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Chapter 1: Product Overview

Product Definition

This document contains Conforming mortgage guidelines for fixed rate and ARM loan programs. It incorporates guidelines used by our investors, as well as Fannie Mae (FNMA) and Freddie Mac (FHLMC) and various mortgage insurance providers. These guidelines are not complete FNMA or FHLMC guidelines. This version is designed to guide you in originating and underwriting conforming mortgage programs with NexBank.

The following is a list of some of the features our products offer:

- Interest Only
- Texas Cash-Out Refinance
- Lender Paid Mortgage Insurance

Reference: As always, AllRegs should be consulted for a complete set of guidelines. www.allregs.com

Documentation Options

The following is the only available documentation option:

- Full/Alternative Documentation

Third Party Originations

Third party originations are permitted on this product.

State Restrictions

At this time, only properties in Texas are eligible for financing with NexBank.

- Texas: Cash-Out Refinances are not permitted on Primary Residences unless utilizing the Texas Cash-Out refinance Product Codes
 - The Texas Cash-Out program is only available to Texas Branches and properties located in Texas

Servicing

This product is service released

Chapter 2: Product Codes

Overview

This Chapter details both Fixed and ARM product codes.

Fixed Rate Terms

- Fully amortizing mortgages are available on 15 to 40 year terms
- Interest Only mortgages are available on a 30 year term only and have a 10 year interest only period. Loans will fully amortize over the remaining 20 years following the interest only period

Fixed Rate Product Code Tables

These tables identify the fixed rate product codes

Standard Productions Fully Amortizing Description	Product Code
15 Year term	C15, C15RP
20 Year term	C20
25 Year term	C25
30 Year term	C30, C30M, C30RP

Interest Only Description	Product Code
30 Yr Fixed, 10 Yr Interest Only	C30I
3 Year ARM, 10 Yr Interest Only, 30 Yr Term	C31I
5 Year ARM, 10 Yr Interest Only, 30 Yr Term	C51I
7 Year ARM, 10 Yr Interest Only, 30 Yr Term	C71I
10 Year ARM, 10 Yr Interest Only, 30 Yr Term	C101I

Flex 97	Product Code
30 Year term	C30F97

(Not available at this time)

Texas Cash-Out Refinance Mortgages Fully Amortizing Description	Product Code
30 & 15 Yr Fixed Note: Loan amounts less than \$75,000 are not permitted	TXC30, TXC15

ARM Terms

- Fully amortizing ARM mortgages are available on a 30 year term

ARM Product Code Tables

This table identifies the ARM investor codes

3/1 ARM Program Description	Product Code
30 YR 3/1 ARM	C31

5/1 ARM Program Description	Product Code
30 YR 5/1 ARM	C51

7/1 ARM Program Description	Product Code
30 YR 7/1 ARM	C71

10/1 ARM Program Description	Product Code
30 YR 10/1 ARM	C101

Chapter 3: Full/Alternative Documentation

Introduction

Full Documentation refers to standard FNMA/FHLMC documentation requirements

Alternative Documentation refers to FNMA/FHLMC acceptable alternative standard verification forms, per DU or LP findings.

Minimum/Maximum Loan Amounts

- Minimum Loan Amount = \$50,0000
- The table below defines the maximum conforming loan amounts

Units	Maximum Loan Amount	Maximum Loan Amount – Alaska and Hawaii
1	\$417,000	\$625,500
2	\$533,850	\$800,775
3	\$645,300	\$967,950
4	\$801,950	\$1,202,925

Fully Amortizing Enhanced Eligibility – Maximum LTV/CLTVs

The table below identifies maximum LTV/CLTVs for Fully Amortizing fixed rate and ARM Mortgages.

Notes:

- This table does not apply to Manufactured Housing or Interest Only
- CLTV is calculated based on the disbursed amount of the line or loan
- All loans must be DU Approve/Eligible or LP Accept/Eligible

LTV	CLTV	Purpose	Units	Occupancy	FICO Score
95	95	Purchase, R/T Refi	1	Primary	680
80	95	Purchase, R/T Refi	1-2	Primary	620
75	N/A	Purchase, R/T Refi	3-4	Primary	620
80	80	Cash-Out	1	Primary	620
90	90	Construction-Perm	1	Primary	720
80	90	Purchase, R/T Refi	1	Second Home	620
75	75	Cash-Out	1	Second Home	620
80	80	Purchase	1-2	Investment	680
75	75	R/T Refi	1-2	Investment	620
75	75	Purchase, R/T Refi	3-4	Investment	620
75	75	Cash-Out	1-2	Investment	620
70	70	Cash-Out	3-4	Investment	620

Interest Only – Maximum LTV/CLTVs

The table below identifies maximum LTV/CLTVs for fixed rate and ARM mortgages under the Interest Only option

- CLTV is calculated based on the disbursed amount of the line or loan
- Loan must be DU Approve/Eligible (LP not allowed)
- Investment Properties not allowed with Interest Only

LTV	CLTV	Purpose	Units	Occupancy	FICO Score
80	N/A	Purchase, R/T Refi	1	Primary	620
80	N/A	Purchase, R/T Refi	2	Primary	620
75	N/A	Purchase, R/T Refi	3-4	Primary	620
80	N/A	Purchase, R/T Refi	1	Second Home	620
70	N/A	Cash-Out	1	Second Home	620
80	N/A	Purchase	1-2	Investment	620
75	N/A	R/T Refi	1-2	Investment	620
70	N/A	Cash-Out	1-2	Investment	620

Flex 97 (Not available at this time)

Loan Purpose	Occupancy	Units	Max LTV%	Max CLTV%	Min. FICO
Purchase, Limited Cash-Out Refinance	Primary	1/PUD/Condo	97	N/A	700

Notes:

- For purchase transactions only
- The borrower is required to contribute at least 3% of the purchase price into the transaction
- Restricted to First-Time Home Buyers ONLY

DU Refi Plus

Loan Purpose	Occupancy	Units	Max LTV%	Max CLTV%	Min. FICO
Rate Term Refinance	Primary	1 unit and PUD	105	110	620
Rate Term Refinance	Second Home/Investor	1 unit and PUD	80	80	700

Declining Markets

The maximum LTV and CLTV will be reduced by 5% for all properties determined to be located in a declining market.

Maximum Cash-Out Restrictions

There is no limit to the amount of cash-out.

Qualifying Ratios

The maximum qualifying ratios are as follows:

- LTV > 80% - 41% regardless of AUS findings
- LTV < or = 80% - to be determined by AU findings

Reserve Requirements

Primary Residence

- Purchase Transactions:
 - DU/LP will determine the number of months PITI required
- Limited or Cash-Out Refinance Transactions:
 - DU/LP will determine the number of months required
- If this is a purchase or rate/term refinance of a primary, the LTV is greater than 80% and 2 months' reserves are required

Second Homes

- 2 months' reserves required on the subject property that is a second home, plus an additional 2 months' reserves on every other financed second home and investment property are required

Investment Properties

- 6 months reserves required on the subject property that is an investment home, plus an additional 2 months' reserves on every other financed second home and investment property are required

Notes:

- Gift funds cannot be used to satisfy any reserve requirements
- Cash back from a transaction cannot be used to satisfy any reserve requirements

Chapter 4: Qualifying Payment and Additional ARM Information

Qualifying Payment

Based on fully indexed rate or note rate, as determined by DU

Cap Structure Table

This table identifies the various Cap structures.

