Jumbo 3

Version 1.4, effective 1/13/2016

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1. GENERAL INFORMATION

This Guide describes Western Bancorp's Jumbo 3 program eligibility and underwriting requirements. In addition to program eligibility and prudent underwriting, Western Bancorp requires all loans meet the ATR rules established by the CFPB.

The ATR rule requires that the originator make a reasonable, good-faith determination before or when the loan is consummated and that the consumer has a reasonable ability to repay the loan. The origination lender must consider the eight underwriting factors established by the CFPB and the loan file must be documented accordingly.

1. The borrower's current or reasonably expected income or assets;
2. The borrower's current employment status;
3. The borrower's monthly payment on the covered transaction;
4. The borrower's monthly payment on any simultaneous loan;
5. The borrower's monthly payment for mortgage-related obligations;
6. The borrower's current debt obligations, alimony, and child support;
7. The borrower's monthly debt-to-income ratio or residual income; and
8. The borrower's credit history.

A. ELIGIBILITY

Minimum loan amount is high balance loan limit + $1

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(2) 75% max LTV for all ARM and 15 year amortized products
(3) First Time Homebuyers limited to $1,000,000 million loan amount with minimum of 12 months reserves, see Frist Time Homebuyer section of the guidelines for further information
(4) Additional reserves will be required for additional properties owned, see Reserves Requirements and Eligible Sources section of the guidelines for further information</td></tr>
</table>

Second Home					
Purchase and Rate and Term					
Property Type	Max LTV/CLTV/HCLTV(1)(2)(3	Max Loan Amount	Mini FICO	Max DTI	Months Reserves(4)
1 Unit	75%	$1,000,000	740	40	12
	70%	$1,500,000	740	40	18

(1) LTV/CLTV/HCLTV reduced by 5% in declining markets, see the Declining Markets section of the guidelines for further information
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2. GENERAL REQUIREMENTS

Western Bancorp will only make loans to applicants (borrowers). An applicant is defined as one who applies for a loan secured by real property with the obligation of repaying the loan in full with interest. To be eligible, applicants must conform to certain eligibility requirements.

All Borrowers must have valid and verifiable Social Security Numbers. Other forms of taxpayer identification are not allowed.

A. ELIGIBLE BORROWERS

1. Borrower

The borrower is the individual obligated to repay the loan secured by the mortgaged premises. The borrower should be of legal age per local/state jurisdiction. He/she should be able to enter into a binding contract.

2. Co-Borrower

The co-borrower, or joint applicant, who has applied with the borrower for joint credit. The co-borrower will take title to the mortgaged premises and will sign the Note and Security Instrument.

3. Permanent Resident Alien

Individuals granted the privilege of residing permanently in the U.S. Also includes refugees and others seeking political asylum. Documentation is commonly referred to as a 'Green Card'.

4. First Time Homebuyers

First time homebuyers are defined as an occupant borrower who has not had an ownership interest (sole or joint) in a residential property during the three (3) year period preceding the application date or *a scheduled mortgage payment history of less than 12 months.*

Due to additional risk there are additional requirements for first time homebuyers. Please see the First Time Homebuyer section of this guide for further information.

B. INELIGIBLE BORROWERS

1. Non-permanent Resident Alien

Individuals seeking temporary entry to the U.S. for a specific purpose, business or pleasure, students, etc. Borrowers residing in the U.S. on a non-permanent basis are ineligible for financing on this program.

2. Diplomatic Immunity

Applicants possessing diplomatic immunity or are “foreign politically exposed” are ineligible for financing on this program.

3. Non-Individual Legal Entities

Loans with title or interest held in various forms/legal entities such as Life Estates, Non-Revocable Trusts, Guardianships, LLC's, Corporations or Partnerships are not eligible for financing on this program.

4. Foreign Nationals

Foreign Nationals or Non-Resident Aliens are not eligible for financing on this program.

5. Inter Vivos Revocable Trust

An inter vivos revocable trust is a trust that an individual creates during their lifetime, becomes effective during their lifetime, and can be changed or canceled at any time for any reason, during their lifetime.

Western Bancorp will not accept inter vivos revocable trusts as an eligible borrower.

C. OCCUPANCY

1. Primary Residence

A primary residence is where the borrower lives the majority of the year. The residence is occupied by the primary wage-earner; it is in a location relatively convenient to the principal place of employment; and it is the address of record for items such as voter registration, federal income tax reporting, licensing and similar functions.

The borrower must occupy the subject within 30 days of closing. If there are multiple borrowers, at least one must occupy and take title to the property.

2. Second Home

A second home is a 1-unit property, including PUDs, that the borrower will occupy for a portion of the year.

The property generally is located in a vacation or resort area, but not always, and must be suitable for year round use. A second home should not be in the same local market as the borrower’s primary residence. Additional second homes or investment properties cannot be owned in the same area as the subject property.

There is no specific mileage requirement regarding the distance between a second home and primary residence, but it should make sense that the subject is a second home.

Additionally, 2-4 unit properties are not eligible. The borrower should retain exclusive control over the property and not give a management company control.

3. Investment Property

Investment properties are ineligible on this program.

D PURCHASE TRANSACTIONS

A purchase transaction allows the borrower to use the proceeds of the loan to finance the purchase of a property. The borrower should not be on title to the property prior to the loan closing. The transaction must follow minimum down payment and interested party contribution requirements.

1. Identity of Interest Transactions

An identity of interest transaction includes both non-arm's length and at-interest transactions and are not eligible on this program.

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

- Family Sales
- Property in an Estate
- Employer/Employee sales
- Flip transactions

An at-interest transaction involves persons who are not closely tied or related but may have a greater vested interest in the transaction, such as a party who plays more than one role in the same transaction. Common types of at-interest transactions include:

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

2. Flip Transactions

Property flipping is the process of purchasing new or existing construction properties with the intention of quickly reselling the properties for a profit. Western Bancorp must carefully evaluate all transactions that involve a rapid resale of the property (up to 180 days), paying particular attention to the market value of the property and the borrowers' motivation to purchase the property and verify it is not an identity of interest transaction. See Identity of Interest Transaction section of this guide for further information.

Flip or Rapid Resale of Property Within 90 Days of Prior Sale Date

If the subject property had a prior sale within 90 days of the purchase contract date to the subject transaction, the current transaction is ineligible except in the following situations:

- Property was acquired by a relocation agency in connection with the relocation of an employee, and is being resold to someone who is not an employee or affiliate of the original employee’s company
- Resale by a lender when the property was acquired through foreclosure or deed in lieu of foreclosure
- Resale of a property obtained through an inheritance or as part of the property settlement in a divorce

These transactions must meet the exceptions listed in this section as well as the exceptions listed for “Flip or Rapid Resale Between 91 and 180 Days of Prior Sale Date”

Flip or Rapid Resale Between 91 and 180 Days of Prior Sale Date

If the subject property had a prior sale more than 90 days but less than 180 days prior to the purchase contract date of the subject the transaction and the sales price of the subject transaction exceeds the prior sale price by 10% or more a second appraisal or CDA will be required, and the appraiser must:

- Document the previous sale transaction and its price and date in the appraisal report and/or an addendum thereto,
- Describe in detail any improvements made since the prior sale, and
- Estimate the cost of the improvements made, and
- Estimate the impact of the improvements on the property value, and
- Provide an appropriate explanation of the increase in the property value, considering the impact of improvements, if any, on value, as well as any recent price trends or changes in the local market

3. Property Seller Status and Assignment of Purchase Contracts

If there has been an assignment of the purchase contract to someone other than the property seller or buyer originally named in the contract, the transaction in ineligible.

In all cases, the property seller for the subject transaction must be the owner of record for the subject at the time the purchase contract was executed.

4. Down Payment Assistance Programs

First Mortgage Loans originated in conjunction with Affordable or Community Second Programs are not allowed.

