



Washington Mutual

Subprime Conduit

UNDERWRITING GUIDE

Version 05/08/06

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Overview

Policy Statement

It is Washington Mutual (WM) policy to comply with all laws and regulations regarding non-discrimination and loan disclosure. A director, officer, or Associate of the Company shall not discriminate against any person who requests or receives credit, co-signs, guarantees, or is any way involved in a credit transaction.

WM will accept an application for a loan on any property located in its designated lending areas, regardless of the age of the property to be encumbered. However, the structure of the property must be in good repair and condition or must be brought up to such condition from the proceeds of the loan, and the remaining economic life must be sufficient for the loan term requested.

The Underwriting Guidelines are primarily intended to evaluate (1) the borrower's credit standing, (2) the borrower's ability to repay the loan on the agreed terms and conditions, and (3) the value and adequacy of the mortgaged property as collateral to secure repayment of the loan. WM does not, under any circumstances, approve loans to borrowers based solely on the value of the collateral.

Predatory Lending Policy

Underwriting is the detailed analysis and audit of loan risk based on information furnished by the borrower(s), information available to the lender (borrower's credit history, employment, and financial records), and the lender's evaluation of the borrower's credit needs and ability to repay. The Underwriter analyzes and audits loan applications based on the criteria, guidelines, and policies described on the following pages. The Underwriters are required to document the basis for approval for each loan. On a case-by-case basis, WM may determine that, based upon compensating factors, a prospective mortgagor not strictly qualifying under the applicable Underwriting Guidelines warrants an underwriting exception. In all instances the borrower must have acceptable credit and the ability to repay the loan on the agreed terms and conditions.

State and Municipal High-Cost Predatory Loans

WM adheres to high ethical standards and practices. Accordingly, WM does not condone nor will it knowingly engage in predatory or abusive lending practices. In its business practices, WM endeavors to do business with parties who do not engage in predatory lending as well as to provide to the marketplace a variety of lending products which are designed to reasonably meet consumers' financing needs.

WM not purchase loans which are deemed High Cost pursuant to State and Municipal legislation. Predatory and Section 32 loans are prohibited.

Adjustable Rate Product

An adjustable rate product (six month LIBOR). 30/30, 20/20, and 15/15. 2/28, 2/38, 3/27, 3/37, 5/25 The fixed/adjustable rate product is available with the following terms: 2/28, 2/38, 3/27, 3/37, 5/25, and 5/35, 30/30. The interest rate remains fixed during the initial loan term (2, 3 or 5 years) and then changes to an adjustable rate loan for the remaining life of the loan (28, 27 or 25 years).

Fixed Rate Product

The fixed rate product with the option of a 15/15, 30/30, 40/30, 30/15 year term. The interest rate remains fixed for the life of the loan.

**Interest Only
Products**

A fixed, interest only payment (no principal) during the initial 5 year term. The loan then converts to a fully amortized rate product. The monthly payments become principal and interest payments based on the effective rate and outstanding loan balance at the time, amortized over the remaining term (25, 27 or 28 years).

**Prepayment
Fees**

WM will purchase loans with hard prepayment penalties where permitted by state law with a term not to exceed 36 months.

Overview, Continued

“Piggyback” Seconds

WM offers “piggyback” second lien mortgage loans. Available loan terms are 30/30, 30/15, 15/15 and 20/20. Please refer to the “Piggyback” Second Lien Mortgage Loan Underwriting Guidelines for further information.

First Time Homebuyer

A First Time Homebuyer is defined as an applicant having no interest in any real property in the preceding 2 years. First time home buyers must meet the following parameters:

- ? No ownership in property in the past 2 years.
 - ? LTV/CLTV Maximum of 100%
 - ? Full and Limited Doc only
 - ? Owner Occupied
 - ? Minimum 640 FICO
 - ? Maximum DTI 50%
 - ? 2 month PITI reserves after closing (verified)
 - ? No seller concessions allowed
 - ? 24 months credit history with 3 trade line minimum. 1 trade must be an installment account with at least \$2500 credit limit. 1 trade must be open and active within the last 6 months. Derogatory items (Collections, charge offs, judgments, tax liens) do not qualify as open or active trades.
 - ? VOR from a professional Mgmt. Company or cancelled checks may count as a qualifying trade line.
 - ? No alternative credit files allowed.
-

Payment Shock

Payment shock analysis is a critical factor in the underwriting process where the percentage of housing payment increase, overall debt ratio, residual income and the ability to accumulate assets are considered. The proposed monthly primary housing expense may not exceed the current monthly housing payment by more than 200%. If the applicant is a First Time Home Buyer the payment shock is limited to 150% of the present housing expense. Exceptions will be considered if there are compensating factors that mitigate risk such as DTI less than 45%, greater than 2 months reserves, and double required disposable income.

**Non-Arms
Length
Transactions**

A non-arms length transaction occurs when the applicant has a personal or business relationship with the seller, builder, developer, broker, realtor, appraiser, Title Company or any other interested party.

Non-arms length transactions will be considered on a case by case basis and with the following conditions:

- ? Relationship is disclosed with initial submission
- ? Subject is primary residence only.
- ? Full Doc only. 1040's required if employed by family member.
- ? Limited LTV/CLTV of 95%.
- ? In the case if an inter-family transfer a Mortgage rating and pay off demand evidencing not a foreclosure bail-out.
- ? Cancelled rent checks if purchasing from landlord.
- ? Field review to the original appraisal.
- ? Fully executed, legally binding purchase contract with all addendums.
- ? Additional risk factors should not be present. Example of additional risk factors include: distress sale, high amount of seller contributions, selling assets for down payment.

Product Summaries

Credit Grade A+/A

Loan Amounts Minimum: \$50,000; subject to state license requirements
Maximum: \$1,000,000
Refer to current Matrix for restrictions on doc type, occupancy and property type

Debt Ratio ? Back-end debt ratio of 55% or less
? FTHB 50% maximum

Loan-to-Values **Maximum LTV for Full Doc loans**
See Credit Matrix

Maximum LTV for Limited Doc loans
See Credit Matrix

Maximum LTV for Stated Income loans
See Credit Matrix

Combined Loan-to-Values ? 100% CLTV on owner-occupied properties (see Matrix for LTV reductions for property types and occupancy)
? 90% CLTV on all non-owner occupied properties up to 95% with FICO >=680

Continued on next page

Product Summaries

Credit Grade A+/A, Continued

Maximum Loan Amounts **Maximum Loan amount for Full Doc loans**
See Credit Matrix

Maximum Loan amount for Limited Doc loans
See Credit Matrix

Maximum Loan amount for Stated Income Loans
See Credit Matrix

**Mortgage/
Rental History**

- ? Maximum 0X30 in the last 12 months (for credit grade A+)
- ? Maximum 1X30 in last 12 months (for credit grade A) no rolling 30 allowed
- ? Must be current at time of funding
- ? No NODs/FCs in the past 36 months
- ? Private Party Mortgages or Rentals will require 12 months cancelled checks to support mortgage/rental history and must be accompanied by a VOM/VOR with an audit performed to verify the source.

If a mortgage or rental history for the past 12 months is not available, refer to the first time homebuyer section in the Overview chapter of this manual.

Continued on next page

Product Summaries

Credit Grade A+/A, Continued

**Consumer
Credit**

See Credit Matrix

Minimum credit profile of 3 tradelines with a minimum of 24 month history. One of the 3 tradelines must have a minimum high credit of \$2500 paid as agreed in the last 12 months.

