

Second Goal Mortgage

Table of Contents

Brief Overview of the Product:	2
Third Party Originations:.....	2
National City Bank Originations:	2
Terms, Program Types, Investor/SSI Codes:.....	2
Maximum Loan Amounts and LTVS:.....	2
CLTV:.....	3
Temporary Buydowns:	3
Assumption:	3
Eligible States:	4
Eligible Borrowers:.....	4
First Mortgage Loan Requirements:.....	5
Property Eligibility:.....	5
Property Considerations:.....	6
Condo Requirements:.....	6
PUD Requirements.....	6
Unique Properties	6
Legal Non-conforming	6
Number of Properties Owned/Financed:.....	6
Appraisal/Survey/Inspection Requirements:	7
Escrow:.....	7
Private Mortgage Insurance Requirements:.....	7
Refinance Requirements:.....	7
Documentation Options:.....	7
Stated Income:	8
Underwriting:	8
Submission:	8
Use of Automated Underwriting:	8
Credit Scores:	8
Qualifying Ratios:	9
Non-Occupant Co-Borrowers:	10
Income Requirements:.....	10
Asset Requirements:	12
Interested Party Contributions:	12
Non-Arms Length Transactions:	12
Closing Requirements and Special Forms:	13
Hazard and Flood Insurance:	13
Interim Interest Credits:	13
Right of Rescission:.....	13
Title Insurance:.....	14
Prepayment Penalty:	14
Servicing:	14

Brief Overview of the Product:

The Second Goal Mortgage program offers a closed-end second mortgage loan that has enhanced features to fit your Borrower's situation. The Second Goal can be originated simultaneously with a first mortgage (piggyback) or on a standalone basis as a first or second mortgage. If the Second Goal is closed within 30 days of the first mortgage, it will be considered a piggyback.

The Standard Program offers a closed-end loan, with CLTVs to 95% and FICOs as low as 620.

Option 1 is a Stated Income program with a max CLTV of 90% for Primary Residences only.

Option 2 is a Full/Alt Doc program with a max CLTV of 100% for Primary Residences only. Currently, the only NCM first mortgage product that may be paired with this option is Alter.

Third Party Originations:

Third Party originations are permitted on this product.

National City Bank Originations:

National City Bank originations are not permitted on this product.

Terms, Program Types, Investor/SSI Codes:

15 Year Fixed

Fully amortized, level payments of principal and interest.

15 Year Balloon

Original term of fifteen (15) years with payments based on a thirty (30) year amortization. A balloon payment is due after the fifteenth (15th) year.

TMO Users:

	<u>Investor Code</u>	<u>SSI Code</u>
Piggyback 15 Year Fixed Rate	GO2ND15	1251
Piggyback 15 Year Balloon	GO23015	1252
Piggyback Ohio 15 Year Fixed Rate	GOOH15	1253
Piggyback Ohio 15 Year Balloon	GOOH3015	1254
Stand Alone 15 Year Fixed Rate	SAGO15	2510
Stand Alone 15 Year Balloon	SAGOBAL	2511
Stand Alone Ohio 15 Year Fixed Rate	SAOH15	2512
Stand Alone Ohio 15 Year Balloon	SAOHBAL	2513

AT Users only:

	<u>Product Code</u>
Piggyback 15 Year Fixed Rate	GO2115
Piggyback 15 Year Balloon	GO2130
Stand Alone 15 Year Fixed Rate	SAGO15
Stand Alone 15 Year Balloon	SAGOBL

Maximum Loan Amounts and LTVS:

Minimum Loan amount is \$10,000.

Maximum Loan Amounts and LTVS:**(continued)****Standard Program - Full/Alt Documentation – Piggyback & Standalone**

Loan Purpose	Occupancy	Units	Max CLTV**	Max Loan Amount	Minimum FICO
Purchase, No Cash-Out Refinance or Cash-Out Refinance	Primary	1-2	95%	\$100,000	680
				\$75,000	660
				\$50,000	640
			90%	\$150,000*	680
				\$75,000	660
				\$25,000	620
		80%	\$200,000	680	
			\$75,000	660	
			\$25,000	620	
		3-4	90%	\$50,000	680

*\$3,000 minimum monthly residual income required

**See CLTV section for special requirements for calculating combined loan-to-value.

Option 1 – Stated Income Piggyback & Standalone

Loan Purpose	Occupancy	Units	Maximum Loan Amount	Maximum CLTV*	Minimum FICO
Purchase, No Cash-Out Refinance or Cash-Out Refinance	Primary	1-2	\$150,000	90%	680
			\$150,000	70%	620

*Refer to the CTLV section on how to calculate the Combined Loan to Value.