ARM Type	Interest Rate Caps			Margin
	Initial	Subsequent	Lifetime	
3/1 year	2%	2%	6%	2.25%
5/1, 7/1 & 10/1 year	5%	2%	5%	2.25%

Qualifying Rates

This table identifies the qualifying rates:

ARM Description	Qualifying Rate
3/1, 5/1, 7/1 and 10/1 year ARMs	Indexed rate or Note rate, whichever is higher

Conversion Option

Not allowed

Loan Assumptions

The following ARMs are assumable at any time:

- 3/1

The following ARMs are assumable after the initial fixed period:

- 5/1, 7/1 and 10/1

Note: Fixed Rate mortgages are not assumable

Index Table

This table identifies which index table to use

ARM Type	Index
3/1, 5/1, 7/1 and 10/1	The one-year London Interbank Offered Rate ("LIBOR") which is the average of Interbank offered rates for one-year U.S. dollar denominated deposits in the London market, as published in The Wall Street Journal

Balloon Loan Information

Product not currently offered

Chapter 5: Prepayment Penalty

Restrictions
Not permitted

Chapter 6: Borrower Eligibility

U.S. Citizens

Eligible with no restrictions

Permanent Resident Aliens

- Eligible for a mortgage on the same terms as a U.S. Citizen
- Documentation must be provided to evidence permanent residency

Non-Permanent Resident Aliens

- Two year employment verification in the U.S. or in the borrower's previous country
- Two year credit and residency history must be established and verified in the U.S. or in the borrower's previous country.
- Verification that the borrowers are legally residing/working in the U.S. must be supplied. (Diplomatic visas are unacceptable)

Non-Occupant Co-Borrower Restrictions

Permitted with the following options:

- LP Accept/Eligible
- DU Approve/Eligible

Eligibility requirements

- The non-occupant co-borrower must not have an interest in the property sales transaction
- 5% of the down payment must come from the occupying borrower unless then LTV/CLTV is $\leq 80\%$
- Occupying borrower's DTI is limited to 43%
- LTV limited to 90%

Ineligible Borrowers

- LLC (Limited Liability Corporation)
- Irrevocable Trusts
- Life/Estate Trusts
- All other Trusts
- Foreign Nationals

Chapter 7: Occupancy Eligibility

Primary Residences

A Primary Residence is a 1 to 4 unit residential property physically occupied by an owner as the principal home domicile. Among the criteria that should be considered when evaluating whether a property is a Primary Residence are the following:

- It is occupied by the owner for the majority of the year
- It is in a location relatively convenient to the owner's principal place of employment
- It is the address of record for such activities as federal income tax reporting, voter registration, occupational licensing and similar functions
- It possesses the physical characteristics to accommodate the owner's immediate dependent family. These characteristics are those traditional to both the owner and the neighborhood
- The borrower states an intention to occupy the property as a Primary Residence

Note: Parents who want to provide housing for their physically handicapped or developmentally disabled adult children (who are unable to work or who have income that is not sufficient for them to qualify) will be able to purchase or refinance a single-family property for such children and have it be considered a Primary Residence, even though the parent borrower will not be the occupant of the property. This same flexibility will be extended to children who want to provide housing for elderly parents (who are unable to work or who have insufficient income to qualify for a mortgage of their own). The following documentation is required to be in the file:

- A letter of intent from all parties detailing the purpose of the purchase
- Evidence the elderly parent or disabled adult child has insufficient income to qualify

Second Homes

A Second Home is a one-unit property occupied by the borrower for some portion of the year. The following items must also be taken into consideration:

- Borrower must have exclusive control over its use
- Property must be suitable for year-round occupancy, but not under a time-share agreement
- Property must be located within a reasonable distance from the borrower's principal residence
- Property must not be subject to a rental agreement that requires the borrower to rent the property or that gives a management firm control over its occupancy
- Rental income may not be used to qualify the borrower

Investment Properties

A one to four unit residential property, other than a Primary Residence or Second Home that is suitable for year-round rental and occupancy. The following requirements apply:

- Rental property leases must have a provision showing the lease being subordinate to the mortgage
- The lease must show the tenant’s rights to purchase the property have been formally waived by the tenant(s)
- An Operating Income Statement is required to determine cash flow and operating income derived from the subject property
- A Single Family Comparable Rent Schedule or Small Residential Income Property Appraisal Report (for 2 to 4 family dwellings) is required to obtain gross income for use in determining the income-producing ability of the subject property
- Loans utilizing Enhanced Eligibility LTVs must also meet the following:
 - Borrower must have at least a two-year history of managing rental properties, unless the borrower qualifies for the mortgage based on the full PITI
 - Borrower must obtain “rent loss” insurance to cover rental losses that may be incurred during any period that a property is being rehabilitated following a casualty and must cover a minimum of six months rent loss, unless the borrower qualifies for the mortgage based on the full PITI

Number of Properties Owned

The table identifies the number of properties the borrower may own or have financed

Type of Property	Number of Properties Owned/Financed
Primary Residence	For primary residence transactions the maximum number of properties the borrower may own is unlimited.
Second Homes and Investment Properties	The maximum number of financed properties, regardless of lender, for any borrower will be limited to four including the borrower’s Primary Residence. Privately financed properties and land contracts are also included in the maximum

Chapter 8: Property Eligibility

Ineligible Properties

- Manufactured Homes
- Modular Homes
- Condos with leaseholds
- Non-warrantable Condos
- Condotels
- Native American Leasehold estates
- Cooperatives
- Working farms
- Orchards
- Hotel Condominiums
- Bed and Breakfasts
- Commercial properties
- Unique properties

REO/Bank-owned/Foreclosure Properties:

REO properties are defined as properties that are managed by, or are in the possession of, a lender as a result of foreclosure or forfeiture (deed-in-lieu of foreclosure), due to default by the borrowers.

- Non-owner occupied transactions not permitted
- Full appraisal (Form 1004) with interior and exterior photos (photos must include kitchen, main living area and bathrooms)
- All repairs must be completed prior to closing

Condos

Real estate project formed according to state condominium statutes, a recorded declaration and other constituent documents. The structure is generally two or more units, attached or detached in which the interior space is individually owned; the balance of the property such as the grounds (land) and building structure are owned in common by all of the individual unit owners.

Condo projects already approved by FNMA, FHLMC or HUD do not require NexBank approval.

If the project is not approved by FNMA, FHLMC or HUD, NexBank must review the necessary documentation, including, but not limited to:

- Condo questionnaire
- General liability of at least \$1,000,000
- Fidelity bond or Employee Dishonesty policy

Additional documentation may be required for full condo review and approval.

PUDs

- Detached PUDs are treated as a single family residence and require no further review or approval.
- Attached PUDs require NexBank approval. PUD communities already approved by FNMA, FHLMC or HUD do not require NexBank approval.

If the community is not approved by FNMA, FHLMC or HUD, NexBank must review the necessary documentation, including, but not limited to:

- PUD questionnaire
- General liability of at least \$1,000,000
- Fidelity bond or Employee Dishonesty policy

Additional documentation may be required for full PUD review and approval.

Modular Housing

Not Allowed

Pre-Fabricated, Panelized or Sectional Home

Not Allowed

Manufactured Housing

Not allowed

Townhouses/Row houses

A residential unit on a small lot that has coincidental exterior limits with other similar units; Title to the unit and its lot is vested in the individual buyer with a fractional interest in common areas, if any.

References: If title to the unit includes a fractional interest in common areas, see PUD requirements in this Chapter.

