Connective Mortgage Advisory Company
Underwriting Guidelines

These Connective Mortgage Advisory Company ("Connective") Underwriting Guidelines ("Underwriting Guidelines") are dated March 20, 2015. The Underwriting Guidelines may be updated or modified from time to time. Connective believes the information contained in this document relating to state laws and third party requirements to be accurate as of March 20, 2015. However, this information is provided for informational purposes only and may change at any time without notice. Connective is providing this information without any warranties, express or implied.
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Conventional Loan Underwriting—Introduction

The purpose of credit and property underwriting is to ensure that each loan meets the quality standards of Connective Mortgage Advisory Company® (Connective®). A loan meets Connective’s underwriting quality standards if the borrower’s credit and capacity to make payments and the quality of the collateral are consistent with the mortgage Loan Program under which the Mortgage Loan is sold to an Approved Buyer. The likelihood of timely repayment is expected to be commensurate with the credit quality of the Loan Program and the represented value of the subject property is expected to reflect accurately its market value.

These Underwriting Guidelines set forth the underwriting standards that apply to all Conforming Loan Programs that may be eligible for purchase by Approved Buyers. Generally, underwriting standards that vary from one Loan Program to another are described in Chapter 12, Products, as modified from time to time. In most cases, differences will not be referenced in these Underwriting Guidelines. Requirements set forth in these Underwriting Guidelines are applicable to loans underwritten by Desktop Underwriter® or Loan Prospector®, unless otherwise specified.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

These Underwriting Guidelines are a part of the Connective Correspondent Seller’s Guide (Seller’s Guide). All capitalized terms not defined in these Underwriting Guidelines have the respective meanings set forth in the Seller’s Guide.
1. Eligibility

1.01 Eligibility

Approved Buyers will not purchase mortgage loans if any company or individual who is a material party to the mortgage loan transaction is listed on the Department of Housing and Urban Development (HUD) Limited Denial of Participation List, Office of Foreign Assets Control (OFAC) Specially Designated Nationals and Blocked Persons List, the Freddie Mac Exclusionary List (if the Seller is a Freddie Mac approved Seller/Servicer with access to such list), or the General Services Administration (GSA) Excluded Party List System. All lists must be checked for all parties to the transaction. If any party’s name appears on any list, the mortgage loan is not eligible for purchase by an Approved Buyer.

1.02 Loan Application

The Fannie Mae/Freddie Mac Uniform Residential Loan Application must be used, and the loan application must be complete, including without limitation a full two-year history of employment/income and residency and all personal information for each borrower. If a borrower’s employment history includes unemployment or insurance benefits, the application must reflect at least two years of previous employment, therefore covering a longer period of time. Section VIII, Declarations, must be answered for each borrower. The method of taking the application including face-to-face, by telephone, by fax or mail, by e-mail or the internet and the Loan Originator’s information must be completed. The initial application(s) must be signed and dated by the appropriate parties.

The final application must comply with the requirements set forth above, including without limitation the borrower’s complete and accurate financial information relied upon by the underwriter, and it must be signed and dated by each borrower. All debt incurred during the application process and through loan closing must be disclosed on the final application. Please see Chapter 6.04, Credit History Evaluation, for more information.

All loan applications must be reviewed by the Seller for reasonableness as part of the underwriting process. The feasibility of occupancy claims and the overall financial picture of the borrowers must be reasonable. Where conflicting information exists between or within documents, an adequate explanation must be provided, documented and included in the mortgage loan file.

All documents in the mortgage loan origination file that are relevant to underwriting must be reviewed by the Seller for signs of alteration or fabrication. Where conflicting information exists between or within documents, an adequate explanation must be obtained and documented.

1.03 Identity Verification

The identity of each borrower whose credit is used for loan qualification must be confirmed in accordance with the applicable Agency guidelines. (As used herein, “Agency” refers to Fannie Mae and Freddie Mac as those terms are defined in the Seller’s Guide.)
1.04 Social Security Number Validation

Evidence of a valid Social Security number is required for all borrowers. Any Social Security number discrepancies that are identified must be resolved.

Loans to borrowers who have been issued an Individual Tax Identification Number (ITIN) in lieu of a Social Security number are **ineligible** for sale to an Approved Buyer.

1.05 Occupancy Types

A. Primary Residence

A primary residence is a property in which all borrowers take title and occupy as his, her, or their primary residence.

The following table describes conditions in which a residence will be considered a principal residence:

<table>
<thead>
<tr>
<th>Borrower Type</th>
<th>Requirements for Owner-Occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple borrowers</td>
<td>At least one borrower on the transaction must occupy the property for the majority of the year and take title to the property. For transactions in which not all of the borrowers will occupy the property as their primary residence, see the Non-occupant Co-borrower section.</td>
</tr>
</tbody>
</table>

B. Second Home

The property must be located in a recreational area. If not in a recreational area, the borrower must give a satisfactory explanation for the use of the property as a second home.

C. Investment Property

An investment property is owned but not occupied by the borrower.

- Gift funds are ineligible.

1.06 Borrower Types

The loan originator must have conducted all origination and underwriting procedures without regard to the borrower’s race, color, religion, national origin, age, sex, marital status, handicap, or status in any other class of persons protected under any applicable federal, state or local law.

Any person signing an application for a loan is a borrower. All borrowers must sign the Mortgage Note.

A borrower must be an individual. Non-individual legal entities, including but not limited to corporations, general partnerships, limited partnerships, real estate syndications, and investment trusts, are not eligible.
Living trusts and Illinois land trusts are eligible under certain conditions. See the Loans to Trusts section in Section 1.08.

Borrowers must meet credit and program eligibility requirements of Connective and the applicable Agency, as set forth below.

A. Non-Occupant Co-Borrower, Guarantor, and Co-Signer

1. Non-Occupant Co-Borrower
   - One-unit primary residence only.
   - Maximum 95 percent LTV.
   - The occupant borrower must meet the minimum borrower contribution requirement for the transaction.
   - Maximum 50 percent DTI for the occupant borrower.
   - The DTI ratio, including the non-occupant borrower’s income and debt, should meet the applicable DTI requirements of 45 percent for the transaction.

2. Guarantor or Co-Signer
   Loans with a guarantor or co-signer are ineligible for purchase by an Approved Buyer.

1.07 Multiple Properties Financed/Owned

“Properties financed” limitations are designed to protect Approved Buyers from excessive risk exposure with the same borrower. These limitations apply for loans sold to Approved Buyers by the same Seller or by different Sellers.

If the Mortgage Loan being sold to an Approved Buyer is secured by the borrower’s principal residence, there are no limitations on the number of properties that the borrower may currently be financing.

Seller should follow the applicable Agency guidelines as they relate to multiple properties financed/owned unless otherwise specified in these Underwriting Guidelines.

1.08 Loans to Trust

A. Inter Vivos Revocable Trust

An inter vivos revocable trust (a “living trust”) is a trust defined as follows:

1. Created by an individual during his or her lifetime.

2. Becomes effective during its creator’s lifetime.

3. Can be changed or canceled by its creator at any time, for any reason, during his or her lifetime.

The inter vivos revocable trust must meet the eligibility and documentation requirements as determined by the applicable Agency guidelines.
Eligibility Requirements (in addition to the applicable Agency requirements): Must be a one- to two-unit primary residence.

B. Land Trust

A land trust is an arrangement by which title to real estate is transferred to a trustee, but the full management and control of the property is retained by the beneficiaries of the trust. The trustee is named as owner of the property in the security instrument and is the "borrower" of record on the loan, even though the trustee is not personally liable for repayment of the loan.

Land trust loans are eligible subject to the following conditions:

1. The subject property must be located in Illinois.
2. The beneficiary of the trust must be an individual.
3. At least one of the borrowers must be one of the beneficiaries of the trust.
4. The land trustee must be a financial institution customarily engaged in the business of acting as trustee under Illinois state law.
5. The land trust beneficiary must execute the Mortgage Note and guarantee the payment of the Mortgage Loan.
6. The trustee must execute the Mortgage Note solely in his or her capacity as trustee of the land trust. The trustee must not be personally liable on the Mortgage Note.

C. Community Land Trusts

A mortgage loan made to a community land trust is not eligible for sale to an Approved Buyer.

1.09 Ownership Interests

Title to the subject property must be in the borrower's name at the time of application for a refinance transaction; and at the time of or simultaneously with the closing for all transactions.

The borrower must hold title to the property as a fee simple estate.

A. Life Estate

Loans secured by a life estate are not eligible for sale to an Approved Buyer.

B. Leasehold Estate

Loans secured by a leasehold estate are not eligible for sale to an Approved Buyer.
2. Transactions

This section outlines Connective’s transaction requirements that apply to all Loan Programs.

2.01 Transaction Types

A. Eligible Transaction Types

An Approved Buyer may purchase Mortgage Loans made for the following purposes as defined in this Section:

- Purchase Money Mortgage Loan.
- Refinance.
  - Rate/Term Refinance Mortgage Loan.
  - Cash-Out Refinance Mortgage Loan.

1. Purchase Money Mortgage

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property. The proceeds from the transaction must be used to:

- Finance the acquisition of the subject property.
- Pay off the outstanding balance on an installment land contract or a contract for deed which has not been recorded for 12 or more months.

Purchase money transactions do not allow cash back to the borrower at closing other than an amount representing:

- A reimbursement for the borrower’s overpayment of fees.
- Costs paid by the borrower in advance (for example, earnest money deposit, appraisal, and credit report fees).
- A legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears, unless restricted by the Loan Program.

Property Flips: If the seller has owned the property less than 180 days from the date of the purchase contract and the new sales price is higher than the price paid by the seller to acquire the property, the increase must be fully documented and explained.

- If the new sales price is higher than the price paid by the seller to acquire the property, the increase must be fully documented and explained.
- The following types of re-sale transactions are not considered property flips and are not required to meet the above criteria:
  - Property being sold by a spouse who acquired the property through a divorce settlement.
  - Property acquired by an employer through a relocation program.
  - Property being sold by an administrator or executor of an estate.
  - Property being sold by a lender, mortgage investor, or mortgage insurance company that was acquired through foreclosure or deed in lieu of foreclosure.
Except as otherwise required by applicable laws, closing costs (with the exception of mortgage insurance premiums) may not be financed as part of a purchase money transaction:

a. **Redemption Periods:**

   Certain state laws provide for a “redemption period” after a foreclosure or tax sale has occurred, during which time the property may be reclaimed by the prior mortgagor or other party upon payment of all amounts owed under the related mortgage loan. The length of the redemption period varies by state and does not expire automatically upon sale of the property to a new owner.

   - Unexpired redemption periods are deemed to be an unacceptable title impediment, and a mortgage loan with an unexpired redemption period is not eligible for sale to an Approved Buyer.

b. **Texas Section 50(a)(6) loans:**

   Section 50(a)(6) loans with LTVs above 80 percent are not allowed by Texas law, and as such, these loans are ineligible for sale to an Approved Buyer.

