UNITED FIDELITY FUNDING CORP.

November 8, 2013

Conforming ARM Product Guidelines

Purchase

Occupancy	Units	LTV w/o Sec Fin	LTV w/Sec Fin	CLTV	Credit Score
Primary	1	90	90	90	620
	2	75	75	75	620
	3-4	65	65	65	620
Second Home	1	80	80	80	620
Investment	1	75	75	75	620
	2-4	65	65	65	620
Condominiums and second homes are ineligible in declining markets					

Rate/Term Refinance

Occupancy	Units	LTV w/o Sec Fin	LTV w/Sec Fin	CLTV	Credit Score
Primary	1	90	90	90	620
	2	75	75	75	620
	3-4	65	65	65	620
Second Home	1	80	80	80	620
Investment	1-4	65	65	65	620
Condominiums and second homes are ineligible in declining markets					

Cash Out Refinance

Occupancy	Units	LTV w/o Sec Fin	LTV w/Sec Fin	CLTV	Credit Score
Primary	1	75	75	75	620
	2-4	65	65	65	620
Second Home	1	65	65	65	620
Investment	1	65	65	65	620
	2-4	60	60	60	620
Condominiums and second homes are ineligible in declining markets					

Standard Conforming Loan Limits

Loan Amount	Units	Cont US	AK & HI
	1	$417,000	$625,500
	2	$533,850	$800,775
	3	$645,300	$967,950
	4	$801,950	$1,202,925

Conforming High Balance

Purchase

Occupancy	Units	LTV w/o Sec Fin	LTV w/Sec Fin	CLTV	Credit Score
Primary	1	75	75	75	680
	2-4	65	65	65	740
Second Home	1	65	65	65	740
Investment	1-4	65	65	65	740

Investment transactions purchased via an auction require 5% LTV/CLTV reduction from maximum financing.

Rate/Term Refinance

Occupancy	Units	LTV w/o Sec Fin	LTV w/Sec Fin	CLTV	Credit Score
Primary	1	75	75	75	680
	2-4	65	65	65	740
Second Home	1	65	65	65	740
Investment	1-4	65	65	65	740

Investment transactions purchased via an auction require 5% LTV/CLTV reduction from maximum financing.

Cash Out Refinance

Occupancy	Units	LTV w/o Sec Fin	LTV w/Sec Fin	CLTV	Credit Score
Primary	1	60	60	60	740

Condominiums are ineligible in declining markets

(High Balance Loan Limits)

Loan Amount	Units	Cont US	AK & HI
	1	$625,500	$938,250
	2	$800,775	$1,201,150
	3	$967,950	$1,451,925
	4	$1,202,925	$1,804,375

5/1 ARM

Product Description
Loan rate is fixed for the first five years. After the initial fixed period the loan rate will adjust annually.

Index
LIBOR - The average of the interbank offered rates for 1-year U.S. dollar denominated deposits in the London Market, as published in the Wall Street Journal. The index figure is the most recent index figure from the Wall Street Journal that is available on the day that is 45 days before the interest rate change date.

First Adjustment Cap
The first adjustment may change the previous interest rate by no more than 2% up or down.

Subsequent Adjustment Cap
Each subsequent adjustment may change the interest rate by no more than 2% up or down.

Lifetime Cap
The lifetime cap is 5% over the initial note rate. There is no downward cap, except for the margin.

First Interest Rate Change Date
The first interest rate change date is 59 months from the first payment due date.

Subsequent Interest Rate Change Date
Subsequent interest rate changes occur once every 12 months after the first interest rate change date.

Margin
LIBOR index – 2.25%

Borrower Qualification
Borrower must qualify at the greater of the note rate plus 2% or the fully indexed rate and amortized repayment schedule.

Loan Term
All loans must have a minimum amortization of 360 months.

Conversion Option
Conversion to a fixed rate is not permitted.

7/1 ARM

Product Description
Loan rate is fixed for the first seven years. After the initial fixed period the loan rate will adjust annually.

Index
LIBOR - The average of the interbank offered rates for 1-year U.S. dollar denominated deposits in the London Market, as published in the Wall Street Journal. The index figure is the most recent index figure from the Wall Street Journal that is available on the day that is 45 days before the interest rate change date.

First Adjustment Cap
The first adjustment may change the previous interest rate by no more than 5% up or down.

Subsequent Adjustment Cap
Each subsequent adjustment may change the interest rate by no more than 2% up or down.

Lifetime Cap
The lifetime cap is 5% over the initial note rate. There is no downward cap, except for the margin.

First Interest Rate Change Date
The first interest rate change date is 83 months from the first payment due date.

Subsequent Interest Rate Change Date
Subsequent interest rate changes occur once every 12 months after the first interest rate change date.

Margin
LIBOR index – 2.25%

Borrower Qualification
Borrower qualification is based on the note rate.

Loan Term
All loans must have a minimum amortization of 360 months.

Conversion Option
Conversion to a fixed rate is not permitted.

Eligible Borrowers

Each borrower on the loan transaction must have a valid Social Security number.
In addition, any borrower who is not a U.S. citizen must meet the requirements in the following section.

Permanent Resident Aliens

Green Cards

A copy of the Green Card is required for all permanent resident aliens whose income and/or assets are being used to qualify for a loan. A copy of the front and back of the card is required and must be included in the loan file.

