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GENERAL UNDERWRITING GUIDELINES

GENERAL POLICY

The Reunion Mortgage 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 Mortgage, 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



GENERAL UNDERWRITING GUIDELINES

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 (unless otherwise exempted by the loan program – i.e. FHA Streamline Refinance) 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.
- 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 Mortgage 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 Mortgage 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
- When a borrower is purchasing a new home and converting their current home to a rental any recent refinance activity must be reviewed. If the borrower has refinanced their current residence within the last 12 months the transaction will be considered churning – refinance of multiple owner occupied properties in the last 12 months. In this case, the borrower is not eligible to counter offer the subject property as non owner occupied because it does not accurately reflect the transaction and the file documentation.



GENERAL UNDERWRITING GUIDELINES

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, which are subject to change on an annual basis. Minimum loan amount is \$10,000. Current loan limits are as follows:

	Units	Continental U.S.	Hawaii
Standard	1	\$417,000	\$625,500
	2	\$533,850	\$800,775
	3	\$645,300	\$967,950
	4	\$801,950	\$1,000,000 *
High-Balance	1	\$729,750	\$938,250
	2	\$934,200	\$1,000,000 *
	3	\$1,000,000 *	\$1,000,000 *
	4	\$1,000,000 *	n/a

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

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

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

Maximum Exposure / Multiple Loans

- Maximum of 4 Reunion Mortgage 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, the following limitations apply:
 - All borrower(s) may not own more than four (4) properties (including his or her primary residence) that are currently being financed.
 - The borrower may not be affiliated with the builder, developer or seller of the property that secures any of the mortgages.
 - Joint ownership in residential real estate (1-4 units) is considered the same as total ownership of an individual property.
 - A borrower, who holds a Limited Partnership interest in an organized Limited Partnership that has been formed for the purpose of real estate investment or development or is a General Partner who has personal liability (obligated on the Note) must take into consideration all properties owned and financed by that partnership. Partnership returns may be required to determine the number of properties owned by the partnership.
 - Ownership in commercial or multi-family (more than 4 units) residential real estate is not included in the limitation.
 - The limitation applies to the number of financed properties, not the number of units. For example, the borrower may own one (1) single family, two (2) 2-unit properties and one (1) 3-4 unit property.



GENERAL UNDERWRITING GUIDELINES

Mortgage Insurance

- All conventional loans with LTV greater than 80% require Mortgage Insurance unless specific in the Product Guidelines (i.e. HomePath Mortgage and DU Refi Plus).
- All products use Standard Coverage
- Although Mortgage Insurance is required on all conventional loans with LTV > 80%, Reunion Mortgage can not guarantee the ability to obtain mortgage insurance on every file due to the rapid guideline changes in the Mortgage Insurance industry.
- Eligible Mortgage Insurance Companies
 - Standard Mortgage Insurance – Zero up front monthly borrower paid premium
 - MGIC
 - Radian
 - RMIC
 - United Guaranty
 - Standard Mortgage Insurance Coverage:

LTV	> 20 Year Term	≤ 20 Year Term
>90-95%	30%	25%
>85-90%	25%	12%
>80-85%	12%	6%

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 Increase in Value / Flipping in the Property / Appraisal section for additional requirements.
- The appraiser should provide comments regarding the reasons and condition that led to the increase in value.



GENERAL UNDERWRITING GUIDELINES

BORROWER

Adding/Removing Borrowers on Application

Borrowers may be added or removed from an application. However, it is not permitted on a Texas Section 50(a)(6) loan.

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 entirety, 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 Mortgage 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
- For all loans (conventional and government) the maximum number of borrowers on a transaction is limited to four.

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; or
 - The income or assets of the borrower's spouse will not be used as a basis for loan qualification, but the spouse's liabilities must be considered on FHA loans if:
 - The borrower resides in a community property state; or
 - The subject property is located in a community property state; or
 - The borrower is relying on other property located in a community property state as a basis for repayment of the loan.

Co-Signer

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



GENERAL UNDERWRITING GUIDELINES

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 Mortgage Inc. requires the non-borrower spouse to sign the security instrument—in all states. **Note:** Reunion Mortgage Inc. 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 Mortgage Inc. 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.
- NOTE: FHA requires the non-borrower spouse to provide a credit report if the property is located in a community property state. The debts of the non-borrower spouse must be included in the DTI calculation.

Non-Permanent Resident Alien

A non-permanent resident is a non-U.S. citizen who enters the United States for specific periods (typically up to six years) 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. Asylees and refugees may also be eligible under this classification. The following guidelines apply to all non-permanent residents

- A valid Social Security number
- Documentation to support that the Borrower is eligible to work in the U.S. as evidenced by an unexpired Employment Authorization Document (EAD) issued by United States Citizenship and Immigrations Services (USCIS). For further information, see 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
- 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.
- Funds recently deposited into a U.S. depository institution are an acceptable source of funds if there is evidence that the funds were transferred from the country from which the borrower permanently resides, and it can be established that the funds were the borrower's before the date of transfer. In this case, the sources of all funds used for closing should be verified as for a borrower who is a U.S. citizen.
 - Documentation requirements are:



GENERAL UNDERWRITING GUIDELINES

- A copy of The Wall Street Journal showing the conversion rate used should be provided in the loan file along with a written conversion of the beginning and ending balances.
- Funds for the down payment, closing costs and reserves must be verified as being on deposit in a U.S. bank prior to closing.
- 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 per DU Findings. Occupancy must be accurately entered in DU.
- An Established Relationship with the Borrower must exist. Any party with an interest in the property sales transaction (including but not limited to the builder, property seller, or real estate broker) is not eligible as a non-occupant Co-Borrower
- For a non-permanent resident alien, the maximum LTV/CLTV is 80% or the Loan Program maximum, whichever is less
- For Cash-out Refinance transactions, Non-occupant Co-Borrowers who are not Borrowers on the current mortgage and do not hold title cannot be added as a means to qualify for the Loan.

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.” Refugees and others seeking political asylum also fall under the PRA classification. All Permanent Resident Aliens are entitled to the same rights, products, programs, and lending parameters available to U.S. citizens.

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:

- I-151: Alien Registration Receipt Card (Green Card) that does not have an expiration date on the back, or
- I-551: Alien Registration Receipt Card (Resident Alien Card/Green Card) that does not have an expiration date on the back; or
- I-155: Alien Registration Receipt Card (Conditional Resident Alien Card) that has an expiration date on the back, as long as it is accompanied by a copy of an USCIS form I-751; or
- Un-Expired Foreign Passport with an un-expired stamp reading: Processed for I-155 or I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment Authorized.

In addition to the above, individuals with one of the following special visa classifications are also eligible for the same products, programs, and lending parameters available to U.S. citizens:

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.



GENERAL UNDERWRITING GUIDELINES

Power of Attorney

- 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

- Revocable Trusts are allowed on single unit properties only.
- Full title must be vested in Trust (not individual(s) and Trust)
- 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 Mortgage'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.



GENERAL UNDERWRITING GUIDELINES

AUTOMATED UNDERWRITING SYSTEMS (AUS)

Reunion Mortgage is a Fannie Mae lender and utilizes Desktop Underwriter for automated underwriting. Loan Prospector is not allowed.

All loans submitted to Reunion Mortgage must be uploaded to Fannie Mae DU and the credit report pulled through DU. Reunion Mortgage offers two options for originating loans;

- P.U.P. (Priority Underwriting Processing)
- Fannie Mae Desktop Originator (DO) sponsorship.
 - Files originated in Fannie Mae DO must be finalized with Reunion as the sponsor at submission.
 - Files that are not finalized in DO can not be registered and underwritten by Reunion.