Leaseholds

- Addressed on a case-by-case basis

Unique Properties

- Addressed on a case-by-case basis

Acreage

- Addressed on a case-by-case basis

Legal Non-Conforming Zoning

If the appraisal indicates a property's zoning is of a legal non-conforming (grandfathered use) nature, one of the following must be obtained:

- The appraiser must address the issue within the body of the appraisal, specifically state the property may be rebuilt "as is" in the event of a loss and indicate the source of the information, OR
- A letter or addendum from the appraiser must be obtained addressing the issue, specifically stating the property may be rebuilt "as is" in the event of a loss and indicate the source of the information, OR

- A letter from the county or governing municipality must be obtained stating the property may be rebuilt “as is” in the event of a loss

Properties with Multiple Parcels as Security for the Mortgage

- Parcels must be adjoining and zoned as “residential”
- Residence must be located on one parcel
- The adjoining parcel must have either no improvements or limited nonresidential improvements, such as a garage

Chapter 9: Construction-Perm

Construction-Perm Financing

NexBank does not offer one-time-close construction loan options. However, we will provide permanent financing to payoff construction liens after a new home has been built.

Ineligible criteria:

The following instances are ineligible for Construction-Perm Financing:

- Conforming Interest-Only
- Flexible mortgages
- Texas Cash-out (Texas 50 (a)(6))
- Community Lending products
- Condominium
- Attached PUDs
- Investment properties
- Loan terms > 30 years
- LTV >90%
- FICO Score <720

Construction-to-Perm Purchase Transactions

The LTV is calculated after determining how long the borrower has owned the lot upon which the home has been constructed

Owned lot > 12 months prior to construction loan application date	Owned lot < 12 months prior to construction loan application date
The LTV is determined by the lesser of: <ul style="list-style-type: none"> • The current appraised value of the lot and improvements OR • The sum of the documented construction costs plus the current appraised value of the lot 	The LTV is determined by the lesser of: <ul style="list-style-type: none"> • The current appraised value of the lot and improvements OR • The total acquisition costs (total construction costs plus the cost to acquire the lot)

Construction-to-Perm Refinance Transactions

The borrower must be on title to the lot and must be the borrower on the construction loan. The borrower must have been on title to the lot prior to the application date of the construction loan.

The LTV is calculated after determining how long the borrower has owned the lot upon which the home has been constructed

Owned lot > 12 months prior to construction loan application date	Owned lot < 12 months prior to construction loan application date
The current appraised value of the lot and improvements	The LTV is determined by the lesser of: <ul style="list-style-type: none"> • The current appraised value of the lot and improvements OR • The total acquisition costs (total construction costs plus the cost to acquire the lot)

Chapter 10: Special Product Options

Texas Cash-Out Refinance

This product gives Texas homeowners the option of cashing-out the equity in their Primary Residence. Available with a fully amortizing fixed rate terms of 30 years.

Mortgages originated in accordance with Section 50 (a) (6) of Article XVI of the Texas Constitution will be defined as "Texas Cash-Out" Refinance First Mortgages.

The following are not permitted:

- Interest only
- Revocable/Irrevocable Inter Vivos Trusts
- Cooperatives
- Non-occupant Co-borrower
- Temporary buydowns
- Escrow Holdback/Postponed Escrow
- ARMs of Waivers
- Loan amounts less than \$75,000 are not permitted
- Rural Homestead

Requirements:

- Loans will be underwritten to FNMA guidelines in addition to the parameters outlined in the Texas Cash-Out refinance section
- Must be originated using the designated product code specific to Texas Cash-Out refinance option
- Originating branch and subject property must be located in the state of Texas
- LTV/CLTV/HCLTV is limited to 80%
- One-unit Primary Residence
- At least 12 months must have elapsed since any previous Section 50(a)(6) mortgage secured by the homestead property was closed
- No other Section 50(a)(6) mortgages secured by the homestead may exist
- The Texas Cash-Out Refinance Mortgage is the only debt to be secured by the homestead
- An existing second can not be re-subordinated
- A DU Approve is required on this product
- DU will determine acceptability of FICO and qualifying ratios
- The appraisal report must comply with feedback message provided by DU relating to collateral documentation
 - Minimum interior and exterior inspection required
- Postponed Escrow/Escrow Holdbacks are not permitted
- Cash-Out proceeds:

- The borrower may use the proceeds of an equity loan for any purpose
- The underwriter may not condition that the proceeds be applied to repay a non-homestead debt (i.e., lien secured by a Second Home or Investment Property owed to the mortgage company). The loan proceeds are to be applied to debt secured by the homestead or debt to another creditor
- Borrowers can payoff installment loans and/or credit card debt.
- Special forms and closing requirements apply
- If the loan being refinanced is secured by a property located in a declining market, the new loan amount may include only the existing unpaid principal balance plus accrued interest rounded to the nearest \$100.
- Urban Homestead, which is defined as:
 1. less than or equal to 10 contiguous acres together with any improvements thereon and,
 2. located within the limits of a municipality or its extraterritorial jurisdiction or a platted subdivision, and;
 3. serviced by police protection, paid or volunteer fire protection, and at least three of the following service provided by a municipality or under contract to a municipality:
 - a. electric
 - b. natural gas
 - c. sewer
 - d. storm sewer
 - e. water

Reference: See Chapter 22: Closing Requirements for details of the special forms and applicable requirements specific to Texas Cash-Out Refinance Mortgages

Chapter 11: Refinance Requirements

Restrictions:

- Properties listed in the last six months are not eligible
- Cash-Out refinances on primary residences located in the state of Texas must follow the requirements outlined in the Texas Cash-Out Refinance section of Chapter 12: Specialty Product Options

Refinance of Loans with Less Than One Year of Seasoning

If the first lien being paid off was a purchase transaction and the original purchase price, as stated on the application, was less than the new appraised value, the file should contain documentation supporting the increase in value.

Examples:

- Discussions from the appraiser regarding the market
- Documented home improvements
- A copy of the original appraisal showing the original appraised value higher than the original sales price
- Cash-out refinances are permitted only on properties that have been owned for at least six months
- Inherited properties have no seasoning requirement. A copy of the will must be provided.

Use the table below to determine what can be included in the new loan amount:

Purpose of Refinance	Considerations
Payoff of the first mortgage regardless of its age	Allowed
Paying related closing costs, origination points and prepaid items	Allowed
Payoff of any subordinate lien that was used to acquire the subject property, regardless of age	Written confirmation (such as a HUD-1) must be obtained to show all the proceeds of an existing subordinate lien were used to fund part of the purchase price of the subject property
Buying out the equity interest of an ex-spouse or ex-mortgagor, joint heir or joint devisee is allowed	Eligibility requirements: <ul style="list-style-type: none"> • The mortgage property must have been owned by both parties for at least 12 months preceding the date of the mortgage application (Parties who inherit an interest in the property do not have to satisfy this requirement) • Documentation is obtained to evidence that both parties occupied the property as their

<p>Buying out the equity interest of an ex-spouse or ex-mortgage, joint heir or joint devisee is allowed (cont'd)</p>	<p>principal residence (Parties who inherit an interest in the property do not have to satisfy this requirement). Documentation may include driver's license, bank statements or credit card receipts</p> <ul style="list-style-type: none"> • Both parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction • The borrower acquiring the sole ownership must not receive any of the proceeds of the refinance • The borrower acquiring sole interest must be able to qualify for the mortgage
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Paying off mortgages not in the borrower's name

There are several circumstances which may result in a refinance where the mortgage to be paid off does not reflect the borrower as the primary obligor.

Examples include:

- Situations resulting from marriage, divorce or death
 - Borrower must be on title at time of application
 - Evidence that the recent title change is due to marriage, divorce or death must be provided
 - Proof that the borrower has occupied the subject for at least the past six months (as evidenced by a utility bill or land-line phone bill)
 - The mortgage to be paid off cannot have any 30 day or greater late payments in the past 12 months
- Rent-to-own, Lease Purchase or Land contracts
 - The contract seasoned and recorded for at least 12 months
 - 12 months cancelled checks are required to show that payments have been made and to show no late payments
 - Proof that the borrower has occupied the subject for at least 12 months (as evidenced by a utility bill or land-line phone bill)
 - If the 12 months seasoning requirement cannot be met, the loan must be treated as a purchase transaction
- Inherited properties have no seasoning requirement. A copy of the will must be provided.