- ? Chapter 7 and 11 must be discharged at least 36 months prior to funding.
 - ? Chapter 13 seasoning is calculated from filing date which must be at least 24 months prior to funding. A satisfactory payment history must be obtained from the Bankruptcy Trustee.
 - ? 12 months recent re-established credit
 - ? All tax liens and judgments must be paid prior to close if there is a possibility that they will impact title or evidence satisfied prior to close.
 - ? Any consumer related items open within the last 24 months (collections, charge-offs) should be paid or will be added to the DTI with a 3% payment. Medical collections are excluded.
-

Product Summaries

Credit Grade A-, Continued

Maximum Loan Amounts

Refer to Credit Matrix

Maximum Loan amount for Full Doc loans

See Credit Matrix

Maximum Loan amount for Limited Doc loans

See Credit Matrix

Maximum Loan amount for Stated Income Loans

See Credit Matrix

Mortgage/ Rental History

- ? Maximum 3X30, in last 12 months (for credit grade A-) 1 rolling 30 allowed
 - ? Must be current at time of funding
 - ? No NODs/FCs in the past 24 months
 - ? Private Party Mortgages or Rentals will require 12 months cancelled checks to support mortgage/rental history and must be accompanied by a VOM/VOR with an audit performed to verify the source.
-

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Product Summaries

Credit Grade A-, Continued

Consumer Credit

Refer to Credit Matrix

Minimum credit profile of 3 tradelines with a minimum of 24 month history. One of the 3 tradelines must have a minimum high credit of \$2500 paid as agreed in the last 12 months.

- ? Chapter 7 and 11 must be discharged at least 24 months prior to funding.
 - ? Chapter 13 seasoning is calculated from filing date which must be at least 24 months prior to funding. A satisfactory payment history must be obtained from the Bankruptcy Trustee.
 - ? 12 months recent re-established credit
 - ? All tax liens and judgments must be paid prior to close if there is a possibility that they will impact title or evidence satisfied prior to close.
 - ? Any consumer related items open within the last 24 months (collections, charge-offs) should be paid or will be added to the DTI with a 3% payment. Medical collections are excluded.
-

Product Summaries

Credit Grade B

Loan Amounts Minimum: \$50,000; subject to state license requirements
 Maximum: \$500,000

Debt Ratio ? Back-end debt ratio of 50% or less
 ? FTHB 50% maximum

Loan-to-Values Refer to Credit Matrix

Maximum LTV for Full Doc loans

See Credit Matrix

Maximum LTV for Limited Doc loans

See Credit Matrix

Maximum LTV for Stated Income

See Credit Matrix

Continued on next page

Product Summaries

Credit Grade B, Continued

Maximum Loan Amounts **Refer to Credit Matrix**

Maximum Loan amount for Full Doc loans

See Credit Matrix

Maximum Loan amount for Limited Doc loans

See Credit Matrix

Maximum Loan amount for Stated Income loans

See Credit Matrix

**Mortgage/
Rental History**

- ? Maximum 1x60 in the past 12 months (no rolling 60's allowed)
 - ? Maximum 30 days late at time of funding
 - ? No NODs/FCs in the past 24 months
 - ? Private Party Mortgages/Rentals requires 12 months cancelled checks to support the mortgage/rental history and must be accompanied by a VOM/VOR with an audit performed to verify the source.
-

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Product Summaries

Credit Grade B, Continued

Consumer Credit

Refer to Matrix

Minimum credit profile of 3 tradelines with a minimum of 24 month history. One of the 3 tradelines must have a minimum high credit of \$2500 paid as agreed in the last 12 months.

- ? Chapter 7 and 11 must be discharged at least 24 months prior to funding.
 - ? Chapter 13 seasoning is calculated from filing date which must be at least 24 months prior to funding. A satisfactory payment history must be obtained from the Bankruptcy Trustee.
 - ? 12 months recent re-established credit
 - ? All tax liens and judgments must be paid prior to close if there is a possibility that they will impact title or evidence satisfied prior to close.
 - ? Any consumer related items open within the last 24 months (collections, charge-offs) should be paid or will be added to the DTI with a 3% payment. Medical collections are excluded.
-

Product Summaries

Credit Grade C

Loan Amounts Minimum: \$50,000, subject to state license requirements
 Maximum: \$450,000

Debt Ratio ? Back-end debt ratio of 50% or less
 ? FTHB maximum of 50%

Loan-to-Values **Refer to Credit Matrix**

Maximum LTV for Full Doc loans

See Credit Matrix

Maximum LTV for Limited Doc loans

See Credit Matrix

Maximum LTV for Stated Income loans

See Credit Matrix

Continued on next page

Product Summaries

Credit Grade C, Continued

Maximum Loan Amounts **Refer to Credit Matrix**

Maximum Loan amount for Full Doc loans

See Credit Matrix

Maximum Loan amount for Limited Doc loans

See Credit Matrix

Maximum Loan amount for Stated Income loans

See Credit Matrix

**Mortgage/
Rental History**

- ? Multiple 90's in the past 12 months
 - ? Maximum 60 days late at time of funding
 - ? No NODs/FCs in the past 12 months
 - ? Private Party Mortgages require 12 months cancelled checks to support mortgage history and must be accompanied by a VOM/VOR with an audit performed to verify the source.
-

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Product Summaries

Credit Grade C, Continued

**Consumer
Credit**

Refer to Credit Matrix

Minimum credit profile of 3 tradelines with a minimum of 24 month history. One of the 3 tradelines must have a minimum high credit of \$2500 paid as agreed in the last 12 months.

- ? Chapter 7 and 11 must be discharged at least 12 months prior to funding.
 - ? Chapter 13 seasoning is calculated from filing date which must be at least 12 months prior to funding. A satisfactory payment history must be obtained from the Bankruptcy Trustee.
 - ? All judgments and collections must be paid if there is a possibility that they will impact title or evidence satisfied prior to close.
 - ? Any consumer related items open within the last 24 months (collections, charge-offs) should be paid or will be added to the DTI with a 3% payment. Medical collections are excluded.
-

Capacity To Repay

Full Documentation Program

Required Documentation

The following income documentation is required to qualify a borrower for a Full Documentation (Full Doc) loan program:

Salaried or Wage Earner

- ? Current Verification of Employment (VOE) fully completed **or** current paycheck stub including year-to-date earnings; *and*
- ? A minimum of the previous 2 years' W-2s or 1040s that support the VOE or paycheck stub
- ? Most recent 24 consecutive month's bank statements and a VVOE (may use 100% of deposits for personal bank statements averaged over 24 months). Any atypically large deposits or transfers from other accounts must be deducted. A 25% expense ratio must be applied to business bank statements and averaged over 24 months. NSF and overdraft activity must be carefully reviewed.
- ? Generic or hand written paycheck stubs must be supported by a minimum of three months of bank statements showing evidence of net deposit.

Self-Employed

The following documentation:

- ? Two year's 1040s. YTD bank statements or YTD P&L.
- ? Two year's Corporation Returns (1120s), if applicable, with year-to-date bank statements
- ? Two year's Partnership Returns (1065s), if applicable, with year-to-date bank statements
- ? Current P&L Statement (quarterly) for all Sole Proprietors (Schedule C), Corporations (1120s), or Partnerships (1065s), with year-to-date bank statements
- ? Most recent 24 consecutive month's bank statements; atypical deposits or transfers from other accounts must be excluded. NSF or overdraft activity must be carefully reviewed (second source of documentation *not* required)
- ? Funds from commingled bank statements may be used only if both account holders are on the loan.

Rental Income

A copy of the Rental Agreement with one of the following is required to support rental income and expenses:

- ? Most recent complete 1040s with Schedule E
- ? Copy of the rent survey (FNMA 1007).

