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***In the absence of a guideline, follow agency specific requirements***

**ASSETS**

Assets are reviewed with the borrower’s income and credit to determine the reasonableness of the transaction. A pattern of savings and an ability to manage assets should be demonstrated as well as confirmation that the funds are from an acceptable legal source. A borrower’s ability to accumulate assets gives insight into the individual’s creditworthiness and financial strength.

The borrower must verify sufficient assets to cover any down payment and closing costs associated with the mortgage transaction as well as retain enough assets to meet any reserve requirement.

Acceptable types of asset verification include the borrower’s current bank statements or financial statements (all pages), a Verification of Deposit with minimum two month average balance completed by the financial institution, or an internet printout. The internet printout must contain the same information as the traditional documentation. All asset verification must be legible and cannot contain any alterations, erasures, or similar indications that changes have been made. Asset verification documents must be dated within 30 days at underwriting and 60 days at funding.

Deposits greater than one month’s gross income are required to be explained by the borrower and will be verified, regardless of whether the funds are required to close the transaction.

**INELIGIBLE SOURCES OF ASSETS**

The following sources of assets may not be used:

- Cash on hand
- Credit card cash advance
- Gifts which must be partially or fully repaid
- Proceeds from unsecured loans or personal loans
- Salary/bonus advance for future earnings
- Sweat equity
- Unsecured borrowed funds (credit card, unsecured lines of credit, overdraft protection, etc)
- 1031 tax deferred exchange on an owner occupied property

**ACCEPTABLE SOURCES OF ASSETS**

Assets used for down payment, closings costs, and reserves are eligible from the following sources:

**Checking and Savings Accounts**

Per DU findings, Borrower to provide the most recent complete bank statements (all pages) for all accounts used to close the transaction and to verify reserves. Any significant deposits may require an explanation and documentation.

**Business Funds**

Business funds are acceptable provided the borrower is 100% owner of the business and the borrower can provide documentation evidencing the use of the business funds will not adversely affect the ability of the business to operate. NDM will require a letter from the CPA or Tax Preparer confirming the withdrawal of the funds will not have a negative impact on the business.

Business funds may not be used to satisfy reserve requirements.
Deposit on Sale
Funds used for the earnest money deposit are required to be verified. If the deposit exceeds 50% of the total monthly qualifying income, a copy of the cancelled check or evidence the deposit has cleared the borrower’s account is required (copy of the account statement showing funds cleared and a copy of the earnest money deposit check). The account used for the earnest money deposit must also be verified.

Government Bonds
Government bonds are valued at the purchase price unless redemption value can be determined and verified. A letter from the redeeming institution confirming the redemption amount is required. Acceptable documentation is required to evidence the funds have been liquidated/cash in and deposited into borrower’s account.

IRA/Retirement/Keogh Accounts
Funds from an IRA/Keogh account are acceptable for down payment, closing costs and reserves provided borrower can access the funds prior to retiring. Funds withdrawn from an IRA/Keogh account are subject to penalties and income tax. The net withdrawal must be used as the trust asset value. Acceptable documentation is required to evidence the liquidation of the funds and deposit to borrower’s account.

If the retirement funds are used for reserves, they do not need to be liquidated, however evidence must be provided that withdrawals for any reason are allowed. Accounts that do not allow withdrawals are not acceptable to use as reserve funds. NDM will use 60% of the total account value less any outstanding loans for the available amount.

Inheritance
Inheritance is an acceptable source of funds. A copy of the will or a letter from the trustee documenting the distribution of the estate is required. Evidence of receipt of the funds by borrower is also required. Inheritance can be used to satisfy borrower’s 5% contribution to the down payment as the funds are considered to be the borrower’s money.

Insurance Settlement/Lawsuit
If the borrower will be using funds received from an insurance claim or lawsuit settlement, the borrower will need to provide a copy of the settlement agreement or judgment evidencing the amount of the borrower’s portion of the settlement. Borrower will also need to provide a copy of the settlement check evidencing receipt of the funds and deposit into borrower’s account. Underwriter to confirm funds not designated for any specific repairs.

Life Insurance
The surrender value minus any outstanding loans is an acceptable source of liquid funds. If no surrender value is given, the available amount will be based on 60% of the current value less any outstanding loans.

Pooled Funds
A borrower is allowed to pool their funds with funds from a relative who has lived with the borrower for the previous 12 months to make up the down payment. Borrower must provide an affidavit that states the following:

- Source of pooled funds
● The pooled funds are not borrowed
● The relationship between the borrower and the relative
● The relative has lived with the borrower for the previous 12 months
● The relative will continue to live with the borrower in the new residence for the foreseeable future.

Funds provided by a relative who does not live with the borrower are subject to gift fund requirements; see Gift Fund section for details.

**Bonds, & Other Investments**

Stock, bonds, or other investments must be verified by the stockbroker or by a copy of the certificate evidencing the ownership. The most recent three months statements from the brokerage firm confirming the value, type of security, account activity, and current value are required. NDM will use 70% of the value of the instruments for reserve considerations. Acceptable documentation is required to evidence the liquidation of the funds and deposit to borrower’s account when the funds are being used for the down payment, closing or other costs.

Non-vested restricted stock is not an acceptable source of reserves.

**Trust Account**

Trust account funds may be used if the borrower has access to the funds. A copy of the trust and a letter from the trustee is necessary to evidence borrower’s access to the funds. Documentation is required to evidence the withdrawal of the funds.

**Bridge or Swing Loan**

A bridge or swing loan is a form of a second trust deed that is collateralized by the borrower’s current residence, which is typically for sale. The terms of the loan are required and should include the amount, term, rate, minimum payment, and if the loan is renewable, in the event the current residence does not sell. The bridge or swing loan repayment must be monthly.

The borrower must qualify with the payment on the current residence including the bridge or swing loan payment.

The bridge or swing loan cannot be cross-collateralized against the proposed property. A copy of the agreement of the sale or listing for the property being sold is required.

Bridge loans on a property located in a declining market, as determined by the underwriter, or realtor assessment, are not eligible.

**Trade Equity**

The seller may take the borrower’s existing property in trade as all or part of the down payment as long as the borrower’s equity contribution is a true-value consideration.

The equity contribution is calculated by deducting the outstanding balance of all liens against the property that is being sold or traded, plus transfer fees from the lesser of that property, the lesser of that property’s appraised value, or the amount agreed upon by the parties.

An appraisal for the property being traded is required. A preliminary title report is required to verify the ownership of the property and to determine if there are any existing liens on the property. Transfer of the property must be completed prior to or simultaneous to the closing of the proposed property and evidenced by a Final
HUD-I.

1031 Exchange
The net sale proceeds from a 1031 Exchange are an acceptable source of funds provided the subject property is a second home or non-owner occupied purchase. Borrower will need to provide a copy of the Final HUD-I executed by all parties from the 1031 Exchange Sale, a copy of the Exchange Escrow Instructions and/or Exchange Agreement, and a copy of the Final HUD-I executed by all parties from the subject sale showing the Exchange funds deposited to the transaction.

If the funds have been deposited with an accommodator prior to the purchase exchange escrow, a letter from the accommodator is required to verify the Exchange funds are available to be deposited to the subject transaction and the amount of funds held by the accommodator.

Lease/Rent with Option to Purchase
The portion of the payment which exceeds market rents can be applied to the down payment and closing costs. Borrower must provide a copy of the lease agreement, cancelled checks for the security deposit and the most recent 12 months cancelled checks for the rent payments. Evidence of market rent is required.

Land Equity
In a construction-to-permanent financing conversion loan, the land equity may be applied toward the down payment. If the land was purchased within 12 months from the date of the mortgage application, the cost of the land must be used to calculate the equity. If the land was purchased more than 12 months prior to the date of the mortgage application, a current appraisal should be used to establish the equity value.

Borrowed Secured Funds
Borrowed funds secured by an asset may be used with documentation verifying the terms of the loan and that the loan is secured. The monthly payment for the new loan must be calculated in the debt ratio.

Community Seconds and Subsidy programs
Must comply with FNMA guidelines.

Subordinate Financing
Subordinate/secondary financing is permitted on most loan programs as an acceptable source of funds, up to the maximum CLTV offered by the program and subject to MI guidelines. Refer to the applicable program detail for maximum CLTV.

Rate/term refinance transactions, existing subordinate financing may be re-subordinated subject to program CLTV restrictions and MI guidelines. New subordinate financing is ineligible.

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.

Terms
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 NDM’s first mortgage.
- The maximum LTV/TLTV*/CLTV** may not exceed the guideline limits for the product and occupancy type shown in NDM Conforming 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.

EQUITY SHARE AND SHARED APPRECIATION NOT ALLOWED.

Subordinate financing from the borrower’s employer may not include a provision requiring repayment upon termination.

**Subordinate financing from the property seller (seller carry-back, including any property seller or other private party carried financing)**

- Is allowed only after the borrower has made a 5% minimum down payment / cash investment.
- Is allowed only when the maximum CLTV is the lesser of 95% or the published CLTV limits for the product/program.
- Affects interested party Contribution Limits, refer to Interest Party Section.
- Should be at market rate. If the interest rate is more than 2% below Fannie Mae’s posted net yield in effect for second mortgages at time of closing it must be treated as a sales concession and a dollar for dollar reduction made to the sales price.

Note: For Conforming Loans, the TLTV ratio is calculated by adding the disbursed (or to be disbursed at closing) amount of the HELOC to the first mortgage amount, plus any other subordinate financing, and dividing the sum by the value of the mortgaged premises.

Note: The CLTV ratio is applicable to Conforming Loans and calculated by adding the HELOC credit line limit (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.

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.

Sale of Personal Property
The sale of personal property or a personal asset is an acceptable source of funds. Borrower will need to provide the Bill of Sale, documentation supporting the asset’s value, and evidence of receipt and deposit of the proceeds from the sale.

IRS Refund
Refund checks from the state revenue and IRS departments are acceptable sources of funds. Satisfactory documentation is required to evidence the refund. Copies of the refund check(s) or a copy of the federal/state tax return and a bank statement showing the deposit is acceptable.

Repayment of Debt
Funds received by the borrower for repayment of loans to family or friends is acceptable provided the borrower can evidence the transfer of the funds to the family member/friend at the onset of the loan and that borrower had the ability to have made the loan.

Existing Home Equity
The proceeds from the sale of the borrower’s current residence are an acceptable source of down payment and closing costs. A copy of the Final HUD-I is required.

Gift Funds
Gift funds are an acceptable source of funds for closing costs and the down payment, as long as the borrower has met the minimum down payment
requirement. Gift funds are ineligible to satisfy reserve requirements.

Gift fund requirements are as follows:

- Gift funds can be provided by any of the following:
  - A relative, defined as the borrower’s spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption or legal guardianship, or
  - A fiancé or fiancée, or domestic partner.

- Minimum borrower investment is not required.
- ARM product requires minimum 5% borrower own funds regardless of LTV.
- The donor cannot be affiliated with the builder, developer, real estate agent, broker, or any other interested party to the transaction.
- Gift must be evidenced by a gift letter, signed by the donor and must include the following:
  - Specify the dollar amount,
  - Specify the date the funds were transferred,
  - Include the donor’s statement that no repayment of funds is expected, and
  - Indicate the donor’s name, address, telephone number and relationship to the borrower.
- Gift funds are allowed on owner-occupied primary residence or second homes. Gift funds are ineligible on investment property transactions.

NDM requires documentation of the relationship, a gift letter from the donor with acceptable terms, verification of the donor’s funds received by the borrower and documentation to support the donor’s ability to give. NDM will verify the gift funds were not provided by an unacceptable source. Documenting any deposits outside of the donor’s profile is at the Underwriter's discretion.

Gift fund availability and transfer must be verified. The following is acceptable documentation:

- A copy of the donor’s check and the borrower’s deposit slip,
- A copy of the donor’s withdrawal slip and the borrower’s deposit slip,
- A copy of the donor’s check to the closing agent (must be a certified/cashier’s check), or
- A settlement statement showing receipt of the donor’s check.

**Gifts of Equity**

Gifts of equity are an acceptable source of down payment and closing costs on the Agency Conforming program, but are only allowed after the required minimum down payment has been made from borrower’s own funds. See Gift Funds section; same requirements that apply to Gift Funds apply to Gifts of equity. Gift of equity transactions also require the following:

- The gift of equity cannot be a bail out of a relative or other individual.
- The gift of equity must be identified in the sales contract.
- The final equity exchange must be documented on the Final HUD-I.

A gift of equity is not allowed for investment property transactions.

**Gifts from a Church, Municipality, or Non-profit Organization**

Gifts or grants from a church, municipality or non-profit organization are an eligible source of funds as long as the borrower has met the minimum down payment requirement of 5%. If the LTV is 80% or less, the entire down payment may come...
from a gift or grant.

A copy of the award letter or a copy of the legal agreement stating the specific terms and conditions of the gift is required. The document must verify that no repayment is required as well as include the terms of how the funds will be transferred, and verify there will be no liens against property.

Seller funded gifts/grants are ineligible.

**Contributions by Interested Third Parties**

Interested Party Contributions (IPCs) are defined as financing concessions or sales concessions and consist of funds provided by someone other than the borrower to pay costs associated with obtaining a mortgage that are normally the responsibility of the property purchaser. They may be paid by the seller, lender, or by any other third party who has an interest in the property sale or purchase transaction.

**Interested Party Contributions**

A contribution, monies not paid by the borrower, may be paid by the seller or by any other interested party to the transaction, such as the builder, the developer, the real estate agent, the broker, or an affiliate of any such party.

A relative, domestic partner, fiancée, fiancé, municipality, non-profit organization, or employer is not considered an interested party unless he is the property seller or is affiliated with the property seller.

Interested party contributions (IPCs) are allowed for recurring and non-recurring closing cost credits but cannot exceed the actual cost/fees or the maximum allowed per LTV/CLTV and occupancy type. Principal reductions are not allowed.

When the transaction contains IPCs, the sales contract, Good Faith Estimate, loan application, appraisal report, and HUD-I must include or address all financing arrangements that have been negotiated between the buyer and the seller.

The maximum interested party contribution is based on the lower of the sales price or appraised value. The maximum limits are as follows:

- Owner-occupied and LTV/CLTV > 90% = 3%
- Owner-occupied/Second Home and LTV/CLTV ≤ 90% = 6%
- Owner-occupied/Second Home and LTV/CLTV ≤ 75% = 9%
- Investment property, all LTV/CLTV = 2%
- For Sale By Owner (FSBO), all LTV/CLTV = 2%

**Costs/Fees (financing concessions) that are subject to IPC Limits**

Financing concessions are fees/costs that are credited to the borrower through the transaction. The following items are considered interested party contributions:

- Origination, discount points, commitment fees
  - Cost for interest rate shortfalls
  - Appraisal costs
  - Transfer taxes
  - Stamps
  - Attorney fees
  - Survey charges
  - Title insurance premiums or charges
  - Real estate tax service fees
  - Funds to subsidize a permanent interest rate buy down.
  - Funds that are passed from an interested party to a non-profit and
then to the buyer for payment of closing costs.
  ○ Prepaid items – interim interest charges (limited to 30 days), real estate taxes covering any period after settlement (but only if taxes are being escrowed for future payments), hazard insurance premiums (maximum 14 months), and initial or renewal mortgage insurance premiums.
  ○ Items paid by the seller that are the responsibility of the seller

Costs/Fees (financing concessions) not subject to IPC Limits
  ● Buyer/broker fees paid by the seller as part of the real estate commission, as long as the commission being paid is typical of the commission usually paid in that real estate market.
  ● Transfer related charges if they are common and customary for the seller to pay all or a portion of the charges. Examples are transfer tax, stamp tax, costs of title insurance policies and surveys, recording fees, and attorney fees.
  ● Gift funds from a donor that complies with gift policy.
  ● Gifts or grants from a non-profit organization that do not obtain funding from the seller or any other interested party to the transaction.
  ● Sales concessions.

Sales Concessions
Sales concessions are items and/or fees that are an incentive to the buyer. Sales concessions may consist of furniture, automobiles, securities, decorator items, repair allowance, and other “giveaways” granted by any interested party to the transaction. In addition, IPCs that exceed the maximum allowable are considered sales concessions. Sales concessions are not calculated into the IPC limit but their value is deducted from the sales price. The LTV will then be based on the lower of the adjusted sales price or the appraised value.

BORROWER
Nations Direct Mortgage will only extend credit to individual applicants/borrowers. An applicant is defined as anyone who applies for funds in the form of a loan secured by real property with the obligation of repaying the debt in full with interest. The borrower is the individual obligated to repay the loan secured by the mortgage premises. For the loan to be eligible, the applicant(s) must conform to certain eligibility requirements.

ELIGIBLE BORROWERS
All borrowers, regardless of citizenship status, must have a valid social security number.

  ● Permanent resident aliens; must have copy of both front and back of green card. See Permanent Resident Alien section for additional requirements.
  ● Non-permanent resident aliens with valid, acceptable visa as detailed below. See Non-Permanent Resident Alien section for additional requirements.
    ○ 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 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.

If the authorization for temporary residency status will expire within one year and a prior history of residency status renewals exist, continuation may be assumed. If there are no prior renewals, the likelihood of renewal must be determined, based on information from the USCIS.

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 those who are non-permanent resident aliens.

PERMANENT RESIDENT ALIEN

A Permanent Resident Alien is defined as an individual who is granted the right to work and live permanently in the United States. Although Permanent Resident Aliens are not U.S. citizens, they are entitled to the same rights, products, programs, and lending parameters as U.S. citizens.

A borrower who is a Permanent Resident Alien must meet the following requirements:

- Borrower has been employed in the United States with a 2-year employment history that is expected to continue for at least 3-years.
- Borrower must have a 2-year credit and income history.