DU Refi Plus

- Transaction must benefit the borrower by reducing the existing monthly mortgage principal and interest payment.
- Borrowers on the DU Refi Plus transaction must be the same borrowers on the current loan being refinanced.

Chapter 12: Subordinate Financing

Restrictions

Subordinate financing:

- Is not permitted on Cooperative Share Mortgages
- No Negative Amortization
- May not have wraparound terms that combine the indebtedness of the first mortgage with that of the subordinate mortgage
- Prepayment penalties not allowed
- Re-subordinated second lien is permitted with DU Refi Plus loan programs with DU Approval. New second lien or payoff of existing second lien is not permitted with DU Refi Plus loan programs

Calculating CLTV

- CLTV: Divide the sum of the first lien mortgage amount and the disbursed amount of the HELOC and any other secondary financing by the lower of the sales price or appraised value.
- HCLTV: Divide the sum of the first lien mortgage and the total HELOC credit line limit and any other secondary financing by the lower of the sales price or appraised value

Requirements

The terms of the subordinate financing must comply with the following:

- When originating a simultaneous second, the stricter of the first or second mortgage guidelines must be adhered to
- Must require interest at market rate, except when the property seller holds the subordinate lien, then the interest rate may be below market rate (but will be considered a sales concession)
 - Market rate when not associated with a HELOC is defined as, one that is not more than 2% below the posted net yield posted by FNMA in effect for second mortgages at the time the subordinate financing is closed
- If the subordinate financing will not fully amortize under a level monthly payment plan, it may not have a maturity or balloon payment date of less than five years
 - Acceptable if the amount of the subordinate debt is minimal relative to the borrower's financial assets and/or credit profile
- Generally, must provide for a fixed payment amount that covers at least the interest due. Other than HELOCs, circumstances under which variable payments are permitted follow:
 - If the borrower's employer provides the subordinate financing, the loan may either be an unsecured loan or a secured mortgage and does not require regular payments of either P&I or interest only. The financing terms may require full repayment of the debt should the employee voluntarily terminate his/her employment for reasons

other than those related to disability before the maturity date of the subordinate financing. The loan may be structured in one of the following ways:

- Fully amortizing level monthly payments
- Deferred payments for some period before changing to fully amortizing level payments
- Deferred payments over the entire term
- Forgiveness of the debt over time, although there may not be a balloon payment that comes due prior to the maturity date of the first mortgage

Chapter 13: Temporary Buydowns

Restrictions

Temporary buydowns are not permitted at this time.

Chapter 14: Appraisal Requirements

Guidelines

Appraisal reports must be ordered through NexBank's approved Appraisal Management Company. All appraisers must be approved and reviewed by NexBank personnel. A current copy of the appraiser's license is required with all appraisals. After review, additional information may be required to ensure that the appraiser meets NexBank's requirements.

Appraisal Requirements:

The appraisal report requirements include, but may not be limited to, the following:

- Regardless of AUS findings, the following properties require a full 1004 with interior and exterior photos (photos must include kitchen, main living area and bathrooms)
 - Texas Cash-Out Refinances
 - Recent condo conversions
 - New construction properties
 - REO/bank-owned/foreclosure properties
- Form 1004MC is required on all transactions that require appraisals
- The information in the report must be accurate, internally consistent, written in clearly understandable language, fully supported and sufficiently documented to FNMA and FHLMC standards
- The appraisal report must be dated within 120 days. Recertifications are not allowed.
- Rental income must be delivered to FNMA (even if not used to qualify) and must be noted on the 1003
 - If rental income is NOT used to qualify the borrower, the income may come from:
 - Operating Income Statement (Form 1007)
 - Single Family Comparable Rent Schedule (Form 216)
- The Operating Income Statement (Form 216) will be required:
 - If the subject property is a 2 to 4 unit Owner Occupied or 1 to 4 unit Investment property
 - To document operating expenses on transactions even if the borrower is going to be qualified with the full PITI payment
- The Single Family Comparable Rent Schedule (Form 1007) is also required for all one-unit investment properties, whether or not rental income is being used
- Properties appraised in "Fair Condition" are unacceptable. The property must be brought up to at least "Average Condition", prior to closing. A final inspection showing the work has been completed must be included in the file
- Property Inspection Waivers (PIW) are permitted

Acceptable Appraisal Forms

The table below reflects the correct appraisal forms that should be used

Appraisal Report Name	FHLMC Form Number	FNMA Form Number
Uniform Residential Appraisal Report	Form 70	Form 1004
Small Residential Income Property Appraisal Report (2-4 units)	Form 72	Form 1025
Appraisal Update and/or Completion Report	Form 442	1004D
Individual Condominium Unit Appraisal Report	Form 465	Form 1073

Cost Approach

The cost approach to valuation will be mandatory for:

- All new properties/end loan transactions where our loan is the first transfer of the subject
- Unique properties because of style or construction method
- Properties that have functional obsolescence

The cost approach, if required, must contain proper adjustments for physical, functional and external depreciation must be included as these factors can affect marketability.

- The estimated site value will be required for all properties > 10 acres.

Additional Appraisal Analysis

The review and acceptability of each appraisal report should include an analysis and review of any prior sales of the subject property and the sale price trend in relation to the appraiser's estimate of value to confirm that it is reasonable and representative of the market.

The subject property and comparables should be analyzed to evaluate the time elapsed between the date(s) the property was acquired and the date(s) resold, or the date of the current resale contract, if applicable.

If the sales history of the subject property or the comparable sales indicates current or prior sale prices may be excessive, and resale dates occurred shortly after the property seller's acquisition of the property, the appraisal report should provide evidence to support one or more of the following:

- A rapidly appreciating real estate market
- Significant improvements that resulted in a corresponding increase in the property value
 - Interior photos are required for recently renovated properties
- A previous sale that was below market value due to a distress or tax sale

Chapter 15: Survey and Inspection Requirements

Survey Requirements

If the title company insuring the mortgage requires a survey to remove exception to survey matters, the survey must conform to the requirements of the title insurance company's standards, or any applicable legal standards relating to surveys.

Note: A copy of the required survey, whether new or existing, must be in the closed loan package.

Inspection Requirements

Inspections may be required at the discretion of the Underwriter or Appraiser

Chapter 16: Escrow

Introduction

An escrow account must be established for real estate taxes, hazard insurance, monthly MIP and if applicable, flood insurance.

Note: For new construction properties, real estate taxes should be estimated on the fully assessed liability, not based solely on land-only values.

Waiving Escrows

The escrow account may be waived for real estate taxes and hazard/flood insurance for loans with LTVs $\leq 80\%$, subject to state restrictions and NexBank approval.

Primary Residence	Investment Property
<ul style="list-style-type: none">• LTV $\leq 80\%$• 0x30 mortgage rating in past 12 months• No portion of the loan proceeds may be used to pay delinquent property taxes	<ul style="list-style-type: none">• LTV $\leq 75\%$• 0x30 mortgage rating in past 12 months• No portion of the loan proceeds may be used to pay delinquent property taxes

Postponed Improvement Escrow

Standard guidelines permit the escrow of minor incomplete items.

An escrow holdback is not permitted on:

- 3-4 unit properties
- Cash-out refinances
- Community Lending products
- Loans with LTV $> 90\%$

An escrow holdback is permitted when weather prevents repairs from being completed.

- Max LTV 90%
- Work must be completed within 60 days of closing
- Escrow holdback at 1.25%
- Unfinished work does not pose any safety or soundness issues with the property. The subject must be habitable and marketable.