5. Renegotiated Sales Contracts

Western Bancorp will not accept re-negotiated purchase agreements that increase the sales price after the original appraisal has been completed if:

- The appraised value is higher than the contracted sales price provided to the appraiser, and
- The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received, and
- The only change to the purchase agreement is an increase in sales price

If the purchase agreement is re-negotiated subsequent to the completion of the appraisal, the loan to value will be based on the lower of the original purchase price or the appraised value, unless:

- Re-negotiation of only seller paid closing costs and/or pre-paids where seller paid closing costs/pre-paids are common and customary for the market and supported by the comparable, or
- An amended purchase agreement for new construction property is obtained due to improvements that have been made that impact the tangible value of the property. In the event of such changed, an updated appraisal must be obtained to verify the value of the modifications.

6. Rent Back

Max rent back to the seller is 30 days after closing for a primary residence transaction.

7. First Time Homebuyers

The following restrictions apply to first time homebuyers:

- *Maximum loan amount of* $1,00,000
- *One unit properties only*
- *Primary residence transactions only*
- *Must have a minimum of 12 months reserves*
- Payment shock cannot exceed 250% over their current housing payment, see payment shock section for additional requirements

F. REFINANCE TRANSACTIONS

All refinance transactions must meet the requirements below.

A new appraisal will be required for all transactions regardless of the date of the original appraisal. For properties owned less than 12 months at the time of application the appraised value must be based off the lower of the original purchase price or current appraised value.

Continuity of obligation must be met on all refinance transactions. Continuity of obligation occurs on a refinance when:

- At least one of the borrowers on the existing mortgage being paid off is also a borrower on the new refinance transaction secured by the subject property, and
- At least one borrower has been on title and will be obligated on the new loan

Permissible Exceptions:

- The borrower on the refinance transaction was added to title 24 months prior to the disbursement date of the new refinance transaction
- The lender documents that the borrower acquired the property through an inheritance or was legally awarded the property (for example, divorce, separation, or dissolution of a domestic partnership). There is no minimum waiting period with regard to when the borrower acquired the property before completing a new refinance transaction.
  - The borrower on the new refinance transaction has been added to title through a transfer from a trust, or a limited liability company (LLC), or partnership. The following requirements apply:
  - the borrower must have been a beneficiary/creator (trust) or a 25% or more owner of the LLC or partnership prior to the transfer, and
  - the transferring entity and/or the borrower has had a consecutive ownership (on title) for at least the most recent 6 months prior to disbursement of the new loan.
- The borrower has been on title for at least 12 months but is not obligated on the existing mortgage(s) that is being refinanced and the borrower meets at least one of the following requirements:
  - Has been residing in the property for at least 12 months
  - Has paid the mortgage for at least 12 months, or
  - Can demonstrate a relationship to the current obligor (relative, domestic partner, etc.)
- Limited Eligibility Parameters:
- All other refinance transactions that do not meet either the continuity of obligation requirements or a permissible exception must comply with the following LTV, CLTV, HCLTV ratio restrictions regardless of the occupancy of the property. The LTV, CLTV, and HCLTV ratios must be based on the current appraised value

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

1. Rate and Term

A rate and term refinance allows the borrower to pay off the existing mortgage with the proceeds of a new loan secured by the same property. The new loan could lower the interest rate, shorten the term or convert from an adjustable rate mortgage to a fixed rate mortgage. A rate and term refinance allows for minimal cash back to the borrower.

The subject property must not be currently listed for sale. It must be taken off the market before the application date of the new mortgage loan, and the borrowers must confirm their intent to occupy the subject property (for principal residence transactions).

The following are generally considered to be a Rate and Term Refinance if the transaction meets the following criteria:

- Pay off of the current mortgage to include 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 proceeds.)
- If the first mortgage is a Home Equity Line of Credit, a copy of the HUD-1 Settlement Statement from the borrower's purchase of the subject property must be provided to evidence that the proceeds were fully disbursed on the date of the purchase-money loan and used entirely to acquire the subject property.
- A copy of the HUD-1 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) may be included in the refinance transaction.
- The payoff of a seasoned (12 months) HELOC that has had no draws in excess of $2000 in the past 12 months. Must be documented with a transaction history or 12 months statements. A credit supplement is not acceptable documentation.
- The payoff of seasoned (12 months) closed end seconds
- Incidental cash to the borrower is allowed not to exceed $2000
- Refinancing a new first lien that was previously a cash out truncations requires the loan to be seasoned 12 months in order to be considered rate and term.

2. Cash out

A cash-out refinance transaction allows the borrower to pay off the existing mortgage by obtaining new financing secured by the same property or allows the property owner obtain a mortgage on a property that is currently owned free and clear. The borrower can receive funds at closing as long as they do not exceed the program requirements as referenced in the Eligibility Matrix.

For cash out transactions properties cannot be listed for sale in the six months preceding the application date of the new mortgage, and the borrowers must confirm their intent to occupy the subject property (for principal residence transactions).

Cash-out refinance transactions must meet the following requirements:

- Any refinance transaction not meeting the requirements for a rate-term refinance is to be considered a cash-out refinance.
- Continuity of obligation must be demonstrated.
- All borrowers must have been on title to the property for 6 months at the time of application.
- There must be 6 months seasoning on all existing liens on the subject property at the time of application.
- A detailed letter of explanation regarding the use of the cash out must be provided.

G. MULTIPLE PROPERTIES FINANCED

Borrower(s) may own a total of four (4) financed properties, including the subject property and regardless of occupancy.

- Partial or joint ownership is considered the same as total ownership in the property.
- Ownership applies to financed properties owned by the borrower, including any properties the borrower owns outside of the United States
- A borrower who is obligated on a mortgage, regardless of whether they hold title to the property is included in this limitation
- Properties are subject to this limitation even if they are held in title by a corporation or S Corp if the financing is in the name of the borrower

Additional reserves are required for each additional financed property owned. See the Reserves Requirements section of this guide for further information.

H. PRODUCTS OFFERED

1. Eligible Products

The following conforming balance products are eligible:

Eligible Products	
30 Year Fixed Rate – Fully Amortizing	
15 Year Fixed Rate – Fully Amortizing	
5/1 ARM – Fully Amortizing	
7/1 ARM – Fully Amortizing	
10/1 ARM – Fully Amortizing	

2. ARM Attributes

ARM Attributes			
Product	Margin	Caps	Index
5/1 ARM – Fully Amortizing	2.25	2/2/5	LIBOR
7/1 ARM – Fully Amortizing	2.25	5/2/5	LIBOR
10/1 ARM – Fully Amortizing	2.25	5/2/5	LIBOR

3. Ineligible Products/Attributes

Loans with the following attributes are not eligible for purchase:

- Interest Only
- Negative Amortization Graduated Payments
- Temporary Buy downs
- Balloon Payments
- Loans with prepayment penalties
- Higher Priced Mortgage Loans (HPML)
- Higher Priced Covered Transaction Loans (HPCT – QM with Rebuttable Presumption)
- Non-Standard to Standard Refinance Transactions exempt from ATR rules
- Loan amounts within conforming high balance loan limits

I. AGE OF DOCUMENTS

Information used to make the credit decision must be current. The maximum age of documents at closing is noted below.

Acceptable Age of Documents		
	Existing Property	**New Construction**
Credit Documents	90 days old	90 days old
Appraisal	90 days old*	90 days old*

J. UNDERWRITING DOCUMENTATION

The application package must contain acceptable documentation to support the underwriting decision. When standard documentation does not provide sufficient information to support the decision, additional explanatory statements or documentation must be provided.

1. Direct Written Verifications

Written verifications for employment, deposit accounts and/or mortgage/rental history (VOE/VOD/VOM) must pass directly between the lender and employer, financial institution, mortgagor/landlord, as applicable, without being handled by any third party.

Documentation must not contain any alterations, erasures, and correction fluid or correction tape.

Standalone verifications (VOE/VOD/VOM/VOR) are not allowed and must be supported by additional documentation.

2. Letters of Explanation

Letters of explanation regarding financial circumstances must specifically address the financial or credit concern presented and must contain a complete explanation in the applicant's own words, and be signed and dated by the applicant.

3. Signature Requirements

Any documentation needed to be signed by the borrower must be signed on or prior to the note date.

K. CREDIT

1. Credit Report Requirements

A Residential Mortgage Credit Report or traditional tri-merge with applicable credit report supplements from all three repositories is required for all borrowers. All reports must also include FACT Act messages and at least one repository fraud alert product such as Hawk, FACS+ or SafeScan. All alerts must be resolved.

