

# General Underwriting Guidelines

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## General Policy

The Reunion underwriting guidelines that follow clearly define our criteria for underwriting Loans. Our guidelines basically follow Fannie Mae and FHA standard guidelines. This Manual contains only those underwriting guidelines that deviate from the published policies of Fannie Mae, and FHA. These underwriting guidelines may change from time to time to meet our requirements as needed. We reserve the right to update our underwriting guidelines periodically to meet Reunion's guidelines.

For each Loan delivered to Reunion, the Loan must meet all the requirements as outlined within the Product Guidelines in addition to meeting the underwriting guidelines as published within this section. In the event that the selected Product Guidelines require different parameters than those stated within the Underwriting Section, the more conservative guideline will apply

## Loan Eligibility

### Loan Application Review

The initial loan application submitted for underwriting must be reviewed during the underwriting process to ensure it is complete. It must be signed and dated by the borrowers and interviewer.

- A full two-year history of employment and residency is required and all personal information for each borrower (social security number, date of birth, address, and education) must be complete.
- All declaration questions must be marked as well as whether the application was taken face-to-face, by telephone, or by mail. All applications must be signed by the borrower(s).
- The interviewer's name and employer must be completed in all cases.
- In compliance with the Secure and Fair Enforcement of Mortgage Licensing Act (SAFE Act), the Mortgage Loan Originator (MLO) and the Company unique identifier numbers (UIN) must be provided
- The final application for closing must adhere to the requirements above, including the borrower's complete and accurate financial information relied upon by the underwriter, and be signed and dated by all borrowers
- All transactions must be reviewed for reasonability as part of the underwriting process. The feasibility of occupancy claims and the overall financial picture of the borrowers must be reasonable. Where conflicting information exists between or within documents, an adequate explanation must be obtained and documented in the loan file.
- All documents in the origination file relevant to underwriting must be reviewed for signs of alteration or fabrication. Where conflicting information exists between or within documents, an adequate explanation must be obtained and documented in the file.

### Fraud

Fraud is the intentional misrepresentation of facts that are material to the underwriting decision on a loan. Fraud may be committed for profit or simply to qualify an otherwise ineligible borrower for a loan. Reunion has a Zero Tolerance Policy on matters relating to fraud or misrepresentation.

Examples of fraud or misrepresentation include but are not limited to:

- Forging signatures
- Assisting in preparing income documentation / verifications
- Falsification of bank statements and / or assets
- Failure to disclose borrower's liabilities
- Knowingly misrepresenting occupancy of the property in question
- Failure to disclose or act upon known instances of fraud or misrepresentation
- Colluding with appraiser to inflate values
- Any violation will result in termination of the broker agreement.

### Loan Churning

Loan churning is defined as the practice of lenders encouraging multiple refinances during a short period of time. Reunion prohibits the churning of loans. Examples of loan churning include:

- An applicant purchasing and/or refinancing multiple owner-occupied properties within a 12- month period.
- Funding a refinance or home equity transaction then applying for subsequent purchase transaction.
- Solicitation by a Loan Officer to refinance a six-month ARM every six months.
- Solicitation of the refinance of a home equity loan multiple times or with no tangible benefit to the borrower

#### Age of Documents

- Initial Application (1003) may not exceed 120 days as of the date of the Note
- Credit report must be dated within 60 days of the date of the Note
- Income documentation (i.e. paystubs) must be dated within 30 days of initial application and no more than 90 days as of the date of the Note
- Asset documentation must be dated within 45 days of the initial application and no more than 90 days as of the date of the Note
- Appraisal may not exceed 120 days as of the date of the Note. An update of value is required if the appraisal is more than 90 days as of the date of the Note
- Title Report must be dated within 30 days of initial application and no more than 90 days as of the date of the Note

#### Loan Size

- Agency loan limits are set by Fannie Mae and Freddie Mac, which are subject to change on an annual basis. Minimum loan amount is \$50,000. Current loan limits are as follows:

	<b>Units</b>	<b>Max Loan Amount</b>
<b>Standard</b>	1	\$417,000
	2	\$533,850
	3	\$645,300
	4	\$801,950
<b>High-Balance</b>	1	\$625,500
	2	\$800,775
	3	\$967,950
	4	\$1,000,000 *

High-Balance mortgages must meet the limit set for each County.

- FHA loan limits are determined per County by HUD. \*

\* Reunion maximum loan amount is \$1,000,000. Fannie Mae and FHA have higher limits.

#### Maximum Exposure / Multiple Loans

- Maximum of \$1,000,000 total Reunion financing to any borrower
- Maximum of 4 Reunion loans to any borrower regardless of program type
- Borrower is limited to two loans with financing > 80% LTV/CLTV/HCLTV
- Maximum of 10% concentration in any one condominium project to all borrowers
- Owner occupied primary residence: No limit on the number of financed properties
- Second home or investment property, see program specific Product Guidelines

#### Mortgage Insurance

- Conventional loans with LTV greater than 80% require Mortgage Insurance unless specified in the Product Guidelines (i.e. HomePath Mortgage and DU Refi Plus).
- Reunion cannot guarantee the ability to obtain mortgage insurance on every file due to the rapid guideline changes in the Mortgage Insurance industry. Use the links on our [Mortgage Insurance Partners](#) page to access MI eligibly and pricing.
- Premium Types
  - Zero up front monthly non-refundable
  - **Single Premium non-refundable**
- Eligible Mortgage Insurance Companies
  - Genworth
  - MGIC

- Radian
- United Guaranty
- Standard Mortgage Insurance Coverage:
 

LTV	> 20 Year Term	≤ 20 Year Term
>95 - 97%	35%	35%
>90-95%	30%	25%
>85-90%	25%	12%
>80-85%	12%	6%
- Minimum Mortgage Insurance (less than Standard Coverage) may be allowed when indicated in the agency AUS findings. Refer to Product Guidelines for eligibility and Rate Sheet for Price Adjustment

### Property Flips

- Property flips are a form of fraud where a buyer obtains a property at one price, may or may not complete some minor repairs and within a short time, then resells the property to a related party. This usually occurs with multiple properties located within a short distance, thus creating an inflated market with supporting comps. Ultimately, the property is sold to a legitimate buyer at an above market price.
- If the property value increase exceeds 20% and the subject property has been conveyed within 12 months, particular attention should be applied to the appraisal review. Refer to specific program guidelines for additional requirements.
- The appraiser should provide comments regarding the reasons and condition that led to the increase in value.

## Borrower

### Adding/Removing Borrowers on Application

Borrowers may not be added or removed from an application. A new application must be submitted.

### Borrower

- Borrowers must be natural persons. Corporations, estates, life estates, limited or general partnerships, trusts, not-for-profit organizations, schools, churches, etc., are ineligible.
- The borrowers must have attained legal age according to local and state jurisdiction and be able to enter into a binding contract prior to the execution of the Note and Security Instrument.
- Maximum number of borrowers on a loan is four
- Borrowers may take title to the property as joint tenants, tenants by the entireties, tenants in common, or as individuals. Title may also be held in an inter-vivo revocable trust (living trust).
- Title may not be held in the name of a corporation or partnership.
- Borrowers must obtain fee simple title to a property constituting the security. For Loans secured by properties held in leasehold estate, refer to the Property section.
- All borrowers are required to sign the Note and the Mortgage/Deed legally binding them to repay the loan.
- All owners of the property, including non-borrower owners, are required to sign the mortgage, deed of trust, or other security instrument.
- A valid Social Security Number (SSN) is required for all borrowers – Reunion to verify the validity of the SSN for each borrower as follows:
  - Each loan submission must contain a signed authorization for each borrower to verify each borrower's social security number
  - All loans must contain verified Social Security numbers for all borrowers. Loans will not be funded with any discrepancies

### **Co-Borrower**

- A co-borrower, also referred to as a co- or joint applicant, is a person who has applied jointly with the applicant for shared or joint credit, and who takes title to the security property. A co-borrower must sign the Note and Security Instrument.
- Co-borrower information must be provided when:
  - The income or assets of a person other than the borrower will be used as a basis for loan qualification;

### **Co-Signer**

- Co-signers or guarantors are ineligible.
- An applicant who does not take title to the security property is considered a cosigner.

### **Ineligible Borrowers**

There are individuals to whom credit cannot be extended under any circumstances. Loans to the following are not permitted:

- Applicants acting as vendors providing services on their personal loan that is being originated
- Illegal aliens: People residing in the US without permission
- Diplomatic Immunity: Individuals with diplomatic immunity
- Non-US citizens that do not meet eligibility requirements of the Eligibility Classification chart
- Borrower that does not have a valid Social Security Number
- Borrower(s) that are party to a law suit

### **Non-Borrower Spouse or Domestic Partner**

When a married applicant applies for a mortgage in their name alone, without involving the applicant's spouse, the spouse is referred to as a non-borrower spouse. A non-borrower spouse may have rights in the property, either as a co-owner of the property or because state community property or marital rights laws. Reunion's lien must always be superior to that of the non-borrower spouse.

- If the non-borrower spouse is to be listed on the title as a co-owner, Reunion requires the non-borrower spouse to sign the security instrument—in all states. **Note:** Reunion cannot require a non-borrower spouse who is a co-owner of the property to sign a quitclaim deed.
- If the non-borrower spouse is not listed on the title, Reunion does not require the non-borrower spouse's signature on the Security Instrument, unless it is necessary under state law to obtain a valid security interest.

### **Non-Permanent Resident Alien**

A non-permanent resident is a non-U.S. citizen who enters the United States for specific periods under the terms of a Visa. A non-permanent resident status may or may not permit employment. Non-permanent resident, who are permitted employment and meet the guidelines listed below, are only eligible for a primary residence or second home. Borrowers that are not US Citizens may not be eligible for all loan programs. Refer to the specific Product Guidelines for eligibility restrictions.

The mortgage must satisfy our basic underwriting guidelines with respect to income stability and continuity, credit history, and cash reserves. Borrowers must be employed in the United States. The source of income must be verified and expected to continue for at least 3 years. A 2-year credit and income history is required.

Only documentation which satisfies the same basic standards for authenticity, accuracy, and completeness that applies to other types of documentation should be considered.

The following guidelines apply to all non-permanent residents

- A valid Social Security number is required

- Documentation to support that the Borrower is eligible to work in the U.S. as evidenced by an un-expired Employment Authorization Document (EAD) issued by United States Citizenship and Immigrations Services (USCIS). For further information, see [www.uscis.gov](http://www.uscis.gov). Acceptable visas are H-1, H-2A, H-2B, H-3, L-1, E-1, and G series.
  - If the authorization for temporary residency status will expire within one year and a prior history of residency status renewals exists, continuation may be assumed. If there are no prior renewals, the likelihood of renewal must be determined, based on information from USCIS
  - Borrowers sponsored by a specific employer do not need an EAD. A valid passport, a letter from the employer/sponsor and an I-94 or I-797 form proving they may work in the U.S. are acceptable in lieu of the EAD
  - A Social Security card may not be used as evidence of eligibility of employment; the USCIS EAD must be used
- In addition to the above, individuals with one of the following special visa classifications are also eligible non-permanent residents

**Refugees**

- Form I-94 stamped with employment authorization; or
- Foreign Passport stamped "Admission for Permanent Residence" with an un-expired date or an Employment Authorization Document.