- While the Green Card itself states "Do Not Duplicate" for the purpose of replacing the original card, U.S. Citizenship and Immigration Services (USCIS) allows photocopying of the Green Card. Making an enlarged copy or copying on colored paper may alleviate any concerns the borrower may have with photocopying.

Non-permanent Resident Aliens

Required Visas

All non-permanent resident aliens must provide evidence of a valid, acceptable visa. A copy of the unexpired visa must be included in the loan file evidencing one of the following visa classes:

- A Series (A-1, A-2, A-3): these visas are given to officials of foreign governments, immediate family members and support staff. Only those without diplomatic immunity, as verified on the visa, are allowed.
- E-1 Treaty Trader and E-2 Treaty Investor: this visa is essentially the same as an H-1 or L-1; the title refers to the foreign country's status with the United States.
- G series (G-1, G-2, G-3, G-4, G-5): these visas are given to employees of international organizations that are located in the United States. Some examples include the United Nations, Red Cross, World Bank, UNICEF and the International Monetary Fund. Verification that the applicant does not have diplomatic immunity must be obtained from the applicant's employer and/or by the viewing the applicant's passport.
- H-1 (includes H-1B and H-1C), Temporary Worker: this is the most common visa given to foreign citizens who are temporarily working in the United States.
- L-1, Intra-Company Transferee: an L-1 visa is given to professional employees whose company's main office is in a foreign country.
- TN, NAFTA visa: used by Canadian or Mexican citizens for professional or business purposes.
- TC, NAFTA visa: used by Canadian citizens for professional or business purposes.

All standards for determining stable monthly income, adequate credit history and sufficient liquid assets must be applied in the same manner to each borrower including borrowers who are non-permanent resident aliens.

Foreign Nationals

Foreign nationals who have no lawful residency status in the U.S. are not considered to be non-permanent resident aliens and are not eligible for financing.

Diplomatic Immunity

Due to the inability to compel payment or seek judgment, transactions with individuals who are not subject to United States jurisdiction are not eligible. This includes embassy personnel with diplomatic immunity. Verification the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport or the U.S. Department of State's Diplomatic List at http://www.state.gov/s/cpr/rls/.

Separated Borrowers

When the Borrower indicates that he/she is separated, it must be determined whether it is a legal separation.

If the Borrower is legally separated, a copy of the legal separation agreement must be provided to determine the division of assets, liabilities and potential obligations. If there is no legal separation, a letter from the attorneys of both parties involved specifying the proposed settlement terms must be provided. If the Borrower states there are no plans for a legal separation, no further documentation is necessary; he/she is legally married and qualified accordingly.

Ineligible Property

- Non warrantable condos
- Condotels
- Co-ops
- Manufactured homes
- Mixed use
- Florida condos and investment property in Broward and Dade counties.
- Investment property in a different state than borrower's primary residence.

Property Ownership Limitations

All Borrowers

The following guidelines apply to the number of 1-4 unit properties financed with UFF and all other lenders. All financed 1-4 unit properties for all borrowers on the loan transaction must be included in the total. There are no restrictions on the number of properties that the borrower owns free and clear.

Occupancy Type	Total Financed
Primary	4
Second Home	4 (including primary)
Investment	4 (including primary)

Unique Property

Must prove marketability with like comparables within an acceptable distance of the subject.

Property Requiring Escrow for Completion

All work must be completed prior to closing. Appraisal may not be rendered as "subject to" completion.

Appraisal

Appraisals must be obtained via the EAGLE web site to comply with AIR and must include Fannie Mae Market Conditions Addendum.

Investment and Owner Occupied 2-4 Unit Property

A Single Family Comparable Rent Schedule (Form 1007) is required on all one-unit investment properties. An Operating Income Statement (Form 216) must be obtained for all investment property transactions, and all two-to-four properties (including those in which the borrower occupies one of the units as a principal residence).

Financing Type

Purchase

Existing and new construction

Refinance

If the first lien being paid off was a purchase transaction, and the original purchase price, as stated on the application, is less than the new appraised value the file should contain documentation supporting the increase in value (e.g. appraisal indicates increasing values for the market, appraisal comparables support increasing values, documented home improvements, or a copy of the original appraisal showing the original appraised value higher than the original sales price).

If the increase in value is unsupported, the underwriter should use the lower of the original purchase price or the new appraised value to determine LTV/TLTV/CLTV.

If the underwriter has knowledge that the first lien being paid off was a cash-out refinance transaction with an LTV greater than 80%, the new Loan will not be eligible for rate/term refinance parameters.

Rate/Term Refinances

UFF will consider transactions meeting the following criteria to be Rate/Term (i.e., No Cash-out) refinances:

- To be eligible for a rate-term refinance and the last transaction on the property was a cash-out refinance within the last six months; the new mortgage must be treated as a cash-out refinance. Note date to note date is what is used to calculate the six months.
- Pay off of the current mortgage (principal balance plus accrued interest, and any required prepayment penalty, only; other costs such as late fees and past-due amounts may not be paid with the new loan)
- If the first mortgage is a Home Equity Line of Credit (HELOC) a copy of the HUD-1 Settlement Statement from the borrower’s purchase of the subject property must be provided evidencing the proceeds were **used in their entirety to acquire the subject property**
- Pay off (as defined above) of any subordinate mortgage lien that was **used in its entirety to acquire the subject property** - regardless of seasoning
- A copy of the HUD-1 Settlement Statement from the borrower’s purchase of the subject property must be provided evidencing that any subordinate financing was used in its entirety to acquire the subject property
- Incidental cash to the borrower not to exceed the lesser of $2000 or 2% of the principal balance of the new loan amount (does not apply to owner occupied refinances of property located in Texas).