Borrowers with less than a 2-year employment history in the United States may require additional credit, asset and income references/documentation to support the credit decision. Only documentation that meets the same standards for authenticity, accuracy, and completeness that applies to other types of documentation should be considered.

A copy of the front and back of the borrower’s Green Card is required for all permanent resident aliens whose income and/or assets are being used to qualify for a loan.

NOTE: The Green Card states —Do Not Duplicate for the purpose of replacing the original card. The U.S. Citizenship and Immigration Services (USCIS) does however allow photocopying of the Green Card. Making an enlarged copy or copying on colored paper may alleviate any concern the borrower may have with photocopying.
NON-PERMANENT RESIDENT ALIEN
Non-permanent resident aliens are required to provide evidence of work authorization status per program requirements.

Agency fixed rate products allow an unexpired I-797A, Notice of Action or an unexpired, valid visa to document the non-permanent resident alien’s work status.

If the I-797A is expiring within 1-year of the application date and there is a history of prior renewals, no additional documentation is required. If there is no history of prior renewals, the loan may be ineligible unless satisfactory documentation is obtained from the employer that the continuation of employment is likely.

All standards for determining stable monthly income, adequate credit history and sufficient liquid assets must be applied in the same manner to non-permanent resident alien borrower(s). A valid social security number is required.

Borrowers with diplomatic immunity and World Bank employees are ineligible regardless of visa status.

- Borrowers who have attained the legal age according to the local and state jurisdiction where the property is located. The borrower must be able to enter into a binding contract prior to the execution of the Note and Security Instrument. There is no maximum age limit for the borrower.

INELIGIBLE BORROWERS
- Borrowers without a valid, legitimate social security number
- Foreign nationals
- Borrowers with diplomatic immunity
- Borrowers who do not meet the eligibility requirements set forth in this manual.
- Corporations, estates, life estates, limited or general partnerships, not-for-profit organizations, schools, churches, etc.
- Co-signer. A co-signer is an applicant who does not take title to the security property. A co-signer does not have an interest in the subject property but executes the loan application and signs the mortgage note. A co-signer is ineligible for financing with NDM.
- Borrower’s who are employed by the submitting broker or brokerage, regardless of job function.
- Borrowers using a General Power of Attorney or a Specific Power of Attorney on cash out refinance transactions or non-owner occupied transactions, or loans closing in the name of trust.

CO-BORROWER
A co-borrower is an individual who applies jointly with the applicant for shared or joint credit and who takes title to the property and is obligated on the mortgage and the note. The co-borrower must execute the Note and the Security Instrument.

The income, assets, liabilities of the co-borrower must be documented if used as a basis for loan qualification.

The liabilities of the co-borrower or co-signer must be considered if the borrower resides in a community property state, if the subject property is located in a community property state, or if the borrower is relying on other property located in a community property state as a basis for repayment of the loan.
NON-OCCUPANT CO-BORROWER

The following applies when a non-occupant co-borrower is on the loan:

- The maximum LTV is 95%.
- The occupying borrower must demonstrate the ability and willingness to repay the mortgage.
- The maximum ratios for the occupying borrower are 43%.
- The income from the non-occupant co-borrower is not used for qualifying.
- Although the income from the non-occupant co-borrower can be used to offset certain weaknesses of the occupying borrower (i.e.: limited reserves, limited credit history, higher than normal qualifying ratios), the income from the non-occupant borrower cannot be used to offset significant or recent instances of major derogatory credit in the occupant borrower’s credit history or lack of stable employment history.
- The non-occupying co-borrower must not be an interested party
- Transactions with a non-occupant co-borrower are subject to MI availability on LTVs > 80%.

NON-BORROWING SPOUSE/NON-PURCHASING SPOUSE

Nations Direct Mortgage will accept loan applications from married applicants whose spouse is not a part of the loan transaction. A non-borrowing spouse may have rights in a property either as a co-owner of the property, state community property rights, or marital rights laws. The non-borrowing spouse is required to execute the security instrument and all applicable documents as applicable per statutory or decisional law of the state to create a valid lien, pass clear title, and waive rights to the property.

Non-borrowing spouse signature requirements, as detailed above, will apply to non-borrowing domestic, civil union partners and same sex marriage borrowers on loans secured by property located in the following states:

- California
- District of Columbia
- Connecticut
- Illinois
- Iowa
- Massachusetts
- Nevada
- New Hampshire
- New Jersey
- Oregon
- Vermont

SEPARATED BORROWER

If a borrower is separated, documentation is necessary to determine the division of assets, liabilities, and potential obligations.

If the borrower is legally separated, a copy of the recorded legal separation agreement is required in order to exclude specific obligations that would otherwise be included in the borrower’s qualifying ratios. If no documentation can be obtained to verify the division of assets and liabilities, they are legally married and qualified accordingly.
POWER OF ATTORNEY
NDM will allow a Specific Power of Attorney appointed by the borrower for purchase and rate/term refinance transactions. A Power of Attorney (POA) is ineligible on:

- Cash out refinance transactions
- Investment property transactions.

A signed letter of explanation is required from the borrower as to why the borrower cannot sign the final documents and is appointing a POA for the transaction.

Requirements for the Power of Attorney:

- Cannot be a party to the transaction
- Is preferably a family member of the borrower.
- Must be specific to the transaction and indicate the property address. Must be signed and dated on or before the date of the Note.

The POA must be approved by NDM Management prior to docs. The original 1003, original initial disclosures, and purchase contract (if applicable) signed by the borrower is required. See NDM POA Policy and Procedure document dated 8/2010 for additional requirements.

NON-ARMS LENGTH TRANSACTIONS
A non-arms length transaction exists anytime the applicant has a personal or business relationship with any other entity related to the loan. Examples of non-arms length transactions are family sales or transfers, builder/developer transactions, renters buying from landlords, employees working for a family member/relative. Non-arms length transactions are considered on a case-by-case basis on owner-occupied transactions only.

- Principals, senior managers, employees or family members of a submitting broker, broker staff are eligible with senior management approval.
- Model home builder leasebacks are ineligible.
- Borrowers employed by the Seller, in the construction or lending trades:
  - 1-2 unit properties only
  - Relationship must be disclosed on original application.
  - Second appraisal by NDM approved appraiser required.
  - A loan secured by the builder/developer for a property owned by the builder/developer is ineligible.
  - If the property is new construction, only primary residences are eligible if the borrower has an affiliation with the builder/developer/seller.
- In-Family Sales:
  - Principal residence only
  - 24 month satisfactory credit rating on existing mortgage required (i.e. no family bail-out)
  - Transactions that involve family members purchasing the property from another family member and the property is a short sale are ineligible.
- Borrower employed by a family member:
  - Borrower must provide the last 2 years 1040’s and a current paystub.
  - Executed and processed 4506-T.
  - Documentation is required evidencing borrower does not have 25% or greater
interest in the family business; if borrower does have 25% or greater interest, the borrower will be considered self employed and qualified accordingly.

- Buying from landlord:
  - Eligible with 12 months cancelled checks.
  - Transactions that involve the tenant purchasing the property from the landlord and the property is a short sale are ineligible.

All non-arms length transactions require the appraiser to acknowledge the non-arms length transaction as well as comment if the market value of the property has been affected by the non-arms length transaction.

Second home and investment properties that are a non-arms length transaction are ineligible.

**AT-INTEREST TRANSACTIONS**

An at-interest transaction involves persons who do not have close ties or are not related but may have a greater vested interest in a transaction, such as a person who plays more than one role in the same transaction (listing/selling agent and mortgage broker). At-interest transactions inherently carry an 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 or selling agent as well as the mortgage broker.

At-interest transactions are considered non-arms length transactions and will be considered on a case-by-case basis. 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 for purchase if the transaction includes non-arms length and/or at-interest characteristics. Primary residence transactions are eligible for consideration on case-by-case basis.

Additional Risks that may be posed by an Identity of Interest Transaction include:

- Absence of equity or down payment
- Purchase price may not represent actual consideration given
- Financial bailouts or attempts to hide poor credit
- Occupancy concerns
- Financing of unsold builder inventory, especially in soft real estate markets
- Inflated appraised value.

**Red Flags**

Transactions which include any of the following characteristics should be given additional scrutiny as part of the underwriting, closing and quality control functions:

- Selling price exceeds listing price
- Seller on HUD-1 does not match the title work or appraisal
- Disbursements on the seller side of the HUD-1 to the borrower or an entity controlled by the borrower, or to a company owned by the property seller
- HUD-1 shows a payoff in excess of $5000 but no corresponding lien reflected on the preliminary title policy
- Large payments to a homeowners association (over and above what is allowed per the guidelines)
- Lien amount verified on the title work or credit report is not consistent with the payoff shown on the HUD-1
- Cumulative fees, including real estate commissions plus any non-lien related disbursements for marketing expenses, finder’s fees, referral fees, consulting fees or assignment of sale fees totaling more than 8%
- Excessive closing costs, i.e., beyond reasonable and customary settlement charges
- Questionable sources of funds to close, including DAPs and other assistance programs not in compliance with Freddie Mac or Fannie Mae published requirements
- Borrower, Subject Property and originating Client are located in three different states

The following at-interest transactions are ineligible.
- The broker is selling their own property
- The broker is acting as the listing agent as well as the mortgage broker.

NOTE: NDM will consider an at-interest transaction when the broker is acting as the selling agent (buyer’s agent) as well as the mortgage broker for Agency Conforming: Owner-occupied transactions only.

The broker cannot have any other relationship or close ties to the borrower other than the broker/realtor relationship.

Second home and investment properties that are an at-interest transaction are ineligible.

At-interest transactions are subject to the following requirements:
- Borrower must provide a copy of the canceled earnest money check to verify payment to the seller.
- The borrower must be able to verify that 5% of the sales price has been saved, however these funds do not have to be used toward the down payment.
- Borrower is not now, nor has been in the previous 24 months, on title to the property.
- A payment history of the existing mortgage on the subject property evidencing no delinquent payments in the most recent 12-months
- A written explanation of the relationship between the borrower and the seller and the reason for the purchase must be provided by the borrower.
- 2nd appraisal

CREDIT

A borrower’s credit history is considered to be one of the strongest indicators of the borrower’s willingness and ability to repay the mortgage. A borrower who maintains an excellent long credit history is more apt to continue managing his credit obligations in a timely manner. In contrast, a borrower whose credit history indicates continual slow pays will most likely not change his pay habits with a new mortgage.

A printed/written credit report is required for all borrowers applying for financing through NDM. Each borrower must have an acceptable credit profile. The borrower’s credit history should demonstrate his willingness and ability to manage his financial obligations in a timely manner is a key element in determining the comprehensive risk for a mortgage.

The borrower’s overall credit history, including but not limited to, credit score, repayment patterns, credit utilization, and level of experience in using credit has an affect on the eventual default risk of a mortgage. As such, the underwriter will assess the risk through a
comprehensive review of the borrower’s credit history.

DU will generally determine the credit eligibility on the Agency Conforming Program. NDM will defer to the DU Findings for trade line requirements, credit depth, mortgage/rental history requirements, pay history, adverse credit requirements, re-established credit requirements, and consumer credit counseling. Bankruptcy/foreclosure/short sales, refer to Bankruptcy/Foreclosure/Deed-in-Lieu section for specific NDM requirements.

The following Credit section defines the parameters for all other programs.

TRADITIONAL CREDIT

Traditional credit history is used to determine the credit risk by evaluating the borrower’s established credit history. Traditional credit consists of revolving, installment, and mortgage trades.

Minimum trade lines will be determined by DU Findings.

NON TRADITIONAL CREDIT

Use of Non-Traditional Credit is not allowed.

CREDIT REPORT

NDM will accept the submitting broker’s credit report provided it is generated by one of NDM’s approved credit vendors. Otherwise, NDM will obtain an independent credit report upon submission. The credit report cannot be greater than 90 days at the time of funding.

A traditional credit report includes both credit and public record information for each applicant.

The credit report requirements are as follows:

- Cannot be greater than 90 days old at the time of funding.
  - If original credit report will be over 90 days at funding, a new credit report will be obtained by NDM.
  - If new liabilities are indicated, the loan will be subject to review by the underwriter and if the DTI increased by 3% or more the loan will be re-submitted to DU, with the updated information, to determine if it is still eligible.
- Must identify each applicant by name and verify the individual’s social security number.
- Any social security number discrepancy must be disclosed by the Credit Reporting Agency.
- Be an original report with no corrections, erasures, white out, etc.
- Show the names of the national repositories used to compile the information.
- Be issued by a consumer reporting agency that obtains or verifies all information from sources other than the borrower.
- Provide the name, address and phone number of the reporting agency preparing the report.
- Provide a credit score from each repository accessed.
- Report all inquiries made within the previous 90 days.
- Search all repositories for each locality in which the borrower has resided during the previous 2 year period.
- Access at least three national repositories and identify those which were accessed for compiling report. Acceptable repositories are Equifax, Experian, and Trans Union.
- Verify all disclosed accounts including but no limited to the date the account was...
open, the high credit limit, the current status, the current balance, required payment, the date of the last activity on the account, and a payment history which provides a historical status of each account with the number of times the account has been past due. If a creditor does not include a reference on an open account, a separate written verification may be required at underwriter’s discretion. Open accounts must have been updated within 90 days of the credit report.

- Contain a search of at least two public record sources and disclose any tax liens, judgments, bankruptcies, and foreclosures that are reportable under the Fair Credit Reporting Act.

UNACCEPTABLE CREDIT REPORTING PRACTICES

The credit repository should not change information compiled from the credit bureau. Duplicate information is permitted to be deleted as well as translate codes to plain language or make appropriate adjustments to resolve conflicting information.

The credit repository should only change information that is brought to the credit repository’s attention by a creditor, the borrower/applicant or a party that is not associated with the sale, purchase or mortgage financing.

Examples of unacceptable credit report practices are:

- Deletion of trade lines that pertain to a bankruptcy.
- The addition of a payment amount to a creditor’s trade line when the creditor does not require a payment.
- Restriction of information collected to a period of time shorter than seven years.
- Remove any derogatory information without written authorization of the creditor.
- Failure to report social security number discrepancies.

CONSUMER CREDIT BUREAU BLOCKS

NDM requires a credit report for each applicant from each of the 3 national credit repositories. Consumers have the ability to block or freeze access to their credit when they are victims of identity theft. The reporting agencies will advise of a security block or security freeze. All security freezes from all bureaus will need to be lifted in order for NDM to render a loan decision.

CREDIT SCORE

The credit score has proven to be a consistent predictor of performance compared to traditional underwriting and processing methods. To ensure the validity of the credit score, each trade line should reflect all repositories that report the score. This will identify which trade lines were considered when generating each credit score.

Underwriters will closely review the scores, the credit score codes, and the borrower's credit history to ensure validity. Credit score codes must be consistent with trade line information. For example, if the credit score code identifies delinquent accounts, the credit report must also contain delinquent trades. Scores that do not appear to represent an accurate picture of the borrower’s credit risk will not be considered acceptable.

Each borrower is required to have one valid credit score on all of NDM’s conventional loan programs. When utilizing an ARM product on the Agency Conforming or Agency High Balance program the borrower is required to have a minimum of two (2) credit scores.
DETERMINING THE REPRESENTATIVE SCORE
The representative credit score is determined as follows:

- If there are three (3) valid credit scores, the middle score is used.
- If there are three (3) valid credit scores and one is a duplicate, the duplicate is used. If there are two (2) valid credit scores, the lower of the two is used.
- If there is one (1) valid credit score that score is used.

**Loan Score Selection**
- The lowest selected credit score among all borrowers is used.

REVIEWING CREDIT HISTORY & ANALYSIS OF RISK
The borrower’s willingness to repay debt is a key factor when determining the risk of the mortgage transaction. The borrower’s credit history must support a responsible attitude towards credit. At times, additional documentation may be required to establish this.

Determining the acceptability and strength of the borrower’s credit entails reviewing the entire credit history. The underwriter must evaluate the following credit aspects in order to conclude an acceptable credit history exists:

- Type and amount of outstanding credit
- Length of borrower’s credit history
- The use of the available credit
- Recent changes in the number of open accounts or overall amount of outstanding credit.
- Payment history and status of all accounts
- Recent inquiries showing on the credit report.
- Any public records or adverse items

SOCIAL SECURITY NUMBER
All borrowers must have a valid, legitimate social security number. Borrowers without a valid, legitimate social security number are ineligible for NDM financing. In addition, borrowers who have a history of using invalid/illegitimate social security numbers are not eligible for NDM financing.

POTENTIAL RED FLAGS ON THE CREDIT REPORT

**Incorrect, Duplicate and Multiple Social Security Numbers**
When a social security number search returns conflicting information, it can be an indicator of a red flag. Incorrect, duplicate and multiple social security numbers shown on the credit report will require further review. To eliminate any confusion, NDM requires a legible copy of the borrower’s social security card or a legible printout from the Social Security Administration verifying the borrower’s number.

- Incorrect social security number - the information associated with the social security number entered is not available.
- Duplicate social security number – the information indicates more than one individual is associated with the social security number entered.
- Multiple social security number – information indicates an individual
has more than one social security number.
• Deceased Borrowers – information states the person to whom the social security number was issued has been reported deceased.

Credit Report Alerts
Pursuant to the Fair and Accurate Credit Transactions Act, consumers have the right to protect themselves from identity theft. As a measure to protect against this, consumers can request that a credit reporting agency pass a fraud flag to users who request their credit report. Active military personnel can also request the credit reporting agency to pass an active duty flag.

