

## FHA Standard Fixed/ARM

Full Documentation																				
Purchase, Rate-and-Term & Cash-Out Refinance																				
<b>Owner Occupied (O/O) 1-4 Units</b>																				
Transaction	Units	Max LTV	FICO	Maximum Cashback																
Purchase	1-4 units	96.50%	620	N/A																
Rate & Term Refinance	1-4 units	97.75%	620	\$500																
Streamline Refi with an Appraisal*	1-4 units	97.75%	620	\$500																
Streamline Refi without an Appraisal*	1-4 units	see below <sup>1</sup>	620	\$500																
Cash-Out Refinance (Case Number assigned on or after April 1, 2009)	1-2 units	85% <sup>2</sup>	620	N/A																
Cash-Out Refi with L/A > \$417,000	2 units	85.00%	620	N/A																
<sup>1</sup> LTV Restriction on Streamline Refi without an Appraisal: New mortgage cannot exceed original principal except by UFMIP. <sup>2</sup> <b>Case Number Assigned on or after April 1, 2009</b> <ul style="list-style-type: none"> <li>• Maximum CLTV with new subordinate financing is 85%.</li> </ul> <sup>2</sup> <b>Case Number Assigned before April 1, 2009</b> <ul style="list-style-type: none"> <li>• Maximum LTV is 95%.</li> <li>• Property owned less than 12 mo. Max LTV is 85% of current appraised value or original sales price</li> </ul> * Requirements for Streamline Refinance (FHA-to-FHA): <ul style="list-style-type: none"> <li>• The existing mortgage to be refinanced must already be FHA insured (Conventional loans are not allowed)</li> <li>• Credit qualifying required for all streamline refinances.</li> </ul> <p style="text-align: center; color: blue;"> <b>Maximum Loan Amounts vary by County/State. A list of FHA Mortgage Limits for all areas is available at:</b>  <a href="https://entp.hud.gov/idapp/html/hicostlook.cfm">https://entp.hud.gov/idapp/html/hicostlook.cfm</a> </p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="width: 15%;">Unit Size</th> <th style="width: 25%;">Maximum Base Loan Limit*</th> <th rowspan="5" style="width: 15%; text-align: center; vertical-align: middle;"><b>Max. Loan Limits vary by County/State</b></th> <th style="width: 45%;">AK &amp; HI Maximum Base Loan Limit*</th> </tr> </thead> <tbody> <tr> <td>1-unit</td> <td>\$417,000*</td> <td>\$625,500*</td> </tr> <tr> <td>2-unit</td> <td>\$533,850*</td> <td>\$800,775*</td> </tr> <tr> <td>3-unit</td> <td>\$645,300*</td> <td>\$967,950*</td> </tr> <tr> <td>4-unit</td> <td>\$801,950*</td> <td>\$1,202,925*</td> </tr> </tbody> </table> <p style="font-size: small; color: blue;">* Max FHA loan limits may be lower or higher than the above listed limit depending on the county/state. <a href="#">For Loan amount higher than Loan Limit listed above for the High Cost Area, please refer to FHA High Balance program below.</a></p> <ul style="list-style-type: none"> <li>• The Maximum LTV and Loan Limit are effective for Case Number Assignment dated on or after <b>January 1, 2009</b>.</li> <li>• FHA loans with Case Number Assigned prior to Jan. 1, 2009 must follow previous LTV and Loan Limits requirements.</li> </ul>					Unit Size	Maximum Base Loan Limit*	<b>Max. Loan Limits vary by County/State</b>	AK & HI Maximum Base Loan Limit*	1-unit	\$417,000*	\$625,500*	2-unit	\$533,850*	\$800,775*	3-unit	\$645,300*	\$967,950*	4-unit	\$801,950*	\$1,202,925*
Unit Size	Maximum Base Loan Limit*	<b>Max. Loan Limits vary by County/State</b>	AK & HI Maximum Base Loan Limit*																	
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## FHA High Balance Fixed