NOTE: FHA Streamline Refinance transactions are not to be uploaded to DU.

Documentation

All conditions outlined in the Findings Report must be satisfied.

▪ Conforming loans

All conforming loans require DU findings reflecting Approve/Eligible.

- Employment, income and assets may be documented per DU findings except as follows:
 - Income must be supported by at least a paystub (salary) or 1 year tax returns (self-employed/commission) when DU requests only verbal VOE
 - Investment and second home properties require reserves – Refer to Reserves in Asset section
 - Other financed investment and second home properties also require reserves – Refer to Reserves in Asset section
 - If the subject property being financed is a single family or 2-4 unit investment property the borrower must have a 2-year history of managing rental property and Rent Loss Insurance. (These requirements may be waived if the borrower is qualified with the full PITIA payment for the subject investment property.)
 - Rent Loss insurance covers the borrower for rental income losses incurred when the property is rendered un-rentable due to a direct physical loss, such as a fire. Coverage must be equal to a minimum of six months of gross monthly rent, and must be maintained as long as the mortgage is outstanding. Rent loss insurance may be designated in policies as “fair rental value” or “fair rental income” under the general heading of “loss of use” or “loss of rents”.
- Refer to Product guidelines for additional requirements such as
 - Minimum Credit Score
 - Property Inspection Waiver Eligibility
 - Mortgage Insurance
- **FHA**
 - Approve/Eligible findings follow the DU recommendation
 - Refer/Eligible findings must be documented with full credit, income and asset documentation
- **VA**
 - Approve/Eligible findings follow the DU recommendation
 - Refer/Eligible findings must be documented with full credit, income and asset documentation

DU ARM Plans

Refer to the DU ARM Plan Matrix for required DU ARM Plan number to enter for each Reunion program code.

Resubmission Requirements

Resubmission of information is always required if the information that was originally submitted for the DU recommendation was not true, not complete, or not accurate. In general, the terms of the closed loan must match the data used by the 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 AUS recommendation should reflect the loan as it will be closed.



GENERAL UNDERWRITING GUIDELINES

CREDIT / LIABILITIES

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 and contain a minimum of the following:

- Age of Credit Report:
 - Maximum of 30 days at submission
 - Maximum of 60 days at closing
- 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
- All 3 credit scores for each borrower are required. Although all three repository scores are required, there may be instances when all three scores are not available. In those cases, the credit report must indicate that all three repositories were accessed and that the scores were not available. In that case at least 2 scores for each borrower must be reflected.
- 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.

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 90 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



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- 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 90 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. Borrower(s) with only one credit score are not eligible.
- The lowest representative score from all borrowers will be used for qualification and pricing.
- A valid/usable credit score is one that is generated based on a minimum of 4 trade lines one of which has been open a minimum of 24 months, the other 3 must be rated for at least 12 months.
- If there are less than 4 trade lines, or the trade lines do not meet the required payment history requirements (i.e., one has been open a minimum of 24 months, the other 3 must be rated for at least 12 months) or if there is no credit, there is insufficient data to determine credit behavior—even if the report includes a credit score.

Non-Traditional Credit

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

Housing Payment History

- **Mortgage Rating**

When a mortgage rating is 45 days old or less as listed on the credit report and the rating covers a 12-month period, no additional documentation is necessary. If these requirements are not satisfied, the mortgage rating must be updated by mortgage statement or verification of the mortgage.

 - A mortgage payment is considered current as long as it is paid within the month along with any late charges assessed for payments made beyond the 15-day grace period. A letter of explanation and supporting documentation is required when payments are made beyond the month due.
 - A mortgage is not eligible if any Borrower’s credit report contains a mortgage trade line that is



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- currently 30 or more days past due. Borrowers may not bring past due mortgages current prior to qualify.
 - If a mortgage has a 30, 60, 90, 120 or 150-day late payment within the past 12 months, the loan is not eligible.
 - Payment history on any property (regardless of occupancy) is considered mortgage credit.
 - Payments on a Manufactured Home, timeshare, or second mortgage are considered mortgage debt, even if reported as an installment loan.
 - Additionally, any repossession or payment > 120 days late on a Manufactured Home, timeshare, mortgage, or second mortgage even if shown as an installment loan, will be considered a foreclosure
- **Modified Mortgage history – not subject property**

If the borrower has a prior or open mortgage that is not secured by the subject property, the loan history will be considered acceptable if it is verified that the modification is for interest rate only; an open or closed mortgage history that indicates the account balance was reduced makes the loan ineligible for financing.
 - **Landlord Rating**
 - A 12-month satisfactory landlord reference is required
 - All direct verifications must include the rental amount, payment history, and length of payment history.
 - When the landlord is an interested party to the transaction (i.e., seller, broker, etc.) or a relative or employer of the Borrower, 12-months canceled checks reflecting a satisfactory payment history must be provided. In addition, a copy of the lease to verify the due date in lieu of a landlord reference must be provided.
 - If cancelled checks are used, copies (front & back) of twelve (12) month's consecutive (one (1) payment per month) rental payment canceled checks are required.

Major Derogatory Credit

The presence of major derogatory credit dramatically increases the likelihood of a future default and represents a significantly higher level of default risk. Examples of major derogatory credit include bankruptcies, foreclosures, deeds-in-lieu of foreclosure, preforeclosure sales, and short sales.

The credit history for the last seven years must be reviewed to determine whether there are any major indications of derogatory credit, such as undischarged debts, judgments, bankruptcy, etc. Any litigation involving the borrower, including bankruptcy, foreclosure, deed-in-lieu, preforeclosure, short sale, judgments, tax liens, collection accounts, and charge-offs must be evaluated separately and meet the specific product guidelines.

Major derogatory information requires a full investigation including:

- An explanation from the borrower. Explanations must make sense and cannot conflict with other verified information or documentation in the file. When a borrower indicates unusual circumstances have contributed to serious delinquencies or derogatory credit, documentation to support those circumstances should be obtained if necessary to justify a decision to approve a loan with recent credit problems.
- Proper consideration must be given in evaluating the borrower's creditworthiness
- Proof that the incident has been resolved and documentation supporting the resolution and conclusion of the matter. If a derogatory item is being paid through this transaction, the file should note it in the closing statement.

The underwriter must determine the cause and significance of the derogatory information, verify that sufficient time has elapsed since the date of the last derogatory information, and confirm that the borrower has re-established an acceptable credit history. The underwriter must make the final decision about the acceptability of a borrower's credit history when significant derogatory credit information exists.

If not clearly identified in the credit report, the borrower must provide copies of appropriate documentation for the significant derogatory credit event. The documentation must establish the completion date of a previous foreclosure, deed-in-lieu or preforeclosure sale; confirm the bankruptcy discharge or dismissal date; and



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identify debts that were not satisfied by the bankruptcy. Debts that were not satisfied by a bankruptcy must be paid off or have an acceptable, established repayment schedule.

This topic describes the amount of time that must elapse (the “waiting period”) after a significant derogatory credit event before the borrower is eligible for a new loan. The waiting period commences on the completion, discharge or dismissal date (as applicable) of the derogatory credit event and ends on the application date of the new loan.

▪ **Bankruptcy**

Chapter 7 or Chapter 11

A four-year waiting period is required, measured from the discharge or dismissal date of the bankruptcy action.