Frozen credit is not acceptable. If a borrower “un-freezes” their credit after the initial report is run, a new credit report meeting all requirements must be obtained and used for underwriting.

2. Credit Score Requirements

The three major Credit Repositories ("Agencies") offer a product that scores each consumer's credit history using the Fair Isaac model. Trademark names include the Experian "Fair Isaac Credit Score" (FICO), Trans Union "Empirica Score" and Equifax "Beacon Score". All are acceptable and are referred to as the "Credit Score”.

The term “Underwriting Score” refers to the overall credit score applicable to a specific mortgage loan transaction as determined using the Agencies' "middle, lower, then lowest" credit score selection methodology, which is equivalent to Fannie Mae's "Representative Credit Score", Freddie Mac's "Indicator Score", and Non-Conforming Jumbo “Representative FICO Score”.

3. Credit Score Selection

The following criteria should be used to determine each individual borrower's credit score:

- If there are three valid credit scores for a borrower, the middle score of the three scores is used.

- If there are three valid credit scores for a borrower but two of the scores are the same, the lower of the two scores is used.
- If two of the three scores are the same, choose the middle of the three scores.

  Examples:

  - 700, **680**, 680 = 680
  - 700, **700**, 680 = 700
- If there is only one valid score for a borrower, that score is used.

After selecting the appropriate credit score for each borrower, the Underwriting Score must then be determined:

- If there is more than one borrower, the lowest selected credit score among all borrowers is the Underwriting Score.
- When there is only one borrower, the selected credit score for that borrower is also the Underwriting Score.

4. Tradeline Requirements

All borrowers of the mortgage must meet tradeline requirements as defined below whether they are contributing income for qualification or not.

Each Borrower must have seven year established credit history with a minimum of three (3) open tradelines that have been active within the last 12 months and reporting for a minimum of 24 months with a satisfactory pay history. Of the three (3) tradelines, at least one tradelines must be an installment or mortgage account.

The following area not acceptable to be included in the minimum tradeline requirement:

- Foreign credit
- Authorized user accounts
- “non-traditional” credit
- Loans in deferment
- Adverse credit (accounts, discharged through bankruptcy, collection accounts, charge offs, foreclosures, etc.)

5. Housing Payment History

The occupant borrower(s) must have a complete, most recent 24 months rental and/or mortgage history in order to be eligible for this program.

No 30 day lay payments in the past 24 months are allowed on any rent payment or mortgage credit on any estate owned by any borrower on the transaction. Mortgage credit is defined as payment history on all mortgage tradelines, regardless of occupancy, including first and second mortgage liens, HELOCs. Liens secured by mobile homes and manufactured homes are considered mortgage debt, even if reported as installment loans.

For Mortgage payment history if the liens are not reflected on the credit report they will need to be verified with a VOM. If the liens is held by a private party a standalone VOM is not sufficient and must be supported by cancelled checks.

For rental payment history A VOR will be required. If the VOR is completed by a private party a standalone VOM is not sufficient and must be supported by cancelled checks.

6. Limited or No Traditional Credit History

Loans with limited or no traditional credit history are not eligible for this program. See Tradeline Requirements section of this guide for further information.

7. Past Due Accounts

If any of the borrower's accounts are showing past due payments, those accounts must be brought current prior to closing. A credit supplement will be required as verification.

8. Judgments, Garnishments, Liens, and Potential Liens

All delinquent credit obligations that have the potential to affect the subject lien's first position or diminish the borrower's equity in the property must be paid off prior to Western Bancorp issuing loan documents, including, but not limited to:

- Delinquent income taxes
- Delinquent property taxes
- Tax liens
- Judgments
- Garnishments
- Mechanics' or materialmen's liens

Verification of the funds used to satisfy these obligations must be documented in the file. The documentation of the pay off or satisfaction must be provided. No payment plans or subordination is allowed.

9. Non-title Charge-Offs and Collections

All non-title charge-offs and collection accounts exceeding $*250* individually, or $500 in aggregate must be paid off. Documentation of pay off or satisfaction must be provided. Additionally, borrowers with a history of collection accounts should be required to pay off derogatory accounts.

10. Bankruptcy

A bankruptcy offers an individual a chance to start fresh by forgiving debts that simply can't be paid while offering creditors a chance to obtain some measure of repayment based on what assets are available.

11. Deed-in-Lieu of Foreclosure, Short Sale, and Charge-Off of a Mortgage

A deed-in-lieu of foreclosure is a transaction in which the deed to the real property is transferred back to the servicer. These are typically identified on the credit report through Remarks Codes such as "Forfeit deed-in-lieu of foreclosure."

A short sale is the sale of a property for less than the total amount necessary to satisfy the mortgage obligation. A short sale occurs when the borrower cannot sell the property for the full amount of their indebtedness and the lender accepts a payoff of less than the total amount owed on the mortgage, if accepting less would reduce the loss the lender would have incurred if the property had been foreclosed upon.

A charge-off of a mortgage account occurs when a creditor has determined that there is little (or no) likelihood that the mortgage debt will be collected. A charge-off is typically reported after an account reaches a certain delinquency status, and is identified on the credit report with a manner of payment (MOP) code of "9."

12. Foreclosure

Foreclosure is a specific legal process in which a lender attempts to recover the balance of a loan from a borrower who has stopped making payments to the lender by forcing the sale of the asset used as the collateral for the loan.

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

13. Restructured (Modified) Mortgage

A short refinance or a restructured loan occurs when the terms of the original transaction have been changed resulting in absolute forgiveness of debt or a restructure of debt through modification or the origination of a new loan that results in:

- Forgiveness of a portion of principal and/or interest on either the 1st or 2nd mortgage, or
- Application of a principal curtailment by or on behalf of the investor to stimulate principal forgiveness, or
- Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage, or
- Conversation of any portion of the original mortgage debt from secured debt to unsecured debt

14. Significant Derogatory Credit Waiting Periods

Significant Derogatory Credit Waiting Periods	
Derogatory Event	**Waiting Period Requirements** Measured from Event Date to Application Date
Bankruptcy – Chapter 7 or 11	7 years
Bankruptcy – Chapter 13	7 years from dismissal or discharge date
Multiple Bankruptcy Filings	7 years from the most recent event dismissal or discharge date
Foreclosure	*7 years*
Deed-in-Lieu of Foreclosure, Short Sales, or Charge off of Mortgage Account	7 years
Restructured (modified) Mortgage	*7 years,* the subsequent refinance of a modified mortgage is not allowed
Mortgage Included in Bankruptcy	*If mortgage was included in a bankruptcy, the more restrictive measurements for the bankruptcy or foreclosure waiting periods apply*

L. LONG TERM DEBT

1. Pay Down or Pay Off of Debt

Payoff or pay down of debt solely to qualify is not allowed on this program.

2. Revolving Accounts

The monthly payment on every revolving and open-end account with a balance, regardless of the apparent number of payments remaining, must be included in the borrower's long-term debt and ratio calculation. If the credit report does not reflect a payment on a currently reporting liability, and the actual payment cannot be determined, a minimum payment may be calculated using the greater of $10.00 or 5% of the outstanding balance.

3. Loans Secured by Retirement Accounts

Payments on loans secured by the borrower's 401(k) or SIP (Savings Investment Plan) are not included in long term debt. Must provide copy of the asset statement to verify the balance is sufficient to cover the loan.

4. Open-End Lines of Credit (HELOCS)

If not shown on the credit report, payments on a home equity line of credit with an outstanding balance may be documented with the current billing statement. If secured by the subject property a monthly payment must be calculated based on the current rate on the total line amount, regardless of the current balance.

5. Deferred Payment Accounts

Some debts may have deferred payments or be in a period of forbearance. These debts must be included in the qualifying ratios. When payments on an installment debt are not given on the credit report or are listed as deferred, documentation supporting the required payment must be provided.

Examples of acceptable documentation include but are not limited to:

- Direct verification from the creditor.
- Copy of the installment loan agreement.