Full Documentation			
Purchase and Rate-and-Term Refinance			
<b>Owner Occupied (O/O)</b>			
Unit Size	Maximum Base Loan Limit	<b>Max. Loan Limits vary by County/State</b>	AK & HI Maximum Base Loan Limit
1-unit	\$729,750*		\$1,094,625*
2-unit	\$934,200*		\$1,401,300*
3-unit	\$1,129,250*		\$1,693,875*
4-unit	\$1,403,400*		\$2,105,100*
<b>Cash-Out Refinance</b>			
<b>Owner Occupied (O/O)</b>			
Unit Size	Maximum Base Loan Limit	<b>Max. Loan Limits vary by County/State</b>	AK & HI Maximum Base Loan Limit
1-unit	\$729,750*		\$1,094,625*
2-unit	\$934,200*		\$1,401,300*
<b>Maximum LTV and Credit Score Restriction</b>			
Loan Purpose		Max LTV	Min. FICO
Purchase		96.50%	660
R&T Refinance		97.75%	660
Cash Out Refinance		85% <sup>1</sup>	660
<sup>1</sup> For Case Number assigned on or after April 1, 2009, a second Appraisal is required. * <b>Maximum Loan Amounts vary by County/State. A list of FHA Mortgage Limits for all areas is available at:</b> <a href="https://entp.hud.gov/idapp/html/hicostlook.cfm">https://entp.hud.gov/idapp/html/hicostlook.cfm</a> <ul style="list-style-type: none"> <li>• The Maximum Base Loan Limit above <u>does not</u> include UFMIP or Closing costs paid by the borrower.</li> <li>• These loan limits are effective for the FHA loans approved in 2009 and will remain in effect until Dec 31, 2009.</li> <li>• Buydowns not available for FHA High Balance loans.</li> </ul> <p style="color: red; font-size: small;"> <i>This program is applicable to the properties located in High Cost Area with loan amounts above \$417K(1 unit) and not to exceed FHA Mortgage Limits as determined by FHFA (Refer to above link - FHA Mortgage Limits)</i> </p>			

## FHA Fixed/ARM

General Underwriter's Notes				
<b>Program Description</b>				
<p>The fixed rate and adjustable programs provide for a fixed interest rate and level payments for the life of the loan or an adjustable rate according to FHA current guidelines. The program is a fully amortizing mortgage insured by the Federal Housing Administration (FHA). Any FHA guidelines not specifically addressed here can be located on FHA's website at <a href="http://www.hud.gov">www.hud.gov</a> or <a href="http://www.hudclips.org">www.hudclips.org</a>. All loans delivered to PMC Bancorp must be in compliance with published FHA guidelines.</p>				
<b>Terms and FHA Loan Types:</b>				
<ul style="list-style-type: none"> <li>• FHA Standard: Fixed 15 or 30 Years</li> <li>• FHA High Balance: 30 yr Fixed only</li> <li>• ARM: 30 year (1/1, 3/1) for Standard FHA ONLY</li> <li>• 203(b) Basic With ADP codes of 703, 729, 748, 796</li> <li>• 234(c) Condominiums With ADP codes of 731, 734, 749, 797</li> </ul>				
<b>ARM Information</b>				
<p>3/1 Treasury ARMS (For Standard FHA only)                      Floor Rate: 5%                      Life Cap: 5% above start rate                      Periodic Cap: 1%                      Temporary Buydowns not permitted.</p>				
<b>Mortgage Insurance</b>				
<ul style="list-style-type: none"> <li>• Mortgage Insurance is required on all loans (Up Front Mortgage Insurance Premium &amp; Monthly MIP).</li> <li>• Effective with new case number assignments on or after 10/1/08, new Upfront and Annual Mortgage Insurance Premiums are as follows:</li> </ul>				
FHA Single Family Mortgage Insurance <b>Upfront and Annual Mortgage Insurance Premiums (Loan Terms &gt; 15 years)</b> <i>Effective with case number assignments on or after October 1, 2008</i>				
<b>LTV</b>	<b>Purchase and Refinance</b>		<b>Streamline Refinance</b>	
<b>&gt; 95%</b>	1.75%	0.55%	1.50%	0.55%
<b>≤ 95%</b>	1.75%	0.50%	1.50%	0.50%
<ul style="list-style-type: none"> <li>• All loans, except non-credit qualifying streamline refinances, must be decided through TOTAL Scorecard in order to be evaluated and properly assessed by FHA.</li> </ul>				
Detailed information can be found on FHA Mortgagee Letter 08-22: <a href="http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/08-22ml.doc">http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/08-22ml.doc</a>				
<b>Eligible Borrowers</b>				
<ul style="list-style-type: none"> <li>• All borrowers must have a valid social security number. Validate the social security number using any one of the following:                             <ul style="list-style-type: none"> <li>• Pay stub</li> <li>• W-2</li> <li>• Passport</li> <li>• Valid tax returns</li> </ul> </li> <li>• All borrowers must demonstrate 2 years of employment history</li> </ul>				
<b>Permanent Resident Aliens</b>				
<ul style="list-style-type: none"> <li>• Same terms as US Citizens</li> <li>• Evidence of lawful, permanent residency issued by the Bureau of Citizenship and Immigration Services (BCIS), formerly the INS.</li> <li>• Copy of the Alien Registration Receipt Card (Resident Alien card), I-551</li> </ul>				
<b>Non-Permanent Resident Aliens</b>				
<ul style="list-style-type: none"> <li>• Primary residence</li> <li>• Borrower must be eligible to work in the U.S.</li> <li>• Evidence of valid Social Security number required</li> <li>• Evidence of residency and work status to be obtained through documentation from US Bureau of Citizenship and Immigration Services (BCIS) formerly INS</li> <li>• Copy of the Employment Authorization Card, I-688B. This card carries an expiration date.</li> <li>• A social security card is not acceptable as evidence of work status</li> </ul>				

