly by someone else who has a financial interest in, or can influence the terms and the sale or transfer of, the subject property. IPCs may not exceed 3% of the sales price for primary and second home ownership, or 2% for non-owner occupied properties. IPCs may be used towards closing costs only, not for repair or down payment or reserves. If the transaction is an acceptable at-interest transaction in which the realtor/broker is also the borrower or is an immediate family member of the borrower, the realtor/broker commission cannot be used towards down payment, closing costs, or reserves.

B. Cash Reserves Requirement

Cash reserves are a strong indicator of a borrower’s ability to manage financial resources and build a financial cushion. RMLU’s cash reserves requirements are as follows:

- Primary Residence House: 6 months P&I for LTV ≤60% and Loan Amount ≤ 1,000,000; 12 months P&I for LTV >60% or Loan Amount > 1,000,000.
- Second Home/Investment Property: 6 month P&I for LTV ≤60% and Loan Amount ≤ 1,000,000; 12 months P&I for LTV >60% or Loan Amount > 1,000,000.
- Foreign National Borrower: 24 month P&I of which 12 month reserve must be deposited into iApprove Lending’s account.
- Gift funds or business funds cannot be used as reserve. Reserve must be borrower’s own funds.
- Refund of escrow deposit can be used for reserves if funds have been sourced for required two (2) months.
- Reserves must be held in a US institution.

C. Acceptable Sources of Assets

Asset documents must be no more than 90 days old on the date of loan closing. When consecutive asset documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. For example, when two consecutive monthly bank statements are used to verify a depository asset, the date of the most recent statement must be no more than 90 days old on the loan closing date.

1. **Bank Accounts**

Bank/financial institution accounts include funds on deposit in savings accounts, checking accounts, certificate of deposits, and money market accounts. These funds may be used for down payment, closing costs, and reserves.

- Individual Accounts: Funds in the borrower's individual account are acceptable.
- Joint Accounts: Funds in a joint account are acceptable if borrower has access to all funds in the account at all times. This may be demonstrated with the 100% access letter from the joint account holder.
- Trust Accounts: Funds disbursed from a trust account where the borrower is the beneficiary are acceptable if the borrower has immediate access to them. Borrower must provide proper documentation to verify he/she is the beneficiary and has direct access to the funds. Accounts that do not allow the borrower to have immediate access to the funds for the above stated purposes may not be used as acceptable assets, including funds in accounts where the borrower is not the beneficiary, such as custodial accounts.

Bank accounts shall be examined carefully for signs of fabrication or alteration. Analyzing the documentation to calculate interest, and reviewing deposits against income levels and sources may be necessary to validate the documents. The borrower must provide a written explanation and documentation of the source of funds for any large deposits if those large deposits are needed to meet borrower funds and/or required reserves. When a deposit is not documented and is not needed for borrower funds/reserves, reduce the funds used for qualifying purposes by the amount of the unverified deposit. Large deposits are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. If the source of the large deposit is readily identifiable on the account statement, such as a direct deposit from an employer, the Social Security Administration, etc., additional documentation may not be required. If there is any question that the funds may have been borrowed or there are consistent deposits that are not income, additional documentation must be obtained.

<u>Documentation Requirement</u>

One of the following is acceptable:

- Account Statements for 2 month: Account statements must be dated within 30 days of application. Quarterly and annual account statements dated greater than 30 days and less than 90 days are acceptable. Account statements must clearly identify name and address of the depository or investment institution, the borrower as the account holder, account number, time period covered by the statement, all deposits and withdrawal transactions for depository account or all purchase and sale transactions for a financial portfolio account, and ending account balance.

- Online account statements obtained by the borrower: Online account statements must include all the information listed above for standard account statements.
- Verification of Deposit ("VOD"): VOD must be issued by the depository institution and each VOD must clearly identify the name and address of the depository or investment institution, the borrower as the account holder, account number, type of account, the open date, the account balance as of the date of the VOD, and the average balance. If the current balance is greater than the average balance by an amount that is more than 50% of the borrower's qualifying income, the increase needs to be documented.

2. Sale Proceeds

The proceeds from the sale of a borrower's present home are a common and acceptable source for the down payment and closing costs on a new home.

Documentation Requirement

Copy of final settlement statement (HUD-1) for the sale showing sufficient net cash proceeds to consummate the purchase of the new home must be obtained. If the net cash proceeds are not sufficient to meet the cash requirements for the purchase of the new home, the borrower must have other liquid assets to make up the difference.