Chapter 13

A distinction is being made between Chapter 13 bankruptcies that were discharged and those that were dismissed. Borrowers that have reestablished credit through the successful completion of a Chapter 13 plan are eligible 2-years after discharge. A borrower who was unable to complete the Chapter 13 plan and received a dismissal, however, will be held to a 4-year time period for reestablishing credit.

Multiple Bankruptcy Filings

A 5-year elapsed time period is required to reestablish credit from the most recent discharge or dismissal date for borrowers who have more than one bankruptcy filing in the past 7 years. The presence of multiple bankruptcies in the borrower’s credit history is evidence of significant derogatory credit and increases the likelihood of future default. The greater the number of such incidences and the more recently they occurred, the higher the credit risk.

Required Documentation

The following documentation is required for applicants with bankruptcies:

- Copies of the bankruptcy petition, schedule of debts, a schedule of the debts discharged and discharge certificate
- Evidence to indicate that all debts not satisfied by the bankruptcy have been paid or are being paid
- Any other evidence necessary to support the conclusion that the applicant has re-established an acceptable credit reputation

▪ **Foreclosure**

The presence of a prior foreclosure action in the borrower’s credit history is evidence of significant derogatory credit and increases the likelihood of future default. The greater the number of such incidences and the more recently they occurred, the higher the credit risk.

Conventional Loans

- Loans with mortgage late 120 days or greater in the last 5 years are not eligible for financing (DU may not recognize some accounts as mortgages therefore these lates must be manually analyzed)
- If the foreclosure was reported within five years of the credit report date, the loan will receive a Refer with Caution/IV recommendation and is not eligible for financing.
- If DU is unable to determine the date of the foreclosure, the lender will receive an Underwriting Finding message requiring the lender to manually verify the filed and satisfied date of the foreclosure action and apply the policy accordingly.
- Additional requirements that apply after 5 years up to 7 years following completion date:
 - The purchase of a principal residence is permitted with a minimum 10 percent down payment and minimum representative credit score of 680.
 - Purchase of a second home or investment property is not permitted.
 - **Limited cash-out** and cash-out refinances are not permitted for any occupancy type.

FHA Loans

- A borrower whose previous principal residence or other real property was foreclosed or has given a deed-in-lieu of foreclosure within the previous three years is not eligible for a new FHA-insured mortgage. Loans with mortgage late 120 days or greater are considered a foreclosure.
- However, if the foreclosure was the result of documented extenuating circumstances that were beyond the control of the borrower and the borrower has re-established good credit since the foreclosure, the lender may grant an exception to the three-year requirement. Extenuating circumstances include serious illness or death of a wage earner, but do not include the inability to sell the house because of a



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- job transfer or relocation to another area.
- **Pre-Foreclosure / Short Sale / Deed-In-Lieu of Foreclosure**
The terms “short sale” and “preforeclosure sale” have the same meaning – the sale of a property in lieu of a foreclosure, resulting in a payoff of less than the total amount owed, which was pre-approved by the servicer. A preforeclosure sale usually involves a delinquent mortgage. A short sale may involve the payoff of a mortgage with no delinquencies.
 - Conventional:
 - A minimum of four years must have elapsed since sale of the property and payoff of the loan.
 - The maximum LTV is the lower of 90% or the maximum per the Product Guidelines.
 - Final HUD1 may be required for the sale of any property after 1/1/08.
 - **For refinance transactions, the existing loan must be seasoned greater than 84 months.**
 - FHA: Pre-foreclosure sale or short payoff is to be treated the same as a foreclosure
 - **Requirements for Re-establishing Credit**
After a bankruptcy, foreclosure, deed-in-lieu of foreclosure, or pre-foreclosure or short sale, the borrower's credit will be considered re-established if all of the following are met:
 - The waiting period and the related requirements are met.
 - The loan receives an Approve/Eligible recommendation from DU
 - The borrower has traditional satisfactory credit since the incident that includes at least 4 active references
 - All accounts must be current as of the date of the application
 - Minimum of four trade lines with at least one housing-related reference
 - Three of four trade lines must have been active in the last 24 months, including a mortgage or rental reference
 - If rental payments were not reported to the credit repositories, copies of bank statements, money orders, or canceled checks for the most recent 12-month period must be provided, in addition to the rental verification
 - No housing payments may have been past due since the date of discharge of bankruptcy or satisfaction of foreclosure
 - No more than two installment or revolving payments 30-days past due in past 24 months
 - No installment or revolving payments 60 or more days past due since the date of discharge of bankruptcy or satisfaction of foreclosure
 - No new public records for bankruptcy, foreclosure, deeds in lieu, pre-foreclosure sales, unpaid judgments, collections, garnishments, liens, etc., since the date of discharge of bankruptcy or satisfaction of foreclosure
 - Evidence that the Borrower' credit history does not contain multiple revolving accounts with high balances-to-limits or high overall utilization of revolving credit

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.

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.



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Child Support / Alimony/Maintenance

Payments of child support and alimony are counted as recurring debts. Acceptable sources of documentation include a copy of:

- Applicable page(s) and signature page of the divorce decree, or
- Property settlement, or
- Separation agreement

If payments are being paid through the court, a letter from the court verifying the dollar amount is sufficient. Obligations that will end within the next 10 months do not need to be counted in debt-to income ratio.

However, the size and number of remaining payments should not impact the borrower's ability to handle the new mortgage payment during the early period of the loan. If adjusted gross income is used to qualify the borrower in lieu of a full self-employed income analysis, any alimony payments reflected, as a reduction to income on the tax returns, should be added back to the adjusted gross income figure. Alimony payment must be included as a liability in the total debt ratios.

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.



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Delinquent Accounts

- Judgments, past due, collection liens, and charge-off accounts are generally to be paid off prior to or at closing. However, for primary residences and second homes, collection and charge-off accounts do not have to be paid off if the total balance of such accounts is \$5,000 or less. For investment properties, collection and charge-off accounts do not have to be paid if the balance of an individual account is less than \$250.00 or if the total balance of such accounts is \$1,000 or less.
- Satisfaction of tax liens is a condition of mortgage Loan approval. When the credit report or title report shows federal, state or local tax liens, a letter of explanation and proof that the lien is paid are required.

Debt Payoff / Consolidation

- **Revolving:** The payoff of revolving debts is permitted. If any portion of the loan proceeds is being used to pay off debts for qualification purposes, the underwriter must count a minimum \$10 per month payment for revolving debts and include these debts in the total debt ratio.
- **Installment:** Installment loans may be paid off (or paid down to 10 months or less) to qualify. Underwriters should use prudent judgment when qualifying a borrower who has paid down debt. Installment debts being paid off do not need to be included in the total debt ratio.
- When debts are being paid off or paid down, the payoff or pay-down must be documented and the source of funds verified.
- Verification that the debt has been paid must be provided by one of the following:
 - A copy of the HUD-1
 - A supplemental credit report
 - Verification from the creditor
- **Texas 50(a)(6) transactions can not include debt payoff as a requirement for loan approval or for qualification purposes.**

Disputed Account Information

Per DU requirements, the credit report used by DU in its underwriting analysis must be accurate. When erroneous or disputed accounts are identified on the DU Findings Report, the accuracy of the disputed tradeline(s) must be verified to determine if the tradeline(s) belong to the borrower and confirm the accuracy of the payment history. To satisfy these conditions, one of the following options must be used:

- If the tradeline does not belong to the borrower, or the reported payment history is inaccurate, borrowers must provide written documentation satisfying the DU condition. Under these circumstances, when the information is validated, DU may require no further action.
- If the tradeline does belong to the borrower and the reported payment history is accurate, the disputed tradeline(s) must be considered in the credit risk assessment. To ensure the disputed tradeline is considered, the Client must obtain a new credit report with the tradeline(s) no longer reported as disputed and resubmit the loan to DU.