Option 2 – 100% CLTV Option Piggyback & Standalone

Loan Purpose	Occupancy	Units	Maximum Loan Amount	Maximum CLTV*	Minimum FICO
Purchase & No Cash-Out Refinance	Primary	1-2	\$100,000	100%	660
Cash-Out Refinance	Primary	1	\$75,000	100%	680

*Refer to the CLTV section on how to calculate the Combined Loan to Value.

CLTV:

The CLTV may not exceed the program maximum and will be calculated as follows:

- The sum of the home equity loan amount, the unpaid principal balance of the first mortgage loan and the amount of any indebtedness secured by any lien subordinate to the home equity loan divided by the value of the mortgaged premises.
 - For purchase transactions the value will be the lesser of purchase price (plus the added value of any documented improvements) or the current appraised value.
 - For all refinance transactions the value will be based on the current appraised value

Temporary Buydowns:

Temporary Buydowns are not permitted.

Assumption:

This loan is not assumable.

Eligible States:

Alabama	Idaho	Michigan	New York	Tennessee
Arizona ¹	Illinois	Minnesota	North Carolina	Texas ²
Arkansas	Indiana	Mississippi	North Dakota	Utah
California	Iowa	Missouri	Ohio ^{4,5}	Vermont
Colorado	Kansas	Montana	Oklahoma	Virginia
Connecticut	Kentucky ⁷	Nebraska	Oregon	Washington
Delaware	Louisiana	Nevada	Pennsylvania	West Virginia ³
District of Columbia ^{4,6}	Maine ³	New Hampshire	Rhode Island	Wisconsin
Florida	Maryland	New Jersey	South Carolina³	Wyoming
Georgia⁸	Massachusetts	New Mexico	South Dakota	

¹ Arizona has a minimum balloon amount of \$10,100

² Purchase and No Cash-Out transactions only

- No Cash-Out Refinances must meet the following conditions to be eligible:
 - Funds can only be used to payoff a purchase money second
 - Closing costs and prepaids cannot be financed
 - The Borrower cannot receive **any** cash back (i.e. the 1% customary cash back allowance will not be permitted)

³ Balloon loans are not permitted

⁴ All origination sources are not permitted to originate loans in this area. Refer to Procedures for availability.

⁵ Collection of per diem interest is not permitted

⁶ Max CLTV of 90%

⁷ Kentucky: Minimum loan amount is \$15,100

⁸ **Primary Residences are not permitted**

Eligible Borrowers:

- U.S. Citizens
- Permanent Resident Aliens:
 - Eligible for a mortgage on the same terms as a U.S. Citizen as long as the following conditions are met:
 - ⇒ Borrower must hold an alien registration card ("green card")
 - ⇒ Borrower is employed by a U.S. company and has been for a minimum of two years
 - ⇒ Borrower has a minimum of two years history of funds on deposit in a U.S. financial institution
 - ⇒ Borrower has a credit report from two of the three major repositories, demonstrating a minimum of two years established credit
- Non-Permanent Resident Aliens are permitted if all of the following requirements are met:
 - Must provide documentation to establish they have the legal right to live and work in the U.S.
 - Must have two year residency, employment and credit established in the United States
 - Must have funds on deposit in a U.S. financial institution
 - Must meet the FICO requirements outlined in these guidelines **plus** have a minimum of 4 tradelines in the U.S. that have been open for at least 24 months
- Revocable (Inter-Vivos) Trust – Must meet FNMA/FHLMC guidelines
- 1st Time Homebuyers (Defined as a Borrower who has not owned a home within the past 3 years) with the following restrictions:
 - Standard Program
 - ⇒ Minimum 640 FICO
 - Option 1 (Not permitted)
 - Option 2
 - ⇒ Minimum 680 FICO
 - ⇒ 6 months reserves

Ineligible Borrowers:

- Foreign Nationals

First Mortgage Loan Requirements:

Copy of first lien Note and HUD-1 is required for all Piggyback transactions.