**Asylee**

- Form I-94 stamped with employment authorization; or
- Copy of Employment Authorization document.
- Canadian and Mexican citizens who are working in the United States under the terms of NAFTA must be treated as non-permanent resident aliens when determining their eligibility. NAFTA workers must provide a NAFTA Worker's visa.
- Currently reside in the United States legally.
- Currently are employed in the United States. The source of the income must be verified and must be expected to continue for at least 3 years
- Have a 2-year work history in the U.S.
- Satisfy our basic underwriting guidelines with respect to income stability and continuity, credit history, and cash reserves. Standard documentation authenticity, accuracy, and completeness apply.
- An individual classified under Diplomatic Immunity, Temporary Protected Status, Deferred Enforced Departure or Humanitarian Parole is not eligible.

**Non-Occupying Co-Borrower**

- Non-occupant co-borrowers are allowed. Refer to specific Product Guidelines for eligibility and restrictions.

**Permanent Resident Alien**

Permanent Resident Alien (PRA) is defined as an individual who, though not a U.S. citizen, is granted the right to work and live permanently in the United States. The US Citizenship and Immigration Services (USCIS) refers to these individuals as "immigrants." Borrowers that are not US Citizens may not be eligible for all loan programs. Refer to the specific Product Guidelines for eligibility restrictions.

The mortgage must satisfy our basic underwriting guidelines with respect to income stability and continuity, credit history, and cash reserves. Borrowers must be employed in the United States. The source of income must be verified and expected to continue for at least 3 years. A 2-year credit and income history is required.

Additional credit, asset and income references needed to make an informed credit decision may be obtained from a foreign country if the borrower has not been employed for a full 2 years in the U.S. Only documentation which satisfies the same basic standards for authenticity, accuracy, and completeness that applies to other types of documentation should be considered.

Evidence is required to demonstrate a PRA's legal right to live and work in the United States. It includes one of the following:

- Permanent Resident Card (USCIS form I-551)
  - May be issued as a conditional right to reside for individuals seeking residency through marriage to a U.S. citizen/permanent resident or based on a financial investment in a U.S. business.
    - These cards will have an expiration date and are valid for two years.
    - At the end of the two years the individual must apply for an unconditional right to reside or risk losing their permanent resident status.
    - Cards that are due to expire within 90 days must be accompanied by a copy of USCIS form I-751 (Petition to Remove Conditions on Residence) or USCIS form I-829 (Petition by Entrepreneur to Remove Conditions) filing receipt.
  - Cards may be issued without conditions and are valid for ten years.
    - Cards that are due to expire within 6 months must be accompanied with a copy of USCIS form I-90 (Application to Replace Permanent Resident Card) filing receipt.
  - There are numerous versions of the I551 card that are no longer issued but are considered valid as long as unexpired.
    - Cards that are due to expire within 6 months must be accompanied with a copy of USCIS form I-90 (Application to Replace Permanent Resident Card) filing receipt.
  - Unexpired Foreign Passport
    - Must contain an unexpired stamp reading “Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment authorized.”

#### **Power of Attorney (POA)**

- Only specific Powers of Attorney are acceptable
- If one borrower on transaction a POA is not be allowed
- At least one borrower, not a POA, must sign the loan docs
- When using a Power of Attorney the borrower must have signed the initial application
- Title Policy must insure over its use
- POA not allowed on Texas Section 50(a)(6) transactions
- POA not allowed on loans vested in Trust

#### **Revocable Trusts**

- Eligibility Requirements
  - At least one individual establishing the trust must be used to qualify for the Loan.
  - The property must be a primary residence or a second home. Investment properties are not eligible.
  - The title insurance policy for the Mortgaged Premises may not list any exceptions arising from the trust ownership of the property.
  - Full title to the property must be vested in Trust (not individual(s) and Trust)
  - Revocable Trusts are allowed on single unit properties only.
- Loans vested in a Trust are not allowed to close using a Power of Attorney
- A complete copy of the trust documents, or in jurisdictions that require a lender to review and rely on an abstract or summary of trust documents instead of the trust agreement, a copy of the abstract or summary
- A copy of any trust documents that the title insurance company required in making its determination on the title insurance coverage.
- Review of Trust Agreement: The Underwriter will examine either the trust agreement, or the abstract or summary of the trust agreement and determine that the living trust addresses each of the following matters:
  - The trustee is authorized to borrow money, or purchase, construct or encumber realty.

- The beneficiary either does not need to grant written consent for the trust to borrow money, or, if such consent is required, it has been granted in writing for purposes of the Mortgage.
- The settler has retained power to revoke or alter the trust.
- There is no unusual risk or impairment of lenders' rights (such as distributions required to be made in specified amounts from other than net income).
- Holding title in the trust does not diminish Reunion's rights as a creditor, including the right to have full title vested to us should foreclosure proceedings have to be initiated to cure a default under the terms of the mortgage.
- Title policy must assure full title protection and must indicate that title to the property is vested in the names of the trustee(s) of the revocable trust. The policy may not list any exceptions to the trustee(s) or trust.
- Each trustee of the trust must execute the Note, Deed and any necessary addendum and/or rider. If the trustee is both a grantor/trustor/settlor of the trust and an applicant (as in most cases) they must sign the required documents similar to the following: (Name of Trustee/Individual), individually and as Trustee of the (Name of Trust) Trust under trust instrument dated (Date of Trust), for the benefit of (Beneficiary of Trust)

### **Separated Borrower**

If borrowers are separated, the file must contain the necessary documentation to determine the division of assets, liabilities, and potential obligations.

- If the borrower is legally separated, a copy of the legal separation agreement is required in order to exclude specific joint obligations that would otherwise be included in the borrowers qualifying ratios.
- If the borrower is not legally separated, additional documentation is not required; the borrower should be considered a married individual. All joint obligations must be included in qualifying ratios and the non-borrower spouse must sign the Security Instrument, if required by state law.

### **Automated Underwriting Systems (AUS)**

Reunion utilizes Fannie Mae's Desktop Underwriter (DU) and Freddie Mac's Loan Prospector (LP) for automated underwriting. The DU and LP systems automatically underwrite loans to the Agencies criteria.

Automated underwriting systems apply objective standards and models to the information supplied in the application and obtained from the borrower's credit report. The agency AUS delivers an underwriting recommendation and accompanying conditions based on its assessment of the borrower's creditworthiness and adherence to program parameters. A loan with a final agency AUS decision of Approve/Eligible or Accept generally meets the investment quality definition if:

- The data used by the agency AUS system to produce the decision was accurate, consistent, and supported with appropriate source documentation
- The overall transaction and supporting documentation has been reviewed to ensure any "red flags" of potential misrepresentation were satisfactorily addressed and resolved

### **Underwriting Responsibilities for AUS loans:**

- Analyze all information provided by the borrowers
- Ensure the information provided is fully supported by documentation
- Accurately calculate ratios such as loan-to-value (LTV), payment-to income (PITI), and debt to-income (DTI)
- Accurately determine income, housing expenses, and total assets/liabilities
- Ensure the appraisal report fully supports the property value
- Accurate data entry
- Apply due diligence when reviewing the documentation in the loan file to determine if

- there is any potentially derogatory or contradictory information that is not part of the data analyzed by the agency AUS system
- Review the borrower's credit history to verify it contains accurate and complete information. Action must be taken when erroneous or missing data in the credit report would provide grounds of a decision that is different from the recommendation that the agency AUS system delivered.
  - The loan must be closed, documented, and packaged in accordance to all requirements of the agency AUS Certificate
  - The terms of the loan must match the terms of the final submission through the agency AUS system. This includes but is not limited to occupancy type, product type, amortization, loan term, property type, loan purpose, sales price and appraised value.
  - Refer to specific Product Guidelines for any additional requirements on documentation or eligibility

### **Third Party Origination Procedure for AUS findings**

DO and LP findings are required to be finalized to Reunion upon submission for underwriting. If the findings are released back to the originator, a condition will be added to the loan indicating findings are released and need to be validated by the Underwriter after they are finalized back to Reunion.

### **Loans Run Through Multiple AUS Systems:**

A loan that is run through multiple agency AUS systems will be assessed a Multiple AUS price adjustment.

### **Resubmission Requirements**

Resubmission of information is always required if the information that was originally submitted to the agency AUS recommendation was not true, not complete, or not accurate. In general, the terms of the closed loan must match the data used by the agency AUS system for the final underwriting recommendation. The loan amount, LTV/CLTV, occupancy type, product type, loan term, property type, loan purpose, sales price, and appraised value reflected on the final agency AUS recommendation should reflect the loan as it will be closed.

NOTE: Final Loan Prospector findings must be dated on or before the date of the Note.

## **Credit / Liabilities**

### **Third Party Origination Procedure for Credit Reports**

Credit Reports provided by a Third Party Originator must be issued (or re-issued) through Reunion Direct and run through the agency AUS system to ensure accurate data. Reunion will pull a single bureau QC Credit Report to validate current and accurate credit information.

The QC Credit Report requirement does not apply to Portfolio Conforming Fixed products.

- **QC Credit Report** – The QC Credit Report will be analyzed by the Underwriter. Reunion will pull a new merged credit report if:
  - There is additional debt that exceeds the 2% tolerance in DTI. However, increases and new accounts must be accurately reflected in AUS and used in the underwriting analysis.
  - FICO variance is greater than 20 points
  - There are late payments appearing on the QC Credit Report that were not on the original credit report
- If a new merged credit report is required, the new credit report will be used for pricing and underwriting.

**NOTE:** Loan Prospector does not allow the Lender to utilize the Third Party Originator's credit report. Reunion will pull a new credit report on all loans run through Loan Prospector at time of submission.

### **Credit Report Requirements**

All credit reports must be Three Repository Merged In-File Credit Report (Tri-merge) or Full Residential Mortgage Credit Report (RMCR) generated by DU or LP and must contain a minimum of the following:

- Age of Credit Report:
  - Maximum of 60 days at closing
  - Reunion will pull updated credit report(s) as needed
- OFAC check for each borrower
- All 3 repositories must be pulled and the credit report must use the following Scoring Models
  - Experian      New Experian Fair Isaac Model (FICO II)
  - Equifax      Beacon 5.0
  - Trans Union      FICO Risk Score, Classic 04
- If not all three scores are available, the credit report must indicate that all three repositories were accessed and that the scores were not available. See specific program guidelines for restrictions on minimum number of scores required.
- All name and address variations per borrower must be reflected
- Safe Scan, Hawk Alert or other to verify the Social Security number per borrower
- All Social Security variations per borrower must be shown
  - All Social Security number variations must be explained in writing from borrower
- The credit reports used may not have Frozen Credit. This applies to all Borrowers on all loans. If a Borrower unfreezes his or her credit after the original credit report was ordered, a new three-file merged credit report must be obtained to reflect current updated information from all repositories.
- Inquiry search covering the last 120 days

### **Three Repository Merged In-File Credit Report (Tri-merge)**

All credit data must be in an easy-to-read format that is understandable without the need for code translations. All information in the report must be obtained from or verified by sources other than the Borrower.

The credit report must contain the following information:

- All information in the report must be obtained or verified by sources other than the Borrower
- The report must identify and contain information gathered from a minimum of two national repositories (Experian, Equifax, and Trans Union) covering each area in which the Borrower has resided during the past two years
- All available public record information, including judgments, foreclosures, tax liens and bankruptcies must be included in the report, as well as the specific source of the information
- The report must indicate the dates the accounts were last updated with the creditor. If the account has a balance, the date last updated must be within 90 days of the report
- For each debt listed, the report must provide the creditor's name, date opened, amount of highest credit, current status, required payment, unpaid balance and payment history. The historical status must be in a "number of times past due" format. The preferred format is "0x30, 0x60, 0x90" days late. Statements such as "current," "as agreed" or "satisfactory" are not acceptable by themselves
- All Inquiries made within the last 120 days must be listed in the report
- When Co-Borrowers have individually obtained credit, separate repository inquiries are necessary

### **Residential Mortgage Credit Report (RMCR)**

All credit data must be in an easy-to-read format that is understandable without the need for code translations.

