

TOWNE MORTGAGE COMPANY

Rural Housing Program Eligibility and Underwriting Criteria

Eligible Borrowers:	<ul style="list-style-type: none"> ▪ US Citizens ▪ Permanent Resident Aliens ▪ Non-Permanent Resident Aliens ▪ Must have valid Social Security number and eligible to work in the US
Ineligible Transactions	<ul style="list-style-type: none"> ▪ Non-Occupant Co-Borrowers, corporations and Partnerships are not allowed ▪ Loans that are in TRUSTS. Cannot close as a trust ▪ Loans where borrower owns other homes. ▪ Household income that exceeds maximum allowable ▪ Transactions where the interest rate exceeds the Fannie Mae 30 year Actual/Actual 90 remittance rate PLUS 100 basis points rounded up to the next ¼%. These rates can be found on the Fannie Mae Website - Historical Daily Required Yields at: http://www.efanniemae.com/sf/refmaterials/hrny/index.jsp ▪ A borrower that could qualify for a 20% down 30 year fixed conventional loan
Loan Term/Program:	<ul style="list-style-type: none"> ▪ Conf 30 Year Fixed Rate Rural Housing only
Occupancy and Eligible Property Type:	<ul style="list-style-type: none"> ▪ Owner occupied, primary residence ▪ SFR's ▪ PUD's ▪ Condos – Attached condos must be on FHA approved list ** Underwriters must complete a RD Condo Certification form and retain in file ▪ Modular ▪ Must be located in rural areas, as defined by local RHS office. these generally have populations less than 10,000 (20,000 if located outside MSA). ▪ Property must also have all weather access to a street, road or driveway ▪ Property must have dependable water and waste disposal ▪
Ineligible Properties:	<ul style="list-style-type: none"> ▪ Manufactured Housing ▪ Properties located in a mudslide zone. ▪ Properties located in a flood zone if flood insurance is not available. ▪ Properties that are located in an area not designated as rural by RHS. ▪ Properties that are active income producing properties
Community Property States	<ul style="list-style-type: none"> ▪ Must include debt from spouse in debt ratio calculation in Community Property States. A tri-merge credit report is required for the spouse not on loan

TOWNE MORTGAGE COMPANY

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<p>Underwriting:</p>	<ul style="list-style-type: none"> ▪ GUS - Accept/Accept; Accept/Eligible. Loans receiving Refer are generally NOT acceptable ▪ To determine income and eligibility limits: http://eligibility.sc.egov.usda.gov ▪ To determine if a property is located in an eligible rural area, http://eligibility.sc.egov.usda.gov/eligibility/
<p>General Credit:</p>	<ul style="list-style-type: none"> ▪ Credit Score: No minimum credit score; however must receive Accept recommendation ▪ **Trade Lines: At least ONE borrower must show a minimum of two (2) traditional historical trade lines that have existed for a minimum of 12 months to validate the credit regardless of whether the AUS shows Accept. ▪ Tax Liens or Delinquent Federal Debt: No outstanding tax liens or delinquent government debt allowed ▪ Bankruptcy or Foreclosure: None allowed in the last 36 months. Chapter 13 allowed if one year paid out on time under repayment and approval through Trustee ▪ Mortgage/Rent: NO mortgage and/or Rent late payments in the last 12 months ▪ Judgments: Must be paid in full. Exceptions if on payment arrangement and can evidence at least 3 payments made (not pre-paid) prior to the application date ▪ Short Sales: Must be 3 years from short sale date to be eligible if applicant was in default at time of short sale. If applicant was current at time of short sale and had made on time mortgage payments for the 12 months preceding the short sale date as well as all installment debt on time during same period, then eligible without the 3 year waiting period.
<p>CAIVRS and SAM</p>	<ul style="list-style-type: none"> ▪ All borrowers must be screened for CAIVRS ▪ <u>All participants to the loan</u> must be screened in SAM. The screening MUST have been within 30 days of closing. Participants include borrowers, sellers, loan officer, processor, etc.. Evidence must be retained in file.
<p>Collection Accounts</p>	<ul style="list-style-type: none"> ▪ If collective balance less than \$2000(excluding medical), does not necessary need to be paid but may require a letter of explanation. Subject to Underwriter ▪ If collective balance is >=\$2000, then must be: <ol style="list-style-type: none"> 1) Paid in full prior to closing; or 2) Evidence of payment arrangement and included in debt ratio; or 3) 5% of the outstanding balance will be used in debt ratio ▪ **Please note that paying down a collection to get below \$2000 is not acceptable**