Inquiries

Recent inquiries in the last 90 require explanation from the borrower. **The explanation must be specific and address each inquiry. Generic explanation letters are not acceptable.** Additional documentation may be required to support no additional debt has been incurred.

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.
- With 10 or less monthly payments remaining, the debt is counted in the DTI calculation unless documentation reflects that the debt does not increase the DTI by more than 5% and incremental reserves (sufficient to payoff the balance of the debt and any required program reserves) are documented
- Lease payments must always be included in DTI regardless of the months remaining



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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.

Student Loans

Obligations to repay all student 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.

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.



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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.

- Agency - Ratios per DU Approval
- FHA
 - Approve/Eligible – Ratios per DU Approval
 - Refer/Eligible – maximum 31/43

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.

Qualifying Payment

- Adjustable Rate Mortgages
 - Conventional
 - ARM loans with an initial fixed-period of 5 years or less the borrower is qualified using payment calculated on greater of Note rate plus 2% or the fully indexed rate (index plus margin)
 - ARM loans with an initial fixed-period of more than 5 years the borrower is qualified using payment calculated on greater of Note rate or the fully indexed rate (index plus margin)
 - FHA ARM loans with an initial fixed-period of 3 years qualify at the note rate
- Temporary Buydown
 - Qualify using fully amortized Note rate payment (not the bought down payment)



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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.

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.

Income Documentation

- The maximum age of income documents is 90 days. The age of the document is measured from the date of the document to the date the note is signed.
- Income must be supported by at least a paystub and the most recent year W-2 (salary) or 1 year tax returns (self-employed and commission) regardless of DU findings
 - The pay stub provided to verify wage earner income must be a computer generated pay stub covering the most recent pay period, with YTD earnings covering at least a 30-day period.
 - Paystubs that are handwritten must be supported by all of the following documentation
 - a copy of the payroll ledger or other company record signed by the appropriate company representative
 - a written VOE
 - W-2s for the previous 2 years
- Self-employed borrowers must provide recent income information to verify stability of income
 - YTD P&L if more than 90 days has elapsed since year end.
 - Year end signed P&L is required if 1040's have not been filed. (I.e. prior to April 15)
 - Qualifying income is based on verified 4506T – Tax Transcripts
 - Independent verification of the business
 - Business License verification (copy of license or internet printout)
 - Borrowers that generate business from their residence and are not required to obtain a license may be required to provide documentation
 - Letter from CPA that prepared their tax returns
 - Yellow Page advertisement
 - Business Card
 - Reference letters
- 2 years 1040s may be required depending on income sources
- Other Income must be documented per Fannie Mae guidelines
- All non-taxable income sources may be grossed up by a factor of 1.25 and file must contain documentation that the income is non-taxable
- Principal(s)/Owner(s) of the Originating Lender (or Reunion Mortgage Inc. approved Broker or Correspondent) are eligible for Full Doc transactions only and must provide two years complete 1040's (and business tax returns if applicable)
- Per Fannie Mae Borrowers must have been employed a minimum of 30 days in their current positions in



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order to use the income for qualifying purposes.

- Conventional loans: borrower(s) must be on job at least 30 days to use income as DU Approval is required
- FHA loans: borrower(s) on current job less than 30 days must be manually underwritten if income is used to qualify

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.

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 using the MGIC Self Employed Borrower 2009 must be completed on every transaction (using either the SAM or AGI method available in the software)
 - If either the borrower or co-borrower is self-employed, in addition to the required wage earning income documentation, two years complete personal tax returns must be provided even if the income is not being used to qualify. The personal tax returns 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

Rental Income

- If the subject property being financed is a single family or 2-4 unit investment property the borrower must have a 2-year history of managing rental property and rent loss insurance (This requirement may be waived if the borrower is qualified with the full PITIA payment for the subject investment property.)
- Conversion of Principal Residence to Second Home or Investment Property:
 - Refer to Occupancy Section of manual for eligibility and reserve requirements

Income Verification / 4506T

Reunion Mortgage verifies all income by processing 4506T validating 2 years 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
- If the income documentation provided by the borrower is $\geq 20\%$ 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.



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Information reported on the tax transcripts should match information reported on the tax returns provided by the borrower.

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
- Expense/Auto Reimbursement (except agency loans)
- VA Education Benefits
- Income from Mortgage Credit Certificates
- Illegal Income
- Income not listed on Tax Returns
- Any income that cannot be documented and verified
- Room/boarder rent from subject property
- Capital Gains
- Passive income from Partnerships and S Corporations
- Income that is not stable (i.e. declining income)
- Stipends or Grants



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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
- Acceptable asset documentation includes:
 - Direct written verification completed by the depository and one month complete account statement
 - Two consecutive months account statements from the depository.
 - Statements downloaded from the Internet. These may be utilized only if they provide the name of the institution, the account number, borrower's name, date, and current balance.

Reserves

Regardless of DU asset requirements, the following reserves are required:

- Subject Property
 - Owner Occupied: Reserves determined by DU
 - Second home: Two months reserves
 - Investment property: Six months reserves
- Investment Property and Second Home: Other financed properties:
 - 2 months on each other financed property.
 - When a borrower has multiple financed properties and is financing a second home or investment property, DU is not able to determine the exact number of financed properties the borrower owns. As a result, the lender must manually apply the applicable reserve requirements for the other financed investment property and second home transactions as applicable. The lender must subtract the amount of required reserves from the borrower's liquid assets prior to submitting the loan casefile to DU.
 - **When the subject property is a primary residence, the policy for reserves requirements is unchanged regardless of how many other financed properties the borrower may have.**
- Refer to *Retaining Current Residence* under the **Occupancy** section for additional reserve requirements
- When required, reserves must come from the Borrower's own funds and must be documented and verified. Proceeds from a Home Equity Loan, a credit line, the sale of an asset other than real estate, a bridge Loan, or cash out on the Mortgaged Premises, or any other property are not eligible to be used for reserves.



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Liquid reserves are cash or assets that are easily converted to cash, without restriction and are readily accessible.

The reserves calculation for a financed property is based on the monthly housing expense of the financed property. All reserve requirements are based on the new Fannie Mae definition of reserves for Principal, Interest, Taxes, Insurance, and All components of the monthly housing expense (PITIA) as defined below:

- Principal and interest
- Hazard, flood, and mortgage insurance premiums (as applicable)
- Real estate taxes
- Ground Rent
- Special assessments
- Any owners' association dues (excluding utility charges that apply to the individual unit)
- Any monthly cooperative corporation fee (less the pro rata share of the master utility charge for servicing individual unit)
- Any subordinate financing payments on mortgages secured by the subject property.

NOTE: If the subordinate financing is a HELOC, calculate the monthly payment using 1% of the total line amount.

Bank Accounts

Two consecutive monthly bank statements (or one month if indicated by DU findings) or Verification of Deposit and one month bank statement is the minimum documentation required to document the Borrower's assets. Bank accounts include funds on deposit in savings accounts, checking accounts, certificate of deposits, and money market accounts.

These funds may be used for the down payment, closing costs, and reserves.

