CAPSTONE LENDING CORPORATION

(SC) SPECIAL CONFORMING - PRODUCT MATRIX

January 23, 2015

AGENCY	FANNIE MAE – DU				FANNIE MAE - DU			
FINANCE TYPE	PURCHASE & RATE/TERM REFINANCE				CASH OUT REFINANCE			
OCCUPANCY	OWNER OCCUPIED				OWNER OCCUPIED			
TERM	Fixed Rate – ARM's				Fixed Rate – ARM's			
LTV's 80.01% or greater require MI	Property Type	FIXED LTV/CLTV[1]	ARM LTV/CLTV[1]	Credit Score	Property Type	FIXED LTV/CLTV[1]	ARM LTV/CLTV[1]	Credit Score
	1 Unit	95	90	620	1 Unit	80	75	620
	2 Unit	85	75	620	2 Unit	75	65	620
[1]Maximum LTV reduced by 5% LTV points when there is Secondary Financing (CLTV)	3-4 Unit	75	65	620	3-4 Unit	75	65	620
	SECOND HOME				SECOND HOME			
	Fixed Rate – ARM's				Fixed Rate – ARM's			
The CLTV ratio is calculated by adding the amount of HELOC in use to the first mortgage, HCLTV is calculated by adding the HELOC <u>credit line limit</u> to the first mortgage.	Property Type	FIXED LTV/CLTV[1]	ARM LTV/CLTV[1]	Credit Score	Property Type	FIXED LTV/CLTV[1]	ARM LTV/CLTV[1]	Credit Score
	1 Unit	90	80	620	1 Unit	75	65	620
	INVESTMENT PROPERTY				INVESTMENT PROPERTY			
	Fixed Rate – ARM's				Fixed Rate – ARM's			
C/O Transaction - Properties listed for sale in the six months preceding the Application date of the new mortgage loan are limited to 70% LTV/CLTV	Property Type	FIXED LTV/CLTV[1]	ARM LTV/CLTV[1]	Credit Score	Property Type	FIXED LTV/CLTV[1]	ARM LTV/CLTV[1]	Credit Score
	1 Unit - Purchase	85	75	620	1 Unit	75	65	620
	1 Unit – R/T Refi	75	65	620				
	2-4 Unit	75	65	620	2-4 Unit	70	60	620

FANNIE MAE	DU - REQUIREMENTS
Ability To Repay and Qualified Mortgage Rule	For loans subject to the ATR/QM rule, CSL will only lend on loans that comply with the ATR/QM requirements. Note: Investment properties which are for business purposes (borrower does not intend to occupy for greater than 14 days in the year) are exempt from ATR/QM; however, such loans must meet agency eligibility requirements and are subject to the applicable points and fees threshold. Clear itemization of fees and application of all credits that indicate paid by/to will be required on all loans

Adding/Removing Borrowers On Application	▪ Upon receipt of the application or loan file, we cannot remove/change the status of any of the existing co-applicants. Instead a new application must be resubmitted as a new transaction. (This policy applies to any transaction where a credit report is pulled and/or a loan number is assigned.) ▪ Additional borrowers may be added during the application process without the need to create a new transaction. ▪ Each transaction is limited to no more than (4) four applicants/borrowers.
Age of Documents	▪ Must be dated within 90 days old on the note date, including credit reports and employment, income and asset documents. Preliminary Title Policies must be no more than 90 days old from the date of the document.
Appraisals	▪ Determined by AUS Findings. ▪ When the subject property is an attached condominium, the appraiser must provide at least two comparable sales from outside the subject project and outside the influence of the developer, builder or property seller. ▪ **1004D-Recert of values with photo** in accordance with CSL guidelines (90 days from date of original appraisal). **Appraisal Exhibits** - In addition to standard exhibits required to be included as part of the appraisal report, at minimum interior photographs of the following areas of the subject is required: - Kitchen, All bathrooms, and Main Living area - Physical deterioration, if present ▪ Recent updates, such as restoration, remodeling, and renovation if present within the lesser of 12 months. ▪ Loans secured by properties with "unpermitted" structural additions under the following conditions: - The quality of the work is described in the appraisal and deemed acceptable ("workmanlike quality") by the appraiser; - The addition does not result in a change in the number of units comprising the subject property (e.g. a 1 unit converted into a 2 unit). ▪ If the appraiser gives the unpermitted addition value, the appraiser must be able to demonstrate market acceptance by the use of comparable sales with similar additions. Refer to Fannie Mae seller guide for additional requirements. ▪ The gross monthly rent for each unit in the subject property, all investment properties AND all 2-4 unit primary residences, must be documented in each loan, even when the borrower is not utilizing rental income to qualify. **Properties with Security Bars** - Will be considered unacceptable collateral unless they comply with local fire codes and they meet one of the following conditions: ▪ There must be a "Quick Release" on at least one window in each bedroom; or* ▪ All bedrooms must have adequate egress to the exterior of the home (occupants of a bedroom must be able to get outside the home if there is a fire). **Note:** If an enclosed patio (solid walls) covers the bedroom window, it is possible that the bedroom won't qualify as a habitable bedroom.