2. **Refinance Mortgage**

   There must be continuity of obligation if there is currently an outstanding lien that will be satisfied with the proceeds of the refinance transaction. Loans with an acceptable continuity of obligation may be underwritten as either a no-cash-out or a cash-out refinance transaction based on the definitions in these Underwriting Guidelines.

   Seller should follow the automated underwriting requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

a. **Rate/Term Refinance**

   A rate/term refinance transaction is a mortgage loan where the proceeds of such are used to pay off an existing mortgage loan. The new first mortgage loan is secured by the same property.

   i. Rate/term refinance transactions with new subordinate financing are ineligible.
   ii. Construction-to-Permanent loans are ineligible.
   iii. The refinance of a land contract supported by a recorded deed seasoned (12 months) in the borrower’s name is eligible.

b. **Properties Located in Texas**

   A copy of the current mortgage or mortgage note is required to determine that the existing loan is not subject to Texas Section 50(a)(6)—also known as Home

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Equity Deed of Trust, Home Equity Installment Contract, or Residential Home Loan Deed of Trust requirements.

i. If the first mortgage loan is not a Texas Section 50(a)(6) loan and the second mortgage is a Texas Section 50(a)(6), the second lien may be subordinated and the new mortgage loan is considered to be a rate and term refinance. The second lien must be subordinate to the lien of the Mortgage Loan purchased by an Approved Buyer. The borrower may not receive any cash back from the transaction.

ii. Refinance of an existing Texas Section 50(a)(6) loan is ineligible for sale to an Approved Buyer.

c. **Cash-Out Refinance Mortgage Loan**

Cash-out refinance mortgage loans are loans used to remove equity from the subject property. Funds received by the borrower from a cash-out refinance loan are not limited to a specific purpose.

**Maximum Cash-Out**

<table>
<thead>
<tr>
<th>Maximum LTV/CLTV</th>
<th>Maximum Cash-Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>80.01%–85%</td>
<td>$150,000</td>
</tr>
</tbody>
</table>

The subject Mortgage Loan is considered a cash-out refinance when:

i. The previous transaction combines a first and non-purchase money subordinate loan into a new first mortgage loan.

ii. The new transaction combines a first and non-purchase money subordinate into a new first loan.

The following are ineligible for cash-out refinance transactions:

i. Two- to four-unit properties.

ii. Transactions with new subordinate financing.

iii. Properties listed for sale in the last six months.

iv. Second homes.

v. Investment properties.

vi. Construction to permanent loans.

vii. Land contracts.

viii. Owner-occupied properties located in Texas:

- Loans secured by owner-occupied properties located in Texas subject to Texas Section 50(a)(6) are NOT eligible for sale to an Approved Buyer.

- A copy of the current mortgage or note is required to determine that the previous terms are not subject to Texas Section 50(a)(6) also
known as (Home Equity Deed of Trust, Home Equity Installment Contract or Residential Home Loan Deed of Trust) requirements.

- Refinancing of loans that are not Texas Section 50(a)(6) but are defined as a cash-out refinance based on Agency guidelines are eligible for this Loan Product.

3. Homes Recently Listed for Sale/Subordinate Financing/Delayed Financing

   a. For properties that have been listed for sale in the past six months, the subordination of secondary financing and length of ownership requirements are as follows:

      i. Existing subordinate financing may be re-subordinated, provided the CLTV requirements listed in the Loan Product section are met.

      ii. HUD-1 settlement statement(s) are required with respect to any transaction involving the property within the past 6 months.

   b. Delayed Financing: Seller should follow the automated underwriting requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

4. Third-Party Originations (TPO)

   A loan for which the loan origination (taking the loan application) is performed by an entity other than the Seller is considered a third-party origination ("TPO"). Mortgage service providers are not considered third-party originators if they do not take the loan application and are paid on an arm’s-length fee basis for services performed, with payment of fees not being contingent on mortgage approval or closing.

   All TPOs must comply with Agency Guidelines.

2.02 Ineligible Transaction Types

Mortgage Loans made for the following purposes are not eligible for sale to an Approved Buyer:

A. Loans to Principal Owners of Business Lending Client.

   Mortgage Loans made to principal owners or majority shareholders (25 percent or greater ownership) of a Seller.

B. Permanent Financing for New Construction.

   Mortgage Loans for the purpose of paying off interim construction financing.


   A single-close transaction that modifies the Mortgage Note and the first payment date.
D. Loans with Principal Curtailments.
E. Refinance of Restructured Loan or Short Refinance Loan.
F. Renovation/Rehabilitation Mortgages.
G. A refinance transaction of a home currently listed for sale.
3. Financing

This section outlines Connective’s financing requirements that apply to all Loan Programs.

3.01 Determining Amount to be Financed

For any Mortgage Loan, the amount eligible for financing is determined by factors specific to that Mortgage Loan, including, but not limited to, the type of financing, LTV, loan amount, property type, income, credit, and assets determination.

3.02 Determining Value

A. First Mortgage Transaction Value

Seller should follow the automated underwriting requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

3.03 Calculating Loan-to-Value Ratios

A. Loan-to-Value Ratio (LTV)

Seller should follow the automated underwriting requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

B. Combined Loan-to-Value (CLTV) Ratio

CLTV is the combination of all ratios (such as HCLTV, TLTV, and so forth) used to compare the combined loan amounts for the first-lien loan and the subordinate-lien loan secured by the subject property—whether drawn upon or not—to the lesser of the sales price or the appraised value.

The CLTV is obtained by dividing the sum of the first mortgage amount and the line amount—whether disbursed or not—of the HELOC and any other secondary financing by the value, as defined by the applicable Agency.

C. Treatment of Auctioneer Fees for LTV and CLTV Purposes

In most cases (but not all), it is common and customary for the buyer to pay the auctioneer fee (buyer's premium). The table below outlines the most common to least common events and the required treatment of auctioneer fees (buyer's premium) in relation to total sales price, LTV and interested party contributions:
<table>
<thead>
<tr>
<th>Customary Payor of Auctioneer Fee (Buyer's Premium)</th>
<th>Actual Payor</th>
<th>Add Premium to Auction Price</th>
<th>Include Premium in LTV</th>
<th>Considered an IPC/Sales Concession?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buyer</td>
<td>Buyer</td>
<td>Yes*</td>
<td>Yes</td>
<td>NA</td>
</tr>
<tr>
<td>Seller</td>
<td>Buyer</td>
<td>Yes*</td>
<td>Yes</td>
<td>NA</td>
</tr>
<tr>
<td>Buyer</td>
<td>Seller**</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Seller</td>
<td>Seller**</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

* The value in the “Purchase Price” of the Details of Transaction of the application should be the total of the winning bid plus the auctioneer fee. If the borrower has pre-paid the auctioneer fee, it should be documented in the same manner as an earnest money deposit and the fee should be identified in the “other credits” section of the Details of Transaction.

** Highly unlikely the seller will ever pay buyer's premium at auction.

### 3.04 Subordinate Financing

Purchase money loans with simultaneous secondary financing are ineligible for sale to an Approved Buyer.

Refinance transactions with new simultaneous secondary financing are ineligible for sale to an Approved Buyer.

- Mortgage Loans with existing subordinate financing may be eligible, provided such financing is re-subordinated to the first lien of the Mortgage Loan. The CLTV may never exceed the maximum LTV permitted with respect to the transaction type.

#### A. Ineligible Subordinate Financing (in addition to those identified by the applicable Agency)

- Employer assistance secured by a subordinate lien against the subject property.
- Individual Development Accounts (IDAs) used for down payment and/or closing costs that require a subordinate lien against the subject property.
- Disaster Relief Grants or loans that require a subordinate lien against the subject property.

#### B. Subordinate Financing Terms

The terms of any existing subordinate financing must be fully disclosed to Connective, be documented, and comply with the requirements as set forth by Connective and the applicable Agency.

#### C. Re-subordination Requirements for Refinance Transactions

If subordinate financing remains in place in connection with a first mortgage loan refinance transaction, Connective requires execution and recordation of a subordination agreement.

If state law permits subordinate financing to remain in the same subordinate lien position established with the prior first mortgage loan that is being refinanced, Connective does not
require re-subordination. Seller is responsible for determining that the subordinate lien satisfies any specified criteria of applicable law.

Insurance against a former junior lien not being properly subordinated to the refinance Mortgage Loan does not release Seller from its obligation to comply with these re-subordination requirements, or from the requirement that the subject property be free and clear of all encumbrances and liens having priority over the lien of the Mortgage Loan.

### 3.05 Interested Party Contributions (IPC)

Interested party contributions are used to cover costs that are normally the responsibility of the borrower that are paid directly or indirectly by someone else who has a financial interest in or can influence the terms and the sale or transfer of the subject property.

Connective does not permit use of IPCs to make the borrower’s down payment, meet financial reserve requirements, or meet minimum borrower contribution requirements.

**A. Financing Concessions**

Seller should follow the automated underwriting requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

**B. Sales Concessions**

Seller should follow the automated underwriting requirements and the applicable Agency guidelines based on LTV and transaction type. Connective will not allow 12 months HOA fees to be paid by the seller.

**C. Auctioneer Fees**

See Section 3.03 for treatment of auctioneer fees as interested party contributions.

### 3.06 Escrow or Impounds

Escrow or impounds are defined as all funds collected by a mortgagee on a mortgage loan for the servicer to cover expenses of the borrower that are required to be paid under the security instrument. The funds may include, but are not limited to, taxes, homeowners’ association charges, special assessments, ground rents, water, sewer, and other governmental impositions or charges that are or may become liens on the subject property prior to that of the Mortgage Loan, as well as hazard, and mortgage insurance premiums.

**A. Escrow/Impounds**

An escrow of funds for the payment of mortgage insurance, property taxes, and hazard insurance, wind, earthquake, flood, and HO6 premiums is required. (Escrow of the HO6 policy is not required if coverage is for personal contents only.) Two months’ escrows are required unless otherwise mandated by state law.
Mortgage loans with escrow waivers are **ineligible** for sale to an Approved Buyer, with the exception of Mortgage Loans on properties located in the state of California, with LTVs from 80.01 percent to 89.99 percent.
4. Property Types and Project Standards

This Chapter outlines Connective’s property types and project standards that apply to all Loan Programs. For additional property requirements see Chapter 10 Appraisal Requirements, Documentation, and Evaluation.

Connective and the Approved Buyers strictly adhere to all federal, state and local fair lending laws. The property securing each Mortgage Loan submitted by the Seller for purchase by an Approved Buyer must be based on property type, occupancy, and the appraised fair market value. The fact that a property is located in an area with a predominant racial or ethnic population is irrelevant. Race or the racial composition of the neighborhood is not a consideration when reviewing an appraisal and may not be included as an appraisal factor. As a matter of policy, appraisal reports that make reference to race, national origin, or ethnic background of the prospective owners or occupants and/or the current owners or occupants of the subject property, or of owners and occupants of other properties in the vicinity, are not acceptable. The use of code phrases as proxies for race, which are not necessarily descriptive of value or risk, is a poor appraisal practice and is unacceptable. The information in the appraisal report must support in an objective manner any statement or conclusion contained in the report.