3. Business Funds

If business funds are used for down payment, and closing costs, the borrower must be the sole proprietor or 100% owner of the business. If borrower is not a 100% owner of the business, business funds may not be used for the down payment or closing costs. Funds in the business account may be used up to 100% of current balance. The impact of the withdrawal must be considered in the analysis and the analysis must indicate that withdrawal of funds will not have a detrimental effect on the borrower's business. Large deposits that are uncommon compared to normal business transaction trends as evidenced through income documentation and business fund statements must be addressed and verified. Business funds may not be used for reserves unless it has already been deposited into borrower's personal account. If business funds are related to a business that the borrower did not disclose on the loan application, CPA letter must confirm that borrower has 100% ownership in the business and that the use of funds will have no negative impact on the business.

4. Gifts

The borrower may use funds received as a gift from an acceptable donor to use towards down payment and closing costs provided the minimum contribution requirement has been met. An acceptable donor is a relative, defined as a spouse, child, parent, sibling, grandparent, aunt, uncle, cousin, domestic parent, fiancée, or fiancé. The donor may not be, or have any affiliation with the builder, developer, real estate agent, and any other interested party to the transaction. Gift funds may not be used as reserves. If donor provides gift funds from business account, 100% ownership verification required
(Ex. CPA; K-1).

Transfer of Gift Funds

Verification and documentation that sufficient funds to cover the gift are in the donor's account or have been transferred to the borrower's account is required.

Acceptable documentation to verify sufficient funds to cover the gift funds are either in the donor's account or have been transferred to the borrower's account, include the following:

- A copy of the cashier's check with remitter name as donor
- A copy of wire receipt showing donor as originator
- A copy of the donor's personal check, cancelled check, and the borrower's deposit slip

If gift funds were sent directly to escrow:

- Copy of the donor's check to the closing agent and escrow receipt.

Documentation Requirement

A gift letter providing the amount of the gift, the donor's name, address, and telephone number, donor's relationship to the borrower, donor statement that repayment is not required, subject property address, and donor's signature is acceptable documentation.

5. Foreign Assets

Foreign assets being used for down payment and closing costs must be held in a U.S. account prior to closing. If the assets are derived from a sale of a foreign asset or from assets held in a foreign institution, the assets must be converted into United States currency by an independent third party and placed in a United States financial institution. The sale of the foreign asset and conversion of foreign currency must be fully documented and verified.

Funds that a non-U.S. citizen borrower recently deposited in a U.S. depository institution are an acceptable source of funds provided all the following requirements are met:

- There is documented evidence of funds transfer from the country from which the borrower immigrated;
- It can be established that the funds belonged to the borrower before the date of the transfer; and
- The sources of all funds used for closing can be verified just as they would for a borrower who is a U.S. citizen.

The borrower's source of funds for the down payment and/or closing costs must comply with the Office of Foreign Assets Control (OFAC).

6. Retirement Accounts

Vested funds from individual retirement accounts (IRA, SEP-IRS and KEOGH) and tax-favored retirement savings account (e.g. 401(k), 403(b)) may be used as the source of funds for down payment, closing costs and cash reserves. The most recent retirement account statement must be provided and must identify the borrower's vested amount and the terms.

If the retirement assets are in the form of stocks, bonds, or mutual funds, the account must meet the requirements of the following section Stocks/Bonds for determining value and whether documentation of the borrower's actual receipt of funds is required when used for the down payment and closing costs. When funds from retirement accounts are used for reserves, IAL does not require the funds to be withdrawn from the account(s).

7. **Stocks/Bonds**

Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. The borrower's ownership of the account or asset must be verified. The value of stocks, bonds or mutual funds must be documented by current statement. When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required. When used for the down payment or closing costs, if the value of the asset is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented. Stock options and non-vested restricted stocks are not an eligible asset source for reserves.

8. **Cash Value of Life Insurance**

Net proceeds from a cash value or from the surrender of a life insurance policy are an acceptable source of funds for the down payment, closing costs and reserves. The most recent statements must be provided. If the funds are needed for the down payment or closing cost, proof of liquidation and receipt of the funds by the borrower must be documented. If the cash-value of the life insurance is being used for reserves, the cash-value must be documented but does not need to be liquidated and received by the borrower.

D. Unacceptable Sources of Assets

Sources of funds considered ineligible include, but is not limited to the following:

- Cash advance on a revolving charge account.
- Bridge Loan.
- Cash for which the source cannot be verified.
- Funds in a custodial or "in trust for" account.
- Gift that must be repaid in full or in part.
- Sweat Equity.
- Personal unsecured line of credit or loan.
- Salary advance.

VIII. Liabilities and Qualification Ratios

A. Qualification Ratios

The total obligations-to-income ratio compares the sum of a borrower's debts and housing expenses with his or her gross monthly income.