Note: a credit supplement is not acceptable documentation

6. Deferred Student Loans

For a deferred student loan, if the actual payment cannot be determined (see documentation requirements above in "Deferred Payment Accounts"), a payment should be calculated by using 2% of the original student loan balance.

7. Contingent Liabilities

Contingent liabilities are debts that the borrower is not currently required to pay but may be required to pay in the future (e.g. co-signed loans, court ordered payments, previous residence sold through assumption of mortgage with no release of liability).

- Co-Signed Loans:

  The monthly payment on a co-signed loan may be excluded from long term debt only with evidence of timely payments being made by someone other than the borrowers. Copies of canceled checks for the last **12** months are required. Must provide a copy of the note to determine the party paying the loan is obligated on the note.

- Assumption with No Release of Liability:

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

- Copy of documents transferring ownership of the property;
- The assumption agreement executed by the transferee; and
- Evidence that the mortgage is current.

- Court Order:

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

  - Copy of the court order or divorce decree.
  - For mortgage debt, a copy of the documents transferring ownership of the property; or
  - If a transfer of ownership has not taken place, late payments associated with the loan repayment of the debt owing on the mortgaged property should be taken into account when reviewing the borrower's credit profile.

8. Lease Payments

Lease payments must be considered as recurring monthly debt obligations regardless of the number of months remaining on the lease. This is because the expiration of a lease agreement for rental housing or an automobile typically leases to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house.

9. Other Real Estate Owned

Irrespective of whether income is being used to qualify for each property owned by the borrower provide documentation of the mortgage payment, taxes, insurance and HOA dues if applicable to calculate the PITIA. This documentation is required regardless if the property expenses are reflected on the Schedule E of the borrower's tax returns. If a property is owner free and clear a property provide and transaction history will be required to verify there are no outstanding liens.

10. Unreimbursed Employee Expenses

What a borrower has out-of-pocket, unreimbursed expenses, determine the recurring monthly debt by developing an average of the expenses from the Schedule A and/or IRS form 2106 for the number of years required.

When calculating the total DTI, the average for unreimbursed expenses she be subtracted from the borrower's stable monthly income.

M. DOWN PAYMENT AND ELIGIBLE SOURCES

Full asset documentation is required for both funds to close and reserves. For most asset types, the most recent two months bank statements with all pages will be required. Any time there is a large deposit (25% of qualifying income) it must be sourced. Stand Alone VODs are not acceptable and must be supported by 2 months bank statements.

Not all eligible sources of funds to close are acceptable as reserves. See Reserves Requirements and Eligible Sources section of this guide for eligible sources of reserves.

1. Bank/Financial Institution Accounts

Individual and joint bank accounts, Certificates of Deposit, Money Market Funds are eligible for use for down payment and closing costs. Accounts must be documented with the most recent two months bank statements with all pages.

2. Publicly Traded Stocks, Bonds, Mutual Funds

A copy of the account statement for the most recent 60 days is required; proof of liquidation is required provided that the existence of these accounts is fully documented.

When the asset is needed to complete the transaction the following must be verified:

- The borrower's ownership of the asset
- The value of the asset at the time of sale or liquidation; and
- The borrower's actual receipt of funds realized from the sale or liquidation

3. Personal Gifts

Gift funds are permitted on primary residence transactions only with the following restrictions:

- Maximum loan amount of $1,00,000
- Borrower contributes a minimum of 5% of the down payment to the transaction from their own funds
- Gifts of equity are not allowed

Acceptable Donors

Acceptable donors include a spouse, child, sibling, grandparent, aunt, uncle, domestic partner, fiancé or fiancée.

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interest party to the transaction.

Documentation Requirements

Gifts must be evidenced by a letter signed and dated by the donor, called a Gift Letter. The Gift Letter must:

- Specify the dollar amount of the gift;
- Specify the date the funds were transferred, depository name and account number;
- Include the donor's statement that no repayment is expected; and
- Indicate the donor's name, address, telephone number, and relationship to the borrower

When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:

- A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence.
- Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.

Verifying Donor Availability of Funds and Transfer of Gift Funds

The lender must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. Acceptable documentation includes the following:

- 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, or
    - A settlement statement showing receipt of the donor's check.

When the funds are not transferred prior to settlement, the lender must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official check and must include the donor's withdrawal document.

4. Bridge Loans

Bridge loans are an eligible source of funds for down payment and closing costs. The loan must be included in the borrower's liabilities and be fully paper-trailed. A copy of the note must be provided. If no payment is required an interest only payment based on the contract rate must be included in the borrower's ratios.

Bridge loans cannot be cross-collateralized against the subject property.

5. Sale of Personal Property

The following documentation is required to evidence the sale of personal assets for funds to close:

- Personal property previously liquidated:
    - Bill of sale reflecting:
        - Date of sale;
        - Description of asset sold;
        - Sales price;
        - Signatures of buyer and seller; <u>and</u>

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

- Personal property to be liquidated:

    - Document the existence and the borrower's ownership of the asset (*e.g. car title*);
    - Document the value of the asset through a third party source (*e.g. appraisal or blue book*); <u>and</u>
    - Letter of intent, contract or other evidence that a buyer exists at the specified price.

Evidence of the actual sale, sufficient proceeds received from the sale, and proof that any outstanding liability owed against the asset was paid in full will be required at closing.

6. Business Funds

Business funds may be used for down payment and closing costs only if the borrower is 100% owner of the business and a letter from the business accountant is provided to confirm that the withdrawal of the funds will not negatively impact the daily operations of the business.

7. Life Insurance

The cash value of a life insurance policy can be used for down payment and closing costs. The amount used to qualify must be confirmed with a written statement from the life insurance company specifying the net cash value and receipt of the funds must be verified.

8. Loans Secured By Financial Assets

Loans secured by financial assets (life insurance policies, 401(k)s, IRAs, stocks, bonds, etc) can be used for down payment and closing costs. The payment of this type of loan is not required to be included in the borrower's debt ratio provided the applicable loan agreement shows the borrower's financial assets as collateral. Proof of receipt of the funds is required.

9. Retirement Accounts

Vested funds held in a qualified retirement account are an eligible source of funds. The most recent 2 months or quarterly statement is required as well as proof the funds were withdrawn.

10. Notes Receivable

Notes receivable or the repayment of a loan can be used for down payment and closing costs. The written agreement between the borrower and the loan recipient, proof the funds were withdrawn from the borrower's account, and verification funds were withdrawn from the loan recipient's account and deposited to the borrower's account must be verified.

11. Trust Accounts

Trust accounts where the borrower is the beneficiary are acceptable if the borrower is the beneficiary and the borrower's immediate access to the funds is verified by an institutional trustee or the trust agreement.

12. Ineligible Sources of Funds for Down Payment

The following asset types are ineligible for this program and cannot be used to meet the borrower's funds to close:

- 1031 Exchange Funds – tax deferred exchange proceeds
- Custodial Accounts – accounts where the borrower is not the beneficiary, such as a custodial account
- Gifts of Equity
- Donated Funds – typically from a church, municipality, or non-profit
- Pooled funds – typically from a relative or domestic partner who resides with the borrower
- Employer Assistance Programs – including salary advances
- Individual Development Accounts
- Real Estate Commissions – including when the borrower is the listing agent on the subject transaction
- Rent Credit, Option to Purchase, or Trade Equity
- Cash Advances on Credit Cards
- Signature Loans
- Unsecured Financing
- Cash for which the source cannot be verified
- Sweat Equity – contribution to the construction or rehabilitation of the property in the form of labor or services
- Reverse Mortgage Proceeds
- Seller Real Estate Tax Credit
- Foreign Assets
- Pension funds
- Funds donated by the seller, builder, real estate agent or any other party no related to the borrower to satisfy down payment requirements

N. RESERVE REQUIREMENTS AND ELIGIBLE SOURCES

Reserves are required on all transactions are reflected in the Eligibility Matrix. All Reserves must be fully documented and come from an eligible source. For most asset types, the most recent two months bank statements with all pages will be required. Any time there is a large deposit (25% of qualifying income) it must be sourced.

Additional reserves are required for multiple financed properties owned by the borrower and departing residences that are pending sale or will be converted to a second home or investment property.