- Individual Accounts - Funds in the Borrower's individual bank account are acceptable.
- Joint Accounts - Obtain a letter from the non-borrowing co-depositor(s) stating the relationship with the borrower and that the borrower has full access and use of all the funds for this transaction and for reserves.
- Trust Accounts - Funds disbursed from a trust account where the Borrower is the beneficiary are acceptable if the Borrower has immediate access to them. The trust manager or trustee must verify the value of the trust account and confirm the conditions under which the Borrower has access to the funds. When using trust income for qualifying, effect of the withdrawal must be documented.
- Accounts which do not allow the Borrower to have immediate access to the funds for the above stated purposes may not be used as acceptable assets, including funds in accounts where the Borrower is not the beneficiary such as custodial accounts or "In Trust For" accounts.

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 may be online account or portfolio statements obtained by the Borrower, provided such are printed and the Internet Uniform Resource Locator (URL) address is included identifying the source of



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information as well as all of the other information listed above for standard bank statements. Statements downloaded directly from the Internet to a Word document or Excel spreadsheet are not acceptable.

Verification of Deposit

- At least one month's bank statement is required to cross-validate the information if a verification of deposit is used. 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.
- 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, the most recent two months bank statements must be provided. 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.

Bridge Loan

A bridge or swing loan is a form of second mortgage secured by the Borrower's present home, which is for sale. By using funds from this loan, the Borrower can close on a new home before selling the present home. Bridge loans are an acceptable source of cash to close, as long as the bridge loan is considered in the DTI and the equity position of the existing home – refer to Occupancy Section for additional restrictions.

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.



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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 on an owner occupied transaction
- 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
 - Evidence that the loan is secured by an asset owned by the Borrower
 - Value of the Asset (e.g. copy of the appraisal, copy of Blue Book value)
- Payment must be included in the DTI unless excluded as outlined in the Contingent Liabilities section within Liabilities & Debt Ratios

Proceeds from a 1031 Tax Deferred Exchange

Section 1031 of the Internal Revenue Code permits Borrowers to defer payment of capital gains taxes by exchanging a like-kind property rather than selling property. A 1031 exchange is not allowed on primary residences but will be an acceptable source of funds subject to the following:

- The 1031 Exchange cannot be an exchange of a partnership or limited liability corporation interest.
- The name of the taxpayer on the sale of relinquished property must be the same as the acquirer of the Mortgaged Premises.
- Relinquished property sale must close before or simultaneously with the property acquired.
- An executed/signed HUD-1 Settlement Statement for the relinquished property is required.
- Verification of funds from the Exchange holder is required.

Sale of Other Assets

If funds are derived from the sale of assets other than real estate, they must be verified by the following documentation:

- Proof of ownership
- Support for the value of the asset (appraisal)
- Evidence of the transfer of ownership (e.g., a copy of the bill of sale)
- Evidence of receipt of the purchase proceeds (e.g., deposit slip or bank statement)
- Evidence that a party to the property sale or the mortgage financing transaction did not purchase the asset

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



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- 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

Gifts

- Gift funds are acceptable after the borrower has made the minimum down payment of 5% from their own resources. (Exception: $\leq 80\%$ LTV/CLTV all down payment can be all gift)
- Gift funds may not be used for meeting reserve requirements
- Gifts are not allowed on investment properties
- A gift must be from the borrower's spouse, parent, child or dependent or any other individual related to the borrower by blood, marriage, adoption or legal guardianship or from a domestic partner, fiancé or fiancée.
- Verification and documentation that sufficient funds to cover the gift are in the donor's account or have been transferred to Borrower's account is required.
- A gift letter providing the following must be included in the Loan file:
 - The amount of the gift
 - The donor's name, address, and telephone number
 - Donor's relationship to the Borrower
 - Donor statement that repayment is not required
 - The subject property address
 - Donor's signature
- When the funds are not transferred prior to settlement the donor's ability to provide the gift funds must be documented using one of the following:
 - Certified check (stamped & validated by bank – front and back) given to the closing agent
 - Cashier's check or money order
 - Other official check for the amount of the gift
- Acceptable evidence of transfer of gift funds includes one of the following:
 - Copy of the gift check or withdrawal slip and the Borrower's deposit slip
 - A copy of the donor's check to the closing agent
 - HUD-1 Settlement Statement for Gift of Equity only
- Pooled Funds: Regardless of the LTV, a gift from an individual with whom the Borrower has an Established Relationship can be pooled with the Borrower's funds to satisfy the minimum required down payment, if the person providing the gift has lived with the Borrower for the last 12 months and will continue to do so as evidenced by a letter of intent. The donor should provide appropriate documentation to demonstrate a history of shared residency - such as a copy of a driver's license, bill, bank statement, etc. that shows the donor's address as being the same as the Borrower's address.

Gift of Equity

- A gift of equity is acceptable for primary residence and second home transactions. Borrowers may receive a gift of equity from the seller of the Mortgaged Premises, provided the seller is someone with whom the Borrower has an Established Relationship. The gift will be reflected as a credit on the HUD-1 Settlement Statement and must be clearly labeled as a gift of equity. A gift of equity is not considered a seller contribution.
- The donor must have sufficient equity in the property to cover the gift and a gift letter must be signed. The HUD-1 Settlement Statement will satisfy donor's ability and receipt of gift verification.

Wedding Gifts

When funds are obtained from wedding gifts the following must be provided:

- A copy of the Marriage Certificate (not more than six months old)
- Verification of receipt of the funds through a bank statement or deposit slip



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Donated Funds

- Donated funds from a church, a municipality, an approved community nonprofit organization, or a public agency may be applied towards the closing costs or to supplement the Borrower's reserves. Donated funds may not be applied to satisfy the Borrower's minimum down payment requirements.
- A gift or grant from a church, municipality, or an approved community non-profit organization must be evidenced by either a copy of the letter awarding the gift or grant or a copy of the legal agreement that specifies the terms and conditions of the gift or grant. This supporting document must include language indicating that no repayment of the gift or grant is expected and an indication of how the funds will be transferred. Evidence of the transfer of the funds such as a copy of the donor's canceled check or a settlement statement showing receipt of the check must be provided.

Income Tax Refund

- If an income tax refund that has not yet been received will be used as funds for down payment or closing costs, the Borrower must provide a copy of the actual signed tax return to verify the anticipated refund.
- Verification of receipt of the refund is required and must be documented by a copy of the refund check.

Life Insurance – Cash Value

When the Borrower uses the net value from a loan against the cash value of a life insurance policy or from the surrender value as funds for down payment and/or settlement costs, the value must be verified by a written statement from the life insurance company. The statement must specify the amount of net cash value currently available to the Borrower. Verification of receipt of the funds is required. Payments on the secured loan do not have to be included in the monthly debt-to-income obligation ratio.

Lot Equity

The Borrower may use lot equity for down payment. Lot equity is determined by using the current appraised value of the lot owned by the Borrower on which the subject improvement was constructed, less any lien. However, if the lot was purchased less than 12 months prior to the Loan's application date, the other equity must be based on the lesser of the Purchase Price or current appraised value of the lot.

Notes Receivable/Repayment of Loans

When funds are obtained from repayment of a previous loan made by the Borrower, the following information must be provided:

- Written agreement between the Borrower and the recipient of the loan
- Verification the Borrower had the ability to lend the funds. Provide evidence that the funds were withdrawn from the Borrower's account
- Verification that repayment has been made. Provide statements verifying the funds were withdrawn from the recipient's account and deposited into the Borrower's account

Rent Credit/Lease with Option to Purchase

- Borrower must have a minimum of 5% investment of his/her own funds in the transaction. The transaction must be a purchase of a primary residence. Any portion of the rental payment over and above fair market rent can be included in the minimum 5% down payment provided the minimum term of the original lease was at least 12 months. The credit package must contain the following information:
 - A copy of the rental/purchase agreement and 12-months canceled rent checks or bank statements to document rental payments.
 - The fair market rent must be verified by the appraiser.
- If the above requirements are not met, the rental payments over and above fair market rent may not be included toward the down payment.