Eligible First Mortgages:

- Conventional loans
- VA or FHA loans (Stand alone transactions only. No VA Vendee)
- A closed-end rate second loan may be originated as a stand alone behind an existing balloon first lien. The existing first lien must have 36 months or more remaining on its current term.

Ineligible First Mortgages:

- Contract for deed, contract for purchase or land contracts
- All inclusive Trust Deeds
- Private Party first liens
- Reverse mortgages
- Loans that provide for future advances
- A fixed rate second mortgage behind a first lien with a potential for negative amortization that has no ceiling or a ceiling in excess of 125%
- Cal-Vet Loans

Additional requirements for Piggyback Transactions:

- Option 1
 - Any Non-FNMA or Non-FHLMC loan (including "Stated Income" Documentation Feature on DU or LP) that allows for subordinate financing on Stated Income Loans. This includes mortgages that allow interest only payments for the first five years.
- Option 2
 - The only NCM offered first mortgage that can be done with this Option is the Alter Mortgage. Please see the 80/20 Subordinate Financing section in the Alter guidelines for more information.

Property Eligibility:

Please call to inquire about eligibility if your property type is not reflected.

- Primary Residences (1-4 Units)
- Condos (1 Unit)
- PUDS (1 Unit)
- Unique Properties

Ineligible Properties:

- Second Homes
- Investment Properties
- Manufactured Homes
- Modular, Pre-cut Homes
- Leaseholds
- Condos with Leaseholds
- Properties listed for sale within the last twelve months
- Properties quit claimed within the last 6 months
- Properties with acreage exceeding ten acres
- Cooperatives
- Timeshares
- Unimproved Land
- Mixed Use Properties
- Commercial Properties
- Working Farms
- Orchards

Property Considerations:**Condo Requirements:**

- Please submit all condos through proper channels to obtain condo approval
- California Condominium delivery fees do not apply to this product. TMO users: See Procedures for special coding requirements to ensure the delivery fee does not get charged.
- Only units located within a building of 1-4 stories are permitted
- All projects must meet FHLMC Class I, II or III requirements plus the following:
 - Evidence of all of the following types of insurance are required for all classes: Hazard Insurance; Flood Insurance, if applicable; Fidelity Bond Insurance; and Liability Insurance
 - Condo projects that contain less than ten (10) units may be eligible as long as small projects are common to the area and the association by-laws contain an arbitration clause
 - Class III requires:
 - ⇒ The marketability of the project has been proven and that at least 90% of the units have been sold to bona fide purchasers other than the developer and at least 60% of the total number of units within the project have been conveyed to purchasers as primary or second homes.
 - ⇒ Any mortgagee who obtains title to a unit pursuant to the remedies in the mortgage or through foreclosure will not be liable for more than six months of the unit's unpaid regularly budgeted dues accrued prior to the acquisition of the title to the unit by the mortgagee.

PUD Requirements

- Please submit all PUDs through proper channels to obtain PUD approval
- Attached and detached are permitted
- The project cannot contain any two to four unit dwellings
- The project cannot contain any space devoted to commercial use
- Liability, Hazard and Flood insurance, if applicable, are required
- The project is not a conversion of an existing building
- Must meet FNMA/FHLMC PUD requirements

Unique Properties

Properties such as geodesic homes, dome homes, log homes etc. can be financed under the Second Goal Mortgage program provided the following appraisal items are strictly adhered to:

- All comparables must be like properties (i.e., if the subject property is a log home, all comps must also be log homes)
- The appraiser must document that this type of property is common to the area
- The appraiser must address the positive marketability of the property
- All comparables must follow the same appraisal standards as all non-unique properties (i.e., sale time, distance, etc.)

Legal Non-conforming

If the appraisal indicates a property 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 of addendum from the appraiser 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 stating the property may be rebuilt "as is" in the event of a loss.

Number of Properties Owned/Financed:

Borrower(s) may have an unlimited number of financed properties.