Requirements for additional reserves in excess of the reserves reflected on the Eligibility Matrix are as follows:

- For additional financed properties owned by the borrower (excluding departing residences) the great of 2 months PITIA for the subject property or 6 months PITIA of the other property owned are required for each additional property.

- For departing residences/conversion of a current principal residence 6 month PITIA reserves for the departing residence.

1. Liquid Reserves

Liquid reserves are funds the borrower has after down payment and all closing costs that are readily available to the borrower and can easily be converted into cash. For purposes for this program, liquid reserves include:

- Funds in a bank/financial institution – individual, joint or trust if the borrower has full access
- Certificate of Deposit/Money Market Funds
- Stocks/Bonds/Mutual Funds – 70% of the documented value can be used for reserves
- Vested Retirement Accounts – 50% of the vested amount can be used for reserves if the borrower is under 59 ½ years in age. If over 59 ½ years in age, 60% of the vested amount can be used for reserves. Terms and conditions of withdrawal must verify the borrower has access to the funds.
- Trust accounts – the borrower be the beneficiary and the their immediate access to the funds must be verified by an institutional trustee or the trust agreement

Note: If the borrower has any outstanding obligations secured by the asset it must be deducted from the value of asset to determine the amount to be used in qualifying.

2. Ineligible Sources of Reserves

The follow assets types are ineligible to meet the borrowers reserve requirements:

- Gift Funds
- Business Assets
- Bridge Loans
- 1031 Exchange Funds – tax deferred exchange proceeds
- Custodial Accounts – accounts where the borrower is not the beneficiary, such as a custodial account
- Gifts of Equity
- Donated Funds – typically from a church, municipality, or non-profit
- Pooled funds – typically from a relative or domestic partner who resides with the borrower
- Employer Assistance Programs – including salary advances
- Individual Development Accounts
- Real Estate Commissions – including when the borrower is the listing agent on the subject transaction
- Rent Credit, Option to Purchase, or Trade Equity
- Cash Advances on Credit Cards
- Signature Loans
- Unsecured Financing
- Cash for which the source cannot be verified
- Sweat Equity – contribution to the construction or rehabilitation of the property in the form of labor or services

- Reverse Mortgage Proceeds
- Seller Real Estate Tax Credit
- Foreign Assets
- Pension funds
- Funds donated by the seller, builder, real estate agent or any other party no related to the borrower to satisfy down payment requirements
- Loan secured by other real estate
- Sale proceeds from assets or real estate
- Qualified Tuition Plans (529 Plans)
- Cash-Out proceeds
- Funds that have not been vested or cannot be withdrawn other than with the owner's retirement, employment termination or death

O. SUBORDINATE FINANCING

Subordinate financing is permitted on most loan programs. The repayment terms for most types of subordinate financing must provide for regular payments that cover at least the interest due so that negative amortization will not occur, and must permit prepayment at any time without penalty. The terms of the subordinate financing should require interest at a market rate the repayment terms for subordinate financing must provide for a fixed payment amount. There are two types of subordinate financing:

1) Home Equity Lines of Credit (HELOC) is an open-end credit line secured by a 1-4 family dwelling that allows for multiple advances according to the provisions of the note and financing agreement, and is typically in a subordinate lien position.
2) A Closed End mortgage provides for a single advance of funds at the time of loan closing and does not allow for future draws.

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

- The subordinate financing must be recorded and clearly subordinate to the first mortgage.
- The maximum LTV/TLTV/CLTV may not exceed the guideline limits for the product and occupancy type shown in Eligibility Matrix.
- The monthly payment for the subordinate financing must be included in the calculation of the borrower's debt-to-income ratio(s). <u>If a HELOC, a monthly payment must be calculated based on the current rate on the total line amount, regardless of the current balance)</u>
- Even if a credit line has been reduced with a permanent modification of the original note, the entire original line amount must be used to calculate the CLTV/HCLTV
- Negative amortization is not allowed; schedules payments must be sufficient to cover at least the interest due
- Equity share or shared appreciation is not allowed
- Maturity date or amortization basis of the junior lien must not be less than five years after the Note Date of the new first lien mortgage, unless the junior lien is fully amortizing

Ineligible types of subordinate financing include:

- Employer provided financing
- Subordinate liens through a Community Second Mortgage/Down Payment Assistance program
- Subordinate mortgages held by the property seller
- Tax and judgment liens
- Subordinate mortgages subject to an interest rate buy-down plan
- Subordinate financing that allows for negative amortization, contain a balloon feather or a prepayment penalty
- Subordinate mortgages that have wraparound terms

P. QUALIFYING RATIOS

Debt ratios are calculations used to determine whether the borrower will be able to meet expenses involved in home ownership. There are two ratios to assess the borrower's eligibility: housing-to-income ratio and debt-to-income ratio. Max debt ratios are as follows:

Qualifying Ratios	
Occupancy	Max DTI
Owner Occupied	43%
Second Home	40%

Q. HOUSING-TO-INCOME RATIO

The monthly housing expense includes the following:

- Principal and interest for the mortgage that is secured by the borrower's principal residence
- Monthly amounts for:
    - Subordinate financing on the subject (<u>If a HELOC, a monthly payment must be calculated based on the current rate on the total line amount, regardless of the current balance)</u>
    - Hazard insurance
    - Real estate taxes
    - Mortgage insurance premiums

- When applicable:
    - Homeowners association dues
    - Optional credit insurance

    - Monthly cooperative fees
    - Leasehold payments
    - Special assessments
    - Flood insurance fees
    - Tax abatements

R. DEBT-TO-INCOME RATIO

Monthly debt-to-income ratio is the sum of the monthly housing-to-income ratio plus the following:

- Payments on revolving debt
- Installment debt with more than 10 months remaining
- Monthly PITIA for any additional properties owned by the borrower including second homes and investment properties that are non-income producing
- If rental income is not used to qualify the subject investment property, PITIA plus operating expenses
- Current real estate and taxes on properties owned free and clear
- Child support, alimony and separate maintenances with more than 10 months remaining

S. QUALIFYING RATE

Qualifying Rates	
Program	**Qualification Rate**
30 year fixed	Note Rate
15 year fixed	Note Rate
5/1 ARM	Greater of the fully indexed rate or the note rate plus 2%
7/1 ARM	Note Rate
10/1 ARM	Note Rate

T. PAYMENT SHOCK

Payment shock is calculated by subtracting the borrower's current housing payment form the borrower's proposed housing payment and dividing by the borrower's housing payment and multiplying by 100.

Payment shock cannot exceed 250% for first time home-buyers or borrowers with less than 5 years job history or consistent earnings. For borrowers who have sold their home within the last 180 days, use the prior mortgage payment for purposes of payment shock calculation.

U. MAXIMUM ALLOWABLE CONTRIBUTIONS

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

Maximum Allowable Contributions		
Property Type	**LTV/ CLTV**	**Maximum Contribution**
Primary Residence	All	*3%*
Second Home	All	*3%*

Note: Seller contributions for HOA dues must be paid directly to the Association.

HUD-1 review:

- To ensure that all fees, disbursements and charges reflected on the settlement statement were fully disclosed in the purchase agreement and available to the appraiser for consideration in determination of the property's market value, review of both the borrower's and seller's side of the HUD-1 is essential.
- 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 seller, require additional consideration.
- Real estate commissions must include all commissions on page two of the HUD-1 *(700 series section),* as well as any non-lien related disbursements such as:
    - Marketing expenses;
    - Administration fees;
    - Finder's fees;
    - Referral fees;
    - Consulting fees; or
    - Assignment of sale fees.
- Any combination of the above disbursements exceeding 8% of the sales price must be treated as a sales concession and deducted dollar-for-dollar from the sales price for purposes of calculating the LTV/TLTV/CLTV.

1. Stable Monthly Income

Stable monthly income is the Borrower's verified gross monthly income from all acceptable and verifiable sources that can reasonably be expected to continue for at least the next three years. For each income source used to qualify the Borrower, it must be determined that both the source and the amount of the income are stable. A two-year history of receiving income is required in order for the income to be considered stable and used for qualifying.

