

AmericaHomeKey, Inc Program Description

FHA Fixed Rate

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**F15, F20, F25, F30, F30G1, F30G2, F30B, FJ30, FHASTRF
F15REO, F30REO, F30BB3, F30LS**

1. GENERAL DESCRIPTION

FHA insured, fully amortizing loan with a maturity of 15, 20, 25 or 30 years

2. GENERAL INFORMATION

- A) TERM: 15, 20, 25, or 30 years
 High Balance: 30 years
- B) ARM INITIAL/ANNUAL/LIFETIME CAPS: N/A
 C) ARM MARGIN: N/A
 D) TEMPORARY BUYDOWN: Permitted– see item 12 below
 E) MINIMUM LOAN AMT: \$0
 F) ESCROW WAIVERS: Not Permitted
 G) REDUCED DOCUMENTATION: Not Permitted
- H) CODES:
- F15 Fixed: 15 year
 - F20 Fixed: 20 year
 - F25 Fixed: 25 year
 - F30 Fixed: 30 year
 - F30BD 30 Year /Buydown
 - FHASTRF Streamline Refinance
 - F30G1 30 Year Fixed GNMAI
 - F30G2 30 Year Fixed GNMAII
 - F30BB3 DU Refer/Eligible – Manual Underwrite
 - F30LS 30 Yr Fixed with Government Down Payment Assistance
- I) NARRATIVE DISCLOSURE: n/a

3. LOAN LIMITS

UNITS	FLOOR	CEILING (high cost areas except Alaska & Hawaii)
1	\$271,050	\$729,750
2	\$347,000	\$934,200
3	\$419,400	\$1,129,250
4	\$521,250	\$1,403,400

HUD sets different limits per county and these limits can change at any time. Limits are available on this link: <https://entp.hud.gov/idapp/html/hicostlook.cfm> Click on the state you wish to view and scroll to the

appropriate property county.

MINIMUM DOWNPAYMENT AND MAXIMUM MORTGAGE CALCULATION

Purchase	No Cash Out Refinance	Cash Out Refinance
96.50%	97.75%	85%

PURCHASE TRANSACTIONS:

Borrower must contribute 3.5% cash or acceptable gift for down payment on purchase transactions. The LTV on a purchase transaction will be based on lesser of the appraised value or adjusted sales price BEFORE MIP.

The total insured first mortgage cannot exceed 100% of the appraised value, including UFMIP. Only when a unit of government or an instrumentality of one is offering down payment and/or closing costs assistance in the form of secondary financing, the CLTV can exceed 100% of the appraised value.

Closing costs are not considered in the 3.5% contribution. The 6% seller contributions or premium pricing may still be used for closing costs.

REFINANCE TRANSACTIONS

New refinanced loan amount cannot exceed FHA area limit.

NO CASH OUT

Streamline WITHOUT Appraisal – Non Income/Credit Qualifying

The maximum insurable mortgage is:

- The outstanding principal balance minus the applicable refund of the UFMIP
PLUS
- The new UFMIP that will be charged on the refinance

Note: The outstanding principal balance may include interest charged by the servicing lender when the payoff is not received on the first day of the month but may not include delinquent interest, late charges or escrow shortages.

Additional underwriting eligibility criteria

- Seasoning – At the time of loan application, the borrower must have made at least 6 payments on the current mortgage being refinanced
- Payment History – 0 x 30 within the last 12 months regardless of seasoning
- Net Tangible Benefit – There must be a documented net tangible benefit to the borrower i.e. reduction in total payment by a minimum of 5%, ARM to fixed, reduction in term
- A verbal VOE is required on all streamline transactions within 5 days prior to closing
- A minimum 640 credit score is required
- Maximum CLTV – If subordinate financing is to remain in place, the maximum CLTV is 125%. The CLTV will be based on the original appraised value of the property
- Loans should NOT be run through Total Scorecard
- A complete URLA must be signed by the borrower(s) prior to underwriting, an abbreviated version is not acceptable

Streamline WITH Appraisal – NON INCOME/CREDIT QUALIFYING

The maximum insurable mortgage is the lower of:

- Outstanding principal balance minus the applicable refund of UFMIP, plus closing costs, prepaid items to establish the escrow account and the new UFMIP that will be charged on the refinance;
OR
- 97.75% of the appraised value of the property plus the new UFMIP that will be charged on the refinance

Notes: Discount points may not be included in the new mortgage. If the borrower has agreed to pay discount points, the lender must verify the borrower has the assets to pay them along with any of financing costs that are not included in the new mortgage amount.