Cash-out Refinances

To be eligible for a cash-out refinance, the borrower must have owned the property for more than six months, if not the transaction is ineligible. Note date to note date is what is used to calculate the six months.

Property Listed For Sale

Rate/Term Refinance:

Loan transactions where the subject property was listed for sale at the time of application are not eligible.

Cash-Out Refinance:

Loan transactions where the subject property was listed for sale at the time of application are not eligible.

UFF will allow conforming cash-out refinance transactions where the subject property was listed for sale within the last six months, prior to the loan application if:

- The property was taken off the market 6 months prior to the application date; and
- The maximum LTV/CLTV is the lower of 70 percent or the maximum for product/occupancy/property type.

Short Refinance or Restructured Loans

Not allowed for subject property currently owned by borrower.

Construction to Permanent Financing

The following construction-to-permanent financing guidelines apply to all UFF Loans.

Construction-to-permanent financing involves the granting of a long-term Mortgage to a borrower to replace interim financing used for the construction of a new home.

This conversion must be treated as a refinance transaction (the borrower may or may not receive cash from the settlement).

To be considered a construction-to-permanent financing transaction, one of the following must be met:

- The borrower is the primary obligor on the construction financing which is obtained through a legitimate financial institution; **or**
- The borrower is the owner of the lot on which the residence is constructed.

UFF considers long-term financing to make a single disbursement to a builder/contractor or other party for the purchase of a completed property to be a purchase transaction and subject to guidelines for purchase transactions.

Borrower in Construction Industry

If the borrower is acting as his/her own builder (general contractor or sub-contractor) and his/her primary occupation is in the construction industry, the following must be met:

- Acquisition Cost Documented
  - Acquisition cost must be fully documented, regardless of LTV/TLTV/CLTV
  - To document acquisition cost, the borrower must provide copies of receipts, bills, lien waivers, lot purchase agreement, etc, in addition to an itemized cost breakdown.
  - The LTV/TLTV/CLTV will be based on the lesser of the documented acquisition cost or appraised value.
  - The subject property must be an owner occupied primary residence.
  - The borrower cannot receive cash back at closing that is not a direct verifiable reimbursement of expenses.

Subordinate Financing

There are two types of subordinate financing:

- Home Equity Line of Credit (HELOC): a mortgage loan that allows the borrower to obtain multiple advances from a line of credit at his/her discretion and that is typically in a subordinate position.
- Closed End Loan: a mortgage providing a single advance of funds at the time of loan closing and that is not eligible for additional draws.

For transactions including subordinate financing, the following requirements apply for both **HELOC and Closed End Loans**:

- The subordinate financing must be recorded and clearly subordinate to UFF's first mortgage.
- The maximum LTV/CLTV may not exceed the guideline limits for the product and occupancy type shown in the conforming and high balance loan matrix.
- If there is/will be an outstanding balance at the time of closing, the payment on the subordinate financing must be included in the calculation of the borrower's debt-to-income ratio(s).
- Negative amortization is not allowed; scheduled payments must be sufficient to cover at least the interest due.
- Subordinate financing from the property seller is not allowed.

Note: The **CLTV ratio is applicable to Conforming Loans** and calculated by adding the HELOC <u>credit line limit</u> (rather than the amount of the HELOC in use) to the first mortgage amount, plus any other subordinate financing, and dividing that sum by the value of the mortgaged premises.

For new Closed End subordinate financing the following also apply:

- Maturity date or amortization basis of the junior lien must not be less than five years after the Note date of the first lien Mortgage, unless the junior lien is fully amortizing
- The loan cannot have a balloon or call option within five years of the date of the Note.

The terms of a HELOC may provide for a balloon or call option within the first five years after the Note date of the first Mortgage.

Acceptable Documentation

The terms of any subordinate financing must be verified. The following sources of verification are acceptable*:

- Existing subordinate loans (loans that will be re-subordinated):
  - A copy of the credit report, **or**
  - A copy of the mortgage note, **or**
  - A direct verification from the lender, **or**
  - A copy of the loan statement

  Reminder for home equity lines of credit (HELOC): If an existing HELOC is reduced without modifying the original Note, the original line limit must be used to calculate the Combined-Loan-to-Value ratio.

- New subordinate loans obtained prior to or at closing:
  - A copy of the mortgage note, **or**
  - A direct verification from the lender, **or**
  - A copy of the commitment letter from the lender **or**
  - A copy of the HUD-1 evidencing proceeds

Notes:

- Whether the subordinate financing is existing or new, a full underwrite of the documentation provided is required to ensure the subordinate financing meets the requirements of the primary product.
- If the subordinate lien's terms cannot be verified in their entirety with a single source of verification, the use of a combination of the above documentation options is acceptable.
- If the subordinate financing is a community second or affordable second, it must comply with Fannie Mae and Freddie Mac requirements

Credit

All borrowers must have a minimum of three open trade lines with a minimum of 12 months history on at least one of the three.