NDM’s underwriter will evaluate each of the bureaus to ensure there is no fraud or active duty flags reporting. If there is an alert on the credit report, NDM’s underwriter must follow the instructions of the consumer on the credit report before proceeding with the loan file. A borrower cannot be declined for an alert. NDM and/or the submitting broker will need to provide documentation evidencing they have contacted the borrower if the credit report reflects a fraud alert. Documentation supporting communication with the borrower is to be placed in the credit file.

Address & Employment Discrepancies
The credit reporting agency will indicate if the address and/or employment provided by the creditor differ from the address on the credit report. Any discrepancy should be reviewed and resolved as it may be a red flag for fraudulent activity.

Inquiries
The credit reporting agency will list all inquiries within the last 90 days. A letter of explanation from the borrower is required on all credit inquiries that appear on the credit report. The letter of explanation must specifically address each individual inquiry and indicate if new credit was extended. If new credit was extended, the underwriter will reevaluate the loan to determine if the new credit will affect the borrower’s ability to repay the loan.

Changes in Credit Usages
Recent changes in the borrower’s credit usage may be an indication of the borrower having difficulty maintaining his financial obligations. The underwriter should review all trades to determine if there has been a recent significant increase in the number of open accounts and/or the number and amount of outstanding balances.

AUTHORIZED USERS
DU takes credit report tradelines designated as authorized user tradelines into consideration as part of the DU credit risk assessment. However, NDM must review credit report tradelines in which the applicant has been designated as an authorized user in order to ensure the tradelines are an accurate reflection of the borrower’s credit history. If NDM believes the authorized user tradelines are not an accurate reflection of the borrower’s credit history, NDM will evaluate the credit without the benefit of these tradelines and use prudent underwriting judgment when making the final underwriting decision, DU issues a message providing the name of the creditor and account number for each authorized user tradeline identified. When ensuring tradelines are an accurate reflection of the borrower’s credit history, as a general guide, if the borrower has several authorized user accounts but only has a few accounts of his/her own, NDM must establish:

• The relationship of the borrower to the owner of the account;
• If the borrower uses the account; and
• If the borrower makes the payments on the account.

If the authorized user tradeline belongs to another borrower on the mortgage loan, no additional investigation is needed. On the other hand, if the borrower has several tradelines in good standing and only a minor number of authorized user accounts, the lender could make the determination that:

• The authorized user accounts had minimal, if any, impact on the borrower’s overall credit profile; and
• The information reported on the credit report is an accurate reflection of the borrower’s credit history.

NDM is not required to review an authorized user tradeline that belongs to the borrower’s spouse when the spouse is not on the mortgage transaction.

PAYMENT HISTORY
A borrower’s ability to handle financial obligations is a good indicator of how the borrower will repay the new mortgage. Although all of the credit history is evaluated, an emphasis is placed on the pay history of the previous 24 months.

MORTGAGE/RENTAL HISTORY
The credit report must provide the entire mortgage payment history. If the mortgage history reporting on the credit report is less than 24 months, a history from the mortgage servicer or 12 months cancelled checks are required. If the lien holder is a private party, the borrower must provide 12 months consecutive cancelled checks (front and back), depending on the selected program.

When a rental verification is required, a rental verification may be accepted in the form of a credit report trade line or a direct verification of rent (VOR) provided by a professional management company. A VOR from an individual other than a professional management company is not acceptable. If the landlord is not a professional management company, then 12 months consecutive cancelled checks (front and back) are required to verify the rental history.

In the case of a non-arms length transaction in which the borrower rents from a family member or if the borrower currently rents the subject property, 12 months cancelled checks (front and back) are required to demonstrate the rental history.

DEROGATORY CREDIT
The DU Findings will determine the acceptability of derogatory credit with the exception of unpaid collections and charge-offs.

When significant adverse credit is identified in a borrower’s credit history, documentation must be provided evidencing whether the derogatory information was due to extenuating circumstances or financial mismanagement, and that an acceptable credit history has been re-established.

The following policy applies to all loan programs:

Generally, adverse credit is not allowed in the previous 24 months. Adverse credit is defined as any trade reporting ≥ 90 days, collections, charge-offs, judgments, garnishments, tax liens, etc. All open items must be paid prior to or at closing with the exception of medical
collections < $250 per incident or $1000 cumulative, which may be excluded from this requirement and will not be required to be paid off.

**Past Due**
Any past due accounts are required to be paid current prior to or at closing.

**Disputed Accounts**
If the borrower states the information reported by the credit bureau is inaccurate or incorrect (i.e.: lates, public records, tradelines that do not belong to the borrower, etc), documentation must be provided by the creditor that the account in question does not belong to the borrower or that the reported payment history is inaccurate and no further action is required.

If the tradeline does belong to the borrower and the reported payment history is accurate, it must be taken into consideration in the credit risk assessment regardless of the age of the account or the dispute. A new credit report, with the tradeline no longer reported as disputed, is required.

**Bankruptcy/Foreclosure/Deed-in-Lieu/Short Sale or Short Refinance**
Unless stated differently in the program details, a borrower is not eligible for financing if the borrower has a bankruptcy discharged in the previous 4 years and/or a foreclosure settled within the previous 7 years.

A bankruptcy can either be a Chapter 7 in which the borrower discharges all debt or a Chapter 13 in which the borrower completes a reorganization of debt.

The following table summarizes the waiting periods for bankruptcy filings.

<table>
<thead>
<tr>
<th>Derogatory Event</th>
<th>Waiting Period (both financial mismanagement and extenuating circumstances)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 7 or 11 Bankruptcy</td>
<td>4 years</td>
</tr>
<tr>
<td>Chapter 13 Bankruptcy</td>
<td>2 years from discharge date</td>
</tr>
<tr>
<td></td>
<td>4 years from dismissal date</td>
</tr>
<tr>
<td>Multiple Bankruptcy Filings</td>
<td>5 years if more than one filing in the previous 7 years</td>
</tr>
</tbody>
</table>

A foreclosure is defined as any 120-day mortgage late within the last 48 months, notice of default, settlement on a real estate secured trade line, and forbearance agreements. The age of the foreclosure is calculated from the date settled or the date of the most recent 120-day mortgage late.

Borrowers are required to have re-established credit from like sources (i.e.: revolving, installment, mortgage) paid satisfactorily. For bankruptcy, the borrower is to have a re-established credit history determined by the waiting periods defined above. For foreclosure, borrower must have at minimum a seven year re-established credit history and the borrower must be purchasing an owner-occupied property. A letter of explanation is required from the borrower.

A foreclosure requires the following:
- A 7 year waiting period.
- A 3 year waiting period with a maximum 90% LTV or program maximum, whichever is less, when the foreclosure was due to document extenuating circumstances and subject to the following:
  - Purchase of primary residence only
  - Rate/term transactions are permitted for all occupancy types subject to eligibility guidelines.
A deed-in-lieu of foreclosure requires the following:
- 4-year waiting period
- A re-established good credit history consists of:
  - Minimum 4 years (bankruptcy), 7 years (foreclosure) and 2 years (deed-in-lieu) re-established or reaffirmed credit with like sources.
  - Trade line requirements are determined by DU Findings.
  - No past due or late since the discharge on the mortgage/rental rating.

Short Refinance or Restructured Mortgage Loan Requirements

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 requirements below.

A short refinance/modification and or restructure loan require the following;
- The borrower must make 24 timely payments between the time of the restructure to the time of refinance

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 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.

A short sale including a pre-foreclosure event, requires the following:
- A 4 year waiting period.

Forbearance
Forbearance is an agreement to rearrange the terms of the original mortgage. For evaluation purposes, forbearance or a loan workout is considered a foreclosure. A letter of explanation is required from the borrower.

Consumer Credit Counseling
Borrowers who have previously participated in consumer credit counseling are eligible for financing provided the following exists:
- A minimum of 12 months have passed since the completion of the consumer credit counseling program.
- All accounts are paid satisfactorily.
- The borrower has demonstrated the ability to manage his credit since completion of the consumer credit counseling program.

Borrowers who participated in Consumer Credit Counseling and do not meet the above parameters will be evaluated with exceptions granted on a case-by-case basis.

Tax Liens and Judgments
All open tax liens and judgments must be paid off prior to or at closing. Tax liens and judgments are not allowed to remain open as they could effect NDM’s first lien position. Loan proceeds may not be used to pay off tax liens or judgments.
A letter of explanation from the borrower regarding the tax lien or judgment may be required by the underwriter.

Unpaid Collections/Charge-offs
Excessive unpaid collections and charge-offs are required to be paid prior to or at closing regardless of DU Findings. Medical collections and charge-offs < $250 per incident or $1000 cumulative are allowed and are not required to be paid off.

DOCUMENTATION ELIGIBILITY
NDM requires standard documentation for all loans as defined in this Lending Guide.

Credit reports cannot be older than 120 days at the time of funding. Loans with a credit report greater than 120 days at funding will require a new credit report and will be subject to review. If new liabilities are indicated the underwriter will recalculate the DTI and if the new DTI increases 3% or more the loan will be re-submitted to DU, with the updated information, to determine if the loan is still eligible.

Mortgage/rental verification should be within 120 days at the time of closing. If the mortgage is not reported on the credit report, a VOM is acceptable provided it is from a known lending institution. VORs are acceptable from a property management company. Borrowers who rent from an individual are required to provide the most recent 12 months cancelled rent checks to evidence the rental payment history. In addition, private party mortgages and borrowers renting from an entity affiliated with the transaction require 12 months cancelled rent checks.

Income documentation requires the borrower’s most recent 30 day paystub with YTD earnings and previous years’ W2. Paystub cannot be older than 30 days at time of submission. Asset documentation cannot be older than 120 days at time of funding. At underwriter’s discretion, more current income and/or asset documentation may be required.

A verbal verification of employment must be completed within 7 days of closing.

The title commitment cannot be older than 90 days at the time of docs and 120 days at the time of funding. A title supplement or gap letter will be required when the title commitments exceeds 90 days. A new title report is required when the commitment exceeds 120 days.

The Closing Protection Letter and Survey cannot exceed 60 days at the time of docs.

The appraisal must be dated within 120 days of the Note date. A new appraisal, with three new comparable sales will be required if the original appraisal is more than 120 days from the Note date. At underwriter discretion, a recertification with new comparable sales may be required at the time of underwriting when the appraisal is 90 days old.

Applications and early disclosures aged in excess of 90 days will be require a new application be provided and re-issue of the early disclosures.

ELIGIBLE TRANSACTIONS

PURCHASE TRANSACTIONS
A purchase transaction is a transaction in which the proceeds are used to finance the purchase of a property. The LTV is based on the lower of the sales price or current appraised value. A copy of the fully executed purchase contract and all attachments or addenda is required for all purchase transactions. Any changes/alterations to the purchase contract must be initialed by all parties involved in the transaction.
Properties in which the seller has been on title less than 6 months and the value has increased will be prudently evaluated. The appraiser must justify any increase in value. When utilizing an ARM product on the Agency High Balance program, the seller is required to be on title a minimum of 12 months. If the property has been sold >3 months but <12 months the loan will require additional underwriter review to ensure that there has been no foreclosure bail-out, a distressed sale, inflated value due to unsubstantiated improvements, etc.

Purchase transactions in which the seller is a corporation and not an individual (i.e. an REO property, an LLC, etc.) will require documentation that the individual signing the purchase contract is an authorized representative of the corporation.

The borrower cannot receive any monies back from the transaction unless the cash back is for overpayment or reimbursement of borrower’s fees, or reimbursement for costs paid by the borrower in advance. Cancelled checks from the borrower are required to evidence the fees paid.

NDM will not accept a re-negotiated purchase contract that increases the sales price after the appraisal has been completed if:

- The appraised value is higher than the originally contracted sales price that was provided to the appraiser, and
- The new purchase agreement and/or addendum to the purchase agreement is dated after the appraisal, and
- The only change to the purchase agreement was the sales price.

If the purchase agreement was renegotiated after the completion of the appraisal, the LTV will be based on the lower of the original purchase price or the appraised value, unless:

- The renegotiation was only for seller paid closing costs and/or pre-paids where seller paid closing costs/pre-paids are common and customary for the area and are supported by the comparables, or
- The purchase contract was amended for a new construction property due to improvements that have been made that impact the tangible value of the property. An updated appraisal must be obtained to validate the value of the improvements.

REFINANCE TRANSACTIONS

A refinance transaction replaces an existing loan(s) with a new loan to current owners, or places financing on a property currently owned by the borrower where no financing exists. Refinance transactions will be classified as either Limited Cash-out (Rate/Term) or Cash-out and must have a benefit to the borrower. This can be evidenced by one or more of the following:

- Lower payment
- Lower interest rate
- Convert from ARM to fixed rate
- Pay off a balloon payment
- Convert from negative amortization loan to a fully-amortizing loan
- Consolidate debt
- Pay off tax lien
- Cash to pocket

NOTE: Depending upon the property’s location, additional evidence of benefit to the borrower may be required due to state or local regulations.
Properties listed for sale within the six months prior to underwriting are eligible for NDM financing with evidence that the property was taken off the market prior to the application date.

Delayed Financing Exceptions are prohibited.

**LIMITED CASH-OUT (RATE/TERM)**

The LTV for any limited cash-out refinance is calculated on the current appraised value. Although there is no minimum title-seasoning or mortgage seasoning requirement for limited cash-out refinance transactions, NDM will prudently evaluate refinance transactions in which the borrower recently acquired title to the property or recently refinanced the property.

Refinance transactions that are paying off an existing lien which was used to purchase the subject property with less than one year mortgage seasoning, the LTV/CLTV will be based on the current appraised value. Any increases in value must be adequately documented (i.e. comparables support increase in value and market values are increasing, documentation of home improvements, or a copy of the original appraisal showing subject property transferred below market value). If the increase in value cannot be supported, the lower of the original purchase price or the new appraised value is used to determine the LTV/CLTV.

If the existing lien being paid off was closed within the previous 6 months and the previous transaction was cash out refinance, the new transaction will be considered cash out. The note date of the existing lien and the note date of the new lien will be used in determining the 6 months time frame.

A property listed for sale within the previous six (6) months but was taken off the market prior to the application date is eligible for a rate/term refinance transaction, however the borrower must provide written confirmation of their intent to occupy the property if it is the borrower's primary residence.

All refinance transactions must have a benefit to the borrower.

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

- 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
- Standard loan fees (e.g., closing costs on the new mortgage; prepaids, such as interest, taxes, insurance, etc; and points)
- Incidental cash to the borrower not to exceed the lesser of $2000 or 2% of the principal balance of the new loan amount.
The mortgage amount is limited to sufficient funds required to accomplish the following:

- Pay off the unpaid principal balance of the existing first lien mortgage, including any prepayment penalty
- Pay off the unpaid principal balance of any existing subordinate mortgage that was used to purchase the subject property, including any prepayment penalty. A copy of the Final HUD-I executed by buyer and seller from the previous transaction may be required.
- Pay closing costs (including prepaid expenses)
- Disburse incidental cash to the borrower of no more than $2,000 or 2% of the loan amount, whichever is lower. The maximum cash back to the borrower on the DU Refi Plus program is $250.00.
  - Principal curtailments are not permitted with the exception of the DU Refi Plus program which allows minimal curtailments.

The proceeds from a rate and term transaction to buyout an ex-spouse is permitted as long as the borrower provides a copy of the recorded settlement agreement indicating the spouse is to be bought out.

**CASH-OUT**

A refinance is considered cash-out if it exceeds any of the limitations indicated for rate/term refinances, or if it involves disbursement of loan proceeds to pay off or pay down unsecured or unseasoned debt.

The amount of cash disbursed in the form of paying off or paying down any unsecured or unseasoned debt plus cash to the borrower may not exceed the limits specified in the program details based on occupancy, CLTV, and documentation type.

There is a 6-month title-seasoning and 6 months mortgage seasoning requirement for all cash out refinance transactions. Any prior refinances (limited cash out or cash out) must have closed at least 6 months prior to the note date of the new transaction.

- If the property is owned free and clear (i.e. purchased for cash or any previous mortgage loan(s) have been paid off) and was purchased within the previous 6-12 months prior to the underwriting date, the LTV will be based on the lower of the sales price/acquisition cost or current appraised value.
- If the property is owned free and clear and was purchased more than 12 months from the underwriting date, the LTV will be based on the current appraised value.
- Properties listed for sale within the six months prior to underwriting are eligible with evidence that the property was taken off the market prior to the application date. Maximum LTV for cash-out refinance is the lower of 70% or maximum for product/occupancy/property type.
- Maximum cash out is $250,000.

Properties with less than one year seasoning may require documentation supporting any increases in value.

Properties located in Texas:

- Cash-out refinance transactions not allowed on Primary Residences ("Homestead Properties). Only Second Homes and Investment Properties are eligible for cash out transactions.

**INHERITED PROPERTIES**

Inherited properties are eligible for a rate/term or cash-out refinance transaction with applicable documentation (i.e. death certificate, court order, etc.). Borrower must qualify under program guidelines and the reason for the title transfer must be explained.
CONSTRUCTION TO PERMANENT FINANCING

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim construction financing that the borrower has obtained to fund the construction of a new residence.

The borrower must hold title to the lot, which may have been previously acquired or be purchased as part of the transaction. All construction work (including any work that could entitle a party to file a mechanics' or material-men's lien) must be completed and paid for—and all mechanics' liens, material-men's liens, and any other liens and claims that could become liens relating to the construction must be satisfied. The borrower must be the primary obligor on the mortgage or deed of trust note for the permanent financing.

A construction-to-permanent financing mortgage may be closed as a limited cash-out refinance or a cash-out refinance transaction. When a refinance transaction is used, the borrower must have held legal title to the lot before he or she applied for the construction financing and must be named as the borrower for the construction loan.

The same loan-to-value ratio requirements that apply for other purchase money and refinance transactions apply to a construction-to-permanent financing mortgage. However, the method for determining the loan-to-value ratio will vary based on the type of transaction and the length of time the borrower has held legal title to the lot (and, in some instances, how title was acquired).