The credit report must include the following information:

- All information in the report must be obtained or verified by sources other than the Borrower

- The reporting agency must contact at least two national repositories (Experian, Equifax and Trans Union) covering each area in which the Borrower has resided during the past two years
- The credit report must identify the full name, address and telephone number of the consumer-reporting agency
- The credit report must identify who ordered the report and, if different, who was billed for it
- The credit report must show the names of the repositories used and must include a certification confirming the standards prescribed by Fannie Mae, Freddie Mac, VA, and HUD for a “Residential Mortgage Credit Report” have been met
- The reporting agency must provide verification of the Borrower’s current employment and, if possible, income. The report must also describe the Borrower’s previous employment and income if it has changed in the past two years. If any information was not verified by an employer interview, the report must indicate the reason for the lack of verification
- All credit and legal activity that has occurred in the last seven years must be contained in the report
- All available public record information, including judgments, foreclosures, tax liens and bankruptcies must be included in the report as well as the specific source of the information
- The report must indicate the dates the accounts were last updated with the creditor. If the account has a balance, the date last updated must be within 90 days of the report
- For each debt listed, the report must provide the creditor’s name, date opened, amount of highest credit, current status, required payment, unpaid balance and payment history.
- The historical status must be in a “number of times past due” format. The preferred format is “0x30, 0x60, 0x90” days late. Statements such as “current,” “as agreed” or “satisfactory” are not acceptable by themselves
- All Inquiries made within the last 120 days must be listed in the report
- The agency must interview the Borrower when there is incomplete information and/or if the agency discovers information that indicates the possibility of undisclosed credit or public records

#### **Credit Score**

- The Credit Risk Scores used by the three national credit repositories (Equifax, Trans Union, and Experian) produce a value in the range of 300-950. This value represents the relative odds that an extended loan will go bad (defined as 60 days delinquent).
- A minimum 620 credit score is required on all loans unless higher score is required by program guidelines
- To determine the loan file score use lower of 2 or middle of 3 to determine each borrower’s representative score.
- The lowest representative score from all borrowers will be used for qualification and pricing.

#### **Non-Traditional Credit**

Non-traditional credit (including, among other things, no traditional or inadequate traditional credit report information) is not allowed.

#### **Authorized User Accounts**

Payments on “Authorized User” accounts should always be included in the debt-to-income ratio unless written documentation (i.e. 12 months cancelled checks) is provided proving that the owner of the account is making the payments. See specific Product Guidelines for additional requirements.

#### **Business Debt**

A business debt is a financial obligation of a business and can be the sole responsibility of the business or personally secured by the business owner, which makes that person also liable for the debt. If the debt is reflected on the borrower's personal credit report, the borrower is personally liable for the debt and must be included in the debt to income ratios.

Debts paid by the borrower's business do not have to be included in the debt-to-income ratios if the borrower provides 12 months canceled checks drawn against the business account and there is evidence that the loan has been paid on a regular basis for a minimum of 12 months. Business debts may not have any history of delinquency and must be taken into consideration in the cash flow analysis of the business.

### **Consumer Credit Counseling**

When reviewing the credit history of a Borrower who is either participating in or has completed Consumer Credit Counseling the primary objective is to evaluate the Borrower's credit history. If a valid Credit Score is obtained for the Borrower, no further evaluation of the Borrower's credit history is necessary. If a credit score cannot be obtained, the loan is not eligible.

### **Contingent Liability**

Contingent liabilities generally exist when a borrower co-signs another person's loan. As a co-signer, the individual has equal responsibility in repaying the loan should the loan go into default.

- Debts indicating that the borrower is a co-signer on behalf of another party will be counted as a recurring debt if the remaining term is in excess of 10 months.
- The debt should not be included in the debt to income ratio if the documentation in the file clearly substantiates that the other signer is paying the debt on a timely basis. The other party must be making timely payments to cover at least the last 12-month period. If payments are not made on a timely basis, or if they cannot be sufficiently documented, the debt must be included as a recurring liability.

Acceptable documentation includes:

- Copy of Note verifying borrower is not solely obligated and reflecting other party as a joint debtor
- Documentation that the primary debtor has been making the payments for a minimum of 12 consecutive months
  - Cancelled checks
  - Other party's bank statements showing monthly amounts disbursed to creditor
  - Cashier's checks clearly indicating other person as purchaser

### **Court-Ordered Assignments of Debt**

If the borrower is no longer responsible for a payment of a debt as a result of a divorce settlement, but has not been released of the obligation by the creditor, the debt does not need to be included in the debt to income ratio as long as one of the following specifically assigns the payment to another party:

- Applicable page(s) and signature page of the recorded divorce decree, or
  - Property Settlement, or
  - Legal Separation Agreement
- NOTE: Real Property obligations (mortgages) must also be documented with evidence the borrower is no longer an owner of the property (i.e. copy of Deed divesting ownership is required)

At the underwriter's discretion, additional information may be required to verify that the responsible party is paying as obligated. The borrower's payment history on the account prior to the assignment must be considered in the analysis.

### **Credit Inquiry Policy**

- Borrower must provide a detailed explanation letter that specifically addresses both the purpose and outcome of each credit inquiry within the last 120 days.
- If a new account is established as a result of the inquiry, the terms, balance, and monthly payment must be verified with a copy of the approval letter or recent account statement.

- Refer to the specific Product Guidelines for additional requirements on validation credit report inquiries

**Installment Debt**

- Installment debts with monthly payments that extend beyond 10 months, including debts that are in a period of either deferment or forbearance, must be included in the debt-to-income ratio for qualification purposes.
- Lease payments must always be included in DTI regardless of the months remaining

**Loans Secured by Personal Assets**

Payments for loans secured by the borrower's personal financial assets (such as life insurance policies, 401(k) accounts, CDs, stocks, bonds, etc.), do not have to be included in the debt ratio calculations if the loan instrument shows the asset as collateral for the loan. The borrower may not use the same asset to satisfy cash reserve requirements.

**Mortgage Assumptions**

Provided there is a formal executed assumption agreement (with or without release of liability) the debt does not need to be included in the debt-to-income ratio if the following documentation is obtained:

- Proof of transfer of ownership
- A copy of the executed assumption agreement, and
- A 12-month payment history for the property purchaser that assumed the mortgage indicating timely payments has been made (i.e., via credit report).

If the property purchaser's timely payment history cannot be verified, the mortgage payment must be included in the borrower's total debt ratio.

**Property Settlement "Buyouts"**

The borrower's interest in a property that is 'bought-out' by another co-owner of the property (as often happens in a divorce settlement) might not be released by the lender thus creating a contingent liability for the borrower. However, the debt does not need to be included in the debt to income ratios as long as borrower provides documentation to confirm the transfer of the title of the property.

**Revolving Debts**

In the absence of a stated payment, the greater of \$10 or 5% of the outstanding balance or a copy of the Borrower's monthly statement indicating the payment amount must be considered to be the required monthly payment.

**Deferred Loans / Student Loans**

Obligations to repay all loans—including accounts that are deferred—must be included in the debt-to-income ratio unless 10 or fewer payments remain. The borrower must provide payment information from the lender if the monthly payment is not included on the credit report.

**Tax Debt / Tax Liens**

All outstanding debt owed to the State or IRS for income or property tax must be paid current, regardless of whether the debt has become an actual lien. All State, IRS, and property tax liens (subject property and other properties), regardless of seasoning, are required to be paid whether or not they currently affect title. No payment plans or subordination is allowed.

**Verification of Debts**

For each liability, the underwriter must determine the unpaid balance, terms of repayment, borrower's payment history. If a current liability is not reflected on the credit report, it must be verified via separate credit verification. If a current liability appears on the credit report but is not on the application, the borrower should provide a reasonable explanation for the undisclosed debt. Documentation may be required to support the borrower's explanation.

## Ratios / Qualifying

Monthly debt obligations are the primary benchmark used to determine whether the borrower will be able to meet the expenses involved in home ownership. Housing expense is considered one of several components that make up the total debt-to-income ratio benchmark.

- Refer to Product Summary for maximum DTI

### Debt-To-Income Ratio

Monthly DTI (debt-to-income) ratio is the sum of the borrower's primary monthly housing expense plus monthly debts, divided by the gross monthly income.

- Monthly housing expense includes payments for all mortgages, taxes, hazard insurance, mortgage insurance, and Homeowners Dues
  - When flood insurance is required for the loan, the monthly insurance fee must be included in the DTI calculation.
  - If an HO-6 policy (a.k.a. "Walls-in") is required on a condominium, the monthly premium must be included in the DTI calculation and the premium must be escrowed unless the loan meets the requirements to waive escrows.
  - Note: for new construction, the property taxes must be based off of fully assessed taxes for qualifying purposes.
- Payments on revolving debt
- Installment debt extending beyond ten months
- Monthly PITIA for second homes and other investment properties that are non-income producing real estate
- Current real estate taxes hazard insurance premiums and HOA fees (if applicable) for real estate owned that is free of any lien.
- Child support, alimony or separate maintenance payments extending beyond ten months
- Other consistent, recurring expenses
- For each liability, the underwriter must determine the unpaid balance, terms and the borrower's payment history. Generally, residential mortgage credit reports provide this information.

## Income

A minimum of two years employment history and continuance of income for three years is required. Income used to qualify a Borrower must come from a stable source.

Both the length of the Borrower's employment with any one employer and the stable and reliable flow of income are considered. If the Borrower provides documentation of a consistent level and type of income and the ability to pay his/her obligations despite changes in the source of that income, it can be presumed that the Borrower's income level is stable.

A level or upward trend in earnings must be established. Any decreases or significant increases could affect the stability of the Borrower's income and would require a satisfactory explanation. If a satisfactory explanation cannot be provided, the income will be considered questionable and should not be used to qualify the Borrower.

Known economic conditions, such as plant closings, furloughs, company bankruptcies, etc. that may affect the borrower's income, must be taken into consideration.

Borrowers in a state with an active furlough policy 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.

Borrowers who change jobs for advancement and maintain a stable earning capacity and good credit history, as well as Borrowers with demonstrated job stability, will be eligible, and education or training to enhance job opportunities and income will receive favorable consideration. If a Borrower does not meet the employment history requirement for the two full years prior to the date of application, and was previously in school or the military, copies of Borrower diploma/transcripts or discharge papers are required.

### **Gap in Employment**

Any gaps in employment over one month in the past two years must be satisfactorily explained by the borrowers. The written explanation, including the reasons for the gaps, must be included in the loan file. A thorough review of a borrower's employment history is required when full income documentation is not provided. Multiple job gaps or frequent changes in employment in the past 24 months should be carefully reviewed by the underwriter to determine if the borrower's employment is stable and likely to continue.

Borrowers who are re-entering the workforce may have stable qualifying income if the Borrower has been at their current employer for a minimum of six months and there is evidence of a two year previous employment history.

### **Borrowers Working Remotely**

If the borrower does not commute to a local employment office, as in the case of a borrower working from home or in the field, verification from the employer confirming the borrower is not required to report to an employment location is required.

### **Income Calculation**

The actual calculation used to determine all qualifying income must be documented in every loan file in the rationale section of the Underwriting Transmittal Summary (1008) or on a separate calculation sheet, but not on the actual documentation (e.g. pay stub or W-2).