TOWNE MORTGAGE COMPANY

Rural Housing Program Eligibility and Underwriting Criteria

<p>Co-Signed Debts</p>	<ul style="list-style-type: none"> ▪ Debts which have been co-signed by the applicant for another party will be considered in the total debt ratio unless the applicant provides evidence another party has made the payment in the previous 12 months PRIOR to the loan application. ▪ If Co-Signed Debts show late payments in the previous 12 months, the debt will be included in debt ratio regardless of who has made the payments ▪ Joint accounts are NOT considered as co-signed and any account jointly held will be included in debt ratios
<p>Disputed Accounts</p>	<ul style="list-style-type: none"> ▪ Must be removed from credit and new credit pulled to evidence no accounts in dispute unless: <ol style="list-style-type: none"> 1) The disputed trade line has a zero dollar balance; or 2) The disputed trade line is marked as "paid in full" or "resolved"; or 3) The disputed trade line has a balance of less than \$500 and is more than 24 months old
<p>Authorized User Accounts</p>	<ul style="list-style-type: none"> ▪ In order to be eligible, any authorized user account must: <ol style="list-style-type: none"> 1) be owned by another applicant on the mortgage loan application; or 2) be owned by the spouse to the person on the mortgage loan application or; 3) show that the applicant has made payments on the account for the previous 12 months. <p>If the above cannot be documented, the applicant must be removed off account and authorized user account must be removed from the credit report, otherwise the loan will not eligible for purchase</p>
<p>Maximum Debt Ratio</p>	<ul style="list-style-type: none"> ▪ Per AUS with an Accept Recommendation. Standard ratios 29/41%
<p>Monthly Debts:</p>	<ul style="list-style-type: none"> ▪ <u>Installment Debt:</u> Must include installment debts with more than 10 monthly payments remaining ▪ <u>Revolving Debt:</u> with an outstanding balance must always be included in debt ratio ▪ <u>Student Loans:</u> Must include Student Loans regardless of whether they are deferred. We will include the greater of 1% of the outstanding balance or the verified fixed payment as reflected on credit report. Exceptions to above may apply to above. Please refer to the RD guidebook for additional information on exceptions. ▪ <u>Debt not on Credit Report:</u> If credit report does not show payment history, third party verification is required. Example: alimony, child support or separate maintenance fee, obtain pages from applicable agreement to evidence the required monthly payment and duration of

TOWNE MORTGAGE COMPANY

Rural Housing Program Eligibility and Underwriting Criteria

	<p>debt and must verify most recent 12 month payment history</p> <ul style="list-style-type: none"> ▪ Previous Mortgage: If a previous mortgage liability has been disposed of through a sale, trade or transfer WITHOUT RELEASE OF LIABILTIY, it will be included in total debt ratio unless evidence can be obtained that another party has made the payments for a minimum of 12 months PRIOR TO APPLICATION DATE. These are typically found in divorce situations where one person is awarded the home via court order. <p>** Do NOT have to include Union Dues, 401k loans or child care expense when calculating debt ratios</p>
<p>Appraisal/Inspections</p>	<ul style="list-style-type: none"> ▪ One full appraisal completed by a FHA roster appraiser is required (1004/1073). Both the sales comparison and cost approach must be developed to determine value. ▪ Appraisal are good for 120 days ▪ Economic Remaining life as indicated on appraisal must meet or exceed the term of the loan ▪ Private Roads and Shared Drives: Must have permanently recorded easements that are binding to successors and title ▪ Must meet HUD minimum setback distances for well and septic ▪ Inspections: <ol style="list-style-type: none"> 1) Septic: <u>Only</u> if the appraiser requests additional inspection 2) Well Water: Always test water county/state health Department or lab. Must test Lead, Nitrates and Coliform 3) Termite: <u>Only</u> if appraiser requests inspection
<p>General Income/Employment</p>	<ul style="list-style-type: none"> ▪ Must document a full 2 year employment/Income History ▪ If Self Employed, require Current P & L and Balance Sheet along with 2 years of tax returns (personal and business all schedules) ▪ Tax Transcripts required for all borrowers as well as for ALL adults in the household to determine total household income
<p>Borrower Income Limits:</p>	<ul style="list-style-type: none"> ▪ The applicant(s) annual adjusted HOUSEHOLD income meets the adjusted income limits in accordance with size of household, county and State in which the applicant(s) will reside. ▪ To determine income eligibility limits: http://eligibility.sc.gov.uscla.gov ▪ We will require 2 years of Tax Transcripts on ALL ADULTS in the household regardless of whether on loan or not in order to determine if total household income meets requirements of RD

