Jumbo 4

Effective: 07/09/2018

Revisions in Red

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1. GENERAL INFORMATION

This Guide describes Western Bancorp's Jumbo 4 program eligibility and underwriting requirements. In addition, Western Bancorp requires all loans meet the ATR/QM rules established by the CFPB in accordance with Appendix Q. The ATR rule requires that the originator make a reasonable, good-faith determination before or when the loan is consummated and that the lender documents the consumer has a reasonable ability to repay the loan.

A. ELIGIBILITY

- Wholesale only. Not eligible for Non-Delegated Correspondent
- Minimum Loan Amount: $1 over conforming county loan limit

Fixed Rate and ARM Eligibility Matrix

Primary Residence

Purchase / Rate and Term

Property Type	Max LTV/HCLTV (1)(2)	Max Loan Amount (3)	Min FICO	Max DTI	Months Reserves (4)
1 Unit SFR or PUD	80%	$1,000,000	740	43	6
	80%	$1,500,000	740	43	12
	75%	$1,000,000	720	43	6
	75%	$1,500,000	720	43	12
	70%	$1,000,000	700	43	6
	70%	$1,500,000	700	43	12
	70%	$2,000,000	740	43	12
	65%	$2,000,000	720	43	12
	60%	$1,000,000	680	43	6
	60%	$1,500,000	680	43	12
Condo	75%	$1,000,000	740	43	6
	70%	$1,000,000	720	43	6
	65%	$1,000,000	700	43	6

Cash Out

Property Type	Max LTV/HCLTV (1)(2)	Max Loan Amount (3)	Min FICO	Max DTI	Months Reserves (4)	Max Cash Out (5)
1 Unit SFR or PUD	65%	$1,000,000	740	43	6	$350,000
	60%	$1,500,000	740	43	12	$350,000
	55%	$2,000,000	740	43	12	$350,000
Condo	60%(6)	$1,000,000	740	43	6	$100,000

Second Home					
Purchase / Rate and Term					
Property Type	Max LTV/HLCTV (1)(2)	Max Loan Amount (3)	Min FICO	Max DTI	Months Reserves (4)
1 Unit SFR or PUD	75%	$1,000,000	740	43	6
	70%	$1,000,000	720	43	6
	70%	$1,500,000	720	43	12
	65%	$1,000,000	700	43	6
	65%	$2,000,000	740	43	12
	60%	$1,500,000	700	43	12
	60%	$2,000,000	720	43	12
Condo	70%(6)	$1,000,000	740	43	6
	65%(6)	$1,000,000	720	43	6

(1) LTV/CLTV/HCLTV reduced by 5% in declining markets, see the Declining Markets section of the guidelines for further information
(2) For loans that are within 80% LTV/HCLTV and $1,000,001 - $1,500,000 loan amount tier, new subordinate financing is not eligible
(3) Permanent Resident Aliens are limited to a $1,000,000 loan amount
(4) Additional reserves will be required for additional properties owned, see Reserves Requirements and Eligible Sources section of the guidelines for further information
(5) Maximum cash out for LTV/HCLTVs ≤ 50% is unlimited
(6) A condominium in a region where there is a 5% LTV/TLTV reduction as a result of being in a declining market would be subject to a total 10% LTV/TLTV reduction.

2. GENERAL REQUIREMENTS

Western Bancorp will only make loans to applicants (borrowers). An applicant is defined as one who applies for a loan secured by real property with the obligation of repaying the loan in full with interest. To be eligible, applicants must conform to certain eligibility requirements.

All Borrowers must have valid and verifiable Social Security Numbers. Other forms of taxpayer identification are not allowed.

A. ELIGIBLE BORROWERS

All borrowers must be on title at closing and are limited to 4 per loan.

1. Borrower

The borrower is the individual obligated to repay the loan secured by the mortgaged premises. The borrower should be of legal age per local/state jurisdiction. He/she should be able to enter into a binding contract.

2. Co-Borrower

The co-borrower, or joint applicant, who has applied with the borrower for joint credit. The co-borrower will take title to the mortgaged premises and will sign the Note and Security Instrument.

3. Non-Occupant Co-Borrowers

Non-occupant co-borrowers are allowed with the following restrictions:

- Max LTV/HCLTV is 70%
- Non-occupant borrower must be an immediate family member
- Note and Deed must be signed by both the occupant borrower and the non-occupant co-borrower
- Non-occupant co-borrower cannot have any interest in the sales transaction, such as seller, builder, real estate agent, etc.
- The occupant borrower on the loan transaction must qualify separately with ratios not exceeding 35%/40%

4. Permanent Resident Alien

Individuals granted the privilege of residing permanently in the U.S. Also includes refugees and others seeking political asylum. Documentation is commonly referred to as a "Green Card". If the Green Card will expire within six (6) months of closing, the borrower must provide the following:

- Copy of filed USCIS I-90 Application to Replace Permanent Resident Card and Receipt Notice (USCIS I-797 Notice of action for the I-90; or
- USCIS I-175 Petition to Remove Conditions of residence or I-175 Petition by
- Entrepreneur to Remove Conditions

Permanent resident aliens are limited to a maximum loan amount of $1,000,000 and are subject to the following restrictions:

- The borrower has a two year employment history in the U.S. and employment is expected to continue
- The borrower must have a two year credit and deposit history in the U.S.

5. First Time Homebuyers

First time homebuyers are defined as an occupant borrower who has not had an ownership interest (sole or joint) in a residential property during the three (3) year period preceding the application date.

6. Revocable Living Trust

An inter vivos revocable trust is a trust that an individual creates during their lifetime, becomes effective during their lifetime, and can be changed or canceled at any time for any reason, during their lifetime. Revocable Living Trust will be allowed with the following restrictions:

- 1 Unit Primary Residence or Second Home
- Only one (1) Inter Vivos Revocable Trust allowed in vesting

Please see the Western Bancorp Trust Checklist and Trust Vesting Procedure to determine if trust meets all other eligibility guidelines.

B. INELIGIBLE BORROWERS

1. Non-permanent Resident Alien

Individuals seeking temporary entry to the U.S. for a specific purpose, business or pleasure, students, etc. Borrowers residing in the U.S. on a non-permanent basis are ineligible for financing on this program.

2. Diplomatic Immunity

Applicants possessing diplomatic immunity or are “foreign politically exposed” are ineligible for financing on this program.

3. Non-Individual Legal Entities

Loans with title or interest held in various forms/legal entities such as Life Estates, Non- Revocable Trusts, Guardianships, LLC's, Corporations or Partnerships are not eligible for financing on this program.

4. Foreign Nationals

Foreign Nationals or Non-Resident Aliens are not eligible for financing on this program.

C. OCCUPANCY

1. Primary Residence

A primary residence is where the borrower lives the majority of the year. The residence is occupied by the primary wage-earner; it is in a location relatively convenient to the principal place of employment; and it is the address of record for items such as voter registration, federal income tax reporting, licensing and similar functions.

The borrower must occupy the subject within 30 days of closing. If there are multiple borrowers, at least one must occupy and take title to the property.

If the borrower has obtained a loan as an owner occupied residence, and the borrower returns to purchase a new owner occupied property within a twelve (12) month period from the note date of the previous transaction then:

- The borrower must sign an occupancy statement to confirm their intent to occupy the new property as their primary residence; and
- The borrower must provide a written explanation for the new owner occupied transaction (i.e., job change, move up, etc.); and
- Documentation may be required to support the explanation, such as a rental agreement or listing agreement

2. Second Home

A second home is a 1-unit property, including PUDs and condominiums, the borrower will occupy for a portion of the year.

The property generally is located in a vacation or resort area, but not always, and must be suitable for year round use. A second home should not be in the same local market as the borrower's primary residence. Additional second homes or investment properties cannot be owned in the same area as the subject property.

There is no specific mileage requirement regarding the distance between a second home and primary residence, but it should make sense that the subject is a second home. Additionally, 2-4 unit properties are not eligible. The borrower should retain exclusive control over the property and not give a management company control.

3. Investment Property

Investment properties are ineligible on this program.

D. PURCHASE TRANSACTIONS

A purchase transaction allows the borrower to use the proceeds of the loan to finance the purchase of a property. The borrower should not be on title to the property prior to the loan closing. The transaction must follow minimum down payment and interested party contribution requirements.

1. Identity of Interest Transactions

An identity of interest transaction includes both non-arm's length and at-interest transactions and are eligible on this program.

A non-arm's length transaction is one where the parties to the transaction are related such as family members, employer/employee, or principal/agent. Common types of non-arm's length transactions include:

- Family Sales
- Property in an Estate
- Employer/Employee sales
- Flip transactions

An at-interest transaction involves persons who are not closely tied or related but may have a greater vested interest in the transaction, such as a party who plays more than one role in the same transaction. Common types of at-interest transactions include:

- Builder also acting as Realtor/Broker
- Realtor/Broker selling own property
- Realtor/Broker acting as listing/selling agent as well as the mortgage broker

Due to the additional risk involved with identity of interest transactions additional documentation is required:

- Full documentation of the borrower's income, employment, and assets
- Copy of the cancelled EMD
- Verification that the borrower is not now, nor has been on title in the past 24 months
- A payment history for the existing lien(s) (verification of the seller's mortgage) on the subject property must be obtained to show no delinquency within the past 12 months
- Written explanation explaining the relationship to the seller and the reason for purchase
- Two full appraisals are required on family transfer transactions with combined loan amounts (all financing on the subject property) of $1,000,000 or greater.

2. Flip Transactions

Property flipping is the process of purchasing new or existing construction properties with the intention of quickly reselling the properties for a profit. Western Bancorp must carefully evaluate all transactions that involve a rapid resale of the property (up to 180 days), paying particular attention to the market value of the property and the borrowers' motivation to purchase the property and verify it is not an identity of interest transaction. See Identity of Interest Transaction section of this guide for further information.

Flip or Rapid Resale of Property Within 90 Days of Prior Sale Date

If the subject property had a prior sale within 90 days of the purchase contract date to the subject transaction, the current transaction is ineligible except in the following situations:

- Property was acquired by a relocation agency in connection with the relocation of an employee, and is being resold to someone who is not an employee or affiliate of the original employee's company
- Resale by a lender when the property was acquired through foreclosure or deed in lieu of foreclosure

- Resale of a property obtained through an inheritance or as part of the property settlement in a divorce

If one of the exceptions listed above apply, and the sales price increased by twenty percent (20%) over the acquisition price, then a Field Review Appraisal will be required.