Assets /Funds to Close	Follow Fannie Mae guidelines relative to funds to close. https://www.fanniemae.com/content/tool/selling-guide-quick-links.pdf ▪ When using a direct account verification (i.e., verification of deposit - VOD), the Originator must include documentation of the source of funds when an account is opened within 90 days of verification and/or when the current balance in an account is significantly greater than the average balance. **Evaluating Large Deposits** ▪ When using account statements, Originator must document the source of funds for any single deposit exceeding 50% of the total monthly qualifying income for the Mortgage. Originator must document a deposit of any amount if there is any indication that the funds are borrowed. If the source of funds can be clearly identified from the deposit information on the account statement (e.g., direct payroll deposits) or other documented income or asset source in the Mortgage file (e.g. tax refund amounts appearing on the tax returns in the file), the Originator is not required to obtain additional documentation. ▪ Gift funds are allowed in accordance with Fannie Mae guidelines – refer to Gift section of matrix ▪ Secured Borrowed Funds - Include CD, stocks, bonds, automobiles, real estate, and life insurance policies. Must verify the value, ownership of the secured asset, the terms of the loan and the fact that it is a secured loan. **Gift Funds** ▪ Follow Fannie Mae's guidelines for gift funds. See B3-4.3-04 for additional details https://www.fanniemae.com/content/tool/selling-guide-quick-links.pdf **Gift of Equity** ▪ A "gift of equity" refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller's equity in the property, and is transferred to the buyer as a credit in the transaction. A gift of equity is permitted for principal residence and second home purchase transactions. The acceptable donor and minimum borrower contribution requirements for gifts also apply to gifts of equity. ▪ The following documents must be retained in the loan file: - A signed gift letter (see B3-4.3-04, and - The HUD-1 Settlement Statement listing the gift of equity. Generally, the borrower is not required to provide a 5% minimum down payment contribution on a 1 unit, owner occupied standard balance purchase. Transactions with LTV/CLTV/HCLTVs greater than 80% **may** require borrower 5% minimum down payment contribution, **follow AUS requirements**. Gifts can be used to supplement the down payment, closing costs, and reserves.

Assets /Funds to Close continued	**Minimum Borrower Contribution Requirements** The following table describes the minimum borrower contribution requirements for transactions that contain gifts: (see table below) **1** If the borrower receives a gift from a relative or domestic partner who has lived with the borrower for the last 12 months, or from a fiancé or fiancée, the gift is considered the borrower's own funds and may be used to satisfy the minimum borrower contribution requirement as long as both individuals will use the home being purchased as their principal residence.
AUS	▪ Desktop Underwriter with "Approve/Eligible" Findings is required. ▪ Manual UW is not permitted

LTV/ CLTV/ HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
80% or less	1 to 4-unit principal residence Second home	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
Greater than 80%	1- unit Principal Residence (Except for high-balance mortgage loans)	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
	2 to 4-unit principal residence Second home High-balance mortgage loans	The borrower must make a 5% minimum borrower contribution from his or her own funds. [1]After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves.

Borrower Eligibility

- U.S. Citizens
- Permanent resident aliens, with proof of lawful permanent residence
- **Non-permanent resident alien:**

Primary residences and second homes only.

- A valid social security number is required. However, a social security card may not be used as evidence of employment eligibility.
- All non-permanent resident aliens must provide evidence of a valid, acceptable visa or EAD as listed within documentation requirements below.
- When utilizing an acceptable visa, a copy of the unexpired visa and a copy of passport must be included in the loan file. The following are acceptable visa classifications:
  - A Series (A-1, A-2, A-3) E Series (E-1, E-2) Treaty Trader
  - G series (G-1, G-2, G-3, G-4, G-5) H-1, Temporary Worker
  - L-1, Intra-Company Transferee
  - TN, NAFTA visa
  - TN, TC, NAFTA visa
- I-797 documents can be utilized in lieu of a VISA if it meets the following criteria:
  - I-797 evidences an approval for an acceptable VISA class
  - The approval term is not expired

- Visa extension is current with an end date that meets CSL policy.
  - Employment Authorization Documents are permitted as long as the meet the following criteria:
    - If the borrower has <2 years within the US, a copy of a Passport used to enter the country and a copy of the I-94 issued by the USCIS are required.
    - If the borrower has > 2 years within the US, a copy of the current and previous EAD card is required.
  - Loans to non-citizens who have been granted political asylum require underwriting to non-permanent resident alien guidelines must provide:
    - An unexpired Arrival and Departure Records (INS Form I-94); and
    - Copies of their employment authorization documents.
  - If the authorization for temporary residency status will expire within 3 months or if it is set to expire, confirmation from USCIS that employer has re-filed petition of extension is required. If there are no prior renewals, proof of a three year continuance must be determined, based on information from USCIS.
  - An individual classified under Diplomatic Immunity, Temporary Protected Status, Deferred Enforced Departure, or Humanitarian Parole is not eligible.
  - Non-permanent residents must be employed in the U.S. if income is used to qualify.
  - If a non-permanent resident alien is borrowing with a U.S. citizen, it does NOT eliminate or reduce any documentation requirements.
  - ITIN's are not allowed

** Refer to **Visa Classification Chart** for additional information.

Properties vested in Trusts are permitted for all occupancy types in accordance with Fannie Mae Trust guidelines. Investment properties to be vested in the name of the Trust are acceptable.