Retirement Accounts

- Funds from individual retirement accounts (such as 401K, IRA, Keogh accounts, etc.) may be used as the source of funds for the down payment, closing costs, or cash reserves.



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- When funds from these sources are used for down payment or closing costs, the funds must be withdrawn and proof of withdrawal must be provided. Subtract 40% from the vested amount to account for any applicable withdrawal penalties or income tax so that only the “net” withdrawal is applied.
- When funds from these sources are used to support the cash reserve requirements, it is not required that the funds actually be withdrawn from the accounts, but only 60% of the vested value may be used as reserves.
- When retirement accounts only allow for withdrawal in connection with the Borrower’s employment termination, retirement, or death, the vested funds should not be considered as reserves.
- The most recent retirement account statement identifying the Borrower’s vested amount and the terms and conditions for fund withdrawals or Loans is required.

Stocks/Bonds/Mutual Funds

- The value of stocks, bonds or mutual funds must be documented by a current statement, a photocopy of the stock certificate accompanied by a current newspaper or internet stock list or VOD.
- Verification of liquidation is required when the funds from the sale of stocks/bonds are to be used for down payment, closing costs or other costs.
- 70% of the value may be used for reserves
- Government bonds should be valued at its Purchase Price unless redemption value can be determined and verified.
- The value of stock options must be verified by referencing a statement that lists the number of options and the option price and using the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock. The calculated value must be discounted by at least 50% to account for estimated taxes and market uncertainty. Stock options can not be used for reserves.
- **Stock – Privately Held Corporation**
 - When the stock of a privately held (not publicly traded) corporation will be used as funds for down payment and closing costs, the price per share must be validated by a CPA for the corporation. A copy of the Buy/Sell Agreement is also required. Verification of receipt of the funds from the sale of the stock is required.
 - In the situation where the privately held corporation is a source of the Borrower’s income, the above documentation will be required together with verification from the accountant that sale of the stock will not have an adverse affect on the business or reduce the Borrower’s current income level.
 - Stock in a privately held corporation can not be used for reserves

Trade Equity

- The property seller may take a property owned by the Borrower as part of the down payment on the property being sold to the Borrower, as long as the Borrower has made a 5% cash down payment. The Borrower’s equity contribution must be a true value consideration supported by a current appraisal.
- The following documentation must be provided:
 - A copy of the appraisal on the property being traded
 - A copy of the trade-in contract
 - Title search proving that the Borrower owns the real estate and verifying any liens associated with the property
- To calculate Borrower’s equity, use the following formula:
(lesser of current appraised value or trade-in price) minus (outstanding liens plus transfer fees) = Borrower’s equity
- The property seller must provide proof of title transfer in addition to verification that either all liens have been satisfied or the Borrower is released of liability by an approved assumption. The transfer deed must be recorded.
- The above rules apply to all trade-in transactions, including those evidenced with two separate contracts in which buyer and seller reverse roles.
- When the property being traded is a Manufactured Home, the equity contribution is determined by:
lesser of trade-in value or



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(appraised value for the land being traded +90% of the retail value of the Manufactured Home¹)
minus (outstanding liens plus transfer fees) = Borrower's equity

¹ The retail value is based on the National Automobile Dealers Association Manufactured Housing Appraisal Guide.

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



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PROPERTY/APPRaisal

Eligible Property

- Single family attached and detached
- 2-4 unit
- PUDs meeting FNMA guidelines
- Condominiums (FNMA Types P, Q, R, S or FHA Approved)
- Modular / Prefab homes (marketability must be supported with similar comparables)

Ineligible Property

- Condotels
- Cooperatives
- Leasehold Estates
- Non-warrantable condos
- Model-home lease-backs
- Unique Properties (i.e., dome, log, geothermal, stilt home, post and pier foundation, one of- a kind luxury residence, etc.)
- 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 values in excess of the predominant value (Typically, the subject value should not exceed 150% of the markets predominant value)
- Properties with any kind of Deed Restrictions
- 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
- Hawaii properties in Lava Zones 1 or 2
- 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, and a working sink and working stove. 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

Increase in Value / Flipping

Purchase Mortgages for Properties Recently Transferred

For purchase transactions, where the seller is not a lending or government institution, the following restrictions also apply:

- Calculated from the closing date when the seller purchased the property to the date of the signed purchase contract for the subject transaction.
- A property that is sold within 90 days after acquisition by the seller is not eligible (conforming conventional loans are allowed subject to satisfactory documentation of any increase in value)
- A property that is sold within 91 to 180 days after acquisition by the seller is eligible with the following



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restrictions:

- If the sale 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 contracts, receipts, and acceptable photos of all improvements to support the increase in value

Appraisal

All appraisals are to be completed properly and in accordance with Fannie Mae guidelines and meet minimum standards established under FIRREA. 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. Correspondents are responsible for monitoring the quality of their appraisals. Reunion Mortgage has the right to refuse any appraisal or appraiser.

▪ Report Types

- SFR and PUD: Uniform Residential Appraisal Report (Form 1004)
- Condominium: Individual Condominium Unit Appraisal Report – (Form 1073)
- 2-4 Unit Properties: Small Residential Income Property Appraisal Report (FNMA Form 1025/FHLMC Form 72)
- Property Inspection waivers and reduced reports recommended by DU are not allowed

▪ 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 is required. The update must include additional comparables that support value. At least one new comparable must be closed within 90 days of the update of value and at least one must be a recent listing or pending sale.

▪ 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



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- 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
- **Review Appraisals**
 - All loans require a Reunion Mortgage 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 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 Mortgage 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 Mortgage 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



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- 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)**
 - 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.
 - Fannie Mae Form 1004, 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 (Fannie Mae Form 2055)**

NOTE: Reunion requires an interior inspection for the subject property. The 2055 can not be used for the subject property. However, his report may be used to document the 30% equity required when the borrower is retaining their current residence.

 - 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



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- 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)**
 - 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.
 - 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.
- **Small Residential Income Property Appraisal Report (Form 1025)**
 - 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.
 - 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.



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- **Market Conditions Addendum (Form 1004MC)**
 - Per Fannie Mae Announcement 08-30 and FHA Mortgagee Letter 09-09, all appraisals performed (with an effective date) on or after April 1, 2009 must include Form 1004MC. Refer to Fannie Mae Announcement 08-30 guidelines for completion <https://www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2008/0830.pdf>
 - The revised form dated March 2009 is required for all appraisals dated on or after July 1, 2009.
- **Single-Family Comparable Rent Schedule (Form 1007)**
 - Form 1007 is required with one-unit investment properties. It is required for all conventional loans, even if the form is not included as a requirement in the DU findings. 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)**
 - Required with one-unit investment properties and all two-to-four properties (including those in which the borrower occupies one of the units as a principal residence) and is used to determine the amount of operating income that can be used in evaluating the borrower's credit. It is required for all conventional loans, even if the form is not included as a requirement in the DU findings.
 - 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)**
 - If the appraisal report will be more than **90** days old on the date of the note and mortgage the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. This policy applies regardless of whether the property was appraised as proposed or existing construction.
 - Appraiser must provide additional comparables to support the update of value. At least one new comparable must be closed within 90 days of the update and at least one must be a recent listing or pending sale.
 - 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.



