



The power of yes.

JUMBO UNDERWRITING GUIDELINES

NOVEMBER 22, 2024

CONTENTS

1. GENERAL REQUIREMENTS	5
1.1. AGE OF DOCUMENTS	5
1.2. AUTOMATED UNDERWRITING SYSTEMS (AUS)	5
2. TRANSACTION TYPE	6
2.2.1 RATE/TERM REFINANCE	6
2.2.2 CASH-OUT REFINANCE	6
2.3 PROPERTIES LISTED FOR SALE	7
2.4 DELAYED FINANCING	7
2.5 SECONDARY FINANCING	7
3. BORROWER ELIGIBILITY	8
3.1 ELIGIBLE BORROWERS	8
3.2 TRUSTS.....	8
3.3 FIRST TIME HOME BUYERS.....	9
3.4 INELIGIBLE BORROWERS.....	9
3.5 POWER OF ATTORNEY.....	10
3.6 LIFE ESTATES	10
4. CREDIT ELIGIBILITY.....	11
4.1 CREDIT REQUIREMENTS.....	11
4.2 MAXIMUM NUMBER OF FINANCED PROPERTIES	11
4.3 EXCEPTIONS.....	11
4.4 DEROGATORY EVENT SEASONING.....	11
5. EMPLOYMENT AND INCOME	12
5.1 4506-C REQUIREMENTS	12
5.2 VICTIMS OF TAXPAYER IDENTIFICATION THEFT.....	14
6. ASSETS.....	15
6.1 ASSET REQUIREMENTS.....	15
6.2 RESERVES	15
7. COLLATERAL.....	16
7.1 ELIGIBLE PROPERTY TYPES	16
7.2 INELIGIBLE PROPERTY TYPES.....	16

7.3	CONDOMINIUMS	17
7.4	PUD PROJECT	17
7.5	NEW CONSTRUCTION	17
7.6	MANUFACTURED HOUSING	17
7.7	APPRAISAL REVIEW/ SECOND APPRAISAL	17
7.8	STATE SPECIFICS	20
7.9	DISASTER POLICY	20
8.	COMPLIANCE	21
8.1	ADVERSE ACTION LETTERS	21
8.2	CONFLICTS OF INTERESTS	21
8.3	ELECTRONICALLY SIGNED APPLICATION DISCLOSURES	21
8.4	FAIR LENDING POLICY	21
8.5	LOAN DISCLOSURES	21
8.6	LOAN SUBMISSIONS.....	21
8.7	TITLE INSURANCE ERRORS AND OMISSIONS COVERAGE	21
8.8	VERBAL CREDIT AUTHORIZATION.....	22
9.	REPAIR ESCROW HOLDBACK	23
10.	INSURANCE AND TAXES.....	23
10.1	TITLE INSURANCE	23
10.2	HAZARD INSURANCE	24
10.3	RENT LOSS COVERAGE	25
10.4	EFFECTIVE DATE REQUIREMENTS FOR PURCHASE TRANSACTIONS	25
10.5	ACCEPTABLE FLOOD INSURANCE POLICIES	25
10.6	FLOOD COVERAGE	26
10.7	ADDITIONAL INSURANCE COVERAGE REQUIREMENTS.....	26
10.8	NAMED INSURED	26
10.9	TAXES.....	27
11.	QUALIFIED MORTGAGE/ABILITY TO REPAY	27
11.1	VERIFICATION SAFE HARBOR / REBUTTABLE PRESUMPTION ...	27
11.2	HPML	27

A&D Mortgage (A&D) is committed to the policy of originating sound mortgage loans of investment quality. Investment quality is determined by evaluating the three components of the underwriting analysis.

Credit: An acceptable credit reputation is established by a history that, when viewed as a whole, evidences a borrower's willingness to make timely payments on obligations.

Capacity: The borrower must have the ability to repay the mortgage in the amount and terms stated. Adequate capacity is established by documenting stable monthly income and/or assets along with other information about how the borrower paid obligations in the past that, when viewed as a whole, evidences a borrower's ability to make periodic payments approximating the amount of the proposed monthly debt payment. Regardless of the level of the borrower's previous monthly payments, the file must contain evidence of the borrower's ability to meet all new obligations after the new mortgage is made. When the borrower's obligations will increase significantly with the mortgage, the Transmittal Summary (1008) must contain an explanation as to how the borrower will meet the higher payment.

Collateral: The collateral must meet minimum property requirements as specified herein. Each property must also have an established value to support the loan transaction. This value will help in determining the risk associated with the loan transaction.

Each of the above components must be found to be acceptable. Investment quality is determined by the borrower's credit, capacity, and collateral. A weakness in any one of the three components must be compensated by strengths in one or both of the remaining two components.

1. GENERAL REQUIREMENTS

1.1. AGE OF DOCUMENTS

Follow DU or LP Findings Report and Fannie Mae/Freddie Mac Seller Guide.