New construction guidelines:

- An escrow holdback is not required if:
 - Cost of the unfinished work does not exceed \$500
 - The cost to complete the work does not exceed 2.5% of the appraised value
 - Unfinished work does not pose any safety or soundness issues with the property. The subject must be habitable and marketable.

Chapter 17: Mortgage Insurance Requirements

Mortgage Insurance (MI) Requirements

MI will be required on all loans with LTVs in excess of 80%, except as noted.

The MI certificate must be obtained in the name of NexBank, SSB. Guidelines in Chapter 17 are subject to change without prior notice.

Standard Mortgage Insurance (MI) coverage is required for all loans, regardless of AU findings.

Note: Standard MI coverage is required unless DU feedback indicates the mortgage is eligible for Reduced MI (ARMs not eligible for Reduced MI).

Financed MI is not permitted on any loan.

MI is not permitted on DU Refi Plus loan programs.

Standard MI Coverage Tables

This table identifies the correct Standard MI Coverage

Term	LTV Ratio	Required MI Coverage
<ul style="list-style-type: none"> 25, 30 and 40 year fixed All balloon mortgages All ARMs 	80.01-85%	12%
	85.01-90%	25%
	90.01-95%	30%
	95.01-97%	N/A
<ul style="list-style-type: none"> 15 – 20 year fixed rate mortgages 	80.01-85%	6%
	85.01-90%	12%
	90.01-95%	25%

Reduced MI Coverage (Not available at this time)

Per DU findings

Term	LTV Ratio	MI Coverage
> 20 years	85.01-90%	N/A
	90.01-95%	N/A

Eligibility:

- Loan must receive an Approve/Eligible through DU and findings must indicate the mortgage is eligible for Reduced MI
- Full/Alt Documentation only
- 20-30 year fixed rate (no balloons)
- 1-2 unit Primary Residences
- Purchase or Limited Cash-Out Refinance transactions only

Not permitted with:

- Interest only

Lender Paid MI (LPMI)

The following requirements must be met for this option:

- Full/Alt Documentation only
- Eligible Products:
 - Fixed Rate - 15, 20, 25, 30 or 40 year loan terms
 - ARMs – 3/1, 5/1, 7/1 and 10/1 terms
- Purchase or Limited Cash-out refinance transactions
- 1 unit Primary Residences are eligible
- **Maximum LTV is 95%**
- Regardless of DU feedback, the following must be met:
 - Minimum FICO:
 - 680 for Primary Residence and Second Home
 - Maximum DTI:
 - 41%
- The following features are not eligible for the LPMI Option
 - Interest only
 - Second Home
 - Investment Property

LPMI is not permitted with DU Refi Plus loan programs.

Chapter 18: Underwriting – General Guidelines

Overview

All loans will be underwritten to FNMA, FHLMC and Investor Guidelines

Package Submission

NexBank has delegated underwriting authority; therefore submit your loan file electronically to NexBank.

Use of Automated Underwriting

The use of DU or LP is required as the first step in the loan process on this product (with the exception of some streamline refinances that do not require AU)

- For all Approve or Accept recommendations, DU or LP has determined that the layering of risk is acceptable. The Underwriter does not have to make this determination
- Out of Scope, Expanded Approval and A-Minus loans are not eligible for delivery
- Interest Only options must receive an Approve recommendation (EA recommendations are not permitted)
- 40 year LIBOR ARMs cannot be underwritten using LP
- Agency Interest Only LIBOR ARMs require a minimum FICO of 620, regardless of AU recommendation

Warnings:

- Refer w/Caution IV loans are not eligible for delivery
- The use of FNMA Waivers is not permitted
- EA-I, EA-II and EA-III are not eligible for delivery

Establishing Borrower FICO Scores

Apply the Middle/Lower method when selecting the borrower's FICO score by using the following table:

Note: This procedure to establish Underwriting Scores should be used for each borrower on the loan. Once the Underwriting Score for each borrower is determined, the lowest of these scores should be used (if more than one borrower is on a loan)

IF...	THEN...
Three usable FICO scores are received for the borrower	The middle score will be used as the Underwriting Score <u>Note:</u> When two scores are the same, that score will be used
Two usable FICO scores are received for the borrower	The lower score will be used as the Underwriting Score

DU Refi Plus additional credit requirement

0x30 mortgage late payment history during the previous 12 month period.

Credit Requirements, Enhanced Eligibility

The minimum credit score for our programs is 620. No late payments covering the most recent 12 month period are permitted for rent or mortgage verification.

Paying Off Collections, Charge Offs & Judgments

The following provides guidance regarding the payoff of collections, charge offs and collections

Documentation Type	Requirements
Full/Alternative	<p><u>1-4 Unit Owner Occupied and Second Home Properties:</u></p> <ul style="list-style-type: none">• Collections and charge-off accounts do not have to be paid off if the total balance of such accounts is \$5,000 or less, as long as the collection or charge-off will not threaten our first lien position. <p><u>Investment Properties:</u></p> <ul style="list-style-type: none">• Individual accounts \geq \$250 and accounts that total more than \$1,000 must be paid in full prior to or at closing

Bankruptcy/Foreclosure

FNMA requires certain periods of time to have elapsed after bankruptcies and foreclosures, or similar actions/incidents:

Action	Requirements
Deed-in-Lieu of Foreclosure	<p>A 4 year time period from completion date (date deed-in-lieu executed).</p> <ul style="list-style-type: none">• Additional requirements that apply after 4 years up to 7 years following completion date:<ul style="list-style-type: none">○ Borrower may purchase a property secured by a principal residence, second home or investment property with the greater of 10% minimum down payment or the minimum down payment required for the transaction○ Limited cash-out and cash-out refinance transactions secured by a principal residence, second home or investment property are permitted pursuant to the eligibility requirements in effect at that time○ Please note that a 7 year time period from completion date of the deed-in-lieu execution date is mandatory for DU Refi Plus loan programs

	DU Refi Plus loan programs require a 7 year time period from completion date (date deed-in-lieu executed).
Bankruptcy (All, Except Chapter 13)	4 year time period from discharge date or dismissal date.
Chapter 13 Bankruptcy	The time period for Chapter 13 bankruptcy actions is measured as follows: <ul style="list-style-type: none"> • 2 years from the discharge date • 4 years from the dismissal date • 4 years from the dismissal date and discharge date for DU Refi Plus loan programs
Multiple Bankruptcy Filings	5 year time period from most recent dismissal or discharge date required for borrower with more than one bankruptcy filing within the past 7 years
Foreclosure	5 year time period from completion date Additional requirements that apply after 5 years up to 7 years following completion date: <ul style="list-style-type: none"> • 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 7 year time period from completion date for DU Refi Plus loan programs
Time Period after Pre-foreclosure sale	2 year time period from completion date. No exceptions are permitted to the 2 year time period

Re-established Credit History

When the applicant's previous credit history included a bankruptcy filing or foreclosure-related action, all of the accounts in the applicant's credit report must be current as of the date of the mortgage application. In addition, the applicant's credit record under the re-established credit history must include:

- A minimum of four traditional credit references, with at least one of the references being a traditional credit reference and one of the references being housing-related (if rental payments were not reported to the credit repositories, provide copies of bank statements or cancelled checks for the most recent 12 month period). Three of the four credit referenced must have been active in the 24 months preceding the date of the mortgage application;
- No more than two installment or revolving debt payments that were 30 days past due in the last 24 months

- No installment or revolving debt payments 60 or more days past due since the discharge or completion of the bankruptcy or the completion of the foreclosure-related action
- No housing debt payments past due since the discharge or completion of the bankruptcy or the completion of the foreclosure-related action; and
- No new public records for bankruptcies, deeds-in-lieu, pre-foreclosure sales, unpaid judgments or collections, garnishments, liens, etc. since the discharge of the bankruptcy or the completion of the foreclosure-related action

Determining Qualifying Ratios:

Maximum qualifying ratios are detailed in Chapters 3, 4 and 12.