The outstanding principal balance may include interest charged by the servicing lender when the payoff is not received on the first day of the month but may not include delinquent interest, late charges or escrow shortages.

Additional underwriting eligibility criteria

- Seasoning – At the time of loan application, the borrower must have made at least 6 payments on the current mortgage being refinanced
- Payment History – 0 x 30 within the last 12 months regardless of seasoning
- Net Tangible Benefit – There must be a documented net tangible benefit to the borrower i.e. reduction in total payment by a minimum of 5%, ARM to fixed, reduction in term
- A verbal VOE is required on all streamline transactions within 5 days prior to closing
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- Maximum CLTV – If subordinate financing is to remain in place, the maximum CLTV is 125%. The CLTV will be based on the original appraised value of the property
- Loans should NOT be run through Total Scorecard
- A complete URLA must be signed by the borrower(s) prior to underwriting, an abbreviated version is not acceptable

INCOME/CREDIT QUALIFYING – WITH APPRAISAL

The maximum mortgage is the *lower* of the LTV limitation or the existing debt calculation described below:

- LTV Ratio Applied to Appraised Value: Multiply the appraised value of the property by 97.75%. Any appraisal requirements, including repairs, must be satisfied before the mortgage is eligible for insurance endorsement.
- Existing Debt: Add together the amount of the existing first lien, any purchase money second mortgage, any junior liens over 12 months old, closing costs, prepaid expenses, borrower paid repairs required by the appraiser, discount points, and then subtract any refund of UFMIP.

If any portion of the funds of an equity line of credit in excess of \$1000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the property, the line of credit is *not* eligible for inclusion in the new mortgage.

The amount of the existing first mortgage may include the interest charged by the servicing lender when the payoff will not likely be received on the first day of the month (as is typically assessed on FHA-insured mortgages). The amount may also include any prepayment penalties assessed on a conventional mortgage.

Prepaid expenses may include the per diem interest to the end of the month on the new loan, hazard insurance premium deposits, monthly mortgage insurance premiums, and any real estate tax deposits needed to establish the escrow account regardless whether the mortgagee refinancing the existing loan is also the servicing lender for that mortgage.

Additional underwriting and eligibility criteria

- The mortgage being refinanced must be current for the month due, e.g., a refinance of a mortgage anytime in November must have had the October payment made.
- Subordinate liens, including credit lines, regardless of when taken, may remain outstanding but must subordinate to the FHA insured mortgage.
- New subordinate liens may be placed behind the FHA insured mortgage and are subject to no CLTV cap.
- Borrower may not receive cash back in excess of \$500 at closing
- Minimum credit score of 620 required
- **For loan amounts >\$417,000:**
- All borrowers must have at least 1 valid credit score
- Minimum representative credit score 640

- Housing payment history must reflect 0x30 within the last 12 months regardless of AUS findings. This includes rental/mortgage payment history
- Non-traditional credit is not allowed
- Properties located in declining markets with LTV \geq 95% will require a 2nd appraisal

Cash Out:

Applicable to all cash out transactions:

- The subject property must have been owned by the borrower as his/her primary residence
- New subordinate financing is not permitted
- Subordinate financing may remain in place if it meets the criteria in 4155.1,1-5 & 1-13
- Term of the new loan can be up to 30 years
- VOM or other documentation is required which includes principal balance, date loan originated, names of original borrowers and type of loan. Other credit verifications are also required (VOE, VOD etc.)
- Minimum credit score 620 - Loan amounts >\$417,000 require a minimum 640 credit score and non-traditional credit not allowed
- Max 85% LTV

HUD REO Properties

Use product code F15REO or F30REO

Owner Occupied only

\$100 down payment acceptable

Repair escrows may not exceed \$5000 and must be paid by buyer or seller. The DE underwriter must approve such repair escrows.