2. Tax Transcripts

IRS 4506-T is required to be signed and executed during the origination process, and 1040 transcripts obtained for the most recent two years. For self-employed borrowers, this applies to both personal returns and business returns (for businesses where the borrower has 25% or more ownership). The transcripts must match the tax returns in the file.

3. Employment Income

To be considered for qualifying purposes, base pay, bonus, and overtime income must have been received for a minimum of two years. If a borrower does not meet the employment history requirement for the two years prior to the date of the loan application, and was previously in school or the military, provide copies of the borrower’s diploma and transcripts or discharge papers.

Change in Position

If the borrower has recently changed positions with their employer the effect on borrower’s eligibility to receive any bonus or overtime pay in the new position must be determine.

Variable Income

A two year history of all variable income is required. A lever, upward or previously declining but stabilized trend in earnings must be established. If the trend is declining, additional documentation so support the income is stable will be required.

4. Employment Income Documentation Requirements

At minimum employment income must be supported by all of the following as they apply

Paystubs

Most recent year-to-date paystubs covering 30 consecutive days of earnings are required with the following requirements:

- Provide evidence of all income being used to qualify
- Must include gross earnings for the current period and years to date earnings for the most recent 30-day period
- Be dated no earlier than 30 days prior to the date of the loan application
- If the borrower is paid hourly, the number of hours must be noted on the paystub

Note, the paystub requirement is not met if the employer does not provide computer generated or typed paystubs. When the paystub requirement is not met, the most recent years income tax returns and a written VOE, completed in its entirety is required.

W-2s

The most recent 2 years W2s, clearly identifying the borrowers as the employee and the employer name are required for each source of employment income.

Written VOE

If bonus, overtime, and/or commission income are being used to qualify a written VOE is required to confirm ongoing employment and earnings. Each source of income must be broken out separately and be likely to continue in order to be considered stable income.

Note, a WVOE may not be used in lieu of the most recent 30 days paystubs or two years W2s and may not be used as a standalone document for purposes of verifying the borrower income and employment.

Verbal Verification of Employment

A verbal verification of employment to confirm the borrower's current employment status is required for each borrower. The VVOE must be dated within 10 days of the note date and contain the following information:

- Date of Contact
- Borrower's date of employment, employment status and job title
- Name, phone number, and title of the individual contacted at the entity, and entity name
- Name and title of associate contacting the employer

Employment by Relatives or Transaction Participants

If the borrower is employed by a relative, a closely held family business, the property seller, real estate agent, or any party to the real estate transactions, the borrower is considered self-employed unless the following documentation can be provided:

- A letter from the business accountant verifying the borrower does not have 25% or more ownership interest (and stating the actual ownership interest) AND
- Borrower's most recent two years signed tax returns supporting no owner ship interest, or
- A signed copy of the corporate tax returns showing the borrower's ownership percentage as less than 25%

5. Other Employment Income Requirements

Other employment income is acceptable for qualification if it meets the specifications for the income type below:

Automobile Allowances

Automobile allowances are considered stable income if the income is been received for the past two years. All associated expenditures must be included in the borrower's DTI. Either cash flow or income and debt approach may be used to qualify. If not reposted on the borrowers 2106, then use the income and debt approach, adding the allowance to the income and showing the lease in the borrower's debt.

Non-Taxable Income

If income is verified as non-taxable, and the income and tax-exempt status are likely to continue, the percentage of non-taxable income that may be added to the borrower's income cannot exceed the appropriate tax rate for the income amount. If the borrowers are not required to file tax returns the income can be grossed up by 125%.

Part-Time and Second Jobs

A borrower should have a minimum of a two years uninterrupted history on all part-time, second, or multiple jobs in order to include the income in qualification. Follow documentation types for the specific type of second job (employment income or self-employed income)

Seasonal Income

Seasonal part-time or seasonal second job employment may be acceptable if the borrower has worked in the same job for the most recent two years. All of the following must be provided:

- Most recent paystubs (if applicable)
- Most recent two years W2s
- Written confirmation from the borrower's employer that there is reasonable expectation that the borrower will be re-hired for the next season

Teachers

Annual salary must be verified and stipends or supplemental income must be documented as regular and continuous.

Borrowers with a contract for their first year of employment who have started work but have not received a paystub must provide all of the following:

- Copy of contract
- WVOE
- VVOE

Teacher income paid over a 10 month period and obtaining financing during the summer months when income is not being received must be documented with all of the following:

- Final paystub from the previous school year
- VVOE
- Copy of the contract indicating the borrower is paid over a 10 month period

Income will be qualified based on the income received on the final paystub from the previous school year

Tip Income

Tip income is an acceptable source of qualifying income if it has been received for the past 2 years and is supported by paystubs and W2s

Unemployment Benefits

Unemployment benefits, such as those received by seasonal workers, must have been received for the past two years and be predictable and likely to continue for the three years from the date of the application. Income must be documented with the most recent two years signed tax returns with all schedules and the income must be clearly associated with seasonal layoffs and expected to recur.

Union Members

For union workers a VVOE confirming the borrower is in good standing with the union is required. If the union cannot provide confirmation, a VVOE with the present employer is required as well as all of the following:

- Current paystub(s) from the present employer
- If there has been more than one employer in the current year, the last paystub from each employer will be required to adequately reflect year-to-date earnings
- Most recent 2 years W2s from all employers
- Most recent 2 years personal tax returns with all schedules

6. Employment Gaps/Re-Entering the Workforce

All employment gaps over 30 days in the past two years must be explained. For borrowers who are re-entering the workforce after an extended absence (6 months) may be considered stable if the following requirements are met:

- The borrower has been employed in his or her current job for 12 months or more
- A two year work history prior to the absence from the workforce is documented

7. Furloughed Borrowers

Borrowers whose paystubs reflect they are being furloughed must qualify with the reduced income. Payments from a third party (credit union or other source) to supplement unfunded budgets are not permitted, even if the source is approved by the employer. If there is evidence the from the employer or third party documentation that the furlough will end within the next 60 days full pay may be used for qualification.

8. Temporary Leave

Temporary leave from work is generally short term in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by state law or the borrower's employer.

If a borrower is currently receiving short-term disability benefits that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the long term benefits must be used as qualifying income.

If the borrower will return to work prior to when the first mortgage payment will be due regular income can be used to qualify.

If the borrower will return to work after the first mortgage payment is due use the lesser of the leave income or pre-leave regular employment income to qualify.

6. Ineligible Employment Related Income

The following employment related income sources are not eligible to be used in qualification:

- Employment-related assets
- Foreign income
- Future income
- Income determined to be temporary or one-time in nature
- Retained earnings in a company
- Stock options
- Taxable forms of employment income not declared on the borrower's personal tax returns
- Trailing co-borrower income
- Unverifiable income

9. Self-Employment Income

A borrower is considered self-employed if any of the following conditions are met

- If the borrower has 25% or more ownership interest in a business
- Borrowers who file an IRS for Schedule C or Schedule F

Evidence that the borrower has at least a consecutive two year history of self-employment operating the same business in the same general location is required to demonstrate sufficient stability for the income from that business to be considered in qualifying

Net losses from self-employment and non-employer related sources must be deducted from qualifying income regardless of the longevity of the business activity, unless the business or activity producing the losses is documented to be discontinued.

10. Self-Employment Income Documentation Requirements

At minimum, self-employment income must be supported by all of the following as they apply.

Personal Tax Returns

Most recent two years of signed and dated tax returns with all pages, schedules, and attachments are required for all borrower who are self-employed.

Business Tax Returns

Most recent two years of signed and dated business returns with all pages, schedules, and attachments are required.

P&L and Balance Sheet

Signed Year-to-date Profit and Loss Statements and Balance Sheets are required for each business where income or losses are reported on IRS for Schedule C, Schedule F, and for businesses in which the borrower has a 25% or more ownership interest, irrespective of which tax forms are used to report the income or losses.

If tax returns from the most recent tax year are not yet available, and additional year end P&L and Balance Sheet will be required for each business.

The year-to-date P&L and Balance Sheet must cover at least the period ending in the most recent quarter at the note date.