A borrower's total obligations are the sum of:

- The monthly housing expense (projected);
- The monthly payments on installment debt that extend beyond ten months;
- The monthly payments on revolving debt or line of credit (use 5% of the outstanding balance if minimum monthly payment cannot be verified)
- The monthly payment of any contingent liabilities (e.g. co-signed auto loan) the borrower is obligated to pay unless the borrower can show 6 months of cancelled checks showing that another party has been making timely payments or prove the debt has been assigned to another through a court order, and if applicable, title has been transferred;
- The monthly mortgage payments on any real estate that is not producing income -- including payments related to a second home that secures a mortgage being delivered to RMLU; and
- Any monthly alimony and/or child support payments for which the borrower is responsible.

A borrower's monthly housing expense, including principal, interest, taxes, insurance, and association payments should be no more than **38%** of his or her stable gross monthly income. Further, a borrower's maximum total obligations should be no more than **43%** of his or her stable gross monthly income, regardless of the loan-to-value ratio for the mortgage.

B. Liabilities

The long-term liabilities of the applicant must be examined to determine whether, when coupled with the applicant's income and proposed housing expenses, the applicant meets the debt-to-income criteria required to qualify for the loan. The requirements for evaluating the applicant's long-term liabilities are outlined below. Liabilities of the borrower may be counted as follows:

1. Alimony

Deduct from income if more than 10 months remain. Copy of Divorce decree is required.

2. Business loans

May be excluded from total debt if evidence showing payment by company for the past 6 months can be provided.

3. Child support

Deduct from income if more than 10 months remains. Copy of Divorce decree required.

4. **Co-signer obligations**

Not counted if verified that 6 months paid by other party. 6 months cancelled checks required. For a brand new account with less than 6 months history, payment proof from the opening date is required.

5. **Installment account**

Less than 10 months balance not counted. Borrower may pay down or pay off the installment loan to exclude from the liability. Account must be paid down or paid off with borrower's own funds prior to closing.

6. **Monthly housing expense**

Count PITI, MI premium, flood insurance premium if applicable, leasehold payment, HOA dues, subordinate financing payments. If borrower does not own a primary residence, but does own an investment property, a Verification of Rent (VOR) will be required to satisfy primary residence housing expense. If spouse owns primary residence solely, verification of mortgage (VOM) will be required and payment will be included in DTI as monthly housing expense.

7. **Previous/ proposed housing expense**

Used to calculate the impact on the borrower's monthly housing payment. Significant increases must be offset by savings or increase in income along with good credit history.

8. **Revolving accounts**

Payment shown on credit report or statement. If none, use the higher of $10 or 5% of balance for bank cards or retail stores, 2% for personal credit lines. Borrower may pay off the revolving account at or prior to closing in order to exclude from the liability. Accounts must be paid off with borrower's own funds. Such accounts do not need to be closed as a condition of excluding the payment from the DTI ratio.

9. **Open 30-day charge accounts**

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, borrower must demonstrate funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves. If the borrower paid off the account balance prior to closing, borrower may provide proof of payoff in lieu of verifying funds to cover the account balance.

10. **Student loans**

Always counted even if deferred. If monthly payment after the deferred period cannot be verified, use 2% of the outstanding balance.

11. **Subordinate financing**

For HELOCs, count monthly payment amount. If there is none, use current balance with current rate and current payment as detailed on the HELOC agreement or note. If interest only payment will change to fully amortized payment within 3 years, fully amortized payment for amortization period must be used to qualify. For example, if a HELOC only has 2 years of interest only payments remaining and will then change to a fully amortized payment for 15 years, the 15-year amortization period will be used at current rate to qualify.

IX. Property Eligibility and Project Eligibility

A. Eligible Properties

Properties eligible for loans are single family detached and attached residences (including condominiums, planned unit developments (PUDs)). In general, RMLU will consider a loan for any 1-4 unit residential property. A loan request will not be rejected solely on the basis of age of the property, square footage, number of bedrooms, the location of the property, or the ethnic composition of the neighborhood. RMLU does, however, require minimum bathroom facilities (to consist of sink, toilet, and bathtub/shower) and permanent heating.

1. Single Family Residence (SFR)
An attached or detached single-family dwelling, including town homes and row homes.

2. Two-to-Four Unit Property
A two-to-four unit property is a residential structure with more than one unit but not more than four units.

3. Planned Unit Development (PUD)
A PUD is a real estate project in which each unit owner has title to a residential lot and building and a nonexclusive easement on the common areas of the project. The owner may have an exclusive easement over some parts of the common areas (e.g., parking space).

4. Condominium
A condominium is a unit in a project in which each unit owner has title to his or her individual unit, an undivided interest in the project's common areas, and in some cases, exclusive use of certain limited common areas. A condominium project is created according to local and state statutes. The structure is two or more units with the interior airspace individually owned. The balance of the property (land and building) is owned in common by the individual unit owners.