1.2. AUTOMATED UNDERWRITING SYSTEMS (AUS)

All loans are required to be scored through Desktop Underwriter (DU). The term “AUS” will be used throughout this section and refers to “automated underwriting systems.” When this term is used, it references issues concerning DU, unless otherwise indicated. Adherence to the AUS findings is acceptable in all cases except the following:

- Program Guideline overlays require additional documentation which must be applied.
- Specific details of the transaction are not addressed in the AUS findings (i.e., trailing spouse income).

A&D requires that all loan transactions eligible for automated underwriting be submitted through Fannie Mae’s Desktop Underwriter (DU). Loans must be fully underwritten to Fannie Mae (chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020).

- DU findings of Approve/Ineligible are acceptable if due to loan amount or cash-out refinance over 80% LTV only.
- Maximum Debt-to-Income ratio is determined by DU, but not to exceed 45%.

2. TRANSACTION TYPE

2.1 PURCHASE

A purchase transaction is one which allows a buyer to acquire a property from a seller.

- Multiple contracts are not allowed to be combined when determining purchase price.
- Assignment of purchase contracts are ineligible unless the transferor is a family member and there is no change to purchase price or credits.

2.2 REFINANCE TYPES

- Rate/term refinance
- Cash-out refinance

2.2.1 RATE/TERM REFINANCE

A Rate/Term refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan.

- Payoff of non-purchase money seconds, including HELOC's allowed with 12-month seasoning. For HELOC's, document no cumulative draws >\$2,000 in the last 12 months from application date.
- If the most recent first mortgage transaction on the property was a cash-out refinance within the last 6 months, the new mortgage is not eligible as a Rate/Term and must proceed as a cash-out refinance. Note date to note date is used to calculate the 6 months.

For Rate/Term transactions, the borrower may only receive cash back in an amount that is the lesser of 2% of the new mortgage balance or \$2,000.

2.2.2 CASH-OUT REFINANCE

A cash-out refinance is a refinance that does not meet the Rate/Term refinance definition. Cash-out would include a refinance where the borrower receives cash from the transaction or when an open-ended subordinate lien (that does not meet the Rate/Term seasoning requirements) is refinanced into the new transaction.

A mortgage taken out on a property previously owned free and clear is always considered a cash-out refinance. Borrower(s) must have owned the property for at least six months.

The mortgage amount for a cash-out refinance transaction may include any of the following:

- the payoff of the existing first mortgage
- closing costs, points, prepaid items (where permitted by applicable law) on the new mortgage
- the amount to satisfy any outstanding subordinate mortgage liens of any age (including home improvement loans, home equity lines of credit (HELOCs))

- second mortgages obtained for the purpose of taking equity out of the property, and additional cash the borrower may use for any purpose.

2.3 PROPERTIES LISTED FOR SALE

Rate/Term Refinance:

- The subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan, and the borrowers must confirm their intent to occupy the subject property (for principal residence transactions).

Cash-out Refinance:

- Properties listed for sale must be off market at least 6 months prior to application date.

2.4 DELAYED FINANCING

Delayed purchase financing is eligible when a property was purchased by a borrower for cash within 180 days of the loan application. Delayed financing refinance transactions are underwritten as rate and term refinances and are subject to rate and term refinancing program limitations, however, such transactions will be considered and priced as a cash-out.

- Incidental cash back limits apply for cash in excess of the original purchase price or appraised value (whichever is less).
- Property may not be located in the state of Texas.
- The original purchase transaction must be documented by a Closing Disclosure confirming that no mortgage financing was used to obtain the subject property.
- Six months is measured from closing date of purchase transaction to the Note date of subject transaction.

2.5 SECONDARY FINANCING

Institutional financing only. Allowed up to maximum CLTV per matrix. Must conform to Fannie Mae requirements.

3. BORROWER ELIGIBILITY

3.1 ELIGIBLE BORROWERS

- US Citizens
- Permanent Resident with a valid Social Security number
- Inter vivos (Revocable) Trusts

3.2 TRUSTS

The Trust must be a living revocable trust also known as a "family trust" or an "inter vivos trust." The A&D Mortgage will accept vesting in an inter vivos revocable trust for a first lien mortgage that is secured by a one-family primary residence, a second home or investment property so long as the following eligibility criteria is satisfied:

- The title insurance policy (or ownership report, where applicable) must ensure full title protection to the Seller and must state that title to the mortgage property is vested in the trustee(s) of the inter vivos revocable trust. Moreover, the title insurance policy must not list any exceptions with respect to the trustee(s) holding title to the mortgaged property or to the trust.
- A copy of the fully executed trust agreement with all amendments must be provided to verify the terms of the trusts.
- The inter vivos revocable trust must be established by a natural person. It may be established solely by one individual or jointly by more than one individual.
- The settlor must also be the trustee or one of the co-trustees.
- Fannie Mae allows for title to the security property to be vested solely in the trustee(s) of the inter vivos revocable trust, jointly in the trustee(s) of the inter vivos revocable trust and in the name(s) of the individual borrower(s), or in the trustee(s) of more than one inter vivos revocable trust.
- The trust document must give the trustee or trustees the authority to mortgage trust assets and to incur debt on behalf of the trust and to hold legal title to and manage trust assets.
- Title held in the trust must not diminish the mortgagee's rights as a creditor, including the right to have full title to the security property vested in the mortgagee should foreclosure proceedings have to be initiated to cure a default under the terms of the related mortgage.
- No inter vivos revocable trusts that permit powers of attorney will be permitted.
- Multi-unit properties are ineligible.
- The mortgage must be underwritten as if the individual establishing the trust (or at least one of the individuals, if there are two or more) were the borrower (or co-borrower).