Room Rent Not Allowed

Capacity To Repay

Limited Doc Program

Required Documentation

The Limited Doc program When underwriting a loan under the Limited Doc program, the WM following Guidelines apply with the following exceptions:

Salaried or Wage Earner

One of the following forms of income documentation must be provided:

- ? Current paystub including year-to-date earnings and the previous year's W-2.
- ? Completed VOE and generic paystub
- ? Generic paystub supported by W-2
- ? Completed VOE supported by W-2

Self-Employed

One form of the following income documentation must be provided:

- ? 12 months' current and consecutive bank statements from the same account (25% expense factor must be applied). Atypical large deposits or transfers from other accounts must be deducted. NSF and overdraft activity must be carefully reviewed.
- ? The bank statements must be issued by the borrower's bank not produced from a personal computer.
- ? Current 1099s with six months' bank statements

Rental Income Subject Property

- ? Copy of Rental Agreement and proof of receipt
 - ? If borrower is purchasing a new primary residence with the intent to rent current residence, a copy of the Rental Agreement is acceptable.
 - ? If a borrower owns up to four SFR's or two two-unit properties, the Company will use 90% of gross rents minus PITI for income. 75% minus PITI will be used for 3-4 unit properties and for all other properties if the borrower owns five or more properties. If a positive cash flow results, income will be included in gross income calculation; if a negative cash flow results, the rental will be treated as a debt.
-

Capacity To Repay

Stated Income Program

Required Documentation

The Stated Income Program allows potential borrowers whose entire income or a portion of their income cannot be documented through traditional methods to qualify for a loan based on their stated income as shown on the loan application. These borrowers may derive their income from a variety of sources, including earned wages, self-employment, rental income, and/or incidentals. Income from all sources must be documented on the loan application (FNMA Form 1003), with additional documentation provided as described below.

A minimum Credit Score of 500 is required.

In addition, a reasonableness test is required. Please see the following section for information regarding the reasonableness test.

Salaried or Wage Earner

- ? Verbal Verification of Employment (VOE) verifying length of employment and position, and completed within the last 30 days is acceptable.
- ? The borrower's employment and income sources must be shown on the loan application.
- ? The stated income for the borrower's occupation must be reasonable and is subject to the Underwriter's discretion. See the following section regarding the test for reasonableness.

Self-Employed

- ? Evidence borrower's business established for a minimum of 2 years
- ? Copy of current business license if the state requires a license. If a business license is not required by the state, an alternate form of verification and a verbal audit verification of business is required.
- ? The borrower's employment and income sources must be shown on the loan application.
- ? The stated income for the borrower's occupation must be reasonable and is subject to the Underwriter's discretion. See the following section regarding the test for reasonableness.

Continued on next page

Capacity To Repay

Stated Income Program, Continued

Required Documentation (continued)

Rental Income

- ? The rental income must be shown on the loan application.
- ? The rental income must be reasonable and is subject to Underwriter's discretion. See the following section regarding the test for reasonableness.

If a borrower owns up to four SFR's or two two-unit properties, the Company will use 90% of gross rents minus PITI for income. 75% minus PITI will be used for 3-4 unit properties and for all other properties if the borrower owns five or more properties. If a positive cash flow results, income will be included in gross income calculation; if a negative cash flow results, the rental will be treated as a debt.

Fixed Income

Individuals who receive income from social security, pension, retirement benefits, annuities, alimony, child support, or foster care are not allowed on the stated income program.

Reasonableness Test

The test for reasonableness assists underwriters when reviewing Stated Income Program loans. The following should be kept in mind:

- ? Employment – does the employment type correlate to the income level?
 - ? Credit – do the borrower's liabilities reflect a debt structure typical of the stated income level, and does the borrower profile indicate an ability to manage finances?
 - ? Income – do the assets as stated on the loan application reflect a savings level and ability in line with the stated income level, and are debt levels consistent with income levels?
-

Capacity To Repay

Miscellaneous Income Documentation

Documentation Requirements

Employment History

- ? All applicants must show two years employment history on the 1003 and a phone verification of employment must be provided.

Alimony and Child Support

- ? A copy of the divorce decree is required.
- ? Satisfactory evidence of receipt of funds must be obtained.
 - ✍ There must be a minimum of three months' cancelled checks or deposit history. The bank statements must be issued by the borrower's bank not produced from a personal computer.
 - ✍ Underwriter must verify that child support income will continue for a minimum of two years.

Social Security, Permanent Disability, Retirement, Military Benefits

- ? Borrower must provide a copy of the most recent award letter and current benefit check
- ? or copies of the most recent 1099-R and three months' bank statements.
- ? If the recipient is not of retirement age and is receiving early benefits, the award letter must state that the income is permanent and will continue for a minimum of three years.
- ? The monthly net benefit may be grossed up by 25% if the borrower(s) qualify for the gross income adjustment.

Foster Care Income

- ? Borrower must provide a copy of the state contract confirming the benefit will continue for a minimum of three years.
- ? Three months' bank statements or cancelled checks to support the benefit amount are required.

Non-Taxable Income

If evidence is provided that income is not taxable, the income will be grossed up by the amount of tax savings from the non-taxable income. Examples of such income could be SSI, certain military pay, and permanent disability payments. WM will assume a maximum tax rate of 25% for all gross up calculations.

Interest/Dividend Income/Irrevocable Trust Income

Interest and dividend income that has been received for the past 24 months and is properly documented may be used for qualifying. Any funds that are used for down payment or closing costs must be subtracted before interest income is calculated. The interest rate will be assumed to be equivalent to the current passbook rate unless otherwise documented.

- ? Trust income may be used. Trust income will only be allowed if the trust is irrevocable. Verify that the minimum life of the trust is 24 months or greater.

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Capacity To Repay

Miscellaneous Income Documentation, Continued

Documentation Requirements (continued)

Non-Occupant Co-Mortgagor

Income from a non-occupant co-mortgagor to qualify subject to the following parameters:

- ? Related/Unrelated non-occupant co-mortgagors are allowed when the loan application is accompanied by an acceptable letter of explanation.
- ? The income of the co-mortgagor must be adequately verified.
- ? Qualifying ratios for the borrowers occupying the property should not exceed an additional 5% over the appropriate housing and total debt ratios.
- ? The co-mortgagor must be on title to the property.

Overtime

Overtime can be used to qualify the borrower if there is a twelve-month history of receipt and the employer verifies that such pay is typical for the occupation and likely to continue. If the borrower's qualifying income is comprised of more than 25% overtime, signed federal tax returns with all schedules for the past two years will be required.

Commission

Commission can be used to qualify the borrower if there is a two-year history of receipt and the employer verifies that such pay is typical for the occupation and likely to continue. WM will use the commission from the previous year and current year to date to determine the appropriate amount. If the income for the current year is declining by >20%, WM will use that year's income and not the average of the past two years. If the borrower's qualifying 1099 income is comprised of more than 50% commission, signed federal tax returns with all schedules for the past two years will be required.

Relocating / Trailing Co-Borrower

WM does not generally allow anticipated wages from a relocating co-borrower who has not yet obtained employment in the new location. Exceptions to this rule may be granted on a case-by-case basis provided:

- ? There is a high probability of the trailing co-borrower finding employment in the new location.
- ? The trailing co-borrower is not self-employed or is self-employed in a profession that is easily transferable.
- ? The trailing co-borrower has been employed in the same field for at least two years.
- ? The borrower has 6 months PITI in reserves following closing.

The trailing co-borrower's income will be calculated as the average income during the past two years, as evidenced by W2 forms.