The following guidelines are in effect for HUD REO Properties:

- HUD REO \$100 down
 - Maximum 110% LTV
 - Repair escrows may be financed up to a max LTV of 110% - **Retail loans only**
 - Minimum 620 score required
 - Must be DU Approve/Eligible/Ineligible – Ineligible can only be due to LTV exceeding the allowable 96.50% LTV
 - Use of Down Payment Assistance Programs is NOT allowed on the HUD REO \$100 down
- HUD REO 3.50% down (96.50% LTV)
 - Repair escrows may be financed up to a max LTV of 110% - **Retail loans only**
 - Minimum 620 score required
 - DU or manually approved – DU approve eligible/ineligible required if LTV exceeds 96.50%. If manually approved (max LTV for manual is 96.50%), approval must be justified and acceptable compensating factors evidenced in the file to ensure HUD insurability
- Repair Escrows allowed on Retail loans only

For Retail loans with financed repair escrows, the following procedures apply:

- The processor must complete the Mortgage Assurance Form and send to the Regional Underwriting Manager to approve. This is to make sure that we are not escrowing for any structural or major repairs. This amount is held in an escrow account by AHK after the closing. The borrower must also execute the HUD Home FHA Financing/Repair Escrow Final Inspection Cert and the HUD Home Financing/Repair Escrow Disclosure at application.
- **Repairs must be completed within 10 days of closing.** This date will be put as a funding condition stating that the borrower has 10 days to complete the repairs and it will be listed on the Mortgage Assurance form.

- Once the repairs are complete the borrower will call the processor to let him or her know and they will order a final inspection by an appraiser to make sure that the repairs are complete. **A final inspection/compliance inspection must be submitted within 5 days of completion.**
- John Hollister in the Dallas Corporate office will be in charge of final approval for releasing the funds. Copies of the invoices, final inspection/compliance inspection signed and dated by all necessary parties and a check request for who the funds are to be paid to. Only the amount of the invoices will be released if the funds are to be released to the borrower. Any additional funds will go toward principle reduction.
- The signed Mortgage Assurance form will be sent to HUD along with the final inspection.

4. CONVERSION

N/A

5. ASSUMABLE

Yes, subject to the creditworthiness of the assumptor.

6. INDEX

N/A

7. PROPERTY TYPES

1-4 UNIT, Townhouse/row house, PUD's Condominiums, modular, panelized and leasehold (no condos).

Condos must be FHA approved (see HUD website for listing). Contact John Hollister in Dallas Corporate office for details on complete FHA condo review process. FHA will not accept VA approved projects.

No manufactured homes, condos with leaseholds, condotels, working farms or coops.

FHA no longer requires PUD project approval and no longer maintains a list of approved PUDs.

3-4 unit properties maximum mortgage amount must be adjusted if the PITI exceeds rental income. Three months PITI reserves required.

Geographic Restrictions:

Careful analysis is required for properties located in declining markets.

8. OCCUPANCY TYPES

Owner Occupied primary residences only.

9. QUALIFYING RATIOS

DU will assess on DU Approve loans.

Manual underwriting requires 31/43 – ratios may be exceeded only when significant compensating factors exist.

Wholesale loans require DU approve/eligible

Loans with temporary buydowns must be qualified at the note rate.

10. SUBORDINATE FINANCING

Permissible secondary financing arrangements include:

- 1) Federal, State and Local governmental agencies and those nonprofit agencies considered instrumentalities of government may provide secondary financing for the borrower's entire cash investment requirement. Loans secured by secondary mortgages are subject to the conditions described below.