These transactions must meet the exceptions listed in this section as well as the exceptions listed for "Flip or Rapid Resale Between 91 and 180 Days of Prior Sale Date"

Flip or Rapid Resale Between 91 and 180 Days of Prior Sale Date

If the subject property had a prior sale more than 90 days but less than 180 days prior to the purchase contract date, and the sales price exceeds the acquisition price by 20% or more, the appraiser must:

- Document the previous sale transaction and its price and date in the appraisal
- report and/or an addendum thereto,
- Describe in detail any improvements made since the prior sale,
- Provide pictures of all improvements,
- Estimate the cost of the improvements made,
- Estimate the impact of the improvements on the property value, and
- Provide an appropriate explanation of the increase in the property value, considering the impact of improvements, if any, on value, as well as any recent price trends or changes in the local market

3. Property Seller Status and Assignment of Purchase Contracts

If there has been an assignment of the purchase contract to someone other than the property seller or buyer originally named in the contract, the transaction in ineligible.

In all cases, the property seller for the subject transaction must be the owner of record for the subject at the time the purchase contract was executed.

4. Down Payment Assistance Programs

First Mortgage Loans originated in conjunction with Affordable or Community Second Programs are not allowed.

5. Renegotiated Sales Contracts

Western Bancorp will not accept re-negotiated purchase agreements that increase the sales price after the original appraisal has been completed if:

- The appraised value is higher than the contracted sales price provided to the appraiser, and
- The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received, and
- The only change to the purchase agreement is an increase in sales price

If the purchase agreement is re-negotiated subsequent to the completion of the appraisal, the loan to value will be based on the lower of the original purchase price or the appraised value, unless:

- Re-negotiation of only seller paid closing costs and/or pre-paids where seller paid closing costs/pre-paids are common and customary for the market and supported by the comparable, or
- An amended purchase agreement for new construction property is obtained due to improvements that have been made that impact the tangible value of the property. In the event of such changed, an updated appraisal must be obtained to verify the value of the modifications.

6. Rent Back

Max rent back to the seller is 30 days after closing for a primary residence transaction.

E. REFINANCE TRANSACTIONS

All refinance transactions must meet the requirements below.

A new appraisal will be required for all transactions regardless of the date of the original appraisal.

Continuity of obligation must be met on all refinance transactions. Continuity of obligation occurs on a refinance when:

- At least one of the borrowers on the existing mortgage being paid off is also a borrower on the new refinance transaction secured by the subject property, OR
- At least one borrower has been on title for at least 12 months (but not obligated on the lien being paid off) and has either paid the mortgage payments for the last 12 months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.

Note: The existing loan being refinanced and tittle must have been held in the name of a natural person or an LLC (as long as the borrower was a member of the

LLC prior to transfer). In addition, a 6 month history of ownership between the LLC and the natural person must be documented. Transfer of ownership from a corporation to an individual does not meet this requirement.

Continuity of obligation guidelines do not apply to properties recently inherited, spousal/partner buyouts, or properties owned free and clear.

If the borrower is currently on title but is unable to demonstrate an acceptable continuity of obligation, the following applies

- the loan must be underwritten and priced as a cash-out refinance transaction,
- the borrower must be on title for a minimum of six (6) months prior to loan application, and
- the maximum LTV/TLTV/HTLTV ratio will be limited to 50% based on the current appraised value.

If the borrower is currently on title, but there is no outstanding lien against the property, the loan must be underwritten and priced as a cash-out refinance.

1. Rate and Term

A rate and term refinance allows the borrower to pay off the existing mortgage with the proceeds of a new loan secured by the same property. The new loan could lower the interest rate, shorten the term or convert from an adjustable rate mortgage to a fixed rate mortgage. A rate and term refinance allows for minimal cash back to the borrower.

The following are generally considered to be a Rate and Term Refinance if the transaction meets the following criteria:

- The Transaction must meet all continuity of obligation requirements
- The subject property must not be currently listed for sale. It must be taken off the market before the application date of the new mortgage loan, and the borrowers must confirm their intent to occupy the subject property (for principal residence transactions).
- The LTV is based on the current appraised value, regardless of the length of ownership.
- Refinancing a new first lien that was previously a cash out transaction requires the loan to be seasoned 6 months in order to be considered rate and term.
- Pay off of the current mortgage to include principal balance plus accrued interest, and any required prepayment penalty only. (Other costs such as late fees and past-due amounts may not be paid with the new loan proceeds.)
- If the first mortgage is a Home Equity Line of Credit, a copy of the Closing Disclosure from the borrower’s purchase of the subject property must be provided to evidence that the proceeds were fully disbursed on the date of the purchase-money loan and used entirely to acquire the subject property.
- If secondary financing is not seasoned, it may be included in the refinance if the second lien was incurred at the original purchase of the property

(evidenced by a copy of Closing disclosure from the original purchase) or the second was used for documented home improvements.

- Standard loan fees (e.g., closing costs on the new mortgage, pre-paids, such as interest, taxes, insurance, etc.; and points) may be included in the refinance transaction.
- The payoff of a seasoned (12 months) HELOC that has had no draws in excess of $2000 in the past 12 months. Must be documented with a transaction history or 12 months statements. A credit supplement is not acceptable documentation.
- The payoff of seasoned (12 months) closed end seconds
- Incidental cash to the borrower is allowed not to exceed $2000 for loan amounts less than or equal to $1,000,000 and $5000 for loan amounts greater than $1,000,000
- Proceeds from a limited cash-out transaction may not be used to pay off the unpaid principal balance of a Property Assessed Clean Energy (PACE) loan.

Spousal/Partner Buy-Out and Inherited Properties

Refinancing that resulted in the results from a divorce settlement or dissolution of a domestic partnership in which one spouse is required to "buy-out" the interest of the other spouse or any other refinancing which an owner "buys-out" the interest of another owner may be treated as a rate and term transaction if the following conditions are satisfied:

- The property must be the borrower's primary residence (inherited properties do not need to meet this requirement)
- The property must be a 1-unit property
- The property must have been jointly held by all parties for at least 12 months prior to the application dated (inherited properties do not need to meet this requirement)
- All parties must be able to demonstrate that they have occupied the property as their primary residence by providing acceptable documentation (inherited properties do not need to meet this requirement)
- A copy of the divorce decree or settlement agreement must be provided as verification of the terms of the spousal buy-out
- For a partner buy-out, all parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction
- The party who is "buying-out" the other parties interest must be able to qualify for the
- mortgage under standard underwriting guidelines
- The borrower cannot receive any cash back through the transaction and remain a rate and term transaction
- Payoff of the spouse/partner must be reflected on the settlement statement

2. Cash out

A cash-out refinance transaction allows the borrower to pay off the existing mortgage by obtaining new financing secured by the same property or allows the property owner obtain a mortgage on a property that is currently owned free and clear. The borrower can receive funds at closing as long as they do not exceed the program requirements as referenced in the Eligibility Matrix.

For cash out transactions properties cannot be listed for sale in the six months preceding the application date of the new mortgage, and the borrowers must confirm their intent to occupy the subject property (for principal residence transactions).

Cash-out refinance transactions must meet the following requirements:

- The LTV is based on one of the following:
  - the borrower has owned the property for less than twelve (12) months from the date of the application, the LTV/TLTV/HTLTV is based on the lesser of the acquisition cost or the current appraised value.
  - If the borrower has owned the property for at least twelve (12) months from the date of application, the LTV/TLTV/HTLTV is based on the current appraised value.
- Must be used to pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have a mortgage lien against it.
- Six (6) months' minimum seasoning is required, with 0 x 30 day late payments.
- Any refinance transaction not meeting the requirements for a rate-term refinance is to be considered a cash-out refinance.
- Not eligible if the existing loan is a "restructured mortgage."
- Continuity of obligation must be demonstrated.
- Seasoning requirements do not apply to borrowers meeting the requirements found in the Delayed Financing Cash-Out Refinance section.

3. Delayed Financing

If the property was purchased (or acquired) by the borrower within the prior six (6) months of the disbursement date of the new mortgage, the following applies:

- The original purchase transaction was an arms-length transaction.
- The original purchase transaction is documented by a Closing Disclosure, which confirms that no mortgage financing was used to obtain the subject property.
- The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
- Borrower(s) must be able to exhibit a historic level of assets to support the cash purchase (supported by Schedule B of the last two (2) year's tax returns) or other supportive documentation to verify receipt of such funds. Funds must have been on deposit at least 90 days prior to the date of the original transaction.
- If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the closing disclosure for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments

on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction.

- The new loan amount can be no more than the actual documented amount of the borrower’s initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV/TLTV/HTLTV ratios for the cash-out transaction).

  Note:

  - Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.
  - Maximum cash-out limitations do not apply.
  - All other cash-out refinance eligibility requirements are met with the exception of continuity of obligation, which do not apply

F. MULTIPLE PROPERTIES FINANCED

Borrower(s) may own a total of four (4) financed properties, including the subject property and regardless of occupancy.

- Partial or joint ownership is considered the same as total ownership in the property.
- Ownership applies to financed properties owned by the borrower, including any properties the borrower owns outside of the United States
- A borrower who is obligated on a mortgage, regardless of whether they hold title to the property is included in this limitation
- Properties are subject to this limitation even if they are held in title by a corporation or S Corp if the financing is in the name of the borrower

Additional reserves are required for each additional financed property owned. See the Reserves Requirements section of this guide for further information.

G. PRODUCTS OFFERED

1. Eligible Products

The following conforming balance products are eligible:

Eligible Products
30 Year Fixed Rate – Fully Amortizing
15 Year Fixed Rate – Fully Amortizing
5/1 ARM – Fully Amortizing
7/1 ARM – Fully Amortizing
10/1 ARM – Fully Amortizing

2. ARM Attributes

ARM Attributes			
Product	Margin	Caps	Index
5/1 ARM – Fully Amortizing	2.25	5/2/5	LIBOR
7/1 ARM – Fully Amortizing	2.25	5/2/5	LIBOR
10/1 ARM – Fully Amortizing	2.25	5/2/5	LIBOR

3. Ineligible Products/Attributes

Loans with the following attributes are not eligible for purchase:

- Interest Only
- Negative Amortization Graduated Payments
- Temporary Buy downs
- Balloon Payments
- Loans with prepayment penalties

- Higher Priced Mortgage Loans (HPML)
- Higher Priced Covered Transaction Loans (HPCT – QM with Rebuttable Presumption)
- Non-Standard to Standard Refinance Transactions exempt from ATR rules
- Loan amounts within conforming loan limits

H. AGE OF DOCUMENTS

Information used to make the credit decision must be current. The maximum age of documents at closing is noted below.