Limited or No Traditional Credit References

Manually underwritten loans are not eligible.

Trade Lines in Dispute

Disputed trade lines which derogatory activity occurred within the last 24 months that are reported must be updated to show dispute resolution or acceptable settlement.

Mortgage

Late payments of 30 days or more within the prior 12 months are ineligible.

Short Refinance or Restructured Mortgage Loan

- Not allowed for subject property currently owned by borrower.

If one or more of the borrowers on the Loan has entered into a Short Refinance or restructured mortgage loan transaction for a property other than the subject property in the past, credit must be reestablished according to the following Short Sale Requirements below.

A Short Refinance or a Restructured Mortgage Loan occurs when the terms of the original transaction have been changed resulting in absolute forgiveness of debt or a restructure of debt through modification or the origination of a new loan that results in:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage or
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness or
- Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage or
- Conversion of any portion of the original mortgage debt from secured to unsecured

Pre-Foreclosure or Short Sale

A short sale is the sale of a property for less than the total amount needed to satisfy the mortgage obligation. Under this procedure, when the borrower cannot sell the property for the full amount of their indebtedness, the lender considers accepting a payoff of less than the total amount owed on the mortgage if that enables the lender to reduce the loss it would incur if the lender foreclosed on and acquired the property.

Extenuating Circumstances

- At least two (2) years must have elapsed since completion date of the Short Sale
- The borrower(s) may purchase a property secured by a primary residence, second home, or investment property with the greater of ten percent minimum down payment or the minimum down payment required for the transaction.

Financial Mismanagement

- Four years and up to seven years must have elapsed since completion date of the short sale.

Bankruptcy, Foreclosure and Deed-in-lieu of Foreclosure

<table>
<tr><th colspan="2">Bankruptcy Requirements</th></tr>
<tr><th>Extenuating Circumstances</th><th>Financial Mismanagement</th></tr>
<tr><td>• Evidence that each Borrower has a minimum Loan Score of 620
• 24 months re-establishment of credit after the discharge or dismissal of a bankruptcy

Multiple Bankruptcy Filings
• 36 months re-establishment of credit after the discharge or dismissal of a bankruptcy when the Borrower has filed more than one bankruptcy petition in the past seven years</td><td>• Evidence that each Borrower has a minimum Loan Score of 680
• 48 months re-establishment of credit since the discharge or dismissal date of a bankruptcy

Multiple Bankruptcy Filings
• 60 months re-establishment of credit after the discharge or dismissal of a bankruptcy when the Borrower has filed more than one bankruptcy petition in the past seven years</td></tr>
<tr><td colspan="2">The following ADDITIONAL CREDIT REQUIREMENTS apply to both Financial Mismanagement and Extenuating Circumstances:
The borrower(s)s credit record under the re-established credit history must include:
• No more than two installment or revolving debt payments 30 days past due in the last 24 months
• No installment or revolving debt payments 60 or more days past due since the discharge or completion of the bankruptcy
• No housing debt payments past due since the discharge or completion of the bankruptcy
• No new public records for bankruptcies, foreclosures, deeds-in-lieu, unpaid judgments or collections, garnishments, liens, etc., since the discharge or completion of the bankruptcy
• Evidence that the Borrower's credit history does not contain multiple revolving accounts with high balances-to-limits or high overall utilization of revolving credit.</td></tr>
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<table>
<tr><th colspan="2">Foreclosure Requirements</th></tr>
<tr><th>Extenuating Circumstances</th><th>Financial Mismanagement</th></tr>
<tr><td>• Evidence that each Borrower has a minimum Loan Score of 620
• Require 3-year re-establishment of credit from the completion date.

Additional requirements that apply after 3 years and up to 7 years:
• Primary residence only minimum 10% down payment required
• Second home or Investment property not allowed
• Rate/Term refinances allowed on all occupancy types-Standard policy applies
• Cash-out Refinances not allowed</td><td>• Evidence that each Borrower has a minimum Loan Score of 680
• Require a 7 year re-establishment of credit from the completion date.

Additional requirements that apply up to 7 years:
• Primary residence only minimum 10% down payment required and a minimum Loan Score of 680
• Second home or Investment property not allowed
• Rate/Term refinances allowed on all occupancy types - Standard policy applies
• Cash-out Refinances not allowed</td></tr>
<tr><td colspan="2">ADDITIONAL REQUIREMENTS apply to both Financial Mismanagement and Extenuating Circumstances:
The borrower(s)s credit record under the re-established credit history must include:
• No more than two installment or revolving debt payments 30 days past due in the last 24 months
• No installment or revolving debt payments 60 or more days past due since the discharge or completion of the bankruptcy or the completion of the foreclosure-related action
• No housing debt payments past due since the discharge or completion of the bankruptcy
• No new public records for bankruptcies, foreclosures, deeds-in-lieu, unpaid judgments or collections, garnishments, liens, etc., since the discharge or completion of the bankruptcy or the completion of the foreclosure-related action
• Borrower's credit history does not contain multiple revolving accounts with high balances-to-limits.</td></tr>
</table>

<table>
<tr><th colspan="2">Deed-in-Lieu of Foreclosure Requirements</th></tr>
<tr><th>Extenuating Circumstances</th><th>Financial Mismanagement</th></tr>
<tr><td>• Evidence that each Borrower has a minimum Loan Score of 620
• Require 2-year re-establishment of credit from the completion date.