TOWNE MORTGAGE COMPANY

Rural Housing Program Eligibility and Underwriting Criteria

Payment Shock:	<ul style="list-style-type: none"> In case where payment shock is 100% or higher, no additional risk layering should be allowed without strong compensating factors
Assets	<ul style="list-style-type: none"> If assets are needed for either cash to close or reserves, an AVERAGE of the most recent 2 months liquid accounts will be used to determine available amount- NOT THE MOST CURRENT BALANCE 401k: Can use 60% of the vested balance. Any funds borrowed against cannot be used for reserves
Reserves:	<ul style="list-style-type: none"> Gifts CANNOT be used for cash reserves
Gifts:	<ul style="list-style-type: none"> Allowed from non-household members only A verifiable gift letter stating that no repayment is required Must document that the transfer of funds from donor to borrower(s) Gifts should not contribute to cash reserves or be used as compensating factor. Can only be used for cash needed to close or to pay of installment debt if needed.
Maximum LTV:	<ul style="list-style-type: none"> Purchase: 100% LTV of the Appraised value up to 102.00 LTV is allowed when the guarantee fee is financed. (all recurring and non-recurring closing costs may be included) Refi: 100% LTV of the Appraised Value up to 102.00% LTV is allowed when the guarantee fee is financed. (may include all recurring and non-recurring closing costs)
CLTV Limits:	<ul style="list-style-type: none"> N/A
Secondary Financing:	<ul style="list-style-type: none"> Secondary financing may be used if it is approved by RHS and is offered by city or county agencies.
Homebuyer Education:	<ul style="list-style-type: none"> First time homebuyers must participate in an approved homebuyer's education program if required by the FITS office issuing the conditional commitment.
Minimum Loan Amount:	<ul style="list-style-type: none"> None
Maximum Loan Amount:	<ul style="list-style-type: none"> Guaranteed: \$417,000 (conforming loan limit)

TOWNE MORTGAGE COMPANY

Rural Housing Program Eligibility and Underwriting Criteria

<p>Guarantee Fee (for loan approved on or after October 1, 2015):</p>	<table border="1"> <thead> <tr> <th data-bbox="586 331 789 401">Transaction Type</th> <th data-bbox="789 331 1040 401">Guarantee Fee Not Financed</th> <th data-bbox="1040 331 1482 401">Guarantee Fee Financed</th> </tr> </thead> <tbody> <tr> <td data-bbox="586 401 789 814">Purchase and Rate/Term Refinance Transactions</td> <td data-bbox="789 401 1040 814"> Multiply the loan amount by 2.75% and round to the nearest cent. Example: $\\$100,000 \times .0275 = \\$2,750.$ </td> <td data-bbox="1040 401 1482 814"> The fee is calculated as follows: 1. Divide the base loan amount by .9725 and round to the nearest cent 2. Multiply that number by .0275 (2.75%) and round to the nearest cent. Example: $\\$100,000 \div .9725 = \\102827.76 $\\$102,827.76 \times .0275 = \\2827.76 </td> </tr> </tbody> </table>	Transaction Type	Guarantee Fee Not Financed	Guarantee Fee Financed	Purchase and Rate/Term Refinance Transactions	Multiply the loan amount by 2.75% and round to the nearest cent. Example: $\$100,000 \times .0275 = \$2,750.$	The fee is calculated as follows: 1. Divide the base loan amount by .9725 and round to the nearest cent 2. Multiply that number by .0275 (2.75%) and round to the nearest cent. Example: $\$100,000 \div .9725 = \102827.76 $\$102,827.76 \times .0275 = \2827.76
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<p>Other Restrictions:</p>	<ul style="list-style-type: none"> ▪ Energy efficient mortgages not allowed ▪ Refinances can only be used when refinancing current rural housing development loans. ▪ Prepayment penalty not allowed ▪ Assumability not allowed ▪ Construction modification not allowed 						
<p>Other Restrictions: (continued)</p>	<ul style="list-style-type: none"> ▪ <u>Escrow holdbacks are allowed with restrictions:</u> ***WEATHER RELATED ONLY*** <ol style="list-style-type: none"> 1. A signed contract and bid schedule is in effect for the proposed exterior development work 2. The contract for development work must provide for completion within 120 days 3. The escrow account must be funded in an amount sufficient to assure the completion of the remaining work. This figure should be 150% of the cost of completion but may be higher if the lender determines a higher amount is needed. 						
<p>MI Requirements</p>	<ul style="list-style-type: none"> ▪ Monthly MI factor of .50 for loans with RD commitments issued on or after October 1, 2014. ▪ Calculated on Final Loan Amount ▪ Declining Balance Method ▪ Life of Loan 						
<p>Interested Party Contributions:</p>	<ul style="list-style-type: none"> ▪ 6% allowed toward recurring and non-recurring closing costs 						