LIMITED CASH-OUT REFINANCE (RATE/TERM)

When a rate/term refinance transaction or a cash-out refinance transaction is used in connection with a lot that the borrower acquired 12 or more months before applying for the construction financing, the loan-to-value ratio is determined by dividing the unpaid principal balance of the construction-to-permanent mortgage by the current appraised value for the property (both the lot and the improvements).

If the borrower acquired the lot within the 12 months preceding the date of the application for the construction financing, the loan-to-value ratio is determined by dividing the unpaid principal balance of the construction-to-permanent mortgage by the lesser of:

- The current appraised value for the property (both the lot and the improvements), or
- The total acquisition costs (which are the sum of the costs of the improvements and the sales price of the lot).

The file must include the appraiser's certificate of completion and a photograph of the completed property. In addition, if the proceeds of the construction loan were used to build a new residence, a copy of a certificate of occupancy (or an equivalent form) from the applicable government authority is also required.

CONTRACT OF SALE/LAND CONTRACT

A land contract (also known as contract for deed, contract sale, contract purchase, an Agreement of Sale in Hawaii) is a form of seller financing in which the seller retains title to the property while the buyer makes regular payments to the seller. Once the buyer pays the number of payments and/or amount specified in the contract, the seller conveys the title to the buyer. A mortgage in which the proceeds are used to pay the outstanding balance of a land contract or contract for deed may be considered as either a purchase or a refinance transaction.

PURCHASE (CONTRACT OF SALE/LAND CONTRACT)

If the land contract or contract for deed was executed within the 12 months prior to the loan
application date, the transaction will be considered a purchase. Proceeds are used to pay
the outstanding balance on the installment land contract only. No loan proceeds can be
disbursed to the borrower. The LTV is calculated on the lower of:

- The appraised value at the time the new mortgage is closed, or
- The total acquisition cost. The total acquisition cost is defined as the purchase price
  indicated in the original land contract plus any out of pocket expenses paid by the
  borrower for rehabilitation, renovation, or energy conservation improvements.

REFINANCE (CONTRACT OF SALE/LAND CONTRACT)
If the land contract or contract for deed was executed more than 12 months prior to
the loan application date, the transaction will be treated as a rate/term refinance.
Proceeds from the refinance transaction may include the sum of the outstanding
balance of the installment sales contract and the costs incurred for rehabilitation,
renovation, or energy improvements. A new appraisal is required and the LTV must be
calculated using the appraised value of the new mortgage transaction.

LEASE OPTION
A transaction in which a borrower holds a lease with an option to purchase the subject
property will be treated as a purchase transaction. The LTV will be based on the lesser of
the purchase price or the current appraised value.

The seller may give the borrower credit toward the down payment based on a portion of
previous rent payments by the borrower. Copies of cancelled checks evidencing the
monthly rent payment per the purchase agreement are required. A comparable rent
schedule is required to verify the borrower paid in excess of the current market rents. Any
monies paid in excess of the current market rents may be credited back to the borrower.

CONTINUITY OF OBLIGATION
A continuity of obligation is required for all refinance transactions. A continuity of obligation
exists when one or more of the following occur:

- At least one borrower on the existing mortgage is a borrower obligated on
  the new mortgage.
- The borrower on title has been on title (but is not on the existing mortgage) and has
  been occupying the subject property for at least 12 months and has paid the
  mortgage for the previous 12 months (cancelled checks, front and back are required)
  or can demonstrate a relationship (spouse, relative, or domestic partner) with the
  current obligor.
- The existing loan being paid-off and the title are held in the name of a natural
  person or a limited liability corporation (LLC) as long as the borrower was a member
  of the LLC prior to transfer. Transfer of ownership from a corporation to an
  individual does not meet the continuity of obligation.
- The borrower recently inherited or was legally awarded the property
  (divorce/separation settlement).

If the borrower is on title and there is no continuity of obligation, the loan will be treated as
a cash-out refinance. The following applies:

- If the property is owned free and clear (i.e. purchased for cash or any previous
  mortgage loan(s) have been paid off) and was purchased within the previous 6-12
  months prior to the application date, the LTV will be based on the lower of the sales
  price/acquisition cost, documented by the HUD-1 or current appraised value.
● If the property is owned free and clear and was purchased more than 12 months from the application date, the LTV is based on the current appraised value.
● If the borrower has been on title for a minimum of 6 months and there is an existing lien, the maximum LTV is 50% based on the current appraised value.

Properties gifted to the borrower are subject to the following:

● If the property is owned free and clear and there was not a transaction involved when the borrower was put on title, there is a 12-month seasoning requirement before the borrower can receive cash-out.
● If there is a lien on the property and the borrower has been on title a minimum of 6 months, the loan will be treated as a cash-out refinance and the maximum LTV is 50% based on the current appraised value.

MULTIPLE PROPERTIES OWNED

Maximum number of properties financed:

● Owner-Occupied transactions: No limit.
● Second Homes or Investment Properties: 4 maximum.
● Fannie Mae Direct program allows 5-10 financed properties; refer to the product matrix for specific FICO/LTV.

If a property is held in the name of a corporation and the borrower is the joint owner of the corporation, the property will not be included in the number of financed properties as long as there is no mortgage reported on the borrower’s credit report, nor included on borrower’s Schedule E of 1040s

MULTIPLE LOANS TO ONE BORROWER

NDM limits its exposure to the same borrower to a maximum of 4 loans, with an aggregate loan amount of $2 million.

INEligible TRANSACTIONS

The following are considered ineligible transactions:

● A borrower who currently owns a multi-unit property as his primary residence and is purchasing another owner occupied multi-unit property located in the same city/town.
● Transactions that do not meet the continuity of obligation requirement as outlined in Continuity of Obligation section.
● Flip/bail out properties.
● Refinance transactions without a continuity of obligation.
● Refinance transactions without a benefit to the borrower.
● Purchase transactions were the Seller wants to lease back the subject property is not allowed, regardless of the duration of the lease back period.
● A transaction with an escrow holdback to bring the condition of the property to average or complete construction after the close of escrow.
● A transaction where more than one appraisal was obtained in an effort to secure an appraised value which substantiated the sales price of the subject property.
● A transaction where the property is subject to resale restrictions is ineligible utilizing an ARM product.
EMPLOYMENT & INCOME
In assessing the borrower’s employment and income, NDM reviews the stability of the borrower’s income, the adequacy and continuance of the income, and if the income is derived from an acceptable source. The employment and income provided must be in line with the industry standards. This applies to all qualifying borrowers whether the borrower is salaried, commissioned, self employed, or receives income from non-salaried sources such as trust income, real estate income, notes receivables, capital gains, royalties, foster care, or other verifiable miscellaneous earnings.

EMPLOYMENT STABILITY
NDM will verify all qualifying borrowers’ employment for the two years preceding the date of the application. All qualifying income should be stable, predictable, and likely to continue. It is the stability and reliability of the income that contributes to successful homeownership. Generally, income documentation requirements are determined by DU however, when utilizing an ARM product on the Agency Conforming or Agency High Balance program, a paystub with YTD income and a W2 are required regardless of DU Findings.

A borrower must have at least a 2 year continuous work history with stable income and a reasonable expectation that the income will continue for the foreseeable future, typically three years. Borrowers who frequently change jobs are eligible for NDM financing provided the underwriter is able to determine the borrower has been employed in the same line of work for at least 2 years, the income is stable, predictable, and expected to continue.

Borrowers who work in certain industries or are seasonal workers may have frequent job changes. This type of borrower is eligible for NDM financing and will need to demonstrate the ability to maintain a steady income despite the changes.

Gaps of employment greater than 30 days require a written letter of explanation from the borrower and may be subject to additional documentation and/or a counter offer to the loan terms/program requested. Gaps of employment greater than 60 days will be evaluated on a case-by-case basis.

Income from borrowers re-entering the workforce that have been unemployed a substantial amount of time (1-year or more) may be considered if the borrower has been with their current employer for a minimum of 6 months and there is evidence of a previous 2-year employment history.

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, regardless of DU findings.

- Borrower’s signed 2 years tax returns, and
- Written VOE form, and
- Most recent 2 year’s W2s.

VERBAL VERIFICATION OF EMPLOYMENT
NDM will perform a verbal verification of employment for all borrowers whose income is used to qualify for the loan transaction. NDM will use web resources to obtain the employer’s phone number and location for verifying employment. Verbal verifications of employment are to be completed using the phone number obtained by NDM; employer phone numbers obtained from the broker or cell phone numbers are not acceptable.

SOURCES OF INCOME
A borrower’s income can be derived from several sources. Income may be salaried,
commissioned, or self-employed. In addition to wage and self employed income, borrowers may receive additional income in the form of capital gains, rents, royalties, trust income, and nontaxable income such as child support, social security, disability, and public assistance for example. As these are eligible sources of income, documentation is required to evidence receipt of the income, the continuance of the income, and the stability of the income.

Eligible sources of income are defined as income received and paid tax on as evidenced by a U.S. tax return. Income received from any source that cannot be verified is not acceptable for qualifying the borrower and therefore is ineligible.

Nontaxable income must be documented with an award letter, policy agreement, account statement, or any other document that addresses the nontaxable status of the income. If the income is nontaxable and the income and its tax-exempt status are likely to continue for at least three years, the income may be grossed up 125%. When utilizing an ARM product on the Agency Conforming or Agency High Balance program nontaxable income must be grossed up.

Loans run through DU are not eligible for income documentation waivers. NDM will require income documentation regardless of the DU Findings. At minimum, the borrower will be required to provide the most recent 30 days paystubs with YTD earnings and the previous years W2 (salaried) or the most recent years personal tax returns (self employed). NDM will verify the validity of all income documentation submitted and may request additional documentation if any discrepancies appear.

**WAGE EARNER**

The income received as compensation for services paid by a person, business or organization at specified intervals is considered salaried or wage earner income. There are four classifications of wage earners.

- **Full Time** – the borrower is a permanent employee of the company and works a standard work week, typically 40 hours.
- **Part Time** – the borrower is a permanent employee of the company but works fewer hours than a standard work week, typically less than 30 hours per week.
- **Temporary** – the borrower is not a permanent employee of the company. The borrower typically works on an “as needed or contracted basis. If this is the borrower’s sole source of income and the income is needed for qualifying, the borrower is required to have a 2 year continual history of working temporary jobs in order to use the income for qualification.
- **Seasonal** – the borrower works for a specified period of time on a specific job or contract. Once completed, the borrower is on standby for the next assignment. Borrowers who fit into this category are typically farm workers, union workers, roofers, landscapers.

Wage earners are paid on a regular basis. The interval may be hourly, weekly, bi-weekly, semi-monthly, or monthly. Unless indicated differently in the DU Findings, borrowers are required to provide a pay stub covering the most recent 30 days with year-to-date earnings, and the most recent 2 years W2’s to verify income. Tax returns may be required if borrower owns more than one rental property and/or borrower’s employment involves non-reimbursed employee expenses. When tax returns are required, the borrower must provide all schedules and forms related to the income reported including, but not limited to, W-2s, 1099s, K1, etc.
Automobile Allowance

For an automobile allowance to be considered as acceptable stable income, a borrower must have received payments for at least two years. Must include all associated business expenditures in calculation of the borrower’s total debt-to-income ratio. Auto allowances received for less than two years should not be used when calculating the borrower’s total debt-to-income ratio. However, this income may be used to justify a higher qualifying ratio.

There are 2 methods for calculating the income associated with an auto allowance:

- **Actual cash flow approach:**
  - If the borrower reports auto allowances on IRS Form 2106 or IRS Form 1040, Schedule C:
    - Funds in excess of the borrower’s monthly expenditures are added to the borrower’s monthly income.
    - Expenses in excess of the monthly allowance are included in the borrower’s total monthly obligations.
  
  If the borrower used IRS Form 2106 and recognized “actual expenses” instead of the “standard mileage rate”, the lender must look at the “actual expenses” section to identify the borrower’s actual lease payments, and make appropriate adjustments.

- **Income and debt approach:** If the borrower does not report the allowance on either Form 2106 or Schedule C, the full amount of the allowance is added to the borrower’s monthly income, and the full amount of the lease or financing expenditure for the auto is added to the borrower’s total monthly obligations.

Bonus Income: Bonus income is an eligible source of income provided the borrower has a documented 2 year history of receiving bonus income. Bonus income can be paid monthly, quarterly, annually, or as part of an incentive plan. The nature of the bonus income must be consistent in order to use the bonus for qualifying. Bonus income should be averaged over a 24 month period. If there is a decline in bonus income, NDM will evaluate the income to determine if the income is stable and can be used for qualifying. If the income is used, the more conservative figure will be applied. If the bonus income is ≥ 25% of the borrower’s annual income, the most recent 2 years tax returns are required.

Commission Income

As commission income can fluctuate, a two year average is required when qualifying the borrower. In addition, there must be an established earnings trend. If the borrower does not have a two year history of receiving income but has a 12 months history or greater, the income may be used if there are solid compensating factors and there a future earnings trend is demonstrated. If the commission income declines, the income is not considered stable. NDM’s underwriter will determine the stability of the income. If the income is used, the more conservative figure will be applied. Any significant increases or decreases in the commission income must be addressed by the borrower.
Borrowers who receive ≥ 25% of their total annual income from commissions will be considered self-employed. The most recent 2 years personal tax returns are required. In order for the commission income to be used for qualifying, the commission income reported on the tax returns must cover at least a 12 month period.

**Military Income**

Military personnel often receive different types of pay in addition to their base pay. Flight or hazard pay, rations, clothing allowance, quarters' allowance, and proficiency pay are acceptable sources of income, as long as the borrower can evidence that this particular source of income will continue to be received in the future. Income paid to military reservists while they are fulfilling their reserve obligations also is acceptable if it meets the same stability and continuity requirements applied to other types of second-job income.

**Overtime Income**

Overtime income is an eligible source of income provided the borrower has a documented 2 year history of overtime earnings. There must also be a likelihood of the overtime income continuing in order to use the income for qualification. Overtime income should be averaged over a 24 months period; however, if the overtime income has declined, NDM will evaluate the income to determine if the income is stable and can be used for qualifying. If the income is used, the more conservative figure will be applied. If the overtime income is ≥ 25% of the borrower's annual income, the most recent 2 years tax returns are required.

**Part-Time, Second Job & Multiple Job Income**

A borrower who has a part-time or second job must have a continuous 2 year history of working two jobs as well as a continuous 2 year history of the part-time/second job if the income will be used to qualify.

**Seasonal Job Income**

Seasonal part-time or second job income (including seasonal unemployment compensation) can be considered as stable income if the borrower has worked the same job (or line of seasonal work) for the past two years and the borrower’s employer indicates that there is a reasonable expectation that the borrower will be rehired for the next season. Borrowers who have seasonal jobs include holiday workers, outdoor laborers such as landscapers, construction workers, roofers, etc.

Seasonal unemployment compensation may be used to qualify the borrower if it is documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's federal income tax returns.

**Trailing Spouse/Co-borrower Income**

Trailing spouse income is ineligible.

**SELF-EMPLOYED INCOME**

Self employed borrowers are eligible with a documented 2 year history of the existence of the business. Borrowers who receive income from any of the following sources are considered self employed:

- A borrower who has ≥ 25% interest in a business that is a sole proprietorship (Schedule C), general and limited partnership (K-1 and
1065), corporation (1120) or a S-corporation (1120S).

- A borrower whose combined business interests comprise ≥ 25% of the total income.
- Borrower who receives commission income ≥ 25% of the total income.
- Borrower whose income is exclusively investments (interest income, dividends, capital gains, or real estate).
- Borrower who is a member of the clergy and files as self employed.
- Borrower who is a contract worker and receives 1099 income.
- Borrowers who are wage earners and also received ≥ 25% of their annual income in the form of bonus, commissions, and/or overtime.

NDM defers to the DU Findings for required income documentation. When tax returns are required to document income, all schedules and forms related to the income reported must be provided.

Self employed borrowers are required to sign a 4506-T and an 8821, if applicable.

A business license is required to document a 2 year existence of the business. If state or local agencies do not require the business to have a license, other documentation may be provided to establish the validity and length of operation of the business.

When there are Schedule C and/or Schedule E losses for a business owned solely by a non-signing spouse and it can be documented that the borrower has no involvement in the business, the loss will not be factored into the borrower’s debt ratio unless the underwriter determines that the loss is substantial enough to effect the borrower’s ability to re-pay the loan.

**NON-SALARIED INCOME, FIXED INCOME, & ADDITIONAL INCOME SOURCES**

**Alimony/Child Support**

Alimony and/or child support are an eligible source of income provided it continues for a minimum of three years after the date of the mortgage application and borrower has a minimum 6 months history of receiving the full income on a regular and timely basis. A copy of the recorded divorce decree or the recorded legal separation agreement is required to evidence the award of alimony and/or child support and to evidence the payment amount of the alimony and/or child support along with the duration of the payment. When utilizing this source of income, NDM will take into consideration the borrower’s regular receipt of the payment and any limitations on the continuance of the payment (i.e.: the age of the children for whom the support is being paid). If there is no legal recorded document for the award, the income cannot be used in qualifying the borrower.

The borrower must provide evidence of receipt of payments for alimony or child support. Acceptable documentation includes the borrower’s bank statements, personal tax returns and copies of the checks along with deposit slips that show regular consistent payments.

NDM will consider the regularity and timeliness of the payments, as well as whether the borrower received all or only part of the full amount that was due.

If the borrower has been receiving the full, regular, and timely payment for alimony or child support for 12 months, the income is considered stable.