For additional PUD/Condo requirements, see Project Eligibility section.

B. Ineligible Properties
- Vacant land or land development properties
- Properties that are not readily accessible by roads that meet local standards
- Agricultural properties, such as farms or ranches
- Boarding Houses
- Bed and breakfast properties
- Properties that are not suitable for year-round occupancy regardless of location
- Manufacture homes
- Mobile homes
- Properties in non-residential zoning
- Mixed use properties

- Title to the property not held as fee simple

C. Condominium/PUD Project Eligibility & Review

All condominium projects require a Homeowners Association (HOA) Questionnaire. For LTV less than or equal to 50% on established condominiums, a limited HOA Questionnaire will be acceptable. For all other condominium loans including new construction, a full HOA Questionnaire must be completed. The completed questionnaire must confirm that the condo project is eligible.

1. Maximum Loan Concentration

The maximum number of loans that IAL may extend in a condominium or PUD project may not exceed 20% of the total units in the project.

2. New Condo Project

A new condo project is a project for which one or more of the following is true:

- fewer than 90% of the total units in the project have been conveyed to the unit purchasers;
- the project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo;
- the project is newly converted; or
- the project is subject to additional phasing or annexation

At least 70% of the total units in the project or subject legal phase must have been conveyed or be under contract for sale. At least 50% of the total units in the project must have been conveyed or be under contract for sale to principal residence or second home purchasers.

3. Ineligible Condo & PUD Projects

The following types of condominium projects are ineligible for financing by IAL:

- Projects that contain commercial space exceeding 50%.
- Timeshare or segmented ownership projects.
- Manufactured homes.
- Condo-hotel.
- Houseboat projects.
- Projects that represent a legal, but non-conforming use of the land, if zoning regulations prohibit rebuilding the improvements to current density in the event of their partial or full destruction.
- Projects involved in any type of litigation.
- Cooperatives are ineligible for financing.
- Projects with owner-occupied occupancy ratio less than 50%.
- Projects with more than 15% of the condo association dues delinquent.
- Projects that contains more 8 units with single entity owning more than 30% of the entire project.
- Projects that contains equal or less than 8 units with single entity owning more than 50% of the entire project.
- Projects subject to resale restrictions. (Age restriction is exempted for senior condo)
- Lender is liable for more than 6 months delinquent common charges.

- Lender is liable for more than 6 months for any delinquent common charges when a unit is taken over in Deed-In-Lieu or through foreclosure.
- HOA owns or operates any non-incidental business operation.
- High Rise condominium project in Nevada
  Due to the unknown risks surrounding super priority lien status in Nevada State Law NRS 116.3116, attached condominiums in Nevada are not eligible at this time. Detached /attached condominiums in Nevada are acceptable.

X. Appraisal

iApprove Lending requires an appraisal report for all residential mortgage loans. The purpose of valuation or appraisal review is to determine if a loan is secured by property that provides sufficient value to recover the investment if loan default occurs. Establishing the adequacy of the collateral for an investment quality loan requires an accurate assessment of the current fair market value and condition of the property. The appraiser must address any factors likely to affect the property's future value and provide a visual picture of the neighborhood, site, and improvements. The appraiser must use the comments section of the report to achieve this goal and attach additional documentation if necessary.

A. Appraiser Requirement

The appraiser must remain free of any outside influence in the valuation process. Appraisers must provide complete and accurate reports. The estimate of market value must represent the appraiser's professional conclusion, based on market data, logical analysis, and judgment.

B. Age of Appraisal

The effective date of the appraisal report must be dated within 120 days of the Note date. If the effective date of the appraisal report is more than 120 days but less than 180 days from the Note date, the appraiser must provide an update to the appraisal based on his or her knowledge of current market conditions. The appraiser must acknowledge that the value of the subject property has not declined since the effective date of the original appraisal. The update must be completed on Fannie Mae Form 1004D/Freddie Mac Form 442 and must be dated within 120 days prior to the Note date.

C. Appraisal Form

RMLU will accept the following types of appraisal forms:

- Uniform Residential Appraisal Report (FNMA 1004/FHMC 70)
- Individual Condominium Unit Appraisal Report (FNMA 1073/FHMC 465)
- Small Residential Income Property Appraisal Report (FNMA 1025/FHMC 72)
- Appraisal Update (FNMA 1004D/FMHC 442)

D. Appraisal Review & Evaluation

As the underwriter evaluates a file to determine its eligibility for a loan, he/she considers the collateral property's marketability and justification of its value. Factors that affect marketability and value include the comparability of the subject property with surrounding structures and land use, condition and appeal of the property, quality of construction and equipment, characteristics of design, and the local home market real estate trends.