Allowances for trailing co-borrower income will follow the combination of LTV limits and percentage of income requirements in the table below:

LTV Category	% of Trailing Co-borrower Average Income to Qualify
80% and less	75%
80% - 90%	50%

Continued on next page

Capacity To Repay

Miscellaneous Income Documentation, Continued

Documentation Requirements, continued

Bonus Income

In order for bonus income to be included the following is required:

- ? A two-year history of receipt
- ? Verification that the bonus is typical for the occupation and is expected to continue
- ? A savings pattern that reflects the borrower's ability to save a portion of the bonus for monthly debt service.

If the borrower's qualifying income is comprised of more than 25% bonus, signed federal tax returns with all schedules for the past two years will be required.

Part-time or Seasonal Income/Second Job

WM will recognize part-time, seasonal or second job income if there has been two years' history of such income and there is a strong likelihood of continuation.

Unemployment and Welfare Benefits

These payments will be treated as income if they are properly documented as to the amount and frequency and duration of the payments. Seasonal unemployment for borrowers in occupations such as farm laborers or carpenters will be allowed if properly documented.

Notes Receivable

A copy of the note is required to establish the amount, term, and payments. Deposit slips, canceled checks, or tax returns must support receipt of payments for the past twelve months. The note income must continue for at least three years to be eligible for consideration.

Capacity To Repay

Calculations

Debt Ratio Calculations

Borrowers must qualify with back-end ratios as listed in the Program Summaries. Maximum DTI for all programs is 55%. FTHB maximum is 50%

- ? Installment loans with 10 or less payments remaining may be excluded from the debt ratio. It is also acceptable to "pay down" the installment debt to 10 payments.
 - ? Auto leases are always included regardless of the number of payments remaining.
 - ? Installment loans where the scheduled payment is not shown use the high credit divided by the listed term to determine the payment. A credit supplement may also be obtained to verify the payment.
 - ? For revolving accounts use the payment shown on the credit report. If no payment is provided use 3% of the balance unless statements can be provided to show a lower payment. A credit supplement may also be obtained to verify the payment.
 - ? Revolving debt may be paid off to qualify but cannot be paid down.
 - ? Student loans must be included in the debt ratio unless the credit report indicates a deferred status. If the credit report does not show a deferred status the payment is to be included in the debts unless a letter from the lending institution is provided indicating deferral for a minimum of 12 months.
 - ? If the applicant is a co-signer on a loan the debt may be excluded from the debt ratio if the loan is current at the time of submission and there is proof that the loan is paid by a third party. 3 months cancelled checks or 3 months bank statements may be obtained as documentation.
 - ? Legal obligations from a previous marriage may be excluded from the debt ratio with proof that applicant(s) is not responsible for debt, such as a copy of a divorce decree and 3 months cancelled checks or 3 months bank statements.
-
- ? The net disposable income requirement is \$600 per month for the first borrower plus an additional \$200 per month for each additional borrower and/or dependent as per the 1003.

Disposable Income

Calculating WM payments

Fixed Rate - qualify at start rate.

Adjustable Rate - qualify at start rate or fully-indexed rate, whichever is less. (Qualification rate cannot fall below the start rate for the loan).

Interest Only - qualify at initial rate

Credit

Analyzing Credit History

Mortgage/Rental History

- ? Rolling 30-day lates on a credit report may be counted as one late payment for the first six months. For example, if the borrower were 6 x 30, the derogatory would be counted as 1x30. The maximum allowed would be is 2x30 in a 12 month period.
- EXAMPLE:**
- CC111111CC = 1x30**
 - 111111111111 = 2x30**
 - 11CC111111CC = 2x30**
 - 11CC111CC111 = 3x30**
- ? Mortgage/Rental referred to as 30 days delinquent equals 31 to 60 days. Mortgage/Rental referred to as 60 days delinquent equals 61 to 90 days. Mortgage Rental referred to a 90 days delinquent equals 91 to 120 days.
- EXAMPLE:** Mortgage/rental due for May 1st is 31 plus days delinquent as of June 2nd, 61 plus days' delinquent as of July 2nd, 91 plus days delinquent as of August 2nd.
- Late payments (lates) in past 12 months:
- A+ 0X30 in last 12 months and must be current at time of funding
 - A 1X30 (no rolling) in last 12 months and must be current at funding
 - A- 3X30 (1 rolling) in last 12 months and must be current at funding
 - B 1X60 in last 12 months with max 30 days late at funding
 - C Multiple 90's in last 12 months with max 60 days late at funding
- ? Mortgage/Rental Credit must be verified for the most recent 12 months.
- ✗ Mortgage/Rental history must be reported on the credit report.
 - ✗ If a servicing company provides Mortgage/Rental history, a copy of the account history must accompany the rating. The servicing company must be audited by the underwriter for validity.
- Private party mortgages or rentals require 12 months cancelled checks to support mortgage/rental history and must be accompanied by a Verification of Mortgage (VOM) or Verification of Rent (VOR) with an audit performed to the verify source.
- ? The date an NOD, Foreclosure or Short Sale is applied when determining risk is governed by Credit Grade:
- ✗ A+ and A: none in last 36 months
 - ✗ A-: none in last 24 months
 - ✗ B: none in last 24 months
 - ✗ C: none in last 12 months

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Credit

Analyzing Credit History, Continued

Credit Score And Credit Reports

- ? Minimum 500 Credit Score
- ? Applicants without a credit score or only one credit score are not allowed.
- ? Alternative credit histories are not allowed (utility, telephone, cable invoices)
- ?

CREDIT REPORT AND SCORES

The loan file must contain a Residential Mortgage Credit Report (RMCR) or a three (3) bureau in-file credit report for each borrower from an independent credit vendor. Experian (Fair Isaac Model Score), Trans Union (Empirica Score), and Equifax (Beacon Score) are acceptable Credit Score providers.

The qualifying credit score is determined using the lower of two credit bureau scores or the middle of three scores for the Primary Borrower. The primary borrower is the borrower with the highest verified income. If a credit score is provided from three repositories, then the qualifying score is the middle of the three reported scores. If a credit score is provided from two repositories, then the qualifying score is the lower of the two reported scores. The credit report used to qualify the borrower should not be more than 60 days old as of the funding date.

Determining Primary Wage Earner

The Primary Borrower is defined as the individual earning the most income (i.e. more than 50% of the income) or, in the case of a Non-Occupant Co-borrower is the person who occupies the property.

Minimum Credit History/ Tradelines

A valid Credit Score must be supported by the minimum credit profile with 3 established tradelines with a minimum 24-month history. 1 trade line must be open and at least 1 trade line with minimum \$2500 credit limit. Collections and charge offs are not considered tradelines.

Bankruptcy

General Requirements

This section provides general guidelines for evaluating bankruptcies. Refer to individual credit grades for specific parameters.

Chapter 7 and 11: The discharge or dismissal date is used to determine seasoning.

Chapter 13: The filing date is used to determine seasoning.

Applicants with multiple Bankruptcy filings are unacceptable. Chapter 13 buyouts are not acceptable.

If the bankruptcy occurred in the past five years a complete copy of the discharge or dismissal must be in the file.

The applicant must have 12 months recent re-established credit and demonstrated the ability to manage financial obligations.

Credit

Chapter 7 Bankruptcy

Credit Grade: Chapter 7 seasoning is calculated from the discharge date.

- A+: discharged 36 months prior to funding.
- A: discharged 36 months prior to funding.
- A-: discharged 24 months prior to funding
- B: discharged 24 months prior to funding
- C: discharged 12 months prior to funding

Chapter 13 Bankruptcy

Credit Grade: Chapter 13 seasoning is calculated from the filing date.