Appraisal/Survey/Inspection Requirements:

Appraisal:

- The information in the report must be accurate, internally consistent, written in clearly understandable language, fully supported, and sufficiently documented to FNMA/FHLMC standards.
- 1 unit properties only: Form 2055 is acceptable with interior and exterior inspections. Interior inspection and comparable photos are not required for Loans less than \$100,000
- 2 unit properties require a full URAR
- Operating Income Statement (Form 998/216) must be completed on all 2-4 unit Owner-Occupied properties.
- Date of appraisal report: Must be dated within 360 days of the Home Equity Note.
 - If the appraisal **is** in NCM's name, a re-certification of value is **not** required if over 120 days old.
 - If the appraisal is **not** in NCM's name, a re-certification of value **is** required if over 120 days old.
- Properties appraised in "Fair Condition" are unacceptable. The property must be brought up to at least "Average Condition", prior to closing. Escrow holdbacks are not permitted. A final inspection showing the work has been completed must be included in the file.
- Value will be based upon:
 - For purchase transactions the value will be the lesser of purchase price (plus the added value of any documented improvements) or the current appraised value.
 - For all refinance transactions the value will be based on the current appraised value.
- An original signed appraisal or a copy of the appraisal with legible copies of the original photographs or computerized copies of the property and comparables are required.

Declining Markets

In areas where property values are declining, the maximum CLTV ratio may not exceed 75% on Owner-Occupied properties. Stated Income loans, 3-4 unit and Second Home properties are not eligible where value has been determined to be declining.

Survey

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.

Inspection

Well, Septic and Termite inspections are not required unless Appraiser indicates that there may be a problem.

Escrow:

An escrow account is not set up for the second mortgage, only the first lien.

Private Mortgage Insurance Requirements:

Not required.

Refinance Requirements:

No Cash-Out Refinance and Cash-Out Refinance transactions permitted. See Loan Amount/LTV Charts for eligibility.

Documentation Options:

TMO users: Refer to Procedures for information regarding coding Qualifying Income Field.

Documentation Options:

(continued)

Stated Income:

- Option 1 only
 - No W-2 wage earners, commissioned or retired Borrowers allowed
 - Signed 4506 required
 - Verification of the Borrower's business is required through evidence of a business license. If a license is not required for the business, a signed confirmation of the business is required by the Borrower's accountant or CPA.
 - 2 months consecutive bank statements are required

Underwriting:

Generally, all loans will be underwritten to FNMA/FHLMC guidelines along with the underwriting parameters outlined in these guidelines.

The use of FNMA/FHLMC waivers **is not** permitted with this product.

The "Fraud Indicator Red Flag Checklist" must be completed for every loan in Dade County, FL. Please see Exhibit A.

Note: TMO Users: This form will print from the Submission package on TMO.

Submission:

NCM has delegated underwriting authority.

Submit your original package to your local underwriting center.

Use of Automated Underwriting:

The use of Automated Underwriting on this product is **not** permitted.

Credit Scores:

- The **minimum credit scores** for this program are as follows:
 - Standard Program
 - ⇒ 620 (see Maximum Loan Amount and LTVs for additional restrictions)
 - Option 1
 - ⇒ 680
 - Option 2
 - ⇒ 660 for loan amounts up to \$100,000
 - ⇒ 680 for First-Time Homebuyers
 - ⇒ 680 for Cash-Out Refinances

Underwriting:

(continued)

Credit Scores:

(continued)

- Selecting the Score:
 - We require the “Middle/Lower then Lowest” method to be used when selecting the credit score.
 - If three usable FICO scores are received for a Borrower, the Underwriting Score selected would be the middle score. If two of the scores are the same, that score should be used.
 - If only two usable FICO scores are received for a Borrower, the lowest of those two scores would be that Borrower’s Underwriting Score.
 - 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) to determine if minimum FICO requirements are met as listed in the Credit Score Requirements section above.
- The following must also be adhered to:
 - A 24-month housing payment history must be developed. If the Borrower’s have not owned their home for 24 months, a rental history must be developed for the period prior to the Mortgage.
 - ⇒ 0 x 30 in the past 12 months
 - ⇒ 0 x 60 in the past 24 months
 - Bankruptcy: None in the past 7 years
 - Foreclosure: None in the past 7 years
 - Major Adverse Credit: None reported in the past 24 months
 - ⇒ Major Adverse Credit is defined as: collections, charge-offs, judgements, liens, repossessions, garnishments and any 90 day delinquency
 - A minimum 2-year credit history must be established
 - ⇒ A minimum of 4 trade lines plus a 24-month mortgage/rental history
 - ⇒ At least 1 trade line must have been reported in the last 6 months