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<p>Refinance Requirements:</p>	<ul style="list-style-type: none"> ▪ The interest rate on the new mortgage must be at least 100 basis points less than the current rate on the existing loan ▪ The security must include the same property as the original loan. The security property must be owner-occupied as the borrowers primary residence ▪ Any existing secondary financing must be subordinate to the first lien ▪ Cash out is not allowed ▪ Maximum loan amount cannot exceed the balance of the loan being refinanced, plus the guarantee fee and reasonable and customary closing costs (including funds necessary to establish a new tax and insurance escrow account). Subordinate financing, such as home equity lines of credit and down payment assistance "silent" seconds, cannot be included in the new loan amount. Unpaid fees, such as late fees due the servicer, cannot be included in new loan amount. ▪ Must have 12 months seasoning on current loan being paid off to refinance ▪ No mortgage late payments in the last 12 months
<p>Additional Required Forms:</p>	<ul style="list-style-type: none"> ▪ Debt Ratio Waiver Request/Payment Shock (to allow ratios over 29/41) - Underwriter ▪ Adverse Credit History Waiver Request - Underwriter ▪ A signed and dated IRS form 4506-T completed at application and closing and is required for all borrowers. (Both 4506-T form must be provided in the loan file delivered for purchase and must include authorization for transcripts for the most recent two years) ▪ Income Eligibility Calculation Worksheet (correspondent lending form) - Originator ▪ Request for Single Family Housing Loan Guarantee (Form 3555-21) - Originator ▪ Conditional Commitment for Single Family Housing Loan Guarantee (Form 3555-18) with completed Lender Certification - Post Closing ▪ Guaranteed Loan Closing Report (Form 3555-19) - Post Closing ▪ Original Loan Note Guarantee (Form 3555-17) - Post Closing ▪ Lender Record Change (Form 3555-11) - Post Closing ▪ Certification of Completion, if applicable ▪ Stacking Sheet - Post Closing
<p>Additional Closing Requirements:</p>	<ul style="list-style-type: none"> ▪ Guarantee fee to be taken directly from RD approval. (Any stip for approval must be met) ▪ <u>NO MONEY back</u> at closing EXCEPT EMD and borrower paid fees such as appraisal and credit that can be documented as paid with borrower funds ▪ Fees paid with credit card or borrowed funds and/or tax proration credits CANNOT result in cash back to applicant(s) ▪ 4% late charge ▪ Non Assumable

TOWNE MORTGAGE COMPANY

Rural Housing Program Eligibility and Underwriting Criteria

Servicing Lender Information:	The following is required on the Lender Record Change Form: Lender Tax ID#: 38-2434249 Address: 2170 E. Big Beaver Road, Suite A Troy, MI 48083
Rural Housing Program Contact:	The Rural Development office locator website is: http://office.sc.egov.usda.gov/locator/app?state+us/agency=rd