An inter vivos revocable trust will be considered eligible vesting if it meets the following requirements:

- The trust must be established by a written document during the lifetime of the individual establishing the trust, to be effective during his or her lifetime.
- The trust must be one in which the individual establishing the trust has reserved to himself or herself the right to revoke the trust during his or her lifetime.

- The primary beneficiary of the trust must be the individual establishing the trust. If the trust is established jointly by more than one individual, there may be more than one primary beneficiary; provided, that the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage. For owner-occupied properties, at least one individual establishing the trust must occupy the security property and sign all applicable mortgage loan documents.
- The trust document must name one or more trustees to hold legal title to, and manage, the property that has been placed in the trust. The trustees must include either the individual establishing the trust (or at least one of the individuals, if there are two or more) or an institutional trustee that customarily performs trust functions in (and is authorized to act as trustee under the laws of) the relevant state.
- The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the “borrower(s)” under the mortgage or deed of trust note.
- The mortgage and trust documents must meet Fannie Mae eligibility criteria including title and title insurance requirements, as well as applicable state laws that regulate the making of loans to inter vivos revocable trusts.

An attorney's opinion letter stating all above warranties are met will be required on all loans closing in trust. The following states that allow a certificate of trust in lieu of an attorney's opinion letter are: AL, AZ, AR, CA, DE, DC, ID, IA, KS, ME, MI, MN, NE, NV, NH, NM, NC, OH, OR, PA, SC, SD, TN, TX, VT, VA, WA, WY.

The review and approval of the loan to close in a trust will be completed by the Underwriting Manager or higher within A&D.

3.3 FIRST TIME HOME BUYERS

A first-time homebuyer is a borrower who has not owned a home in the last three (3) years. For loans with more than one (1) borrower, where at least one (1) borrower has owned a home in the last three years, first-time homebuyer requirements do not apply.

3.4 INELIGIBLE BORROWERS

The following borrower types are ineligible:

- A non-U.S. citizen who has no lawful residency status in the U.S. such as foreign nationals.
- Individuals without a social security number
- Individuals with diplomatic immunity or other exclusions from U.S. jurisdiction.
- Loans to borrowers if title is taken in the name of a corporation, partnership, LLC or a non-revocable trust or life estate.
- Title held as a land trust, a bank trust, a real estate trust, Qualified Personal Residence trust or a blind trust

- Foreign nationals and borrowers which are party to a lawsuit are ineligible for purchase.
- Non-Permanent Resident Alien (Including DACA)

3.5 POWER OF ATTORNEY

A&D allows a Power of Attorney (POA) for closing documents as long as the following conditions are satisfied:

- The person acting as attorney-in-fact should have a familial or fiduciary relationship with the borrower.
- The application and Purchase Agreement (if applicable) must be signed by all parties of the loan. A POA is not allowed to sign the application or the purchase agreement.
- The transaction must be a purchase or rate/term refinance only. Not allowed for Cash-out refinances.
- Property must be an owner-occupied principal residence or second home. No exceptions for investment properties.
- All signatures on the POA must be notarized, the name on the power of attorney must match the name of the person on all applicable loan documents, and the power of attorney must be dated such that it was valid at the time the loan documents were executed. The POA must be reviewed by a A&D Underwriting Manager or above. Signatures on the POA must match signatures in the file to A&D's satisfaction.
- The POA must be specific to A&D's loan indicating property address (a durable power of attorney is not acceptable) unless it is a Military Durable POA, which does not have to indicate the specific property. In addition, the borrowers must provide a written explanation as to why a POA is being used.
- There must be more than one borrower on the loan and at least one borrower present at the closing.
- POA is not allowed for single borrower transactions. Only exception is for **Active Duty** Military personnel.
- POA is not allowed if the loan is closing in an inter vivos trust.
- The title policy must not make any exceptions based upon the use of the Power of Attorney.

A POA may not be allowed if the initial disclosures are electronically signed –The POA and all documents must be reviewed by Underwriting Manager or above on a case-by-case basis prior to a decision in all other instances, power of attorney for closing documents with a loan is prohibited unless there is an expressed written waiver executed by the Executive Committee.

3.6 LIFE ESTATES

Properties with Life Estate rights are not eligible. Any properties titled with these provisions must have the rights removed prior to application to be considered.

4. CREDIT ELIGIBILITY

4.1 CREDIT REQUIREMENTS

Follow DU/AUS requirements for mortgage history.