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- 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 1004B). 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 Forms 1075, 2055, 2095 require front view of subject property only
 - 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.

Condominiums

- The Submission Transmittal (FNMA 1008) must identify the type of project review performed.
- Reunion Underwriter must complete Conventional Condominium and PUD Warranty Form
- Regardless of review type or classification, all projects must meet the following requirements:
 - Project must be located in an area where condominium ownership is readily acceptable.
 - FNMA Insurance requirements must be met.
 - Studio apartments that are typical and common in the subject's market area are eligible.



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- Commercial use of project may not exceed 20%.
- Projects involved in litigation are ineligible for financing.
 - All files must be documented to verify there is no litigation in the project by:
 - Direct verification on HOA Certification
 - Letter from HOA
 - Certification on appraisal indicating name and phone number of contact at HOA
- All projects must be in compliance with all applicable state or local laws.
- Exposure in any project is limited to 10%.
- Condominium Project Reviews: - Refer to Conventional Condominium and PUD Guidelines for complete guidelines on project acceptance and documentation requirements.

Condominium Project Review Descriptions:

- P Limited Review** – New Project (Site Condos only)
- Q Limited Review** – Established Project
- R CPM Expedited Review** – New Project
- S CPM Expedited Review** – Established Project
- T Fannie Mae Review** – PERS, Projects with Un-expired Final or Conditional Project Acceptance Status
- V DU Refi Plus / HomePath Mortgage**

Limited Review

- Loans secured by attached units in new condominium projects are not eligible for limited reviews.
- Primary Residences: The max LTV/CLTV for loans secured by established attached condominium units is 90%/90% and DU Approval must indicate property is eligible for Limited Review
- Second Homes: The max LTV/CLTV for loans secured by established attached condominium units is 75%/75% and DU Approval must indicate property is eligible for Limited Review
- Investment Properties: Investment properties are not eligible for limited reviews including Site Condos (detached properties)
- Entire project must be 100% complete (not just the subject phase) to be eligible for Limited Project Review
- 90% of the units must be conveyed (sold & closed) to purchasers other than the developer and HOA must be in unit owners control

Expedited Review Using Condo Project Manager (CPM)

- R and S Project must be warranted through FNMA CPM system to be eligible for financing
- Condominiums consisting of 2-4 units must be complete, established projects

Required Documentation and Ineligible Projects

- Refer to Condominium and PUD Guidelines for complete list of required documents and list of ineligible projects

Disaster Area

Refer to Disaster Area Policy for procedures and current Declared Disaster Areas.

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.



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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 Mortgage may require an acceptable Environmental Risk report as a condition.

Heating and Cooling Sources

All properties are required to have a permanent source of heat and, if typical for the area, cooling. Space heaters and similar sources are not considered permanent heat sources, even if affixed to a permanent wall.

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 1-unit 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.
- An appraisal must be obtained for the mixed-use property. Property inspections and waivers are not permitted.
- 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 and 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.



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- 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 / 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)
- 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.
- Properties with non-permitted accessory unit, require letter from the insurance agent documenting that the existence of the unit does not jeopardize any future hazard insurance claim
- Accessory unit is substantially smaller than the primary unit and contribute 10% or less of the property value.
- Legal non-conforming use may be acceptable provided its current use does not adversely affect its market value and marketability.

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

- All products: Properties currently listed for sale are not eligible for refinance.



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- All products:
 - Cash-Out Refinance: Properties listed for sale within the past 6 months of the application date are not eligible for refinance.
 - Rate/Term Refinance: Property has been taken off the market at least one day before the application date.
 - Documentation reflecting the date the property was removed from the market must be provided
 - Borrower must confirm the intent to continue to occupy if a primary residence
- 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

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 Mortgage 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



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problem, Reunion Mortgage 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
 - For property owned < 12 months: Value is generally defined as the appraised value regardless of how long the borrower has held title – see Continuity of ownership restrictions and specific DU findings. If the appraisal shows a substantial increase in value from the original purchase price, the appraiser should ensure the increase in value is valid.
 - For property owned ≥ 12 months use the current appraised value.

Well and Septic Certifications

Reunion Mortgage does not require well and septic certifications on every applicable loan. However, Reunion Mortgage 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.



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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.
- **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.
- Transactions where occupancy is questionable will be treated as non-owner occupied.

Retaining Current Residence

Purchase transactions where borrowers are not selling their current residence prior to close of escrow are not allowed. However, exceptions may be considered on a case by case basis with approval by the corporate office with the following requirements.

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.

Conventional

- **Pending sale of a current primary residence where the transaction will not close and title will not transfer to a new owner prior to the new transaction**
 - A pending sale requires a valid, signed Purchase Agreement
 - Both the current and the proposed mortgage payments must be used to qualify the Borrower for the new transaction
 - Six months PITIA reserves required for both the retained and subject properties
- **Current primary residence listed or converted to a second home**
 - Both the current and the proposed mortgage payments must be used to qualify the Borrower for the new transaction
 - Six months PITIA reserves required for both the retained and subject properties
 - Reduced reserves of no less than two months for both the retained and subject properties may be considered if there is documented equity of at least 30% in the existing property
- **Current primary residence that is converted to an Investment Property**

Up to 75% of the rental income may be used to offset the mortgage payment to qualify if there is documented equity of at least 30% in the retained property as evidenced by at least a 2055 exterior-only inspection, dated no more than 60 days prior to the Note Date

To determine whether the borrower's equity meets the 30 percent minimum requirement, if a borrower has an equity line of credit with an available balance, the entire credit line must be considered in the calculation regardless of whether or not there is an outstanding balance.



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- The rental income must be documented with a copy of the fully executed lease agreement and receipt of a security deposit from the tenant and deposit into the Borrower's account
- A family member, individual with an established relationship with those involved in the transaction, or an interested party may not sign the lease agreement as the renter
- A fair market rent letter or Fannie Mae 1007 may also be required
- If the 30% equity in the property cannot be documented, rental income may not be used to offset the mortgage payment
 - Both the current and the proposed mortgage payments must be used to qualify the Borrower for the new transaction
 - Six months PITIA reserves required for both the retained and subject properties
- If a borrower currently owns and resides in a multiple-unit property rental credit for those units can be considered regardless of the equity position if the other units have been rented and that rental income can be verified on Schedule E. For the unit being vacated by the borrower, to use the proposed rental income, the equity position of at least 30 percent must be confirmed.

FHA

When a borrower is vacating their current residence and purchasing another primary residence, rental income from the vacated property may not be included in the total qualifying income, with the following exceptions:

- Borrower is relocating with a new employer or being transferred by their current employer to an area that is not within a reasonable commuting distance, rental income from their current primary residence may be considered.
- The following documentation must be provided to include rental income:
 - A lease agreement signed by the borrower and the lessee/tenant for at least 12 months
 - Evidence of the security deposit and/or evidence that the first month's rent was paid to the borrower
- Current residence may have a maximum 75% LTV or less supported by a current appraisal that is no more than six month old
 - Fannie Mae form 1004/Freddie Mac form 70
 - Fannie Mae/Freddie Mac form 2055 exterior only appraisal report
 - Fannie Mae form 1075/Freddie Mac form 466 for condominium units
- Borrowers with negative equity on current residence are not eligible for financing.
- Borrowers with zero (0) to < 25% equity in current residence must have 6 months PITIA cash reserves for each property and qualify for both properties without any rental income. (This includes borrowers that are eligible under FHA guidelines for relocations.)
- Rental income on the property being vacated must be reduced by the appropriate vacancy factor as determined by the jurisdictional FHA Homeownership Center (see <http://www.hud.gov/offices/hsg/sfh/ref/sfh2-21u.cfm>)