Qualifying Ratios:

- The **qualifying ratios** are as follows:
 - Maximum DTI ratio is 45%. There is no minimum housing ratio however, good judgement and common sense must be used. The second lien payment is a fully amortized fixed payment added to the housing expense.
 - Standard Program and Option 2: The maximum DTI ratio can go to 50% as long as the Borrower has \$3,000 monthly residual income OR a FICO score of 680. The following requirements must also be met:
 - ⇒ Primary Residence Only
 - ⇒ Maximum Loan Amount \$100,000 or the maximum permitted per LTV Charts, which ever is less.
- First Mortgage Payment Calculation (for qualifying purposes):
 - ARMs – Borrowers must be qualified at the maximum interest rate in effect at the beginning of the second year of the mortgage term. If the mortgage is seasoned more than one year, use the current rate.
 - Buydowns – Borrowers must be qualified at the interest rate in effect at the beginning of the second year of the mortgage term. If the mortgage is seasoned more than one year, use the current rate
 - Negatively amortizing first mortgages – Borrower’s DTI must be qualified using the fully indexed rate (current index plus margin), the current principal balance and the remaining term to calculate a payment for the first mortgage
 - ⇒ Calculation of Maximum Possible Principal Balance is determined by using the lesser of the current or the original principal balance multiplied by the maximum negative amortization percentage.
 - ⇒ Calculation of Adjusted CLTV is determined by adding the maximum possible principal balance to the Home Equity Loan and the amount of any lien subordinated to the Home Equity Loan and divided by the appraised value. The adjusted CLTV is used to determine eligibility. Refer to the rate sheet for price/rate adjustments.
 - In all cases, a copy of the first lien mortgage note must be obtained. If there is less than 12 months seasoning, a copy of the HUD-1 is also required.

Underwriting:**(continued)****Qualifying Ratios:****(continued)**

Mortgage Assumptions: If the Borrower is listed as a Borrower on a mortgage that has been assumed by another, a copy of the documents transferring the property and any assumption agreement executed by the transferee are required. As long as the Borrower no longer owns the property, the contingent liability can be disregarded, without having to document the most recent 12 months' payment history.

Court-Ordered Assignments of Debt: If a secured debt or mortgage has been assigned by court order (i.e. divorce decree) to another person, the contingent liability can be disregarded. The documentation of the most recent 12 months' payment history is not required, however, the appropriate pages from the court documents (i.e. separation agreement or divorce decree) must be supplied as well as the transfer of title (if applicable).

Other Credit Liabilities: If the Borrower is a co-signer on a debt for another person, the underwriter must determine who actually makes the payments on the debt when deciding whether the contingent liability needs to be included in the Borrower's debts.

To disregard the liability, evidence must be obtained to show timely payments are being made by someone other than the Borrower and document who makes the payments by obtaining copies of cancelled checks or a statement from the creditor. The documentation obtained must cover at least the most recent 12 months.

If the payments on the contingent liability have not been timely over the most recent 12 months, the liability must be included in the Borrower's qualifying ratios.

Bridge Loan Payments:

Bridge loan payments must always be included in the debt-to-income calculation.

Non-Occupant Co-Borrowers:

Non-Occupant Co-Borrowers are **not** permitted on this program.

Income Requirements:

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.