- a) The FHA insured first mortgage when combined with the second mortgage, as well as any other mortgages, grants, etc., may not result in cash back to the borrower. The sum of all financing may not exceed 100 percent of the cost to acquire the property plus any normal prepaid expenses.
 - b) The required monthly payment under both the insured mortgage and the second mortgage or lien, plus other housing expenses and all recurring charges, cannot exceed the borrower's ability to pay.
 - c) The source, amount and repayment terms must be disclosed in the mortgage application and the borrower must acknowledge that he or she understands and agrees to the terms.
 - d) Loans using approved Down Payment assistance programs must use product code F30LS.
 - e) Any down payment assistance program being utilized requires review and acceptance by Secondary Marketing. Please contact Mary LaRussa in Secondary Marketing for details.
- 2) Family Members may provide secondary financing provided:
- a) the combined amount of financing cannot exceed 100% of the lesser of sales price or value, plus closing costs, prepaids and discount points
 - b) The second lien cannot have a balloon payment due within 5 years of the date of execution.
 - c) A copy of the executed document outlining the terms of the secondary financing must be in the loan file.
 - d) The payments for the secondary financing must be included in the total debt-to-income ratio.
 - e) Only the family member providing the secondary financing, either from own funds or borrowed from an acceptable source, can be the subordinate financing note holder.
 - f) A Secondary Financing Certification must be executed
- 3) Non-governmental Non-Profit Agencies: Proceeds cannot be applied to the borrower's required 3.5% contribution
- 4) Other organizations and private individuals may provide secondary financing under the following conditions:
- a) The combined amounts of the first and second mortgages do not exceed the applicable loan-to-value ratio and the maximum mortgage limit for the area
 - b) The repayment terms of the second mortgage must not provide for a balloon payment before ten years, unless the property is sold or refinances, and must permit prepayment by the borrower, without penalty, after giving the lender 30 days advance notice.
 - c) The required monthly payment under both the insured mortgage and the second mortgage or lien, plus other housing expenses and all recurring charges, cannot exceed the borrower's reasonable ability to pay. Any periodic payments due on the second mortgage are due monthly and are substantially the same in amount.
 - d) Proceeds cannot be applied to the borrower's required 3.5% contribution.
- 5) Borrowers 60 years of age or older may borrow the required cash investment for purchasing a principal residence, provided:
- a) The donor or lender is a relative of the borrower, a close friend with clearly defined interest in the borrower, the borrower's employer or an institution established for humanitarian or welfare purposes.
 - b) The donor or lender is not one whose interest is solely in the sale of the property, such as a builder or seller, or any person or organization associated with them.
 - c) The principal amount of the insured mortgage loan, plus the note or other evidence of indebtedness in connection with the property, may not exceed 100 percent of the value plus prepaid expenses.
 - d) The note or other evidence of indebtedness may not bear interest exceeding that of the insured mortgage
- 6) Seller-Funded Down Payment Assistance Programs are not eligible.

11. MIP REQUIREMENTS

Purchase and Refinances – Full Credit Qualifying – For Case Numbers Assigned Before 4/5/2010

Greater than 15 year terms	15 year or less terms				
LTV	UFMIP	Annual	LTV	UFMIP	Annual
>95%	1.75%	0.55%	>90%	1.75%	0.25%
≤95%	1.75%	0.50%	≤90%	1.75%	0.00%

Streamline Refinances – For Case Numbers Assigned Before 4/5/2010

Greater than 15 year terms			15 year or less terms		
LTV	UFMIP	Annual	LTV	UFMIP	Annual
>95%	1.50%	0.55%	>90%	1.50%	0.25%
≤95%	1.50%	0.50%	≤90%	1.50%	none

For case numbers assigned on or after 4/5/2010 the upfront mortgage insurance premium (MIP) will increase to 2.250%. Annual premiums will remain the same.

All loans, **except** non-credit qualifying streamline refinances are required to go through TOTAL Scorecard, in order to be evaluated and assessed by FHA.

Period that the annual premiums must be paid:

Term > 15 years: The annual premium must be paid for a minimum of 5 years. Years will be determined when loan balance equals 78% of the lesser of the initial sales price or appraised value at closing, provided the Mortgagor has paid the annual MIP for at least 5 years. HUD has confirmed that even if the initial purchase or refinance transaction has an LTV ≤ 78%, the borrower must still pay a monthly premium for a minimum of 5 years if the loan term exceeds 15 years.

Term ≤ 15 years AND LTV > 90%: Years will be determined when loan balance equals 78% of the lesser of the initial sales price or appraised value at closing. n/a if LTV ≤ 90%.