#### **Self-Employed Income**

- A Cash Flow Analysis detailing the calculations used to determine the income must be completed on every transaction
- If either the borrower or co-borrower is self-employed, in addition to the required wage earning income documentation, one year complete personal tax returns must be provided even if the income is not being used to qualify. The tax return must be reviewed to determine if there is a business loss that may have an impact on the stable monthly income being used to qualify. Additional documentation may be needed to fully evaluate the impact of the business loss on the borrower's ability to repay.
  - This also applies to a non-purchasing spouse's business on FHA loans in Community Property States

### **Income Verification / 4506T**

Reunion verifies all income by processing 4506T validating tax returns for each borrower. All information obtained in the Tax Transcripts must be analyzed in the underwriting and included in the DTI. This includes employee business expenses and other income/losses reflected on all schedules.

- Separate Forms 4506-T must be signed for all borrowers both at application and at closing on all loans
- The top portion of the Form 4506-T must be completed exactly as the borrowers filed their tax returns and must request transcripts of their most recent two years tax returns
- A minimum of one year tax return must be verified by tax transcripts obtained from the IRS
- Current year tax transcripts must be obtained on loans funded after the tax filing deadline (typically April 15<sup>th</sup>). If results do not come back for current year the following documentation is required:
  - Copy of current year tax return or copy of filed extension
  - Proof any penalty is paid

- Previous year tax return must be validated with tax transcripts
- If current year results are still not available after June 15<sup>th</sup>, evidence extension was filed and proof of tax payment is required
- If the income documentation provided by the borrower is  $\geq 10\%$  higher than the IRS transcript the file must contain supporting documentation as follows:
  - **Wager Earner or Other Income:** Underwriter should perform an in-depth review to determine if the increase in income seems reasonable and if additional steps need to be taken. At a minimum, a letter from the borrower explaining the difference must be obtained and retained in the loan file. Additional documentation to support the explanation or increase should also be requested if deemed necessary by the underwriter.
  - **Self-employed borrowers or borrowers who receive 1099 or commission income greater than 25% of their total earnings:** Underwriter should use the income from the IRS transcripts for qualifying. Information reported on the tax transcripts should match information reported on the tax returns provided by the borrower.
- See Tax Transcript Policy in [Broker Resources](#) section of Reunion website for more information

### **Unacceptable Sources of Income**

Income derived from any of the following may not be used in calculating qualifying income.

- Income based on future earnings including trailing spouse income
- Draw Income
- Capital withdrawals
- VA Education Benefits
- Income from Mortgage Credit Certificates
- Illegal Income
- Taxable income not listed on Tax Returns
- Any income that cannot be documented and verified
- Passive income from Partnerships and S Corporations
- Income that is not stable
- Stipends or Grants
- Section 8 Home Ownership Vouchers

## **Assets**

### **Sourcing and Seasoning of Down Payment**

Assets used for down payment must be documented to show that they are from borrower's own funds.

- The loan application should provide an accurate reflection of the funds required from the borrower to close the transaction. The application must clearly state the source of the funds for down payment and closing costs, and cannot state other or any vague description. This applies to all loan applications.
- The funds required to close are the difference between the funds needed to complete the transaction and the mortgage amount.
- When a borrower will be paying off debts, adequate funds should be documented to complete the debt payoff, in addition to the funds required to close the transaction and any required cash reserves.
- Premium pricing may be allowed and can be used to cover certain closing costs and prepaid items depending on the loan purpose. It is not considered a concession; therefore, it is not included in the amount subject to contribution limitations.
- If LTV is 80.01% or greater, closing costs and prepaids must be borrower's own funds unless otherwise stated in the product or program. Seller contributions and sales concessions cannot be used for down payment.

- For primary residences or second homes, the borrower must use his or her own personal assets for the minimum cash down payment of 5% on loans greater than 80% LTV or CLTV.
- For primary residences or second homes, the entire down payment may be from a gift when the LTV/CLTV is 80% or less.
- For applications with occupant and non-occupant co-borrowers when the LTV is greater than 80%, the minimum required contribution must come from the occupant borrower.
- Asset documentation (e.g. bank or investment statements) must be no more than 45 days old at the time of application AND no more than 90 days old at closing

### **Bank Statements**

- Bank statements must be dated within 45 days of application. Quarterly bank statements dated greater than 45 days and less than 90 days are acceptable with verification that the funds are still available.
- Bank statements must clearly identify:
  - Name and address of the depository or investment institution
  - Name of account holders
  - Account number
  - Time period covered by the statement
  - All deposits and withdrawal transactions for depository account or all purchase and sale transactions for a financial portfolio account
  - Ending account balance
- If a supplemental statement is necessary, any bank-generated form (such as deposit or withdrawal slips) that shows a machine-printed account number, balance and date is acceptable. Supplemental information must be on a bank form indicating the name of the bank or on bank letterhead signed by a bank representative.
- Bank statements retrieved online (such as a read-only PDF) are acceptable to document the borrower's assets. Statements downloaded directly from the Internet to a Word document or Excel spreadsheet, as well as printing directly from the website, is not acceptable.

### **Verification of Deposit**

- The VOD must provide the name and address of the depository or investment institution as well as the following for each account listed:
  - Name of account holders
  - Account number
  - Type of account
  - The open date
  - The account balance as of the date of the VOD
  - The average balance for the previous 2 months
- In cases where average balances are not available, a VOD is not an acceptable form of asset verification. If there is a recently opened account with a substantial balance (or where discrepancies between the average and current balances exist), the source of funds must be explained by the Borrower and verified.
- The VOD must be mailed directly to the depository. VODs should never be mailed to a Post Office Box or to a particular person's attention. If the Borrower indicates this is necessary, the file must contain verification that the originator or Client independently contacted the depository and verified this requirement. The return address on the verification must be the originator or Client's address. The hand carrying of verifications is strictly prohibited.

### **Review of Bank Account Documentation**

- Any indications of borrowed funds must be investigated. Indications of borrowed funds include:
  - A recently opened account
  - A recently received large deposit

- An account balance that is considerably greater than the average balance over the previous few months
- When there is a recently opened account or a large increase in an existing account, the source of funds must be explained by the Borrower and verified. Unverified funds are not acceptable sources for the down payment, closing costs and/or reserves.

### **Business Funds**

If business funds are used for down payment and/or closing costs, the Borrower must be the sole proprietor or 100% owner of the business or provide verification from the other owners that the Borrower has access to the funds. The accountant must comment on what impact the withdrawal of the funds will have on the business. If the accountant states that there will be a negative impact, the use of the funds will not be permitted. The accountant may not be related to the borrower or be an interested party to the transaction.

Business funds from a business other than a sole proprietor (Schedule C) are not an eligible source of funds for cash reserves.

### **Earnest Money Deposits**

- Earnest Money Deposits must be verified and documented by one of the following:
  - Copy of the cancelled check
  - Copy of the deposit check and proof the check was cashed
    - The source of the deposit check must be documented to ensure that the deposit is not counted twice in the file (deducted from the funds to close and counted in assets).
    - Verification that there are sufficient funds on deposit to cover earnest money deposit and any other required funds to close
- If the assets verified are insufficient, further documentation will be required.
- If the borrower wishes to be reimbursed of any portion of the earnest money deposit at closing, the earnest money deposit must be verified in a manner other than the statement on the HUD-1.
- **Note:** Large earnest money deposits that exceed the customary amount must be closely evaluated.

### **Loans Secured by Other Assets**

- Borrowed funds secured by an asset owned by the Borrower are an acceptable source of funds for down payment and closing costs
- Examples that may be used to secure funds include certificates of deposit, savings plans, stocks, bonds, other real estate owned by the Borrower and life insurance policies
- The following documentation is required:
  - The terms of the loan
  - Verification that the party providing the secured loan is not a party to the sale or financing of the property (other than a financial institution)
  - Confirmation that the funds have been transferred to the Borrower
  - Value of the Asset (e.g. copy of the appraisal, copy of Blue Book value)
  - Evidence that the loan is secured by an asset owned by the Borrower
    - A copy of the loan document showing the asset as collateral must be provided.
- Payment must be included in the DTI
- Monthly payments for loans that are secured by the following financial assets need not be included in the calculation of debt ratios:
  - 401(k) accounts
  - Savings accounts
  - Certificates of Deposit
  - Life Insurance policies

### **Sale of Real Estate**

The net proceeds that will be generated from the sale of an existing property must be established. An executed/signed closing statement (HUD-1) verifying required net proceeds must be provided.

- Be computer-generated or typed
- Identify the Borrower as the seller of the property
- Identify the property sold
- Show the proceeds to the property seller
- Show the disposition of all liens against the property
- Be signed by the seller and the escrow officer/settlement agent
- Be Certified True and Correct copy

### **Foreign Assets**

- Foreign assets being used for down payment, closing costs and reserves must be held in a US account prior to closing. If the assets are derived from a sale of a foreign asset or from assets held in a foreign bank account, the assets must be converted into United States currency and placed in a United States banking institution. The sale of the foreign asset and conversion of foreign currency must be fully documented and verified.

### **Unacceptable Sources of Assets**

Sources of funds considered ineligible for asset evaluation include the following:

- Corporate funds (business funds or accounts)
- Donated funds in any form, such as cash or bonds donated by the seller, builder or selling agent outside of approved financing contributions
- Proceeds of a personal or unsecured loan
- A cash advance on a revolving charge account or unsecured line of credit
- A gift that must be repaid in full or in part
- Labor performed by the Borrower, also referred to as “sweat equity”
- Materials furnished by the Borrower that are not part of a pre-closing agreement with a builder
- Salary advances
- Cash for which the source cannot be verified (e.g., garage sales, cash on hand)
- Funds in a Custodial or “In Trust For” Account
- Depletion of assets
- Commission from sale of subject property
- Reverse mortgage
- Pension fund

## **Property/Appraisal**

### **Ineligible Property**

- Condotels
- Cooperatives
- Leasehold Estates
- Non-warrantable condos
- Model-home lease-backs
- Manufactured Homes
- Properties representing an illegal use under zoning
- Properties subject to hazards, noxious odors, etc.
- Property located on an Indian Reservation
- Properties currently listed for sale on any refinance transaction
- Buildings with a non-conforming use where zoning prohibits rebuild in the event of total or partial destruction
- Properties with any kind of Deed Restrictions
  - Deed Restrictions for age of residents is acceptable as long as age is the only restriction
- Property with health, safety, and/or livability issues (e.g., non-functioning bathrooms or kitchens, no utilities, mud slide areas, etc.)
- Properties in less than average condition

- Properties that are agricultural in nature (i.e., farms, orchards, ranches, or properties with significant outbuildings or facilities for farm animals, etc.)
- Residential Care homes
- Multi-dwelling condominium or PUD

#### **Property Condition**

- Property must be habitable and all appliances, plumbing, electrical, etc. must be functional and in good working condition
- The kitchen must be functional, meaning that there must be kitchen cabinets, a working sink, and all built-in appliances must be installed. This applies to **all** real estate transfers including FHA loans
- All utilities must be turned on and in good working order at time of inspection
- All bathrooms must be complete and functional
- Properties with a condition rating of C1, C2, C3, or C4 are acceptable in "as is" condition. Properties with a condition rating of C5 or C6 in "as is" condition or "subject to repairs" are not acceptable.

#### **Increase in Value / Flipping**

##### **Purchase Mortgages for Properties Recently Transferred**

- If the sales price of the property is more than the seller's Purchase Price, the appraisal must include an acceptable explanation and documentation to support the difference, including a description of any improvements that were made
- If the increase in value is due to remodeling or renovation of the property, the appraiser must provide acceptable photos of all improvements to support the increase in value
- Refer to specific Product Guidelines for any additional restrictions

#### **Appraisal**

All appraisals must be performed in strict accordance with and comply with all applicable local, state and federal laws, regulations and orders, and must conform to the current Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation. Property values of \$1,000,000 or greater must be appraised by a Certified Residential Appraiser. All appraisals submitted must include the appraiser's name (clearly stated and typed) and signature. The appraiser must provide their typed certification number. Reunion has the right to refuse any appraisal or appraiser.