• **Salaried/ Commissioned Borrowers:**

- 2 year history of employment must be documented
- 2 years signed tax returns are required in all cases where commissioned income is being used to qualify.
- Documentation required:
 - ⇒ Verbal VOE and
 - ⇒ Paystubs for the most recent 30 day period showing year-to-date income; and
 - ⇒ W-2 forms for the past 2 years (if the Borrower has been with the same employer for the past two years, the most recent year W-2 form is acceptable) **OR**
 - ⇒ Written verification of employment including:
 - ✓ Dates of employment
 - ✓ Position
 - ✓ Prospect of continued employment
 - ✓ Base pay amount and frequency
 - ✓ Additional salary information itemizing overtime and bonus income if applicable

Income Requirements: (continued)

- **Self-Employed Borrowers:** A borrower who has an ownership interest of 25% or more in a business is considered to be self-employed. Borrowers operating a business on a draw against commission basis but do not have actual ownership in the parent company, such as insurance or real estate agents, are considered to be self-employed for qualification purposes. Borrowers who rely solely on investments for income will be treated as self-employed Borrowers.
 - Must have been established for a minimum of 2 years.
 - Must have a signed 4506
 - Copies of the past two years' signed individual federal income tax returns
 - Self-employed Borrowers must provide two years business tax returns to assess the likelihood of continued personal income to the Borrower
 - Year-to-date profit and loss statement, signed and dated if application is originated over 120 days since filing tax return
 - In lieu of a YTD P&L, six months personal bank statements supporting a steady income stream may be submitted
 - A borrower who has an ownership interest of 25% or more in a business is considered to be self-employed.
 - Must have been established for a minimum of 2 years. A shorter timeframe will be considered on a case-by-case basis.
- **Alimony, Child Support and Separate Maintenance Payments:**
 - If an applicant chooses to disclose the aforementioned items, proof evidencing the continuance of such payments for the next three years is required.
 - The verifying document must specify the amount of the award and the period of time over which it will be received.
 - The Borrower must provide evidence that the funds have been received for the last 12 months
 - Acceptable evidence includes: Third party payment history canceled checks or bank statements showing regular, monthly deposits.
- **Non-Employed:**
 - Includes passive income, such as social security, pension income, interest and dividend income, etc.
 - The underwriter must be confident this income will continue for the next three years.
 - Applicable documents may include: award letter, pension statement, IRS 1099, the most recent signed pages 1 and 2 of individual income tax returns, plus any applicable schedules, or other documents.
 - For all tax-exempt income, the income must be grossed up 15%
- **Rental Income:**
 - To calculate rental income from properties other than the subject property, one of the following methods must be used:
 - ⇒ For properties owned for one or more complete tax years, income can be calculated using 75% of actual rents or by using 1040 tax returns (Schedule E)
 - ⇒ For properties owned less than one complete tax year, income must be based on 75% of the actual rents
 - To calculate rental income from the subject property, one of the following methods must be used:
 - ⇒ For properties owned for one or more complete tax years, income can be calculated using 75% of actual rents or by using 1040 tax returns (Schedule E)
 - ⇒ For properties owned less than one complete tax year, income must be based on 75% of the lesser of actual rents or market rents
 - ⇒ Operating Income Statement (Form 998/216) must be completed on 2 unit Owner-Occupied properties.
 - Actual rents must be established from the copies of the signed leases.
 - Market rents must be established from the Operating Income Statement

Underwriting:**(continued)****Income Requirements: (continued)**

- **Trailing Co-Borrower Income:** (Not available on Option 1)
 - 50% of the Trailing Co-Borrowers income can be used as long as the following are met:
 - ⇒ Six months PITI cash reserve is verified
 - ⇒ The Trailing Co-Borrower cannot be self-employed
 - ⇒ The Trailing Co-Borrower must have been continuously employed in the same occupation for 2 years immediately preceding the relocation
 - ⇒ The Trailing Co-Borrower must provide a statement of intent to work in the new location and describe the occupation for which he or she intends to seek employment
 - ⇒ The Underwriter must reasonably determine, based upon a review of the job market in the new geographic location, that employment opportunities and earning potential for the Trailing Co-Borrower's occupation in the new geographic location are at least comparable to the opportunities available in the former geographic location

Asset Requirements:**Reserve Requirements:**

Includes both first and second mortgage payments

- Standard Program: none
- Option 1: 6 months PITI
- Option 2: 2 months PITI
- First-Time Homebuyer: 6 months PITI

Residual Income Requirements:

Residual income is calculated by subtracting the Borrower's monthly obligations from gross monthly income