## FHA Fixed/ARM

<b>Loan Purpose:</b>
<ul style="list-style-type: none"> <li>• Purchase</li> <li>• Rate term refinance</li> <li>• Cash-out refinance</li> <li>• Streamline refinance (with or without an appraisal)</li> </ul>
<b>Min/Max Loan Amount</b>
<p>Minimum Loan Amount: \$75,000</p> <p>Current HUD statutory limits apply by the county in which the property is located.</p> <p>Please refer to: <a href="https://entp.hud.gov/idapp/html/hicostlook.cfm">https://entp.hud.gov/idapp/html/hicostlook.cfm</a> for current mortgage loan amount limits. A Mortgagee Letter is also issued each year announcing the new mortgage limits.</p>
<b>Occupancy:</b>
<ul style="list-style-type: none"> <li>• Owner-Occupied</li> <li>• Non-Owner (allowed on Streamline Refinance(FHA-to-FHA) without an appraisal only)</li> </ul>
<b>Eligible Property Types:</b>
<ul style="list-style-type: none"> <li>• SFR, detached and attached</li> <li>• PUD</li> <li>• FHA approved Condominiums (Spot approvals NOT Allowed)</li> <li>• 2-4 Family Properties</li> </ul>
<b>Ineligible Property Types:</b>
<ul style="list-style-type: none"> <li>• Manufactured Housing</li> <li>• Properties that do not meet HUD's Minimum Property Standards</li> <li>• Properties that are not residential in nature and use (ie: farms, orchards, commercial properties, etc)</li> </ul>
<b>Ineligible Loan Types</b>
<ul style="list-style-type: none"> <li>• Graduated Payment Mortgages</li> <li>• Growing Equity Mortgages</li> <li>• Loans to non-profit organizations.</li> <li>• Loans with private water purification systems requiring an escrow for maintenance.</li> <li>• Any program which impairs the lender's right to complete collection or foreclosure proceedings.</li> <li>• Loans other than the 203(b) Basic and 234(c) Condominiums that have ADP codes other than what is listed above</li> <li>• Texas 50(a)(6) Program</li> <li>• Construction to permanent loans with modifications.</li> <li>• Non-occupying borrowers on multi-unit dwellings</li> <li>• Loans delivered for purchase when the applicable UFMIP has not been remitted to HUD</li> <li>• Loans delivered for purchase with an outstanding NOR from HUD</li> <li>• All Expanded Documentation Process types</li> <li>• FHA \$100 Down Payment Program</li> <li>• Deed Restricted Properties</li> <li>• Non-Traditional Credit (including, among other things, no traditional or inadequate traditional credit report information)</li> </ul>
<b>Credit Score Requirements</b>
<ul style="list-style-type: none"> <li>• All loans should adhere to FHA guidelines (4155.1 Rev-5 or latest version).</li> <li>• All loans must be submitted to FHA's TOTAL Mortgage Scorecard, <u>including Streamline Refinance</u>.</li> <li>• Borrowers must have a traditional credit history. Non-Traditional Credit not allowed.</li> <li>• All FHA loans with AUS Approve/Accept or Manually Underwritten loans:  <b>Minimum credit score is 620 for Standard FHA, and 660 for FHA High Balance</b></li> </ul> <p>* Note: If more than one of the above scenarios apply, use the most conservative credit score requirement.</p> <p>A copy of the DU credit report must be included with the loan guaranty submission package. <u>The underwriter must reconcile DU output against the documentation in the loan file to determine if there is any potentially derogatory or contradictory information that is not part of the data analyzed by DU. Deficiencies that may not be within the scope of DU's analysis include delinquent rent payments, workouts, forbearance, write-offs, judgments and liens appearing on title, etc. All would render the AUS decision null and void.</u></p> <p>The Decision Credit Score is used to determine the MI premium to be charged. When 3 scores are obtained the middle score is used; when only 2 or more are available, the lesser is used; when only 1 score is available, that score is used.</p> <p>*** All borrowers must meet the minimum FICO score requirement: Minimum 620 credit score for Standard FHA, 660 for High Balance***</p>