The PUD and condominium sections of this chapter detail the project approval requirements for all types of PUD and condominium projects.

4.01 Eligible Property Types

The following are eligible property types:

- Single-family residences.
- Two- to four-unit properties.
- Residential Condominium.
- Site Condominium.
- Planned Unit Development (PUD).
- Properties with deed/re-sale restrictions.
- Mixed-Use Property.

Not all property types listed above are eligible under all Loan Programs. See the Product Chapter.

A. Single-Family Residence

An attached or detached single-family dwelling, including town homes, row homes, and site condominiums.

B. Two to Four Units

A two- to four-unit property is a residential structure with more than one unit but not more than four units.
C. Condominiums

A condominium is a unit in a project in which each unit owner has title to his or her individual unit, an undivided interest in the project’s common areas, and in some cases, exclusive use of certain limited common areas.

A condominium project must be created in accordance with local and state statutes and regulations. The structure must contain two or more units with the interior airspace individually owned. The balance of the property (land and building) must be owned in common by the individual unit owners.

The condominium project must meet all applicable Agency insurance requirements.

In order for a condominium to be eligible for purchase, it must be eligible for sale to either one of the Agencies, based on the Agency’s current published selling guide criteria.

D. Planned Unit Development (PUD)

A PUD is a real estate project or subdivision in which each unit owner has title to a residential lot and building and a nonexclusive easement on the common areas of the project. The owner may have an exclusive easement over some parts of the common areas (for example, parking space). PUDs must comply with the following requirements:

- The individual unit owner must own a parcel of land improved with a dwelling. This ownership may not be in common with other unit owners.
- The development must be administered by a homeowners’ association (HOA) that owns and is obligated to maintain the common elements (including greenbelts, recreation facilities, and parking areas) within the development for the common use and benefit of the unit owners.
- The unit owners must have an automatic, non-severable interest in the HOA and pay a mandatory assessment.
- Must be a single-family residence.

The PUD must meet all applicable Agency insurance requirements.

E. Deed/Resale Restrictions

Approved Buyers may purchase Mortgage Loans that are subject to resale restrictions, provided that such restrictions comply with all applicable laws and regulations.

The LTV for purchase transactions involving properties with deed restrictions that do not survive foreclosure will be based on the lower of the purchase price or the appraised value.

1. Duration of Resale Restrictions

Seller should follow the automated underwriting requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

2. Resale Restriction Appraisal Requirements
Seller should follow the automated underwriting requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

F. Mixed-Use Properties

Properties that have a business use in addition to their residential use are considered Mixed-Use Properties.

Appraisal Requirements:

- Appraisers provide an adequate description of the mixed-use characteristics of the subject property.
- The mixed use of the property represents a legal, permissible use of the property under the local zoning requirements.
- The market value of the property is primarily a function of its residential characteristics, rather than of the business use or any special business-use modifications that were made.

4.02 Ineligible Property Types

The Connective conduit will not purchase a Mortgage Loan secured by a property identified by the applicable Agency as Ineligible or with any of the following additional property characteristics:

- Manufactured housing.
- Properties comprising more than 15 acres of land.
- Cooperatives.
- Any property type that is ineligible for sale to the Agencies.

4.03 Condominium Overview

Seller must not be aware of any circumstances that would make the project ineligible for approval.

A. Maximum Exposure within a Project

1. Connective requires that a minimum of 50 percent of the units in a new condominium project must be conveyed or under contract to purchasers who will occupy the units as a primary residence or second home.

2. For two- to four-unit condominium projects, all but one unit in the project must have been conveyed or under contract to owner-occupant principal residence or second home purchasers.

3. Connective aligns with the Agencies for investor concentration requirements on existing projects in which the subject property is a primary residence or second home.

4. Investment property transactions must have a minimum 51 percent of the units in the project conveyed or under contract to purchasers who will occupy the units as a primary residence or second home.
5. Non-realty limited common elements (for example, boat dock slips, cabanas) may not be financed with the property. Assigned parking spaces may be financed as a cost of the property.

4.04 Ineligible Condominium/PUD Projects

The Connective Guidelines do not permit Mortgage Loans secured by a property located in a project identified by the applicable Agency as Ineligible or within any of the following project types or units containing any of the following additional property characteristics:

- Cooperatives.
- Projects which include manufactured housing.
- Non-warrantable Condominium/PUD projects.
- A condominium which receives a single loan project eligibility waiver from an Agency because the project does not meet its published requirements.
- A condominium located in a project which received a Project Eligibility Review Service (PERS) approval that allows exceptions to the Agency's published requirements.

4.05 Approval Authority and Process for Condominium and PUD Projects

Sellers must follow the eligibility guidelines of the applicable Agency and of Connective as provided in this section with respect to condominium and PUD projects. Seller is responsible for providing accurate condominium warranties for all transactions secured by condominiums.

All condominium and PUD projects must be warrantable and comply with the applicable Agency requirements, except as otherwise specifically set forth herein. A warrantable condominium is a condominium project that meets Agency and Connective eligibility standards.

A. Condominiums

1. If the Seller is an approved Fannie Mae Seller/Servicer with a Seller/Servicer ID number, the Seller must warrant the condominium project's eligibility through one of the following methods:

   a. Previously Approved Projects

      If Fannie Mae has previously issued a Final Project Approval (PERS) as listed at https://www.fanniemae.com/singlefamily/project-eligibility, print it, circle the project name that appears on the approval page, and place it in the Mortgage Loan file. If the project approval expires prior to the Note date or if the project was listed as ineligible, the Mortgage Loan will be ineligible for sale to an Approved Buyer.

   b. Condominium Project Manager (CPM) Expedited Review

      Condo Project Manager (CPM) Expedited Review is a Fannie Mae web-based tool that is used to provide Seller-specific project acceptance for attached, detached, new, established, and two-unit to four-unit condominium projects. Only Sellers with a Fannie Mae Seller/Servicer ID number will have access to the CPM system.
The project must have a valid, unexpired CPM Seller Certification as of the date of the Note and a copy must be in the Mortgage Loan file prior to loan funding. In addition, the Seller must not be aware of any changes in circumstances since the project information was submitted to CPM that would result in the project’s not satisfying Fannie Mae’s eligibility criteria.

c. **Fannie Mae Project Eligibility Review Service (PERS)**

Fannie Mae’s Project Eligibility Review Service (PERS) is available to Sellers with a Fannie Mae Seller/Servicer ID number, for submission and review of existing, new and newly converted condominium projects by Fannie Mae. PERS approval that allows exceptions to the Agency’s published requirements are ineligible.

PERS-approved projects are posted on the Fannie Mae website. Final Project Approval decisions will expire one year after issuance. PERS-reviewed projects determined to be ineligible for delivery are identified as well.

d. **Full Review**

The Seller Full Review process is another method for the review of new and established condos. Sellers performing a Full Review must ensure that the project meets all eligibility criteria of the applicable Agency and of Connective.

2. If the Seller is a non-Fannie Mae Seller/Servicer, the Seller must warrant the condominium project’s eligibility through the review of Fannie Mae Previously Approved Projects, or a Full Review process.

a. **Previously Approved Projects**

If Fannie Mae has previously issued a Final Project Approval (PERS) as listed at [https://www.fanniemae.com/singlefamily/project-eligibility](https://www.fanniemae.com/singlefamily/project-eligibility), print, circle the project name that appears on the approval page and place in the mortgage loan file. If the project approval expires prior to the Note date or if the project was listed as ineligible, the mortgage loan will be ineligible for sale to an Approved Buyer.

b. **Full Review**

The Seller Full Review process is another method for the review of new and established condos. Sellers performing a Full Review must ensure that the project meets all applicable eligibility criteria of the applicable Agency and of Connective.

The form must identify the warranty type of the project and be included in the Mortgage Loan file. The Connective conduit will not purchase a Mortgage Loan if a warranty form is not in the Mortgage Loan file.

Sellers must retain all project documentation that supports its warranty that the project meets the applicable Agency eligibility criteria. This documentation must be retained from the time the Seller first originates mortgages secured by units in the project until all such mortgages that were sold to an Approved Buyer have been liquidated. The project documentation must be available upon request for review by Connective or the Approved Buyer.

A project warranty is valid for three months preceding the date of the Mortgage Note. After the three-month expiration date, all appropriate documentation must be updated to verify that there have been no changes that would adversely affect the project.
B. PUD Projects

Seller is required to warrant the following Attached PUD projects in order for the Mortgage Loan to be eligible for sale to an Approved Buyer. A warrantable PUD is a PUD project that meets Agency and Connective eligibility standards.

- Fannie Mae Established PUD (Type E).
- Fannie Mae New PUD (Type F).
- Freddie Mac Established PUD (E).
- Freddie Mac New PUD (F).

4.06 Environmental Hazard Assessment

If the Seller has identified environmental problems through the performance of its project review process and due diligence review, and an environmental assessment would be required, then the loan is ineligible for sale to an Approved Buyer.

4.07 Hazard and Flood Insurance Requirements

Seller should follow the applicable Agency guidelines as they relate to Hazard and Flood Insurance requirements.

Documentation should be in the form of a declaration page or policy.
5. Automated Underwriting

This chapter discusses Automated Underwriting and its use by Connective. Connective requires the use of Fannie Mae’s Desktop Underwriter® (DU or Desktop Underwriter) or Freddie Mac’s Loan Prospector® (LP or Loan Prospector) for automated underwriting decisions on all eligible Loan Programs. DO (Desktop Originator) findings may not be considered a substitute for DU approval.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

5.01 Underwriting Methods

Guidelines contained in this chapter are applicable to loans underwritten by DU, LP, and High-Balance/Super Conforming loans unless otherwise stated. Loans may be underwritten using any one of the following methods:

A. Desktop Underwriter or Loan Prospector

1. Loans underwritten by Desktop Underwriter or Loan Prospector may follow the DU Underwriting Findings Report or LP Feedback Certificate unless otherwise stated in these Underwriting Guidelines or in the Product Chapter.

2. Loan Prospector Streamlined Accept or Standard Documentation may be used if LP Feedback Certificate is approved as such. Loan Prospector Streamlined Accept and Standard Documentation are not outlined in this chapter. Refer to the Freddie Mac Seller/Servicer Guide for documentation requirements.

B. High-Balance/Super Conforming

Loans having an original principal amount that exceeds the conforming loan limit must meet the high-balance conforming loan limits as defined by FHFA, underwritten to the documentation requirements as specified above for the applicable agency.

Please see the Product Chapter for additional requirements.