Condominiums/PUDs	▪ Must follow Fannie Mae published Condominium Eligibility Guidelines. See https://www.fanniemae.com/singlefamily/project-eligibility for more information. ▪ Limited Review allowed in accordance with Fannie Mae Guidelines ▪ Limited Review for attached Condominium Units in Established Condominium Projects: - O/O up to 80% - Second Homes up to 75% - N/O/O Not Eligible ▪ CSL will allow on case by case basis, a project (condo, or PUD) in litigation, arbitration, mediation or other dispute in accordance with the following: - A project for which the Homeowners Association, or developer if the project has not been turned over to the unit owners, is a party to current litigation, arbitration, mediation or other dispute resolution process and the reason for the dispute involves the safety, structural soundness or habitability of the project except for instances where: - The litigation amount is known, the insurance company has committed to providing defense and the litigation amount is covered by the insurance policy - The matters involve non-monetary neighbor disputes regarding rights of enjoyment, or - The Homeowners Association is the plaintiff in the litigation and the Lender has determined that the matter is minor with insignificant impact to the financial status of the Condominium Project
Continuity of Obligation	**Definition of Continuity of Obligation** Continuity of obligation occurs on a refinance transaction when at least one of the borrower(s) on the existing mortgage is also a borrower on the new refinance transaction secured by the subject property. **Requirements for Continuity of Obligation** All refinance transactions must ▪ comply with the definition above, ▪ meet one of the permissible exceptions described below, or comply with the limited eligibility parameters described below. Note the following: ▪ Continuity of obligation requirements do not apply when there is no existing mortgage on the subject property as a result of the borrower either having purchased the subject property with cash or when any prior mortgage for which the borrower was an obligor was paid in full. All time period references in this section are measured from the date of the event (for example, transfer of title) and end with the disbursement date of the new refinance transaction. **All Permissible Exceptions to Continuity of Obligation** The new refinance transaction will be eligible and not bound by the limited eligibility parameters described below if any of the following are applicable: ▪ The borrower on the new refinance transaction was added to title 24 months or more prior to the disbursement date of the new refinance transaction. ▪ The lender documents that the borrower acquired the property through an inheritance or was legally awarded the property (for example, divorce, separation, or dissolution of a domestic partnership). There is no minimum waiting period with regard to when the borrower acquired the property before completing a new refinance transaction.

Continuity of Obligation continued

- The borrower on the new refinance transaction has been added to title through a transfer from a trust, or a limited liability company (LLC), or partnership. The following requirements apply:
  - the borrower must have been a beneficiary/creator (trust) or a 25% or more owner of the LLC or partnership prior to the transfer, and
  - the transferring entity and/or the borrower has had a consecutive ownership (on title) for at least the most recent 6 months prior to disbursement of the new loan.

Note: Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.

- The borrower has been on title for at least 12 months but is not obligated on the existing mortgage(s) that is being refinanced and the borrower meets at least one of the following requirements:
  - has been residing in the property for at least 12 months,
  - has paid the mortgage for at least 12 months, or
  - can demonstrate a relationship with the current obligor (for example, relative or domestic partner).

Other Refinance Transactions — Limited Eligibility

All other refinance transactions that do not meet either the continuity of obligation requirements or a permissible exception must comply with the following LTV, CLTV, HCLTV ratio restrictions regardless of the occupancy of the property. The LTV, CLTV, HCLTV ratios must be based on the current appraised value.

Months on Title	Eligibility Requirements
< 6 months	Ineligible
≥ 6 months < 24 months	Limited to 50% LTV/CLTV/HCLTV ratios
≥ 24 months	No additional restrictions

All refinance transactions must meet the continuity of obligation requirements if there is currently an outstanding lien that will be satisfied through the refinance transaction: Refer to Fannie Mae B2-1.2-04: Continuity of Obligation for additional details.