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<b>Documentation Processes</b>
Loans must be documented according to FHA guidelines. <ul style="list-style-type: none"> <li>• DU Total Scorecard</li> <li>• Full documentation</li> <li>• Manual Underwriting</li> </ul>
<b>Maximum DTI Ratios and Qualification</b>
Fixed: Note Rate ARM: 1-year: LTV ≥ 95% - Note rate plus 1%; LTV < 95% - Note rate; 3/1: Note rate Manual Underwrite: Fixed/ARM 31/43% AUS Underwrite: debt ratios will be evaluated by AUS.
<b>Assets/Down Payment Funds</b>
Effective on or after October 1, 2008 for all transactions where the lender has issued credit approval for the borrower, down payment funds may not be provided by: <ul style="list-style-type: none"> <li>• The seller or any other person or entity that financially benefits from the transaction; or</li> <li>• Any third party or entity that is reimbursed, directly or indirectly, by the seller or any other person or entity that financially benefits from the transaction. (I.e. Nehemiah, AmeriDream, etc. are no longer eligible.)</li> </ul> For purposes of determining the date of credit approval, either of the following must be used: <ul style="list-style-type: none"> <li>• The date the loan is scored through FHA's Mortgage Scorecard TOTAL as accept/approve; or</li> <li>• For manually underwritten loans, the date the DE Underwriter approves the loan as indicated by the signature on the MCAW or Loan Transmittal Form.</li> </ul>
<b>Borrower Cash Investment</b> (For Case Number Assigned on or after <b>January 1, 2009</b> )
<ul style="list-style-type: none"> <li>• Purchase Transactions with Maximum Financing <ul style="list-style-type: none"> <li>• The minimum cash investment is <b>3.5%</b> of the value (Sales price or appraised value, whichever is less) without closing costs.</li> <li>• The <b>3.5%</b> minimum investment cannot include borrower-paid prepaid expenses, commitment fees or discount points</li> <li>• The <b>3.5%</b> minimum investment cannot be met by using premium pricing</li> </ul> </li> <li>• Refinances and Purchases not Permitting Maximum Financing <ul style="list-style-type: none"> <li>• No minimum borrower investment necessary</li> </ul> </li> <li>• Premium Pricing <ul style="list-style-type: none"> <li>• Prepaid expenses and/or closing costs may be paid with premium pricing</li> <li>• Lender funded buydowns may be paid with premium pricing as long as reduction is limited to 2% below the note rate.</li> </ul> </li> <li>• Cash on Hand not allowed as the form of down payment.</li> </ul>
<b>Escrow Waivers</b>
<ul style="list-style-type: none"> <li>• Government loans may not waive escrows.</li> </ul>
<b>Reserves</b>
<ul style="list-style-type: none"> <li>• 1 &amp; 2 units – None (or per AUS findings)</li> <li>• 3 &amp; 4 units – 3 months PITI (<b>purchase transaction only</b>)</li> <li>• If using "significant reserves" as a compensating factor, a minimum 3 months PITI must be documented.</li> <li>• Only retirement accounts that are accessible for liquidation may be counted as reserves. Accounts that cannot be accessed for liquidation by the borrower until retirement age may not be counted as part of the borrower reserves</li> </ul>
<b>Co-Borrowers</b>
<ul style="list-style-type: none"> <li>• Co-borrower does not have to occupy, but must take title to the property and sign the Note and Mortgage</li> <li>• Co-signor does not take title to the property but must sign the loan application and the Note</li> <li>• The co-borrower or co-signor cannot be the seller, builder, real estate agent, etc</li> <li>• If the co-borrower is unrelated or does not have a long-standing relationship with the borrower, the maximum LTV is 75%</li> <li>• If a parent is selling to a child, the parent cannot also be the co-borrower with the child unless the new mortgage LTV is 75% or less.</li> <li>• Income, assets and debts from all borrowers (including co-signors) are used in qualifying</li> <li>• Co-borrower must have a principal residence in the US</li> <li>• Non-Occupant Co-Borrowers: <ul style="list-style-type: none"> <li>• Max 1 Unit financing, if close family member or long standing relationship with the borrower.</li> <li>• 75% Max LTV on Multi-unit, regardless of relationship.</li> </ul> </li> </ul>