- **Appraisal Independence**

Appraisal Independence Requirements enhance the overall appraisal process to provide a greater level of integrity to the appraisal ordering process and appraiser contact. (HVCC was replaced with Appraisal Independence.)

  - Conventional and FHA appraisals must be ordered through Reunion's Appraisal Management Company (AMC). Refer to Jumbo Product Summary for instructions on ordering Jumbo Appraisals and VA Product Summary for VA appraisal requirements
    - This includes appraisals for borrower's current residence that is being converted to rental property or second home.
    - Refer to specific Product Guidelines for eligibility on Transferred Appraisals (appraisals completed for a different lender)
- **Age of Appraisal Reports**
  - Appraisals are valid for a maximum of 120 days. An entire new appraisal must be provided if the report is more than 120 days old as of the date of the Note.
  - 90 days from the date of the appraisal an update of value on form 1004D/442 is required. If the value has declined, an exterior only appraisal on form 2055 is required instead.
- **Comparable Selection**
  - Appraisals must include at least two comparable sales that closed within 90 days prior to the effective date of the appraisal. In some markets compliance with this requirement may be difficult or not possible due to the lack of market data and, in these cases, a detailed explanation is required. The appraiser is expected to include

at least two sales that are as similar as possible to the subject and which settled within 90 days of the effective date of the appraisal in order to show recent market activity.

- At least two current listings or pending sales must be included on the appraisal grid in comparable 4-6 position or higher (in addition to the three closed sales). The appraiser must:
  - Insure that active listings and pending sales are market tested and have reasonable market exposure to avoid the use of over priced properties as comparables. Reasonable market exposure is reflected by typical marketing times for the neighborhood. The comparable listings should be truly comparable and the appraiser should bracket the listings using both dwelling size and sales price whenever possible.
  - Adjust active listings to reflect list to sale price ratios for the market.
  - Adjust pending sales to reflect the contract purchase price whenever possible or adjust pending sales to reflect list to sale price ratios.
  - Include the original list price, any revised list prices, and total days on the market (DOM). Provide an explanation for DOM that do not approximate time frames reported in the Neighborhood section of the appraisal reporting form or that do not coincide with the DOM noted in the Market Conditions Addendum.
- At least two comparable sales from outside the subject subdivision if the subject is a Condominium
- At least two comparable sales from outside the subject subdivision (and not affiliated with the seller/builder of subject property) if the subject is New Construction; can be post-developer re-sales, or units offered by a competing builder. Consideration of occupancy trends in the development regarding investors who may have purchased one or multiple units in new subdivisions for future re-sale must be narrated
- Data regarding market trends is available from a number of local and nationwide sources. Appraisers must be diligent in using only impartial sources of data.
  - The appraiser must verify data via local parties to the transaction: agents, buyers, sellers, lenders, etc. (if the sale cannot be verified by a party then public records or other impartial data source that can be replicated may be used). A Multiple Listing Service (MLS) by itself is not considered a verification source.
  - Unacceptable data sources include local and national media and other sources considered not readily verifiable. Appraisal results should be able to be replicated.
  - Known or reported incentives or sales concessions must be noted in the financing section of the grid for any active or pending comparable used.
- When a property is located in an area in which there is a shortage of truly comparable sales—either because of the nature of the property improvements or the relatively low number of sales transactions in the neighborhood—the appraiser may need to use as comparable sales properties that are not truly comparable to the subject property or properties that are located in competing neighborhoods.
  - If the appraiser utilizes comparable sales outside of the subject's neighborhood when closer comparable sales appear to be available, the appraiser is required to provide an explanation as to why he or she used the specific comparable sales in the appraisal report. This will add transparency to the appraiser's selection of comparable sales and may assist the lender in underwriting the appraisal.
- **Comparables in Rural Areas**
  - Recent comps and listings or pending sales are required to establish marketability
  - The use of older comps is allowed to support the subject property's unique features
  - Distance and larger adjustments allowed due to issues involved in supporting rural property values
- **Sources of Comparable Market Data**
  - Data and/or verification source(s) for each comparable sale must be reported on the appraisal report form. Single or multiple sources for data and verifications are

acceptable provided the appraiser adequately verifies the comparable sales. Examples of data sources include, but are not limited to, a multiple listing service, deed records, tax records, realtors, builders, appraisers, appraiser's files, and the Internet. The appraiser must state the specific data source and refrain from using broad categories, such as "public records." Data source(s) must be reliable sources for the area where the subject property is located.

- Information used to verify the data is obtained from a "verification source." Verification sources include, but are not limited to, the buyer, seller, listing agent, selling agent, and closing documents in certain situations. Regardless of the source(s) used, there must be sufficient data to understand the conditions of sale, existence of financing concessions, physical characteristics of the subject property, and whether it was an arms-length transaction.
- When comparable sales data is provided by parties that have a financial interest in either the sale or financing of the subject property, the appraiser must verify the data with a party that does not have a financial interest in the subject transaction.
- **Review Appraisals**
  - All loans require a Reunion review of the appraisal. This may result in the requirement of a satisfactory desk or field review.
  - If DU returns the "excessive value" Red Flag message a review appraisal may be required. The underwriter must review the appraisal and property carefully. The underwriter must comment on the "excessive value" message on the 1008 and explain how and/or why they determined the value is acceptable as submitted.
  - Reunion reserves the right to perform reviews on appraisals received, including all government loans, and to require additional information or value confirmation where we deem it necessary. Reunion reserves the right to refuse appraisals from any individual appraiser with or without cause.
  - Loan amounts greater than \$850,000 require two appraisal reports from two different companies. The lower value will be used for calculating LTV/CLTV
- **Appraiser Trainees**

Appraisals performed by Trainees must include:

  - An interior and exterior inspection of the subject property by a state-certified appraiser and;
  - An exterior inspection of the comparable sales by a state-certified appraiser who signs the appraisal as the "Supervisory Appraiser".
  - Properties in declining markets can not be appraised by trainee
- **Marketability / Predominant Value**

Subject must be in a strong market of similarly priced homes. Relationship between final value and predominant value should be reasonable. Properties with values significantly in excess of the predominant value of the subject's market area may be ineligible. Typically, the subject value should not exceed 150% of the market area's predominant value.
- **Unacceptable Appraisal Practices**
  - The appraiser is expected to follow appropriate practices in the property valuation process. The development of a valuation conclusion that is based—either partially or completely—on any of the following is strictly prohibited: Race, color, religion, sex, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property; consideration of age or location of the property or age of the neighborhood in a manner that has a discriminatory effect; or that is based on any other factor that local, state or federal law deems as being discriminatory.
  - In addition to the above, appraisals with any of the following deficiencies are not acceptable:
    - Unsupported opinion of market value;
    - Improper selection of comparable sales;
    - Unsupported adjustments in the sales valuation approach;
    - Inadequate analysis of, and reporting on, the sales history of the subject property

- and comparable sales;
  - Lack of analysis, and reporting on, the listing, offering, or contract sale for the subject property; and
  - Misrepresentation of the physical characteristics of the subject property, improvements, or comparable sales
  - Appraising only a portion of a lot. For example, the appraiser may not appraise only 5 acres on an un-subdivided 40-acre parcel. The appraised value must reflect the entire 40-acre parcel.
- **Purchase Money Transactions**

The realtor, third-party originator or lender is required to provide a copy of the contract to the appraiser as part of the order on purchase transactions. If the sales contract is amended during the process, the lender must provide the updated contract to the appraiser.

**Note:** The appraiser must acknowledge that they have reviewed the contract and all addendums by marking the appropriate box on the appraisal report. Reports will not be accepted when the appraiser has not made this acknowledgement.
  - **Uniform Residential Appraisal Report (Form 1004/70)**
    - Used for 1-unit properties (including those that have an incidental second unit or accessory apartment), units in planned unit developments, and condominium projects that consist solely of detached dwellings (site condominium)
    - The appraiser must, at a minimum: (1) perform a visual inspection of the interior and exterior areas of the subject property; (2) inspect the neighborhood; (3) inspect each of the comparable sales from at least the street; (4) research, verify, and analyze data from reliable public and/or private sources; and (5) report their analysis, opinions, and conclusions.
    - Form 1004/70, Uniform Residential Appraisal Report must include the following:
      - An exterior sketch of the building improvements that indicates the dimensions. For condominium units, the appraiser must provide a sketch showing the interior unit perimeter dimensions.
      - A location map showing the subject property in relation to all of the comparable properties.
      - Photos of the front, rear, and street scene of the subject property. If the property is proposed construction, lot and street scene photos are required.
      - Photos of the front of all comparable properties, with the street address listed on the photo. If additional comparable properties are used (more than the required 3), photos must be included.
      - Certificate of completion, if applicable.
  - **Exterior-Only Inspection Residential Appraisal Report Form (Form 2055)**
    - The appraiser must, at a minimum: (1) perform a visual inspection of the exterior areas of the subject property from at least the street; (2) inspect the neighborhood; (3) inspect each of the comparable sales from at least the street; (4) research, verify, and analyze data from reliable public and/or private sources; and (5) report their analysis, opinions, and conclusions.
    - The following Exhibits are required with this appraisal:
      - A street map that shows the location of the subject property and of all comparables that the appraiser used
      - Clear, descriptive photos that show the front of the subject property, and that are appropriately identified.
      - Any other data necessary to provide an adequately supported opinion of market value
    - The appraiser must be able to obtain adequate information about the physical characteristics (including, but not limited to, condition, room count, gross living area, etc.) of the subject property from the exterior-only inspection and reliable public and/or private sources to perform this appraisal.
  - **Individual Condominium Unit Appraisal Report (Form 1073/465)**

- Used to report an appraisal of a unit in a condominium project or a condominium unit in a PUD based on an interior and exterior inspection of the subject property. The appraiser must, at a minimum: (1) perform a visual inspection of the interior and exterior areas of the subject property; (2) inspect and analyze the condominium project; (3) inspect the neighborhood; (4) inspect each of the comparable sales from at least the street; (5) research, verify, and analyze data from reliable public and/or private sources; and (6) report their analysis, opinions, and conclusions.
- The following Exhibits are required with this appraisal:
  - A street map that shows the location of the subject property and of all comparables that the appraiser used;
  - A sketch of the subject unit indicating interior perimeter unit dimensions rather than exterior building dimensions. Generally, the appraiser must also include calculations to show how they arrived at the estimate for gross living area; however, for a unit in a condominium project, they may rely on the dimensions and estimate for gross living area that is shown on the plan. If they include a copy of the plat with the appraisal report a sketch of the unit is not required. A floor plan sketch that indicates the dimensions is required instead of the exterior building if the floor plan is atypical or functionally obsolete, thus limiting the market appeal for the property in comparison to competitive properties in the neighborhood.
  - Clear, descriptive photos that show the front of the subject property and a street scene of the subject property, and that are appropriately identified. Interior photos as indicated in Photographs section.
  - Clear, descriptive photos that show the front of each comparable sale and that are appropriately identified.
  - Any other data necessary to provide an adequately supported opinion of market value.
- **Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Form 1075/466)**
  - Used for individual condominium units when determined by the agency AUS certificate.
  - The appraiser must, at a minimum: (1) perform a visual inspection of the exterior areas of the subject property from at least the street; (2) inspect the neighborhood; (3) inspect each of the comparable sales from at least the street; (4) research, verify, and analyze data from reliable public and/or private sources; and (5) report their analysis, opinions, and conclusions.
  - The following Exhibits are required with this appraisal:
    - A street map that shows the location of the subject property and of all comparables that the appraiser used
    - Clear, descriptive photos that show the front of the subject property, and that are appropriately identified.
    - Any other data necessary to provide an adequately supported opinion of market value
  - The appraiser must be able to obtain adequate information about the physical characteristics (including, but not limited to, condition, room count, gross living area, etc.) of the subject property from the exterior-only inspection and reliable public and/or private sources to perform this appraisal.
- **Small Residential Income Property Appraisal Report (Form 1025/72)**
  - Used with all two-to-four unit properties, including two-to-four unit properties located in a PUD project. (A two-to-four property located in either a condominium or cooperative project requires the appraiser to inspect the project and complete the project information section of the Individual Condominium Unit Appraisal Report or the Individual Cooperative Interest Appraisal Report and attach it as an addendum to this report.)
  - The appraiser must, at a minimum: (1) perform a visual inspection of the interior and exterior areas of the subject property; (2) inspect the neighborhood; (3) inspect each

of the comparable sales from at least the street; (4) research, verify, and analyze data from reliable public and/or private sources; and (5) report their analysis, opinions, and conclusions.