Credit	At least one borrower must have a minimum of one credit score to be eligible. When not all borrowers have a usable Credit Score, all of the following requirements apply: - The transaction is a purchase or "no cash-out" refinance - The Mortgage is secured by a 1-unit property and all borrowers occupy the property as their Primary Residence - Borrowers with a usable Credit Score contribute more than 50% of the total monthly income - Borrowers without a Credit Score are not self-employed **Current Housing Payment:** When the payment is not reported on the credit report, provide third party verification of payment amount. - If living rent free, a rent free letter from landlord or person obligated on lease required. - If living with relative, a rent free and relationship letter required. **Note:** Any debt not reported on the credit report must be documented as being repaid in a satisfactory manner. Must payoff any existing judgments or tax liens. **Past-Due, Collection, and Charge-Off of Non-Mortgage Accounts** Accounts that are reported as past due (not reported as collection accounts) must be brought current. ▪ For one-unit, principal residence properties, borrowers are not required to pay off outstanding collections or non-mortgage charge-offs—regardless of the amount. ▪ For two- to four-unit owner-occupied and second home properties, collections and non-mortgage charge-offs totaling more than $5,000 must be paid in full prior to or at closing. ▪ For investment properties, individual collection and non-mortgage charge-off accounts equal to or greater than $250 and accounts that total more than $1,000 must be paid in full prior to or at closing. **Accuracy of Credit Information in a Credit Report** The lender cannot use a credit score in the underwriting of the application if the disputed information is incorrect and the credit files need to be corrected. Borrower should provide a letter indicating the reason for the dispute. The credit data evaluated by AUS must be accurate for AUS finding to be valid. If AUS issues a disputed message, borrower must update credit directly with the bureaus. Lender will re-run credit and AUS once disputed tradeline(s) has been updated and corrected.

Derogatory Credit

Summary — All Waiting Period Requirements DU update 7/29/2014

Derogatory Event	Waiting Period Financial Mismanagement	Waiting Period Extenuating Circumstances
Bankruptcy CH 7 or 11	4 years	**2 years**
Bankruptcy CH 13	2 years from discharge 4 years from dismissal	**2 years from discharge** **2 years from dismissal**
Multiple BK Filings	5 years if more than one filing within past 7 years	**3 years from discharge or dismissal**
Foreclosure[1]	7 years	**3 years** **Requirements after 3 yrs up to 7 yrs:** ▪ **90% maximum LTV ratios**[2] ▪ **Purchase, principal residence** ▪ **Limited cash-out refinance all occupancy types**
Deed-in-Lieu of Foreclosure Preforeclosure (Short Sale)	4 years	**2 years**

Extenuating Circumstances
If a borrower claims that derogatory information is the result of extenuating circumstances, borrower must provide an LOX to support the claims of extenuating circumstances and provide supporting documentation that can be used to support extenuating circumstances.

Examples: divorce decree, medical reports or bills, notice of job layoff, job severance papers and documents that illustrate factors that contributed to the borrower's inability to resolve the problems that resulted from the event (such as a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns (covering the periods prior to, during, and after a loss of employment), etc.).

Exceptions for Extenuating Circumstances
A two-year waiting period is permitted if extenuating circumstances can be documented, with maximum LTV, CLTV, or HCLTV ratios of the lesser of 90%[2] **or** the maximum LTV, CLTV, or HCLTV ratios for the transaction per the *Eligibility Matrix* .

[1] When both a bankruptcy and foreclosure are disclosed on the loan application, or when both appear on the credit report, the lender may apply the bankruptcy waiting period if the lender obtains the appropriate documentation to verify that the mortgage loan in question was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied.

[2] References to LTV ratios include LTV, CLTV, and HCLTV ratios. The maximum LTV ratios permitted are the lesser of the LTV ratios in this table or the maximum LTV ratios for the transaction per the *Eligibility Matrix*.

Derogatory Credit continued	**Charge Off – Mortgage Debt** A new policy has been established to specifically address charge-offs of mortgage accounts by requiring a 4-year waiting period following this derogatory credit (2 years if the borrower can demonstrate extenuating circumstances). **Deed-in-Lieu of Foreclosure and Preforeclosure Sale** These transaction types are completed as alternatives to foreclosure. A deed-in-lieu of foreclosure is a transaction in which the deed to the real property is transferred back to the servicer. A preforeclosure sale or short sale is the sale of a property in lieu of a foreclosure resulting in a payoff of less than the total amount owed, which was pre-approved by the servicer. **Foreclosure** Note: The purchase of second homes or investment properties and cash-out refinances (any occupancy type) are not permitted until a seven-year waiting period has elapsed. **Forbearance/ Rearrangement & Workout On Existing Mortgage** Forbearance on a mortgage should be considered a foreclosure for evaluation purposes. This includes short payoffs or workouts by the servicing lender's loss mitigation or collection department. B3-5.3-07, Significant Derogatory Credit Events — Waiting Periods and Re-establishing Credit 7-29-2014
Documentation	▪ Determined by AUS ▪ Tax transcripts are required for each borrower whose income is utilized as a source of repayment. - Transcripts must be provided for the number of years of income used to qualify the borrower. Tax transcripts are required to support the income used to qualify the borrower. Generally, when the documentation used to verify income is from the same calendar period as the tax transcript, the information must match exactly. A 4506-T (personal and business), signed at application and closing, is required for all transactions.
Down Payment Assistance	▪ Employer assistance is acceptable in accordance with Fannie Mae guidelines. - Evidence of the terms must be included in the loan file and must meet Fannie Mae requirements.