5.02 Desktop Underwriter (DU)

Desktop Underwriter is Fannie Mae’s automated underwriting system, which evaluates the probability of future serious delinquency and arrives at an underwriting recommendation by relying on a comprehensive examination of the primary and contributory risk factors in a mortgage application. DU analyzes the information in the loan case-file to reach an overall credit risk assessment to determine eligibility for delivery to Fannie Mae.

A. Desktop Underwriter Decisions

When a loan is submitted to Desktop Underwriter, the only recommendation in the DU Underwriting Findings Report that is acceptable to Connective is the following:
Any loans that are submitted to DU that receive other Desktop Underwriter Recommendations (including but not limited to the following) are ineligible for sale to Approved Buyers:

- Refer with Caution.
- Approve/Ineligible.
- Out of Scope.

### B. Desktop Underwriter Data and Delivery Information Accuracy

The data submitted to Desktop Underwriter must reflect the loan as it was closed, including occupancy type, product type, amortization, loan term, property type, loan purpose, sales price, and appraised value.

Verification documents must be reviewed and the verified values compared to the data submitted to Desktop Underwriter. The terms of the closed loan must match the terms of the final loan case-file submission to Desktop Underwriter. Desktop Underwriter allows specific data tolerances for debt-to-income (DTI) ratios, assets, reserves, etc. Connective does not use these tolerances. If any of the loan data changes, the Seller must ensure that the loan continues to meet all requirements of these Underwriting Guidelines.

Fannie Mae continuously updates Desktop Underwriter with new versions of the system; therefore, when a loan is initially run through a specific version of Desktop Underwriter, any underwriting updates for that same loan must be run through the same version of Desktop Underwriter. Any updated Desktop Underwriter versions will not apply to previously submitted loans.

### 5.03 Loan Prospector (LP)

Loan Prospector is Freddie Mac’s automated underwriting system that makes purchase decisions for Freddie Mac using statistical models and rules of judgment to analyze the data received and then returns a Feedback Certificate.

#### A. Loan Prospector Risk Class and Eligibility

1. **Risk Class**

   When a loan is submitted to Loan Prospector, the only recommendation in the LP Feedback Certificate that is acceptable to Connective is the following:

<table>
<thead>
<tr>
<th>Decision</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accept/Eligible</td>
<td>An Accept Risk Class confirms that Loan Prospector has determined that the borrower’s credit worthiness is acceptable.</td>
</tr>
</tbody>
</table>
Any loans that are submitted to LP that receive other Loan Prospector Recommendations (including but not limited to the following) are ineligible for sale to an Approved Buyer:

- Caution.
- Caution/500 A-Minus.
- Incomplete/Invalid.

2. Purchase Eligibility

The Loan Prospector Feedback Certificate will indicate the loan’s eligibility for purchase by Freddie Mac. The loan must be eligible for purchase by Freddie Mac in order to be purchased by an Approved Buyer.

B. Loan Prospector Documentation Level

The documentation level shown on the LP Feedback Certificate indicates the minimum level of documentation acceptable for the mortgage.

- Streamlined Accept Documentation.
- Standard Documentation.

Refer to Chapter 9, Employment and Income Analysis and Documentation, in these Underwriting Guidelines and to the Freddie Mac Seller/Servicer Guide for specific documentation requirements.

C. Loan Prospector Data and Delivery Information Accuracy

The final Loan Prospector Risk Class and Documentation Level must reflect the loan as it was closed, including occupancy type, product type, amortization, loan term, property type, loan purpose, sales price, and appraised value.

Verification documents must be reviewed and the verified values compared to the data submitted to Loan Prospector. The terms of the closed loan must match the terms of the final loan submission in Loan Prospector.

Resubmission of a loan to Loan Prospector prior to closing is required if:

- Information on the previous submission was not true, complete or accurate.
- The data are no longer valid because the most recent submission has expired (including the date of the Loan Prospector credit report).

The final Transmittal Summary must be maintained in the permanent loan file documenting the verified values of the data utilized to perform the underwriting analysis.

Freddie Mac continuously updates Loan Prospector with new versions of the system; therefore, when a loan is initially run through a specific version of Loan Prospector, any underwriting updates for that same loan must be run through the same version of Loan Prospector. Any updated Loan Prospector versions will not apply to previously submitted loans.
Loan Prospector allows specific data tolerances for debt-to-income (DTI) ratios, assets, reserves, etc. Connective does not use these tolerances. If any of the loan data change, the Seller must ensure that the loan continues to meet all requirements of these Underwriting Guidelines.
6. Credit

This section outlines Connective’s credit requirements that apply to all Loan Programs. Generally, requirements that vary from one Loan Program to another are described in our Product Chapters and, in most cases; those program-specific differences will not be referenced in this section.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

6.01 Documentation Age and Standards

A. Documentation Age

1. Desktop Underwriter.

   The credit report must be dated no more than 120 days from the note date.

2. Loan Prospector:

   The credit report must be dated no more than 120 days from the note date.

B. Documentation Standards

   All accounts, revolving and installment, reported by the borrower on the application must be verified on the credit report or directly by a credit reference. The current balance, current status, rating, monthly payment amount, and payment history for the most recent 12 months must be provided.

   Written verifications of mortgage, rent, or credit must be sent by the Seller directly to the creditor. The return address on the verification must be the Seller’s address. The hand carrying of verifications by the borrower or interested party is strictly prohibited.

6.02 Credit Report Requirements

   Seller should follow the automated underwriting requirements and the applicable Agency guidelines as they relate to Credit Report Requirements, unless otherwise specified in these Underwriting Guidelines.

   Credit reports with partially displayed Social Security numbers are not considered eligible documentation due to the increased opportunity for fraud. Connective requires the complete Social Security number to be displayed on the credit report.

A. Credit Report Red Flags

   Credit repositories have developed messages to identify potential fraudulent activities perpetrated by individuals misusing others’ identity information. The messages may pertain to the borrower’s Social Security number, address, telephone number, etc. All fraud alert messages appearing on the credit report need to be satisfactorily addressed to ensure the information presented on the loan application is true and correct.
B. Non-Traditional Credit

Any loan for which one or more borrowers do not have a valid credit score, or borrowers who do not have at least two valid credit scores, are considered “non-traditional” credit loans. All non-traditional credit loans are ineligible for sale to an Approved Buyer.

C. Foreign Credit References

If a borrower does not have sufficient trade line references in the United States, credit references from foreign countries may not be used, and the loan will be ineligible for sale to an Approved Buyer.

D. Social Security Numbers and Individual Tax Identification Numbers (ITINs)

1. All borrowers on a loan are required to have a valid Social Security number (SSN).
2. Credit reports with partially displayed Social Security numbers are not considered eligible documentation due to the increased opportunity for fraud.
3. Loans to borrowers who have been issued an ITIN in lieu of a Social Security number are ineligible.

6.03 Credit Scores

Seller should follow the automated underwriting requirements and the applicable Agency guidelines as they relate to Credit Score Requirements, unless otherwise specified in these Underwriting Guidelines.

A. Authorized User Accounts

The Seller must follow the automated underwriting requirements and the applicable Agency guidelines to determine whether the authorized user trade lines can be considered part of the borrower’s credit history. The authorized user trade line cannot be considered part of the borrower’s credit history when:

1. The credit score will be deemed invalid and the loan will be ineligible for sale to an Approved Buyer; or
2. A corrected credit report may be supplied with the authorized user accounts removed and the new credit score reflected.

When a borrower provides canceled checks as proof of payment on the authorized user account, in order that it may be considered as part of the credit history, the required monthly payment must be used in the DTI calculation.

B. Trade Line and Credit Score Requirements

All loans require a credit score based on the following minimum credit history and trade line requirements:

1. The score for each borrower must be generated from a minimum of three traditional trade lines evaluated for at least 12 months.
   - Trade lines for closed accounts may be used to meet this requirement.
   - Authorized user accounts may not be used to satisfy this requirement unless the borrower can provide written documentation (such as canceled checks or payment
receipts) proving that he or she has been the actual and sole payer of the monthly payment on the account for at least 12 months preceding the date of the application.

- A trade line for which a payment has never been made may not be used to satisfy this requirement (for example, a deferred student loan).

2. Connective requires a minimum of two credit scores per borrower.

- A borrower with one valid credit score is acceptable when the lender has requested credit scores from all three credit repositories and only one valid credit score is available.

Borrowers who do not meet the requirements above are considered “non-traditional” or “thin file” credit borrowers and are ineligible for sale to an Approved Buyer.

### 6.04 Credit History Evaluation

A borrower’s credit profile may be established by one of the following methods:

- Submitting the loan to Desktop Underwriter.
- Submitting the loan to Loan Prospector.

#### A. Significant Adverse or Derogatory Credit

To conclude that the borrower’s credit profile is acceptable despite previous financial mismanagement, the rationale supporting the determination that the financial mismanagement is unlikely to recur and the borrower’s credit profile is acceptable must be explained.

The loan file must contain all of the following documentation:

1. Evidence that the borrower has re-established an acceptable credit profile. The borrower will be considered as having acceptable re-established credit if there are at least three traditional credit references with activity during the most recent 24 months with no late payments.
2. Evidence on the credit report and other credit documentation of the length of time since completion of the significant derogatory event to the date of the loan application, and of completion of the recovery time period requirements as identified below.

#### B. Significant Adverse or Derogatory Credit Caused by Extenuating Circumstances

Extenuating circumstances are defined as non-recurring events that were beyond the borrower’s control, resulting in a sudden, significant, and prolonged reduction in income (extended illness, unemployment, and death of a spouse or co-borrower). They are not defined solely by one event.

If the borrower’s credit history reveals significant adverse or derogatory credit within the most recent two years, even if caused by extenuating circumstances, the borrower’s credit profile cannot be considered acceptable.
The severity of the hardship and the borrower’s efforts to resolve the situation must be considered. Documentation provided to support claims of extenuating circumstances should confirm the nature of the event that led to the significant derogatory credit and illustrate that the borrower had no reasonable options other than to default on his or her financial obligations.

1. Documentation Requirements: The loan file must contain all of the following documentation:
   a. The borrower’s written statement, attributing the cause of the financial difficulties to factors beyond his or her control.
   b. The difficulties must not be ongoing or likely to recur.
   c. Third-party supporting documentation to verify the extenuating circumstances. The supporting documentation must correlate with the borrower’s explanation and timetable of events, and confirm the events were an isolated occurrence that resulted in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligation. Documentation confirming the event may include a copy of a divorce decree, notice of job layoff, job severance papers, etc.
   d. Supporting documentation establishing the date of the foreclosure, deed-in-lieu, short sale or a copy of the applicable bankruptcy documents to confirm the bankruptcy discharge date and identify any debts not satisfied by the bankruptcy, if applicable.
   e. Supporting documentation indicating all debts are paid.
   f. Evidence the borrower has reestablished credit. The borrower will be considered as having acceptable reestablished credit if there are at least three traditional credit references with activity during the most recent 24 months with no late payments.
   g. Recovery time period from significant derogatory credit is met.