If the borrower has been receiving full, regular and timely payments for alimony or
child support for 6-12 months, the income can be considered stable provided it does not constitute more than 30% of the total gross income used to qualify the borrower.

When the borrower has been receiving full, regular, and timely payments for alimony or child support for less than 6 months, the income is not considered stable and cannot be used to qualify the borrower.

When the borrower has been receiving full or partial payments for alimony or child support on an inconsistent or sporadic basis, the income is not considered stable and cannot be used to qualify the borrower.

**Boarder Income**

Boarder income is not an eligible income source.

For standard mortgages, a borrower with disabilities who receives rental income from a live-in personal assistant may use the rental income for qualifying provided the rental income does not exceed 30% of the total gross income used to qualify the borrower. The boarder will need to provide evidence demonstrating a history of shared residency with the borrower (bank statement, credit card statements, etc.) along with the most recent 12 months cancelled rent checks documenting the amount of rent paid.

**Capital Gains**

If the income from capital gains is used to qualify the borrower, the most recent two years personal tax returns are required to verify the income. The income should be consistent and likely to continue. If the income is consistent for the previous two years, the income will be averaged for 24 months. If the income has fluctuated substantially, a three year history is required. The most conservative approach will be used if the capital gain income is decreasing year after year.

**Disability Benefits**

Disability benefit payments are considered an acceptable income source unless the terms of the disability policy specifically limit the stability or continuity of the benefit payments. If the income falls into a category that does not have a defined expiration date, NDM will conclude the income is stable, predictable, and likely to continue. Additional documentation from the borrower is not required.

Benefits that have a defined expiration date must have a remaining term of at least three years from the date of the mortgage application in order to be used for qualifying the borrower.

If the benefit payment will be decreasing to a lower amount within the next three years due to conversion to a long term benefit, NDM will use the lower amount (long term payment) when qualifying the borrower.

The borrower is required to provide a copy of the disability policy or benefits statement to verify the amount of disability payments and to determine whether there is a contractually established termination or modification date. NDM will also require a statement from the benefits’ payer (insurance company, employer, or other qualified and disinterested party) to confirm the borrower’s current eligibility for the disability benefits.

**Education Benefits**

Education benefits are not an acceptable source of income as they are offset by education expenses.
Foster-Care Income

Income that a borrower receives from a state-sponsored or county-sponsored organization for providing temporary care for one or more children is an acceptable income source as long as the borrower has a two-year history of providing foster-care services and is likely, in the foreseeable future, to continue to provide such services at a level that supports the amount of income needed for qualifying for the mortgage. If a borrower has not been receiving this type of income for two full years, the income may still be used as long as the borrower has at least a 12-month history of providing foster care services and this income does not represent more than 30% of the total gross income that is used to qualify the borrower.

Acceptable documentation verifying foster-care income includes letters from the organization(s) providing the income, the borrower’s most recent two years personal tax returns, or copies of the borrower’s deposit slips or bank statements that confirm the regular deposit of the payments.

Interest and Dividend Income

Interest and dividend income may be used as acceptable stable income if it has been received for the past two years as documented by the borrower’s most recent two years personal tax returns and appears likely to continue for a minimum of three years from the date of the mortgage application. For qualifying, the income will be averaged over 24 months. If income is decreasing, the income may be averaged over less than 24 months.

The borrower must provide evidence of ownership of the assets on which the interest and/or dividend income was earned. Any assets used for down payment or closing costs must be subtracted from the borrower’s total assets before calculating expected future interest or dividend income.

Notes Receivable

Income derived from payments on notes receivable may be used for qualification if the borrower has received the income for the previous 12 months and the income will continue for at least three (3) years from the date of the mortgage application. A copy of the note is required to establish the amount and length of payment. The following are the verification requirement.

A 12-month history of receipt is required as evidenced by one of the following:

- Personal tax returns, or
- Bank statements showing consistent deposits, or
- Cancelled checks.

Payments on a newly executed note (less than 12 months) that specifies a minimum duration of three years from the date of application are not eligible as they are not considered stable income; however the payments may be used to justify a higher qualifying ratio.

Public Assistance Income

Income from public assistance may be considered as an acceptable income source if documentation is provided to show the income has been received for the past two years, and is expected to continue to be received for at least three years from the date of the mortgage application. Acceptable forms of documentation are letters or exhibits from the paying agency that state the amount, frequency, and duration of the benefit payments.

Monthly Section 8 voucher payments also are an acceptable source of qualifying
income. The income does not require a two year history of receiving payments or for the payments to continue for a specified period of time after the date of the mortgage application. Verification from the public agency that issued the voucher to the borrower of the monthly payment amount and that the income is non-taxable is required. If the income is non-taxable, the income may be adjusted up 125%.

Rental Income
Rental income can be used as a qualifying income provided the transaction meets the following requirements.

- Follow DU findings for documentation requirements.
- Rental income generated from the subject property requires the appraiser to provide the following:
  - Single-Family Comparable Rent Schedule (Form 1007), or
  - Small Residential Income Property Appraisal Report (Form 1025) 2-4 unit properties, and Operating Income Statement (Form 216).

- Rental income generated from other investment property that the borrower currently owns but is not the subject transaction requires the following:
  - The borrower must provide most recent personal tax returns per DU, and the related Schedule E to calculate the rental income making sure that depreciation or any interest, taxes, or insurance expenses are added back in the borrower's cash flow analysis.

If the borrower does not have a history of receiving rental income from a property because it was acquired subsequent to filing the tax return, the rental income must be documented as follows:

- A copy of the fully executed lease agreement. A family member, any individual with an established relationship with the borrower or an interested party to the transaction cannot sign the lease agreement as the tenant.
- A copy of the receipt of a security deposit from the tenant and deposit into the borrower's account.
- NOTE: If using a lease agreement only 75% of the gross rents may be used as the net rental income.

Rent Loss Insurance Requirements
Rent loss insurance covers rent 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 loss. Rent loss insurance must be maintained for:

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

Rent loss insurance may be waived when:
- Rental income from subject property not used for qualifying, and
- PITI and operating expense for the subject is included in the borrower’s qualifying ratios.

Retirement or Pension Income
Retirement or pension income is an acceptable source of income provided the borrower can evidence regular receipt of payments. Typically, the borrower will need to provide a copy of the award letter evidencing the terms of the income and the most recent two months bank statements evidencing receipt of the payment. Other forms of acceptable documentation are the most recent two years filed personal tax returns or the most recent two years SSA-1099/W2s.

When the retirement income is received in the form of a monthly annuity payment or a monthly distribution from a 401(k), IRA, or Keogh, documentation is required to determine that the income is expected to continue for at least three years after the date of the mortgage application. In addition:

The borrower must have unrestricted access without penalty to the accounts; and if the assets are in the form of stocks, bonds, or mutual funds, 70% of the value (remaining after any applicable costs for the subject transaction) must be used to determine the number of distributions remaining to account for the volatile nature of these assets.

Royalty Income
Royalty income may be used for qualifying provided the borrower has at least a 12 months history of receiving the royalty payment. When utilizing an ARM product on the Agency Conforming or Agency High Balance program royalty income requires a two (2) year history of receipt. This is documented with the borrower’s most recent two years personal tax returns. The royalty income reported on the tax returns must cover at least a 12 month period. The royalty payments must continue for a minimum of three years after the date of the mortgage application.

Social Security Income
Social security benefits with a definitive expiration date must have a remaining term of at least three years from the date of the mortgage application in order for the income to be used in qualifying the borrower. The borrower will need to provide a copy of the most recent one year’s SSA-1099 and most recent one month’s bank statement evidencing receipt of the payment. 1099 must include Borrower Social Security Number. If borrower(s) not of retirement age, will also need SS Income Award Letter.

Trust Income
Trust income may be used as income for qualifying if the borrower has a two year history of receiving trust income and the income will continue for a minimum of three years from the date of the mortgage application. A copy of the Trust Agreement is required to confirm the amount, frequency, and duration of the payments. If the Trust Agreement is not available, a statement from the trustee confirming the amount, frequency and duration of the payments is acceptable.

A copy of the borrower’s most recent two years personal tax returns are required to evidence receipt of the trust income.

Lump-sum distributions from the trust made before the loan closes may be used for the down payment or closing costs if they are verified by a copy of the check
or the trustee’s letter that shows the distribution amount and a copy of the receipt from escrow/title.

**Unemployment Benefits**

Unemployment benefits, such as those received by seasonal workers, may be considered as an acceptable income source if the income is documented, has been received for the previous two years, and is predictable and likely to continue. Copies of the borrower’s most recent personal tax returns are required to establish a two year history receiving the benefit.

**VA Benefits**

Typically VA benefits are an acceptable income source provided they are documented by a letter or distribution form from the VA and will continue for at least three years from the date of the mortgage application. Education benefits are not an acceptable income source as they are offset by the education expenses.

**Tip Income**

If the income from tips is used to qualify the borrower, the most recent 2-years personal tax returns and all schedules are required to verify the income. Tip income must be averaged over 2 year period, and employer must indicate likely to continue.

Tip income must be entered in DU in the “Other Monthly Income” section of the loan application as “Other Types of Income” and verified according to these requirements.

**Temporary Leave**

Temporary leave from work is generally short in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or the borrower's employer. Borrowers on temporary leave may or may not be paid during their absence from work.

If borrower will be on temporary leave at the time of closing of the mortgage loan and that borrower's income is needed to qualify for the loan, must determine allowable income and confirm employment as described below.

- The borrower's employment and income history must meet standard eligibility requirements as described in applicable Income section.
- The borrower must provide written confirmation of his or her intent to return to work and the agreed upon date of return as evidenced by documentation provided by the employer or a designee of the employer. (For example, an employer may use the services of a third party to administer employee leave.)
- Must be no evidence or information from the borrower's employer indicating that the borrower does not have the right to return to work after the leave period.
- The lender must obtain a verbal verification of employment in accordance with Income section.
- The lender must verify the borrower's income in accordance with Income section.
The amount of the borrower’s “temporary leave income” which may require multiple documents or sources depending on the type and duration of the leave period, and

The amount of the “regular employment income” the borrower received prior to the temporary leave. Regular employment income includes, but is not limited to, the income the borrower receives from employment on a regular basis that is eligible for qualifying purposes (for example, base pay, commissions, and bonus.)

Requirements for Calculating Income Used for Qualifying

If the borrower will return to work as of the first mortgage payment date, the lender can consider the borrower's regular employment income in qualifying.

If the borrower will not return to work as of the first mortgage payment date, the lender must use the lesser of the borrower's temporary leave income (if any) or regular employment income. If the borrower's temporary leave income is less than his or her regular employment income, the lender may supplement the temporary leave income with available liquid financial reserves.

Supplemental income amount = available liquid reserves divided by the number of months of supplemental income

- Available liquid reserves: subtract any funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount.

- Number of months of supplemental income: the number of months from the first mortgage payment date to the date the borrower will begin receiving his or her regular employment income, rounded up to the next whole number.

After determining the supplemental income, the lender must calculate the total qualifying income.

Total qualifying income = supplemental income plus the temporary leave income

The total qualifying income that results may not exceed the borrower's regular employment income.

Example

Regular income amount: $6,000 per month
Temporary leave income: $2,000 per month
Total verified liquid assets: $30,000
Funds needed to complete the transaction: $18,000
Available liquid reserves: $12,000
First payment date: July 1
Date borrower will begin receiving regular employment income: November 1
Supplemental income: $12,000/4 = $3,000
Total qualifying income: $3,000 + $2,000 = $5,000

**Note**: These requirements apply if the lender becomes aware through the employment and income verification process that the borrower is on temporary leave. If a borrower is not currently on temporary leave, the lender must not ask if he or she intends to take leave in the future.

**4506-T Forms**
4506-T forms for the most recent 2-years processed and validated against the income documentation provided is required for each borrower signing the Note/Mortgage. Results must indicate no variances. The 4506-T must be signed at both application and closing.

In the event the borrower has never filed taxes (recent college graduate with first job, etc.) and the 4506-T is rejected, NDM will require the borrower to provide documentation from the IRS of —non-filing/no record found— for the most recent 2-years.

Broker provided processed 4506-T results are not acceptable.

**PROPERTY VALUATION**

NDM will extend financing for the purpose of purchasing or refinancing one-to-four (1-4) family residential properties. The property must constitute an acceptable form of collateral for the requested mortgage. The security for the mortgage may be a single family dwelling (detached or attached), a townhouse, PUD or condominium unit, or a two-to-four (2-4) family income property.

NDM requires all appraisals must comply with Fannie Mae/Freddie Mac guidelines --- and with the Appraiser Independence Requirements (AIR) issued by Federal Housing Finance Agency --- and FHA’s Appraiser Independence Guidelines. Appraisals must also meet the minimum standards established by FIRREA and USPAP and the provisions set forth by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Although NDM follows standard Fannie Mae appraisal guidelines, any differences noted in this section of the manual will supersede.

**Fannie Mae Appraiser Independence Requirements**

NDM follows Fannie Mae’s Appraiser Independence Requirements and requires every appraisal prepared by its approved Appraisal Management Companies (AMCs) which includes:

1. Requiring the appraiser be, at a minimum, certified by the state in which the property to be appraised is located; and

2. No employee, director, officer, or agent of the Seller, or any other third party acting as joint venture partner, independent contractor, appraisal company, appraisal management company, or partner on behalf of the Seller, shall influence or attempt to influence the development, reporting, result, or review of an appraisal through coercion, extortion, collusion, compensation, inducement, intimidation, bribery, or in any other manner.

**APRAISER REQUIREMENTS**

All appraisers must be certified in the state in which the subject property is located. When the sales price (purchase) or appraised value (refinance) is greater than $1,000,000, a certified general appraiser must prepare the appraisal report. The appraiser’s license and...
certification numbers must appear on the appraisal report. A copy of the appraiser’s Errors and Omissions insurance is required with all appraisals. Insurance coverage must be sufficient to cover the loan amount of the transaction, or $1,000,000, whichever is less.

NDM requires all appraisals be prepared by a licensed or certified appraiser who:

- Fully understands and complies with the Uniform Standards of Professional Appraisal Practices (USPAP), as published by the Appraisal Standards Board of the Appraisal Foundation.
- Is either an independent staff appraiser or independent fee appraiser as defined by Title XI of FIRREA (12 CFR Part 34).
- Is in good standing with the state licensing agency.
- Has no present or prospective direct or indirect financial or personal interest in the subject property, and has no personal bias or interest in the parties involved in the subject transaction.
- Was not assigned the appraisal subject to any required minimum or expected valuation of the subject property and is not compensated based upon the acceptability of the value derived in the appraisal.
- Demonstrates sufficient expertise and education in the appraisal of one-to-four (1-4) family residential properties similar to the subject property.
- Is currently an active appraiser.

Unlicensed or uncertified appraisers that complete a portion or the entire appraisal report will require the licensed or certified appraiser for whom they are working to: 1) sign the appraisal report; 2) inspect the subject property (interior and exterior); and 3) check the box on the appraisal report that indicates he/she has inspected the property.

APPRAISAL REQUIREMENTS

Standard appraisal requirements establish the value based on a thorough evaluation of both the interior and exterior of the subject property. This includes a quantitative sales comparison analysis and requires the assignment of a dollar value to reflect the market’s reaction to any features of a comparable sale that differs from those of the subject property. The appraiser must perform a visual interior and exterior inspection of the subject property, inspect the neighborhood, perform at minimum a visual inspection of all comparable sales from the street, and research, verify, and analyze data from reliable public and/or private sources.

All subject property photos must be legible. Interior photos are required on all transactions. Comparable photos may not be photos provided by a multiple listing service. The appraisal must be typed or computer-generated on an acceptable form without blanks, alterations, or omissions.

The subject property address and legal description must match the loan application, sales contract, settlement statement, and title commitment. An appraisal without a complete and correct common address or full legal description is not acceptable.

UNACCEPTABLE APPRAISAL PRACTICES

NDM will not extend financing on any transaction in which the property valuation is not supported or the appraiser engaged in unacceptable appraisal practices. Examples of unacceptable appraisal practices include, but are not limited to:

- Improper comp selection.
- Excessive and unsupported comp adjustments.
- Failure to properly report subject’s 12-month listing history or contracted sale.
- Failure to properly report subject’s 36-month sales history or comps’ 12-month sales history.
- Misrepresentation of subject or comparable sales.
MANDATORY REPORTING OF APPRAISER MISCONDUCT
If there is a reasonable basis to believe that an appraiser has not complied with ethical or professional requirements for appraisers under applicable federal or state law, or the Uniform Standards of Professional Appraisal Practice (USPAP), and the resulting non-compliance has a material impact on value, NDM will report the appraiser to the appropriate state licensing agency for further investigation.

ACCEPTABLE APPRAISAL FORMS
Acceptable appraisal forms generally follow Fannie Mae/Freddie Mac standards, and must be compliant with all components of Agency Uniform Appraisal Dataset Specification requirements. The appraisal report must be completed with all standard required addenda and exhibits. Fannie Mae forms have a mandatory effective date of November 1, 2005, and Freddie Mac forms have a mandatory effective date of January 1, 2006; both forms are acceptable to NDM.

Single Family Residences
All single-family residential appraisals, including PUD units, must be completed on Fannie Mae Form 1004, with attachments. Site condo units may also be appraised on Form 1004 if the appraiser provides sufficient information in the appraisal to determine project eligibility and owners association fees.

Single-family investment properties always require a Single Family Comparable Rent Schedule (Fannie Mae Form 1007) and an Operating Income Statement (Fannie Mae Form 216), regardless of loan documentation type.

Multi-Family Residences
Two-to-four (2-4) unit income properties must be completed on Fannie Mae Form 1025, with attachments, and an Operating Income Statement (Fannie Mae Form 216), regardless of occupancy or documentation type.