Eligible Mortgage Products	▪ Agency Fixed Rate: 10, 15, 20, 25 and 30 Year ▪ Agency Libor ARM: 3/1, 5/1, 7/1 and 10/1 Arm

Product	Qualifying Rate
3/1 & 5/1 LIBOR	Higher of Note Rate + 2% or Fully Indexed Rate (Index + Margin)
7/1 & 10/1 LIBOR	Higher of Fully Indexed Rate or Note Rate

Product LIBOR ARM	Interest Rate Caps			Margin
	First	Subsequent	Life	
3/1	2%	2%	**6%**	2.250%
5/1	2%	2%	5%	2.250%
7/1	5%	2%	5%	2.250%
10/1	5%	2%	5%	2.250%

First Adjustment Cap - At the first adjustment, the interest rate cannot be increased or decreased above or below the loan's initial interest more than the percentage listed in the table above.

Subsequent Adjustment Cap - At each subsequent adjustment, the interest rate cannot be increased or decreased above or below the loan's interest rate for the preceding 12 months more than the percentage listed in the table above.

Life Adjustment Cap - The maximum rate payable over the life of the loan is the loan's initial interest plus the percentage listed in the table above.

Floor - The floor rate is the margin. Over the life of the loan, the interest rate can never be lower than the margin.

Employment/Income Verification

Employment and income documentation must comply with the requirements of DU or the Fannie Mae Seller Guide if not addressed by DU:

- For salaried employees the verbal verification of employment must be completed within 10 business days prior to the note date.
- For self-employed borrowers the verbal verification of employment must be completed within 30 days prior to the note date.
- For borrowers in the military, a military Leave and Earnings Statement dated within 30 days prior to the note date is acceptable in lieu of a verbal verification of employment.
- Borrowers with employment contracts: borrowers must begin employment before the loan closes. The Originator must obtain a paystub from the borrower that includes sufficient information to support the income used to qualify the borrower prior to close.
- An Income Analysis must be completed for self-employed borrowers.

See Fannie Mae (Guide Sections B3-3.1, B3-3.2, B3-3.2, B3-3.2.1 and B3-3.2.2) for additional details.
https://www.fanniemae.com/content/guide/selling/b/index.html

Employment/Income Verification **continued**	**Borrowers Paid Less than 12 Months Per Year** Some Borrowers' annual salaries may be received over a time period of less than 12 months. It is important to determine how the Borrower is paid in order to accurately calculate income. Sellers should determine how often and for how long the Borrower is paid and then determine monthly income based on the calculations above. For example, if a Borrower is paid 10 months of the year, multiply their monthly salary by 10 months and divide by 12. **Income from a Second or Additional Job** Must have a two-year consecutive history of receipt. To document, obtain all of the following: ▪ Written VOE covering two full years ▪ Most recent YTD paystubs or salary voucher documenting at least 30 days of income ▪ OR, all of the following: ▪ Most recent YTD paystubs or salary voucher documenting at least 30 days of income ▪ W-2s covering the most recent two years **Newly Employed Borrowers / Re-entering the Workforce** ▪ If newly employed borrower with less than a two-year employment history, obtain documentation showing that the borrower was in school or in a training program immediately prior to their current employment ▪ If borrower is re-entering the workforce, obtain documentation to support the borrower has been at the current employment for a minimum of six months and documentation to show a previous work history **Tax-Exempt Income / Non-Taxable** A borrower with tax-exempt/non-taxable income should be evaluated in the same manner as a borrower who has a higher gross taxable income. Tax-exempt sources may include - Child support payments, - Social Security benefits, - Disability retirement payments, - Workers' compensation benefits, - Public Assistance Payments - Section 8 Housing Payments **Section 8 income** may be considered. Two-year history not required. Obtain documentation from the public housing agency that issued the homeownership voucher showing the amount of the monthly payment and terms and if the income is nontaxable. The payments may not be used to offset the monthly housing payment. The documentation must show that the payments are made directly to the borrower. If the Section 8 income is determined to be nontaxable it may be grossed up as described below. **Tax-exempt income** may be considered provided there is sufficient documentation to support the tax-exempt status and that both the income and its tax-exempt status are likely to continue. Acceptable forms of documentation include award letter, policy agreements, and account statements. If the income is verified to be non-taxable, and its tax exempt status is determined likely to continue, the underwriter must develop an "adjusted gross income" for the borrower if the additional income is needed to qualify. If the borrower was not required to file a tax return or they didn't have any tax liability on their tax return, a 25% tax rate must be used in the calculation.

<table>
<tr><td>Employment/Income Verification
continued</td><td>Documentation Requirements:
- 1 years most recent tax returns with all Schedules; or
- Other documents showing that the income, or a portion is nontaxable
Note: If the borrower indicates in any way that s/he did not file a tax return and the 4506T transcript confirms there is no filing, no additional documentation is required.