- The following Exhibits are required with this appraisal:
  - A street map that shows the location of the subject property and of all comparables that the appraiser used;
  - An exterior building sketch of the improvements with dimensions. The appraiser must also include calculations to show how they arrived at the estimate for gross building area. A floor plan sketch that indicates the dimensions is required instead of the exterior building if the floor plan is atypical or functionally obsolete, thus limiting the market appeal for the property in comparison to competitive properties in the neighborhood.
  - An Operating Income Statement (Form 216) or similar cash flow and operating income statement, if the property is an investment property (including a two-to-four-family property in which the applicant will occupy one of the units as a principal residence).
  - Clear, descriptive photos that show the front of the subject property and a street scene of the subject property, and that are appropriately identified. Interior photos as indicated in Photographs section.
  - Clear, descriptive photos that show the front of each comparable sale and that are appropriately identified.
  - Any other data necessary to provide an adequately supported opinion of market value.
- **DU Property Inspection Report (2075)/LP Condition and Marketability Report (2070)**
  - Used to report the condition and marketability of 1-unit properties. This form does not provide an estimate of value. May be completed with interior or exterior-only inspections. Reunion allows this appraisal form only if indicated on the agency AUS certificate.
  - The appraiser must, at a minimum: (1) perform a visual inspection of the exterior areas of the subject property from at least the street; (2) inspect the neighborhood; (3) inspect each of the comparable sales from at least the street; (4) research, verify, and analyze data from reliable public and/or private sources; and (5) report their analysis, opinions, and conclusions.
  - The following Exhibits are required with this appraisal:
    - A street map that shows the location of the subject property and of all comparables that the appraiser used
    - Clear, descriptive photos that show the front of the subject property, and that are appropriately identified.
  - The appraiser must be able to obtain adequate information about the physical characteristics (including, but not limited to, condition, room count, gross living area, etc.) of the subject property from the exterior-only inspection and reliable public and/or private sources to perform this appraisal.
  - When Desktop Underwriter or Loan Prospector recommends a Property Inspection Report, an interior and exterior inspection is required when:
    - The subject property's County has been declared a federal disaster area within 120 days of application
    - The appraiser cannot adequately view the property from the street
    - The property does not conform to the neighborhood
    - Apparent adverse physical deficiencies or environmental conditions are observed
    - The appraiser needs additional information about the physical conditions of the property
    - Purchase transactions when the transaction is the result of the sale of an REO property
    - The last transaction on the property being purchased was a foreclosure
  - When Loan Prospector recommends a Condition and Marketability Report, an interior and exterior inspection is required when:

- The subject property's County has been declared a federal disaster area within 120 days of application
- The appraiser is unable to adequately view the subject property from the street
- The appraiser observes any factor that may have an adverse effect on the marketability of the subject property
- The quality or condition of the property appears unacceptable to the typical purchaser in the area in which the subject property is located
- The Condition and Marketability Factors section indicates an upgrade is required
- **Market Conditions Addendum (Form 1004MC/71)**
  - This addendum provides the appraiser with a structured format to report market data, help further clarify conclusions made the appraiser, and supplies the lender with a clear and accurate understanding of the market trends and conditions prevalent in the neighborhood. Appraisers must analyze and note the following:
  - Inventory Analysis Section –the appraiser must analyze and report important supply and demand factors in order to reach a conclusion regarding housing trends and market conditions. In order to analyze the sales activity and the local housing supply, the appraiser must include the following:
    - Comparable data reflecting the total pool of comparable properties from which a buyer may select a property. The months of housing supply is based on the total listings for the applicable period divided by the absorption rate.
    - The absorption rate at which properties for sale have been or can be sold (marketed) within a given area. To determine the absorption rate, the appraiser divides the total number of settled sales by the time frame being analyzed.
    - Median Sale and List Price, Days on the market (DOM), List/Sale Ratio – the appraiser must analyze additional trends including the changes in the median prices and DOM for both sales and listings as well as a the change in the list-to-sales price ratios.
    - Overall Trend – the appraiser must report potential positive trends, neutral trends, or negative trends in inventory, median sale and list price, DOM, list-to-sale price ratio, and seller concessions.
    - Seller Concessions – the appraiser must comment on the prevalence of seller concessions and the trend in seller concessions for the past 12 months. The change in seller concessions within the market provides the client with additional insight into current market conditions. The appraiser should consider and report on seller-paid (or third party) costs.
    - Foreclosure Sales and Summary Analysis of Data – the appraiser must comment on the presence and extent of foreclosure/REO sales, summarizing the data, and provide other data analysis or additional information, such as analysis of pending sales, which over time can show a market trend.
    - Note: It is recognized that all of the requested data elements for analysis are not equally available in all markets. If this is the case, the appraiser must explain the attempt to obtain such information. Data may also be available in certain markets only as average and median. Such differences must be noted by the appraiser.
- **Single-Family Comparable Rent Schedule (Form 1007/1000)**
  - The form, which is prepared by the appraiser as an attachment to the appraisal for a single-family investment property, is designed to present the information needed to determine the market rent for a single-unit investment property.
- **Operating Income Statement (Form 216/998)**
  - This form is used to determine the amount of operating income that can be used in evaluating the borrower's credit.
  - This form is prepared either by the loan applicant or the appraiser. If the applicant prepares the form, the appraiser must also include his or her comments about the reasonableness of the projected operating income of the property. The lender should retain the original of the completed form and the appraiser should retain the copy. The lender's underwriter uses the second page of the form to calculate monthly

operating income and net cash flow for the property, and to explain any adjustments he or she made to the applicant's figures.

- **Appraisal Update/Completion Report (Form 1004D/442)**
  - If the appraiser indicates that the property has declined in value, a new appraisal is required. If the appraiser indicates that the property has not declined in value, the appraiser should provide a certification to that effect on a 1004D report form. Certification should be based on an exterior inspection of the property and knowledge of current market conditions.
  - Generally, the original appraiser should be the one to complete the Appraisal Update/Completion Report. However, a substitute appraiser may be used provided they review the original appraisal and certifies that the original appraiser's estimate of market value was reasonable on the date of the original appraisal report and is still supported on the date of their review. The file should indicate why the original appraiser was not used.
  - This report is used to update a prior appraisal and/or to report certification of completion, provided the property has not declined in value since the date of the original appraisal report. (This document consolidates the appraisal forms previously used for recertification of value and final inspection respectively.)
  - The appraiser must, at a minimum: (1) concur with the original appraisal; (2) perform an exterior inspection of the subject property; (3) research, verify, and analyze current market data in order to determine if the property has declined in value since the effective date of the original appraisal.
  - The following Exhibits are required with this appraisal:
    - For new or proposed construction, clear, descriptive photos of the completed improvements;
    - Any other data necessary to provide an adequately supported opinion of market value.
- **Additional Appraisal Requirements**

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

  - Include a Statement of Limiting Conditions and Appraiser's Certification (FNMA 1004B, revised 06/93) signed and dated by the appraiser with no alterations.
  - Meet the standards set by the Uniform Standards of Professional Appraisal Practice (USPAP) as adopted by the Appraisal Foundation. The 2003 edition of the USPAP (effective 1/1/03) requires the appraiser to provide a three-year sales history on all residential properties appraised. If there is not sufficient room on page two of the appraisal report, the sales history must be provided on an addendum to the appraisal.
  - Disclose any applicable information regarding the competency provision of the USPAP.
  - Certify that the analysis is limited only 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 covering the past 3 years on all appraised residential properties and 12 months for comparables.
  - Analyze any current agreement of sale, option, or listing.
  - Provide data on current revenues, expenses and vacancies for income producing property.
  - 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.
- An appraiser certification should be included stating the appraiser has no present or prospective interest in the property, that they have personally inspected the property, and the appraisal was prepared in accordance with USPAP.
- Any addendum included with the appraisal must be signed and dated by the appraiser, and include the property address.
- Appraisals made subject to repairs require a final inspection (FNMA 1004D). Homes subject to completion require a final inspection and complete photos, front and rear. The original appraiser must do the final inspection. If, for any reason, the original appraiser is unable to complete the inspection, another appraiser from that firm can complete the inspection provided they state that they agree with the original value.
- The appraisal form and all attachments requiring the appraiser's signature must be a signed original.
- **Photographs**
  - Clear, color photographs appropriately identified that show the front, back, and street scene of the subject property and a front view of each comparable sale. Appraisal Form 2055 requires front view of subject property only
  - Appraisals with interior inspections require interior photographs, which must, at a minimum, include:
    - The kitchen
    - All bathrooms
    - The main living area
    - Examples of physical deterioration, if present
    - Examples of recent updates, such as restoration, remodeling, and renovation, if present
  - Black and white photos are acceptable provided that the appraiser notes in the report any information that is not apparent in the photos that may adversely affect the market value of the property.
  - Photographs must be originals, produced by photography or electronic imaging.
  - The appraiser is required to take and submit his own photos of the subject and comparable sales at the time of inspection. MLS photos may be used as supplemental information only.
- **DU Property Inspection Waiver (PIW) / LP Property Inspection Alternative (PIA)**
  - The **final** DU or LP certificate must indicate that the loan is eligible for a Property Inspection Waiver or Property Inspection Alternative
    - A property Inspection Waiver (PIW) is a DU recommendation that results in the waiver of both the property inspection and appraisal report for low risk loan transactions.
    - A property Inspection Alternative (PIA) is a LP recommendation that results in the waiver of both the property inspection and appraisal report for low risk loan transactions.
  - The stated value of the subject property provided at time of application and submitted to the AUS resulting in the determined value of the subject property. The value may not arbitrarily be increased and submitted to the AUS. The PIW/PIA may not be used if an appraisal or inspection has been performed.
  - An appraisal with interior and exterior inspection is required when:
    - The subject property does not conform to the neighborhood
    - There are apparent adverse physical deficiencies or environmental conditions
    - The subject property's County has been declared a federal disaster area within 120 days of application
    - New or proposed construction
    - Home inspection report or other information in the file indicates the presence of adverse condition and/or marketability factors

- Purchase transactions when the transaction is the result of the sale of an REO property
- The last transaction on the property being purchased was a foreclosure
- The Property Inspection Waiver (PIW) is valid for 120 days. If the PIW will be more than 120 days old, the loan must re-qualify for the waiver or exemption.
- Non-owner occupied transactions, and owner-occupied 2-4 unit properties must be accompanied by the Rental Income & Bedroom Count Form available (or acceptable sources listed on the form) to capture rental income and bedroom count, regardless of the Automated Underwriting System (AUS) decision.