All borrowers must have at least two valid credit score to be eligible. The credit report must access all three major credit bureaus to ensure valid repository scores are generated. Qualifying FICO – the representative score for each borrower is the median of the three scores (or lessor of two, if only two scores are returned); the representative score for the loan is that of the borrower with the lowest representative score.

Mortgage late payments or significant derogatory credit will require a satisfactory signed letter of explanation.

A credit inquiry letter is not required for recent inquiries; however, the underwriter will condition if undisclosed debt monitoring shows new debt obtained. Any new debt will need to be added to the debt obligations for qualifying purposes.

Standalone VOM (Verification of Mortgage) is not acceptable unless it is from a financial institution.

4.2 MAXIMUM NUMBER OF FINANCED PROPERTIES

Maximum allowed per FNMA guidelines.

4.3 EXCEPTIONS

A&D Mortgage will not grant any exceptions on Prime Jumbo

4.4 DEROGATORY EVENT SEASONING

- 7-year seasoning required on all derogatory events required (bankruptcy, foreclosure, short sale, deed-in-lieu, etc.).
- Use of extenuating circumstances to reduce waiting period for foreclosure, bankruptcy, short sale/deed in lieu of foreclosure is not allowed.
- Borrowers who are party to a lawsuit are ineligible.
- Deferment and/or Forbearance to have 6 months on-time payments made after last date of deferment and/or forbearance has ended.

5. EMPLOYMENT AND INCOME

A&D will follow agency guidelines for employment and income (DU or LP).

5.1 4506-C REQUIREMENTS

IRS Form 4506-C must be completed and signed by all borrowers both at application and closing. The form must request the appropriate documentation type (W-2s, full tax transcripts, etc.).

Form 4506-C form must be processed, and transcripts obtained prior to closing in the following circumstances:

- Wage Earners
 - Handwritten paystubs are used as verification of income.
 - There is a relationship between the parties (W-2 transcripts acceptable unless other sources of income are utilized).
 - Borrower obtained tax transcripts are not allowed.
 - The following W2 type earnings will require tax transcripts:
 - Borrowers employed by a family member
 - Borrower with ownership in company
- Self-Employed
 - **Borrower pulled** Individual tax transcripts are required. Business tax transcripts must be obtained if income from the business does not flow through to the borrower's personal tax returns or business income appearing on personal transcripts is not consistent with the income on the business tax returns.

The request of tax transcripts will follow AUS findings for the level of income documentation required. A 4506-C for will be required to be signed at time of disclosure, however, transcripts will only be requested at underwriter's discretion.

Extension: If the borrower has filed an extension, please provide the following:

- Evidence of the extension
- Evidence of cancelled check or auto-draft of the amount owed
- 1040 transcript with "No Results Found"
- Record of Account reflecting extension accepted

What year to use: What year to use: If W2s or tax returns are being used to determine income, the A&D Underwriter would qualify the borrower with income shown on the validated transcript corresponding to the number of years used for qualifying purposes.

When the most recent year's tax returns have been filed, and where the IRS has not processed the returns in order to obtain tax transcripts, the following documentation alternative is allowed and required:

- Tax transcripts for previous 1 or 2 years (per DU Findings Report)
- For the most recent year's tax return, provide:

- Proof of e-filing with the IRS; this is generally an e-file receipt or a screen shot from the borrower's online IRS account that confirms receipt of the tax returns, and
- Proof of payment in full of tax liability or receipt of refund, as applicable, and
- A processed 4506-C response that confirms "no record of return found" with the IRS.

IRS Website: When returns are filed and the borrower is receiving a refund, you or the borrowers can visit <http://www.irs.gov/> and go to "Where's My Refund" link to confirm the refund status. If the borrower owes money to the IRS, the Underwriter can condition for proof the tax liability has been paid to support returns were filed.

Code 10 rejection: If the transcript request is returned with a code 10 or the borrower is a victim of taxpayer identification theft, the following requirements must be met to validate income;

- Copy of the IRS rejection with a code of "Unable to Process" or "Limitation".
- Proof of identification theft, as evidenced by one (1) of the following:
- Proof ID theft was reported to and received by the IRS (IRS form 14039).
- Copy of notification from the IRS alerting the taxpayer to possible identification theft.
- In addition to one (1) of the documents above, all applicable documents below must be provided:
- Tax Transcript showing fraudulent information.
- Record of Account from the IRS - Adjusted Gross Income and Taxable Income should match the borrower's 1040s.
- Validation of prior tax year's income (income for current year must be in line with prior years).

Amended Returns: It is never acceptable to allow amended tax returns if A&D receives results back from the IRS and income is not supported (i.e. amending returns to show sufficient income for the loan would be considered misrepresentation.) There are legitimate times when a borrower files amended returns and in those cases, with supporting 4506T results we can proceed. The amended returns should have been filed well in advance of the loan so we are able to obtain matching 4506T results to support the filing.