12. UNDERWRITING GUIDELINES

All loans must meet HUD Handbook 4155.1 Rev 5 Guidelines

Retail loans with DU Refer/Eligible must use product code F30BB3.

Wholesale loans require DU approve/eligible only and minimum 620 credit score regardless of AUS.

Eligible Transactions

MINIMUM DOWN PAYMENT AND MAXIMUM MORTGAGE CALCULATION

See LTV/loan limit information in Section 3 above.

On a temporary basis until further analysis is completed, effective with FHA case number assignments on or after September 19, 2008, and until further notice, the underwriting analysis may not consider any rental income from the property being vacated except as follows:

- Relocations – Borrower is relocating with a new employer or being transferred by current employer to an area outside reasonable and locally recognized commuting distance. A signed one year lease is required.
- Sufficient Equity in Vacated Property – LTV must be less than or equal to 75% based on either an appraisal no older than 6 months or by comparing the unpaid principal balance to the original sale price.
- See Mortgagee Letter 2008-25 for details

TEMPORARY BUYDOWNS are allowed under the following conditions:

- Fixed rate only
- Purchase transactions only
- 30 year term only
- Max 2/1
- Qualify at note rate
- May come from the property seller, lender or other interested third party

ANTI-FLIPPING

FHA prohibits property flipping. The seller must be the owner of record – no assigned sale contracts. If the property has been owned less than 90 days, the new purchase transaction is not eligible, with a few notable exceptions. On June 9, 2008, FHA issued a waiver of the 90 day waiting period IF the property is a FHA

owned property acquired through a HUD foreclosure. This waiver will expire on June 9, 2009. If the property is owned 91-365 days, specific requirements apply. See HUD guidelines or contact your DE underwriter.

Effective with loan applications dated on or after 4/1/10, AmericaHomeKey will allow those transactions in which the resale has occurred within 0 – 90 days with the following restrictions:

1. All transactions must be arms-length; no identity of interest between buyer, property seller or third parties. Specific ways to ensure an arms-length transaction include:
 - Property seller currently holds title to the property.
 - LLC's, corporations or trusts serving as property sellers must meet all applicable state and federal law.
 - No pattern or previous flipping activity exists on the property (evidence by multiple title transfers within 12 months)
 - The property was marketed openly and fairly

2. The 90 days is calculated from the seller's acquisition date to the purchase contract date of the new transaction

3. Transactions with sales price greater than or equal to a 20% increase over the seller's acquisition cost are **not allowed**.

IDENTITY OF INTEREST (NON-ARMS LENGTH) TRANSACTIONS

Generally the max LTV is 85%. This may be exceeded with conditions. See HUD guidelines or contact your DE Underwriter.

BORROWERS:

Eligible Borrowers

- **ALL** borrowers must have a valid Social Security Number as evidenced by a SS card – or – paystub, W-2 or other government issued card that includes the SS#. The SS# must be validated through FHA Connection.
- U.S. Citizen
- Permanent Resident Alien
- Non-Permanent Resident Alien provided:
 - Has valid visa. If the visa is due to expire within 1 year and the borrower exhibits a history of renewals, then they are eligible.
 - Eligibility to work in the U.S. as evidenced by an Employment Authorization Document
- Living Trust provided individual borrower remains a beneficiary
- Non-occupant co-borrower. The occupant borrower must have minimum **620** score. LTV >75% must be 1 unit property. Other restrictions apply. See HUD guidelines or contact your DE Underwriter.
- A maximum of 4 borrowers is allowed on all transactions

Ineligible Borrowers

- Individuals with the following visa types: A-1, A-2., A-3, F-1, M-1
- Irrevocable trusts
- Life/estate trusts
- LLCs or corporations

INCOME:

Salaried Borrowers:

- Two years history of employment required. Job changes in the same line of work for advancement are acceptable.
- Acceptable documentation:
 - Written VOE plus paystubs reflecting most recent 30 day period – or -
 - Verbal VOE plus paystubs reflecting most recent 30 day period plus W-2 covering last 2 years
- If the borrower has been in school or military, evidence is required.