Information regarding these factors is documented on the appraisal, most inclusively on the Universal Residential Appraisal Report (URAR). There are three approaches generally used by the appraiser to establish value. These are the cost approach, the sales comparison analysis/market value analysis (market approach), and the income approach. For residential properties of 1-4 units, the market and cost approaches are the appraisal methods most widely used so therefore IAL only accepts values based on these two approaches.

All residential appraisals and Evaluation reports should be made on an "as is" basis unless:

- The appraisal is made "subject to" repair alterations and/or conditions, which the appraiser lists in the comment section or by addendum.
- The property and appraisal is "subject to completion per plans and specifications."

In both cases above, the appraiser must make a subsequent inspection of the subject and verify that such repairs, alterations or construction have been completed as represented in the appraisal, and the appraiser must complete an Appraisal Update and/or Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442) to verify compliance with his or her original appraisal conditions. A photograph attachment showing completion should be attached. When the appraiser makes the appraisal "subject to" any repairs, the repairs must be a requirement of loan approval. The repair work must be completed prior to funding, unless part of the approval funds is to be withheld to cover the cost of the repairs. Proof of completion of such repairs must be in writing in the funding, signed and dated by the appraiser.

1. **Property Location**

Rural properties may require additional analysis due to lack of available comparables and limited utilities and services. Any "fair" or "poor" ratings regarding the subject neighborhood should be explained.

2. **Property Values**

Declining property values represent higher, possibly unacceptable risk because of the potential for a loss in borrower equity. The rate of decline is a key factor.

3. **Demand/Supply (Marketability)**

An oversupply of housing units—within a neighborhood or citywide—may reflect problems with marketability. The reason for an oversupply and its effect on the property's value requires explanation from the appraiser.

4. **Occupancy**

High-vacancy rates or an abundance of tenant occupants indicates that the neighborhood may be oriented to rental rather than owner-occupied housing.

5. **Predominant Value**

A property whose value falls outside the neighborhood price range or is at the extreme high or low end of the range may be a higher-risk property. Compatibility should be supported by use of similar properties from the same neighborhood and explained by the appraiser.

6. **Land Use and Land Use Change**

A strong residential base is important to overall neighborhood desirability.
Non-compatible land use (for example, a high percentage of commercial or industrial land usage) could negatively affect marketability. Change in land usage can have a significant effect,

positively or negatively, on the long-range value of the property and requires explanation from the appraiser.

7. **Neighborhood Comments**

Factors that affect the marketability of the properties in the neighborhood, such as proximity to employment and amenities and employment stability and appeal to the market, require an explanation from the appraiser. Analysis could include economic trends, location influences and neighborhood amenities.

8. **Market Conditions**

Market conditions and trends should be supported by statistical information.

9. **Zoning Compliance**

The property should be zoned as “residential.” Highest and best use as improved should be the “Present use.” Properties with commercial zoning should exhibit no negative impact on marketability or habitability as residential properties and should not change the residential character or atmosphere of properties. The majority of the uses on the Subject Property's street must also be 1-4 family and at least two of the comparable sales must be from the Subject Property's immediate neighborhood and have the same zoning.

Residential properties with commercial zoning should reflect the current usage as the highest and best use and be eligible to be rebuilt in the case of partial or total destruction.

10. **Utilities**

The source and type of all utilities should be identified. Utilities which are not typical for the area increase risk.

11. **Off-Site Improvements**

Private road maintenance should be identified. If the condition or adequacy of a private road is not typical, an explanation is required.

12. **Drainage/Flood Hazard**

Drainage problems or the existence of a flood hazard condition require explanation from the appraiser. Such conditions or major problems may require physical correction or flood hazard insurance.

13. **Site Comments**

Adverse site conditions, including adverse easements, encroachments, or special assessments may affect the value or marketability and require explanation by the appraiser.

14. **Improvements**

A property’s physical features should be most like other similarly sized dwellings in the market. If characteristics are not similar—for example, a room list that is not typical for the market, or heating that is unusual or not in good condition—they may affect market appeal. The affect the non-conformity has on value and marketability requires explanation from the appraiser. Construction components and special features should be similar to other properties in the marketplace. Amenities that do not meet market expectations may negatively affect marketability.

15. Condition of Improvements

Property improvements should be at least in average condition and should not negatively affect the livability or marketability of the property. Minor cosmetic deficiencies are not a major concern. The condition of the major components, including the roof, foundation, plumbing, electrical, and heating, may be an issue. Incurable structural factors that are not typical for the market—for example, a room list that is unusual or location of rooms that is not typical—may decrease the value and market acceptance of the property. Curable structural factors may be acceptable under certain conditions when properly justified.

Homes with energy efficiency improvements are eligible when marketability can be justified through comparable sales, and any additional cost is supported by the market. IAL underwrites these properties based on the evaluation of the individual loan and does not generally have special documentation requirements or ratio guidelines for energy efficient properties except for Solar Panels.