Borrowers with employment contracts
▪ The borrower's employment offer must be non-contingent and the non-contingent offer letter must be included in the mortgage file
▪ The borrower's written acceptance of the employment offer must be included in the mortgage file
▪ The borrower must provide a copy of 1st paystub prior to close
▪ The borrower must have a minimum of 3 months PITIA reserves in addition to all other required reserves
- Eligible for One Unit Primary Residence, purchase and rate/term transactions only.
- Ineligible for cash-out.

See Fannie Mae (Guide Sections B3-3.1, B3-3.2, B3-3.2, B3-3.2.1 and B3-3.2.2) for additional details.
https://www.fanniemae.com/content/guide/selling/b/index.html</td></tr>
<tr><td>Financing Concessions</td><td>▪ Financing concessions for primary residences and second homes must be within the following allowable percentages:
<table><tr><th>Occupancy Type</th><th>LTV/CLTV Ratio</th><th>Maximum IPC</th></tr><tr><td rowspan="3">Principal Residence or Second Home</td><td>Greater than 90%</td><td>3%</td></tr><tr><td>75.01% - 90%</td><td>6%</td></tr><tr><td>75% or less</td><td>9%</td></tr><tr><td>Investment Property</td><td>All CLTV ratios</td><td>2%[1]</td></tr></table>[1]The maximum financing concession for investment properties is 2% of value regardless of the LTV ratio
▪ Value is the lesser of the sales price or appraised value
▪ Property Seller cannot pay for future HOA dues</td></tr>
<tr><td>High Cost / High Priced</td><td>CSL will not purchase High Cost Loans or Higher Priced Mortgage Loans (HPML)</td></tr>
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Insurance	**Amount of Hazard Insurance Coverage** **Evidence of Insurance:** The Evidence of Insurance must show the specific coverage limits for the subject property dwelling and endorsements that provide the details of coverage. The following must be provided: 1. Policy Declaration and Endorsements or 2. Form - "The Primary Forms of Residential Dwelling Coverage" shown below specifying coverage or 3. Insurer must state on the E.I. the type of dwelling coverage is included in the policy. **Lender requires replacement coverage <u>equal to the lesser</u> of the following:** A. 100% of the dwelling coverage of the improvements as established by the property insurer or B. Guaranteed Replacement Cost Endorsement, which provides that the insurer agrees to replace the insurable property, regardless of the cost or the Replacement Cost Endorsement or; C. The unpaid principal balance of the mortgage, as long as it equals the minimum amount (80%) of the insurable required to compensate for damage or loss calculated on a replacement cost basis. If the hazard insurance is not equal to at least one of the minimum coverage amounts, then additional hazard coverage that meets the minimum coverage amounts must be obtained. **Example: PRIMARY FORMS OF RESIDENTIAL DWELLING COVERAGE** NOTE: Actual Cash Value Coverage is the most limited level of coverage listed. Guaranteed Replacement Cost is the broadest level of coverage. _ ACTUAL CASH VALUE COVERAGE pays the costs to repair the damaged dwelling minus a deduction for physical depreciation. If the dwelling is completely destroyed, this coverage pays the fair market value of the dwelling at time of loss. *In either case, coverage only pays for costs up to the limits specified in the policy.* _ REPLACEMENT COST COVERAGE is intended to provide for the cost to repair or replace the damaged or destroyed dwelling, without a deduction for physical depreciation. Coverage only pays for replacement costs up to the limits specified in the policy. _ EXTENDED REPLACEMENT COST COVERAGE _______________% is intended to provide for the cost to repair or replace the damaged or destroyed dwelling without a deduction for physical depreciation. Extended Replacement Cost provides additional coverage above the dwelling limits up to a stated percentage or specific dollar amount. _ GUARANTEED REPLACEMENT COST COVERAGE covers the full cost to repair or replace the damaged or destroyed dwelling for a covered peril regardless of the dwelling limits shown on the policy declarations page.

Loan Purpose	▪ **Purchase** ▪ **Limited Cash-Out/Rate & Term Refinance** - Proceeds can be used to Pay off a first mortgage regardless of age - Proceeds can be used to pay off any junior liens related to the purchase of the subject property - Pay related Closing Costs and Prepaid items - Disburse cash out to the Borrower in an amount not to exceed 2% of the new Mortgage or $2,000, whichever is less. ▪ **Cash Out - 6 months seasoning required**; measured from settlement date to the disbursement date of the new loan, unless delayed financing is met. **Delayed Financing Provision is acceptable if all of the following requirements are met:**

Requirements for a Delayed Financing Exception
The original purchase transaction was an arms-length transaction.
The borrower(s) may have initially purchased the property as one of the following: ✓ a natural person; ✓ an eligible *inter vivos* revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust; ✓ an eligible land trust when the borrower is the beneficiary of the land trust; or ✓ An LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%.
The original purchase transaction is documented by a HUD-1 Settlement Statement, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed [or similar alternative] confirming the amount paid by the grantee to trustee may be substituted for a HUD-1 if a HUD-1 was not provided to the purchaser at time of sale.) The preliminary title search or report must confirm that there are no existing liens on the subject property.
The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).