- Projected income is permitted with conditions. See HUD guidelines or contact your DE Underwriter.

Self-employed Borrowers:

- The business must have been established a minimum of 2 years. 12-24 months may be considered with conditions. See HUD guidelines or contact your DE Underwriter.
- 4506 is required
- Past 2 years signed individual tax returns
- Past 2 years signed business tax returns if a corporation, :S: corporation or partnership
- Balance sheet and P&L
- Business credit report for corporation or “S” corporation

Non-employment income

- Such as Social Security, pension/retirement, VA benefits, rental income and alimony/child support are permitted with conditions. See HUD guidelines or contact your DE Underwriter.

Please Note AmericaHomeKey’s policy regarding 4506T and tax return transcripts:

- For salaried borrowers, a minimum of 1 year IRS transcripts is required.
- For self employed borrowers, if DU requires 2 years personal returns, then 2 years IRS transcripts are required. If DU requires 1 year personal returns, then 1 year IRS transcripts are required

ASSETS:

Reserves:

- All transactions except 3-4 unit purchases: none
- 3-4 unit purchase transactions: 3 months PITI. Document with a written VOD with the most recent bank statement – or – 2 months original bank statements covering the most recent 3 month period.

Note: Manually underwritten loans: a VOD must be accompanied by the most recent bank statement.

CREDIT

- Non-Traditional credit is not allowed. All borrowers must have at least 1 valid credit score. The minimum qualifying credit score is 620.
- The Credit Alert Interactive Response System (CAIVRS) must be checked for all borrowers, except on a Streamline refinance transaction, to determine if the borrower is delinquent or defaulted on any Federal debt or has received payment for an insurance claim. CAIVRS does not have to be checked on No Credit Qualifying Streamline Refinances.
- DU will evaluate borrower’s creditworthiness. If the file does not receive an “approve” finding, it must be submitted to a DE Underwriter for evaluation to FHA guidelines.
- AHK Policy: Although FHA does not actually require collections to be paid off but from a risk perspective we feel it is a fair policy that any single collection of \$5k on manually underwritten loans to be paid and \$10k for DU Approve/Eligible loans.
- DU approve/eligible loans with disputed accounts will be downgraded to refer and can be underwritten manually without having to have the accounts removed, but all manual underwriting documentation and credit guidelines must be met. If the disputed accounts are cleared and the credit score is updated and an approve/eligible is received, then the approve/eligible findings can be followed.

APPRAISAL

- Regardless of DU approval, the DE Underwriter must review and approve the appraisal
- Acceptable forms:
 - URAR 1004/70
 - Small Residential Income Property Appraisal Report (for 2-4) 1025/72

- Individual condominium Unit Appraisal Report 1073/465
- Careful analysis is required for properties located in declining markets.
- Refinances with appraisal transactions always require a new appraisal
- Operating Income Statement is required for 2-4 unit properties
- “Fair Condition” status is not eligible. The property must be brought up to at least “Average Condition” prior to closing. Include evidence in the file.
- Recert of value is not eligible
- Effective with appraisals dated on or after April 1, 2009, all FHA appraisals on 1-4 family properties must contain FNMA form 1004MC
- See Mortgagee Letter 2009-09 for additional requirements for properties located in declining markets effective with appraisals dated on or after 4/1/2009

13. UNDERWRITING SUBMISSION

Submit files to your designated DE Underwriter

14. CLOSING

A) NOTE
FHA Fixed Rate Note

B) NOTE RIDER
None

C) SECURITY INSTRUMENT
State specific FHA Security Instrument

D) RIDER TO SECURITY INSTRUMENT
FHA PUD, Condo, 1-4 Family Riders as applicable

E) TEMPORARY BUYDOWN ADDENDUM
If applicable

F) SURVEY
Required if applicable

G) TERMITE
Required if applicable

H) OTHER
4506T must be signed by all borrowers, all loans.

15. MISCELLANEOUS

Chart of Prefixes

FHA 203b Programs			FHA 234c (Condos) Programs	
Type	ADP Code		Type	ADP Code
Fixed	703		Fixed	734
ARM	729		ARM	731
Buydown	796		Buydown	797