- Standard Program: None - unless ratio is 45.01-50%, then \$3,000 required (waived with 680 FICO)
- Option 1: None
- Option 2: \$1500 minimum
\$3000 for DTI Ratios > 45.01 – 50% (waived with 680 FICO)

Gift Funds:

- Standard Program: Permitted, follow first mortgage guidelines
- Option 1: Permitted, follow first mortgage guidelines
- Option 2: Not permitted

Interested Party Contributions:

Interested parties include, but are not limited to, the builder, developer, seller of the property and the real estate agent. Contributions from interested parties for closing costs and prepaids are acceptable with the following limitations:

- Standard Program: Follow first mortgage guidelines
- Option 1: Follow first mortgage guidelines
- Option 2: 3%

Non-Arms Length Transactions:

Primary Residences: Underwriters should scrutinize very closely loans that are Non-Arms length transactions. This includes, but is not limited to, transactions in which the Borrower's affiliated in some way with the Builder, Developer, or Property Seller.

Closing Requirements and Special Forms:

Copy of first lien Note and HUD-1 is required for all Piggyback transactions.

Please use the most recent version of the following forms:

- FNMA/FHLMC Second Mortgage Note for the State the property is located (if using VMP, use form #75).
- FNMA/FHLMC Second Mortgage/Deed of Trust for the State the property is located (if using VMP, use form #76).
- 2NDBALL – Balloon Addendum to Note & Rider
 - See Exhibit B
 - TMO Users: this form will print off of TMO
- Environmental Lien Endorsement ALTA 8.1
- If applicable:
 - 1-4 Family Rider Multistate (Form 3170)
 - 1-4 Family Rider Michigan (Form 3170.03)
 - Condo Rider (Form 3140)
 - Condo Endorsement ALTA 4
 - PUD Rider (Form 3150)
 - PUD Endorsement ALTA 5
 - Location Endorsement ALTA 9 (Required in areas where surveys are not customary)
 - Flood Certification from the first mortgage is acceptable. If this is a standalone transaction a new flood certification is required.
- **Ohio Loans Only:** Per-diem interest cannot be collected for second mortgage loans in Ohio. First Payment will be due the same day the very next month. If the closing falls on the last day of the month, the first payment date will be the last day of the month (i.e., close 1/31, first payment due 2/28).
- **Cash Back (under Option 2) to the Borrower** is permitted only under the following circumstances:
 - Purchase transactions – Borrower can only receive cash back for pre-paid items (i.e. Earnest Money Deposit, application fee, and prepaid hazard insurance). This must be documented with cancelled checks.
 - Refinance transactions – Incidental cash back up to \$500. \$500.01 is unacceptable.

Hazard and Flood Insurance:

- Hazard and flood insurance coverage must be the lesser of the aggregate outstanding principal balance of all loans, OR, full replacement cost of the dwelling, OR, 100% of the insurable value of the improvements
- Flood Certification
 - Stand alone transactions – new flood cert required
 - Piggyback transactions – a copy of the flood cert from the first mortgage

Interim Interest Credits:

Not Permitted.

Right of Rescission:

- 3 Day Right of Rescission is required on all refinance transactions.
- 3 Day Right of Rescission is **not** required for purchase money second mortgages, provided **all** funds are used toward the purchase of the property.

Closing Requirements and Special Forms:**(continued)****Title Insurance:**

- Loan amounts ≤ \$100,000 requires Title Search or its equivalent, except for:
 - New Mexico requires a full ALTA policy for loans > \$40,000
 - Oregon requires a full ALTA policy for loans > \$50,000
 - Florida requires a full ALTA policy only on Stand Alone transactions
 - Vermont requires a full ALTA policy on all transactions regardless of loan amount
 - For all Piggyback transactions only a copy of the title commitment from the first mortgage is needed. No additional coverage is required (except for Oregon and Vermont)
 - For all Piggyback transactions that have a change in vesting (refinances only) or is a leasehold (purchases and refinances) a full ALTA policy is required regardless of loan amount
- Loan amount > \$100,000 require a full ALTA policy
 - For all Piggyback transactions a full ALTA policy to cover both first and second liens is required

Prepayment Penalty:

There are no prepayment penalties on this product.

Servicing:

This product is servicing released.