- A+: 36 months from filing date
- A: 36 months from filing date
- A-: 24 months from filing date
- B: 24 months from filing date
- C: 12 months from filing date
- ? Pay history from Bankruptcy Trustee with grade and risk determination based on WM policy for mortgage ratings.
- ? Rating from Mortgage Company with the rating reviewed for acceptability and the post-petition payments paid as agreed.

Continued on next page

Credit

Bankruptcy, Continued

Chapter 11 Bankruptcy

For Chapter 11 bankruptcy the applicant must provide evidence that the business was dissolved and no longer exists. Applicant must be employed as a salaried employee with an established company and may not be self-employed or paid as an independent contractor.

Credit Grade: Chapter 11 seasoning is calculated from the discharge.

A+: discharged 36 months prior to funding

A: discharged 36 months prior to funding

A-: discharged 24 months prior to funding

B: discharged 24 months prior to funding

C: discharged 12 months prior to funding.

Credit

Miscellaneous Credit Guidelines

Open Tax Liens All open tax liens that impact title (property, local, state, and federal) should be paid from the loan proceeds unless evidence of lien release is provided.

When a state or federal tax lien is not being paid through loan proceeds the following documentation is required:

Refinance

- ? Properly executed Subordination Agreement
- ? Verification of lien balance
- ? Approved repayment schedule
 - ⌘ CLTV not to exceed 100%
 - ⌘ Payment to be included in debt ratio

Purchase

- ? Verification of lien balance
 - ? Approved repayment schedule
 - ⌘ CLTV not to exceed 100%
 - ⌘ Payment to be included in debt ratio
-

Delinquent Accounts All delinquent accounts should be brought current if not paid off.
Underwriter may waive the requirements for delinquent accounts on a case-by-case basis.

Consumer Credit Counselors Participation in a consumer credit counseling services (CCC's) is acceptable if the applicant provides the following:

- ? Confirmation of Plan Notification
- ? Final Distribution
- ? A seasoned payment plan- 12 months
- ? Plan must be paid in full at closing

Collateral

Minimum Property Standards

General Requirements

Appraiser - The appraiser must be licensed and in good standing.

Heating Source - The heating source must meet community standards and be continuous. Single source is not acceptable (e.g. wood stove as only heat source). Heating source is not required where it is not common (e.g. Southern Florida, Hawaii).

Roof Certification – Inspection is required only if the appraisal notes a problem. Assurance that a roof will last a specific period of time is not required. If the appraiser notes a concern about the condition of the roof,

- ? An inspection is required
- ? All current problems (leaking, missing shingles, etc.) must be corrected
- ? Satisfactory completion comments must be stated.

Foundation – Must meet community standards and market acceptance must be supported by comps. For stick-built properties that have post and pier foundations, a pest and dry rot inspection may be required. Additional inspections are required if warranted

Rural Properties

Rural properties will be considered at reduced LTV's (refer to credit matrix for reductions). Any property indicated on the appraisal as rural or containing one or more of the following characteristics will be considered rural property:

1. Neighborhood is less than 25% built-up
2. Area around the subject is zoned agricultural
3. The photographs of the subject show a dirt road or gravel road
4. Comparables are more than five miles away from the subject
5. Subject is located in a community with a population of less than 25,000
6. Distance to schools and/or amenities is greater than 25 miles
7. Subject property and or comparables have lot sizes greater than 10 acres
8. Subject property and or comparables have outbuildings or large storage sheds

Continued on next page

Collateral

Minimum Property Standards, Continued

Unacceptable property types

The following property types are **UNACCEPTABLE** to WM.

- ? Residential properties of more than four units
 - ? Manufactured homes and factory built homes that are not permanently affixed to a foundation; including all double wide and single wide mobile homes
 - ? Commercial properties
 - ? "Subject to" completion values that will not be completed by the time of funding
 - ? Foundations not acceptable to HUD standards
 - ? Cooperatives
 - ? "Condotels"
 - ? Time Share Units
 - ? Vacant Land
 - ? Working Farms
 - ? Mixed Use properties
 - ? Earth, dome, geothermal or berm homes
 - ? Properties that are illegal or non-conforming use for the site. Properties that are legal non-conforming to zoning and can not be rebuilt without a zoning variance will require a 100% rebuild letter.
 - ? Leased land without fee simple option and/or 35 years remaining on lease
 - ? Appraised values less than \$50,000
 - ? Properties with less than 700 sq. ft. of living space (unless common for area and supported by at least 2 comparables of similar size)
 - ? Cross-collateralized loans, where two non-contiguous improved properties are submitted as collateral and/or the two properties may be sold independently
 - ? Properties listed for sale at time of loan submission
 - ? Vacant refinance properties
-

Collateral

Continued on next page

Collateral

Minimum Property Standards, Continued

Properties Acceptable on a Case-by-Case Basis

Some properties may be acceptable on a case-by-case basis with prior approval of WM.

- ? Properties where the marketing time is over six months. Comments must be given in the appraisal as to why this marketing time is considered feasible.
- ? One condo unit in a two-condo project when in a proven market
- ? Water – Sources other than public water are acceptable if: they are common for the area, meet community standards, the property has rights to water for residential use with no access problems noted in the appraisal, are adequate on an ongoing basis, and market acceptance is supported by comps.

Purity and flow tests are required for new private wells where the appraisal notes an issue. Off-site systems are acceptable if they meet the above requirements, and there is a recorded maintenance agreement.

When there is an existing private water system on the property, the appraiser will indicate the existence of any problems based on the current condition of the system and known market concern. If the appraiser notes a problem with the system, an inspection is required.

- ? Sewage Disposal – Septic systems are acceptable if they meet community standards and market acceptance is supported by comps. An individual septic system serving the subject property must meet community standards. Where there is an existing septic system on the property, the appraiser will indicate the existence of any problem based on the current condition of the system or known market concern. If the appraiser notes a problem, an inspection is required.

The septic system should be located on the subject property. If the system is located on another property or there is a shared system, there must be a recorded right-of-way and maintenance agreement to ensure the continued use of the system and the ability to access the system for repairs. The right-of-way must run with the land.

Continued on next page

Collateral

Minimum Property Standards, Continued

Properties Acceptable on a Case-by-Case Basis (continued)

- ? Properties on more than one lot where one (or more) of the lots is vacant. Only the lot with the residential improvements should be given value. The remaining lot(s) will not be given consideration in the value.
 - ? Properties that are less than the minimum improvement size for the comparables selected. Appraisal must have comparables with similar characteristics and must have no marketability issues.
 - ? Residences that are vacant at the time of the appraisal, unless the loan is to purchase the property
 - ? Legal non-conforming properties that you are unable to obtain a 100% rebuild letter on
-

Collateral

Marketability

Marketability Standards

Special attention and consideration must be given to properties with the following characteristics:

- ? Properties adjacent to or under high-tension electric wires
 - ? Properties adjacent to or in proximity of freeways, turnpikes, railroads, etc.
 - ? Properties adjacent to or in proximity of oil or gas tanks
 - ? Declining market areas. Properties in neighborhoods with declining market values, an oversupply of housing and/or marketing times over six months may require reduction in LTV.
 - ? Collateral that consists of only one bedroom must have comparables that reflect the same bedroom count.
 - ? Rural properties in areas under 25% built up will require reductions in LTV. (refer to Rural definition)
 - ? Reductions in LTV for High Rise Condo's, 2nd homes, 3-4 unit properties, and non-owner occupied properties
-

Collateral

Factory Built Housing

Background

Factory-built housing is becoming more popular with many homebuyers in some areas due to its appeal as an affordable alternative to more expensive site-built housing. Quality of construction and marketability are key concerns when evaluating factory-built housing. Generally, when factory-built homes are built to local and state building code specifications they resemble site-built homes, are of acceptable quality, and their value will appreciate in line with the performance of the subject area's overall housing market. When factory-built homes meet the outlined criteria, they represent an acceptable underwriting risk to WM. There are two main types of factory built homes, modular and manufactured.