#### **Disaster Area**

- Refer to Reunion Disaster Policy
- Refer to FEMA website for disaster information at:  
<http://www.fema.gov/news/disasters.fema>

#### **Environmental Hazards**

- According to the Uniform Standards of Professional Appraisal Practice (USPAP) and Fannie Mae/ Freddie Mac guidelines, the appraiser must note in the appraisal report any adverse conditions that were observed during the inspection of the subject property, or after gaining information through normal research involved in performing an appraisal. In addition, the appraiser is obligated to assess the impact on the subject property's marketability and value.
- 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, properties built on or near toxic waste dumps or clean up sites and properties subject to noxious odors such as from landfills, composting facilities, toxic molds and herbicides and insecticides used for agriculture. For properties subject to noxious odors, the underwriter may proceed if the appraiser documents that there is no buyer resistance, that the value and marketability of the subject is not affected and the comps have the same influence.

#### **Environmental Risk Reports**

Certain conditions noted in the appraisal report may suggest the need for an Environmental Risk Report, including but not limited to discolored soil, unusual odors, lack of vegetation, known underground storage tanks, storage of toxic materials, accumulated debris or derelict cars within boundaries of the subject site; known existence of UREA Formaldehyde foam insulation, radon, lead-based paint or asbestos insulation and/or soundproofing, etc. If the appraiser mentions any such conditions, Reunion may require an acceptable Environmental Risk report as a condition.

#### **Heating and Cooling Sources**

All properties are required to have an adequate source of heat and, if typical for the area, cooling.

#### **Mixed-Use Property**

A mixed-use property is a property that is used for a business purpose in addition to its residential use. The business may be a day care facility, beauty parlor, barbershop, etc. A mixed-use property is eligible if it meets the following requirements:

- The property must be a single family, detached primary residence that is primarily residential in nature.
- The mixed-use must be a legal, permissible use of the property under local zoning requirements.
- The borrower must be both the owner of the property and the operator of the business.
- The market value of the property must be primarily a function of its residential use, rather than of the business use, or any special business-use modifications that were made. If the property has been modified to accommodate a mixed-use, the appraiser should

address whether the modifications affect the property's marketability as a residence and whether the cost to restore the property to a solely residential use will affect its value.

- A full appraisal must be obtained for the mixed-use property. Property inspections and waivers are not permitted.
- At least two-thirds of the improvement is maintained and used for residential purposes only
- The value must be supported by comparable sales of a similar nature
- The property may not be industrial or manufacturing in nature and there are no hazardous materials used or stored at the Mortgaged Premises
- Condominium Unit: A "live/work" condominium unit, in which the borrower lives in a loft area and runs a business on the ground floor, is not acceptable. A home office in a condominium unit is acceptable, if there are no employees. The mixed use must not be restricted by the condominium project's legal documents.

**Note:** This property type may not be available with certain products. Refer to appropriate Product Guidelines for eligibility restrictions.

### **Modular / Prefab homes**

- Factory-Built Housing must conform to Council of American Building Officials (CABO) standards are eligible for financing.
- Must be on a permanent foundation.
- Must assume characteristics of site built housing.
- Legally classified as real property.
- No minimum requirements of size. Must have sufficient square footage and room count for subject market area.
- Appraisal must reflect marketability supported by similar Modular/Prefab comparables in the neighborhood.
- How to recognize a modular home vs. manufactured (mobile) home (some tips) – The walls of a manufactured home would likely contain paneling and not drywall; Manufactured homes are built on a non-removable steel chassis; Is there any reference on the appraisal; On the HUD Data Plate if there is a date of manufacture it is likely a manufactured home, a modular home would have data sheets with reference made about building inspections.

### **Multiple Parcels**

Property consisting of more than one parcel of real estate must meet all of the following requirements:

- The parcels must be adjoining.
- The property must be zoned as residential.
- Only one parcel may contain a residential dwelling. The parcel that contains the residential dwelling may have another residential dwelling, such as a guest home, but the appraiser must indicate if this is common and customary for the area. The other parcel(s) must have either 1) no improvements; or 2) only limited non-residential improvements (e.g., a garage or shed).
- The mortgage must cover all parcels included in the transaction.
- If there are separate tax bills or tax identification numbers on each parcel, it is not necessary to combine them. However, a tax certification form must be completed for each parcel.

**Note:** A property with significant acreage must be appraised in its entirety. The appraisal must indicate the actual parcel size and the typical parcel size for the area.

### **Non-Permitted Addition**

Properties with non-permitted additions may be acceptable if all of the following are met:

- The addition does not cause the subject property to be in violation of zoning.

- The appraisal must include comments that the addition was completed in a workmanlike manner and there is no impairment to the soundness, structural integrity or livability of the property.
- **Hazard insurance policy cannot contain any exclusions as it relates to additions or remodeling**
- Refer to Product Guidelines for additional requirements for Non-Permitted Additions

### **Granny or In-Law Unit**

Properties with accessory units (legal or non-permitted), also known as Granny units, mother-in-law suites, etc., may be acceptable if all of the following are met:

- One unit property only
- Property conforms to the subject neighborhood
- Property is residential in nature
- Property meets the test of “common and customary for the market”
- The property must be appraised in conformity with its legal use (as a 1-unit property with accessory unit)
- The local government must allow the property to be rebuilt if damaged or destroyed. The governing agency’s (or official’s) name should be identified in the report.
- The immediate area’s land usage must be primarily single-unit detached dwellings. If 2-4 family properties are common in the area, the building is not acceptable as security.
- Appraisal contains at least two comparables with similar additional accessory units.
- Rental income from the accessory unit may not be used to help the borrower qualify.
- Accessory unit is substantially smaller than the primary unit and contribute 10% or less of the property value.
- Non-permitted (illegal) additional unit is permitted when the following conditions are met:
  - The illegal use conforms to the subject neighborhood and to the market.
  - The property must be appraised in conformity with its legal use, that of a single family property
  - The borrower must qualify for the mortgage without considering any rental income from the illegal unit.
  - The appraiser must report that the improvements represent an illegal use. The appraisal must demonstrate that the improvements are typical for the market through an analysis of at least three comparable properties that have the same illegal use.
  - A letter from the insurance agent documenting that the existence of the illegal additional unit will not jeopardize any future hazard insurance claim that might need to be filed for the property.

### **Notice of Default / Property Currently in Default**

- All transactions must be arms-length transactions, purchased through the Multiple Listing Service.
- The purchaser of the property must reside in the same state as the subject property.
- Power of Attorney (POA) must not be used for any portion of the transaction for either seller or buyer.
- The appraisal must adequately support the value, condition and marketability of the subject property
- A copy of the Trustee Sale Information (shown on the Notice of Trustee Sale)

### **Ownership History**

- All files must contain a 24-month title history provided by an acceptable source, as well as all required documentation to satisfactorily verify ownership:
  - Acceptable Sources
    - Preliminary Title Commitments
    - Copies of recorded title-transfer deeds
    - Credit report mortgage histories and HUD-1’s showing transfers of ownership in the last 24 months

- Unacceptable Sources
  - Appraisal
- Scenarios: If purchased less than 24 months, and the value increase is substantial or the reason for value increase is not supported by documented improvements, the original transfer value will be used.

### **Property Listed for Sale**

- Properties currently listed for sale as of the date of the initial loan application are not eligible for refinance.
- Rate/Term Refinance: Property has been taken off the market at least one day before the application date.
- Cash-Out Refinance: Properties listed for sale within the past 6 months of the application date may be eligible for refinance. Refer to specific Product Guidelines for eligibility.
- Refinance transactions with properties listed in the last 12 months must have the following documentation:
  - A copy of the canceled listing
  - The appraisal must confirm:
    - that the home is not currently listed in the MLS, nor is it publicly offered for sale by the owner
    - the date the listing was withdrawn/expired
    - that the home is occupied
  - Borrower must confirm the intent to continue to occupy if a primary residence

### **Rural Properties**

- Texas Section 50(a)(6) are not eligible
- Any property indicated on the appraisal as rural or containing one or more of the following characteristics will be considered as a rural property:
  - Neighborhood is less than 25% built-up
  - Area around the subject is zoned agricultural
  - The subject is located on a dirt road
  - Comparables are more than 5 miles away from the subject.
  - Subject is located in a community with a population of less than 25,000.
  - Distance to schools and/or amenities are greater than 25 miles.
  - Subject property and/or comparables have lot sizes greater than 10 acres.
  - Subject property and/or comparables have outbuilding or large storage sheds.
  - A majority of the properties in the market have well and septic systems.
- Rural properties must comply with the following:
  - Single Family dwellings only.
  - The primary use must be residential, not agricultural
  - The site size must be typical for surrounding properties with similar uses
  - The subject property must be within reasonable commuting distance to a metropolitan area.
  - The subject property must be accessible by public roads and highways, and must have adequate utilities available and in service.
  - The present use must be the "highest and best use" for the property.
  - The condition, quality, and use of outbuildings may be considered in determining the market value of the property. If the subject property contains non-residential outbuildings, which are not typical amenities, the loan amount may be adjusted.
  - Underwriting reserves the right to reduce the loan amount / LTV
  - Property may not be subject to hazards or noxious odors.

### **Repair Requirements**

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

- All inspections required by the purchase agreement must be provided. If repairs are indicated on the report, any issue that affects safety and/or habitability must be corrected. All Section One items on Termite Reports must be corrected

### **Security Bars**

Properties with Security Bars on the windows must have exterior door or Quick Release for each room.

### **Termite Certifications**

Reunion does not require termite certifications on every loan. However, if information contained in the file (i.e., in the purchase agreement, the appraisal, a home inspection report, etc.) indicates there may be a problem, Reunion may require evidence that the property has been inspected and found to be free from termite or other insect infestation, and that any damage found has been corrected.

### **Value for LTV/CLTV Calculation**

- Purchase
  - Use lesser of purchase price or current appraised value to calculate LTV/CLTV.
- Refinance
  - Value is generally defined as the appraised value regardless of how long the borrower has held title.
  - The appraiser should ensure value is valid when the property was acquired in the last 12 months and there is substantial increase from the original purchase price

### **Well and Septic Certifications**

Reunion does not require well and septic certifications on every applicable loan. However, Reunion reserves the right to request acceptable certifications if information contained in the file indicates there may be a problem.

### **Zoning and Land-Use Regulations**

The appraiser in his or her analysis of the property must compare the existing and potential use of the subject property to the zoning regulations. In addition, the appraiser must reflect any adverse effect that a non-conforming use has on the value and marketability of the property that is being appraised. Zoning alone does not make a property ineligible it is typically the use. Property improvements must constitute a legally permissible use of the land based on the zoning ordinance. If the improvements represent a legal, non-conforming use of land, a letter from the local building authority or appraiser must be obtained to certify the property can be rebuilt “as is” in the event of partial or total destruction.

## **Occupancy**

### **Primary Residence – Owner Occupied**

Primary occupancy is a one- to four-family dwelling (including condominiums and PUDs) that is occupied as the borrower’s primary residence for a major portion of the year. A typical primary residence will meet the following criteria:

- It is occupied by the primary wage-earner for the major portion of the year. Exceptions (e.g. active military personnel) will be considered on a case-by-case basis.
- Located within a reasonable distance to the borrower’s place of employment – maximum of 60 miles
- Subject is declared as the borrower’s primary residence for purposes of tax reporting, voter registration, occupational licensing, etc.
- Borrower(s) declare(s) his/her/their intention to occupy the subject.
- Primary residence refinance transactions will not be considered unless the Borrower resides in and holds title to the Mortgaged Premises at the time of application. Loans will not be made “subject to re-establishing occupancy” or transferring title.