Condominium Units
Attached condominium units require an Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073), with attachments. Detached units (site condos) may be appraised on Form 1073 or Form 1004 (e.g. site condo units).

REQUIRED APPRAISAL ATTACHMENTS
All appraisals require a Statement of Limiting Conditions and Appraiser’s Certification (Fannie Mae Form 1004B) and the Market Conditions Addendum (1004MC), regardless of type.

The following attachments are required for all appraisals:
• A street map clearly showing the location of subject and each comparable sale and listing.
• A legible sketch of the subject dwelling including exterior dimensions (sketches of condominiums must indicate interior unit dimensions, not exterior building dimensions).
• Legible photographs of subject’s interior living areas (including kitchen, living room, and dining room, all bathrooms, and at least one bedroom), exterior front and rear elevations, and a street scene.
• Legible photographs of any special features or external influences that may
have a material impact on subject’s value or marketability (positive or negative). Examples of amenities that have a positive effect on value include an extraordinary view, waterfront location, an in-ground pool, tennis court, and outbuildings. Negative external influences can include busy roadways, train tracks, airports, and commercial properties, abandoned or boarded-up homes, or environmental hazards.

- A legible photograph of each comparable sale and listing. An MLS photo may be used if new photographs cannot be obtained physically (e.g. due to inclement weather) or the property no longer resembles its appearance at the time of sale (e.g. has been torn down or added on to).
- Plat of surveys, flood maps, or plans and specifications, when applicable.
- An addendum explaining unusual items not adequately addressed on the appraisal form itself.

**ADDITIONAL APPRAISAL REQUIREMENTS**

In addition to the appropriate appraisal form, the appraisal must include the following:

- The appraiser must review a copy of the sales contract on purchase transactions. The appraiser must acknowledge by checking the appropriate box on the appraisal that he has reviewed the sales contract and all addenda.
- Disclose any applicable information regarding the competency provision of the USPAP.
- Certify that the analysis is limited by the reported assumptions and conditions and is the appraiser’s own personal, unbiased professional opinion.
- Be based upon the market value of the property.
- Analyze and report in reasonable detail the sales history for the past 36 months for the subject property and the last 12 months for all comparable sale properties used in the report.
- Analyze any current agreement of sale, option, or listings for the subject property within the previous 12 months.
- Provide data on current revenues, expenses and vacancies for income producing properties.
- Analyze and report on appropriate discounts and deductions.
- Analyze and report the impact of financing concessions, rent or sales concessions, contributions (even if such items are common market practice), and discounts for proposed construction or partially leased properties.
- Analyze and report a reasonable marketing period and exposure time.
- Analyze and report on current market conditions and trends that affect the value of the property.
- Include a statement that the appraisal was not based upon a requested minimum valuation, specific valuation, or the approval of a loan.
- Include a legal description of the subject property.
- Identify and separately value any personal property, fixtures, or intangible items.
- Set forth all material assumptions and limiting conditions that affect the opinions, analysis, and conclusions expressed in the appraisal.
- The appraiser must address any property additions and provide detailed commentary regarding the quality, safety, and conformity to the neighborhood of the addition. Additionally, the appraiser should address if the addition affects the marketability of the property.

**ELECTRONIC APPRAISALS**

Appraisers and brokers who use electronic appraisals must have in place appropriate measures to ensure the authenticity, integrity, security, and accuracy of any electronic appraisal provided to NDM (in electronic or printed form). All electronic appraisals must include a comment by the appraiser describing the method.
used to create the electronic signature and the intention to do so. The appraiser must also provide a statement in the report or supporting attachments that any digital photographs used in the appraisal have not been altered in any way.

AGE OF THE APPRAISAL
The appraisal cannot be > 120 days from the Note date or a new appraisal with three new comparable sales will be required.

An appraisal older than 90 days at underwriting, may, at the underwriter’s discretion, require an update made by the original appraiser, indicating that the estimated value has not declined and market conditions remain the same as described in the original appraisal. The update must be completed on Fannie Mae Form 1004D. At the underwriter’s discretion, additional comparable sales may be required. If the update does not confirm the original value and market conditions, a new appraisal may be required.

A new appraisal will be required if the original appraisal is > 120 days old from the Note date.

ACCEPTABLE AGE OF APPRAISAL FOR LOANS REQUIRING A SECOND APPRAISAL
Loans requiring two appraisals, one of the two appraisals may be up to 90 days at the time of funding as long as an appraisal update has been completed.

The second appraisal may not be older than 120 days of the Note date, with an appraisal update. After 120 days a new second appraisal will be required.

FINAL INSPECTIONS/COMPLETION REPORT & APPRAISAL UPDATE
Whenever an appraised value is subject to completion or repairs, a final inspection is required prior to final disbursement of loan funds. The final inspection should be performed by the original appraiser, and must be documented by a Completion Report (Fannie Mae Form 1004D).

The Completion Report must be accompanied by photos of the completed property (and, where applicable, the completed repairs), and must state that the improvements have been completed in accordance with the requirements and conditions stated in the original appraisal report. The appraiser must also concur with the original appraisal and research, verify, and analyze current market data in order to determine if the value has declined since the effective date of the original appraisal. If the Completion Report indicates that market conditions or the property value has declined since the original appraisal, a new appraisal is required.

DECLINING MARKETS
NDM defines a property in a declining market as follows:

- The appraiser comments the subject is in a declining market, values are declining in subject’s area and/or the appraiser marks —declining in the Property Values Section of the appraisal.
- AUS Findings indicate subject is located or appears to be located in a declining market.
- Web resources used by underwriting indicate the subject is located in a declining market.

Transactions with an LTV > 80% are subject to MI availability and, if applicable, the MI Companies’ declining market guidelines.
RECENTLY REMODELED OR RENOVATED PROPERTIES

Inflated appraisals made for cash-out refinance and purchases of flipped properties are a serious concern in the mortgage industry. The following requirements apply to all properties for which value is given in the appraisal to remodeling, renovation, rehabilitation, or other property improvements or repairs made in the 12 months prior to the appraisal:

- If the work was performed by a third party, the appraiser must obtain a copy of the rehabilitation or remodeling contract showing an itemized list of repairs or improvements.
- If the property’s seller or borrower performed his or her own repairs or remodeling, the appraiser must provide a list of repairs or improvements and an estimate of costs.
- Interior photos of all stated repairs or improvements must be obtained on all loans, even those where the appraisal has been completed — as is.
- Comparable adjustments must reflect the market's reaction to the improvements, not necessarily their cost. For example, swimming pools, electronic air filters, intercom systems, elaborately finished basements, carpets, luxury finishes or materials and other special features generally do not recapture value to the extent of their cost.
- If significant additions or conversions were made to the subject property, the appraiser must provide detailed commentary regarding the quality, utility, and conformity to the neighborhood of the improved property, and must indicate if permits were obtained.

OTHER PROPERTY CHARACTERISTICS

Accessory Apartments/ /Granny or In-Law Units
Properties with non-permitted accessory units, also known as granny units or mother-in-law suites may be acceptable if all of the following are met:

- One or two-unit (1-2) property.
- Subject is typical, common and readily acceptable in the subject’s market area.
- Appraisal demonstrates market acceptance of these accessory units.
- Rental income from the accessory unit may not be used to help the borrower qualify.
- Existence of the unit must not jeopardize any future hazard insurance claim.
- Properties must conform to all zoning laws and/or regulations.
- Legal non-conforming use may be acceptable provided its current use does not adversely affect its value and marketability.
- Accessory unit is substantially smaller than the primary unit.
- Unit must not violate applicable zoning laws and/or restrictions in such a way that the property could not be rebuilt in its current design.

Non-Permitted Additions
- Must be completed in workman-like manner.
- Cannot be included in value.
- Addition type is typical, common, and readily acceptable in the subject's market area.
- Existence of the addition must not jeopardize any future hazard insurance claim.
- Properties must conform to all zoning laws and/or regulations.
Addition is substantially smaller than the primary unit.

Deed Restrictions
NDM will not extend financing on properties with deed restrictions that can potentially hinder NDM’s first mortgage position. Any deed restriction must be subordinate to NDM’s mortgage and cannot prevent the mortgagee to claim any hazard insurance settlement condemnation awards, prohibit mortgagee’s legal right to remedy default under the mortgage terms, or restrict a notice of default or foreclosure to be sent to any third party. A copy of the deed restriction is required.

For condominium projects, the number of restricted units must be disclosed. The association may have the first right of refusal to purchase the unit but should not have the first right to lease, sale, or transfer a unit in connection with a mortgage foreclosure, acceptance of a deed in lieu of foreclosure, etc.

The condominium documents cannot restrict the unit owner’s right to sell, transfer or convey the unit. Limitations/restrictions to unit owners for occupancy or specified age groups are permissible provided the limitations are legally valid and necessary to maintain the character of the project.

Properties with deed restrictions are limited to one-to-two (1-2) units, purchase or rate and term refinance only.

Deferred Maintenance and Property Conditions requirems.
Property must be in average or better condition. Appraiser must rate condition as C1-C4-properties rated C5 or C6 are ineligible for approval- (See Uniform Appraisal Dataset rating for rating definitions.) Deferred maintenance may be permissible provided the neglected item(s) is not structural in nature, poses a health and safety risk, or has a negative effect on marketability.

Deferred item(s) may be left in “as is” condition if cosmetic in nature only and the cost to cure does not exceed $2,000.

Electrical Systems
An electrical certification from a licensed electrician will be required whenever the appraisal states a fair or poor rating concerning the adequacy or condition of the system. Any inadequacies must be corrected prior to close.

Environmental Hazards
The appraisal report should note the existence of known environmental hazards and its affect on value and marketability of the property. Properties located adjacent to or containing environmental hazards are ineligible for financing. Environmental hazards include, but are not limited to:

- Evidence of radon above EPA safety levels which is left untreated.
- Properties built on or near toxic waste dumps, clean-up sites, etc.
- Evidence of toxic molds or other contagions.

Properties must conform to Fannie Mae/Freddie Mac hazardous substance guidelines when issued.

Excess Land/Acreage
NDM requires a property with significant land area to be appraised in its entirety. NDM will lend on properties with a maximum lot size of 10 acres. The appraisal must
show subject’s lot is typical for the neighborhood by analyzing comparable sales which bracket subject’s lot size.

**Foundation Settlement**

If the appraisal report notes evidence of excessive settlement, the appraiser must clearly define the effect on value and marketability of the subject property. Settlement problems which denote the structural deficiencies and/or significant negative impact on the value and marketability must be corrected prior to closing. Generally, a structural engineer’s report will be required prior to making a loan decision.

**Functional Kitchen**

All properties require a functioning kitchen consisting of a working sink and stove/oven. Properties with only a microwave or a hot plate are not acceptable.

**Heating Systems**

A central heat source with ductwork or baseboard in all rooms is required on all properties. A heating certification from a licensed heating contractor may be required whenever the property has a gravity heating furnace or when the appraisal states a fair or poor rating on the adequacy of the system. Any inadequacies must be corrected prior to closing. A solar or wood-burning heating system must contain a central backup system to be acceptable.

NOTE: Properties located in Hawaii without a permanent heat source are eligible if appraiser reports it is normal and customary for the property location.

**Legal Non-Conforming Use**

NDM will extend financing on certain legal non-conforming properties provided the appraiser confirms through the local municipal building department that subject’s improvements can be 100% rebuilt to their current use in the event of partial or full destruction.

An accessory unit is allowed provided: the subject property is one-to-two (1-2) units; and the illegal unit conforms to the subject neighborhood, is residential in nature, and meets the test of “common and customary for the market.” The property must be appraised in conformity with its legal use (e.g. single family residence) and the borrower must qualify without any rental income from the illegal unit. NDM also requires a statement from the appraiser that subject can be rebuilt to its current use in the event of partial or full destruction.

The appraiser must provide at least two (3) comparable sales of similar properties with an illegal accessory unit.

**Leaseholds**

When a mortgage is secured by a Leasehold Estate, or is subject to the payment of “ground rent”, the borrower has the right to “use and occupy” for a stated term under certain conditions contained within the lease. Also, note that the leasehold agreement must last at least 10 years longer than the term of the loan.

The valuation of a property that is subject to a leasehold interest may require a complex analysis, so the appraiser must develop a thorough, clear, and detailed narrative to be included in the appraisal report that identifies:

- Terms of the lease
● Remaining term of the lease as of the effective date of the appraisal
● Any restrictions and conditions of the lease agreement or ground lease and discuss what effect, if any, they have on the value and marketability of the subject property.

In developing the sales comparison approach to value, the appraiser must use as comparable sales properties that have similar leasehold interests.

When there are sufficient numbers of closed comparable sales or properties with similar leasehold interests available, the appraiser should use them in the analysis of the market value of the leasehold estate for the subject property and report them in the sales comparison analysis grid on the applicable appraisal report form. However, if the market does not have enough adequate comparable sales available with similar leasehold interests, the appraiser may use sales of similar properties with different lease terms or, if necessary, sales of similar properties that are fee simple estate ownership may be used, as long as the appraiser explains why they had to be used. When using fee simple estate ownership comparable sales, the appraiser must make the appropriate adjustments for the difference in ownership and support these adjustments with documentation in the appraisal. At a minimum, the appraisal must contain at least two (2) sales that are similar leasehold estate interest comparable sales, which can be either closed, or pending sales.

**Multiple Dwellings**
Multiple dwellings on one lot must comply with local zoning requirements and be typical and common for the area. The Appraiser must provide comparable sales to support the value of the additional units. Properties with more than two additional dwellings are ineligible for financing by NDM. Examples of this type of property would be two single-family homes on one lot, or a single family home and a two family dwelling on one lot.

Multiple dwelling PUDs on one lot to be encumbered by one lien are not eligible for NDM financing.

**Plumbing**
A plumbing certification from a licensed plumber will be required whenever the appraisal states a fair or poor rating concerning the adequacy or condition of the system. Any inadequacies must be corrected prior to close.

**Private Roads**
Private roads providing access to the subject property may be eligible for NDM financing provided the Title Company insures the accessibility to the property from a public street and any maintenance costs are included in the qualifying ratios. A copy of the road maintenance agreement may be required if significant upkeep of the road will be required (e.g., frequent snow removal, etc.). Private road agreements will not be required in California. Private roads must provide year-round access.

**Private Water Supply**
Private water supply for properties whose water sources are derived from a well, shared well, community well, or other private source must meet the following guidelines:

● Be a single family residence.
● Water supply provides a year-round source of water.
● Mechanical systems utilized to provide water to the subject property are in
good working order.

- A water certification is required if the appraiser or purchase contract indicates the necessity. The report should be provided by a city, county, state (or governing body) official or a qualified entity stating:
  - The water supply system is in proper working order and pumping an adequate supply of water for the property; and
  - The water supply is potable and complies with local and/or state health authority standards. (In absence of a local health authority, a reputable chemical testing agency must certify that the water is fit for human consumption).
- The water certification(s) must be dated no more than 120 days prior to the Note date.

**Repair Requirements**

At its discretion, underwriting may require any repairs considered necessary to ensure good and marketable property. Repairs may be ordered regardless of whether the property is appraised “as is” or “subject to repairs”.

**Rural Properties**

NDM will extend financing on rural properties with a maximum 10 acres. A rural property is defined as a property located in an area that is less than 25% built up or an area that is designated by the appraiser as rural. In addition, NDM categorizes a property as rural when the comparable sales are greater than five (5) miles and older than six (6) months.

The following applies to all rural properties:

- The property must be residential in nature.
- The property must conform to existing zoning requirements.
- Lot size must be common and customary for the market and supported by comparable sales.
- The property must be accessible year-round by all-weather roads that meet local standards.
- The property must have adequate working utilities that are typical for the market.
- The property should not have many outbuildings.
- Maximum 80% LTV.

Rural properties with multiple outbuildings may indicate a commercial use. Agricultural properties, income-producing properties, farms, etc. are ineligible for financing.

**Security Bars**

Properties with security bars must comply with local fire codes and must have quick releases or safety releases on at least one window in each bedroom. In addition, bedrooms must have adequate egress to the exterior of the home – occupants must be able to get outside of the home if there is a fire.

**Sewage Disposal System**

Sewage disposal systems may require certification if the appraiser or purchase contract indicates the necessity. The report should be provided by a county, state, (or governing body) official or qualified entity stating:

- The sewage disposal system complies with applicable local and/or state health standards, is in proper working order, and can be expected to function satisfactorily; or
- Local and/or state health standards do not apply for the sewage disposal system; however it is found to be in proper working order and adequate for the property.
- For systems one year old or less, the certification may be no more than one year old on the date of closing. For systems more than one year old, the certification may be dated no more than 120 days prior to the Note date.

Survey
A survey is required where typical in the market area, or where the title commitment indicates an exception to survey matters.

In areas where surveys are not customary, the title insurance policy must insure against loss or damage by any violation, variation, encroachment or adverse circumstance which would have been disclosed by an accurate survey.

A copy of the survey must be obtained if the estimated HUD-1 shows a charge for the survey.

Termite Report and Clearance
A pest inspection report and clearance is required if the appraisal reports evidence of termites or other insect infestation, or the terms of the sales contract call for a pest inspection report, or if the Estimated/Final HUD I reflect a charge for a termite inspection. All Section I items must be cleared prior to closing. Any significant structural damage due to pest infestation must be corrected prior to closing. In addition, a pest inspection report and clearance may be required at Underwriter’s discretion based on observation or knowledge.

Roof Inspection
Water stains noted within the appraisal report will result in a roof inspection by a licensed roofer with a minimum 3-5 year remaining life expectancy.