VA

- **Pending sale of a current primary residence where the transaction will not close and title will not transfer to a new owner prior to the new transaction**
 - Both the current and the proposed mortgage payments must be used to qualify the Borrower for the new transaction
 - Six months PITIA reserves required for both the retained and subject properties
- **Current primary residence listed or converted to a second home**
 - Both the current and the proposed mortgage payments must be used to qualify the Borrower for the new transaction
 - Six months PITIA reserves required for both the retained and subject properties
 - Reduced reserves of no less than two months for both the retained and subject properties may be considered if there is documented equity of at least 30% in the existing property
- **Current primary residence that is converted to an Investment Property**



GENERAL UNDERWRITING GUIDELINES

When a borrower is vacating their current residence and purchasing another primary residence, rental income from the vacated property may not be included in the total qualifying income, with the following exceptions:

- Borrower is relocating with a new employer or being transferred by their current employer to an area that is not within a reasonable commuting distance, rental income from their current primary residence may be considered.
- The following documentation must be provided to include rental income:
 - A lease agreement signed by the borrower and the lessee/tenant for at least 12 months
 - Evidence of the security deposit and/or evidence that the first month's rent was paid to the borrower
- Current residence may have a maximum 70% LTV or less supported by a current appraisal that is no more than six month old
 - Fannie Mae form 1004/Freddie Mac form 70

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 or where the applicant regularly conducts business affairs.
- 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.
- Transactions where occupancy is questionable will be treated as non-owner occupied transactions.
- 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.

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.
- Investment property must follow Fannie Mae guidelines.
- Investment properties require 6 months PITIA reserves
- The borrower must have a 2-year history of managing rental property. (This requirement may be waived if the borrower is qualified with the full payment for the subject investment property.)
- **Single-Family Comparable Rent Schedule** – (Form 1007)
Required with one-unit investment properties, regardless of whether or not rental income was used to qualify.
- **Operating Income Statement** – (Form 216)
Required with one-unit investment properties and all two-to-four properties (including those in which the borrower occupies one of the units as a principal residence) and is used to determine the amount of operating income that can be used in evaluating the borrower's credit.



GENERAL UNDERWRITING GUIDELINES

- **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 family 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.



GENERAL UNDERWRITING GUIDELINES

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 or 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
- **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.
 - An appraisal review 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 subordinate 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

- **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).

GENERAL UNDERWRITING GUIDELINES

- **The figures must match the final HUD1**
- **Conventional Continuity of Obligation**
 - For a refinance transaction (either limited cash-out or cash-out) to be eligible, there must a continuity of obligation if there is currently an outstanding lien that will be satisfied through the refinance transaction. An acceptable continuity of obligation (assuming that there is an outstanding lien against the property) exists when:
 - There is at least one borrower obligated on the new loan who was also a borrower on the existing loan being refinanced.
 - The borrower has been on title and residing in the property for at least 12 months and has either paid the mortgage for the last 12 months with zero late payments or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor. NOTE: Investment properties and Second Homes are not eligible as the borrower does NOT reside in the property.
 - The existing loan being refinanced and the title have been held in the name of a natural person or an LLC as long as the borrower was a member of the LLC prior to transfer. Title must be transferred to borrower and recorded prior to date of application, and may not be transferred back to LLC after funding. If LLC consists of more than one person, provide a statement from all owners verifying any payment due, if applicable.
 - NOTE: Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.
 - The borrower has recently inherited or was legally awarded the property (divorce, separation).
 - If the borrower is currently on title but is unable to demonstrate an acceptable continuity of obligation, or there is an outstanding lien against the property, the loan is still eligible but with additional restrictions. The loans must be underwritten, priced and delivered as a cash-out refinance transaction with these additional limits:
 - **No outstanding liens (e.g. purchased for cash or previous mortgage loans have been paid off):**
 - If the property was purchased within the 6 to 12 month period prior to the application date for new financing, the LTV ratios will be based on the lesser of the original sales price/acquisition cost (documented by the HUD-1 Settlement Statement) or the current appraised value; OR
 - If the property was purchased more than 12 months prior to the application date for new financing, the current appraised value may be used to calculate the LTV ratios.
 - If property was purchased within 6 months prior to application date, loan is not eligible for cash out refinance.
 - **Outstanding liens with no continuity of obligation:**
 - If the borrower has been on title for at least 6 months but continuity of obligation does not exist, the maximum LTV ratios will be limited to 50 percent based on the current appraised value.
- **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
 - **Conventional loans**
 - Fannie Mae will not purchase or accept delivery of a restructured loan refinance. Therefore, all



GENERAL UNDERWRITING GUIDELINES

restructured loans are ineligible for conventional loan financing.

- **FHA loans** are not eligible
- **Conventional Rate and Term Refinance**
 - DU to reflect “Limited Cash Out”
 - The payoff of the outstanding principal balance of an existing first mortgage
 - Hud-1 settlement statement(s) required from any transaction within past 6 months. If previous transaction was a cash-out or if it combined a first and non-purchase money subordinate into a new first, loan to be underwritten and coded as cash out.
 - The payoff of purchase money second including any prepayment penalties that are associated with the payoff of the second (A copy of the HUD-1, fully executed and signed by all parties, from the original sale must be obtained to verify that the entire amount being paid off was used to purchase the subject property)
 - The financing of closing costs and prepaid items
 - Cash back to the borrower that does not exceed the lesser of 2% or \$2000
 - Payoff a Construction to Permanent loan transaction
 - **NOTE:** Funds used to buyout other owner’s interest is not allowed (i.e. Divorce or Inheritance). Although, Fannie Mae considers this acceptable under Rate & Term Refinance, DU does not accommodate this type of transaction so it is not eligible with Reunion.
- **Conventional Cash Out**
 - The mortgage amount may include the present first mortgage pay-off, subordinate liens, closing costs and additional cash to the borrower.
 - The borrower must own the property for at least 6 months prior to the application to be eligible for a cash-out refinance
 - See State Specific Requirements section for Texas Section 50(a)(6) transactions.

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 Mortgage Inc. approved Broker or Correspondent) are eligible for Full Doc only. Two years complete 1040’s (and business tax returns if applicable) are required.
- Properties currently in default are not eligible for Non-Arms-Length Transactions



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- 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.

Section 32/High-Cost Loans

Reunion Mortgage 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

- Refer to State Loan Matrix
- **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

Subordinate Financing

- Institutional subordinate financing allowed. No city or county subordinate financing.
- Private party or seller carry subordinate financing is not allowed
- For employer financing – Repayment terms may not require the borrower to pay-in-full in the event the borrower no longer works for the employer. All other terms mentioned below must also be followed.
- Subordinate financing must meet FNMA guidelines
 - No balloon within 5 years
 - Payment must be sufficient to cover interest due
 - Interest rate and payment must be fixed (except for HELOC)
 - No prepayment penalty is allowed.
- Payment calculation for HELOC - Actual payment may be used, Interest-Only acceptable.
- File must contain a copy of subordinate lien note. File must contain Subordination Agreement if existing subordinate financing is remaining

Temporary Buydown

Refer to specific product guidelines

Ineligible Transactions

- Conventional loans that must be underwritten manually
 - Borrower whose income is needed to qualify and on the job less than 30 days. Since Fannie Mae requires at least 30 days of employment for income to be considered, income from a borrower with less than 30 days on the job cannot be used for qualifying.