The following for documentation is required if deemed a legitimate reason:

- Amended Return
- Record of Account for that particular year
- Evidence of additional payment via cancelled check or auto draft
- Evidence of any additional penalties paid if reflected on ROA
- Amended Return must reflect why the amended returns were filed.

Unable to Process Code 10 rejection notice: The IRS has advised that we will be seeing this increase due to a new program or policies they have in place. The "unknown" reject is used by the IRS when there is the possibility that there was identity theft, or a fraudulent tax return filed under the consumer's SSN. The IRS is very vague about the rejection because they believe the information should not be shared with a third party.

- A&D will allow the IRS to fax directly to the borrower
- A&D will not require the IRS to fax directly to A&D.
- The borrower can send directly to A&D
- If anything seems odd or is a potential red flag, notify your immediate supervisor as soon as the potential issue is discovered.

Please Note: If a particular loan program or agency has an overlay on this topic, those overlay rules must be followed. Always read your AUS findings and follow them. Some loan types have specific validation requirements or options that may offer alternative documentation, however, if tax return validation is specifically requested those rules must be followed. Generally base employment with commission income less than 25% with no other REO will allow for W2 validation (non-LP).

5.2 VICTIMS OF TAXPAYER IDENTIFICATION THEFT

When a borrower(s) is a victim of taxpayer identification theft, the following conditions must be met in order to validate the borrower(s) income.

- Proof of identification theft as evidenced by one of the following:
 - Proof of identification theft was reported to and received by the IRS (IRS form 14039)
 - Copy of notification from the IRS alerting the taxpayer to possible identification theft
- Additionally, provide each of the following secondary documents (as applicable) to validate the reported income on the tax returns in question:
 - W2 or 1099 transcripts which match the W2 or 1099 income shown on the 1040s
 - 1099 Mortgage Interest should match reported interest on Schedule A or Schedule E
 - 1099G Unemployment should match reported unemployment
 - 1099 Interest/Dividend should match reported dividend and interest
- Proof of identification theft as evidenced by one of the following:
 - Proof of identification theft was reported to and received by the IRS (IRS form 14039)
 - Copy of notification from the IRS alerting the taxpayer to possible identification theft
- Additionally, provide each of the following secondary documents (as applicable) to validate the reported income on the tax returns in question:
 - W2 or 1099 transcripts which match the W2 or 1099 income shown on the 1040s
 - 1099 Mortgage Interest should match reported interest on Schedule A or Schedule E
 - 1099G Unemployment should match reported unemployment
 - 1099 Interest/Dividend should match reported dividend and interest

6. ASSETS

6.1 ASSET REQUIREMENTS

- All loans must have reserves meeting either the AUS requirement (for AUS programs) or the purchase criteria requirement (for manual programs)
- Cryptocurrency is ineligible to be used for income or reserves
- Gifts of equity are ineligible.
- Proceeds from a 1031 exchange in escrow, properly documented and in compliance with Internal Revenue Code Section 1031 are eligible as funds to close. Both the sold property and subject property must be similar and qualify as "like-kind". Tax deferred Exchanges are only eligible for purchases of investment properties. Note: 2-4 unit properties where one of the units is occupied by customer, are not considered investment properties, and therefore are not eligible.

6.2 RESERVES

- Loan Amounts \leq \$1.5mm: 6 months
- Loan Amounts $>$ \$1.5mm \leq \$2.0mm: 9 months
- Loan Amounts $>$ \$2mm: 24 months

7. COLLATERAL

7.1 ELIGIBLE PROPERTY TYPES

- SFR
- PUD
- Warrantable Condo
- 2 units
- Acreage greater than 20 acres, Agricultural zoning and Mixed Use are reviewed according to Fannie Mae on case-by-case basis

7.2 INELIGIBLE PROPERTY TYPES

A&D will not allow a loan for a property with any of the following ineligible property characteristics:

- Assisted living projects
- 3-4 units
- Bed and Breakfast
- Builder Model leaseback
- Cooperatives (Co-ops)
- Houseboats
- Investment securities / Properties with income producing attributes
- Manufactured housing or mobile home (built on a permanent chassis)
- Multi-family dwelling containing more than 4 units
- Properties not suitable for year-round occupancy
- Properties with deed-restrictions or resale restrictions that do not meet agency eligibility
- Property without full utilities installed to meet all local health and safety standards
- Property used for commercial or industrial purposes
- Residential property with an additional permanently affixed manufactured home on property
- Tax-sheltered syndicate
- Timeshare unit
- Undeveloped lots / unimproved land
- Agricultural property (working farm, ranch, hobby farm, orchard, etc.) if income producing regardless of acreage
- Unique properties (including those properties that may have marketability issue because of their uniqueness)
- Properties with a condition rating on the appraisal of C5 or C6
- Condotels
- Agricultural zoned properties
- Units or properties that do not conform to zoning ordinances, unless the loan file contains appropriate evidence that the use of the property is grandfathered or any re-build or other

improvement is permitted

- Commercial properties
- Properties not located within the United States of America and the District of Columbia (“U.S.”) (not including any territory of the U.S. such as Guam, Puerto Rico or the U.S. Virgin Islands)
- Any property located in lava zones one (1) or two (2) on the island of Hawaii
- Non-Warranted condominiums
- Condominiums with HOAs in litigation
- Properties on Indian Reservations
- Properties with acreage greater than twenty (20) (20 – 50 maybe be considered on case-by-case basis) acres
- Properties with less than 750 square feet. Condo with less than 400 square feet.
- Any property with an outstanding HERO or PACE loan secured by such property
- Log homes / Geothermal homes
- Properties held as a leasehold

