

# Towne Family of Companies

## Underwriting Standards and Agency Overlays

### Underwriting Standards/Philosophy:

Towne Mortgage reviews all loans on a case-by-case basis with careful consideration where layers of risk are present. **All loans are subject to underwriter discretion regardless of AUS Approve/Eligible or Accept response.** In today's ever changing market, it is imperative that we continue to make solid, prudent underwriting decisions.

### ITEMS CONSIDERED CONTRIBUTING TO RISK LAYERING:

- |  |   |
|--|---|
| 1. Credit derogs within the past 12 months                         | 11. Credit Inquiries for most recent 6 months |
| 2. Income stability  | 12. Mortgage term/amortization                |
| 3. Recent job change/time on job/job stability                     | 13. Loan Purpose                              |
| 4. Gifts versus borrower's own funds in transaction                | 14. Occupancy type                            |
| 5. High DTI  | 15. Presence of non-occupant co-borrowers     |
| 6. Lack of Reserves  | 16. 203K                                      |
| 7. Housing payment history/payment shock                           | 17. High LTV                                  |
| 8. Property type   | 18. Cash out refinance                        |
| 9. Thin credit-less than 3 open and active traditional trade lines | 19. Retaining current home as "investment"    |
| 10. Prior BK or foreclosure  | 20. DPA's                                     |
|  | 21. Manufactured Homes                        |
|  | 22. 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 MortgageBot online.

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

#### RD:

[www.rerdev.usda.gov](http://www.rerdev.usda.gov)

	Conventional	FHA	VA	RD
<b>Credit</b>				
<b>Credit score</b>	None	FHA streamline (not currently serviced by Towne): 620	VA IRRRL (not currently serviced by Towne): 640  VA Cash out refinance:  >90 up to 100% - 660 90% LTV and below – 640	None
<b>Thin Credit</b>	None	Thin credit defined as less than 3 traditional trade lines open and active for at least 12 months. Thin credit must be supplemented with (in order):  1) Rent – 12 months cancelled checks or print out signed and dated by management company 2) Utilities – gas/electric – 12 month payment history 3) Renters/auto insurance (as long as paid no less than quarterly) 4) Cell/land line phone  <b>*above generally not required if credit report supports established history of responsible credit usage.</b>	Thin credit defined as less than 3 traditional trade lines open and active for at least 12 months. Thin credit must be supplemented with (in order):  1) Rent – 12 months cancelled checks or print out signed and dated by management company 2) Utilities – gas/electric – 12 month payment history 3) Renters/auto insurance (as long as paid no less than quarterly) 4) Cell/land line phone  <b>*above generally not required if credit report supports established history of responsible credit usage.</b>	None
<b>Mortgage History for Cash-Out Refinances</b>	No lates in last 12 months	None	No lates in last 12 months Current loan must be seasoned for at least 12 months for true cash out (see program guidelines).	None

RATIOS				
<b>Debt Ratio Maximum</b>	Per AUS	<p><b>50-55% DTI (Approved eligible only)</b> Will be reviewed on exception basis only. Loan should not have multiple layers of risk and must receive an Approve/Eligible recommendation ONLY. Must meet VA Residual Income Requirements.</p> <p><b>Over 55% – generally not allowed. Exceptions may be made with the following comp factors in place:</b></p> <ul style="list-style-type: none"> <li>• Borrowers with current housing only and no more than 5% increase in housing cost or;</li> <li>• Additional discretionary income which brings DTI down to under 50%</li> </ul> <p><b>FHA REFER</b></p> <p><b>**Reference FHA Manual Underwrite Guide**</b></p>	<p><b>50-55% Debt Ratio: (Approved Eligible only)</b> Will be reviewed on exception basis only. Loan should not have multiple layers of risk and must receive an a Approve/Eligible recommendation.</p> <p><b>Actual Residual must be equal to or greater than 120% of required residual.</b></p> <p><b>Over 55% – generally not allowed. Exceptions may be made with the following comp factors in place:</b></p> <ul style="list-style-type: none"> <li>- Borrowers with current housing only and no more than 5% increase in housing cost or;</li> <li>- Additional discretionary income which brings DTI down to under 50%</li> </ul>	Per AUS
INCOME				
<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 and CONV conforming loans</b> Either one or two years of the most recent 1040 IRS tax return transcript for the following income is being used to qualify (depending 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>USDA (RD) loans</b> Full transcripts are still required for all borrowers due to program eligibility requirements. <b>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 year’s full 1040 IRS tax return transcript for all borrowers.</p>			

ASSETS			
<b>Use of business funds for closing</b>	<p>All loan types:</p> <ul style="list-style-type: none"> <li>• Four-month bank statements for business account(s) are required</li> <li>• Borrower must be listed as owner on the business account</li> <li>• Current balance sheet is required</li> <li>• Business assets WILL NOT be used for reserves</li> </ul> <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 over time.</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>		
<b>Leaseholds</b>	Not Allowed		
<b>Life Estate Interest</b>	Not Allowed		
<b>Transferring AIR compliant appraisals from another lender</b>	Appraisal must come from the LENDER or management company directly and we need evidence it was ordered under AIR Policy for conventional. Appraisals received from another lender (both conventional and FHA) are subject to underwriter review and acceptance. Conventional loans must be transferred into our name.		
<b>Other</b>			
<b>VA IRRRL</b>	No late payments within the past 12 months		Not currently serviced by Towne: 1003 application must be fully completed with all Employment/income, assets, etc.) Verbal VOEs will be done
<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>		

Other (Continued)				
FHA Streamline			Not currently serviced by Towne: 1003 application must be fully completed with all employment/income, assets, etc.) Verbal VOEs will be done	
Escrow Waiver Policy	<p><b>All escrow waivers are to be approved through underwriting.</b> The ability to waive escrows is a privilege, NOT a right. The loan file must evidence:</p> <p>* Please note that escrow waivers will not be based on LTV alone*</p> <ul style="list-style-type: none"> <li>The borrowers have properly paid taxes and insurance in the past and/or have the financial ability to handle the lump-sum payments of taxes and insurance when due.</li> </ul> <p><b>Other Restrictions as Follows:</b></p> <ul style="list-style-type: none"> <li>Maximum LTV: Cannot exceed 80%- *** <b>Escrow Waivers will not be based on LTV alone***</b></li> </ul>	Not allowed	Same as Conventional	Not allowed

**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 BORROWERS are used. NOCB 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

Minus: 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