2. Requirements for Reestablishing Credit: After a bankruptcy, foreclosure, deed-in-lieu of foreclosure or short sale, or other significant derogatory credit, the borrower’s credit will be considered reestablished if all of the following are met:
   a. The waiting period and related additional requirements are met.
   b. The minimum credit score requirements based on the loan parameters and established eligibility requirements are met.
   c. The borrower has traditional credit. Non-traditional credit is not acceptable. The borrower will be considered as having acceptable reestablished credit if there are at least three traditional credit references with activity during the most recent 24 months with no late payments.

C. Recovery Time Periods

Recovery time requirements are based on the discharge, dismissal, or completion date to the date of the application.

Bankruptcy Filing

CONNECTIVE mortgage advisory company™
1. For all other bankruptcies discharged or dismissed, Connective will align with applicable agency waiting period requirements with the exception of the following:
   a. Mortgages discharged in bankruptcy require seven-year waiting period.
   b. Borrowers with multiple bankruptcy filings in the past seven years are ineligible.

2. Foreclosures, deeds in lieu of foreclosure, and pre-foreclosure sales (short sales) require seven years’ seasoning after the completion date, and satisfactory re-established credit must be verified.
   a. Regardless of the borrower’s credit score and/or payment history, the seven-year seasoning requirement applies for any reference to one of the above-mentioned events, whether via the credit report or other loan file documentation.
   b. Manufactured housing/mobile home loans indicated as repossessions, collections, or charge-offs are considered foreclosures.

D. **Deed for Lease**

Borrowers may have the opportunity to lease a property for which they have given a deed in lieu of foreclosure. When the borrower’s loan file references a deed for lease, the underwriter must determine the completion date of the deed in lieu of foreclosure to ensure the requirements of C.2 above are met.

E. **Restructured Mortgage Loan**

A borrower who has had a loan restructured, where the original transaction has been changed, resulting in absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in any of the following is ineligible:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage;
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness;
- Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage; or
- Conversion of any portion of the original mortgage debt from secured to unsecured.

Any short refinance transaction (a new refinance loan that includes any of the above) is ineligible.

F. **Consumer Credit Counseling**

Borrowers who have received credit counseling as a result of derogatory credit should have satisfactory reestablished credit from the conclusion of the counseling.
G. **Major Adverse Credit**

Seller should follow the automated underwriting requirements and the applicable Agency guidelines as they relate to Major Adverse Credit unless otherwise specified in these Underwriting Guidelines.

1. Past-due open accounts must be brought current.

2. Collections and charge-offs are not required to be re-paid, unless required by AUS findings.

6.05 **Housing Payment History**

Seller should follow the automated underwriting requirements and the applicable Agency guidelines as they relate to Housing Payment History unless otherwise specified in these Underwriting Guidelines.
7. Assets

This section outlines Connective’s asset requirements that apply to all Loan Programs. Generally, requirements that vary from one Loan Program to another are described in the Product Chapter and, in most cases, those program-specific differences will not be referenced in this section.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

7.01 Documentation Age

The following documentation age limitations apply.

A. Desktop Underwriter
   - 120 days prior to the Note date.

B. Loan Prospector
   - 120 days prior to the Note date.

7.02 Minimum Down Payment and Cash to Close

Evidence must be provided to determine that the borrower has sufficient funds to pay the down payment, prepaid items, and closing costs as well as adequate additional cash reserves as the Loan Program requires.

For most Loan Programs, the borrower is required to make a minimum down payment from his or her own assets.

All down payment funds and cash to close must be documented and verified. Electronic verifications are acceptable.

A. Borrower’s Own Funds—Acceptable Sources

The following types of assets are considered the borrower’s own funds and can be used to satisfy the minimum contribution from the borrower’s own funds requirement. The asset must be properly documented and verified and used toward the down payment.

1. Funds on deposit in financial institutions:
   a. The source of funds used to establish accounts opened less than 90 days must be verified.
   b. The source of funds for large deposits or for substantial increases in account balances must be verified.

2. Borrower’s deposits into an Individual Development Account.

4. Trust accounts.
5. Retirement accounts.
6. Proceeds from the sale of real estate.
7. Lot value (when purchased or inherited by the borrower).
8. Rent credits with options to purchase.
10. Borrowed funds secured by the borrower’s assets (financial or otherwise).
11. Proceeds from the sale of personal assets.
12. Cash value of life insurance.
13. Business assets
   a. Documentation to show that the borrower has full access to the funds.
   b. A letter from an accountant stating that the withdrawal of the funds will not have a detrimental effect on the business.
   c. If a letter from an accountant is not available, the lender must document a cash flow analysis for the borrower’s business to show there will be no detrimental effect on the business due to the withdrawal of funds.
14. Disaster relief grant or loan that does not require a subordinate lien to be recorded against the subject property.
15. Gift from a relative or from a domestic partner who has lived with the borrower for the last 12 months, or from a fiancé or fiancée, is considered the borrower’s own funds and may be used to satisfy the minimum borrower contribution requirement, as long as both individuals will use the home being purchased as their principal residence.
16. Gifts and donated grants (with no condition for repayment) may be used to satisfy the minimum borrower contribution requirement when all of the following underwriting requirements are met in addition to standard Agency gift/grant requirements.

<table>
<thead>
<tr>
<th>Occupancy Type</th>
<th>Transaction Type</th>
<th>Property Type</th>
<th>Maximum Loan Amount</th>
<th>Minimum Credit Score</th>
<th>Maximum DTI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Residence*</td>
<td>Purchase transactions up to 95% LTV only</td>
<td>1 Unit Detached, Attached, and Condos</td>
<td>$417,000</td>
<td>620</td>
<td>45%</td>
</tr>
</tbody>
</table>
* Non-Occupant Co-Borrowers are not acceptable.

17. Gift funds for a two-unit principal residence, second home, or high balance mortgage loan require a borrower minimum contribution of 5% from their own funds. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves.

B. Borrower’s Own Funds—Unacceptable Sources

The following types of assets are not considered the borrower’s own funds and cannot be used to satisfy the minimum contribution from the borrower’s own funds requirement.

1. Lot value (when received as a gift).
2. Interested-party contributions.
3. Sales concessions.
4. Individual Development Account (IDA) matching funds.
5. Community savings plans.
6. Gifts or grants that do not meet acceptable source guidelines.
7. Disaster relief grant or loan that requires a subordinate lien to be recorded against the subject property.
8. Employer assistance.
10. Borrowed funds that are not secured by an asset owned by the borrower.
11. Credit card or unsecured line of credit financing.
12. Anticipated savings.
13. College savings plans for which the borrower(s) is/are not the intended recipient

C. Foreign Assets

Seller should follow the automated underwriting documentation requirements and the applicable Agency guidelines as they relate to Foreign Assets, unless otherwise specified in these Underwriting Guidelines.

The borrower’s source of funds for the down payment and/or closing costs must comply with the Office of Foreign Assets Control (OFAC) Sanctions Programs for funds originating from countries with OFAC sanctions.
7.03  Reserve Requirements

Seller should follow the automated underwriting documentation requirements and the applicable Agency guidelines as they relate to Reserve Requirements, unless otherwise specified in these Underwriting Guidelines.

1. A minimum of six months’ reserves are required for purchase or rate/term refinance transactions of two- to four-unit properties.

2. If the borrower is retaining the current primary residence and converting it to a second home or investment property, DU and LP are unable to account for the additional Agency reserve requirements of 6 months' PITIA for both properties, unless 30% equity in the current property is documented, then 2 months’ would be required for both the retained property and the subject property.
   - Two- to four-unit primary purchase requires 6 months’ PITIA for both properties, unless 30% equity in the current property is documented, then 6 months’ PITIA for subject property and 2 months’ PITIA for retained property is required.

3. When a borrower has multiple financed properties and is financing (or refinancing) a second home or investment property, DU/LP is not able to determine the exact number of financed properties the borrower owns. As a result, the lender must manually apply the applicable additional reserve requirements for the other financed second home and investment property transactions as required by the applicable agency guidelines.

7.04  Asset Sources

Acceptable sources of assets are listed below (for those funds beyond the borrower minimum contribution). Seller should follow the automated underwriting documentation requirements and the applicable Agency guidelines as they relate to Assets, unless otherwise specified in these Underwriting Guidelines.

A. Bank Accounts.
   1. Whenever funds are required for reserves or funds to close, a minimum of one month’s bank statement and the documentation required by DU/LP is required.

B. Bridge Loan.

C. Business Funds (refer to section 7.02 for additional requirements).

D. Community Savings Plans.

E. Credit Card Financing (for common and customary fees paid outside of closing).

F. Donated Funds.

G. Employer Assistance Programs.
   1. The employer assistance may not be in the form of a loan that requires a subordinate lien against the property.
H. **Equity from Other Assets.**

I. **Gifts.**
   1. Ineligible for 3- to 4-unit primary residences and investment properties.
   2. When funds are obtained from wedding gifts the following must be provided:
      a. A copy of the marriage certificate (not more than six months old).
      b. Verification of receipt of the funds through a bank statement or deposit slip.

J. **Income Tax Refund.**

K. **Individual Development Accounts (IDA).**
   1. Individual Development Accounts that require a subordinate lien to be recorded against
      the subject property are ineligible.

L. **Life Insurance—Cash Value.**

M. **Notes Receivable/Repayment of Loans.**

N. **Pooled Funds.**

O. **Real Estate Commission (Borrower Earned).**

P. **Rent Credit/Lease with Option to Purchase.**

Q. **Retirement Accounts.**

R. **Earnest Money Deposit.**

S. **Stocks, Bonds, Mutual Funds, U.S. Savings Bonds.**

T. **Trust Funds.**

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**7.05 Unacceptable Sources of Assets**

Sources of funds considered ineligible as sources of down payment, closing cost and/or reserves include,
but are not limited to the following:

A. **Cash-on-hand.**

B. **Sweat equity.**

C. **New simultaneous secondary financing.**

D. **Trade equity.**

E. **College Savings Plans (529 accounts) for which the borrower(s) is/are not the intended
   recipient (not eligible as reserves).**
8. Liabilities & Debt Ratios

This section outlines Connective’s Liabilities & Debt Ratios requirements that apply to all Loan Programs. Generally, requirements that vary from one Loan Program to another are described in the Product Chapter and, in most cases, those program-specific differences will not be referenced in this section.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

8.01 Monthly Housing Expenses

Monthly housing expenses are required to calculate the anticipated total monthly housing expense-to-income ratio. Housing expense-to-income ratios compare monthly housing expenses to stable gross monthly income. Monthly housing expenses include the following:

A. Principal and Interest Payments on the First Mortgage Loan.
B. Financing Payments on Subordinate Lien Loans Secured by the Subject Property.
C. Hazard Insurance Premiums.
D. Flood Insurance Premiums.
E. Mortgage Insurance Premiums.
F. Real Estate Taxes.
G. Homeowners' Association Dues.
H. Leasehold Payments.
I. Ground Rent.
J. Special Assessments

8.02 Qualifying Housing Payment

Seller should follow the automated underwriting requirements and the applicable Agency guidelines as they relate to the Qualifying Housing Payment unless otherwise specified in these Underwriting Guidelines.