Acceptable Age of Documents		
	Existing Property	New Construction
Credit Documents	120 days old	120 days old
Appraisal	120 days old	120 days old

I. UNDERWRITING DOCUMENTATION

The application package must contain acceptable documentation to support the underwriting decision. When standard documentation does not provide sufficient information to support the decision, additional explanatory statements or documentation must be provided.

1. Direct Written Verifications

Written verifications for employment, deposit accounts and/or mortgage/rental history (VOE/VOD/VOM) must pass directly between the lender and employer, financial institution, mortgagor/landlord, as applicable, without being handled by any third party.

Documentation must not contain any alterations, erasures, and correction fluid or correction tape.

Standalone verifications (VOE/VOD/VOM/VOR) are not allowed and must be supported by additional documentation.

2. Letters of Explanation

Letters of explanation regarding financial circumstances must specifically address the financial or credit concern presented and must contain a complete explanation in the applicant's own words, and be signed and dated by the applicant.

3. Signature Requirements

Any documentation needed to be signed by the borrower must be signed on or prior to the note date.

J. CREDIT

1. Credit Report Requirements

A Residential Mortgage Credit Report or traditional tri-merge with applicable credit report supplements from all three repositories is required for all borrowers. All reports must also include FACT Act messages and at least one repository fraud alert product such as Hawk, FACS+ or SafeScan. All alerts must be resolved.

Frozen credit is not acceptable. If a borrower “un-freezes” their credit after the initial report is run, a new credit report meeting all requirements must be obtained and used for underwriting.

2. Credit Score Requirements

The three major Credit Repositories ("Agencies") offer a product that scores each consumer's credit history using the Fair Isaac model. Trademark names include the Experian "Fair Isaac Credit Score" (FICO), Trans Union "Empirica Score" and Equifax "Beacon Score". All are acceptable and are referred to as the "Credit Score”.

The term “Underwriting Score” refers to the overall credit score applicable to a specific mortgage loan transaction as determined using the Agencies' "middle, lower, then lowest" credit score selection methodology, which is equivalent to Fannie Mae's "Representative Credit Score", Freddie Mac's "Indicator Score", and Non-Conforming Jumbo “Representative FICO Score”.

3. Credit Score Selection

The following criteria should be used to determine each individual borrower's credit score:

- If there are three valid credit scores for a borrower, the middle score of the three scores is used.

- If there are three valid credit scores for a borrower but two of the scores are the same, the lower of the two scores is used.

- If two of the three scores are the same, choose the middle of the three scores.

  - Examples:

    700, **680**, 680 = 680

    700, **700**, 680 = 700

- If there is only one valid score for a borrower, that score is used.

After selecting the appropriate credit score for each borrower, the Underwriting Score must then be determined:

- If there is more than one borrower, the lowest selected credit score among <u>all</u> borrowers is the Underwriting Score.
-
- When there is only one borrower, the selected credit score for that borrower is also the Underwriting Score.

4. Tradeline requirements

Each Borrower must have an established credit history with no major adverse credit in the last 24 months on revolving or installment accounts. Major adverse credit is defined as more than 2X30 day lates on installment or revolving debt, and 1X60+ day lates on installment or revolving debt in the 24 months prior to the application date. In order to meet minimum tradeline requirements the borrowers must meet the requirements for either option one or two below.

Note: At least one borrower on the loan must have a non-disputed installment or mortgage debt tradeline for either Option 1 or Option 2 below.

Option One

- Each borrower must have a minimum of three (3) open non-disputed tradelines;
- One (1) of which must be a non-disputed installment or mortgage tradeline
- Each of the three (3) tradelines must be updated within the last six (6) months, and
- Each of the three (3) tradelines must be open for at least 24 months

Option Two

- Each Borrower must have a five (5) year established credit history
- The credit report must contain at least five (5) non-disputed tradelines (open, paid or closed); one (1) of which must be a non-disputed installment or mortgage tradeline (open, paid or closed),
- individual tradelines may be established for less than a five (5) year period, and
- the tradelines being evaluated in Option 2 must have had activity within the most recent five (5) year period.

The following area not acceptable to be included in the minimum tradeline requirement in either option one or two:

- Foreign credit
- Authorized user accounts
- "non-traditional" credit
- Loans in deferment
- Adverse credit (accounts, discharged through bankruptcy, collection accounts, charge offs, foreclosures, etc.)

Borrowers Not Meeting the Minimum Tradeline Requirements

Non First Time Home Buyer Borrowers, not meeting the minimum tradeline requirements are eligible provided all of the below requirements are met:

- maximum loan amount $1,000.000,
- maximum 70% LTV/TLTV/HTLTV,
- minimum gross disposable income (GDI) $6,000,
- 24 months reserves,
- no major derogatory credit in the last 24 months,
- not more than $1,000 in aggregated balance(s) in judgments, collections, and/or charge-offs may reflect on the credit report, any open judgment, collection, and/or charge-off must be paid at closing,
- and a housing history with no late mortgage or rental payments in the last 24 months.
- First Time Home Buyers are not eligible for waiver of minimum trade line requirements, even if they meet the above criteria.

Borrower Meeting Tradeline Requirements with a Co-Borrower Not Meeting Tradeline Requirements

The borrower must meet the credit score and all other program guidelines and the co-borrower must meet the following:

- no major derogatory credit in the last 24 months,
- not more than $1,000 in aggregated balance(s) in judgments, collections, and or charge-offs may reflect on the credit report, and any open judgment, collection and/or charge-off must be paid at closing.

5. Housing Payment History

No 30 day lay payments in the past 24 months are allowed on any rent payment or mortgage credit on any estate owned by any borrower on the transaction. Mortgage credit is defined as payment history on all mortgage tradelines, regardless of occupancy, including first and second mortgage liens, HELOCs. Liens secured by mobile homes and manufactured homes are considered mortgage debt, even if reported as installment loans.

If the borrower is refinancing a privately held mortgage, the following payment verification requirements apply:

-
- A housing payment history of 24 months must be met.
- At least six (6) months of the housing payment history must come from the current mortgage
- An additional six (6) months housing history must come from another mortgage, even if the mortgage is associated with another property
- The last 12 months of housing payment history may come from another mortgage or rental history.

For Mortgage payment history if the liens are not reflected on the credit report they will need to be verified with a VOM. If the liens is held by a private party a standalone VOM is not sufficient and must be supported by cancelled checks.

For rental payment history A VOR will be required. If the VOR is completed by a private party a standalone VOM is not sufficient and must be supported by cancelled checks.

6. Limited or No Traditional Credit History

Loans with limited or no traditional credit history are not eligible for this program. See Tradeline Requirements section of this guide for further information.

7. Past Due Accounts

If any of the borrower's accounts are showing past due payments, those accounts must be brought current prior to closing. A credit supplement will be required as verification.

8. Judgments, Garnishments, Liens, and Potential Liens

All delinquent credit obligations that have the potential to affect the subject lien's first position or diminish the borrower's equity in the property must be paid off prior to Western Bancorp issuing loan documents, including, but not limited to:

- Delinquent income taxes

- Delinquent property taxes
- Tax liens
- Judgments
- Garnishments
- Mechanics’ or Materialmen’s liens

Verification of the funds used to satisfy these obligations must be documented in the file. The documentation of the pay off or satisfaction must be provided. No payment plans or subordination is allowed.

Gifts may not be used to satisfy this requirement.

9. Non-title Charge-Offs and Collections

All non-title charge-offs and collection accounts exceeding $2000 in aggregate ($1000 in aggregate for revolving and installment debt) must be paid off. Documentation of pay off or satisfaction must be provided. Additionally, borrowers with a history of collection accounts should be required to pay off derogatory accounts.

Gifts may not be used to satisfy this requirement.

10. Consumer Credit Counseling

Borrowers who have been in consumer credit counseling are ineligible for financing for 5 year from their completion date

11. Bankruptcy

A bankruptcy offers an individual a chance to start fresh by forgiving debts that simply can’t be paid while offering creditors a chance to obtain some measure of repayment based on what assets are available.

12. Deed-in-Lieu of Foreclosure, Short Sale, and Charge-Off of a Mortgage

A deed-in-lieu of foreclosure is a transaction in which the deed to the real property is transferred back to the servicer. These are typically identified on the credit report through Remarks Codes such as “Forfeit deed-in-lieu of foreclosure.”
A short sale is the sale of a property for less than the total amount necessary to satisfy the mortgage obligation. A short sale occurs when the borrower cannot sell the property for the full amount of their indebtedness and the lender accepts a payoff of less than the total amount owed on the mortgage, if accepting less would reduce the loss the lender would have incurred if the property had been foreclosed upon.
A charge-off of a mortgage account occurs when a creditor has determined that

there is little (or no) likelihood that the mortgage debt will be collected. A charge-off is typically reported after an account reaches a certain delinquency status, and is identified on the credit report with a manner of payment (MOP) code of "9."

13. Foreclosure

Foreclosure is a specific legal process in which a lender attempts to recover the balance of a loan from a borrower who has stopped making payments to the lender by forcing the sale of the asset used as the collateral for the loan.

When both a bankruptcy and foreclosure are disclosed on the loan application, or when both appear on the credit report, the lender may apply the bankruptcy waiting period if the lender obtains the appropriate documentation to verify that the mortgage loan in question was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied.