7.3 CONDOMINIUMS

A&D will underwrite loans on condominiums in accordance with published Agency and Government guidelines.

7.4 PUD PROJECT

- As per Agency Guidelines

7.5 NEW CONSTRUCTION

- As per Agency Guidelines

7.6 MANUFACTURED HOUSING

A&D does not allow manufactured homes.

7.7 APPRAISAL REVIEW/ SECOND APPRAISAL

Review requirements:

- Appraisal updates are not allowed (1004D).
- Full appraisal with interior and exterior inspection:
 - Uniform Residential Appraisal Report (Form 1004)
 - Individual Condominium Unit Appraisal Report (Form 1073)
 - Two-to-Four Unit Residential Appraisal Report (Form 1025)
- Property Inspection Waivers (PIWs) are not permitted.
- Appraisals expire 120 days after the effective date.

Secondary valuation

Each appraisal require:

- CDA supporting appraised value (if CDA Recommends Field Review then defaults to field review); or
- 2-4 Units defaults to a field review

If CDA value is

- Indeterminate; or
- value variance is more than 10% below appraised value up to 75 CLTV; or
- value variance is more than or equal to 5% below appraised value for CLTV 75.01-80%,

field review required.

If field review does not support the value of an appraisal, then we cannot proceed with the loan due to ineligible collateral.

Second Appraisal

Second appraisal is required with loan amount greater than \$2,000,000.

If the opinion of value is different than the original appraisal, the lowest of the original appraisal, field review, or second appraisal, or sales price (for purchases) is used to calculate the LTV ratios.

Transfer of Appraisal To A&D Mortgage

Appraisal transfer is allowed for 1 appraisal according to Fannie Mae guidelines.

A&D will accept transfer of 1 appraisal per loan. For acceptable appraisal transfer transactions, the appraiser may not be on any A&D Mortgage ineligible list including but not limited to: FHLMC Exclusionary List or FNMA Ineligible List. The Appraisal Transfer Letter must be executed by the lender that ordered the appraisal and must be signed by an authorized officer of the company. Appraisal Transfer Letters signed by Loan officer(s), Loan Processor(s), etc. will not be acceptable.

Appraisal Transfer Letter Must Include the Following Language:

- Provide on the lender's letterhead.
- Current date.
- Borrower name.
- Property address.
- A statement transferring all rights of the appraisal to A&D.
- The "Transfer Letter" is to include the following statement:
- (Transferring Lender's Name) certifies that this appraisal was prepared in accordance with and meets all requirements of the Agencies' Appraisal Independence Requirements (AIR) and is in compliance with all Lending regulations.
- The Transfer Letter is to be signed by an employee of the transferring lender that is not in

“Production” (i.e., Loan Officers, LO assistants, etc. are not eligible to sign the transfer letter).

- The transferring lender, appraisal management company (AMC), appraiser selection, ordering policy and process, and the appraiser comply with all FNMA Appraiser Independence Requirements (AIRs), and Dodd Frank, and Consumer Protection Acts.
- The transferring lenders name appears on the appraisal as the transferring lender/client.
- The appraisal transferred is the only appraisal ordered by the lender for this transaction.

Appraisal Transfer Documentation and Requirements:

- Appraisal is to be submitted to A&D Mortgage’s ADM system.
- Copy of SSR Report (FNMA/FHLMC Portal Results) MISMO XML format of full appraisal with color photos.
- Appraisal fee will be disclosed on LE.
- If any modifications, corrections or material changes are required of the appraisal, the original appraiser must cooperate. If the appraiser fails to cooperate with any requests, a new appraisal must be obtained.
- The transferred appraisal effective date may not be more than 60 days old at the time of submission and may not be more than 120 days old at the time of note.
- Appraisal Receipt Acknowledgment from the borrower within 3 days of consummation.
- The following are not accepted:
 - 1004D and “subject to”
- The transferred appraisal must be from the transferring lender.
 - An appraisal transferred from one lender to another lender, then to A&D Mortgage is not acceptable.