VVOE

For each business the borrower owns, a Self-Employed Confirmation of Employment is required to confirm the existence of the business through a thirst-party source dated within 30 days of the note date and must meet all the following requirements:

- Verification of the existence of the borrower’s business from a third party, such as a CPA, regulatory agency, or applicable licensing bureau
- Verify the listing and address for the borrower’s business using a telephone book, the internet, or directory assistance.

11. Other Income Requirements

Other income can be used for qualification purposes.

Child Support, Alimony or Maintenance Income

In order to be used as income, child support, alimony or maintenance payments must reasonably be expected to continue for at least a three year period. The following documentation is required:

- Copy of the final divorce decree, legal separation agreement or court order; and
- Copies of court records, bank statements or canceled checks evidencing a 12 months receipt
- If the income has been received for less than 12 months, but more than 6 months the income can be used for qualification as long as it does not exceed more than 30% of the borrower's qualifying income

Capital Gains

Capital gains can be used in qualification if the borrower has a minimum 2 year history of receipt and assets are documented to generate ongoing income at the level used to qualify for a least a three year period.

Foster Care Earnings

Foster care earnings must be documented with a letter from the organization providing the income and copies of deposit slips or bank statement confirming regular receipt.

Dividend and Interest Income

Dividend and interest income can be used in qualification if the borrower has a 2 year history of receipts and 3 years continuance can be documented. Subtract any funds used for the cash investment prior to calculating the income level or continuance.

Long Term Disability

Documented long term disability income can be assumed to be on-going and used for qualification.

Non-Taxable Income

If income is verified as non-taxable, and the income and tax-exempt status are likely to continue, the percentage of non-taxable income that may be added to the borrower's income cannot exceed the appropriate tax rate for the income amount. If the borrowers are not required to file tax returns the income can be grossed up 125%.

Notes Receivable

Notes receivable is an acceptable source of qualifying income if the borrower has a two year history of receipt and is the income will continue for a three year period. The following documentation must be provided:

- Copy of the Note
- Most recent two years tax returns with all schedules reflecting the receipt of the income
- Bank statements showing regular deposit of the funds

Public Assistance Income

Public assistance is an acceptable source of qualifying income if the borrower has a two year history of receipt and it will continue for at least three years. The income must be documented with proof of receipt and a letter from the paying agency verifying the amount, frequency, and duration of the payments.

Retirement, Pension, Annuity, and IRA Distributions

All retirement, pension, annuity, and IRA distribution income requires three years continuance. Evidence of continuance need not be documented for corporate, government, VA, or military pension. The borrower must have unrestricted access without penalty to all accounts. The income must be documented with all of the following:

- Copy of the award letter or letters from the organization providing the income
- Most recent years 1099-R
- Most recent 3 months bank statements reflecting the deposit of the funds

Royalty Income

Ongoing income received from royalty payments may be eligible. Income must be documented with all of the following:

- Verification the income will continue for at least three years
- Most recent 2 years tax returns with all pages, schedules, and attachments reflecting
- Most recent 12 months bank statements showing the deposit of the funds

Social Security Income

SS income for retirement or long term disability will not have a defined expiration date and can be expected to continue. However, if the income is not for retirement or long-term disability 3 years continuance will need to be documented in order to use the income to qualify. SS income can be documented with all of the following:

- Copy of the award letter
- Most recent years 1099-SSA

- Most recent 3 months bank statements reflecting the deposit of the funds

If this income is non-taxable, as reflected on the borrower's personal tax returns refer to the Non-Taxable Income section of this guide for further information on grossing up the income for qualification.

Trust Income

Trust income can be used to qualify if there are three years remaining and the borrower has a history of receipt. The income must be documented with a copy of the trust agreement and trustees statement verifying the terms of payment, the total amount designated to the trust fund, the duration of the trust, and what portion, if any, of the income is taxable. If the trust agreement or trustees statement does not provide the historical level of distributions, one of the following must be provided:

- Most recent two years tax returns with all pages, schedules and attachments

- Most recent two years 1041 rust returns with all pages, schedules and attachments

Rental Income from Other Real Estate Owned

Rental income from other properties owned should be calculated off the 1040 tax return Schedule E and must be supported by a current lease. If instances when leases are "rolled over" to month-to-month agreements a copy of the most recent lease and proof of receipt of the income must be provided.

In cases where the investment property was acquired subsequent to the most recent tax filings year signed lease can be used to calculate the qualifying rental income.

Conversion of Current Principal Residence

If the borrower is converting a current principal residence to an investment property, sufficient equity in the existing principal residence must be verified with an AVM, drive-by or full appraisal to determine the qualifying impact of the current principal residence's PITIA on the borrowers DTI ratios.

To confirm leasing the newly converted property or unit (for a two- to four-unit property) the file must contain the following:

- Fully executed lease agreement
- Security deposit from the tenant, and
- Bank statement showing the deposited security funds

Western Bancorp must calculate the net rental income and qualify the borrower according to the following requirements:

Conversion of Principal Residence		
If the current principal residence is…	And the documented equity in the current principal residence is…	Then you can use…
A One Unit Property	≥30%	75% of the gross rental income as per the lease
	<30%	No Rental Income will be allowed
A 2-4 Unit Property	≥30%	75% of the gross rental income as per the lease for the unit the borrower occupied. Rents for the remaining units will be calculated off Schedule E
	<30%	No Rental Income will be allowed for the unit the borrower occupied. Rents for the remaining units will be calculated off Schedule E

12. Ineligible Self-Employment or Other Income

The following self-employment and other income sources are not eligible to be used in qualification:

- Employment-related assets
- Foreign income
- Future income
- Income determined to be temporary or one-time in nature
- Retained earnings in a company
- Stock options/Restricted Stock
- Taxable forms of employment income not declared on the borrower's personal tax returns
- Trailing co-borrower income
- Unverifiable income
- Boarder income
- Mortgage credit certificates
- Income derived from gambling
- Lump sum payments of lottery earnings, inheritances, or lawsuit settlements that are not on-going (for at least three years)
- Non-incidental income derived from farming/agricultural use of land

W. PROPERTY TYPES

1. Eligible Properties

- One Unit SFRs
- PUDs in projects with more than 4 units
- 2 Unit properties (primary residence only)

2. Ineligible Properties

The following property types are ineligible:

- Manufactured Homes
- Co-Ops
- Mobile Homes
- Condominiums
- Condotels
- Hotel Condominiums
- Timeshares
- Working Farms or Ranches
- Unimproved Land
- Property currently in litigation
- Land Trusts
- Condition Rating of C5/C6 or a Quality Rating of Q6
- Re-sale Deed Restricted Properties
- Properties with less than 650 square feet of habitable space
- Log Homes / Domes Houses or any other exotic construction type
- Assisted living facilities
- House boats
- Land loans
- Units in a 2-4 Unit PUD Project
- Leasehold estates
- 3-4 unit properties
- Properties with greater than 10 acres
- Properties sold at auction by the builder, developer, or construction lender
- Property used for commercial purposes
- Factory Built Housing

3. Non-Permitted Additions / Alterations

Western Bancorp will secure loans against properties with unpermitted additions / alterations if all of the following conditions are met:

- The quality of work is described in the appraisal and deemed acceptable
- The addition does not result in a change in the number of units comprising the subject property
- The appraiser comments that the addition / alteration doesn't have any negative affect on marketability

- If the appraiser is giving the unpermitted addition / alteration value all of the follow must be met and documented by the appraiser:
    - Non-permitted additions are common for the market area and a typical buyer would include in the overall value
    - The appraiser has no reason to believe the addition would not pass inspection for permits
    - The non-permitted area cannot be included as a portion the total living area, however value for increased utility can be included

4. Solar

Western Bancorp will finance properties with solar panels. If the property owner is the owner of the solar panels, and is not the only source of power (the property must maintain access to an alternate source of electric power that meets community standards) no further requirements apply.

If the solar panels are leased from or owned by a third party under a purchase power agreement or other similar arrangement, the following requirements apply (where to the original agreement or as subsequently amended):

- The solar panels may not be included in the appraised value of the property
- The property must maintain access to an alternate source of electric power that meets community standards
- The monthly lease payment must be included in the DTI ratio calculation unless the lease is structured to:
    - Provide delivery of a specific amount of energy at a fixed payment during a given period, and
    - Have a production guarantee that compensates the borrower on a prorated basis in the even the solar panels fail to meet the energy output required for in the lease for that period.