Additional requirements that apply after 2 years and up to 7 years:
• Purchase primary residence, second home or investment; greater of 10% down payment or the minimum down payment required for the transaction
• Rate/term and cash out refinances allowed on primary residence, second home or investment - Standard policy applies</td><td>• Evidence that each Borrower has a minimum Loan Score of 680
• Require 4-year re-establishment of credit from completion date (deed-in-lieu executed)

Additional requirements that apply after 4 years and up to 7 years:
• Purchase primary residence, second home or investment; greater of 10% down payment or the minimum down payment required for the transaction
• Rate/term and cash out refinances allowed on primary residence, second home or investment - Standard policy applies
• Evidence that each Borrower has a minimum Loan Score of 680</td></tr>
<tr><td colspan="2">ADDITIONAL CREDIT REQUIREMENTS apply to both Financial Mismanagement and Extenuating Circumstances: The borrower(s)s credit record under the re-established credit history must include:
• No more than two installment or revolving debt payments 30 days past due in the last 24 months
• No installment or revolving debt payments 60 or more days past due since the discharge or completion of the bankruptcy or the completion of the foreclosure-related action
• No housing debt payments past due since the discharge or completion of the bankruptcy
• No new public records for bankruptcies, foreclosures, deeds-in-lieu, unpaid judgments or collections, garnishments, liens, etc., since the discharge or completion of the bankruptcy or the completion of the foreclosure-related action
• Evidence that the Borrower's credit history does not contain multiple revolving accounts with high balances-to-limits or high overall utilization of revolving credit</td></tr>
</table>

Consumer Credit Counseling
Borrower must be completely out of CCC for a minimum of 12 months.

Credit inquiries
All inquiries must be addressed with a credit supplement.

Debt
Accounts may not be "paid down" to 10 months or less to allow the borrower to qualify. Installment or Mortgage accounts must be paid in full. Payoff of revolving accounts in order to qualify the borrower is generally not allowed.

Loans Secured By Retirement Accounts
Payments on loans secured by the borrower's 401(k) or SIP (Savings Investment Plan) are not included in long term debt because they are voluntary payments. However, the underwriter should consider these payments in terms of their possible impact on cash flow and debt ratios. The borrower should indicate plans for debt repayment if the inclusion of a 401(k) or SIP loan payment in the monthly debts results in very high total obligations to income ratio or negative cash flow.

Long Term Debt
The monthly payment revolving and open-end account with a balance, regardless of the number of payments remaining, must be included in the borrower’s long-term debt and ratio calculation. If the credit report does not reflect a payment on a currently reporting liability, and the actual payment cannot be determined, a minimum payment may be calculated as follows:

- **HELOC:** Payments on a home equity line of credit with an outstanding balance may be calculated at 1% of the outstanding balance or the payment reflected on the Borrower’s billing statement.

Deferred Payments

Some debts may have deferred payments or be in a period of forbearance. These debts must be included in the qualifying ratio(s) if there are more than 10 months of payments remaining. When payments on an installment debt are not given on the credit report or are listed as deferred, documentation supporting the required payment must be provided. Examples of acceptable documentation include but are not limited to:

- Direct verification from the creditor
- Copy of the installment loan agreement
- For a deferred student loan, if the actual payment cannot be determined, a payment may be calculated using 2.0% of the original student loan balance or outstanding balance, whichever is higher.

Contingent Liabilities

Contingent liabilities are debts the borrower is not currently required to pay but may be required to pay in the future (e.g. co-signed loans, court ordered payments, previous residence sold on assumption of Mortgage).

Co-signed Loans

The monthly payment on a co-signed loan may be excluded from long term debt only with evidence of timely payments being made by someone other than the borrowers. Generally, the primary obligor should have been making payments on the debt for at least 12 months (although shorter payment histories may be considered on a case-by-case basis).

Assumption

The debt on a previous residence may be excluded from long term debt with evidence that the borrower no longer owns the property. The following documents are required:

- Copy of documents transferring ownership of the property
- The assumption agreement executed by the transferee

Court Order

If the obligation to make payments on a debt has been assigned to another person by court order, such as a divorce decree, the payment may be excluded from long term debt. The following documents are required:

- Copy of the court order or divorce decree
- For Mortgage debt, a copy of the document(s) transferring ownership of the property
- If a transfer of ownership has not taken place, any late payments associated with loan on the property should be taken into account when reviewing the borrower's credit profile.

Lease Payments

The monthly payment associated with a lease must be included in total monthly obligations regardless of the number of payments remaining until the end of the lease term. If the lease is near the end of its term the new lease payment should be determined and included in the total monthly debts.

Employment and Income

A verbal verification of employment is required for all borrowers. This policy applies to all income types with the exception of passive income.