Appraisal Reconsideration of Value

To mitigate the risk of inflated appraised value, a reconsideration of value will only be considered on a case-by case basis with strong supporting documentation. The following steps must be taken to request a reconsideration of appraised value:

1. Requestor completes the Appraisal Reconsideration form in its entirety
 - The section regarding the facts must be completed.
 - Additional comparables the appraiser should consider must be provided.
 - The form will be submitted once – A&D will not review multiple requests for the same property.
2. The completed form is submitted to the respective Underwriter.
3. The request will be reviewed by the Underwriter and may be escalated to the Underwriting Manager and a decision will be made if a reconsideration of value will be presented to the AMC/appraiser.
4. If a reconsideration of value is received from the appraiser, the Underwriter or Underwriting

Manager must review the updated appraisal to determine if the new value may be used.

- If not signed by either the Underwriter or Underwriting Manager, the updated value cannot be used.

7.8 STATE SPECIFICS

- Guam, Puerto Rico, US Virgin Islands ineligible.
- Island of Hawaii lava zones 1-2 ineligible.
- Texas cash out loans are ineligible.
- New York CEMA loans are eligible for Purchase and Refinance transactions.

7.9 DISASTER POLICY

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

The Disaster Policy will be in effect for transactions during an ongoing disaster and transactions with a Note date within ninety (90) days of the end date of the disaster incident period. The Disaster Policy is also in effect for loans with a post-closing disaster and prior to the date of delivery.

Prior to closing and funding, A&D will require a property inspection for any loan secured by a property in the affected area. If the subject property is located in one of the impacted counties and the appraisal was completed prior to the incident period end date, A&D will require a post disaster inspection confirming the property was not adversely affected by the disaster. The inspection report must be dated no earlier than the date of disaster conclusion as determined by FEMA and/or the State. A&D may utilize any of the following re-inspection options to satisfy the post disaster inspection requirement, with a photograph of the subject property:

- Property Inspection Report (Fannie Mae Form 2075), or
- Appraisal Update and/or Completion Report (Fannie Mae Form 1004D), or
- Uniform Residential Appraisal Report (Fannie Mae Form 1004)
- Exterior Only Appraisal Report (Freddie Mac Form 2055)
- Individual Condominium or PUD Unit Appraisal Report (Fannie Mae Form 1073)
- Disaster Inspection Certification from a Licensed Certified Inspector

If the appraiser notes defects in the exterior inspection, a Uniform Residential Appraisal Report with an interior and exterior inspection and photographs is required. If damage is revealed by the inspection, it must be repaired 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 prior to closing.

If the property is in a zone where a Disaster End Date has not been declared by FEMA, in addition to the above inspection requirement, a date and time stamped area map from a state or county agency or similar, showing the subject property in relation to the disaster area is required to evidence that the property is outside the current know disaster boundaries.

8. COMPLIANCE

8.1 ADVERSE ACTION LETTERS

It is the responsibility of the Director of Operations to create, and the Loan Officer to send out all adverse action letters directly to the consumer, as soon as any adverse action (i.e., denial of a mortgage applicant's underwriting package) is taken. The Director of Operations will complete the Notice of Action Taken accordingly and store it in the document management system.

8.2 CONFLICTS OF INTERESTS

Transactions in which the realtor and originator is the same individual are ineligible. Transactions where other parties in the transaction share an identity of interest will be reviewed closely by underwriting and may require additional documentation.

8.3 ELECTRONICALLY SIGNED APPLICATION DISCLOSURES

A&D does, in most cases, accept Electronic Signatures on origination documents. At the underwriter's discretion, we may require corrected documentation on any program type at any time. See exceptions in section 3.9 above.

8.4 FAIR LENDING POLICY

It is the policy of A&D that it will not deny a loan or discriminate in fixing the amount, interest rate, duration, application procedures or other terms or conditions of the loan on the basis of age, location of the dwelling or on the basis of the race, color, religion, sex, handicap, familial status, marital status, age or national origin of an applicant, joint applicant or guarantor. The person responsible for ensuring that underwriters adhere to this policy is the Director of Operations.

8.5 LOAN DISCLOSURES

A&D requires new underwriting submissions to include a copy of all initial disclosures including the Loan Estimate. In addition, A&D will require a dated loan application to verify that these disclosures are dated with three business days of the application. The Loan Officer is responsible for the integrity of the initial 1003.

8.6 LOAN SUBMISSIONS

Loans submitted for underwriting must include all of the initial, required documentation in order to be considered complete. Any loan(s) that are submitted with missing documentation will not be submitted to underwriting.

Additional documentation may be required based on loan parameters and/or AUS findings.

8.7 TITLE INSURANCE ERRORS AND OMISSIONS COVERAGE

A&D policy requires title insurance/closing agents to have E&O insurance in the amount of \$1,000,000 minimum for each occurrence. Coverage of \$500,000 will be considered on a case-by-case basis to be reviewed by the Director of Operations. Under no circumstances will A&D consider less than \$500,000.

8.8 VERBAL CREDIT AUTHORIZATION

A Verbal Credit Authorization Form **MUST** be completed by the Loan Officer **FOR EACH BORROWER ON OR BEFORE** the date the credit report is pulled.

All applicants must individually give permission to the Loan Officer prior to pulling a credit report. [i.e., wife cannot give permission for husband & vice versa.) All applicants may be listed on the same verbal authorization form, which should be signed by the LO.