<table>
<tr><td>Loan Purpose continued</td><td>
<table>
<tr><td>If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the HUD-1 for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction.

Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan. Borrower may only cash out their actual initial investment.

Example: Borrower may only cash out $50,000
Purchase price $100,000
Borrower contribution - $50,000 down payment and closing costs
Gift funds - $ 50,000</td></tr>
<tr><td>The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV/CLTV/HCLTV ratios for the cash-out transaction based on the current appraised value).</td></tr>
<tr><td>All other cash-out refinance eligibility requirements are met with the exception of continuity of obligation, which need not be applied. Cash-out pricing is applicable.</td></tr>
</table>

▪ All refinance transactions must meet Continuity of Obligation requirements</td></tr>
<tr><td>Min/Max Loan Amount</td><td>The maximum loan amount will vary based on the property type and location of the subject property.

▪ Loan Limit Increases: 2014-2015, refer to FHFA website for 4 Counties in California with Increases in Maximum Conforming Loan Limits for Fannie Mae and Freddie Mac
▪ Refer to the following link for loan limits: http://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx

Loan Limits for Calendar Year 2015--All Counties [XLS] , [PDF]
List of 46 Counties with Increases in Loan Limits for 2015 [XLS], [PDF]</td></tr>
<tr><td>Mortgage Insurance</td><td>▪ Standard Coverage Required. Reduced MI is not allowed.
▪ Financed MI is acceptable. The gross LTV cannot exceed lender program maximum.
▪ A valid MI certificate is required on all loans with LTVs > 80%.
▪ LPMI - Lender paid single premium (non-refundable)
▪ BPMI - borrower paid monthly premium (non-refundable)
<table>
<tr><th>LTV</th><th>COVERAGE</th></tr>
<tr><td>95% - 90.01%</td><td>30%</td></tr>
<tr><td>90% - 85.01%</td><td>25%</td></tr>
<tr><td>85% & below</td><td>12%</td></tr>
</table></td></tr>
</table>

Occupancy	▪ Primary Residence - 1-4 units ▪ Second Homes - 1-unit only ▪ Investment Properties 1-4 units **Non-Occupant Co-borrower:** Maximum LTV/CLTV/HCLTV, down payment and qualifying ratios are determined by DU. A non-occupant co-borrower's assets will be considered as funds available for closing and reserves, but their income and liabilities will not be included in DU's risk analysis. The occupant borrower must meet the DU debt ratio requirements, based on their income and liabilities. **Second Home Requirements** ➢ Must be located a reasonable distance away from the borrower's principal residence. ➢ Must be occupied by the borrower for some portion of the year. ➢ Is restricted to one-unit dwellings. ➢ Must be suitable for year-round occupancy. ➢ The borrower must have exclusive control over the property. ➢ Must not be rental property or a timeshare arrangement.
Points and Fees	Originators may not charge borrowers points and fees (whether or not financed) in an amount that exceeds the greater of (i) 5 percent of the principal amount of the mortgage loan, or (ii) $1,000. Points and fees must be adequately disclosed in accordance with applicable law and regulation.
Property; Eligible Types	▪ Single Family Detached Single Unit ▪ Single Family Attached Single Unit ▪ 2–4 Unit Attached & Detached ▪ PUDs ▪ Low-rise and High-rise Condominiums (must be Fannie Mae eligible) ▪ Rural Properties (in accordance with Agency Guidelines, loans must be residential in nature) ▪ Leaseholds ▪ Properties with Resale / Age Restrictions Only: - O/O only Mortgages subject to resale restrictions secured by one-unit properties (including eligible condo projects and PUDs) or two-unit properties. The property must be the borrower's principal residence.
Property; Ineligible Types	▪ Manufactured homes, Mobile Homes ▪ Cooperatives, Condominium Conversions that were converted within the last three years, Condotels, Hotel Condominiums ▪ Timeshares, Geodesic Domes ▪ Working Farms and Ranches, Unimproved Land, Land Trust ▪ Property **currently** in litigation ▪ Condition Rating of C5/C6 or a Quality Rating of Q6.