INELIGIBLE PROPERTIES
NDM will not extend financing on the following:
- Properties listed for sale at the time of loan application are ineligible for a refinance transaction.
- Non-warrantable condos and non-warrantable PUDs
- Kiddie condos
- Condotels
- Co-operative Units
- Time share projects
- Manufactured housing/modular homes
- Properties on leased land in which the lease does not meet Fannie Mae requirements
- Properties with less than 600 square feet, including two-to-four (2-4) unit dwellings in which any unit is less than 600 square feet
- Income producing properties (e.g. farms, ranches, orchards, wineries, Bed & Breakfast, school, adult care facilities, etc.)
- Unique properties (e.g. berm, earth, geodesic, etc.)
- Units without a functional kitchen or a working heat source
- Properties in fair or average minus condition
- Commercially or industrially zoned properties
- Mixed-use properties
• Properties greater than 10 acres
• Properties zoned agricultural and the highest and best use is other than residential
• Properties utilized as a place of worship
• Multi-family dwellings containing more than four (4) units
• Properties subject to hazardous conditions
• Properties that do not have full utilities meeting all standard and local code
• Unimproved land
• Properties in Hawaii located in Lava Zones 1 & 2
• Properties with deferred maintenance exceeding $2,000
• Properties with an escrow withhold to bring the condition to average or complete construction after the close of escrow.
• Property with problem drywall (such as “Chinese drywall”)

ANALYSIS OF THE APPRAISAL
Underwriters evaluate all facets of the appraisal including but not limited to the marketing time, housing trends, neighborhood characteristics, listing history, comparable selection, adjustments, across the board adjustments, recent sales and/or transfers of the subject property and comparables, condition, and photos.

Comparable Sales
• NDM requires a minimum of three (3) comparable sales closed within six (6) months of the date of the appraisal and located within one (1) mile of the subject property; in essence, comparables must be located within subject’s neighborhood and not require excessive adjustments.
• Comparable sales located outside of subject’s neighborhood must be fully addressed by the appraiser. If the appraiser selects comparables outside of subject’s neighborhood in lieu of available closer comparables, the appraiser must explain in detail why the more distant comparables were selected.
• Comparables that fall outside the above parameters may require an appraisal review.

Adjustments
• Line, net and gross adjustments should not exceed 10%, 15% and 25% of the selling price for each comparable sale or listing.
• If adjustments are made to the appraisal for effective age, the appraiser must provide an explanation for the adjustments and the condition of the property.
• Comparable sales are to be adjusted to the subject property with an exception for sales and financing concessions which are adjusted to the market at the time of sale.
• Time adjustments must reflect the difference in market conditions between the date of sale of the comparable and the effective date of the appraisal for the subject property.
• Adjustments outside of the above parameters may require an appraisal review.

In addition to analyzing the above requirements, Underwriters implement the procedures outlined below to evaluate the adequacy and reliability of appraisal documentation:
• Underwriters review CoreLogic’s LoanSafe report on each loan. This report provides a RDS Score, T-Ratio, Mean/Median, History Pro, and other information that the underwriter will consider as part of their analysis of subject’s current market conditions.
• If the T-Ratio is moderate to low but the Mean/Median is more than 10% below the appraised value, and the LTV/CLTV is below maximum financing, the underwriter will request a Fannie Mae AVM.
• Findings with a T-Ratio of 95 or greater are not eligible for NDM financing.
● Findings with a T-Ratio ≥ 80 or ≤ 95 require a second review by Senior Management.
● If the LoanSafe does not support the value or reflects a high T-Ratio, or low Mean/Median, the underwriter will upgrade the review to a Desk Review. This may be waived if the LTV is 50% or below and the risk category is Low or Moderate, and the file has been reviewed with Senior Management.
● Underwriters will upgrade the AVM to a desk or field review, as dictated by the characteristics of the property and appraisal, if any of the following circumstances apply:
   o The AVM does not support value or reflects a confidence score other than Low Risk Category.
   o The LTV/CLTV is > 70% and the loan is cash-out;
   o Financing from NDM on the subject property exceeds $650,000;
   o The underwriter determines additional support for value is required based on the characteristics of the subject property, quality of the appraisal or the comparables selected. For example:
     ▪ Subject property is classified as “rural”; 
     ▪ Appraiser has used comparables aged > six (6) months;
     ▪ Distance of comparables appears to be excessive based on location of property;
     ▪ Appraiser uses time adjustments not adequately supported by paired sales analysis;
     ▪ Appraiser failed to bracket adjustments;
     ▪ Value of subject exceeds predominant value by more than 125%.

At the underwriter’s discretion, a field review may be required in lieu of an AVM or a desk review.

APPRAISAL REVIEWS
When a field review is required, the broker must order the review from an NDM Approved Review Company. The same appraiser that completed the original appraisal cannot perform the appraisal review.

Approved appraisal review companies and AMC’s are assigned by region:

Refer to NDM’s website at www.nationsdirectmortgage.com under “Approved Partners” for detailed information.

CONDOMINIUMS & PUDS
NDM follows Fannie Mae guidelines regarding the eligibility of attached/detached condominiums, and attached/detached PUDs.

This section of the manual outlines NDM’s requirements for condo eligibility. Guidelines under this topic that differ from Fannie Mae published guidelines will supersede.

NDM will not grant exceptions to the condominium eligibility requirements.

A condominium is a form of ownership characterized by holding title to a single unit together with a proportionate undivided ownership interest in the common elements. The common elements typically include land, roofs, floor, walls, lobbies, and community spaces and facilities. The common elements are generally maintained, but not owned, by a non-profit homeowner’s association.

Each condominium project requires approval by Nations Direct Mortgage.
Condominium projects are classified as either a new project or an established project.

**New Projects**

New projects are defined as follows:

- Less than 90% of the total units have been conveyed to the unit purchasers,
- The project is not fully completed (proposed construction, new construction or the proposed or incomplete conversion of an existing building to a condo.),
- The project is newly converted,
- The project is subject to additional phasing or annexation, and
- The developer is still in control of the homeowner's association.

New projects require a FannieMae PERS approval and must meet 70% presale ratio.

All standard condo documentation and the Condominium Questionnaire, if applicable, is required.

New Condo conversions require the following:

- A FNMA PERS approval, or
- A 70% presale ratio, and
- The project is 100% complete.

All standard condo documentation and the Condominium Questionnaire, if applicable, is required.

**Established Projects**

Established projects are defined as follows:

- Projects in which at least 90% of the units have been purchased and conveyed to the unit purchasers,
- The project is 100% complete,
- The project is not subject to additional phasing or annexation, and
- Control of the Homeowners Association has been turned over to the unit owners.

**Ineligible Projects**

NDM will not lend on the following types of projects:

- Condotels – a project that is managed and operated as a hotel or motel is considered a condotel or condominium hotel. If any of the following are present, the project is considered a condotel:
  - The project includes registration services/rental desk and offers unit rentals on a daily basis
  - The name of the project includes ‘hotel’ or ‘motel’
  - The project limits or restricts the owner ability to occupy the unit
  - The project has a mandatory rental pool that requires the unit owners to either rent their unit or to give a management firm control over the occupancy of the unit.
  - The project offers cleaning services
  - The project offers services such as a commercial hotel even though the units are individually owned.
- Projects with non-incidental business operations owned or operated by the homeowners association. Examples are a restaurant, spa, health club, beauty parlor, etc.
Projects which have any commercial space.
Projects that are classified as investment securities. If the project has documents on file with the Securities and Exchange Commission or if the project is promoted or characterized as an investment opportunity.
Any project or building that is owned by several owners as tenants-in-common, or by a homeowners association in which individuals have an undivided interest in a residential apartment building and land, and have the right to exclusive occupancy of a specific apartment in the building.
Timeshare or segmented ownership projects.
Houseboat projects.
Co-ops
Multi-dwelling unit condominiums which permit an owner to hold title to more than one unit with ownership evidenced by one single deed and financed by a single mortgage.
Condominium projects that represent a legal non-conforming use of the land, if zoning regulations prohibit rebuilding the improvements to current density should there be partial or full destruction.
Projects on leased land that do not meet Fannie Mae’s requirements.
Projects in which the recreational facilities are leased.
Any project in which the homeowners association or developer is named as a party to current litigation. Projects in which the homeowners association or developer is named as the plaintiff in a foreclosure action or as a plaintiff in an action for past due homeowners’ association dues are eligible.
Any project in which 15% or more of the total units are greater than 30 days delinquent on the dues and/or the total number of delinquent units is greater than 15%.
Projects with inadequate reserves.
Projects with deed restrictions (i.e. first right of refusal).
Units that are appraised as a condo, but there is no recorded Master Declaration.
Projects which are unable to supply the necessary condominium documents for a full review or projects that do not meet the eligibility requirements.
Projects that do not meet the owner occupied/second home occupancy ratio.
Condo projects with excessive sales/financing structures.
Any project in which NDM has met its maximum exposure ratio of 10%.
Condominiums located in mountainous ski resorts – examples Aspen, Lake Tahoe, Mammoth, Park City, Sun Valley, etc.
Condominium property that is a construction-to-permanent transaction.
Project has more than 1 unit > 600 square feet.
The Project is in an area zoned primarily for transient accommodations.
The unit is fully furnished.
The unit does not have a full kitchen.
The Project provides any of the following services:
  • Management desk
  • Bellman
  • Maid services
  • Phone service
  • Centralized utilities, for example: Central telephone or cable
  • Centralized key system not in negotiated terms
Types of Project Review

NDM requires that all condominium projects meet Fannie Mae’s project requirements in addition to meeting the requirements of this manual. Requirements that differ from Fannie Mae will supersede.

The project requirements depend on the project classification. There are five types of condo classifications/review for a condominium project - Limited Review, Condo Project Manager (CPM) Expedited Review, Lender Full Review, FHA-Approved Projects, and Fannie Mae Review. Project Classification Codes & Definitions. Loans requiring “Full Project Review” are ineligible for approval.

The project code must be reflected on the final 1008.

- **P** – Limited Review – New Detached Project
- **Q** – Limited Review – Established Project or Established Two-Unit to Four-Unit Project
- **R** – CPM Expedited Review or Lender Full Review - New Project and new Two-Unit to Four-Unit Project
- **S** – CPM Expedited Review or Lender Full Review – Established Project or Established Two-Unit to Four-Unit Project
- **T** – Fannie Mae Review – Project Eligibility Review Service (PERS)

Limited Review

A Limited Review allows the underwriter to evaluate and approve a condominium project with limited documentation.

NDM allows a Limited Review when the DU Findings indicate a Limited Review is acceptable and the condominium project meets all of the requirements detailed in

NOTE: A Limited Review is only eligible on Conventional owner-occupied <90% LTV or 2nd Home properties <75% LTV.

Attached Units

In order for a condominium project with attached units to be eligible for a Limited Review, all of the following must be meet:

- The project is not an ineligible project as defined below:
  - The project is an established project and all of the following exist:
    - 90% of the units are conveyed to unit owners
    - All units, common areas and facilities are 100% complete
- The project has been turned over to the unit owners
- The subject property is not a manufactured home.
- The project has the proper insurance coverage.
- The project is not a new attached project.

The documentation required to perform a Limited Review is a completed NDM Condominium Questionnaire, a copy of the current master insurance policy with hazard and liability for the project. The maximum LTV/CLTV for a limited review on an attached unit with DU Approve/Eligible.

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### Detached/Site Condominiums

Detached or Site condominiums are units that resemble a detached single-family dwelling. The project can either be established or newly constructed. A Limited Review on a detached/site condo is eligible if all of the following apply:

- The subject property is a single detached unit in a condominium project and is not a manufactured home.
- The project is not an ineligible project as defined in “Ineligible Projects.”
- The appraiser has commented in the appraisal on the effect of the condo form of ownership on the marketability of the individual unit.
- All comparable sales should be similar detached/site condominiums. One comparable must be from a competing project and one must be from the subject’s project. If the project is new construction and the comparable sale is within the subject’s project, the comparable cannot be from the same builder.
- The mortgage title insurance policy satisfies the special title insurance requirements for units in a condominium project.
- If the project is new, the completion requirements may be waived if the items are minor and do not have a major impact on marketability.
  - The unit may be covered by individual hazard and flood insurance and is required to carry coverage the same as a detached single dwelling or the unit may be covered by a master policy. If the unit consists only of air space and the dwelling and site are considered common areas, a master insurance policy is required.
  - If the condo project is new, the appraiser has used at least one comparable that is a detached condo unit, from either a competing project or the subject project, which was built by a builder who did not build the subject property.

### Fannie Mae Review – Project Eligibility Review Service (PERS)

Projects with a Fannie Mae PERS approval do not require a full lender review. NDM does require a copy of the PERS approval, current completed Condominium Questionnaire on NDM’s form, a copy of the master insurance policy for hazard and liability, HO-6 and flood and fidelity bond if applicable.

The project cannot be an ineligible project per NDM’s guidelines and the project must meet NDM’s condo eligibility requirements for presale, investor concentration, number of units owned by one entity, and reserves.

### Additional Requirements for Two – Four Unit Projects

- The project cannot be an ineligible project; see Ineligible Project section for details.
- All units, common elements, and facilities must have been completed. This includes the units, common elements and facilities of any master association.
- No single entity (the same individual, investor group, partnership, etc.) may own more than 1-unit in the project.
- All but one unit in the project must have been conveyed to owner occupied principal residence or second home purchasers.
- The units in the project must be owned in fee simple or leasehold. The unit
owners must be the sole owners of and have rights to the use of the project’s facilities, common elements, and limited common elements. If the project is leasehold, the terms of the lease must meet Fannie Mae requirements.

- A 2-4 unit condo conversion project requires the following additional requirements:
  - An engineers report.
  - A completed Condominium Questionnaire Full/Limited Review (2-4 Units).
- Regardless of how title is held, if the current mortgage is a wrap-around mortgage, NDM requires concurrent closings and copies of the Note, Deed and HUD-1 from each of the other transactions or the loan is ineligible.

**Evaluation of the Condominium Documents**

The documentation required for project review is a copy of the NDM Condominium questionnaire, recorded Articles of Incorporation, CC&Rs, and By-Laws, the current annual budget, liability & hazard insurance, flood and hurricane insurance, if applicable, and the fidelity bond, if applicable.

In addition to the eligibility requirements listed above, NDM will perform a full project review. The following are key points that will be evaluated in the review, however the review is not limited to these points.

**Common Areas & Facilities:** The common areas and facilities should be consistent with the nature of the project and should be competitive within the marketplace. The common areas and facilities must be owned by the unit owners or the homeowners association. The developer may not retain any ownership interest. The common areas and facilities also may not be subject to a lease between the unit owners or the homeowner’s association and another party.

**Project Management:** The project should be professionally managed by an independent professional management firm. The contract with the management firm should be for a reasonable term and should not include any equitable provisions for termination.

**Articles of Incorporation:** The condominium project must exist in full compliance with state law requirements.

**CC&R’s and By-Laws:**

- **Right of first refusal:** The condominium project/association cannot have any limitations on the ability to sell a unit and the project cannot have any right of first refusal which would impact the mortgagee’s rights to foreclose or take title to the unit, accept a deed of assignment in lieu of foreclosure, or sell/lease a unit acquired by the mortgagee.
- **Mortgagees and Guarantors rights:** The condo documents must give the mortgagees and guarantors a timely written notice of the following:
  - Condemnation or casualty loss that affects either a material portion of the project or the unit secured by mortgagor,
  - Any 60 day delinquency in assessments or charges owed by the unit owner of the unit secured by mortgagor,
  - A lapse, cancellation, or modification of any insurance policy maintained by the association, and
  - Any proposed action that requires the consent of a specified percentage of mortgagees.
• Mortgage protection clause: The condominium documents cannot give a unit owner or any other party priority over any rights of the first mortgagee of the unit pursuant to its mortgage. This applies to insurance proceeds, condemnation awards for losses to taking of a unit and/or common elements, and delinquent homeowners’ dues.

Other Mortgagee Rights as required by FNMA (i.e.: termination of the project due to destruction or condemnation or for other reasons agreed to by mortgagees).

○ Amendments of a material adverse nature to mortgagees must be agreed to by mortgagees that represent at least 51% of votes of unit estates that are subject to mortgages.

○ Any action to terminate the legal status of the project after destruction or condemnation or for other reasons must be agreed to by mortgagees that represent at least 51% of the votes of unit estates that are subject to mortgages.

○ Implied approval is assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 60 days after it receives proper notice provided the notice was delivered by certified or registered mail with a ―return receipt‖ requested. Project documents recorded prior to 8/23/2007 may provide for implied approval within 30 days, etc.

○ Unpaid dues: A first mortgagee who obtains title to a unit through a mortgage or through foreclosure will not be liable for more than six months of the unit’s unpaid dues or charges accrued before acquisition of title.

• Binding Arbitration Agreement: This is required for projects with less than 10 units for resolutions of disputes.

Budget: The budget should be consistent with the nature of the project. The budget must contain sufficient funds to cover replacement reserves for capital expenditures and deferred maintenance (at least 10% of the budget), and to cover insurance deductible amounts. An adequate reserve fund must be in place for replacement of the common areas and facilities. The budget must be prepared, at minimum, on an annual basis.

Insurance: The project must meet the minimum insurance requirements for all condominium projects. Both Full and Limited Review processes will require copies of all applicable insurances (Hazard, Liability, Fidelity, Flood, Wall-In/HO-6 and Hurricane).

A project’s legal documents may allow for the individual unit owners to obtain their own hazard insurance and allow for a blanket insurance policy to cover the common areas and facilities. NDM will require evidence of sufficient current insurance for both the individual unit and the project.

For other projects, a master or blanket insurance policy must be in effect. NDM requires a copy of the master insurance policy for the project evidencing hazard, liability, flood, hurricane, and fidelity bond if applicable.

