

**Towne Family of Companies**  
**Underwriting Standards and Agency Overlays**

**Underwriting Standards:**

All loans are subject to full review and underwriting discretion regardless of AUS Approve/Eligible or Accept Findings. Towne considers potential layered risk when making a credit decision.

**EXAMPLES OF ITEMS CONTRIBUTING TO RISK LAYERING:**

1. Derogatory credit within the past 12 months.
2. Prior Bankruptcy and/or Foreclosure.
3. Thin Credit - less than 3 active traditional trade lines.
4. Credit Inquiries within the past 6 months.
5. High DTI
6. Income Stability, such as, time on current job, excessive changes in employment, and inconsistent level income earnings.
7. Gift Funds versus borrower's own funds in the transaction.
8. DPA's
9. Lack of Reserves
10. Housing payment shock
11. Non-Occupant borrowers
12. Retaining current home as an "Investment Property".
13. Loan Purpose/Type, such as, 203K, Cash Out, High LTV, and Occupancy.
14. Property Type, such as, Manufactured Homes and Unique Properties.

**Underwriting Guidelines:**

Towne Mortgage follows all agency guidelines as posted unless otherwise notated within this policy manual or within our Seller Guide posted on TPO Connect and Towne's Intranet.

Agency Guidelines can be located as follows:

**Conventional:**

- [www.efanniemae.com](http://www.efanniemae.com)
- [www.freddiemac.com](http://www.freddiemac.com)

**FHA:**

[www.hud.gov](http://www.hud.gov)

**VA:**

[www.vba.va](http://www.vba.va)

**RD:**

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

**MAX FOUR LOANS PER BORROWER – AT ONE TIME**

	Conventional	FHA	VA	RD
<b>CREDIT</b>				
<b>Credit Score</b>	<ul style="list-style-type: none"> <li>At least one credit score required for all borrowers</li> <li>No Minimum</li> </ul>	<ul style="list-style-type: none"> <li>At least one credit score required for all borrowers</li> <li>FHA streamline (not currently serviced by Towne): 620</li> <li>All other FHA: No Minimum Credit Score</li> </ul>	<ul style="list-style-type: none"> <li>At least one credit score required for all borrowers</li> </ul> VA IRRRL (not currently serviced by Towne): 640  VA Cash out refinance:  >90 up to 100% - 660 90% LTV and below – 640	<ul style="list-style-type: none"> <li>At least one credit score required for all borrowers</li> <li>No Minimum</li> </ul>
<b>Mortgage History for Cash-Out Refinances</b>	None	None	No lates in last 12 months Current loan must be seasoned for at least 12 months for cash out (see program guidelines).	None
<b>RATIOS</b>				
<b>Debt Ratio Maximum</b>	Per AUS	<p><b>Debt ratios equal to, or greater than, 55% must have Approve/Eligible Findings and meet the below comp factors:</b></p> <ul style="list-style-type: none"> <li>Borrower must have a current housing payment, with no lates, within the past 24 months, and</li> <li>No greater than a 10% payment increase.</li> </ul> <p><b>FHA REFER – Follow HUD Manual Guidelines</b></p>	<p><b>Debt ratios equal to, or greater than, 55% must have Approve/Eligible Findings and meet the below comp factors:</b></p> <ul style="list-style-type: none"> <li>Borrower must have a current housing payment, with no lates, within the past 24 months, and</li> <li>No greater than a 10% payment increase.</li> </ul>	Per AUS

	Conventional	FHA	VA	RD
<b>INCOME</b>				
<b>Verbal VOEs</b>	Required to be completed no more than 10 calendar days prior to closing.			
<b>Tax Transcripts</b>	<p><b>FHA/VA, USDA, and CONV conforming loans</b>            Either one or two years of the most recent 1040 IRS tax return transcripts if any of the following income is being used to qualify (based on the AUS requirements):</p> <ul style="list-style-type: none"> <li>• Borrowers with non-W-2 income</li> <li>• Self- employed borrowers (including business returns, if required)</li> <li>• Commission income representing 25% or more of income used to qualify</li> <li>• Borrowers with rental income</li> <li>• Borrowers employed by family members</li> </ul> <p><b>Note USDA - 4506-t and transcripts are no longer required for adult households members not on loan per USDA updates effective December 21, 2017</b></p> <p><b>Jumbo loans</b>            The most recent two year's full 1040 IRS tax return transcripts for all borrowers.</p>			
<b>ASSETS</b>				
<b>Use of business funds for closing</b>	<p><b>All loan types:</b>            For Business asset documentation, please refer to agency guidelines.</p> <p><b>Use of Business Assets:</b>            When a borrower intends to use business assets as funds for the down payment and we will perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impact on the business. In order to assess the impact, we will review business bank statements in order to see cash flow needs and trends from the most recent two months.</p>			
<b>PROPERTY</b>				
<b>Loans Currently in Redemption on Purchases</b>	<p>Will accept loans where property is currently in redemption as long as the title insurer will add the full language in its commitment to evidence a specific exception for the unexpired right of redemption.</p> <p>Title insurer will affirmatively insure the mortgage against all loss arising out of the exercise of any outstanding right of redemption; without qualification.</p>			