- On purchase transactions the borrower must occupy the property within 60 days of close.
- At least one of the borrowers must occupy and take title to the property, and execute the Note and Security Instrument.
- Physical characteristics of dwelling should be sufficient to accommodate the owner's immediate family.
- Limitations regarding the number of properties a borrower may own will be outlined in the applicable Program Profile.
- Refer to Market Rent section for additional guidelines on an owner occupied 2-4 unit property.
- **Rent Loss Insurance** The customer must have rent loss insurance equal to a minimum of 6 months of the gross monthly rent for the subject property on 2-4 family owner occupied properties. This requirement may only be waived if the customer qualifies for the loan using the full PITIA payment without relying on the rental income.
- **Retaining Current Residence**
  - Purchase transactions where borrowers are not selling their current residence prior to close of escrow must be reviewed with caution.
  - When a borrower indicates on his or her initial application an intention to rent their current primary residence, the property being purchased must be of greater value or in another geographic location.
  - Borrowers with negative equity on current residence are not eligible for financing.
  - If the Borrower refinanced his/her current residence as an owner occupied loan in the last 12 months, they committed to occupying that property for at least 12 months as a part of their Deed of Trust. The Borrower may not purchase another primary residence within 12 months of the owner occupied refinance unless there is documentation in the file showing the employer is relocating the borrower.
  - Refer to the specific Product Guidelines for additional eligibility requirements

### **Second Home**

Second home occupancy is a single-family dwelling that the borrower occupies in addition to his or her primary residence. A typical second home will meet the following criteria:

- Located in a resort area
  - Resort areas include beach community, ski resort area, private golf community, etc.
- Should be a remote distance from the borrower's primary residence.
- The property must be suitable for year-round occupancy.
- 2-4 unit properties are not eligible for second home status
- Property must be available for borrower's exclusive use and enjoyment. May not be subject to any timesharing arrangements, rental pools or other agreements, which require the borrower to rent the property or otherwise give control of the property to a management firm.
- Non-Arms-Length transactions are not eligible.
- Typically, a borrower may have only one second home.
- Loans on properties where the borrowers are purchasing the property for the occupancy of others (sometimes known as "kiddie condos") must be registered and underwritten as investment properties. They cannot be considered as a second home.
- Applications from borrowers that own investment properties in the same area are not eligible for a Second Home. The loan must be underwritten and closed as an investment property

### **Investment Properties**

An investment property is income-producing property that the borrower does not occupy. The subject property may be a 1-4 unit, condominium, or PUD. Rental income may be used to qualify.

- **Occupying Tenant:** If the subject property is currently being rented, the rental agreement/lease must be reviewed to ensure that it does not contain any provisions that could affect our position as mortgagee. In some jurisdictions, a lease that predates the mortgage has a superior claim to the mortgage, even if it has not been recorded.

However, the tenant's rights will usually remain intact under the preexisting lease. If the lease is not subordinated to the mortgage, each lease must be reviewed to ensure that any "rights to purchase"—and any other rights that could adversely affect the mortgagee's interest—have been formally waived by the tenant.

- **Market Rent** – Market rent and bedroom count must be captured on all non-owner occupied 1-4 unit properties and all owner-occupied 2-4 unit properties, whether or not the rental income is used to qualify the borrower. Current monthly rent should be used unless the unit(s) is vacant or being used by the owner for another purpose, in which case the market rent should be provided.
  - Market rent can be documented using one or more of the following sources when rental income is not used to qualify. Refer to specific product guidelines for documentation requirements when rental income is being used to qualify.
    - Lease agreements
    - Tax returns
    - Operating Income Statement (216)
    - Single-Family Comparable Rent Schedule (1007)
    - Appraisal (previous appraisal can be used for bedroom count only)
    - Public record data that does not provide current property valuation (can be used for bedroom count only)
    - Loan application (Form 1003)
  - The bedroom count and market rent for each unit must be reflected on the 1008 and a "Rental Income & Bedroom Count" form should be completed by the Underwriter, unless a 216 or 1007 is obtained.
- **Rent Loss Insurance** The customer must have rent loss insurance equal to a minimum of 6 months of the gross monthly rent for the subject property on 1-4 unit investment properties. This requirement may only be waived if the customer qualifies for the loan using the full PITIA payment without relying on the rental income.
- 1-4 Family Rider is required for all investment properties.

## Transaction Types

### Purchase

- A copy of the fully executed purchase contract and all attachments or amendments is required.
- Careful review of the purchase agreement must be made to ensure interested party contributions and sales concessions meet guidelines.
  - Refer to specific program guidelines for limits on interested party contributions
    - Premium pricing may be allowed and can be used to cover certain closing costs and prepaid items depending on the loan purpose. It is not considered a concession; therefore, it is not included in the amount subject to contribution limitations.
    - Cash or items of value, such as giveaways, passed to the buyer by the seller to encourage the buyer to purchase the property and excessive interested party contributions are considered sales concessions. If there is a sales concession present, the LTV/CLTV is calculated using the lower of the reduced sales price (after the reduction for all sales concessions, including excess financing contributions) or the appraised value.
  - HOA subsidies are not allowed, incl. advance payment of HOA fees made on behalf of the borrower by the builder, property seller or interested third party.
  - Any aggregate real estate sales commission greater than 8% of the sales price of the subject property is considered an excessive real estate commission. The portion of the aggregate commission greater than 8% must be deducted from the sales price for underwriting purposes.
- **Renegotiated Contract**
  - When a renegotiated purchase agreement increases the sales price after the original

appraisal has been completed, the LTV must be based on the lower of the original purchase price or appraised value.

- **Inspections**
  - All inspections required by the purchase agreement must be provided. If repairs are indicated on the report, any issue that affects safety and/or habitability must be corrected. All Section One items on Termite Reports must be corrected
- **Short Sale transactions**
  - All transactions must be arms-length transactions, purchased through the Multiple Listing Service
  - Power of Attorney (POA) must not be used for any portion of the transaction for either seller or buyer.
  - Review of the appraisal must confirm the value, condition and marketability of the subject property
  - A copy of the short sale agreement with the existing lien holder(s) is required
  - Transactions which require the buyer to pay additional funds at closing toward the seller's liens or delinquent assessments are not acceptable
- **Properties currently in default**
  - All transactions must be arms-length transactions, purchased through the Multiple Listing Service.
  - The purchaser of the property must reside in the same state as the subject property.
  - Power of Attorney (POA) must not be used for any portion of the transaction for either seller or buyer.
  - Review of the appraisal must confirm the value, condition and marketability of the subject property
  - A copy of the Trustee Sale Information (shown on the Notice of Trustee Sale)
  - Transactions which require the buyer to pay additional funds at closing toward the seller's liens are not acceptable
- **Lease-Option**
  - When a borrower is purchasing a home under a lease-option agreement, they may receive a rent credit from the seller for part of the down payment and closing costs if:
    - Amount of monthly rent paid by the borrower exceeds the market rent at the time the contract was signed. Credit would be the amount of borrower-paid rent, which exceeds the market rent. Appraiser to confirm the market rent as of the date the contract was signed.
    - File must contain clear evidence all rent was paid – copy of cancelled checks.
    - Term of lease must be at least 12 months.
    - Rent credit may be used to satisfy the minimum contribution requirement.
    - Rent credit must appear on the HUD-1.
    - Loans will be classified and treated as a purchase transaction.

## **Refinance**

- All Refinance transactions must meet Continuity of Obligation requirements, see product specific guidelines for details
- Loans cannot be made subject to transferring title. Title must be held in the name of the borrower at least one day prior to loan application. Refer to Continuity of Obligation for any additional requirements.
- Primary residence refinance transactions will not be considered unless the Borrower resides in and holds title to the Mortgaged Premises at the time of application. Loans will not be made "subject to re-establishing occupancy"
- **Payoff Demand**
  - A payoff demand statement is required for each mortgage being paid off. It must reflect that the loan is not more than 30 days delinquent, does not contain charges associated with default/forbearance, does not indicate a curtailment of principal/interest (e.g. short pay).
  - The figures must match the final HUD1
- **Restructured Loan / Short Payoff**

- A restructured loan or short payoff is a mortgage loan in which the terms of the original transaction have been changed resulting in either absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in:
  - Forgiveness of a portion of principal and/or interest on either the first or second mortgage;
  - Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness;
  - Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage; or
  - Conversion of any portion of the original mortgage debt from secured to unsecured debt
- In many cases, a borrower may not disclose that their existing mortgage loan has been restructured. The credit report may show a restructured loan as "settled for less than owed". If the credit report does not specify "settled for less than owed", scrutinize the mortgage balance reported on the credit report versus the payoff balance. If the two balances do not match and the difference is more than unpaid interest or prepayment penalties, the loan may have been restructured
- Restructured loans are not eligible for refinance

#### **Builder / Developer – Owned Properties**

Loans on builder/developer-owned properties for purchase or refinance transactions are not eligible.

#### **Non-Arms-Length Transactions**

A Non-Arms-Length (NAL) transaction exists whenever the applicant has a personal or business relationship with the seller, builder, developer, real estate agent, appraiser, lender providing the financing, Title Company, or any other interested party. Typically on a purchase transaction it might be that there is a dual capacity action, such as the real estate agent on the contract also being the broker on the loan. For transactions in which the relationship is on the same side of the transaction i.e.: Mother of buyer is buyers' agent this would not be considered a Non-Arms-Length transaction, however if mother of buyer were sellers' agent this would constitute a Non-Arms-Length transaction; Realtor buying or selling their own property (excluding "guaranteed sale" transactions).

Will be considered on a case-by-case basis by the underwriter on and must meet the following criteria:

- Relationships are disclosed with initial submission.
- Additional risk factors are not present. Examples of additional risk factors include distress sale, high amount of seller contributions, and selling assets for down payment.

Non-Arms-Length transactions include, but are not limited to, affiliates of the applicant who are:

- Family members related by blood or marriage to the seller.
- Owners, employees, or family members of origination lender.
- Renters buying from landlord.
- Trading properties with the seller.
- Employed by family members.
- Purchase transactions involving a non-family member relationship must be owner occupied
- Principal(s)/Owner(s) of the Originating Lender (or Reunion approved Broker or Correspondent) are eligible for Full Doc only. Two years complete 1040's (and business tax returns if applicable) are required.
- Principal(s)/Owner(s) of a Title Company or Escrow Company or Closing Attorney must use a different company for insuring and/or closing their transaction.
- Properties currently in default are not eligible for Non-Arms-Length Transactions

- Loans made to employees of the originating lender or service provider (appraiser, settlement agent, title agent, etc.) cannot directly or indirectly provide these services on their own property.
- Transactions involving family transfers require 12 months cancelled checks for the mortgages secured by the subject property to verify no late payments have occurred.
- Full documentation (as opposed to minimum documentation required by guidelines or AUS) may be required at Underwriter's discretion

**Section 32/High-Cost Loans**

Reunion does not allow high-cost loans. High-Cost testing will be performed on all loans to determine loan is not a high-cost loan as defined by Section 32 and/or lender regulations and requirements. Please see Points and Fees Matrix for % of fees allowed and fees included and excluded for calculation.

**State Restrictions / Requirements**

- **Texas Cash Out Refinance**
  - A Texas Home Equity (Cash out Refinance) loan for a homestead property is based on Texas statute and not based on Fannie Mae definition.
  - Refer to appropriate Product Guidelines for eligibility of Texas Home Equity (Cash out Refinance Section 50(a)(6)) loans
  - Refer to Texas Refinance Policy for guidelines

**Temporary Buydown**

Refer to specific product guidelines

**Ineligible Transactions**

Conventional loans that must be underwritten manually. All conventional loans require agency AUS approval.