14. Restructured (Modified) Mortgage

A short refinance or a restructured loan occurs when the terms of the original transaction have been changed resulting in absolute forgiveness of debt or a restructure of debt through modification or the origination of a new loan that results in:

- Forgiveness of a portion of principal and/or interest on either the 1^{st} or 2^{nd} mortgage, or
- Application of a principal curtailment by or on behalf of the investor to stimulate principal forgiveness, or
- Conversion of any portion of the original mortgage debt to a "soft" subordinate
- mortgage, or
- Conversation of any portion of the original mortgage debt from secured debt to unsecured debt

15. Significant Derogatory Credit Wait Periods and Requirements

After any significant derogatory credit the borrower must show re-established satisfactory credit and demonstrate their ability to manage their financial affairs. In order to meet this require the borrower's credit must reflect the following:

- Minimum of 4 credit references, one of which must be a traditional credit reference and one must be a housing credit reference
- At least 3 credit referenced must have been active 24 months before the application date and all accounts must be current
- No 60+ day lates on installment or revolving debt since the event
- No more than 2 30 days lates on installment or revolving debt in the 24 months preceding the loan application
- No past due housing payments since the event
- No new collections, garnishments, liens, or charge-offs since the event

- Minimal usage of revolving accounts, including accounts with high balances - to-limits
- (balances should not be more than 50% of high credit limit)

Significant Derogatory Credit Waiting Periods	
Derogatory Event	**Waiting Period Requirements Measured from Event Date to Application Date**
Bankruptcy – Chapter 7 or 11	7 years
Bankruptcy – Chapter 13	4 years from dismissal or discharge date with satisfactory Bankruptcy Court payment history
Multiple Bankruptcy Filings	Not allowed
Foreclosure/ Deed-in-Lieu of Foreclosure	7 years
Short Sale or Charge off of Mortgage Account	5 years
Restructured (modified) Mortgage	7 years, the subsequent refinance of a modified mortgage is not allowed
Mortgage Included in Bankruptcy	If mortgage was included in a bankruptcy, the more restrictive measurements for the bankruptcy or foreclosure waiting periods apply

K. LONG TERM DEBT

1. Pay Down or Pay Off of Debt

Payoff or pay down of debt solely to qualify is not allowed on this program.

2. Revolving Accounts

The monthly payment on every revolving and open-end account with a balance, regardless of the apparent number of payments remaining, must be included in the borrower's long- term debt and ratio calculation. If the credit report does not reflect a payment on a currently reporting liability with or without a balance on the credit report, a minimum payment may be calculated using the greater of $10.00 or 5% of the outstanding balance.

3. Loans Secured by Retirement Accounts

Payments on loans secured by the borrower's 401(k) or SIP (Savings Investment Plan) are not included in long term debt. Must provide copy of the asset statement to verify the balance is sufficient to cover the loan.

4. Open-End Lines of Credit (HELOCS)

HELOCs must be qualified with the greater of 1% of the full line amount or the payment as reflected on the credit report or borrower’s monthly statement. If the interest only payment reflected on the credit report is to become fully amortizing in the next 5 years, the borrower must be qualified with the greater of the fully amortizing payment or 1% of the full line amount.

5. Balloon Loans

Balloon debt payments on any type of loan with a balloon payment are acceptable if the payment comes due in less than 5 years after the note date if borrower has sufficient assets available to pay off the outstanding balance above and beyond funds required for closing and reserves.

6. Installment Debt

Installment debt with less than 10 months remaining can be excluded from the borrower’s ratios provided that funds to pay the account off have been documented over and above required funds for closing and reserves. If a borrower has a history of carrying installment debt and/or type of payment regardless of 10 months or less remaining the debt must be included in the borrower’s ratios.

7. Student Loans

Student loans must be included in the borrower’s ratios, even if deferred. For a deferred student loan, if the actual payment cannot be determined, a payment should be calculated by using 2% of the original student loan balance.

8. Contingent Liabilities

Contingent liabilities are debts that the borrower is not currently required to pay but may be required to pay in the future (e.g. co-signed loans, court ordered payments, previous residence sold through assumption of mortgage with no release of liability).

- Co-Signed Loans: The monthly payment on a co-signed loan may be excluded is ALL the following documentation is provided:

    - copy of the note to support the party making the payments is an obligated party on the note
    - 12 months cancelled checks to support paid by other obligated party
    - Credit report must support liability paid timely

- Assumption with No Release of Liability: The debt on a previous residence may be excluded from long term debt with evidence that the borrower no longer owns the property. The following documents are required:
    - Copy of documents transferring ownership of the property;
    - The assumption agreement executed by the transferee; and
    - Evidence that the mortgage is current.

Note: If the payment has been 30 or more days past due in the last 12 months and the LTV is greater than 75% (based on the sale price of the property secured by the assumed loan) the payment must be included in the borrower's ratios.

- Court Order: If the obligation to make payments on a debt has been assigned to another person by court order, such as a divorce decree, the payment may be excluded from long term debt. The following documents are required:
    - Copy of the court order or divorce decree.
    - For mortgage debt, a copy of the documents transferring ownership of the property
    - Note: Late payments associated with the loan repayment of the debt should be taken into account when reviewing the borrower's credit profile. If the account has been past due in the last 12 months the payment must be included in the borrower's ratios.

9. Business Debt in the Borrower's Name

If a business debt in the borrower's name has a history of delinquency, it must be included in the debt ratio.

If a business debt in the borrower's name does not have a history of delinquency, it is not counted in the debt ratio if documentation verified payment from company funds (12 months cancelled checks) and the cash flow analysis took the payment into consideration.

10. Lease Payments

Lease payments must be considered as recurring monthly debt obligations regardless of the number of months remaining on the lease. This is because the expiration of a lease agreement for rental housing or an automobile typically leases to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house.

11. Other Real Estate Owned

Irrespective of whether income is being used to qualify for each property owned by the borrower provide documentation of the mortgage payment, taxes, insurance and HOA dues if applicable to calculate the PITIA. This documentation is required regardless if the property expenses are reflected on the Schedule E of the borrower's tax returns. If a property is owner free and clear a property provide and transaction history will be required to verify there are no outstanding liens.

L. DOWN PAYMENT AND ELIGIBLE SOURCES

Full asset documentation is required for both funds to close and reserves. For most asset types, the most recent two months bank statements with all pages will be required. All deposits (single and cumulative) exceeding 50% of total qualifying income must be sourced and seasoned 60 days. Stand Alone VODs are not acceptable and must be supported by 2 months bank statements.

Not all eligible sources of funds to close are acceptable as reserves. See Reserves Requirements and Eligible Sources section of this guide for eligible sources of reserves.

1. Bank/Financial Institution Accounts

Individual and joint bank accounts, Certificates of Deposit, Money Market Funds are eligible for use for down payment and closing costs. Accounts must be documented with the most recent two months bank statements with all pages.

2. Publicly Traded Stocks, Bonds, Mutual Funds

A copy of the account statement for the most recent 60 days is required; proof of liquidation is required provided that the existence of these accounts is fully documented.

When the asset is needed to complete the transaction the following must be verified:

- The borrower's ownership of the asset
- The value of the asset at the time of sale or liquidation; and
- The borrower's actual receipt of funds realized from the sale or liquidation

3. Personal Gifts

Gift funds are permitted on primary residence and second home purchases only after the borrower contributes a minimum of 5% of the down payment to the transaction from their own funds.

Acceptable Donors:

Acceptable donors include a spouse, child, sibling, grandparent, aunt, uncle, domestic partner, fiancé or fiancée.
The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interest party to the transaction.

Documentation Requirements:

Gifts must be evidenced by a letter signed and dated by the donor, called a Gift Letter. The Gift Letter must:

- Specify the subject property address;
- Specify the dollar amount of the gift;
- Specify the date the funds were transferreddepository name and account number;
- Include the donor’s statement that no repayment is expected; and
- Indicate the donor’s name, address, telephone number, and relationship to the borrower

Verifying Donor Availability of Funds and Transfer of Gift Funds

The lender must verify that sufficient funds to cover the gift are either in the donor’s account or have been transferred to the borrower’s account. Acceptable documentation includes the following:

- A copy of the donor’s check and the borrower’s deposit slip,
- A copy of the donor’s withdrawal slip and the borrower’s deposit slip,
- A copy of the donor’s check to the closing agent, or
- A settlement statement showing receipt of the donor’s check.

When the funds are not transferred prior to settlement, the lender must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier’s check, or other official check and must include the donor’s withdrawal document.

4. Gifts of Equity

Gifts of equity are eligible for primary residence and second home purchases only.

Gift funds may be used for any additional down payment (over and above the required five percent (5%)) and for all closing costs. The borrower may use assets received as a gift to supplement his or her own funds, but cannot rely solely on gift assets in satisfying any applicable financial reserve requirements.

The gift of equity must come from an immediate family member (see Acceptable Donors) and be documented with a gift letter. The Gift Letter must:

- Specify the subject property address;
- Specify the dollar amount of the gift;
- Specify the date the funds were transferred, depository name and account number;
- Include the donor's statement that no repayment is expected; and
- Indicate the donor's name, address, telephone number, and relationship to the borrower

Gifts of equity must be reflecting on the settlement statement as a gift of equity. No money is exchanged outside of escrow.

Note: See Identity of Interest Transactions for additional restrictions

5. Bridge Loans

Bridge loans are an eligible source of funds for down payment and closing costs. The loan must be included in the borrower's liabilities and be fully paper-trailed. A copy of the note must be provided. If no payment is required an interest only payment based on the contract rate must be included in the borrower's ratios.

Bridge loans cannot be cross-collateralized against the subject property.

6. Sale of Personal Property

The following documentation is required to evidence the sale of personal assets for funds to close:

- Personal property previously liquidated:
  - Bill of sale reflecting:

▪ Date of sale;
▪ Description of asset sold;
▪ Sales price;
▪ Signatures of buyer and seller; and
▪ Copy of the check from the purchaser of the asset or the borrower's bank statement verifying the deposit of proceeds from the sale.

- Personal property to be liquidated:

- Document the existence and the borrower's ownership of the asset (*e.g. car title*);
- Document the value of the asset through a third party source (*e.g. appraisal or blue book*); and
- Letter of intent, contract or other evidence that a buyer exists at the specified price.

Evidence of the actual sale, sufficient proceeds received from the sale, and proof that any outstanding liability owed against the asset was paid in full will be required at closing.

7. Business Funds

Business funds may be used for down payment and closing costs only if the borrower is
100% owner of the business and a letter from the business accountant is provided to confirm that the withdrawal of the funds will not negatively impact the daily operations of the business.

Note: The accountant cannot be an interested party to the transaction

8. Life Insurance

The cash value of a life insurance policy can be used for down payment and closing costs. The amount used to qualify must be confirmed with a written statement from the life insurance company specifying the net cash value and receipt of the funds must be verified.

9. Loans Secured By Financial Assets

Loans secured by financial assets (life insurance policies, 401(k)s, IRAs, stocks, bonds, etc.) can be used for down payment and closing costs. The payment of this type of loan is not required to be included in the borrower’s debt ratio provided the applicable loan agreement shows the borrower’s financial assets as collateral. Proof of receipt of the funds is required.

10. Retirement Accounts

Vested funds held in a qualified retirement account are an eligible source of funds. The most recent 2 months or quarterly statement is required as well as proof the funds were withdrawn.