• Hazard Insurance: NDM requires a copy of the master insurance policy for the project. The premiums are to be paid as a common expense and the policy must cover all of the common elements and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the owners’ association. The insurance should cover 100%
of the insurable replacement cost of the project improvements including the individual units. The maximum deductible cannot be more than 5% of the policy face amount.

- Liability Insurance: The project must maintain a commercial general liability insurance policy for the entire project, including all common areas and elements, and any other areas under its supervision. If there is commercial usage in the project, the policy should cover the commercial spaces that are owned by the homeowner’s association. The commercial general liability insurance policy should provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project’s common areas and elements. The amount of coverage must be at least $1 million for bodily injury and property damage for any single occurrence.

Flood Insurance: The project must carry flood insurance if the project is located in a flood zone. The policy must cover the common elements and common areas including machinery and equipment that are a part of the building. Contents coverage is required. The contents coverage should equal 100% of the insurable value of all contents that are owned in common by the association members. This includes machinery and equipment that are not part of the building. For each unit, the policy must cover 100% of the replacement cost of the insurable value of the improvements or the maximum coverage allowed of $250,000.

Fidelity Bond: Projects with > 20 units require a fidelity bond. The minimum coverage on the fidelity bond is as follows:

- The Fidelity Bond must cover the maximum funds that are in the possession of the HOA or its management agency at any time while the policy is in force. This amount is, at minimum, the sum of 3 months HOA dues on all projects in the project (# of units x monthly HOA dues x 3 = minimum coverage amount).

NOTE: A Directors and Officers policy is not acceptable coverage.

Hurricane Insurance: Projects requiring hurricane/windstorm coverage must have an effective policy covering the common elements and the individual units. If the policy is combined with the hazard policy, the maximum deductible is 5% of the face amount of the insurance policy. If the policy is separate from the hazard policy, for the common areas, the maximum deductible is the lesser of $10,000 or 1% of the face amount of the policy. For the individual units, the maximum amount is the higher of $1,000 or 1% of the replacement cost of the unit. If the policy provides for a separate wind-loss deductible, the maximum deductible is the higher of $2,000 or 2% of the replacement cost of the unit.

A Walls-In / HO-6 Insurance: HO-6 insurance, covering a minimum amount as established by the insurance agent and borrower with a 5% deductible, is required for all condo projects including 2-4 unit projects on all conventional and government transactions. This policy is required when the master policy does not cover unit interior improvements and betterment. —Bare walls-in— coverage, provided by some master policies, is not sufficient coverage and is ineligible. The coverage must be sufficient to repair the interior of the condominium unit, including any additions, improvements or upgrades, to its original condition in the event of a loss. Policies that only provide coverage of
the original specifications are also ineligible.

NOTE: Some master policies only provide coverage for the original owner and not subsequent buyers. If a transaction is a re-sale transaction and the master policy only covers the original owner, the borrower will be required to obtain HO-6 insurance.

HO-6 insurance does not cover the contents of the condominium.

**Condominium Questionnaire:** The Condominium Questionnaire is completed by the homeowners association or the developer.

- All units, common elements and facilities in the project must be complete and the project cannot be subject to any additional phasing. If the project is new construction, the subject’s legal phase must be complete. A certificate of occupancy is required for new construction projects.
- No single entity may own more than 10% of the units in a project, other than the developer during the initial sales period.
- No litigation is permitted.
- No more than 15% of the association dues can be more than one month delinquent.
- The units in the project must be owned fee simple or leasehold.
- Occupancy ratio:
  - New projects & condo conversions: At least 70% of the total units in the project or the subject legal phase must be conveyed or be under contract for purchase to owner-occupant principal residence or second home purchasers.
  - Established projects: Projects with 3 or more units the owner occupied/second home ratio is 51%. The investor ratio is limited to 49%, unless stated differently in the program guidelines. Projects with only two units, one unit must be owner-occupied primary residence or second home.
- Multi-family dwellings are not permitted.

**PUDs (attached & detached)**

PUDs are classified as either detached or attached. Attached PUDs are one of the following types:

- Type E: Established attached projects, and
- Type F: New attached projects.

**Detached PUDs**

Detached PUDs, both established projects new projects do not require a review provided all units in the project are detached.

Two units or multi-units detached PUDs encumbered by one lien are ineligible. Condo Project Regimes (CPR) in Hawaii are eligible provided the title report indicates the property is a CPR and the appraiser provides three comparable sales from other CPRs. A master insurance policy is not required.

**Attached PUDs**

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Attached PUDs, both established projects and new projects must meet the following:

- The project meets NDMs eligible project requirements.
- The project is not ineligible as defined in the ineligible projects topic of this chapter (i.e. the project is not a conversion).

The project does not consist of any manufactured housing.

- The subject unit meets the insurance requirements.
- The subject unit is 100% complete.
- The unit owners are in control (established projects only).
- The marketability of an attached PUD is established.

A master insurance policy is required.

**ARM transactions:** Attached PUDs utilizing an ARM product are required to have a PERS or be eligible for a Limited review as determined by DU Findings and must also include a Conventional Condominium/PUD Warranty form.

**RATIOS/LIABILITIES**
A borrower’s monthly debt obligations in conjunction with the proposed housing expense and stable monthly gross income are used to calculate the ratios. These are used as a benchmark when determining whether or not the borrower will be able to meet the expenses involved in homeownership.

**HOUSING RATIO**
When calculating the monthly housing debt-to-income ratio, the following are included in the proposed housing expense:

- The proposed principal and interest payment on the first and second (if applicable) mortgages secured by the subject property.
- The monthly amount of the hazard insurance
- The monthly amount of the real estate taxes
- The monthly amount of the mortgage insurance premium (if applicable)
- The monthly amount of home owner association dues (if applicable)
- The monthly amount of the flood insurance (if applicable)
- The monthly leasehold payment (if applicable)
- Any special assessments

If the property is new construction or recently built, the taxes are based on the estimated taxes based on the completed improvements versus the unimproved land.

If the property is a resale, and the current taxes appear below standard county assessments, the taxes will be based on the greater of the taxes per the title commitment/tax cert or the appraisal.

For purchase transactions located in California, the taxes will be calculated at 1.25% for qualifying. Docs, funding figures and escrow accounts will be based on the higher of 1.25% of the sales price or the current tax base.

**DEBT-TO-INCOME RATIO**
When calculating the monthly debt-to-income ratio, the following are included:

- The proposed housing expense
CONVERSION OF A PRINCIPAL RESIDENCE
If the transaction is a purchase and the borrower is retaining his current principal residence, the following must be met:

Current principal residence is pending sale:
- If the current principal residence is pending sale but the transaction will not be closed (with title transfer to a new owner) prior to the new close of the new transaction, then both the current and the proposed mortgage payments are used to qualify the borrower for the new transaction.
- The borrower will also need verified six (6) months PITI reserves for both properties. Two (2) months PITI reserves for each property are permitted provided borrower’s current primary residence has 30% equity, minus outstanding liens, documented by a full appraisal or an AVM. The appraisal or AVM must be dated within sixty (60) days of the Note date. A Broker Price Opinion (BPO) is not allowed.

Current principal residence is converting to a second home:
- If the borrower is converting his current principal residence to a second home, then both the current and the proposed mortgage payments and taxes and insurance must be included in the ratios.
- In addition, six (6) months PITI reserves are required for both properties. Reduced reserves of a minimum of two (2) months PITI for both properties may be considered if the current principal residence has at least 30% equity, minus any outstanding liens, documented by a full appraisal or an AVM. The appraisal or AVM must be dated within sixty (60) days of the Note date. A Broker Price Opinion (BPO) is not allowed.

Current principal residence is converting to an investment property:
- If the borrower is converting his current principal residence to an investment property, the borrower may use up to 75% of the gross rental income less outstanding liens, taxes and insurance for qualifying if the current principal residence has at least 30% equity, minus any outstanding liens, documented by a full appraisal or AVM. The appraisal or AVM must be dated within sixty (60) days of the Note date. A Broker Price Opinion (BPO) is not allowed. The following property types are ineligible for AVMs: Condominiums and 2-4 units. Full appraisals are required. When utilizing an ARM product on the Agency Conforming or the Agency High Balance program only a full appraisal or 2055 may be used to document the equity in the current principal residence.
- The rental income must be documented with:
A copy of the fully executed lease agreement. A family member, any individual with an established relationship with the borrower or an interested party to the transaction cannot sign the lease agreement as the tenant.

The receipt of a security deposit from the tenant and deposit into the borrower’s account.

- If the 30% equity in the property cannot be documented, rental income may not be used to offset the mortgage payment. Both the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction; and 6 months PITI reserves are required for both properties.

- If the property being retained as an investment is a multi-unit property and borrower is vacating one unit, rental income may be used for the other units if the income is verified by Schedule E, regardless of the equity position. To give rental income to the unit currently occupied by the owner, borrower must have 30% equity in the property.

QUALIFYING RATIOS
The maximum qualifying ratios are noted in each program matrix.

LIABILITIES

Debt Payoff/Consolidation
Pay down of a mortgage or installment account to 10 months or less to qualify the borrower is not allowed. Installment and mortgage accounts must be paid in full. Payoff of revolving accounts to qualify the borrower is generally not allowed. Any account paid off to qualify the borrower must be closed. A copy of the letter from the closing agent to the creditor must be provided.

Potential credit abusers are not eligible to payoff debt to qualify. Debts that are paid off or will be paid through the transaction are excluded from the debt ratio.

Revolving Accounts
The minimum monthly payment for all revolving charge accounts with a balance is included in the monthly debt ratio regardless of the number of payments remaining on the account. If the revolving account is paid off and closed during the origination process or at loan closing, the payment is not required to be included in the DTI ratio. Documentation is required confirming the account was paid and closed.

If the credit report does not indicate the minimum monthly payment, the underwriter will use the greater of $10 or 5% of the outstanding balance.

Installment Debt
Installment accounts with more than ten monthly payments remaining are included in the debt ratio. Installment accounts with fewer than ten monthly payments remaining do not have to be included in the debt ratio. However, the underwriter does need to evaluate if the remaining payments and outstanding balances will have a significant impact on the borrower’s ability to meet his monthly obligations.

Lease Payments
Lease payments are included in the debt ratio regardless of the number of payments remaining as the expiration of the lease generally leads to a new loan or a new lease. Therefore, it is considered a recurring monthly expense.
Deferred Installment Debt
Deferred installment debt (i.e.: student loans, loans in forbearance) are always included in the borrower’s debt ratio.

If the borrower’s credit report does not indicate the monthly amount that will be payable at the end of the deferred period, copies of the borrowers payment letters or forbearance agreements must be provided so that a monthly payment amount can be determined and used in calculating the borrower’s total monthly obligations.

For student loans, if the monthly payment is not indicated on the credit report, in lieu of obtaining copies of payment letters/forbearance agreements, the minimum monthly payment can be calculated using 2% of the original student loan balance, or the outstanding balance, whichever is higher. However, if any documentation provided by the borrower indicates the actual monthly payment, that figure must be used in calculating the borrower’s monthly debt.

Loans Secured by Retirement Accounts
Payments of loans secured by the borrower’s 401(k) or Savings Investment Plan (SIP) are not included in the debt ratio because they are voluntary payments. However, the underwriter will consider these payments in terms of their possible impact on cash flow and debt ratios. The borrower should provide a debt repayment plan 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 in a negative cash flow.

Business Debt
Business debt can be excluded from the borrower’s debt ratio if the borrower can provide the most recent 12 months cancelled checks (front and back) drawn against the business account demonstrating that the debt has been paid timely on a regular basis.

If the borrower cannot provide sufficient evidence the account was paid by the business or paid timely on a regular basis, the liability is factored in the borrower’s debt ratio. If the account has a history of delinquencies, the liability will be factored in the borrower’s debt ratio.

When there are Schedule C and/or Schedule E losses for a business owned solely by a non-signing spouse and it can be documented that the borrower has no involvement in the business, the loss will not be factored into the borrower’s debt ratio unless the underwriter determines that the loss is substantial enough to effect the borrower’s ability to re-pay the loan.

This is not allowed on Freddie Mac loans if the borrower is not a co-signor.

Home Equity Line Of Credit
The payment on an existing HELOC must be included in the borrower’s debt ratio calculation. If the actual payment is not shown on the credit report the payment on a HELOC with an outstanding balance is calculated at 1% of the outstanding balance or the payment reflected on the borrower’s statement may be used.

CONTINGENT LIABILITIES/CO-SIGN
A contingent liability may or may not be considered when determining the borrower’s monthly recurring obligations. A contingent liability typically exists when the borrower co-signs another individual’s loan.

The payment is not counted in the borrower’s debt ratio if documentation is provided which clearly evidences the primary obligor has made the payment consistently and timely for a
minimum of 12 months. Acceptable forms of documentation are cancelled checks (front and back), bank statements of the primary obligor’s account showing consistent amounts disbursed.

If documentation cannot be provided evidencing consistent, timely payments, or the obligation has a history of delinquencies, the liability will be factored in the borrower’s debt ratio.

Court Ordered Assignments of Debt
When the borrower has an outstanding debt that was assigned to another party by court order and the creditor does not release the borrower from the liability, the borrower has a contingent liability. This obligation is not factored in the debt ratio as long as borrower provides a copy of the recorded court document assigning the liability to another individual. NDM will disregard the payment history after the assigned debt but will evaluate the borrower’s payment history prior to the assignment.

Property Settlement (Buyout)
If the borrower is no longer responsible for a liability as a result of a divorce settlement but has not been released from the obligation by the creditor, the payment will not be counted in the borrower’s ratios if the borrower provides a copy of the recorded settlement agreement evidencing the borrower is no longer responsible for the obligation.

If the borrower’s interest in a property is bought out by another co-owner of the property, and the creditor does not release the borrower from the obligation, the borrower has a contingent liability.

The liability will not be counted in the borrower’s debt ratio as long as the borrower provides recorded documentation confirming transfer of title to the property.

Mortgage Assumptions
If a borrower sells a mortgaged property that he owns and the buyer assumes the outstanding mortgage debt without a release of liability, the borrower has a contingent liability. The debt is not factored in the borrower’s monthly recurring debt if borrower provides the all of the following documentation:

- Proof of transfer of ownership
- A copy of the executed legal assumption agreement
- A 12 month payment history for the property purchaser that assumed the mortgage showing timely payments have been made (12 months cancelled checks, credit report)

If the payment history cannot be verified or if there are delinquencies, the payment will be factored in the borrower’s monthly debt ratio.

OTHER TYPES OF LIABILITIES

Alimony/Child Support
If the borrower is required to pay alimony, child support, or maintenance payments, the monthly payment is counted as a recurring debt and is factored in the debt ratio. A copy of the recorded divorce decree, recorded separation agreement, or...
property settlement agreement is required to evidence the amount of the monthly payment and the duration of the payment. If the payments remaining are less than ten months, the obligation is not counted in the debt ratio.

Garnishment
A garnishment is an order to attach property or income to satisfy non payment of a debt. Documentation to indicate the type of obligation, the amount of debt, the length of time required to repay the debt in full and the applicant’s explanation are required. The monthly payment of the garnishment should be included in the borrower’s debt-to-income ratio unless the underwriter determines the debt should be paid in full.

Bridge Loans
A bridge (or swing) loan is an acceptable source of funds provided the following requirements are met:
● The bridge loan cannot be cross-collateralized against the new property.
● The lender must document the borrower’s ability to make the payments for the new home, the current home, the bridge loan, and any other obligations.

Demand Loans
A demand loan does not have a monthly payment as it becomes due and payable in full on a specified date. The debt may not be secured.

If the note is due within two years of the time of application and the borrower has sufficient reserves available to repay the obligation in full, the obligation is not counted in the monthly debt ratio.

If the borrower does not have sufficient reserves available to repay the obligation in full at the end of the two year period, the obligation is treated as an installment loan and will be factored in the debt ratio. A minimum payment of 5% of the unpaid balance is used for a monthly payment.

Net Rental Loss/Negative Rent Income
If the investment property is owned free and clear, then only current real estate taxes, hazard insurance, and homeowner’s association dues are included in the monthly debt ratio.

Documentation is required evidencing the property is free of any liens.

If there are outstanding liens on the investment property, the negative rental income should be calculated using 75% of the gross rents less the monthly PITI.

Any rent loss is added to the borrower’s monthly debt obligations versus a reduction to borrower’s monthly income.

Un-Reimbursed Business Expenses
Automobile loan payments and automobile lease payments that are included as un-reimbursed expenses on the tax returns are considered recurring debts and are factored in the debt ratio. They are not deducted from the income. Other un-reimbursed expenses may be treated as reductions to income.

Overdraft Protection Account
Overdraft is considered an unsecured revolving line of credit. If there is a balance, a minimum monthly payment is factored in the ratios (the greater of $10 or 5%).
Payroll Deductions
The underwriter will determine if any payroll deductions, other than standard deductions, appearing on the borrower’s pay stub will be included in the debt ratio. The deduction can consist of credit union, employer loans, garnishments, child support, and 401K loan. If the payment will be included in the debt ratio, documentation will be required to support the monthly payment of the debt and the balance.

Special Assessments
If the subject property is located in a special assessment district, the locality has the right to assess homeowners for the cost of developing the area (roads, sewers, schools). Any special assessments stated within the appraisal and/or the title commitment must be included in the borrower’s debt ratio. If the special assessment district is having financial difficulties, the underwriter will evaluate the borrower’s ability to repay the mortgage should additional assessments be imposed.

All special assessments are required to be escrowed.

PROPERTIES LOCATED IN THE STATE OF TEXAS
- Primary Residences (“Homestead Properties”): Purchases and rate-term refinances only: Cash-out refinance transactions not allowed
- Second Homes and Investment Properties: Eligible for purchases, rate term refinances, and cash out refinances