Modular Homes

Modular homes are generally acceptable as security for WM lending as they assume the same characteristics of site-built construction. They must meet the following criteria:

- ? Modular homes must be legally permitted in the same manner as site built homes and "final" building permits must be provided prior to closing, preferably at the time of loan submission.
 - ? The purchase of the land and the new modular home must represent a single real estate transaction if the modular home is new construction.
 - ? Transactions involving the "move on" of a *used* modular home to any site other than the original site is unacceptable.
 - ? Homes of the same quality must be used for comparable sales and "across the board" quality adjustments reflecting comparables of superior quality are unacceptable. A minimum of three (3) closed sales of similar quality must be provided.
-

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Collateral

Factory Built Housing, Continued

Manufactured Homes

WM does not accept loan applications where the collateral is manufactured housing.

Manufactured Housing is defined as residential structures built on steel undercarriages with removable wheel assemblies which are transported to permanent or semi-permanent sites. The wheel assembly can be removed when the structure is placed on a permanent foundation, but the steel undercarriage remains intact and is a necessary structural component. Title is held fee simple, and the manufactured home and real estate comprise a single transaction.

Miscellaneous Guidelines

Miscellaneous Guidelines

Structural Pest Reports and Clearances

Structural Pest Reports and clearance of all recommended items may be required per state law, local custom, or if the appraisal specifies probable or known problems.

Condominium or Attached PUD Projects

To qualify as an acceptable condominium unit, the project must be common for the area, demonstrate good marketability and comply with the requirements outlined below. A condo building that has greater than four stories is considered a high-rise. A condo building that has four or less stories is considered a low-rise.

Requirements include the following:

- ? WM will not finance more than 10% of the units in any one project
- ? WM will lend on a maximum of two units in a condo project to the same borrower. One unit must be the borrower's primary residence
- ? Condo projects with 6 units or less require an arbitration agreement
- ? The condo project cannot be involved in any current litigation
- ? Condo projects containing mixed-use units may be acceptable if the style is common and customary to the area and there are no negative effects on marketability
- ? One individual or entity may own no more than 10% of the units. The units within the project must have separate and individual gas and water meters.
- ? **Pre-sale** – Project must have sold and closed 60% or more of the total available units. For projects subject to phasing and more than 60% complete and experiencing acceptable absorption rates, pre-sale requirements may be applied to individual phases. For 2 unit projects completed less than 6 months, pre-sale requirements are waived. An appraisal prepared by a nationally recognized review appraisal firm will be required.
- ? **Investor concentration** – A maximum of 50% of the total number of units sold to date can be non-owner occupied
- ? **Condominium/PUD Association Management** – The control of the condominium association management must be transferred to the unit owners and operated in a prudent and professional manner. The association by-laws must contain a binding arbitration agreement. The condominium/PUD association must not be involved in pending litigation except where such litigation does not create excessive risks. Newly completed projects where the developer is still in control are not available for financing.

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Miscellaneous Guidelines

Miscellaneous Guidelines, Continued

Seller Concessions

Contributions by interested parties of the transaction towards non-recurring closing costs are permissible. If a portion of the seller's contribution exceeds the maximum allowable as indicated below, the concession will require a dollar for dollar reduction of the sales price. Interested parties include, but are not limited to, the builder, developer, seller of the property, and the real estate agent. WM will allow these interested parties to contribute funds as follows:

- ? 6% of the lesser of the property's sale price or appraised value, if the loan to value ratio is <= 90%
- ? 3% of the lesser of the property's sale price or appraised value, if the loan to value ratio is > 90% (the sum of the LTV and the percentage of the contribution cannot exceed 100% of property value)
- ? 3% of the lesser of the property's sales price or appraised value, if the loan is an 80/20 CLTV
- ? 2% of the lesser of the property's sale price or appraised value, if the loan is an investment property.

For underwriting purposes a downward adjustment to the sales price must be made to reflect the amount of the contribution that exceeds the above stated limitations. In addition, the cost of any contributions that are in the form of personal property (such as furniture, decorator items, automobiles, or other "giveaways") must be deducted from the sales price. The LTV ratio must then be based on the lesser of the reduced sales price or the appraised value.

Lease Options

The following elements must be present in order for a lease option or unrecorded land contract for deed to be funded as a refinance using the appraised value:

- ? The lease option agreement or unrecorded land contract for deed must be a formal, written agreement, signed by all parties to the transaction.
- ? The lease option agreement or unrecorded land contract for deed must have a start date and an expiration date. The expiration date must be a date in the future. The lease option agreement or unrecorded land contract for deed must have a minimum term of 12 months.
- ? The lease option agreement or unrecorded land contract for deed must state a specific purchase price.
- ? The lease option agreement or unrecorded land contract for deed must require an initial lease option agreement deposit. The payment should be non-refundable, although it may be applied to the purchase of the property. This deposit must be substantiated by a cancelled check.
- ? The lease option agreement or unrecorded land contract for deed should specify that the monthly payment is divided into two portions: the "rent" portion and the "equity" portion.

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Miscellaneous Guidelines

Miscellaneous Guidelines, Continued

Lease Options (continued)

- ? A minimum of 12 months cancelled checks to support the lease or contract payments made under the terms of the lease option agreement or unrecorded land contract for deed.
- ? A final HUD-1 settlement statement reflecting the transaction as a refinance.

If these elements are not present, the loan will be transacted as a purchase, based on the original purchase price or current appraised value (whichever is lower.)

Miscellaneous Guidelines

Asset Documentation and Down Payment

Borrower assets may come from several with the most common sources being bank depository accounts. These accounts include checking, savings, money market and certificates of deposit. Verification of down payment and funds to close are required on all purchase transactions. Funds provided at closing must be drawn from funds listed on the application.

Other forms of borrower assets and sources of funds include the following:

Proceeds from Sale of Real Estate or Other Personal Property - Net cash proceeds from the sale of the applicant's current home is an acceptable source of down payment, settlement charges and/or cash reserves. A copy of the final HUD- 1 Settlement Statement and/or bill of sale is required to verify the sale and amount of net cash proceeds.

Verification of Earnest Money Deposit – The applicant's earnest money deposit to escrow must be verified. If the canceled check is not available, a letter or receipt from the escrow agent verifying the amount of the earnest money deposit and when it was tendered is acceptable.

Marketable Securities - Marketable securities including stocks, bonds and IRA may be an acceptable source of a borrower's funds. Bonds should be valued at their purchase price, unless the redemption value can be determined and verified. A current statement or a copy of the stock certificate accompanied by a dated newspaper stock list may verify the value of stocks. The actual receipt of either of these sources of funds must be verified.

Gift Funds

Gift Funds- A minimum of five percent (5%) of the purchase price must be verified as coming from the applicant's own funds when the LTV is > 80.0% and < 95%, and a down payment is required. The remaining down payment may be a cash gift from an immediate family member or other appropriate relation. For LTVs > 95%, no gift funds are permitted.

For loans with LTV ratios of 80% or less, the entire down payment may be a gift. In all cases, the donor must execute a gift letter stating the donor's name and address, the donor's relationship to the applicant, the amount of the gift and that no repayment is expected or implied. Verification of the transfer of funds from the donor to the applicant is required. Gift funds may be used towards the remaining down payment, closing costs, and/or reserves.