- For salaried borrowers, the verbal verification of employment must be completed within 10 days prior to note date.
- For self-employed borrowers, the verbal verification of employment must be completed within 30 days prior to note date.
- For military income, a military Leave and Earnings Statement dated within 30 days prior to note date is acceptable in lieu of a verbal verification of employment.

Employment by Relatives or Transaction Participants

If the borrower is employed by a relative, a closely held family business, the property seller, real estate agent, or any party to the real estate transaction, the following documentation must be obtained:

- Borrower's signed and completed personal federal income tax returns for the most recent two-year period, and
- Verification of Employment form (VOE) and
- W-2's for the most recent two tax years.

Current income reported on the VOE or pay stub may be used if it is consistent with W-2 earnings reported on the tax returns. If the tax returns do not include W-2 earnings or income is substantially lower than the current VOE or pay stub, further investigation is needed to determine whether income is stable.

Borrowers Who Are Re-entering the Workforce

Income from borrowers who re-enter the workforce *and* currently have less than a two-year employment and income history may be used to qualify, if:

- The borrower has been at the current employer for a minimum of six months, *and*
- There is evidence of a previous employment history.

Self-Employed Borrowers

If a borrower is self-employed and self-employment income is *not* used to qualify, Sellers must obtain the borrower's individual federal tax returns. If a business loss is reported on the borrower's individual federal tax returns, the underwriter may require additional documentation in order to fully evaluate the impact of a business loss on the income used for qualifying.

Child Support, Alimony or Maintenance Income

In order to be used as income, alimony, child support or separate maintenance payments the following must be obtained:

- Evidence the borrower has received the total court ordered amount for the most recent three months; if child support, proof of the ages of the children for which child support is received to prove 3 year continuance; and
- Copy of the signed court order reflecting the payor's obligation for the previous 12 months, or
- Copy of the signed court order reflecting the payor's obligation for the previous six to 12 months if the monthly income does not exceed 30% of the borrower's qualifying income.

Income from alimony, child support or separate maintenance payments may be considered qualifying income if:

- The documentation shows that the payor was obligated to make payments to the borrower for the most recent 12 months and is obligated to make payment to the borrower for the next three years.
- The payor was obligated for less than 12 months but not less than six months and if the amount of the monthly payment does not exceed 30% of the borrower's qualifying monthly income.

Please note: Income cannot be considered for qualifying if the payor has been obligated to make payments for less than six months, the payments are not for the full amount or the payments are not received on a consistent basis.

Commission, Bonus, Overtime, or Income from a Second Job

Commission

Must have a two year history of receipt to use as qualifying income and include the following:

1. Most recent YTD paystub or salary voucher documenting at least one month of income.
2. W-2s and/or 1099s covering the most recent two years.
3. Complete signed individual federal tax returns for the most recent two years and a signed 4506-T.

Employee-paid business expenses reflected on the borrower's tax returns must be deducted from the borrower's gross commission income when calculating income.

Bonus

Must have a two year history of receipt to use as qualifying income. To document, obtain all of the following:

1. Most recent YTD paystub or salary voucher documenting at least one month of income.
2. W-2s covering the most recent two years.
3. Verbal VOE not more than 10 calendar days prior to the Note Date.

Overtime and Second Job

Must have a 2-year history of receipt and be likely to continue for the next 3 years. To document, obtain all of the following:

1. Most recent YTD paystub or salary voucher documenting at least one month of income.
2. W-2s covering the most recent two years
3. Verbal VOE not more than 10 calendar days prior to the Note Date.

Foreign Income

Acceptable only if income can be verified on U.S. personal tax returns.
Foreign income should be paid in U.S. currency. However, income paid in foreign currency may be considered on a case-by-case basis if it's converted into U.S. currency.

Rental Income

If the subject property is used for an investment, the borrower must have a minimum of two years' experience managing rental property and documented on the last two years tax returns.

Rent Loss Insurance

Rent loss insurance covers rental losses that are incurred during the period that the property is being rehabilitated following a casualty. The coverage must be for at least six months' rent.
Rent loss insurance is required for:

- 2-4 unit Primary properties, when rental income from the subject property is used to qualify the Borrower, and
- 1-4 unit investment properties when rental income from the subject property is used to qualify the Borrower.

Rental of Previous Residence Listed for Sale

See Departure Residence Policy.

Previous Residence Held for Investment

See Departure Residence Policy.

Notes Receivable, Installment Loans and Land Contracts

Secured

Evidence of receipt for the last 12 months is required, in addition to a copy of the note verifying payment amount and remaining term of at least three years.

A 12-month history of receipt must be verified with one of the following:
- Bank deposit slips
- Canceled checks
- Tax returns

Income from a recently executed note (less than 12 months), indicating a minimum duration of at least three years from the date of application, may not be used as stable income, but may be used to justify a higher qualifying ratio.

Unsecured
Evidence of receipt for the last 12 months is required in addition to a copy of the note verifying payment amount and remaining term of at least three years. A 12-month history of receipt must be verified with one of the following:
- Bank deposit slips
- Canceled checks
- Tax returns

Assets as a Basis for Mortgage Qualification
Not Allowed.
- If the borrower is not currently using the asset as a source of income, it may not be used to qualify.

Debt to Income
- Determined by AUS findings.
- Maximum debt to income on all HPML's is limited to 45% regardless of credit score.