## FHA Fixed/ARM

<b>Seller Contributions</b>
<ul style="list-style-type: none"> <li>• <b>6%</b> (Seller's Contribution cannot exceed borrower's actual closing costs)</li> <li>• Seller-paid closing costs must be deducted from total closing costs before calculating the maximum base mortgage amount</li> <li>• Seller contributions limited to:                             <ul style="list-style-type: none"> <li>• Buy down funds (if applicable)</li> <li>• Discount points (must only be used to buy down the rate)</li> <li>• Seller-paid closing costs</li> <li>• Prepaid Expenses</li> <li>• UFMIP</li> </ul> </li> </ul>
<b>Gifts</b>
<ul style="list-style-type: none"> <li>• Acceptable</li> <li>• Gift given in the form of CASH is not acceptable</li> <li>• Federal, State, local government agencies and FHA Approved non-profit agencies considered by FHA to be an instrumentality of the government may provide funds for down payment, closing costs and prepaid expenses</li> <li>• Charitable organizations may provide gift funds for down payment, closing costs and/or prepaid expenses. Funds derived from these sources cannot be used to payoff borrower's debts</li> <li>• Obtain Tax Identification Number for the charitable organization</li> <li>• Prior to loan underwriting approval, underwriter must review the non-profit's gift documentation to ensure no repayment is required and no liens will be placed on the subject property as a result of the gift</li> <li>• Refer to HUD Handbook 4155.1 Section 5 for details</li> </ul>
<b>Purchase Transaction</b>
<p>The loan is limited to the maximum statutory amounts determined by HUD based on whether or not property is in a "High Cost Area." The nationwide mortgage limits vary by location. A schedule of FHA mortgage limits for all areas is available online at: <a href="https://entp.hud.gov/idapp/html/hicostlook.cfm">https://entp.hud.gov/idapp/html/hicostlook.cfm</a></p> <p>The borrower's minimum required cash investment is 3.5% based on the value (lower of sales price or appraised value) without closing costs. While the cash investment applies to all transactions in all states regardless of the value, there is a sliding scale for the mortgage calculation based on average state closing costs and values. Although the maximum mortgage calculation excludes closing costs, the borrower's cash investment can include the closing costs paid by the borrower. The maximum mortgage may not exceed the amounts defined on HUD's web site at <a href="https://entp.hud.gov/idapp/html/hicostlook.cfm">https://entp.hud.gov/idapp/html/hicostlook.cfm</a></p>
<b>Rate and Term Refinance (For Case Number Assigned on or after Jan. 1, 2009)</b>
<p>The maximum mortgage is the lower of the <u>LTV limitation</u> or <u>the existing debt calculation</u> described below, and may never exceed the geographical statutory limit except by the amount of any new Upfront MIP(UFMIP).</p> <p><u>LTV limitation:</u></p> <ul style="list-style-type: none"> <li>• Multiply the appraised value of the property by 97.75%. Any appraisal requirements, including, repairs, must be satisfied before the mortgage is eligible for insurance endorsement.</li> </ul> <p><u>Existing Debt Calculation:</u></p> <ul style="list-style-type: none"> <li>• Add together the amount of the existing first lien, any purchase money second mortgage, any junior liens over 12 months, closing cost, prepaid expenses, borrower paid repairs required by the appraiser, discount points, and then subtract any refund of UFMIP.</li> <li>• Prepaid expenses may include the per diem interest to the end of the month on the new loan, hazard insurance premium deposits, monthly MI Premiums, and any real estate tax deposits needed to establish the escrow account.</li> <li>• If the property was acquired less than 12 months, calculate using lesser of original sales price or current value.</li> <li>• If there have been any draws on the equity line of credit in excess of \$1,000 within the past 12 mos, for purposes other than repairs and rehabilitation of the property, the line of credit is NOT eligible to be paid off as a R&amp;T Refinance.</li> </ul>