11. Employer Assisted Housing Programs

Employer assisted housing programs are funds provided by the borrower's employer to pay part of the closing costs or to supplement his/her down payment. The Employer Assisted Housing Program must be an established, ongoing, comp any-wide employer benefit program, not just an accommodation developed for the individual employee. These funds are eligible only after the borrower has contributed a minimum of 5% of the down payment to the transaction from their own funds.

The employers financial assistance for either closing cost or the down payment may come in the form of a grand, a direct, fully repayable second mortgage or unsecured loan; a forgivable second mortgage or unsecured loan; a deferred payment second mortgage or unsecured loan; or mortgage payment assistance.

When assistance is a secured second mortgage, the transaction must satisfy the requirements for mortgages subject to subordinate financing. If the financing does not have to require regular payments of either principal and interest or interest only. Instead, the financing may be structured in any of the following ways:

- Fully amortizing level monthly payments;
- Deferred payments for some period before changing to fully amortizing level payments;
- Deferred payments over the entire term; or
- Forgiveness of the debt over time

Note: The financing terms may provide for the employer to require full repayment of the debt if the borrower's employment is terminated (either voluntarily or in voluntarily) before the maturity date of the note

12. Trust Accounts

Trust accounts where the borrower is the beneficiary are acceptable if the borrower is the beneficiary and the borrower's immediate access to the funds is verified by an institutional trustee or the trust agreement.

13. Ineligible Sources of Funds for Down Payment

The following asset types are ineligible for this program and cannot be used to meet the borrower's funds to close:

- 1031 Exchange Funds – tax deferred exchange proceeds
- Custodial Accounts – accounts where the borrower is not the beneficiary, such as a custodial account

- Pooled funds – typically from a relative or domestic partner who resides with the borrower
- Salary advances
- Real Estate Commissions – including when the borrower is the listing agent on the subject transaction
- Rent Credit, Option to Purchase, or Trade Equity
- Cash Advances on Credit Cards
- Signature Loans
- Unsecured Financing
- Cash for which the source cannot be verified
- Sweat Equity – contribution to the construction or rehabilitation of the property in the form of labor or services
- Reverse Mortgage Proceeds
- Seller Real Estate Tax Credit
- Foreign Assets
- Pension funds
- Funds donated by the seller, builder, real estate agent or any other party no related to the borrower to satisfy down payment requirements

M. RESERVE REQUIREMENTS AND ELIGIBLE SOURCES

Reserves requirements for all transactions are reflected in the Eligibility Matrix. All Reserves must be fully documented and come from an eligible source. For most asset types, the most recent two months bank statements with all pages will be required. Any time there is a large deposit (50% or more of qualifying income) it must be sourced.

Additional reserves are required for multiple financed properties owned by the borrower and departing residences that are pending sale or will be converted to a second home or investment property.

Requirements for additional reserves in excess of the reserves reflected on the Eligibility Matrix are as follows:

- 6 month PITIA reserves are required for a departing residences/conversion of the current principal residence in addition to the reserves required per the eligibility matrix
- 2 months PITIA reserves are required for each additional 1-4 unit financed properties owned in addition to the reserves required per the eligibility matrix.

1. Liquid Reserves

Liquid reserves are funds the borrower has after down payment and all closing costs that are readily available to the borrower and can easily be converted into cash. For purposes for this program, liquid reserves include:

- Funds in a bank/financial institution – individual, joint or trust if the borrower has full access

- Certificate of Deposit/Money Market Funds
- Stocks/Bonds/Mutual Funds – 70% of the documented value can be used for reserves
- Vested Retirement Accounts – a copy of the retirement account plan must be provided to insure vested funds are eligible for withdrawal (not borrowed, such as a loan), regardless of the employees age or employment status. 60% of the vested balance less any loans can be used as the available balance. When a retirement account only allows for withdrawals in connection with the borrower's employment termination, retirement, or death, these funds should not be considered.
- Trust accounts – the borrower be the beneficiary and the their immediate access to the funds must be verified by an institutional trustee or the trust agreement

Note: If the borrower has any outstanding obligations secured by the asset it must be deducted from the value of asset to determine the amount to be used in qualifying.

2. Ineligible Sources of Reserves

The follow assets types are ineligible to meet the borrowers reserve requirements:

- Gift Funds
- Business Assets
- Bridge Loans
- 1031 Exchange Funds – tax deferred exchange proceeds
- Custodial Accounts – accounts where the borrower is not the beneficiary, such as a custodial account
- Gifts of Equity
- Donated Funds – typically from a church, municipality, or non-profit
- Pooled funds – typically from a relative or domestic partner who resides with the borrower
- Employer Assistance Programs – including salary advances
- Individual Development Accounts
- Real Estate Commissions – including when the borrower is the listing agent on the subject transaction
- Rent Credit, Option to Purchase, or Trade Equity
- Cash Advances on Credit Cards
- Signature Loans
- Unsecured Financing
- Cash for which the source cannot be verified
- Sweat Equity – contribution to the construction or rehabilitation of the property in the form of labor or services
- Reverse Mortgage Proceeds
- Seller Real Estate Tax Credit
- Foreign Assets
- Pension funds
- Funds donated by the seller, builder, real estate agent or any other party no related to the borrower to satisfy down payment requirements
- Loan secured by other real estate

- Sale proceeds from assets or real estate
- Qualified Tuition Plans (529 Plans)
- Cash-Out proceeds
- Funds that have not been vested or cannot be withdrawn other than with the owner's retirement, employment termination or death

N. SUBORDINATE FINANCING

Subordinate financing is permitted on most loan transactions. The repayment terms for most types of subordinate financing must provide for regular payments that cover at least the interest due so that negative amortization will not occur, and must permit prepayment at any time without penalty. The terms of the subordinate financing should require interest at a market rate the repayment terms for subordinate financing must provide for a fixed payment amount. There are two types of subordinate financing:

1) Home Equity Lines of Credit (HELOC) is an open-end credit line secured by a 1-4 family dwelling that allows for multiple advances according to the provisions of the note and financing agreement, and is typically in a subordinate lien position.

2) A Closed End mortgage provides for a single advance of funds at the time of loan closing and does not allow for future draws.

For transactions that include subordinate financing, the following requirements apply for both HELOC and Closed End Loans:

- The subordinate financing must be recorded and clearly subordinate to the first mortgage.
- The maximum LTV/HCLTV may not exceed the guideline limits for the product and occupancy type shown in Eligibility Matrix.
- The monthly payment for the subordinate financing must be included in the calculation of the borrower's debt-to-income ratio(s). If a HELOC, a monthly payment must be calculated based on the greater of 1% or the fully amortized payment on the total line amount, regardless of the current balance
- When a credit line has been reduced with a permanent modification of the original note, the entire original line amount must be used to calculate the CLTV/HCLTV unless a copy of the complete and recorded modification agreement (fully executed by the HELOC lender and all borrowers under the HELOC) can be provided
- In the event that the recorded modification agreement is not back from recordation, an unrecorded modification agreement fully executed reflecting the instrument number or other evidence of submission for recordation stamped by the recorder's office must be provided
- Negative amortization is not allowed; scheduled payments must be sufficient to cover at least the interest due
- Equity share or shared appreciation is not allowed
- Maturity date or amortization basis of the junior lien must not be less than five years after the Note Date of the new first lien mortgage, unless the junior lien is fully amortizing or it is a balloon and the borrower has sufficient funds over

and above funds needed for closing and reserves to cover the current balance

Note: Loans that are within the 80/80% LTV/HCLTV and $1,000,001 - $1,500,000 loan amount tier are not eligible for new secondary financing on either purchase or rate and term transactions.

Ineligible types of subordinate financing include:

- Subordinate liens through a Community Second Mortgage/Down Payment Assistance program
- Subordinate mortgages held by the property seller or a private individual
- Tax and judgment liens
- Subordinate mortgages subject to an interest rate buy-down plan
- Subordinate financing that allows for negative amortization, contain a balloon feature or a prepayment penalty
- Subordinate mortgages that have wraparound terms
- PACE/HERO Loans

O. QUALIFYING RATIOS

Debt ratios are calculations used to determine whether the borrower will be able to meet expenses involved in home ownership. There are two ratios to assess the borrower's eligibility: housing-to-income ratio and debt-to-income ratio. Max debt ratios are as follows:

Qualifying Ratios	
Occupancy	Max DTI
Owner Occupied	43%
Second Home	43%

P. HOUSING-TO-INCOME RATIO

The monthly housing expense includes the following:

- Principal and interest for the mortgage that is secured by the borrower's principal residence
- Monthly amounts for:
  - Subordinate financing on the subject
  - Hazard insurance
  - Real estate taxes
- When applicable:
  - Mortgage insurance premiums
  - Homeowners association dues
  - Optional credit insurance: Monthly cooperative fees, Leasehold payments
  - Special assessments : Flood insurance fees, Tax abatements

Q. DEBT-TO-INCOME RATIO

Monthly debt-to-income ratio is the sum of the monthly housing-to-income ratio plus the following:

- Payments on revolving debt
- Installment debt with more than 10 months remaining
- Monthly PITIA for any additional properties owned by the borrower including second homes and investment properties that are non-income producing
- If rental income is not used to qualify the subject investment property, PITIA plus operating expenses
- Current real estate and taxes on properties owned free and clear
- Child support, alimony and separate maintenances with more than 10 months remaining

R. QUALIFYING RATE

Qualifying Rates	
Program	**Qualification Rate**
30 year fixed	Note Rate
15 year fixed	Note Rate
5/1 ARM	Greater of the fully indexed rate or the note rate, plus 5%
7/1 ARM	Greater of the fully indexed rate or the note rate
10/1 ARM	Greater of the fully indexed rate or the note rate

S. MAXIMUM ALLOWABLE CONTRIBUTIONS

The maximum allowable contributions from interested parties based on the lesser of the purchase price or appraised value are:

Maximum Allowable Contributions		
Occupancy Type	LTV/ CLTV	Maximum Contribution
Primary Residence	All	6%
Second Home	All	6%

Note: Seller contributions for HOA dues must be paid directly to the Association.