For properties with solar panels, copy of purchase contract or lease agreement for solar panel must be reviewed to determine if there is any recurring monthly payment. Any monthly payment must be included in debt-to-income calculation. If solar panel contract is recorded as a lien against subject property, it cannot be in a first lien position. For purchase transaction, if borrower assumes the existing solar panel contact from the current owner/seller, assignment of lease or similar documents must be reviewed to determine the term and validity of transfer.

16. Adverse Environmental Conditions

Environmental items that have a negative effect on value—such as proximity to a hazardous waste site—must be identified and fully explained. Comparables should have similar environmental conditions. Generally, properties with material environmental hazards are ineligible for a loan. The effects of such hazards on the safety, value, and marketability of the property make it unacceptable collateral for low down payment lending. IAL may require removal of such hazards as a closing condition.

17. Cost Approach

The cost approach is one of the ways an appraiser comes up with the final value of a home. The following applies to the cost approach method:

- Site value

  The proportion of site value to the value of the residence must be in line with other values in the neighborhood. A property with a site value higher than the area norm may be considered a higher-risk property.
- Estimated reproduction cost:

  The estimated reproduction cost per square foot should not be higher than the area norm.
- Depreciation:

  The appraiser must make adjustments for physical, functional, and external depreciation when appropriate.

18. Sales Comparison Analysis/Market Value Analysis

Another method used by the appraiser to come to a final value of a home.
The following applies to the sales comparison approach:

- Comparable sales:

  A minimum of 3 comparable sales is required for the market value analysis. Comparables should be similar to the subject property in size, room count, location, condition, etc. Comparable sales generally should have closed within 6 months of the appraisal date.

- Location of comparables:

  Except for rural locations, 2 of the 3 required comparables should be located within 1 mile of the subject property. Beyond that, an appraiser's explanation is required. Comparables for rural properties may fall outside the 1 mile range; therefore, it's important that the comparables be from locations that have the same influences, such as distance from schools, shopping, and employment Departments.

- Source of comparables:

  No more than 1 of the 3 comparables may be supplied by the lender or developer from its own files, unless justified by the appraiser. The 3 comparables must be closed sales, not listings. As alternatives, listings, offers and contracts can help support value; however, they may not accurately reflect market value since the details of the transaction could change prior to closing.

- Adjustments:

  Adjustments must be logical. The size of the adjustments indicates the extent of differences between the comparables and the subject property. Large adjustments should be fully explained. Large adjustments for site/view, design and appeal, quality of construction, age, or condition may be an indication that the comparables are not really comparable. Adjustments must be consistent for all comparables. Total net adjustments for any comparables used should not exceed 15% of the sales price. Total gross adjustments should not exceed 25%. Individual line adjustments for comparables should not exceed 10% of the sales price. If any of the net, gross, or individual line adjustments exceed these thresholds (15%/20%/10% respectively), the appraiser must address the adjustment, explain reason for use of comparable, and confirm comparable is the best available. One-directional adjustments will also need further explanation. Property value may be inflated when all of the comparables are significantly superior or inferior to the subject property. When all of the adjustments are positive or all negative, the valuation may be questionable.

- Personal property/options:

  Furniture, fixtures, and other personal property cannot be included in the market value of the property. Additional builder options on newly constructed properties should be reviewed and considered. For example, if the subject has $5,000 in options, such as upgraded wall coverings, carpeting and built-ins, the appraiser must evaluate that the costs of these items are truly reflected in the resale market. Often the options do not recapture dollar-for-dollar cost in market value. At least, 1 comparable sale should have options or extras similar to the subject's.

- Prior sales activity:

The appraiser must identify and describe prior sales activity for the most recent 12 months for the subject and the comparables. Adverse value trends need to be identified and explained.

19. Changes to the Appraised Value

Particular attention and extra due diligence must be instituted for those loans in which the appraised value is believe to be excessive or when the value of the property has experienced significant appreciation in a short time period since the prior sale. Any appreciation within 12 months greater than 20% of the previous sale value, will require additional explanation from the original appraiser. If the appreciation occurred in under 6 months, one of the following conditions must be added to further address excessive value or undue appreciation:

- Desk Review

20. Final Value

Final value must reflect the most reliable sales data, not an average of comparables.

E. Additions without Permits

If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

1. Attached Un-Permitted Additions

When reviewing a property with an attached un-permitted addition, the appraiser should address and comment on the following items:

- Describe the un-permitted work and whether is it common for the area.
- Is there a health or safety issue?
- Does zoning permit the type of work that was done?
- Was value given to the un-permitted addition? If value is given, it must be supported by comps.
- What is the effect of the un-permitted addition on the marketability of the property?
- If a permit was required for the work done, state what the consequences/penalties of not having obtained a permit for the work.