  Payments under power purchase agreements where the payment is calculated solely based on the energy produced and used may be excluded from the DTI ratio

- The lease or power purchase agreement must indicate that:
    - Any damage that occurs as a result of the installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original condition, and
    - The owner of the solar panels agrees not to be the named loss payee on the property owner’s insurance policy covering the residential structure the panels are attached to, and
    - In the event of foreclosure, the lender or assignee has the discretion to
        - Terminate the lease/agreement and require the third party owner to remove the equipment
        - Become, without payment of any transfer or similar fee, the beneficiary of the borrower’s lease/agreement with the third party, or
        - Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner
    - Any exception to coverage on the title insurance policy for recorded instruments relating to the solar panels must comply with FNMA requirement in section B7-2-05 of the seller guide.

5. Deed or Re-Sell Restricted Properties

Properties with Deed or Re-Sell Restrictions are ineligible on this program unless for a 55 and older community on a primary residence.

When the subject is 55 and older community the appraiser must note the existence of resale restrictions and comment on any impact the resale restrictions have on the property's value and marketability.

6. Planned Unit Developments (PUDs)

A Planned Unit Development (*PUD*) is a parcel of land that contains common elements and improvements that are owned and maintained by a homeowner's association, corporation or trust. The common elements are for the benefit and use of the individual homeowners within the PUD. The housing units may be attached or detached.

If the appraiser indicates marketability problems, a review of the project should be performed to determine whether there may be an adverse impact on the value or marketability of the subject unit.

If the PUD is in a newly constructed subdivision the project must be 100% complete and greater of 30% of the project or 10 units must be sold.

If any of the following characteristics are present, it will render the PUD ineligible:

- Multi-dwelling unit PUD projects that permit an owner to hold title to more than one dwelling unit, with ownership of all his or her units evidenced by a single deed and mortgage
- 2-4 Unit projects
- New projects where the seller is offering sales/financing concessions in excess of limitations for individual loans
- Hotel or Motel conversions
- Projects where documents are on file with the Securities and Exchange Commission
- Projects with recreational leases
- Projects where the HOA is named party to litigation
- Projects with non-incidental business operations owned and operated by the HOA
- Projects where more than 20% of the total space is used for non-residential purposes
- Projects that restrict the owner's ability to occupy the unit, have mandatory rental pools or guaranteed rent backs
- Projects where a single entity owns more than 10% of the total units in the project
- Projects containing single-width manufactured homes

X. RENT LOSS INSURANCE

Rent loss insurance covering at least six months' rent is required for 2 unit primary residence properties, when rental income from the subject property is used to qualify the borrower.

3. APPRAISAL STANDARDS

A. LENDER STANDARDS

All appraisals must comply with and conform to USPAP and the *Appraisal Independence Requirements.*

The appraiser must not have a direct or indirect interest, financial or otherwise, in the property or in the transaction. Selection criteria should ensure that the appraiser is independent of the transaction and is capable of rendering an unbiased opinion.

An appraisal prepared by an individual who was selected or engaged by a borrower, property seller, real estate agent or other interested party is not acceptable. "Re-addressed appraisals" or appraisal reports that are altered by the appraiser to replace any references to the original client with the lender's name are not acceptable. Additionally, the borrower, property seller, real estate agent or other interested party are not allowed to select an appraiser from an approved appraiser list.

Effective internal controls should require that only qualified and adequately trained underwriters, who are not involved in the loan production process, review appraisals. To maintain independence, the underwriter should not directly report to someone involved in loan production. Western Bancorp’s underwriting review will include confirming the independence of the appraiser in addition to a comprehensive technical review of the appraiser's analysis prior to making a final credit decision. Any exceptions or red flags should be escalated accordingly.

1. Transferred Appraisals

Western Bancorp will not accept transferred appraisals, regardless of any written assurance or certification.

B. APPRAISAL REQUIREMENTS

Appraisers must provide six comparable sale. Preferably all comparable sales should be closed sales. If the appraiser is unable to provide six comparable closed sales, the appraiser may use comparable listings or pending sales, but at a minimum four of the comparable sales must be closed.

For loan amounts up to $1,000,000 one full appraisal is required.

For loan amounts over $1,000,000 two full appraisals are required.

A CDA ordered though Clear Capital is required on all 1-Unit properties. If two appraisals are required, the CDA is ordered on the lower of the two appraisals.

2-Unit properties require a field review ordered through Clear Capital if the loan amounts up to $1,000,000 and require two full appraisals for loan amounts over $1,000,000.

When the results of the CDA are 8% or more a subsequent field review is required. See the CDA Waterfall Chart below for additional guidance:

<table>
<tr><th colspan="6">CDA Waterfall</th></tr>
<tr><th rowspan="2">Initial Review Type</th><th rowspan="2">CDA Recommends Field Review</th><th rowspan="2">Variance</th><th colspan="3">LTV/CLTV/HCLTV</th></tr>
<tr><th>≤ 65%</th><th>65.01-75%</th><th>75.01-80%</th></tr>
<tr><td rowspan="8">CDA</td><td rowspan="4">No</td><td>0%</td><td colspan="3">Approve</td></tr>
<tr><td>.01-4.99%</td><td colspan="2">Approve</td><td>Review and approve CDA</td></tr>
<tr><td>5.00 – 7.99%</td><td>Approve</td><td>Review and approve CDA</td><td>Field Review Required</td></tr>
<tr><td>≥8% or Undetermined</td><td colspan="3">Field Review Required</td></tr>
<tr><td rowspan="4">Yes</td><td>0%</td><td colspan="3">Approve</td></tr>
<tr><td>.01-4.99%</td><td>Approve</td><td colspan="2">Review and approve CDA</td></tr>
<tr><td>5.00 – 7.99%</td><td colspan="2">Review and approve CDA</td><td>Field Review Required</td></tr>
<tr><td>≥8% or Undetermined</td><td colspan="3">Field Review Required</td></tr>
<tr><td colspan="3">Field Review Threshold</td><td colspan="3">8%</td></tr>
</table>

C. DECLINING MARKETS

Maximum LTV/CLTV/HCLVs are reduced by 5% when the appraisal reflects the subject property is in a declining market or is in *one of the following counties:*

- Imperial
- Fresno
- Tulare

D. PROPERTIES AFFECTED BY DISASTERS

The FEMA Declared Disaster Area Policy applies to all areas eligible for Individual and or Public Assistance due to a federal government disaster declaration.

1. Effective Date of Disaster Policy

The disaster-area policy becomes effective as of the incident period end date for the disaster/event. FEMA publishes the incident period along with the declaration date once the area is presidentially declared. For example, refer to the following dates to understand when property re-inspection requirements apply:

- Disaster Incident Period:
  - Begin Date: January 15
  - End Date: January 17
- Disaster Declaration Date: February 2
- Effective Date for Disaster Procedures: January 17

Based on the dates noted in the above example, all appraisals performed on or before January 17 would require the appropriate re-inspection or review. Appraisals performed after January 17 would continue to require written certification by the appraiser that indicated whether the property was free from damage and whether the disaster had any effect on value or marketability. If there was damage, the extent of that damage needs to be addressed.

2. Appraisal and Re-Inspection Requirements

To ensure the property value has not been impacted by the disaster, a post disaster property re-inspection is required.

3. Appraisal performed on or before disaster incident end date

Property must be re-inspected by the original appraiser or, if not available, another licensed appraiser. The appraiser must provide the following commentary/evidence:

- Property is free from damage and the disaster had no effect on value or marketability.

- If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, or other post disaster inspection report, with photos of interior, exterior, and neighborhood.

4. Standard Appraisal Performed After Incident Period End Date for Disaster

Appraisal must include written certification by the appraiser that:

- Property is free from damage and the disaster had no effect on value or marketability.
- If the appraisal indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos of interior and exterior.
- The appraisal must include a minimum of three comparable sales, post-disaster.

  Please note that FEMA makes updates to their state lists, so Sellers should closely monitor FEMA's online reference at http://www.fema.gov/news/disasters.fema.