If any of the down payment is a gift, a gift letter must be signed by the donor and state the following:

Gift of Equity

- ? The amount of the gift
- ? The fact that no repayment is required
- ? The relationship to the borrower (must be immediate family member)
- ? Verify evidence of funds to close.

GIFT OF EQUITY

A gift of equity in the subject property from a family member is an acceptable source of funds on owner-occupied primary residences only. If a gift of equity occurs, the donor must execute a gift letter stating the donor's name, the donor's relationship to the applicant, the amount of the gift of equity, and that no repayment is expected or implied. In addition, the HUD-1 Settlement Statement at closing must identify the gift of equity. If the transaction is completed as a purchase, the contract of sale must also indicate the gift of equity. A mortgage rating and pay off demand must be obtained on the subject mortgage to confirm the mortgage is not delinquent and the transaction is not a bail-out.

UNACCEPTABLE SOURCES OF FUNDS

Unacceptable sources of funds include, but are not limited to, the following:

- Cash on Hand
- Sweat Equity
- Funds from Illegal Sources
- Unsecured Loans
- Trade Equity
- Credit Card Advances

Miscellaneous Guidelines

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Miscellaneous Guidelines

Miscellaneous Guidelines, Continued

Acreage

Although exceptions can be made, WM will ensure that the land-to-value ratio is not excessive for residential properties in the local market. Parcels up to 15 acres are acceptable.

Properties whose access is by dirt road/gravel road will be considered rural.

Leaseholds

Leaseholds are allowed on a restricted basis in those areas of the country where they are a common form of ownership and when they are not utilized as a special financing mechanism to facilitate a purchase. The remaining term of the lease must extend five years beyond the maturity date of the mortgage loan.

Construction to Permanent

The conversion of interim construction loan or term note into permanent financing may be considered as either a purchase money transaction (as long as the borrower receives no cash from the settlement) or refinance transaction (in which the borrower may receive or may not receive cash from the settlement). For all construction to permanent financing, WM reserves the right to require documented acquisition costs to accurately assess the value of the property. When a property is being purchased as a new construction, WM takes the land cost plus the construction cost to determine the lendable value or WM will use the appraised value if lower. If the property has been purchased within the last 12 months, WM will use acquisition cost or the appraised value, whichever is lowest.

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Miscellaneous Guidelines

Miscellaneous Guidelines, Continued

Acquisition Costs

The acquisition cost shall be determined by adding the hard cost of construction plus the value of the lot.

Hard Costs

- ? Actual hard costs of construction shall be determined by a construction contract from the builder supported by a cost breakdown. The lender must always calculate the total of the property and clearly indicate such calculations in the loan file.
- ? For borrowers acting as the general contractor, actual costs of construction should be evidenced by the construction lien payments by the lender and/or documented receipts.
- ? WM does permit the permanent financing costs (such as discount points, origination fees) to be added to the acquisition cost. WM will allow construction interest carrying costs to be included with acceptable documentation from the construction lender.
- ? No sweat equity or "value of labor" is allowed.

Lot Value

- ? If the borrower has owned the lot for less than one year, the lesser of the actual cost or the current appraised value will be used. A HUD-1 Settlement Statement documenting the actual cost will be required. If the lot has been owned for one year or more, the current appraised value will be used.
- ? Value of any gift lots may be established by an appraisal but generally should not exceed 35% of the total acquisition cost.
- ? WM requires land comparables to establish the current lot value.

Contract for Deed/Land Contracts

Contract for Deed/Land Contracts are acceptable provided they recorded within 90 days after the date of execution, if unrecorded, treat as a lease option. The loan to value will be based on the original amount of the Contract for Deed/Land Contracts plus any documented improvements to the property. If owned less than one year, a HUD-1 Settlement Statement must be furnished to be eligible for consideration and no cash out will be allowed.

Miscellaneous Guidelines

Transfer of Title

Ineligible Transactions

The following features are ineligible for financing:

- Property/Land Flip Transactions.
- Straw Borrowers/Straw Buyer
- Builder/Seller Bailout plans
- Multiple property payment skimming – typically involves investors who purchase investment properties with seller carry-back financing, collect rents but do not make the mortgage payments.
- Additional restrictions may be outlined in the applicable Product Matrix.

Inherited Properties

Inherited Properties

If property was inherited (date of death) less than 12 months prior to application, rate/term refinances will be permitted subject to the following:

1. Proceeds will be used to buy-out the documented equity interest of others. Equity owners must be paid through escrow.
2. The property has cleared probate and property is vested in the borrower's name.
3. Current appraised value will be used for LTV/CLTV determination. Desk or field review appraisal may be required at the underwriter's discretion.
4. Limited Cash Out Transactions will be considered on a case by case basis up to 25k.

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Miscellaneous Guidelines

Miscellaneous Guidelines, Continued

Prohibited or Ineligible Transactions

- ? Property not vested to an individual(s)
- ? Loans closed using a Power of Attorney (except Military Power of Attorney). For purchase transactions use of Power of Attorney is acceptable provided the attorney in fact will be on title to subject property.
- ? Conservatorship
- ? Loans where title to the property is held by a guardian, a guardian ad litem, a conservator, or in any form where the individual is acting in a fiduciary capacity to a third party.
- ? Third party added to qualify (third party loans will be considered on a case-by-case basis if evidence can be provided that the third party has resided in the subject property for a minimum of 12 months and has contributed to the household expenses).
- ? No co-signers or guarantors
- ? Property/Land Flip Transactions.
- ? Straw Borrowers/Straw Buyer
- ? Builder/Seller Bailout plans
- ? Multiple property payment skimming – typically involves investors who purchase investment properties with seller carry-back financing, collect rents but do not make the mortgage payments.
- ? Additional restrictions may be outlined in the applicable Product Matrix.

Maximum Loans to One Borrower

Maximum loans to one borrower are three (3) transactions. One primary residence (piggyback loans will count as 1 transaction), and 2 investment/second home properties.

Title Holders

WM will consider real estate financing where title is held (or will be held) by our borrower and other non-borrowers (for example, where everyone on the title does not sign the note). For consideration the following conditions are required:

- ? Income used to qualify is that of the individual (Title Holder) applying for WM transaction. No income for non-applying Title Holder(s) can be included for qualifying purposes.
 - ? The non-applying Title Holder(s) is signing the following loan documents:
 - ✍ Final Truth In Lending Disclosure
 - ✍ Deed of Trust / Mortgage
 - ✍ Notice of Right to Cancel (if applicable)

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Miscellaneous Guidelines

Residency and Immigration Status

RESIDENCY AND IMMIGRATION STATUS

WM will generally purchase any acceptable loan made to United States citizens, permanent resident aliens, and non-permanent resident aliens. The borrowers must meet WM credit and underwriting guidelines as set forth in this guide and on the specific Product and Pricing Matrices. Loans to foreign nationals are not eligible for sale to WM.

U.S. CITIZENS

A United States citizen is a native or naturalized person entitled to all rights and privileges of the United States. Unless otherwise noted, loan program requirements are based on the assumption that the borrower is a U.S. citizen.

PERMANENT RESIDENT ALIEN

WM will fund loans made to lawful permanent residents of the United States provided the following requirements are met.

- ? An alien registration card (also called a "green card") with a 10-year expiration date on the front and no expiration date on the back is required. To verify the borrower's resident status a certification to confirm the existence of the borrower's alien registration card will be required. A person who provides an INS Form I-151 as evidence of permanent residency must also present a receipt showing that an application has been filed or a Form I-55 "green card".
- ? Resided in the United States for the past two years
- ? Two (2) year credit history is required
- ? Borrower must be employed in the United States for the past two years
- ? Any funds needed for closing must be verified from US assets.