2. Detached Un-Permitted Additions

When reviewing a property with a detached un-permitted addition or accessory dwelling unit that does not comply with zoning, the property may be eligible if the appraiser and/or lender address and comments on the following items:

- The current use conforms to the subject neighborhood and to the market.
- The property is appraised based upon its current use.
- The appraisal must report that the improvements represent a use that does not comply with zoning.

XI. Insurance

A. Hazard Insurance

1. Evidence of Insurance

At closing, the borrower must provide evidence that the property is covered by hazard insurance in one of the following forms:

- Hazard Insurance Policy;
- A Certificate of Insurance, Evidence of Insurance Form, Declaration Page, or Insurance Binder that contains the following information:
    - Name of insured (for condominiums and PUD,s the homeowners association is the named insured)
    - Name of mortgagee
    - Property address, including zip code.
    - Mailing address, if different from property address (second homes and non-owner occupied investment property)
    - Type, amount and effective dates of coverage
    - Deductible amount and coverage to which each such deductible applies
    - Any endorsement or optional coverage obtained and made part of the original policy

2. Mortgagee Clause

The mortgagee clause/loss payee on all first mortgage policies, binders, and certificate of insurance must show iApprove Lending as the mortgagee using the following language:

iApprove Lending
Its Successors and/or Assigns
3130 South Harbor Blvd. Ste. 520
Santa Ana, CA 92704
Loan # ______________

The mortgagee clause must provide that the insurer will notify the named mortgagee at least 10 days before cancellation of the policy.

3. Policy Term

The policy must be written for at least a one year term and be continuous until cancelled. For purchase transactions, 12 months coverage is required. For refinance transactions, 6 months coverage is required.

4. Policy Effective Date

The policy effective date must be on or before the date the Borrower’s loan is funded.

5. Minimum Property Insurance Types and Amounts

(a) 1-4 Unit Properties

- Coverage Amount
  The hazard insurance coverage must equal at least the unpaid principal balance of the mortgage or100% of insurable value of the improvements required to compensate for damage or loss on a replacement cost basis. However, if the principal balance of the mortgage is less than the minimum coverage required [80% of the insurable value of the improvements required to compensate for damage or loss on a replacement cost basis], the minimum of 80% replacement cost will be required. If it does not, then coverage that does provide the minimum required amount must be obtained.

- Deductible
  The maximum allowable deductible is for all property types is 5% of the face amount of the policy.

(b) Condominiums

- Coverage
  The condominium association must maintain a master of blanket type of insurance policy, with premiums that are paid as a common expense. The policy must cover all general and limited common elements normally included, such as fixtures, building service equipment, and common personal property and supplies belonging to the homeowners' association. Insurance must cover 100% of the current replacement cost of the project improvements including the individual unit in a condominium project. Coverage does not need to include land, foundations, excavations or other items that are usually excluded from insurance coverage.
- Liability Insurance for Condominiums
  The homeowners association must maintain a commercial general liability insurance policy for the entire project. The commercial general liability insurance policy must provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project's common areas and elements. Liability coverage must be at least $1 million per occurrence for personal injury and/or property damage and the coverage must provide for claim settlement son an occurrence basis.
- Fidelity of Employee Dishonesty Insurance for Condominiums
  For condominium projects consisting of more than 20 units, fidelity insurance coverage equaling at least sum of three months of assessments on all units in the project is required
- HO-6
  - If the master or blanket policy does not provide interior unit coverage (replacement of improvements and betterment coverage to cover any improvements that the borrower may have made) the borrower must obtain an HO-6 Policy or "walls-in" coverage. The HO-6 insurance policy must provide coverage in an amount as established by the HO-6 insurer.
- Deductible
  The maximum deductible amount must be no greater than 5% of the face amount of the policy.

B. Flood Insurance

1. Standard Flood Hazard Determination (SFHD)

Each loan must include the Federal Emergency Management Agency (FEMA) Standard Flood Hazard Determination (FEMA Form 81-93) used in determining whether any of the improvements for a subject property are located within an identified "Special Flood Hazard Area" (SFHA). SFHAs are designated by the following zonings: A, AE, AH, AO, AR, A1-30, A-99, V, VE, VO, and V1-30. If there is a detached structure such as detached garage or guest house, SFHD must be obtained for the separate structure as well.

2. Notice of Special Flood Hazards (NSFH)

If any part of the principal structure is located within an SFHA, the Notice of Special Flood Hazards and Availability of Federal Disaster Relief Assistance must be provided to borrower no later than 10 days prior to consummation. The notice must be provided to at least one borrower if there are multiple borrowers. Borrower signature and dates are required on the NSFH.