DTI limitations apply to all loans regardless of AUS decision.

Assets
In addition to standard liquid assets, the following are considered to be cash assets at 100% of the verified amounts:
- A gift or grant from a municipality, nonprofit religious organization, nonprofit community organization.
- Proceeds from the sale of the borrower's personal property.

Cash Assets Requiring Liquidation
The following may be counted as cash assets at 100% of the verified liquidated amounts:
- Cash value of life insurance.
- Publicly Traded Stocks
- Bonds
- Mutual Funds
- U.S. Government Securities
- Savings Bonds

Publicly Traded Stocks, Bonds, Mutual Funds, U.S. Government Securities
A copy of the account statement for the most recent month/quarter is required; proof of liquidation is required provided that the existence of these accounts is fully documented.
When the asset is needed to complete the transaction verify:
- The borrower's ownership of the asset,
- The value of the asset at the time of sale or liquidation, and
- The borrower's actual receipt of funds realized from the sale or liquidation.

Retirement Plans

IRA, SEP IRA, 401(k), KEOGH, 403(b) and other IRS qualified retirement plans may be verified with a copy of the most recent monthly/quarterly statement evidencing the Borrower as the owner and the value of the account.

When the asset is needed to complete the transaction verify:
- the borrower's ownership of the asset
- the value of the asset at the time of sale or liquidation, and
- the borrower's actual receipt of funds realized from the sale or liquidation.

<u>Savings Bonds</u>
- A copy of the bond certificate(s) must be provided evidencing the Borrower is the owner and the current value of the bonds, OR
- Include a statement from the Seller or a financial institution attesting that it has seen the bonds and listing the serial numbers of the bonds, dates of maturity, type and amount, and stating that the borrower is the owner. A copy of the appropriate U.S. Treasury Table evidencing the current values of the bonds should also be provided.

When the asset is needed to complete the transaction verify:
- the borrower's ownership of the asset
- the value of the asset at the time of sale or liquidation, and
- the borrower's actual receipt of funds realized from the sale or liquidation.

<u>Gift from Related Persons</u>
A gift letter or the application must list the donor's name, address (city, state and zip), relationship to the borrower, and the dollar amount of the gift. If a gift letter is used, it must be signed by the donor. If the information is included on the application, the donor's signature is not required.
Restrictions
- The donor must be related to, fiancé/fiancée, or domestic partner of the borrower.
  When the gift funds are received prior to the initial verification of assets (bank statement balance includes gift funds), the loan file must contain the following documentation:
  - Verification of funds in the borrower's account.

- When the gift funds are received after the initial verification of assets, the loan file must contain the following documentation:
  - Verification of the transfer of the gift funds from the donor to the borrower. Transfer of funds can be verified by a copy of the donor's withdrawal slip and borrower's deposit slip OR by a copy of the donor's canceled check and evidence of deposit in to borrower's account.

- When the gift funds are transferred at closing, the loan file must contain the following documentation:
  - Verification of the transfer of the gift funds from the donor to the borrower. Transfer of funds can be verified by a copy of the donor's check showing the donor as the remitter and one line of the settlement statement clearly indicating the exact amount of the gift funds received from the donor.

The borrower must provide a minimum cash down payment of at least 5% of the purchase price for LTV of >80%. The minimum down payment amount cannot be borrowed or subject to any repayment terms.

<u>Sale of Personal Property</u>
The following are required to document the sale of personal assets for funds to close:
- Bill of sale
- Asset to be sold and borrower's ownership interest
- Sales price and value of the asset (appraisal)
- Signatures of buyer and seller

- Copy of the check from the purchaser of the asset or the borrower's bank statement verifying the deposit of proceeds from the sale.

Minimum Down Payment

For a primary residence or second home with a LTV > 80% gift funds are allowed only after a minimum down payment of at least 5% has been made from the borrower's own funds.

- Gift funds are not allowed on Investment property transactions.

Contribution Limits

The maximum allowable contributions from interested parties based on the lesser of the purchase price or appraised value are:

Property Type	LTV/TLTV/CLTV	Contribution[1]
Primary Residence	> 90% > 75 ≤ 90% ≤ 75%	3% 6% 9%
Second Home	> 90% > 75 ≤ 90% ≤ 75%	3% 6% 9%
Investment Property	All LTV/TLTV/CLTVs	2%

Reserves

Determined by AUS.

Mortgage Insurance

Single premium LPMI only (refer to Radian "**One Underwrite**" Eligibility Matrix).