## FHA Fixed/ARM

<p><b>Streamline Refinance with an Appraisal (For Case Number Assigned on or after Jan. 1, 2009)</b></p>
<p>The maximum insurable mortgage is the lower <u>LTV Limitation</u> or the <u>existing debt</u> as described below.</p> <p><u>LTV limitation:</u></p> <ul style="list-style-type: none"> <li>• Multiply the appraised value of the property by 97.75%.</li> </ul> <p><u>Existing Debt:</u></p> <ul style="list-style-type: none"> <li>• Add together the amount of the existing FHA-insured first lien, closing costs, prepaid expenses, discount points, and then subtract any refund of UFMIP.</li> <li>• The existing first mortgage may include the interest charged by the servicing lender when the payoff will not likely to be received on the first day of the month. The accrued late charges and escrow shortages may also be included as part of the mortgage calculation.</li> </ul>
<p><b>Streamline Refinance without an Appraisal (For Case Number Assigned on or after Jan. 1, 2009)</b></p>
<p>The maximum insurable mortgage is the lower of the two calculations shown below:</p> <p><u>Original Loan Amount:</u></p> <ul style="list-style-type: none"> <li>• The original principal balance on the mortgage (which will include any UFMIP) plus the new upfront premium that will be charged on the refinance.</li> </ul> <p><u>Existing Debt:</u></p> <ul style="list-style-type: none"> <li>• Add together the amount of the existing FHA-insured first lien, closing costs, prepaid expenses, discount points, and then subtract any refund of UFMIP.</li> <li>• The existing first mortgage may include the interest charged by the servicing lender when the payoff will not likely to be received on the first day of the month. The accrued late charges and escrow shortages may also be included as part of the mortgage calculation.</li> </ul>
<p><b>Cash-Out Refinance Transactions (For Case Number Assigned on or after April 1, 2009)</b></p>
<ul style="list-style-type: none"> <li>• Maximum LTV is limited to 85% for both Standard and High Balance FHA loans.</li> <li>• Maximum CLTV with new subordinate financing is 85% and must meet FHA guidelines per the 4155.</li> <li>• It is acceptable for the subordinate lien holder to require the second mortgage to be modified (e.g. the amount of the lien reduced) in order to remain subordinated. FHA does not consider it a new subordinate lien even if, as part of the modification, the documents are re-executed at closing.</li> <li>• A second appraisal is required for loan amount greater than \$417,000</li> </ul>
<p><b>Cash-Out Refinance Transactions (For Case Number Assigned on or after Jan 1, 2009)</b></p>
<p>FHA will insure a cash-out refinance up to 95%<sup>1</sup> of the appraiser's estimate of value, provided certain eligibility conditions are met. Refer to ML 2008-09 and 2008-40 for details.</p> <p><sup>1</sup>The LTV of a cash-out refinance <u>cannot exceed 85%</u>, if the loan amount, excluding FHA UFMIP, is greater than \$417,000, regardless of number of units.</p> <ul style="list-style-type: none"> <li>• New subordinate financing is not permitted for 95% LTV's.</li> <li>• Any co-borrower or co-signer being on the loan must be an occupant of the property.</li> <li>• Non-occupant co-borrowers or co-signers not allowed on Cash-Out refinance.</li> <li>• Only 1 or 2 units allowed on Cash-Out Refinance.</li> <li>• Second Appraisal is required for all Cash-Out refinances where the LTV, exclusive of UFMIP, exceeds 85% LTV. This 2nd appraisal requirement applies regardless of the Loan amount or the Location of the property, whether the property is in a "declining area" or not.</li> </ul>
<p><b>Subordinate Financing</b></p>
<p>Subordinate Financing is not permitted except in the following instances:</p> <ul style="list-style-type: none"> <li>• A borrower 60 years of age or older may borrow the required cash investment for purchasing a principal residence provided the requirements in 4155.1 Rev 5, 1-13D are met.</li> <li>• A loan provided by federal, state, or local government agency provided 4155.1 Rev 5, 1-13A requirements are met.</li> <li>• With prior approval of HUD, a loan provided by a non-profit organization provided the req'ts in 4155.1 Rev 5, 1-13B.</li> <li>• The loan is provided by any other organizations, private individuals, and family members provided the requirements in 4155.1 Rev 5, 1-13C &amp; E are met.</li> </ul>
<p><b>Limitations on Other Real Estate Owned</b></p>
<ul style="list-style-type: none"> <li>• Borrower may own no more than one FHA loan with maximum financing</li> <li>• An eligible investor may own no more than seven rental units in a contiguous/adjacent area (defined as a 2-block radius)</li> </ul>