NSFH must be provided for all loans, even if flood insurance already exists (e.g. for a refinance).

3. Location of Property within the SFHA

(a) Multiple Buildings

If multiple buildings securing the loan are located in an SFHA in a participating community, the client must determine the amount of insurance required on each building and add these amounts together to determine the minimum amount of flood coverage. Each building securing a loan must be covered by separate flood policy. The amount of total required flood insurance can be allocated among the secured buildings in varying amounts, but all buildings in an SFHA must have some coverage.

(b) Principal Structure Located Within an SFHA

Flood insurance is required if any part of the principal structure is located within an SFHA. Flood insurance on detached buildings, such as sheds or greenhouses located within an SFHA, is required if they serve as part of the security for the Loan.

(c) Principal Structure Not Located within an SFHA

Even if the principal structure is not located in an SFHA, if there are detached buildings affixed to the site that are located in an SFHA and serve as part of the security for the Loan, a flood insurance policy is required for each detached building.

(d) Detached Garages

If the residential building is a one-to-four family dwelling that is covered by a dwelling form NFIP policy, that policy will cover a detached garage at the same location as the dwelling, up to 10% of the limit of liability on the dwelling, so long as the detached garage is not used or held for use as a residence, a business or for farming purposes.

4. Policy Term

The policy must be written for at least a one year term.

5. **Date of Determination**

The Date of Determination field on the SFHD must be a date that is no more than 120 days before the Note Date of the Mortgage or; if applicable, the Note Date of the refinance Mortgage**.**

6. **Policy Effective Date**

The policy effective date must be on or before the consummation date.

7. **Evidence of Insurance**

At closing, the borrower must provide evidence that the property is covered by flood insurance in one of the following forms:

- Declarations Page; or
- Copy of the Flood Insurance Application with a paid receipt for the first year's premium

8. **Coverage**

(a) 1-4 Unit Properties, individual PUD units, Detached Condominium units, and Townhouses

The flood insurance coverage must equal the lesser of the following:

- The outstanding principal balance of the loan; or
- The maximum amount of insurance available under the NFIP, which is the lesser of:
  - The maximum limit available for the type of structure; or
  - The "insurable value" of the structure. (The NFIP does not insure land; therefore land values are not included in the calculation of the insurable value).

The maximum allowable deductible is the maximum deductible available from the NFIP.

(b) PUDs

Coverage Amount for Individual PUD Unit

The coverage amount is the same as for other 1-4 unit properties.

Coverage Amount for PUD Project

The policy must cover any common elements buildings and any other common property located in an SFHA.

The flood insurance coverage must equal the lesser of the following:

- 100% of the insurable value of the facilities; or
- The maximum coverage available under the appropriate NFIP Program.

The max deductible allowable deductible is the maximum deductible available from the NFIP.

(c) Condominiums

The condominium homeowners' owners must obtain an NFIP Residential Condominium Building Association Policy (RCBAP) with the following coverage:

- Building Coverage must equal the lesser of:
  - 100% of the insurable value (replacement cost) of the building, including amounts to repair or replace the foundation and its supporting structure); or
  - The total number of units in the condominium building times $250,000
- Contents Coverage must equal the lesser of:

- 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members; or
- The maximum amount of contents coverage sold by the NFIP for a condominium building

****contents coverage is not required.*

9. Escrow Policy

For a property in flood zone, flood insurance must be escrowed.

C. Preliminary Title Report/Title Insurance Policy

Preliminary Title Report showing the chain of title for the past 24 months must be reviewed prior to closing. The effective date of the Preliminary Title Report must be dated within 90 days from the funding date.

All loans must be covered by a mortgage title insurance policy or other approved form of title evidence, which has been paid in full, is valid and binding, and remains in full force and effect. Each title insurance policy must contain the following endorsements or provide equivalent affirmative coverage, if applicable to the Loan: ALTA Endorsement form 8.0 (CLTA 110.8) or 8.1 (CLTA 110.9); Environmental Protection Lien Endorsement is required for all loans. ALTA form 8.0 must be included with the 1987 ALTA form of title insurance policy. ALTA form 8.1 must be included with the 1970 ALTA form of the title insurance policy.

- ALTA Endorsement form 4 (CLTA 115.1): condominium Endorsement is required for all loans secured by a condominium unit.
- ALTA Endorsement form 5 (CLTA 115.2): PUD Endorsement is required for all loans secured by a PUD unit.
- ALTA Endorsement form 6.0 (CLTA 11.5) or 6.1 (CLTA 111.6) or 6.2 (CLTA 111.8): Variable Rate Mortgage Endorsement is required for all ARM loans. ALTA form 6.0 or 6.1 is required for all ARM Loans that do not provide for negative amortization.