	Conventional	FHA	VA	RD
<b>PROPERTY (Continued)</b>				
<b>Leaseholds</b>	Not Allowed			
<b>Life Estate Interest</b>	Not Allowed			
<b>Co-Ops</b>	Not Allowed			
<b>Transferring AIR compliant appraisals from another lender</b>	Appraisal must come from the lender or management company directly and we must include evidence it was ordered under AIR Policy for conventional loans. Appraisals from another lender (both conventional and FHA) are subject to underwriter review and acceptance. Appraisals requiring corrections or revisions will not be accepted as USAP will not allow revisions to be completed. Therefore, new appraisal will be required.			
<b>OTHER</b>				
<b>VA IRRRL Application requirements</b>			Not currently serviced by Towne: (1003 application must be fully completed with all Employment/income, assets, etc.) Verbal VOEs will be completed	
<b>Net Tangible Benefit</b>	<p>For any refinance transaction, our policy is that the borrower receives a net tangible benefit. Simply put, the benefit of doing the transaction outweighs any costs associated with the loan. A net tangible benefit may be in the form of comparing the cost of doing the loan against the benefit of a reduced interest rate, a reduced monthly mortgage premium, a shorter term, going from an ARM to a fixed rate or in the instance of a cash out refinance determining if the borrower could raise the same amount of money elsewhere at a much lower cost.</p> <p>We have the option to request a net tangible benefit disclosure form at any time subject to our internal review of the loan and/or if mandated by any state/city/federal/agency guideline.</p>			
<b>FHA Streamline</b>		Not currently serviced by Towne: (1003 application must be fully completed with all Employment/income, assets, etc.) Verbal VOEs will be completed		
<b>Foreign National and DACA</b>	Not Allowed			
<b>Deed Restrictions</b>	Age restrictions only			

	Conventional	FHA	VA	RD
<b>OTHER (Continued)</b>				
<b>Escrow Waiver Policy</b>	<ul style="list-style-type: none"> <li>• Max 80% LTV</li> <li>• Must underwrite and approve in accordance to agency guidelines</li> <li>• Flood Insurance must be escrowed</li> </ul>	Not allowed	Same as Conventional	Not allowed
<b>Higher-Priced Mortgage Loans (HPML)</b>	<ul style="list-style-type: none"> <li>• Loans that meet Residual Income requirements – No liquid reserves are required</li> <li>• Loans that fail to meet Residual Income requirements – Must have 3 months liquid reserves</li> </ul>			
<b>Closing in a Trust</b>	Trust Cert or attorney opinion letter required.			

**Residual Income Chart**

**FOR VA LOANS and FHA Manual Underwritten Loans**

Table of Residual Income by Region For loan amounts of \$79,999 and below					Table of Residual Income by Region For loan amounts of \$80,000 and above				
<u>Family Size</u>	<u>Northeast</u>	<u>Midwest</u>	<u>South</u>	<u>West</u>	<u>Family Size</u>	<u>Northeast</u>	<u>Midwest</u>	<u>South</u>	<u>West</u>
1	\$390	\$382	\$382	\$425	1	\$450	\$441	\$441	\$491
2	\$654	\$641	\$641	\$713	2	\$755	\$738	\$738	\$823
3	\$788	\$772	\$772	\$859	3	\$909	\$889	\$889	\$990
4	\$888	\$868	\$868	\$967	4	\$1025	\$1003	\$1003	\$1117
5	\$921	\$902	\$902	\$1004	5	\$1062	\$1039	\$1039	\$1158
Over 5	Add \$75 for each additional member up to a family of 7.				Over 5	Add \$75 for each additional member up to a family of 7.			

<b>Key to Geographic Regions Used in the Preceding Table</b>	
<b>Northeast</b>	Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont
<b>Midwest</b>	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin
<b>South</b>	Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Texas, Virginia, West Virginia
<b>West</b>	Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming

**Requirements for FHA Residual Income Calculation:**

- 1) Only Gross monthly income from Occupying Co-Borrowers are used. Non-Occupying Co-Borrowers income may not be included when calculating the residual income.
- 2) Only debts for the Occupying Borrowers are used.
- 3) Calculation as follows:

Gross Monthly Income from Occupying borrowers (-) State Income Tax, Federal Income Tax, Municipal or other tax, proposed PITI, all other monthly debt, maintenance and utilities (calculated at .14 x square feet of home), job related expenses such as union dues and child care expense = Residual Income. Must be compared to above chart.