HUD-1 review:

- To ensure that all fees, disbursements and charges reflected on the settlement statement were fully disclosed in the purchase agreement and available to the appraiser for consideration in determination of the property's market value, review of both the borrower's and seller's side of the HUD-1 is essential.
- Disbursements on the seller side of the HUD-1 to the borrower or an entity controlled by the borrower, or to a company owned by the seller, require additional consideration.
- Real estate commissions must include all commissions on page two of the HUD-1 *(700 series section),* as well as any non-lien related disbursements such as:
  - Marketing expenses; Administration fees; Finder's fees;
  - Referral fees;
  - Consulting fees; or
  - Assignment of sale fees.
- Any combination of the above disbursements exceeding 8% of the sales price must be treated as a sales concession and deducted dollar-for-dollar from the sales price for purposes of calculating the LTV/TLTV/CLTV.

T. EVALUATING INCOME

1. Stable Monthly Income

Stable monthly income is the Borrower's verified gross monthly income from all acceptable and verifiable sources that can reasonably be expected to continue for at least the next three years. For each income source used to qualify the Borrower, it must be determined that both the source and the amount of the income are stable. A two-year history of receiving income is required in order for the income to be considered stable and used for qualifying. Qualifying income must be recurring, received regularly, and reasonable based on the source, industry, and occupation and the borrower must provide their most recent two (2) years signed tax returns, regardless of the income sources being used to qualify.

2. Tax Transcripts

IRS 4506-T is required to be signed and executed during the origination process, and transcripts obtained for the most recent two years for both personal and business returns. The transcripts must match the tax returns in the file.

3. Employment Income

To be considered for qualifying purposes, base pay, bonus, and overtime income must have been received for a minimum of two years. If a borrower does not meet the employment history requirement for the two years prior to the date of the loan application, and was previously in school or the military, provide copies of the borrower's diploma and transcripts or discharge papers.

Change in Position

If the borrower has recently changed positions with their employer the effect on borrower's eligibility to receive any bonus or overtime pay in the new position must be determine.

Variable Income

A two year history of all variable income is required. A lever, upward or previously declining but stabilized trend in earnings must be established. If the trend is declining, additional documentation so support the income is stable will be required.

4. Employment Income Documentation Requirements

At minimum employment income must be supported by all of the following as they apply

Paystubs

Most recent year-to-date paystubs covering 30 consecutive days of earnings are required with the following requirements:

- Provide evidence of all income being used to qualify
- Must include gross earnings for the current period and years to date earnings for the most recent 30-day period
- Be dated no earlier than 30 days prior to the date of the loan application
- If the borrower is paid hourly, the number of hours must be noted on the paystub

Note, the paystub requirement is not met if the employer does not provide computer generated or typed paystubs. When the paystub requirement is not met, the most recent years income tax returns and a written VOE, completed in its entirety is required.

W-2s

The most recent 2 years W2s, clearly identifying the borrowers as the employee and the employer name are required for each source of employment income.

Written VOE

If bonus, overtime, and/or commission income are being used to qualify a written VOE is required to confirm ongoing employment and earnings. Each source of income must be broken out separately and be likely to continue in order to be considered stable income.

Note, a WVOE may not be used in lieu of the most recent 30 days paystubs or two years W2s and may not be used as a standalone document for purposes of verifying the borrower income and employment.

Verbal Verification of Employment

A verbal verification of employment to confirm the borrower's current employment status is required for each borrower. The VVOE must be dated within 10 days of the note date and contain the following information:

- Date of Contact
- Borrower's date of employment, employment status and job title
- Name, phone number, and title of the individual contacted at the entity, and entity name
- Name and title of associate contacting the employer

Employment by Relatives or Transaction Participants

If the borrower is employed by a relative, a closely held family business, the property seller, real estate agent, or any party to the real estate transactions, the borrower is considered self-employed unless the following documentation can be provided:

- A letter from the business accountant verifying the borrower does not have 25% or more ownership interest (and stating the actual ownership interest) AND
- Borrower's most recent two years signed tax returns supporting no owner ship interest, or
- A signed copy of the corporate tax returns showing the borrower's ownership
- percentage as less than 25%

5. Other Employment Income Requirements

Other employment income is acceptable for qualification if it meets the specifications for the income type below:

Automobile Allowances

Automobile allowances are considered stable income if the income is been received for the past two years and the employer verifies they will continue. All associated expenditures must be included in the borrower's DTI. Either cash flow or income and debt approach may be used to qualify. If not reposted on the borrowers 2106, then use the income and debt approach, adding the allowance to the income and showing the lease in the borrower's debt.

Non-Taxable Income

If income is verified as non-taxable, and the income and tax-exempt status are likely to continue, the percentage of non-taxable income that may be added to the borrower's income cannot exceed the appropriate tax rate for the income amount, not to exceed 25%.

Part-Time and Second Jobs

A borrower should have a minimum of a two years uninterrupted history on all part -time, second, or multiple jobs in order to include the income in qualification. Follow documentation types for the specific type of second job (employment income or self- employed income)

Seasonal Income

Seasonal part-time or seasonal second job employment may be acceptable if the borrower has worked in the same job for the most recent two years. All of the following must be provided:

- Most recent paystubs (if applicable)
- Most recent two years W2s
- Written confirmation from the borrower's employer that there is reasonable expectation that the borrower will be re-hired for the next season

Teachers

Annual salary must be verified and stipends or supplemental income must be documented as regular and continuous.

Borrowers with a contract for their first year of employment who have started work but have not received a paystub must provide all of the following:

- Copy of contract
- WVOE
- VVOE

Teacher income paid over a 10 month period and obtaining financing during the summer months when income is not being received must be documented with all of the following:

- Final paystub from the previous school year
- VVOE
- Copy of the contract indicating the borrower is paid over a 10 month period

Income will be qualified based on the income received on the final paystub from the previous school year

Tip Income

Tip income is an acceptable source of qualifying income if it has been received for the past 2 years and is supported by paystubs and W2s

Unemployment Benefits

Unemployment benefits, such as those received by seasonal workers, must have been received for the past two years and be predictable and likely to continue for the three years from the date of the application. Income must be documented with the most recent two years signed tax returns with all schedules and the income must be clearly associated with seasonal layoffs and expected to recur.

Union Members

For union workers a VVOE confirming the borrower is in good standing with the union is required. If the union cannot provide confirmation, a VVOE with the present employer is required as well as all of the following:

- Current paystub(s) from the present employer
- If there has been more than one employer in the current year, the last paystub from each employer will be required to adequately reflect year-to-date earnings
- Most recent 2 years W2s from all employers
- Most recent 2 years personal tax returns with all schedules

6. Employment Gaps/Re-Entering the Workforce

All employment gaps over 30 days in the past two years must be explained. For borrowers who are re-entering the workforce after an extended absence (6 months) income may be considered stable if the following requirements are met:

- The borrower has been employed in his or her current job for 6 months or more
- A two year work history prior to the absence from the workforce is documented

The previous work history must be in a similar occupation/industry or job re-training/education in a new field must documented to demonstrate stability of the income being used to qualify.

7. Furloughed Borrowers

Borrowers whose paystubs reflect they are being furloughed must qualify with the reduced income. Payments from a third party (credit union or other source) to supplement unfunded budgets are not permitted, even if the source is approved by the employer. If there is evidence the from the employer or third party documentation that the furlough will end within the next 60 days full pay may be used for qualification.

8. Temporary Leave

Temporary leave from work is generally short term in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by state law or the borrower’s employer.

If a borrower is currently receiving short-term disability benefits that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the long term benefits must be used as qualifying income.

If the borrower will return to work prior to when the first mortgage payment will be due regular income can be used to qualify.

If the borrower will return to work after the first mortgage payment is due use the lesser of the leave income or pre-leave regular employment income to qualify.

Notes:

- Documentation evidencing the amount, duration, and consistency for all temporary leave income must be obtained when used for qualifying
- Verifying the borrower’s pre-leave income and employment is required, regardless of leave status
- Obtain written documentation from the borrower employer confirming the borrower’s statutory right to return to work, the confirmed date of return, and the borrower post- leave employment status
- Obtain a written statement from the borrower confirming that they will return to their current employer and stating the confirmed date of return

9. Self-Employment Income

A borrower is considered self-employed if any of the following conditions are met

- If the borrower has 25% or more ownership interest in a business
- Borrowers who file an IRS for Schedule C or Schedule F

Evidence that the borrower has at least a consecutive two year history of self-employment operating the same business in the same general location is required to demonstrate sufficient stability for the income from that business to be considered in qualifying

Net losses from self-employment and non-employer related sources must be deducted from qualifying income regardless of the longevity of the business activity, unless the business or activity producing the losses is documented to be discontinued.

10. Self-Employment Income Documentation Requirements

At minimum, self-employment income must be supported by all of the following as they apply.

Personal Tax Returns

Most recent two years of signed and dated tax returns with all pages, schedules, and attachments are required for all borrower who are self-employed.

Business Tax Returns

Most recent two years of signed and dated business returns with all pages, schedules, and attachments are required.

P&L and Balance Sheet

Signed Year-to-date Profit and Loss Statements and Balance Sheets are required for each business where income or losses are reported on IRS for Schedule C, Schedule F, and for businesses in which the borrower has a 25% or more ownership interest, irrespective of which tax forms are used to report the income or losses.

If tax returns from the most recent tax year are not yet available, an additional year end P&L and Balance Sheet will be required for each business.

The year-to-date P&L and Balance Sheet must cover at least the period ending in the most recent quarter at the note date.

VVOE

For each business the borrower owns, a Self-Employed Confirmation of Employment is required to confirm the existence of the business through a thirst-party source dated within 30 days of the note date and must meet all the following requirements:

- Verification of the existence of the borrower's business from a third party, such as a CPA, regulatory agency, or applicable licensing bureau
- Verify the listing and address for the borrower's business using a telephone book, the internet, or directory assistance.

11. Other Income Requirements

Other income can be used for qualification purposes.

Child Support, Alimony or Maintenance Income

In order to be used as income, child support, alimony or maintenance payments must reasonably be expected to continue for at least a three year period. The following documentation is required:

-
- Copy of the final divorce decree, legal separation agreement or court order; and
- Copies of court records, bank statements or canceled checks evidencing a minimum of 12 months stable receipt of payments.

Alimony and child support income that has been received less than 12 months but more than 6 months may be used to qualify on a case by case basis.

If the payer has been obligated to make payments for less than 6 months, if the payments are not for the full amount, or the payments are not received on a consistent basis, the income cannot be used to qualify.

Foster Care Earnings

Foster care earnings may be used for qualification if the borrower has a two year history of receipt and the income will continue for at least 3 years. The borrower must provide one of the following, in addition to documentation verifying income continuance of at least 3 years.