## FHA Fixed/ARM

Appraiser Requirements
<ul style="list-style-type: none"> <li>• <b><u>For all Appraisals that are performed on or after April 1, 2009, the appraisal must include the Market conditions Addendum, known as Form 1004MC.</u></b></li> <li>• <b>A declining trend in the market will be identified by the conclusions of the 1004MC Form. The appraiser must provide a summary comment and provide support for all conclusions relating to the trend of the current market (Refer to ML 2009-09 for details)</b></li> <li>• Appraisers must be on FHA's approved list on the FHA Connection</li> <li>• The FHA Connection must indicate the Appraiser has passed the Mandatory Appraiser exam</li> <li>• The assigned appraiser must perform the physical inspection of the property. He/she may not sign the appraisal performed by another appraiser</li> <li>• Refer to the National HOC Reference guide</li> <li>• Appendix D of Handbook 4150.2, CHG-1, Valuation Analysis for Home Mortgage Insurance for Single Family One- to Four- Unit Dwellings, has been updated and becomes effective for all appraisals performed on or after January 1, 2006. Revised Appendix D will be available online at: <a href="http://www.hudclips.org/cgi/index.cgi">http://www.hudclips.org/cgi/index.cgi</a></li> <li>• All valuation conditions, including repairs, alterations and/or required inspections, will be reported within the appropriate section of the applicable Fannie Mae appraisal reporting form.</li> </ul> <p><b><u>Second Appraisal Required in one of the following cases:</u></b></p> <ol style="list-style-type: none"> <li>1. The loan amount, excluding upfront MIP, is <math>\geq</math> \$417,000 (regardless of location or unit count), <b><u>and</u></b> The LTV, excluding upfront MIP, equals or exceeds 95%, <b><u>and</u></b> The property is determined as being in a declining market. <b>Or</b></li> <li>2. Cash-Out Refinances where the LTV, exclusive of the UFMIP, exceeds 85% LTV, regardless of the loan amount or location of the property whether the property is in a "declining area" or not (Case number assigned <b><u>before April 1, 2009</u></b>) <b>Or</b></li> <li>3. Cash-Out Refinances with Loan Amount greater than \$417,000 (Case Number assigned <b><u>on or after April 1, 2009</u></b>)</li> </ol> <ul style="list-style-type: none"> <li>• Second independent appraisal must be completed by a FHA Approved Appraiser. If the second appraisal has an estimated value more than 3% lower than the original appraisal, the lower of the two values must be used.</li> <li>• Internal Field Review <b><u>cannot be used</u></b> in lieu of 2nd appraisal.</li> </ul>
Property Flipping
<p>If the seller acquired the property less than 6 months before the purchase agreement was executed, the following rules apply:</p> <ul style="list-style-type: none"> <li>• <b>Re-sale within 90 days or less:</b> the property is not eligible for a mortgage insured by FHA.</li> <li>• <b>Re-sale occurs between 91 days and 180 days:</b> If the re-sale price has doubled (100% or &gt; over the price paid by the seller when the property was acquired), a second independent appraisal supporting the sales price required.</li> <li>• <b>Exceptions:</b> The re-sale restrictions do not apply to properties acquired by an employer or relocation agency in connection with the relocation of an employee, all Federal Agency acquired properties that are quickly marketed and sold such as HUD Repossessions being sold by HUD) or sales of inherited properties. For additional clarification, please refer to the HUD Mortgagee Handbook 4000.2 Rev-3.</li> </ul> <p>Per News Release issued on June 13, 2008 FHA will insure foreclosed properties marketed and sold by property disposition firms on behalf of lender and will no longer be subject to the 90-day waiting period. All other re-sales are still subject to the rules as listed above. Individuals that intend to occupy as their primary residence must purchase the subject property. This is a temporary policy and is only in effect until June 13, 2009. The news release can be read in it's entirety at: <a href="http://www.hud.gov/news/release.cfm?content=pr08-082.cfm">http://www.hud.gov/news/release.cfm?content=pr08-082.cfm</a></p>
Special Requirements
<p><b>CAIVRS, LDP and GSA Search</b></p> <ul style="list-style-type: none"> <li>• Check the FHA Connection and document the results on the Mortgage Credit Analysis Worksheet</li> <li>• A copy of the FHA Connection screen results for all searches must be in the loan file</li> <li>• If the name of any party to the transaction appears on any of the lists below, the application is not eligible for mortgage insurance. (An exception may be made when a seller appears on the LDP list and the property being sold is the seller's principal residence)</li> </ul> <p><b>CAIVR System</b></p> <ul style="list-style-type: none"> <li>• Access system for all borrowers on the transaction: All borrowers, co-borrowers and co-signors if applicable. Refer to HUD Handbook 4155.1 for further details</li> </ul> <p><b>Limited Denials of Participation (LDP) List</b></p> <ul style="list-style-type: none"> <li>• Examine/Search the list for all parties to the transaction: all borrowers, sellers, listing and selling real estate</li> </ul>