8.03 Monthly Debt Obligations

Seller should follow the automated underwriting requirements and the applicable Agency guidelines as they relate to Monthly Debt Obligations unless otherwise specified in these Underwriting Guidelines.

8.04 Debt Pay Off/Pay Down

Seller should follow the automated underwriting requirements and the applicable Agency guidelines as they relate to paying off or paying down debt unless otherwise specified in these Underwriting Guidelines.
8.05 Total Qualifying Debt-to-Income Ratios

The debt-to-income ratio is a factor in determining the Loan Program for which a borrower is eligible. See the Product Matrix Chapter for the maximum DTI.
9. Employment and Income Analysis and Documentation

This section outlines Connective’s Employment and Income Analysis and Documentation requirements that apply to all Loan Programs. Generally, requirements that vary from one Loan Program to another are described in our Product Chapters and, in most cases, those program-specific differences will not be referenced in this section.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

9.01 Stability and Continuance of Employment and Income

Seller should follow the automated underwriting requirements and the applicable Agency guidelines as they relate to Employment and Income unless otherwise specified in these Underwriting Guidelines.

A. Employment Gaps

Seller should follow the automated underwriting documentation requirements and the applicable Agency guidelines as they relate to Employment Gaps unless otherwise specified in these Underwriting Guidelines.

9.02 Documentation Age and Standards

A. Documentation Age

The following documentation age limitations apply.

1. Desktop Underwriter
   a. 120 days prior to the Note date.

2. Loan Prospector
   a. 120 days prior to the Note date.

B. Documentation Standards

1. Refer to the applicable Agency guidelines for specific standards for each document listed below:
   a. Tax Information Authorization IRS Form 4506-T/Tax Transcripts.
   b. Pay stubs.
   c. W-2s.
   d. Written Verification of Employment.
   e. Verbal Verification of Employment.
   f. Personal or business tax returns.
   g. Self-employed Income Analysis.
2. In addition to the document standards acceptable to the Agencies, Connective will accept the following documentation as detailed below:

**Executed Employment Contracts, Confirmation Letter, and Offer Letters**

Employment confirmation letters are generally executed when the employer does not use a contract when hiring a new employee. They provide confirmation of the terms of employment and acceptance by the borrower. Employment contracts, confirmation letters, and offer letters may be used as verification of employment and income when the requirements listed below are met:

- The contract or confirmation letter must provide the employment and income information required when using the standard forms of employment/income verification (for example, start date, position, and salary).
- The borrower’s start date must be prior to the Loan Closing date.
- The Seller must obtain a verbal Verification of Employment verifying (1) the authenticity of the contract or confirmation letter and (2) that the borrower began employment prior to loan closing.
- The employer’s original offer letter to the employee (which generally does not confirm the acceptance of the position by the employee or the start date) is not eligible as a form of employment or income verification.

**9.03 Non-Reimbursed Business Expenses**

Seller should follow the automated underwriting requirements and the applicable Agency guidelines as they relate to Non-reimbursed Business Expenses unless otherwise specified in these Underwriting Guidelines.

**9.04 Income Types**

Income types are defined as follows and detailed throughout this chapter:

- Primary employment (base earnings).
- Second job or multiple job employment.
- Bonus or overtime.
- Commission.
- Self-employment income.
- Rental income.

**A. Primary Employment (Base Earnings)**

Employees who receive a consistent wage or salary from an employer in return for a service rendered and have less than 25 percent ownership interest in the business. Compensation may be based on an hourly, weekly, biweekly, monthly, or semimonthly basis.
1. Desktop Underwriter® and Loan Prospector® Loans

Seller should follow the automated underwriting documentation requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

Connective will also accept executed employment contracts or confirmation letters to verify employment and income when the requirements listed in section 9.02, Documentation Standards, of these Underwriting Guidelines are met, provided the borrower’s new employment will begin prior to the loan closing date.

2. High-Balance or Super Conforming Loans

Seller should follow the automated underwriting documentation requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

B. Second Job or Multiple Job Employment

1. Desktop Underwriter® Loans and Loan Prospector® Loans

Seller should follow the automated underwriting documentation requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

2. High-Balance or Super Conforming Loans

Seller should follow the automated underwriting documentation requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

C. Bonus or Overtime

Bonus or overtime income is compensation in addition to an employee’s straight salary or hourly wage. Automated underwriting must recognize bonus or overtime income.

1. Desktop Underwriter® Loans and Loan Prospector® Loans

Seller should follow the automated underwriting requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

2. High-Balance or Super Conforming Loans

Seller should follow the automated underwriting requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.
D. Commission

Commission income is defined as a fee or percentage paid to an employee for performing a service. Automated underwriting must recognize commission income.

1. Desktop Underwriter® Loans and Loan Prospector® Loans

Seller should follow the automated underwriting requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

2. High-Balance or Super Conforming Loans

Seller should follow the automated underwriting requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

E. Self-Employment Income

A self-employed borrower is an individual who has a 25 percent or greater ownership interest in a business or receives 1099s to document income. For transactions originated from January through mid-April of any given year, we will consider using most current year tax returns for a self-employed borrower for which tax transcripts are not yet available. We would require a copy of the returns as well as confirmation of receipt from the IRS—either in the form of an e-file acceptance or stamp from the IRS and verification that any amount due has been remitted to the IRS. Any significant increase in income from the prior year’s returns must be satisfactorily explained and justified—and may warrant further documentation. The length of self-employment, type of business, and business structure will be evaluated to assess stability and continuance of self-employment income.

1. Desktop Underwriter® and Loan Prospector®

Seller should follow the automated underwriting requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

2. High-Balance or Super Conforming Loans

Seller should follow the automated underwriting requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

F. Rental Income

Rental income for qualification purposes may be derived from a subject investment property, owner-occupied two- to four-unit primary residences or other real estate owned.

1. Desktop Underwriter and Loan Prospector

Seller should follow the automated underwriting requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

2. High-Balance or Super Conforming Loans


Seller should follow the automated underwriting requirements and the applicable Agency guidelines unless otherwise specified in these Underwriting Guidelines.

9.05 Other Income Sources

If used to qualify the borrower, document the income according to the automated underwriting requirements and the applicable Agency guidelines.

A. Alimony, Child Support, and Maintenance Payments.
B. Auto Allowances and Expense Account Payments.
C. Capital Gains and Losses.
D. Employment by a Relative, Property Seller, or Real Estate Broker.
E. Foreign Income.
F. Foster Care Income.
G. Housing or Parsonage Allowance.
   1. If the clergy receives a housing or parsonage allowance, Connective will follow Freddie Mac's housing or parsonage allowance guidelines.
H. Interest and Dividend Income.
I. Military Income.
J. Non-Taxable Income.
K. Note Income.
L. Disability Income.
M. Public Assistance.
N. Retirement, Pension, Annuity, and IRA Distributions.
O. Royalty Payments.
P. Seasonal Income.
Q. Social Security Income.
R. Teacher Income.
S. Temporary Leave and Short-Term Disability.
T. Tip and Gratuity Income.
U. Trust Fund Income.
V. Unemployment Benefits Income.
W. Union Member Income.
X. VA Benefits.
9.06 Unacceptable Sources of Income

Income from sources considered ineligible includes, but is not limited to, the following:

A. Future Income.
B. Income Derived from the Subject Property with Land Being Leased to Another Party.
C. Income Derived from Farm Income from Subject Property.
D. Income Derived from Gambling.
E. Income Determined to be Temporary or One-Time in Nature.
F. Lump Sum Payments such as Inheritances or Lawsuit Settlements.
G. Lump Sum Payments of Lottery Earnings that are Not On-Going.
H. Mortgage Credit Certificates.
I. Non-Incidental Income Received from Farming/Agricultural Use of a Property.
J. Rental Income Received from The Borrower's Single Family Primary Residence or Second Home (see additional guidelines for allowable rental income from departing primary residence).
K. Retained Earnings in a Company.
L. Stock Options.
M. Taxable Forms of Income Not Declared on Personal Tax Returns.
N. Trailing Co-Borrower Income.
O. Unverifiable Income.
P. VA Education Benefits.
10. Appraisal Documentation, Requirements, and Evaluation

This section outlines Connective’s appraisal requirements, documentation, and evaluation requirements that apply to all Loan Programs. Generally, requirements that vary from one Loan Program to another are described in the Product Chapter and, in most cases, program-specific differences are not referenced in this section.

The appraisal report forms require the appraiser to certify that the appraiser did not base, either partially or completely, the analysis and/or opinion of value in the appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

Seller should follow the applicable Agency guidelines as they relate to Appraisal Documentation, Requirements, and Property Evaluation, unless otherwise specified in these Underwriting Guidelines.

A full Uniform Residential Appraisal Report (URAR), with interior and exterior inspections, is required. All other valuation methods are ineligible.

The appraisal should fully analyze the neighborhood, site, physical characteristics, and condition of the property.

10.01 Appraiser Requirements

The appraiser must remain free of any outside influence in the valuation process. Appraisers must provide complete and accurate reports. The estimate of market value must represent the appraiser’s professional conclusion, based on market data, logical analysis, and judgment.

A. Appraiser Requirements

1. The appraiser must be a state licensed or certified appraiser. Verification must be provided by one of the following forms:

   a. A copy of the appraiser’s current license (preferred documentation).

<table>
<thead>
<tr>
<th>Navigating the Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1</td>
</tr>
<tr>
<td>On the left side of the screen, select “National Registry.”</td>
</tr>
<tr>
<td>Step 2</td>
</tr>
<tr>
<td>Select “Find an Appraiser.”</td>
</tr>
<tr>
<td>Step 3</td>
</tr>
<tr>
<td>Enter name and/or address of appraiser.</td>
</tr>
<tr>
<td>Step 4</td>
</tr>
<tr>
<td>Locate the appraiser’s name by either scrolling through the list of names or by using the alphabetized bookmark as a shortcut.</td>
</tr>
</tbody>
</table>
Navigating the Website

| Step 5 | Click the appraiser's name to generate a National Registry Appraiser Report, which provides licensing state, license number, appraiser's last name, and the effective date and expiration date of the license. Include a copy of the report in the loan file. |

2. The appraiser must comply with the independent appraiser requirements specified by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, and the Office of Thrift Supervision, as well as Fannie Mae and Freddie Mac Appraiser Independence Requirements.