- The maximum qualifying ratio for LTV ≤ 80 is determined by the AU decision
- The qualifying ratio for LTV > 80 is 41% regardless of Au recommendation
- Payments on installment debt, alimony, child support or separate maintenance payments will not have to be counted unless they extend beyond ten months from the date of closing
- Revolving debt must always be considered when qualifying borrowers, even if the debt is to be paid off and closed at (or prior to) loan closing
 - If a minimum payment is not shown on the credit report, a payment equal to the greater of \$10 or 5% of the outstanding balance should be used
 - If a borrower typically pays the full balance monthly on a revolving account, a payment would not have to be charged when qualifying the borrower as long as sufficient documentation is supplied to evidence this. In addition, if there are revolving accounts open on the credit report but have zero balances as of the application date, a payment does not need to be charged when qualifying the borrower.
- Debt from deferred installment loans – such as student loans and loans in forbearance – must be included in the qualifying ratio
 - If a minimum payment is not shown on the credit report, a copy of the payment letter or forbearance must be obtained to determine the payment amount
- Loans secured by financial assets owned by the borrower do not have to be included in the qualifying ratios as long as the appropriate documentation is provided and the value of the asset showing on the loan application has been reduced by the amount of the loan
- 30 day accounts need to be paid in full at closing OR adequate reserves must be verified and the source of funds has been documented.

Contingent Liabilities Table

This table identifies contingent liability requirements:

Contingent Liability Category	Considerations
Mortgage Liability Involving Settlement "Buyouts"	When a borrower's interest in a mortgaged property was "bought out" by another co-owner of the property, this contingent liability will not be required to be included in the DTI ratios for the borrower, provided documentation of the transfer is obtained
Mortgage Assumptions Mortgage Assumptions	<p>When a borrower sells a mortgage property that he/she owns and the property purchaser assumes the outstanding mortgage debt without a release of liability, this contingent liability does not have to be counted as part of the borrower's debt obligations, provided the property purchaser has a 12 month history or making regular, timely payments. Documentation must include evidence of title transfer, a copy of the formal, executed assumption agreement and a credit report indicating consistent, timely payments. If payments have not been timely during the most recent 12 month period, the mortgage debt must be included in the borrower's debt obligations.</p> <p><u>Note:</u> If the borrower sells a mortgaged property to a purchaser assuming the mortgage with release of liability, a 12 month payment history is not required but the title transfer must be documented as previously described.</p>
Court ordered assignments of debt	When a borrower has an outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement), this contingent liability does not have to be counted as part of the long-term debt that is used in determining the borrower's total DTI as long as a copy of the applicable pages from the court order and the transfer of ownership is documented
Co-signed loans	When a borrower has a contingent liability as the result of co-signing a loan to enable another party to obtain credit, but the borrower is not the party who is actually repaying the debt, these debts are not required to be included in the borrower's long term debt, provided a satisfactory 12 month payment history can be documented showing the primary obligor making the payments with no delinquency.

	Note: If it cannot be shown that the primary obligor has been satisfying the loan payments in full and/or on time, then the debt would have to be counted when calculating the borrower's total DTI ratio
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Conversion of Principal Residence to Second Home or Investment Property

Borrowers who currently own their home typically have three options when they decide to purchase a new principal residence. They can:

- Sell the current residence and pay off the outstanding mortgage
- Convert the property into a second home, assuming they can qualify with both the existing and new mortgage payments, or
- Convert the property into an investment property and provide documentation that they will rent the property and use the income to offset the mortgage payment

The table below explains the guidelines to ensure that borrowers have sufficient equity and/or reserves to support both the existing financing and the new mortgage being originated.

Current principal residence is pending sale but the transaction will not be closed (with title transfer to a new owner) prior to the new transaction	Both the current and proposed mortgage payments must be used to qualify the borrower for the new transaction.
Conversion to a Second Home	<ul style="list-style-type: none"> • Both the current and proposed mortgage payments must be used to qualify the borrower for the new transaction, AND • 6 months of PITI for <u>both</u> properties is required for reserves. Lender may consider reduced reserves of no less than 2 months for both properties if there is documented equity of at least 30 percent in the existing property (derived from an appraisal, automated valuation model [AVM] or broker price opinion [BPO]), minus outstanding liens
Conversion to an Investment Property	<p>NexBank will permit up to 75 percent of the rental income to be used to offset the mortgage payment in qualifying if there is documented equity of at least 30 percent in the existing property (derived from an appraisal, AVM or BPO, minus outstanding liens.</p> <p>The rental income must be documented with:</p> <ul style="list-style-type: none"> • A copy of the fully executed lease agreement; and • The receipt of a security deposit from the

	<p>tenant and deposit into the borrower's account</p> <p>If the 30 percent equity in the property cannot be documented, rental income may not be used to offset the mortgage payment</p> <ul style="list-style-type: none"> • Both the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction; and • 6 months of PITI for <u>both</u> properties is required for reserves
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Non-Arms Length Transactions

- Only permitted for owner-occupied purchase transactions where the seller is a parent or family member
- Full appraisal (Form 1004) is required
- No subordinate financing permitted
- The appraiser must verify the most recent purchase price and sale date of the subject property
- Seller concessions are not allowed, except for gifts of equity with a maximum LTV of 80%

Chapter 19: Underwriting – Income/Asset Documentation Guidelines

Introduction

Stable monthly income is the borrower’s verified gross monthly income from all verifiable sources which can reasonably be expected to continue for at least the next three years.

Note:

- Certain sources of income require that the three years continuance be documented (e.g., alimony, child support, trust income, etc.)
- Maximum age of credit documents is 90 days (to date of note)

4506T Requirements

- A signed 4506T will be required on every loan, both at the time of application and at closing. The 4506T will be processed on every loan.

Salaried Borrowers

Includes primary employment base earnings plus secondary income (i.e. bonuses, overtime, commissions, additional part-time employment or unemployment). Income has to be verified for two years. Use the following table to determine the documentation required.

Income	Documentation
Full/Alternative Documentation	<ul style="list-style-type: none"> • DU will determine the documentation required. However, NexBank will perform a verbal VOE within 3 days of closing on every loan • A pay stub is always required, even when a full VOE is in the file • W-2 required in addition to DU documentation requirements for DU Refi Plus • Signed 4506T <p>Commission: Must be averaged using the most recent two years signed personal income tax returns & deducting non-reimbursed expenses as reported on IRS form 2106.</p> <p>Bonus, overtime, tips & gratuity:</p> <ul style="list-style-type: none"> • Must average the last two years to determine amount that can be considered • Employer must verify borrower has received for the last two years and indicates that the overtime or bonus income will most likely continue. Average most recent 24 months unless declining, then past 12 months will be averaged. <p>Part-time or Second Job:</p>
Full/Alternative Documentation (cont'd)	

	<ul style="list-style-type: none"> • Can be used provided it can be verified as having been uninterrupted for the previous two years, and has a strong likelihood of continuance • A minimum history of 12 months may be acceptable under the following circumstances: <ul style="list-style-type: none"> ○ A two borrower situation where one borrower has always worked full time and dedicated a period of time to parenting/homemaking, but has now returned to work on a part time basis ○ A full time borrower has taken on a part time job to compensate for a loss of overtime income that has been eliminated from his/her primary job <p>Military Income: Can include the following provided its future continuance can be established:</p> <ul style="list-style-type: none"> • Flight pay • Hazard pay • Rations • Clothing allowance • Quarters allowance • Proficiency pay
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Borrowers employed by family members:

The following documentation is required for borrowers who are employed by family members:

- Business verification by CPA
- Two years federal income tax returns
- Copy of current pay stub
- 4506T will be processed

Self-Employed

A borrower who has an ownership interest of 25% or more in a business is considered to be self-employed. Use the following table to determine the documentation required.