- Letter from the agency providing income with a 2 year history
- Federal tax returns, or
- Copies of the borrower’s deposit slips or bank statements verifying regular receipt of the payments

The income must be received from a state or county sponsored organization. If the foster care has been received for more than 12 months, but less than 24 months, it may be used to qualify if it doesn’t represent more than 30% of the total gross qualifying income.

Dividend and Interest Income

Dividend and interest income can be used in qualification if the borrower has a 2 year history of receipts and 3 years continuance can be documented. Subtract any funds used for the cash investment prior to calculating the income level or continuance.

Employment Related Assets

Employment related assets can be used for qualification with the following restrictions:

- Maximum LTV/HCLTV is 70%
- Purchase or rate and term transactions only
- Must be a 1-Unit property

In order to be used in qualification the following applies to the accounts being used to qualify:

-
- The asset used to qualify must be owned individually or the co-owner of the account must be a co-borrower on the subject transaction
- The account must be immediately accessible in its entirety
- Assets must be liquid and available to the borrower with no penalty
- The borrower's right to the funds in the account must be fully vested

Eligible assets include:

- Non-self-employed severance package or non-self-employed lump sum deposited into a non-retirement brokerage or depository account, or
- Retirement account recognized by the IRS

Note: The borrower must not be currently using the asset as a source of income. Non- employment related assets cannot be used to qualify. These include but are not limited to stock options, lawsuit settlements, lottery winnings, sale of real estate, inheritance, divorce proceeds, etc.

Retirement accounts must be documented with the most recent account statement.

For use of a non-self-employed severance package/lump sum retirement package the borrower must provide the most recent 3 months personal depository or brokerage statements, employer distribution letter or check stubs evidencing receipt and type of lump-sum distribution funds, and 1099Rs is received.

Income will be calculated taking 70% of the eligible employment related assets available after closing and will be divided by 360 regardless of the age of the borrower or term of the loan.

Long Term Disability

Documented long term disability income cannot have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefit eligibility is not considered a defined expiration date. Income must be documented with a copy of the borrower's disability policy or benefits statement from the benefits payer to determine the borrower current eligibility, amount and frequency of the payments, and if there is a contractually established termination or modification date.

Non-Taxable Income

If income is verified as non-taxable, and the income and tax-exempt status are likely to continue, the percentage of non-taxable income that may be added to the borrower's income cannot exceed the appropriate tax rate for the income amount, not to exceed 25%.

Notes Receivable

Notes receivable is an acceptable source of qualifying income if the borrower has a full twelve month history of receipt and is the income will continue for a three year period. The following documentation must be provided:

- Copy of the Note
- Most recent two years tax returns with all schedules reflecting the receipt of the income
- Bank statements showing regular deposit of the funds

Retirement, Pension, Annuity, and IRA Distributions

The borrower must have unrestricted access without penalty to all accounts. The income must be documented with one of the following:

- Copy of the award letter or letters from the organization providing the income
- Most recent personal tax returns with all schedules
- Most recent 2 years 1099-R
- Most recent 2 months bank statements reflecting the deposit of the funds
-

All retirement, pension, annuity, and IRA distribution income requires ten (10) years continuance. Evidence of continuance need not be documented for corporate, government, VA, or military pension

- If the borrower has recently retired and set up an account for income draws, income from the principal balance may only be used if a payment schedule has been set up.
- If the assets are in the form of stocks, bonds, or mutual funds, 70% of the balance of the asset (less any funds used for down payment, closing costs, pre-paids/escrows, and/or financing costs) must be used to determine the number of distributions remaining, to account for the volatile nature of these assets.

Royalty Income

Ongoing income received from royalty payments may be eligible for qualification if the borrower has a 2 year history of receipt. Income must be documented with all of the following:

- Verification the income will continue for at least three years
- Most recent 2 years tax returns with all pages, schedules, and attachments
- Most recent 12 months bank statements showing the deposit of the funds
- Copy of the executed contract, agreement, or statement confirming the amount, frequency, and duration of the income

Social Security Income

SS income for retirement or long term disability will not have a defined expiration date and can be expected to continue. However, if the income is not for retirement or long-term disability 3 years continuance will need to be documented in order to use the income to qualify. SS income must be documented with the following:

- Copy of the award letter

If this income is non-taxable, as reflected on the borrower's personal tax returns refer to the Non-Taxable Income section of this guide for further information.

Trust Income

Trust income can be used to qualify if there are three years remaining and the borrower has a history of receipt. The income must be documented with a copy of the trust agreement and trustees statement verifying the terms of payment, the total amount designated to the trust fund, the duration of the trust, and what portion, if any, of the income is taxable. If the trust agreement or trustees statement does not provide the historical level of distributions, one of the following must be provided:

- Most recent two years tax returns with all pages, schedules and attachments
- Most recent two years 1041 trust returns with all pages, schedules and attachments

Rental Income from Other Real Estate Owned

The documentation required to validate rental income stability and verify the rental income for all properties as follows:

- The borrower must have a 24 month rental history with no gaps greater than three (3) months and the 24 month rental history must be filed on Schedule E of the borrower's personal tax returns.

- Copy of borrower(s) signed individual tax returns with all schedules **AND** Copy of current lease and/or rental agreements for all properties.

- If any of the lease /rental agreement(s) have been executed (does not apply to renewal/extension to the lease/rental agreement) within 60 days of application, validation of rents received by the borrower(s) is required (i.e. bank statements, cancelled checks, etc.

Conversion of Current Principal Residence

If the borrower has a two year landlord history and is converting a current principal residence to an investment property, sufficient equity in the existing principal residence must be verified a full appraisal to determine the qualifying impact of the current principal residence's PITIA on the borrowers DTI ratios and reserve requirements.

To confirm leasing the newly converted property or unit (for a two- to four-unit property) the file must contain the following:

- Fully executed lease agreement
- Security deposit from the tenant, and
- Bank statement showing the deposited security funds

Western Bancorp must calculate the net rental income and qualify the borrower according to the following requirements:

Conversion of Principal Residence		
If the current principal residence is…	And the documented equity in the current principal residence is…	And the borrower has a **two year landlord** history, then you can use…
A One Unit Property	≥30%	75% of the gross rental income as per the lease
	<30%	No Rental Income will be allowed

12. Ineligible Self-Employment or Other Income

The following self-employment and other income sources are not eligible to be used in qualification:

- Asset depletion

- Capital Gains
- Capital withdrawals
- Draw income
- Foreign income
- Future income
- Illegal income
- Income determined to be temporary or one-time in nature
- Retained earnings in a company
- Section 89 Homeownership Assistance Payments
- Income determined to be temporary or one-time in nature
- Stock options/Restricted Stock
- Taxable forms of employment income not declared on the borrower's personal tax returns
- Trailing co-borrower income
- Unverifiable income
- Boarder income
- Mortgage credit certificates
- Income derived from gambling
- Lump sum payments of lottery earnings, inheritances, or lawsuit settlements that are not on-going (for at least three years)
- Non-incidental income derived from farming/agricultural use of land
- Public assistance income
- VA education benefits

13. Unreimbursed Employee Expenses/2106 Expenses

When a borrower has out-of-pocket, unreimbursed expenses, determine the recurring monthly debt by developing an average of the expenses from the Schedule A and/or IRS form 2106 for the number of years required.

When calculating the total DTI, the average for unreimbursed expenses should be subtracted from the borrower's stable monthly income.

U. PROPERTY TYPES

1. Eligible Properties

- One Unit SFRs
- PUDs
- Warrantable condos

2. Ineligible Properties

- 2 -4 unit properties
- Apartment buildings

- Assisted living facilities
- Bed and Breakfast
- Boarding houses
- Commercial Buildings
- Condition Rating of C5/C6 or a Quality Rating of Q6
- Condotels
- Co-Ops
- Earth/Earth-sheltered and geodesic/dome homes
- Factory Built Housing
- Hotel Condominiums
- House boats
- Indian Lands
- Investment Properties
- Land loans
- Land Trusts
- Leaseholds that do not extend beyond the loan term and are not typical in the market area
- Log Homes / Domes Houses or any other exotic construction type
- Manufactured Homes
- Mixed-use Properties
- Mobile Homes
- Non-warrantable condominium/PUD projects, Studio Condominiums, Condos less than 600 sqft
- Properties listed for sale within the last six (6) months (if cash-out refinance), unless Delayed Financing Cash-Out refinance requirements are met,
- Properties sold at auction by the builder, developer, or construction lender
- Properties with greater than 15 acres
- Properties with legal non-conforming use
- Property currently in litigation
- Re-sale Deed Restricted Properties
- Residential properties zoned commercial or industrial
- Texas homestead properties secured by a 50(a)(6) mortgage
- Timeshares
- Unimproved Land
- Unique properties, other than those listed above, in which the marketability cannot be established
- Working Farms, Ranches and orchards

3. Non-Permitted Additions / Alterations

Western Bancorp will secure loans against properties with unpermitted additions / alterations if all of the following conditions are met:

- The quality of work is described in the appraisal and deemed acceptable
- The addition does not result in a change in the number of units comprising the subject property
- The appraiser comments that the addition / alteration doesn't have any negative affect
- on marketability
- If the appraiser is giving the unpermitted addition / alteration value all of the follow must be met and documented by the appraiser:

- Non-permitted additions are common for the market area and a typical buyer would include in the overall value
- The appraiser has no reason to believe the addition would not pass inspection for permits
- The loan file must include a copy of the homeowner's insurance policy that covers the unpermitted addition
- Verification from the city/county that the unpermitted addition is recognized and can be rebuilt

4. Solar

Western Bancorp will finance properties with solar panels. If the property owner is the owner of the solar panels, and is not the only source of power (the property must maintain access to an alternate source of electric power that meets community standards) no further requirements apply.

If the solar panels are leased from or owned by a third party under a purchase power agreement or other similar arrangement, the following requirements apply (where to the original agreement or as subsequently amended):

- The solar panels may not be included in the appraised value of the property
- The property must maintain access to an alternate source of electric power that meets community standards
- The monthly lease payment must be included in the DTI ratio calculation unless the lease is structured to:
  - Provide delivery of a specific amount of energy at a fixed payment during a given period, and
  - Have a production guarantee that compensates the borrower on a prorated basis in the even the solar panels fail to meet the energy output required for in the lease for that period.