3. The appraiser must comply with real estate appraisal regulations adopted in accordance with Title XI of the Financial Institutions Reform or Recovery and Enforcement Act of 1989 (regardless of whether Seller is subject to those regulations).

4. The appraiser must be experienced in the appraisal of properties similar to the type being appraised.

5. The appraiser must be actively engaged in appraisal work.

6. The appraiser may not be an interested party in the subject transaction.

7. The appraiser must subscribe to a code of ethics that is at least as strict as the code of the American Institute of Real Estate Appraisers or the American Society of Appraisers.

10.02 Documentation Age and Standards

All appraisals must be performed in strict accordance with and comply with all applicable local, state, and federal laws, regulations, and orders and must conform to the current Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation.

Review each appraisal in detail for completeness, accuracy, and assessment of the current fair market value.

A. Age of Appraisal

The appraisal report must be dated within 120 days of the date of the Mortgage Note.

If the date of the appraisal report is more than 120 days but less than 360 days from the date of the Mortgage Note, the original appraiser must provide an update to the appraisal based on his or her knowledge of current market conditions. The appraiser must acknowledge that the value of the subject property has not declined since the date of the original appraisal. The update must be completed on Fannie Mae Form 1004D/Freddie Mac Form 442 and must be dated within 120 days of the date of the Mortgage Note. A new appraisal is required when the appraiser indicates in an Appraisal Update that the property value has declined.
Loans purchased more than 75 days after closing (Mortgage Note date to purchase date) require an Appraisal Update (Fannie Mae Form 1004D/Freddie Mac Form 442) or a new appraisal (Fannie Mae Form 1004/Freddie Mac Form 70) supporting the original appraised value. If an Appraisal Update indicates that the value has declined, a new appraisal (Fannie Mae Form 1004/Freddie Mac Form 70) must be obtained and must support the original appraised value. The Appraisal Update or New Appraisal must be dated within 60 days of the date that an Approved Buyer purchases the loan.

The appraisal date may not be more than 12 months prior to the date of the Mortgage Note.

B. Acceptable Appraisal Forms

The appraisal form must be prepared and signed by an approved appraiser. The appraisal report must be on the current version of the appropriate appraisal form listed below.

1. Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70)—URAR

Used for appraisals of one-unit properties and units in PUDs, (including a one-unit property with an accessory apartment) based on interior and exterior property inspections. The URAR may also be used for units in a detached condominium project if the appraiser includes an adequate description of the project and information about the homeowner association fees and the quality of project maintenance. An interior and exterior inspection of the subject property is required. The appraisal report must be Uniform Appraisal Dataset (UAD) compliant.

2. Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073 and Freddie Mac Form 465)

This report must be used for appraisals of one-unit properties in condominium projects. An interior and exterior property inspection is required. The appraisal report must be UAD compliant.

3. Small Residential Income Property Appraisal Report (Fannie Mae Form 1025 and Freddie Mac Form 72)

This report must be used for appraisals of two- to four-unit properties. An interior and exterior property inspection is required.

4. Appraisal Update (Fannie Mae Form 1004D/Freddie Mac Form 442)

When performing an appraisal update, the appraiser is expected to research, verify, and analyze current market data, and to perform at least an exterior-only inspection of the subject property.

The use of a substitute appraiser to perform the appraisal update is acceptable. The substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser’s opinion of market value was reasonable on the date of
the original appraisal report. In addition, the loan file must contain a note explaining why
the original appraiser was not used.

The type of inspection required depends on the nature of the appraisal conditions or
changes to the subject property.

a. If the appraisal is completed “as is,” an interior inspection is not required unless
   there are any known changes to the subject property that would have an adverse
effect on condition or marketability.

b. If the appraisal is subject to completion per plans and specifications, interior and
   exterior inspections are required. Exterior and interior photographs are required.

c. If the appraisal is subject to repairs that affect safety, soundness, or habitability,
   interior and exterior inspections are required if repairs are required for the interior
   of the dwelling. Exterior and interior photographs are required. Otherwise, an
   exterior-only inspection with exterior photographs is required.

5. Market Conditions Addendum (Fannie Mae Form 1004MC)

This is required for all mortgage loans with appraisals of one- to four-unit properties. It is
intended to provide the Seller with a clear and accurate understanding of the market
trends and conditions prevalent in the subject neighborhood.

6. Field Review Appraisal

The following forms are required when a field review appraisal is required by the Loan
Program or at the discretion of the underwriter:

a. One-Unit Property
   i. One-Unit Residential Appraisal Field Review Report (Fannie Mae Form
      2000 or Freddie Mac Form 1032).
   ii. Original front and street photos of the subject property.
   iii. Photos of the comparable sales must be used for all reviews of one-unit
       residential appraisal reports.

b. Two- to Four-Unit Property
   i. Two- to four-unit Residential Appraisal Field Review Report (Fannie Mae
      Form 2000A or Freddie Mac Form 1072).
   ii. Original front and street photos of the subject property.
   iii. Photos of the comparable sales must be used for all reviews of two- to
       four-unit residential appraisal reports.

An analysis comparing the original appraisal and the review appraisal must be
performed. The original appraiser must address any significant differences
or discrepancies.
C. Ineligible Appraisal Forms

1. Exterior-Only Inspection Residential Report (Fannie Mae and Freddie Mac Form 2055).
2. Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Fannie Mae Form 1075 and Freddie Mac Form 466).
3. Desktop Underwriter® Property Inspection Report (Fannie Mae Form 2075).
4. Loan Prospector® Condition and Marketability Report (Fannie Mae Form 2070).
5. Property Inspection Waiver (PIW).

10.03 Escrow for Postponed Improvements

Escrow for postponed improvements is generally not permitted, however escrow holdbacks on new construction for completion of driveways, landscaping, etc. as a result of weather related delays, will be allowed on a case-by-case basis. All other agency requirements must be met.

All other loans with escrows for postponed improvements will be ineligible for purchase by an Approved Buyer.

10.04 Appraisal Review

A. Lava Zones

1. Approved Buyers will purchase mortgage loans secured by properties located in the state of Hawaii that are located within lava zones 3 through 9 only. Properties in lava zones 1 and 2 are not eligible due to the increased risk of property destruction from lava flows within these areas.

2. Hawaiian lava flow maps and other information are available online at the U.S. Geological Survey Hawaiian Volcano Observatory website.

B. Property Condition and Quality of Construction

1. Condition

The appraisal should indicate that the property is in average or better condition. If the property condition is rated fair or poor, the appraisal should be made subject to repairs that will bring the property to an average or better condition. Additionally, when provided, the following Condition rating codes, as defined by the FHFA Uniform Appraisal Dataset used by Fannie Mae and Freddie Mac, must be considered as follows:
Condition ratings of C1, C2, C3, or C4 are acceptable in an “as is” condition. Due to the risk associated with Condition ratings C5 and C6, any appraisals with a C5 or C6 rating must have the condition items causing the rating on the appraisal be “subject to completion of repairs” in order for the transaction to be eligible for sale to an Approved Buyer.

2. **Quality**

The appraisal should indicate that the property is in average or better condition. If the property condition is rated fair or poor, the appraisal should be made subject to repairs that will bring the property to an average or better condition. Additionally, when provided, the following Quality of Construction rating codes, as defined by the FHFA Uniform Appraisal Dataset used by Fannie Mae and Freddie Mac, must be considered as follows:

a. Quality of Construction ratings of Q1, Q2, Q3, Q4, or Q5 are acceptable. Due to the risk associated with Quality of Construction rating Q6, any appraisal report with this rating will be ineligible for sale to an Approved Buyer.

b. When the appraisal is made subject to completion, repairs, or inspection, the lender must ensure that the construction is completed, the repairs are made, or the inspection is completed. If the inspection shows that additional repairs are required, those repairs must be completed prior to closing in order for the transaction to be eligible for sale to an Approved Buyer.

C. **Rural Properties**

Comparable properties should be in similar rural locations and be similar property styles. Appraiser must adequately explain the use of comparables not meeting these requirements.

D. **Environmental Hazard Assessment**

If the Seller has identified environmental problems through the performance of its appraisal review process and an environmental assessment would be required, then the loan is ineligible for sale to an Approved Buyer.

E. **Multiple Parcels**

Connective aligns with Agency guidelines with regard to multiple parcels.

10.05 **Disaster Policy**

When natural disasters, such as hurricanes, tropical storms, and tornadoes, occur prior to the purchase of a loan by an Approved Buyer, the Seller must take steps to ensure that the subject property secured by the loan is protected.

Once the federal government has declared a disaster with individual assistance (assistance to individuals and households), a FEMA Disaster Notification is issued at [http://www.fema.gov/](http://www.fema.gov/).
Note: A disaster declared with public assistance (assistance to State and local governments and certain private nonprofit organizations for emergency work and the repair or replacement of disaster-damaged facilities) does not require a re-inspection.

Unless otherwise specified, Seller should follow the applicable Agency guidelines as they relate to properties involved in a disaster.
11. Ability to Repay Requirement

Seller must comply with all state, local, and municipal Ability to Repay requirements, including providing any required documentation.
12. Connective Mortgage Advisory Company Products (Conventional)

<table>
<thead>
<tr>
<th>Product Description</th>
<th>Loan Amounts up to $417,000</th>
<th>High Balance Conforming $417,001–$625,500 (as designated by FHFA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Conventional Conforming Fixed-Rate</td>
<td>• 15- to 30-year term</td>
<td>• Conventional High Balance Conforming Fixed-Rate</td>
</tr>
<tr>
<td>• 15- to 30-year term</td>
<td>• Fully amortizing</td>
<td>• 15- to 30-year term</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Fully amortizing</td>
</tr>
</tbody>
</table>

| Product Codes                             |                                                                                             |                                                                   |
|--------------------------------------------|                                                                                             |                                                                   |
| • 15-year Fixed (FX15)                     |                                                                                             | • 15-year High Balance Fixed (FX15)                                |
| • 20-year Fixed (FX20)                     |                                                                                             | • 20-year High Balance Fixed (FX20)                               |
| • 30-year Fixed (FX30)                     |                                                                                             | • 30-year High Balance Fixed (FX30)                               |

<table>
<thead>
<tr>
<th>Loan Amounts</th>
<th>Minimum Loan Amount $10,000</th>
<th>See product matrix for maximum loan amounts.</th>
</tr>
</thead>
</table>