Income	Documentation
Full/Alternative Documentation	<ul style="list-style-type: none"> • DU will determine the documentation required • Business must have been established a minimum of two years • Must have a signed 4506T • Copies of the past two years signed individual federal income tax returns • Copies of the past two years signed business
Full/Alternative	

Documentation (cont'd)	<p>income tax returns if the business is a corporation, an "S" corporation or a partnership. The requirement for business tax returns can be waived if all of the following are met:</p> <ul style="list-style-type: none"> ○ The borrower has been self-employed in the same business for at least five years ○ The borrower's individual tax returns show an increase in self-employment income over the last two years ○ The borrower is paying the down payment and closing costs with his/her own funds and is not using any funds from the business account <ul style="list-style-type: none"> ● A balance sheet and YTD Profit and Loss statement is required if the loan application is dated more than 120 days after the end of the business tax year ● Business Tax Returns when Multiple Businesses Exist: Typically, complete business tax returns for all businesses present are required. However, there are special circumstances where tax returns for only the primary business are required: <ul style="list-style-type: none"> ○ The primary business is defined as: <ul style="list-style-type: none"> ▪ Contributing 75% or more of the total income, and ▪ 100% of the income is used for the ratio calculations ○ The business should be in existence for at least two years ○ The business must show consistent or increasing net income ○ Attention must be paid to the layers of risk present: low FICOs for the program/product selected, property issues, high LTV, inconsistent earnings ○ There should be no other exception or risk layer other than those allowed by the program/product selected ○ In some cases, a letter from the accountant stating that the non-primary business is not operating at a loss may be prudent
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Fixed Income

Fixed income is defined as income derived from sources such as alimony and child support, social security, pension or disability.

Note: All tax-exempt income can be grossed up 25%

Income	Documentation
Full/Alternative Documentation	<p>DU will determine the documentation required</p> <p>Alimony, Child Support or Separate Maintenance:</p> <ul style="list-style-type: none">• May be considered provided the borrower has received it for the previous 12 months<ul style="list-style-type: none">○ Payments that have been received between 6 and 12 months on a regular and timely basis can be considered as stable income as long as the amount does not represent more than 30% of the total gross income that is used to qualify the borrower○ Payments received less than six months cannot be considered as stable income, but may be used as a compensating factor• Along with bank statements, court records , tax returns or cancelled checks, one of the following items is required to document the income:<ul style="list-style-type: none">○ Photocopy of the separation agreement/divorce decree that provides for the payments○ Any other legal document/agreement or court decree that describes the payment terms○ Copy of any applicable state law that requires such payments and specifies the conditions under which payments must be made• Documentation obtained must verify that payments will continue for the next three years <p>Retirement/Pension:</p> <ul style="list-style-type: none">• Document with award letters, W2/1099 forms or recent bank statements to confirm the regular deposit of payments <p>Social Security:</p> <ul style="list-style-type: none">• Document with the award letter or copies of the borrower's last 12 months bank statements to confirm the regular payments• Benefits that have defined expiration dates (e.g.

<p>Full/Alternative Documentation (cont'd)</p>	<p>Social Security disability) must have a remaining term of at least three years from the date of the mortgage application</p> <p>Welfare or Unemployment:</p> <ul style="list-style-type: none"> • Document with letters or exhibits from the paying agency which must state the amount, frequency and duration of the payments • A two year history or receipt is required • An individual who received unemployment benefits as part of their regular employment must provide two years tax returns as well <p>Foster Care:</p> <ul style="list-style-type: none"> • Income from a state or county sponsored organization may be considered acceptable provided: <ul style="list-style-type: none"> ○ Borrower must have a two year history of providing foster care under a recognized program, and is likely to continue to provide such services at a level that supports the amount of income needed to qualify for the mortgage ○ Document with a letter from the organizations providing the income, tax returns or copies of the borrower's deposit slips or bank statements that confirm regular deposits of the payments ○ A minimum 12 month history is acceptable, provided the income does not represent more than 30% of the total gross income that is used to qualify the borrower for the mortgage <p>Boarder Income</p> <p>Borrowers with disabilities who have live-in aides, may use the rental payments from the aide for qualification purposes in the following circumstances:</p> <ul style="list-style-type: none"> • The live-in aide may or may not be a relative of the borrower • The live-in aide must receive room and board payments through Medical Waiver Funds, from which rental payments are made to the borrower • Rental payments from the live-in aide may be considered acceptable stable income in an amount up to 30% of the total gross income that
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Full/Alternative Documentation (cont'd)	<p>is used to qualify the borrower</p> <ul style="list-style-type: none"> • The live-in aide must present appropriate documentation to demonstrate shared residency and the payment of rental payments
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Rental Income

Use the table below to determine acceptable documentation:

Income	Documentation
Full/Alternative Documentation	<p>Subject Investment Property or 2-4 unit Primary Residence:</p> <ul style="list-style-type: none"> • 6 months rent loss insurance is required on 2-4 unit primary residence when rental income is used to qualify • Monthly operating income will be based upon current rents, as long as they don't exceed market rents <ul style="list-style-type: none"> ○ Current rents will be established based upon: <ul style="list-style-type: none"> ▪ The net rental income from Schedule E (if property has been owned for more than one year), OR ▪ The lease agreement(s) if the property has been owned for less than one year ○ Market rents will be based upon the Operating Income Statement (Form 216) <p>Non-subject Investment Property and 2-4 Unit Primary Residence:</p> <ul style="list-style-type: none"> • Monthly operating income will be based upon: <ul style="list-style-type: none"> ○ The net rental income from Schedule E (if property has been owned for more than one year), OR ○ The lease agreement(s) if the property has been owned for less than one year

Interest & Dividend Income

Use the table below to determine acceptable documentation

Income	Documentation
Full/Alternative Documentation	<ul style="list-style-type: none"> • Must document its receipt for the past two years and confirm expected continuance for at least three years. An average of the income for the past two years may be used for qualifying income. Income may be verified by one of the following: <ul style="list-style-type: none"> ○ Personal tax returns with Schedule B for most recent two years ○ Account statements

Full/Alternative Documentation (cont'd)	<ul style="list-style-type: none"> • Proof of ownership of the assets to support the interest and dividend income must be verified • Any assets used for down payment or closing costs must be subtracted from the borrower's total assets before calculating expected future interest or dividend income
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Trust Income

Use the table below to determine acceptable documentation

Income	Documentation
Full/Alternative Documentation	Obtain one of the following to confirm the amount, frequency and duration of payments; <ul style="list-style-type: none"> • Copy of the Trust Agreement • Trustee's Statement Receipt must continue for three years from the date of mortgage application

Note Income

Use the table below to determine acceptable documentation

Income	Documentation
Full/Alternative Documentation	<ul style="list-style-type: none"> • Copy of the Note is required to evidence the amount and length of payments • Payments must have been received for the past 12 months and must continue for three years from the date of application <ul style="list-style-type: none"> ○ Document with deposit slips, tax returns or bank statements

Trailing Co-Borrower Income – not allowed

Asset Documentation

The following are asset documentation requirements:

- Written verification of deposit (VOD), or
- Most recent two months bank statements
- Determining the value of the asset when used for reserves will be based on the most current month end statement as follows: 1) stocks, bonds and mutual funds in non retirement accounts will be valued at 70% of market value; 2) retirement accounts will be valued at 60% of the vested value; and 3) stock options, non-vested accounts and restricted stock are not eligible to be used as reserves.
- Verification of the actual receipt of funds from the sale or liquidation of the asset is required if needed to complete the transaction.