NON-PERMANENT RESIDENT ALIEN

Non-permanent resident aliens are individuals who seek temporary entry to the United States for a specific purpose. Generally referred to as "non-immigrants", examples of non-permanent resident aliens include foreign officials, students, international representatives, temporary workers and trainees, fiancée of a US citizen, and NATO officials.

A minimum time frame left on the visa is not required; however, if less than six months remaining, the applicant must provide a letter verifying his or her intention to remain in the country, along with a copy of the approved application for the extension of the visa.

Non-permanent resident aliens are not U.S. citizens and have no valid evidence of permanent residency, but have valid visas and social security numbers. Acceptable visas are as follows:

H-1, H-2A, H-2B, H-3 (Temporary Worker)

L-1 (Intra-Company Transferee)

E-1 (Treaty Trader)

G series (G-1, G-2, G-3, G-4) TN NAFTA Worker's Visa or TC NAFTA Worker's Visa (Issued to Mexican or Canadian citizens for professional or business purposes under the terms of the North American Free Trade Agreement)

Any other acceptable evidence of residence that may be issued by the INS.

WM requires the following:

Two year verified work history in the United States

Three years reasonable continuation of income

Two year residency in the United States

Two year credit history in the United States

Credit Score requirement for product chosen must be met

Foreign documentation must satisfy the same basic standards for authenticity,

accuracy, and completeness, as domestic documentation.

Foreign documentation must be translated to English by an acceptable source.

Currency must also be translated to US dollars within a reasonable time period prior to closing, and documented by an acceptable source.

Full or Alternative income documentation types only.

Miscellaneous Guidelines

Cash-Out Refinances

A loan is designated as a “cash-out” refinance when the actual “Cash to Borrower”, as documented on the final HUD-1 Settlement Statement, is greater than 2 (two) percent of the loan amount or \$2,000 whichever is less. The “Cash to Borrower” does not include any funds that are disbursed through escrow for the purpose of paying off consumer debt, taxes, or liens against the subject property (whether recorded or unrecorded.)

If the cash out is for the purpose of home improvement, funds may not be disbursed directly to the individual performing the work. The funds must be disbursed to the borrower, who may then use the funds to pay the contractor.

Texas Cash Out Refinances

WM will purchase both fixed-rate mortgages and adjustable-rate mortgages that are originated as Texas Section 50(a) (6) mortgages, but limit the plans that can be used for adjustable-rate mortgages. The seller must refer to the Fannie Mae Seller guide for all underwriting, closing and closing documentation guidelines.

Under Texas law, a new Texas Section 50(a) mortgage is an equity take-out mortgage (cash out refinance transaction). Although we permit an existing Texas Section 50(a)(6) mortgage to be refinanced as either a limited cash out refinance transaction or a cash out refinance transaction, a lender should keep in mind that, under the provisions of the Texas Constitution, “once a Section 50(a)(6) mortgage, always a Section 50(a)(6) mortgage.” This means that once a borrower obtains a Texas Section 50(a) (6) mortgage (either a first lien or a subordinate lien), any subsequent refinancing of the homestead property will be subject to all of the provisions of Section 50(a) (6) if any of the proceeds are used to pay off the Section 50(a) (6) mortgage— even if the borrower does not receive any cash out of the refinance proceeds.

The seller that delivers a Texas Section 50(a)(6) mortgage to us must have a representation and warranty in their Mortgage Loan Purchase Agreement allowing for such loans and must be in compliance with such representation and warranty.

Restrictions in the Texas Constitution impose substantial additional legal risks and uncertainties that a lender does not face when it originates (and services) equity takeout mortgages in other states. For example, if any of the specific requirements that relate to Texas Section 50(a)(6) mortgages—such as limitations on fees charged to the borrower, disclosures to the borrower, matters to be addressed in the closing documents, etc.—are not satisfied, the lien may be invalid. A Texas Section 50(a)(6) mortgage cannot be closed until after a 12-day “cooling off” period in which the borrower is allowed to change his or her mind about obtaining the mortgage. This “cooling off” period runs from the later of the date of the loan application or the date that the borrower receives the required notice about the extension of credit. The borrower must also be allowed to rescind the loan (without incurring a penalty or charge) within three days after the extension of credit is made.

Miscellaneous Guidelines

Second Mortgage/Deed of Trust

In order for a loan to be made on a property with a second trust deed/mortgage, the following requirements for the second lien must be met:

- ? The second lien must be made with acceptable terms. The interest rate must be consistent with current market rate, and the monthly payment and loan terms must also be within market parameters. Loans will not be made on properties with a second lien that has no payment and/or no interest. In addition, second liens with negative amortization are not acceptable. Loan terms less than 5 years are not acceptable.
- ? 15-year amortization with a minimum 3-year balloon is acceptable for A+, A, and A- with maximum 100% CLTV.
- ? Signed copies of the Deed or Trust/Mortgage and Note for the second lien are required.
- ? Grants will be reviewed and approved by WM on a case-by-case basis.

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Miscellaneous Guidelines

Miscellaneous Guidelines, Continued

Age of Documents

The credit report, verification of employment (VOE), verification of deposit (VOD) and other documents used to qualify the borrower should not be more than 60 days old as of the date of funding the loan.

The appraisal should not be more than 60 days old as of the date of application. An appraisal update is required for appraisals over four months. A new appraisal is required if the appraisal is over six months old.

The sales contract/offer to purchase should not be more than 120 days old as of the date of submission.

Paystubs must be dated within 60 days of submission and not more than 45 days from the loan funding date.

Property Seasoning Requirements

WM does not require first mortgages to be seasoned for any length of time prior to a refinance transaction, regardless of the transaction type (rate and term or cash out refinance), however, seasoning requirements do apply as they relate to the property value in the determination of the LTV and CLTV:

- ? If the property has been owned < 12 months, the lesser of the original purchase price plus documented improvements, if applicable, or the current appraised value will be used to determine the LTV/CLTV.
- ? If the property has been owned > 12 months, the current appraised value may be used.

No restrictions on seller seasoning.

Packaging Requirements

Packaging

Packaging Requirements

A original loan package is required for submission to the Underwriting Department and must consist of the following:

- ? Correspondent original loan file submitted
- ? Appraisal report performed by a WM approved appraiser or an appraisal company that utilizes quality control procedures that have been deemed acceptable by WM's Appraisal Department. Such procedures are subject to and require periodic auditing.
- ? Complete original appraisal
 - ✍ Two sets of original subject and comparable photos (Laser digital photos are acceptable).
 - ✍ Purchase Agreement/Escrow on purchases
 - ✍ FNMA/FHLMC Form 439/1004B (Sketch Addendum may be on the reverse side.)
 - ✍ Plat map
 - ✍ Sketch Addendum (Form 439 may be on the reverse side)
 - ✍ Addendum (all pages)
 - ✍ Comparable Sales Map (showing location of subject property and comparable sales)
 - ✍ Appraisal dated within six months
 - ✍ Recertification and supporting documentation if appraisal is over three months old
- ? Signed/complete loan application (FNMA Form 1003) by correspondent/borrower
- ? Correspondent credit report
- ? Current twelve months' mortgage history
- ? Current preliminary title report with all current supplement(s) attached
- ? Escrow instructions (if applicable)

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Packaging Requirements

Packaging Requirements (continued)

- ? Purchase Agreement
 - ? If home owned less than 12 months include acquisition documentation (such as HUD-1 Settlement Statement, assumption papers, Grant Deed if from an immediate family member)
 - ? Good Faith Estimate
 - ✍ A Good Faith Estimate is required on all loans originated by a correspondent.
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