**Product Matrix**

<table>
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<tr>
<th>Occupancy</th>
<th>Transaction Type</th>
<th>Property Type</th>
<th>Min. LTV/CLTV</th>
<th>Max. LTV/CLTV</th>
<th>Maximum Loan Amount</th>
<th>Minimum Credit Score</th>
<th>Max. DTI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Residence</td>
<td>Purchase and Rate/Term Refinance</td>
<td>Single Family, PUD, Condominium</td>
<td>80.01</td>
<td>95%</td>
<td>$417,000</td>
<td>620</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>90%</td>
<td>$625,500</td>
<td>620</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2-Unit</td>
<td>80.01</td>
<td>85%</td>
<td>$417,000</td>
<td>660</td>
<td>45%</td>
</tr>
<tr>
<td></td>
<td>Cash-Out Refinance</td>
<td>Single Family, PUD, Condominium</td>
<td>80.01</td>
<td>85%</td>
<td>$417,000</td>
<td>660</td>
<td></td>
</tr>
<tr>
<td>Second Home</td>
<td>Purchase and Rate/Term Refinance</td>
<td>Single Family, PUD, Condominium</td>
<td>80.01</td>
<td>90%</td>
<td>$417,000</td>
<td>660</td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>Purchase and Rate/Term Refinance</td>
<td>Single Family, PUD, Condominium</td>
<td>80.01</td>
<td>85%</td>
<td>$417,000</td>
<td>680</td>
<td></td>
</tr>
</tbody>
</table>

1 45% DTI for conventional mortgage loans with a DU/LP Approve/Accept Eligible; or satisfactory AUS approval up to 50% DTI. 43% DTI for conventional mortgage loans underwritten in accordance with Regulation Z, Appendix Q.
<table>
<thead>
<tr>
<th>Other Key Underwriting Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-Occupant Co-Borrower</strong></td>
</tr>
<tr>
<td>• 1-unit primary residence only.</td>
</tr>
<tr>
<td>• Occupant Borrower must meet the minimum Borrower contribution requirement for the transaction.</td>
</tr>
<tr>
<td>• Maximum 50% DTI for the occupant Borrower.</td>
</tr>
<tr>
<td>• The DTI ratio, including the non-occupant Borrower’s income and debt, should meet the applicable DTI requirements of 45% for the transaction.</td>
</tr>
<tr>
<td><strong>Secondary Financing</strong></td>
</tr>
<tr>
<td>• Purchase transactions with simultaneous secondary financing are ineligible.</td>
</tr>
<tr>
<td>• Rate/term and cash-out refinance transactions:</td>
</tr>
<tr>
<td>• Transactions with new simultaneous secondary financing are ineligible.</td>
</tr>
<tr>
<td>• Existing subordinate financing may be re-subordinated. The CLTV may never exceed the maximum LTV per the transaction type.</td>
</tr>
<tr>
<td>• CLTV is the combination of all ratios (such as HCLTV, TLTV, and so forth) used to compare the combined loan amounts for the first lien and subordinate lien(s) secured by the subject property, whether drawn or not, to the lesser of the sales price or appraised value.</td>
</tr>
<tr>
<td><strong>Ineligible Transaction Types</strong></td>
</tr>
<tr>
<td>• Loans to principal owners of business lending client.</td>
</tr>
<tr>
<td>• Permanent financing for new construction.</td>
</tr>
<tr>
<td>• Single-Close construction-to-permanent mortgage.</td>
</tr>
<tr>
<td>• Loans with principal curtailments.</td>
</tr>
<tr>
<td>• Refinance of restructured mortgage loan (refer to section 6.04 Section E).</td>
</tr>
<tr>
<td>• Renovation/Rehabilitation mortgages.</td>
</tr>
<tr>
<td><strong>Cash-Out Refinancing</strong></td>
</tr>
<tr>
<td><strong>Maximum Cash Out $150,000</strong></td>
</tr>
<tr>
<td>The following are ineligible for a cash-out refinance transaction:</td>
</tr>
<tr>
<td>• Properties listed for sale in the last six months.</td>
</tr>
<tr>
<td>• Second homes.</td>
</tr>
<tr>
<td>• Investment properties.</td>
</tr>
<tr>
<td>• 2- to 4-unit properties.</td>
</tr>
<tr>
<td><strong>Balloons</strong></td>
</tr>
<tr>
<td>• Ineligible.</td>
</tr>
<tr>
<td><strong>Temporary Buydowns</strong></td>
</tr>
<tr>
<td>• Ineligible.</td>
</tr>
<tr>
<td><strong>Assumptions</strong></td>
</tr>
<tr>
<td>• Not permitted.</td>
</tr>
<tr>
<td><strong>Escrow Waivers</strong></td>
</tr>
<tr>
<td>• Not permitted, unless the subject property is located in the state of California, with LTVs of 80.01–89.99%.</td>
</tr>
<tr>
<td><strong>Prepayment Penalty</strong></td>
</tr>
<tr>
<td>• Not permitted.</td>
</tr>
</tbody>
</table>
Other Key Underwriting Requirements

Credit

Ineligible:
- Any loan for which one or more Borrowers do not have a valid credit score.
- Loans involving Borrowers with undocumented credit histories ("no credit").
- "Thin-file" credit.
- Non-traditional credit reports.
- Foreign credit reports.

See the Underwriting Guidelines for all other requirements.

Assets/Reserves

Maximum Seller Contributions

<table>
<thead>
<tr>
<th>Occupancy</th>
<th>Loan Amount</th>
<th>LTV</th>
<th>Seller Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Residence</td>
<td>Up to $625,500</td>
<td>90–95%</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>80.01–90%</td>
<td>6%</td>
</tr>
<tr>
<td>Second Home</td>
<td>Up to $417,000</td>
<td>80.01–90%</td>
<td>6%</td>
</tr>
<tr>
<td>Investment</td>
<td>Up to $417,000</td>
<td>80.01–85%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Minimum Contribution from Borrower’s own funds:

<table>
<thead>
<tr>
<th>Occupancy</th>
<th>Minimum Borrower Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-unit Primary</td>
<td>3%</td>
</tr>
<tr>
<td>2-unit Primary</td>
<td>5%</td>
</tr>
<tr>
<td>Second home and High balance</td>
<td>5%</td>
</tr>
<tr>
<td>Investment</td>
<td>All contributions (with the exception of allowable Seller/interested party contributions) must come from the Borrower’s own funds.</td>
</tr>
</tbody>
</table>

See the Underwriting Guide Chapter 7 Assets for reserve requirements if:
- The transaction is a purchase or rate/term refinance of a 2-unit property.
- The Borrower’s primary residence is for sale, but will not close before the Note Date of the Mortgage on the new primary residence.
- The Borrower is converting their primary residence to a second home or investment property.
- The Borrower owns other financed properties.

See Underwriting Guidelines for additional requirements regarding assets.
**Other Key Underwriting Requirements**

<table>
<thead>
<tr>
<th>Limitations on Other Real Estate Owned</th>
<th>Multiple Loans to the Same Borrower</th>
</tr>
</thead>
<tbody>
<tr>
<td>If the mortgage being delivered to Connective is secured by the Borrower’s principal residence, there are no limitations on the number of properties the Borrower can currently be financing.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Condominium Project Requirements</th>
<th>Pre-Sale:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Minimum of 50% of the units in a new project must be conveyed or under contract to purchasers who will occupy the units as a primary residence or second home. Connective aligns with applicable agencies for existing projects.</td>
<td></td>
</tr>
<tr>
<td>- For 2- to 4-unit condominium projects, all but one unit in the project must have been conveyed or under contract to owner-occupant principal residence or second home purchasers.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Appraiser Requirements</th>
<th>Current license is required. See Section 10 of the Underwriting Guidelines for additional requirements.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal Requirements</td>
<td>A full Uniform Residential Appraisal Report (URAR), with interior and exterior inspections, is required. See the Underwriting Guidelines for additional eligibility guidelines.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ineligible Geographic Locations</th>
<th>Mississippi.</th>
</tr>
</thead>
<tbody>
<tr>
<td>- U.S. Territories (including Puerto Rico, Guam, and the Virgin Islands)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>State Specific Requirements</th>
<th>None at this time.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Special Requirements / Restrictions</th>
<th>Additional Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>- <strong>Form 4506-T</strong>: Must be signed and processed prior to closing and a new form signed at closing.</td>
<td></td>
</tr>
<tr>
<td>- <strong>Points and Fees</strong>: A maximum of 5% may be charged for points and fees. Fees include origination fees, underwriting fees, broker fees, finder fees, and charges that the lender imposes as a condition of making the loan, whether they are paid to the lender or a third party.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Documentation</th>
<th>All documentation related to Seller’s determination that the mortgage loan is QM-compliant, including all underwriting documentation, must be provided.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The following documentation is ineligible:</td>
<td></td>
</tr>
<tr>
<td>- Limited Documentation loans (loans in which income, employment, and/or assets is not verified).</td>
<td></td>
</tr>
<tr>
<td>- Streamlined refinance transactions.</td>
<td></td>
</tr>
<tr>
<td>- Streamlined purchase transactions.</td>
<td></td>
</tr>
<tr>
<td>- DO automated underwriting findings</td>
<td></td>
</tr>
<tr>
<td>- Fannie Mae’s Property Inspection Waiver (PIW).</td>
<td></td>
</tr>
<tr>
<td>- DU Property Inspection Report Form 2075.</td>
<td></td>
</tr>
<tr>
<td>- Freddie Mac’s Property Inspection Alternative (PIA).</td>
<td></td>
</tr>
<tr>
<td>- LP Condition and Marketability Report Form 2070.</td>
<td></td>
</tr>
<tr>
<td>- Any other Automated Valuation Method (AVM).</td>
<td></td>
</tr>
</tbody>
</table>
Mortgage insurance must be provided by United Guaranty Residential Insurance Company (United Guaranty) or other approved United Guaranty affiliate only (Delegated data submission [delegated] and full-file submissions eligible).

- **Borrower Paid Mortgage Insurance (BPMI)**
  - Monthly and Post Pay®
  - Level Annual.
  - Standard Annual.
  - Split Premium (with or without options).
  - Single Premium.

- **Lender Paid Single Premium (LPSP)**
  - Must be paid to United Guaranty prior to purchase via the Connective platform.
  - Documentation that the lender has paid the MI premium must be contained in the file.

### Standard Mortgage Insurance Coverages

<table>
<thead>
<tr>
<th>Transaction Type</th>
<th>LTV Range</th>
<th>80.01–85%</th>
<th>85.01–90%</th>
<th>90.01–95%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully amortizing fixed-rate, term ≤ 20 years</td>
<td></td>
<td>6%</td>
<td>12%</td>
<td>25%</td>
</tr>
<tr>
<td>Fully amortizing fixed rate, term &gt; 20 years</td>
<td></td>
<td>12%</td>
<td>25%</td>
<td>30%</td>
</tr>
</tbody>
</table>

- Lender-Paid Monthly Premiums and Lender-Paid Split Premiums are currently ineligible.
- Discounted coverage allowed per AUS is not eligible.
- MI may be financed:
  - The mortgage amount and LTV **including** the financed premium may not exceed the limitations set forth in the Underwriting guidelines.
  - Mortgage Insurance coverage is based on LTV **excluding** the financed premium. Rate lock pricing is based on mortgage amount including financed premium.
- **NY State**: Use the appraised value to determine if mortgage insurance is required. If Mortgage Insurance is required, use the lesser of the sales price or appraised value to determine the appropriate coverage.