Departure Residence Policy

Current principal residence is pending sale but will not be sold (closed) prior to the new transaction or is converting to a Second Home:

Primary Residence Pending Sale

If the current primary residence is pending sale but will not be sold (closed) prior to the closing date of the new residence or will convert to a Second Home and at least 30 percent equity in the current primary residence **can** be documented:

- Both the current and the new mortgage principal, interest, taxes and insurance (PITI) payments must be used to qualify the borrower for the new residence, **and**
- Reserve Requirements are the greater of:
  - two months PITI for both properties, **or**
  - standard reserve requirements, **or**
  - reserve requirements as indicated by AUS (i.e., *Desktop Underwriter*® *DU* reserve requirements may be greater than published policy)

If the current primary residence is pending sale but will not be sold (closed) prior to the closing date of the new residence or will convert to a Second Home and at least 30 percent equity in the current primary residence **cannot** be documented:

- Both the current and the new mortgage principal, interest, taxes and insurance (PITI) payments must be used to qualify the borrower for the new residence, **and**
- Reserve Requirements are the greater of:
  - six months PITI for both properties, **or**
  - standard reserve requirements, **or**
  - reserve requirements as indicated by AUS (i.e., *Desktop Underwriter*® *DU* reserve requirements may be greater than published policy)

Existing Property Converting to Investment Property

If the current primary residence will become an investment property and at least 30 percent equity in the current primary residence can be documented:

- 75 percent of the rental income may be used to offset the mortgage payment in qualifying for the departure residence when the following requirements are met:
  - Rental income is documented with a fully executed lease agreement when the borrower's tax returns reflect a two-year history of managing investment properties, as evidenced by the most current two years filed and signed Federal IRS 1040 tax returns; and
  - Proof is provided that a security deposit was received from the tenant and deposited into the borrower's account and
  - Reserve Requirements are the greater of:
    - ◊ Two months PITI for both properties, or
    - ◊ Standard reserve requirements, or
    - ◊ Reserve requirements as indicated by AUS (i.e., *Desktop Underwriter® DU* reserve requirements may be greater than published policy)

If **not** using rental income to offset the mortgage payment in qualifying:

- Reserve Requirements are the greater of:
  - Two months PITI for both properties, **or**
  - Standard reserve requirements, **or**
  - Reserve requirements as indicated by AUS (i.e., *Desktop Underwriter® DU* reserve requirements may be greater than published policy)

If the current primary residence will become an investment property and at least 30 percent equity in the current primary residence **cannot** be documented, or the borrower does not have a two-year history of managing investment properties as evidenced by the most current two years filed and signed Federal IRS 1040 tax returns:

- Rental income may not be used to offset the mortgage payment and
- Both the current and the new mortgage PITI payments must be used to qualify the borrower for the new transaction and
- Reserve Requirements are the greater of:
  - Six months PITI for both properties, or
  - Standard reserve requirements, or
  - Reserve requirements as indicated by AUS (i.e., *Desktop Underwriter® DU* reserve requirements may be greater than published policy)

Departure Residence Appraisal Hierarchy

The following product order should be adhered to when documenting the 30% equity position in the departure property. Users may select either product from the list below to calculate the LTV/CLTV; however, a lower level product or moving backwards in the list is not allowed.

- Full Appraisal
- AVM

Please note: The following property types are ineligible for AVM:

- Condominium
- Cooperative
- 2-4 unit property
- Manufactured home

The full appraisal or AVM documenting the current residence's equity must be dated within 60 days of the note date of the current transaction

Identity of Interest Transactions

A non-arm's length transaction is one where the parties to the transaction are related such as family members, employer/employee, or principal/agent. This relationship may influence the transaction. Common types of non-arm's length transactions include:

- Family sales
- Property in an estate
- Employer/employee sales
- Flip transactions

An at-interest transaction involves persons who are not closely tied or related but may have a greater vested interest in the transaction, such as a party who plays more than one role in the same transaction (selling/listing agent and mortgage broker, for example). At-interest transactions carry increased risk due to the greater vested interest in the transaction by one of the parties. Examples of at-interest transactions include:

- Builder also acting as Realtor/broker
- Realtor/broker selling own property
- Realtor/broker acting as listing/selling agent as well the mortgage broker

All non-arm's length transactions are considered at-interest transactions; however, at-interest transactions are not always non-arm's length. Loans for second home or investment property are not eligible if the transaction includes non-arm's length and/or at-interest characteristics. Primary residence transactions are eligible for consideration subject to Underwriter discretion.

- Full appraisal required on all non-arm's length transactions regardless of AUS recommendation.
- Not allowed on non-owner occupied properties.
- Full documentation only: 2 years income and 2 months assets documented.

Additional Overlay Requirements

The following section describes the required and permissible documentation on all loan types.

Employment

A verbal verification of employment must be completed three days prior to the note date and prior to loan QC.

Income

A signed 4506-T must be processed for all borrowers when tax returns are used to calculate income and the IRS transcripts must be obtained for the most recent two years available prior to final approval.

- Tax transcripts may not be substituted for the borrower's tax returns.

Assets

A verification of deposit is not permitted as a sole verification of assets. Borrowers must provide current statements from the institution managing or holding the asset.

Appraisals

Conventional appraisals may not be transferred to UFF from another lender or AMC.

Short Payoff

The loan must fund no later than the 5th day of the month to receive the interest credit.

Escrow Waiver

Escrow waivers must meet the following requirements:

- Must adhere to LTV requirements
- Borrower must demonstrate the ability to make lump sum payments
- Borrower must have sufficient reserves

Escrow waivers are not eligible on HPML's

Acreage

The maximum allowed is 20 acres.

The guidelines contained herein are general product guidelines, and are in no way intended to imply an approval of any particular borrower or transaction. All loans are subject to final approval of United Fidelity Funding Corp. For additional information or clarification of guidelines, policies and procedures, contact your Account Executive. Guidelines are subject to change without notice. United Fidelity Funding Corp. is an Equal Housing Lender.