Property; Maximum Number of Financed Properties	▪ The loan must comply with Fannie Mae's limitations on the maximum number of financed properties, including ownership interest in financed properties. - Fannie Mae has imposed LTV/CLTV, minimum credit score, transaction type, reserves and other miscellaneous requirements that may not be assessed by DU. Refer to the Fannie Mae Seller Guide, section B2-2-03 (Borrower Eligibility, Multiple Financed Properties for the Same Borrower) for details. ▪ owner-occupied: **unlimited** ▪ second home: **four** ▪ non-owner occupied: **four** ▪ **second home and non-owner occupied: 5 – 10 available under TC Program, refer to Multiple Financed Properties TC guidelines**
Property Flipping/Non-Arms Policy	Properties that involve a re-sale that have a Non-Arms Length or At Interest relationship between the Buyer and Seller or Broker are subject to restrictions. Additional review for those loans in which the appraised value is believed to be excessive or where the value of the property has experienced significant appreciation in a short time period since the prior sale. Due to layered risk associated with excessive values and/or rapid appreciation is by receiving accurate appraisals from knowledgeable, experienced appraisers. ▪ Second Home and Investment property may be considered as an exception on a case by case basis. ▪ An additional appraisal review value product required to support the subject appraised value in instances of greater than 20% appreciation. ▪ 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). 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.
Ratios and Liabilities	▪ The Maximum DTI is 50% with a DU Approve /Eligible ▪ Loans with DTI exceeding 50% regardless of AUS decision are ineligible. ▪ Revolving debt - Minimum payment (from statement or credit report); or - $10 or 5% of the current balance (or as determined by DU), whichever is greater, if no payment is stated on the credit report. If multiple account payments are not reported, and/or the borrower's ratios are at the maximum permitted, the underwriter may request actual minimum payments from the borrower's account statements to qualify the borrower.

Ratios and Liabilities continued	**Payoff or Paydown of Debt for Qualification** Payoff or paydown of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. ***Generally,*** ▪ Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments do not need to be included in the borrower's long-term debt. ▪ If a revolving account is to be paid off and closed, a monthly payment on the current outstanding balance does not need to be included in the borrower's long-term debt. ▪ If a revolving debt is to be paid off but not closed, a monthly payment on the current outstanding balance should be considered as long-term debt (will be included in liabilities). ▪ Auto lease payments, regardless of number of payments remaining. **Deferred Installment Debts** Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations. For deferred installment debts other than student loans, if the borrower's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, the following must be obtained ▪ Copies of the borrower's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations. **Student Loans** ▪ A 1% payment amount may be calculated of the outstanding balance due in lieu of requesting additional documentation when the credit report does not contain a monthly payment. In addition, for all student loans, regardless of their payment status, the lender will use the greater of the 1% calculation or the actual documented payment. An exception will be allowed to use the actual documented payment *if it will fully amortize the loan over its term with no payment adjustments*.
Recently Listed Properties	▪ **No Cash-Out Transaction** - The subject property must not be currently listed for sale. It must be taken off the market at minimum 1 day before the date of Application. Borrowers must confirm their intent to occupy the subject property (for principal residence transactions). ▪ **Cash-Out Transaction** - Properties listed for sale in the six months preceding the Application date of the new mortgage loan are limited to 70% LTV/CLTV. Properties that were listed for sale must be taken off the market at minimum 1 day before the date of Application of the new mortgage loan.
Rental Income Calculation	When the borrower has a history of owning rental property, net rental income or loss is calculated by: ▪ The lesser of the gross rent (minus a 25% expense factor) or the market rent established by the appraiser for properties not reflected on the borrower's tax returns. ▪ When the property is reflected on the borrower's tax returns, analyze the borrower's cash flow and calculate the net rental income (or loss), making sure that depreciation or any interest, taxes, or insurance expenses were added back in the borrower's cash flow analysis. ▪ The full PITI for the rental property must be factored into the amount of the net rental income or loss.

Reserves	▪ **Primary Residence** - Follow AUS findings. However, follow Fannie Mae requirements when the borrower's current principal residence is pending sale or converting to a second home or investment property (**Departure Property**): **If the percentage of equity in the current principal residence is…** → **Then additional reserves (in addition to those required by DU or the *Eligibility Matrix*) are…** 30% or more Equity → 2 months on subject property and 2 months on current principal residence Less than 30% Equity → 6 months on subject property and 6 months on current principal residence ▪ **Second Homes** or **N/O/O** - Follow AUS findings. However if the borrower owns additional financed second homes or investment properties, provide: ***Required in addition to DU required reserves.*** **If the total number of financed properties is…** → **Then additional reserves (in addition to those required by DU or the *Eligibility Matrix*) are…** 1 - 4 Financed properties → 2 months for each second home or investment property (including subject) 5 - 10 Financed properties → 6 months for each second home or investment property (including subject) **PITIA** - monthly payments of principal, interest, taxes, insurance and assessments or dues. The required reserves for a financed property are based on the qualifying payment amount of the financed property. The underwriter may consider reduced reserves of no less than 2 months for both properties if there is documented equity of at least 30% in the existing property (derived from an appraisal which must be a 2055 or better, minus outstanding liens. **Acceptable Sources of Reserves -** Examples of liquid financial assets that can be used for reserves include: - Checking or savings accounts, 100% of Certificates of Deposit, less any early withdrawal penalties that should be deducted, - **Life Insurance Assets, If the cash value entered is the cash value to be used only for reserves, only the cash value must be verified, but does not need to be liquidated and received by the borrower.** - Investments in stocks, bonds, mutual funds, and Other Securities: - Otherwise reserves should be calculated using 70% (60% for retirement accounts) of the current market value unless the redeemable value can be determined and verified.