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<p><b>Special Requirements (cont'd)</b></p>
<p>agents, Loan Officers. The appraiser, termite co, and all licensed professionals contracted to provide mechanical certifications such as heating, plumbing, air conditioning, roofing and electrical companies should also be searched</p> <p><b>3 &amp; 4 Unit Properties</b></p> <ul style="list-style-type: none"> <li>• The property must be Self sufficient. Net Rent from all units (including primary unit) must cover the proposed PITI.</li> <li>• If the Appraiser uses the URAR (1004) the Gross Rent Multiplier Form must be completed. See HOC Reference Guide.</li> </ul>
<p><b>Non-Purchasing Spouse in a Community Property State</b></p>
<p>If property is located in a community property state, or the borrower resides in a community property state, the following requirements apply:</p> <ul style="list-style-type: none"> <li>• A credit report for the non-purchasing spouse is required to determine any joint or individual debts. The spouse's authorization to pull a credit report must be obtained. If the spouse refuses to provide authorization for the credit report, the loan must be rejected</li> <li>• Even if the non-purchasing spouse does not have a social security number, the credit reporting company should verify that the non-purchasing spouse has no credit history and no public records recorded against him/her.</li> <li>• Credit Company should be given non-purchasing spouse information: Name(s), address, birth date and any other significant information requested in order to do the records check.</li> <li>• The greater of the monthly payment amount or 3% of the outstanding balance of all debts of the non-purchasing spouse must be included in the qualifying ratios</li> <li>• Disputed debts of the non-purchasing spouse need not be counted provided the file contains documentation to support the dispute.</li> <li>• If the debts are the sole responsibility of the non-purchasing spouse and the DTI is excessive, the DTI alone should not be considered as a basis for declining an otherwise approvable loan</li> <li>• Credit history of the non-purchasing spouse should not be the sole basis for declining the loan</li> <li>• State law dictates when certain debts can and cannot be included in the borrower's ratio</li> </ul>
<p><b>Conversion of Existing Residence to Rentals</b></p>
<ul style="list-style-type: none"> <li>• Rental income on the property being vacated, reduced by the appropriate vacancy factor as determined by the HUD guidelines may be considered in the underwriting analysis under the following circumstances:             <ul style="list-style-type: none"> <li>• <u>Relocations</u>: The homebuyer is relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance. A properly executed lease agreement (i.e., a lease signed by the homebuyer and the lessee) of at least one year's duration after the loan is closed is required. FHA recommends that underwriters also obtain evidence of the security deposit and/or evidence the first month's rent was paid to the homeowner.</li> <li>• <u>Sufficient Equity in Vacated Property</u>: The homebuyer has a loan-to-value ratio of 75 percent or less, as determined by either a current (no more than six months old) residential appraisal or by comparing the unpaid principal balance to the original sales price of the property. The appraisal, in addition to using forms Fannie Mae1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae1075/Freddie Mac 466.</li> </ul> </li> </ul>
<p><b>Buydowns</b></p>
<p>For an FHA fixed rate loan with a buy down, the borrower must be qualified at the note rate and adhere to the following requirements:</p> <ul style="list-style-type: none"> <li>• Qualifying Rate = Note Rate</li> <li>• Available Buydown Plans; Temporary 2-1 Buydown (Program Code: FHA2/1-30)             <ul style="list-style-type: none"> <li>• The buydown plan may not extend more than two years beyond the first scheduled payment date.</li> <li>• May not exceed the amount that results in a 1% increase in the effective rate over one year.</li> </ul> </li> <li>• Temporary: Permitted for purchase loans fixed rate loans only, under the following terms:             <ul style="list-style-type: none"> <li>• Limited to Fixed 30-year term.</li> <li>• Funds may be provided by the seller, or via premium pricing. Funds from the seller or any other interested third party are considered seller contributions and must be included in the 6% limit on seller contributions.</li> <li>• The buy down must not result in a reduction of more than 2% below the interest rate on the note.</li> <li>• The buy down must not result in more than a 1% annual increase in the interest rate. The borrower's payment may only change once a year.</li> </ul> </li> <li>• The original buydown agreement, signed by the borrower and the provider of the funds, must accompany the</li> </ul>

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Buydowns (cont'd)					
loan application.					
<ul style="list-style-type: none"> <li>• Temporary buydown documentation</li> <li>• A copy of the escrow agreement signed by the borrower and the provider of the funds at application,</li> <li>• The agreement must provide that any escrow funds not distributed at the time the loan is prepaid, be applied to the outstanding balance due,</li> <li>• The agreement must not allow reversion of undistributed funds to the provider if the property is sold or the mortgage is prepaid in full.</li> </ul>					
Buydowns are considered financing concessions and are subject to restrictions for financing contributions. If the source is an interested party, the buydown funds are subject to interested party contribution limits.					
Example: 2-1 Buydown, \$350,000 loan amount @ 5.25% Note Rate.					
	Note Rate P&I Payment	Buydown Rate P&I Payment	Monthly Buydown Funds		Annual Buydown Funds
<b>First Year @ 3.25%</b>	\$1,932.71 -	\$1,523.22	= \$409.49	x 12	= \$4,913.88
<b>Second Year @ 4.25%</b>	\$1,932.71 -	\$1,721.79	= \$210.92	x 12	= \$2,531.04
<b>Total Temporary Buydown Funds:</b>					<b>\$7,444.92</b>
<p><b>Note:</b> For additional information on underwriting government loans with a buy down, refer to the applicable FHA handbooks.</p>					