Unacceptable Sources of Assets

The following are unacceptable sources of assets:

- Funds from nonprofit organizations such as Nehemiah, AmeriDream or any other program to which the seller contributes the funds
- Proceeds of a personal or unsecured loan
- A gift that must be repaid in full or in part
- A cash advance on a revolving charge account or unsecured line of credit
- Cash for which the source cannot be verified (i.e. cash on hand)
- Business funds

Acceptable Sources of Assets

Acceptable asset sources are discussed in detail in Part X, Section 603 of the Fannie Mae Selling Guide.

Gift Fund Requirements

The following are gift fund requirements:

- Borrower(s) must have at least 5% of their own funds into the transaction for LTV/CLTVs > 80%
 - Borrower may come up with the required minimum cash investment by pooling his/her funds with funds from a domestic partner or relative who lived with him/her for the last 12 months or from a fiancé/fiancée – as long as both individuals will occupy the home being purchased as their principal residence
- The entire down payment may be a gift for LTV/CLTVs ≤80%
- The gift must come from a relative, church, municipality or a nonprofit organization
 - Relative is defined as:
 - Spouse, child or dependent
 - Individual related to borrower by blood, marriage or adoption
 - Guardian of the borrower
 - Person for whom the borrower is a guardian
 - Borrower's fiancé/fiancée or domestic partner
- If sufficient funds required have not been verified in the borrower's accounts, document the transfer
- Donor must execute a gift letter stating the following:
 - Donor's name, address and phone number
 - Relationship to the borrower
 - Dollar amount of gift
 - Certification that no repayment is required
- Gift funds are not permitted on investment properties
- Gift funds cannot be used to meet reserve requirements

Interested Party Contributions

Interested party contributions can be used to pay closing costs and prepaids.

Interested parties include, but are not limited to:

- Builder
- Developer
- Seller of the property
- Real estate agent

Contributions from interested parties are acceptable with the following limitations.

Percentages are based on the lesser of the sales price or appraised value.

- Primary Residence and Second Homes
 - 3% for LTV/CLTVs > 90%
 - 6% for LTV/CLTVs > 75% ≤ 90%
 - 9% for LTV/CLTVs ≤ 75%
- Investment properties:
 - 2% regardless of the LTV/CLTV

Seller concessions such as decorator allowances, furniture, etc. must be subtracted from the sales price for LTV/CLTV purposes.

Chapter 20: Closing Requirements

Closing Requirements Legal Forms Table

This table identifies the legal forms required during closing.

Product Type	Form(s) Required
All	<ul style="list-style-type: none"> • FNMA/FHLMC mortgage for the state where the property is located
Fixed rate – fully amortizing	<ul style="list-style-type: none"> • FNMA/FHLMC note – form 3200
Fixed rate – interest only	<ul style="list-style-type: none"> • FNMA note – form 3271
Fully amortizing LIBOR index – 3/1 year ARM	<ul style="list-style-type: none"> • FHLMC note – form 5530 • FHLMC rider – 5130
Fully amortizing LIBOR index – 5/1, 7/1 and 10/1 ARM	<ul style="list-style-type: none"> • FHLMC Note – 5531 • FHLMC rider – 5131 • OR • FNMA note – form 3528 • FNMA rider – form 3187

Additional Closing Requirements Table

This table identifies the additional forms required as applicable

Reason	Form/Endorsement
1-4 Family Rider	Form 3170
Condo Rider	Form 3140
Condo Endorsement	ALTA 4 or T-28
PUD Rider	Form 3150
PUD Endorsement	ALTA 5 or T-17
Second Home Rider	Form 3890
Location Endorsement	ALTA 9 Note: Required in areas where surveys are not customary
Revocable Trust	Revocable Trust Rider
Required for all product types	ALTA 8.1 or T-36 Environmental Lien Endorsement
Escrow Account Established	Initial Escrow Account Statement
Home Equity Loan Mortgagee Endorsement & extended Coverage	T42 & T-42.1
Variable Rate Mortgage	ALTA 6.0 or T-33

Restrictions, Encroachments, and Minerals Endorsement	T-19
Leasehold Mortgagee Policy Endorsement	T-5
Transcript for Tax Return	IRS Form 4506T

Title Insurance Requirements

To be eligible for delivery to Fannie Mae, each mortgage must have a title insurance policy. The policy must insure that the title is acceptable and that the mortgage constitutes a lien of the required priority on a fee simple or leasehold estate in the property. The title policy must also list all subordinate liens and state that they are subordinate to our mortgage lien.

Texas Cash-Out Refinance Closing Requirements

- The Notice of Extension of Credit form must be executed at application
 - If the discussions with the borrower are conducted primarily in a language other than English, before closing an additional copy of this notice translated into the written language in which the discussions were conducted must be provided by the lender. If a notice is not available in the language, provide a notice in English.
- Fees are limited to 3% of the total loan amount. This includes all fees (including origination); not just those paid to the lender. This limit does not include interest, escrows or discount points
- The loan may not be closed until after a 12 day “cooling off” period has elapsed. The “cooling off” period is based on calendar days and will run from the later of the following dates:
 - The date the borrower submits a written application
 - The date in which the borrower receives the Notice of Extension of Credit, whichever is later
- The loan must adhere to the federal and state three-day right of rescission
- Only closing agents authorized by the Texas Constitution to act as closing agents may be used for loan closings
- The borrower cannot sign any documents in which blanks are left to be filled in later
- The closing agent must obtain a closing receipt from the borrower that identifies all of the documents the borrower received at closing
- A married applicant cannot create a lien against the property unless his/her spouse consents to the lien. To obtain consent the non-purchasing spouse must sign:
 - The security instrument, and
 - Any other documentation required to evidence that the spouse is relinquishing all rights to the property if it is necessary to perfect the lien under governing state law
- The closing documents will be outsourced

Private Road Agreements

Fannie’s standard guidelines require a recorded private road maintenance agreement whenever the subject property is located on a private road. Any costs will be added to the liabilities and calculated into the DTI.

Interim Interest Credits

Borrower may receive an interest credit if the loan closes within the first seven days of the month.

Closing in a Trust

- Not available at this time

Power of Attorney (POA)

The use of a POA is discouraged, but may be permitted on a case-by-case basis. The POA must be approved by the title company/closing agent and by NexBank. Some preliminary POA requirements are as follows:

- Primary Residence only
- A specific Power of Attorney form dated on or before the closing date is required on conventional loans – a general Power of Attorney form is not sufficient and is not an acceptable alternative
- The title insurer must approve the use of the POA and ensure NexBank’s security interest/deed of trust.
- The POA must be recorded with the mortgage/deed of trust
- The duration of the POA cannot be expired at the time of closing
- A copy of an identification card must be obtained and retained in the loan file for the applicant who will be closing a POA. Acceptable identification cards are as follows:
 - Drivers license
 - Passport
 - Green Card
 - Alien Identification Card
 - Other Government-issue document evidencing nationality or residence and bearing a photograph or other similar safeguard

Acceptable POAs

The following POA types are acceptable for the specific reasons listed only:

POA Type	Acceptable Use
<u>Durable</u> – Survives the disability or incapacity of the principal; contains specific language stating that the authority granted in the POA remains in place if the principal/grantor becomes incompetent or disabled, and some states have specific statutory language to create a durable POA	Loan closing documents only

<p><u>Service Member</u> – Survives the disability or incapacity of the principal, states the rights to conduct business on behalf of the principal; and available only to the service member</p>	<ul style="list-style-type: none">• Loan application documents• Loan closing documents
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