Payments under power purchase agreements where the payment is calculated solely based on the energy produced and used may be excluded from the DTI ratio

- The lease or power purchase agreement must indicate that:
  - Any damage that occurs as a result of the installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original condition, and
  - The owner of the solar panels agrees not to be the named loss payee on the property owner's insurance policy covering the residential structure the panels are attached to, and
  - In the event of foreclosure, the lender or assignee has the discretionon to
  - Terminate the lease/agreement and require the third party owner to remove the equipment
  - Become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party, or
  - Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner

- Any exception to coverage on the title insurance policy for recorded instruments relating to the solar panels must comply with FNMA requirement in section B7-2-05 of the seller guide.

5. Deed or Re-Sell Restricted Properties

Properties with Deed or Re-Sell Restrictions are ineligible on this program unless for a 55 and older community on a primary residence.

When the subject is 55 and older community the appraiser must note the existence of resale restrictions and comment on any impact the resale restrictions have on the property's value and marketability.

6. Condominiums

A condominium unit is a one unit dwelling located in a condominium project. Each unit owner as title to a unit in a building and an undivided interest in the common elements and improvements that are owned and maintained by a homeowner's association, corporation or trust. The common elements are for the benefit and use of the individual homeowners within the Condo. The housing units may be attached or detached.

Note: All condominiums are limited to a $1,000,000 loan amount and cash out is limited to $100,000

All condominiums must be reviewed for eligibility and be warrantable under FNMA requirements. Limited review are eligible on all detached condo sand attached units if the LTV is 75% or less for primary residences and 70% or less for second home.

When a full review is required the following documents must be submitted for review:

- Arbitration Agreement
- Budget
- Certification from the builder, or developer regarding current or pending litigation (if applicable)
- Recorded Condominium Docs (Articles of Incorporation, By-Laws, Declarations)
- WBC Condo Questionnaire
- Engineer's Report
- Insurance Dec Page (Master building, liability, and fidelity bond)
- Final Certification of Substantial Completion (Form 1081, if applicable)

- Ineligible Projects
  - Condotels
  - Cooperative projects
  - Hotel or motel conversions

- Projects that represent legal, but non-conforming, use of the land, if zoning regulations prohibit rebuilding the improvements to current density in the event of their partial or full destruction
- Timeshare or segmented ownership projects
- Houseboat projects
- Multi-dwelling unit condominiums
- New condominium that contain one or more units with less than 400 square feet of space that do not have FNMA PERS approval
- Any project for which the homeowners' association is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project.
- Projects for which Western Bancorp determines that pending litigation involves minor matters are not considered ineligible projects, provided pending litigation has no impact on the safety, structural soundness, habitability, or functional use of the project. The following are defined to be minor matters:
- non-monetary litigation involving neighbor disputes or rights of quiet enjoyment,
- litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the association's insurance, or
- the homeowners' association is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due homeowners' association dues.
- Additional documentation to substantiate that pending litigation is minor in nature could
- Projects with recreational leases
- Investment securities
- Common interest apartments of community apartment projects
- New projects where the seller is offering sales/financing structures in excess of max interested party contribution limits
- Project that utilize more than 20% of total space for non-residential purposes
- Projects where a single entity (the same individual, investor group, or corporation)
- owns more than 10% of the total units in the project
- Newly converted non-gut rehabilitation projects without final PERS approval
- Units with less than 600 square feet
- New projects where the seller is offering sales/financing structures in excess SunTrust Mortgage's eligibility policies.
- This includes but is not limited to special incentives to purchase (i.e., paid HOA fess, Club memberships, automobiles, principal and interest abatements and/or builder/developer contributions not disclosed on the settlement statement.)
- Projects that utilize more than twenty percent (20%) of total space for non-residential purposes.
- Projects where a single entity (the same individual, investor group, partnership, or corporation) owns more than ten percent (10%) of the total number of units in the project.
- Condominium projects located in states where more than six months of unpaid regular association common expense assessments may have priority over the mortgage lien, unless the applicable law providing for greater than six months priority was enacted on or before January 14, 2014.

- The following types of projects are ineligible unless the project has current Fannie Mae approval through their PERS process:
- Newly converted, non-gut rehabilitation condominium projects

7. Planned Unit Developments (PUDs)

A Planned Unit Development (*PUD*) is a parcel of land that contains common elements and improvements that are owned and maintained by a homeowner's association, corporation or trust. The common elements are for the benefit and use of the individual homeowners within the PUD. The housing units may be attached or detached.

If the appraiser indicates marketability problems, a review of the project should be performed to determine whether there may be an adverse impact on the value or marketability of the subject unit.

If any of the following characteristics are present, it will render the PUD ineligible:

- Multi-dwelling unit PUD projects that permit an owner to hold title to more than one dwelling unit, with ownership of all his or her units evidenced by a single deed and mortgage
- 2-4 Unit projects
- New projects where the seller is offering sales/financing concessions in excess of limitations for individual loans
- Hotel or Motel conversions
- Projects where documents are on file with the Securities and Exchange Commission
- Projects with recreational leases
- Projects with non-incidental business operations owned and operated by the HOA
- Projects where more than 20% of the total space is used for non-residential purposes
- Projects that restrict the owner's ability to occupy the unit, have mandatory rental pools
- or guaranteed rent backs
- Projects where a single entity owns more than 10% of the total units in the project
- Projects where the HOA is named party to litigation. Note: If litigation meets Fannie Mae requirements, a full PUD review may be completed to support project is warrantable.

V. GEOGRAPHIC RESTRICTIONS

The following table shows the geographic restrictions.

State	Restriction
New Mexico	As a result of state legislation, all ARM loans must be qualified at the fully indexed (index + margin), fully amortizing

	rate.
Texas	Rate/Term refinances are allowed and must meet all loan program guidelines. If pre-paids and taxes are included in the loan amount the following conditions must be met: The pre-paids and taxes are limited to 5% of the loan amount The following language must be included in Schedule B of the Title Insurance: “Possible defect in lien of the insured mortgage because of the insured’s inclusion of reserves or impounds for taxes and insurance in the original principal of the indebtedness secured by the insured mortgage." The following P-39 Standard Language must be included in the Title Insurance Policy: “Company insures the Insured against loss, if any, sustained by the Insured under the terms of this Policy by reason of a final, non-appeasable judgment of a court of competent jurisdiction that divests the Insured of its interest as Insured because of this right, claim, or interest. Company agrees to provide the defense to the Insured in accordance with the terms of this Policy if suit is brought against the Insured to divest the Insured of its interest as Insured because of this right, claim or interest.” Cash-out refinances on primary residence transactions located in the state of Texas are **not** eligible.

3. APPRAISAL STANDARDS

A. LENDER STANDARDS

All appraisals must comply with and conform to USPAP and the *Appraisal Independence* Requirements.

The appraiser must not have a direct or indirect interest, financial or otherwise, in the property or in the transaction. Selection criteria should ensure that the appraiser is independent of the transaction and is capable of rendering an unbiased opinion.

An appraisal prepared by an individual who was selected or engaged by a borrower, property seller, real estate agent or other interested party is not acceptable. "Re-addressed appraisals" or appraisal reports that are altered by the appraiser to replace any references to the original client with the lender's name are not acceptable. Additionally, the borrower, property seller, real estate agent or other interested party are not allowed to select an appraiser from an approved appraiser list.

Effective internal controls should require that only qualified and adequately trained underwriters, who are not involved in the loan production process, review appraisals. To maintain independence, the underwriter should not directly report to someone involved in loan production. Western Bancorp’s underwriting review will include confirming the independence of the appraiser in addition to a comprehensive technical review of the appraiser's analysis prior to making a final credit decision. Any exceptions or red flags should be escalated accordingly.

1. Transferred Appraisals

Western Bancorp will not accept transferred appraisals, regardless of any written assurance or certification.

B. APPRAISAL REQUIREMENTS

Appraisers must provide six comparable sale. Preferably all comparable sales should be closed sales. If the appraiser is unable to provide six comparable closed sales, the appraiser may use comparable listings or pending sales, but at a minimum four of the comparable sales must be closed.

For combined loan amounts (all financing on the subject property) up to $1,500,000, one full appraisal is required.

For combined loan amounts (all financing on the subject property) over $1,500,000 two full appraisals are required.

Note: Two full appraisals are required on family transfer transactions with combined loan amounts (all financing on the subject property) of $1,000,000 or greater.

C. DECLINING MARKETS

Maximum LTV/CLTV/HCLVs are reduced by 5% when the appraisal reflects the subject property is in a declining market or is in *one of the following counties:*

- Del Norte
- Humboldt
- Inyo
- Lake
- Lassen
- Nevada
- Mendocino
- Tehama
- Tuolumne

D. PROPERTIES AFFECTED BY DISASTERS

The FEMA Declared Disaster Area Policy applies to all areas eligible for Individual and or Public Assistance due to a federal government disaster declaration.

1. Effective Date of Disaster Policy

The disaster-area policy becomes effective as of the incident period end date for the disaster/event. FEMA publishes the incident period along with the declaration date once the area is presidentially declared. For example, refer to the following dates to understand when property re-inspection requirements apply:

- Disaster Incident Period:
  - Begin Date: January 15
  - End Date: January 17

- Disaster Declaration Date: February 2
- Effective Date for Disaster Procedures: January 17

Based on the dates noted in the above example, all appraisals performed on or before January 17 would require the appropriate re-inspection or review. Appraisals performed after January 17 would continue to require written certification by the appraiser that indicated whether the property was free from damage and whether the disaster had any effect on value or marketability. If there was damage, the extent of that damage needs to be addressed.

2. Appraisal and Re-Inspection Requirements

To ensure the property value has not been impacted by the disaster, a post disaster property re-inspection is required.

3. Appraisal performed on or before disaster incident end date

Property must be re-inspected by the original appraiser or, if not available, another licensed appraiser. The appraiser must provide the following commentary/evidence:

- Property is free from damage and the disaster had no effect on value or marketability.
- If the re-inspection indicates damage, the extent of the damage must be addressed.
- Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, or other post disaster inspection report, with photos of interior, exterior, and neighborhood.

4. Standard Appraisal Performed After Incident Period End Date for Disaster

Appraisal must include written certification by the appraiser that:

- Property is free from damage and the disaster had no effect on value or marketability.
- If the appraisal indicates damage, the extent of the damage must be addressed.
- Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos of interior and exterior.
- The appraisal must include a minimum of three comparable sales, post-disaster.

Please note that FEMA makes updates to their state lists, so Sellers should closely monitor FEMA's online reference at: http://www.fema.gov/news/disasters.fema.