9. REPAIR ESCROW HOLDBACK

Escrow holdbacks are ineligible for purchase.

10. INSURANCE AND TAXES

10.1 TITLE INSURANCE

The title to the subject property must be good, marketable and free of all encumbrances and prior liens. The A&D must refer to Agency guidelines for all requirements related to title insurance, including acceptable insurers, required endorsements, mortgagee clauses and acceptable forms in addition to what is outlined below.

The title policy must evidence that the mortgage supports a first priority lien on a fee simple in the property. It must also list all other liens against the property and state that each such lien is subordinate to the A&D's mortgage lien.

The title policy must be written on one of the following forms:

- 2021 American Land Title Association ("ALTA") Standard Form.
- ALTA Short Form if it provides coverage equivalent to either the 2021 ALTA Loan Policy and does not materially impair protection to the Lender or its successors and/or assigns.
- ALTA form with amendments required by state law in states where standard ALTA forms of coverage are not used or in which the 2021 ALTA forms have not yet been adopted; provided, that the amendments do not materially impair protection to the Lender or its successors and/or assigns.

The title policy must insure the mortgagee and its successors and assigns as to the first priority lien of the loan amount at least equal to the outstanding principal balance of the loan.

A statement by the title insurance company or closing attorney on such binder or commitment that the priority of the lien of the related mortgage during the period between the date of the funding of the related loan and the date of the related title policy (which title policy shall be dated on the date of recording of the related mortgage) is insured.

Amount of Coverage

The amount of title insurance coverage must be greater than or equal to the original principal balance of the loan.

Effective Date of Title Insurance Coverage

For policies written on the 2021 ALTA Standard Form, the effective date may be the closing date of the loan. For policies written on forms other than the 2021 ALTA Standard Form, the effective date may be no later than ninety (90) days from the closing date and must insure the exact loan amount.

Title Insurance for Condominiums and PUDs

The following endorsements are required for condominiums and PUDs. The title policy must describe all components of the unit estate.

- Condominium Units: ALTA 4-06 or 4.1-06 or its equivalent.
- PUDS: ALTA 5-06 or 5.1-06 or its equivalent.

In the event that the unit owners own the common areas of the project as tenants-in-common, the title policy for each unit owner's mortgage must reflect that ownership. If, however, the common areas are owned by the HOA, the title policy must reflect that ownership.

The title policy must show that the title to the common elements, areas, or facilities are free and clear of any objectionable liens and encumbrances, including any statutory or mechanic's liens for labor or material related to improvements on the common areas that began before the title policy was issued.

The title policy must protect the Firm by insuring the following:

- The mortgage is superior to any lien for unpaid common expense assessments (in jurisdictions that give these assessments a limited priority over a first or second mortgage lien, the policy must provide assurance that those assessments have been paid through the effective date of the policy).
- Insure against any impairment or loss of title of the Firm's lien caused by any past, present, or future violations of any covenants, conditions, or restrictions of the master deed for the project (it must specifically insure against any loss that results from a violation that existed as of the date of the policy).
- The unit does not encroach on another unit or on any of the common elements, areas, or facilities (the policy also must insure that there is no encroachment on the unit by another unit or by any of the common elements, areas or facilities).
- The loan is secured by a unit in a condo project that has been created in compliance with the applicable enabling statutes.
- The real estate taxes are assessable and lien-able only against the individual condo unit and its undivided interest in the common elements, rather than against the project as a whole.
- The owner of a PUD unit is a member of the HOA and that the membership is transferable if the unit is sold.

10.2 HAZARD INSURANCE

A&D requires hazard insurance protection on all loan transactions. Each borrower may select his or her own insurance carrier for hazard insurance coverage provided that the insurer, the hazard insurance policy and the coverage amount meet Fannie Mae guidelines.

Hazard insurance coverage must protect against loss or damage from fire and other hazards covered by

the standard extended coverage endorsement. Provisions for the settlement of claims must be made on a replacement cost basis. Extended coverage must include damage from wind, civil commotion, riots, smoke, hail, aircraft, vehicle, or explosion. Policies that exclude from coverage, in whole or in part, damage from windstorm, hurricane, hail or any other perils normally included under an extended coverage endorsement will not be accepted unless the borrower obtains a separate policy or endorsement that provides adequate coverage for the limited/excluded peril. If the state in which the collateral is located has an established insurance pool that will cover the limitations or exclusions, the additional policy or endorsement will not be required.

Additional requirements apply to properties with solar panels that are leased from or owned by a third party under a power purchase agreement or other similar arrangement.

Hazard insurance coverage must have the same inception date as the date of disbursement on purchase money mortgages. This may be documented with a post-closing Closing Disclosure or the correction of the inception date on the hazard policy.

Amount of Required Coverage

The amount of hazard insurance coverage and the deductible amount for each mortgage property type must meet the requirements of Fannie Mae.

If the coverage amount is less than the note amount:

- Provide explicit evidence of guaranteed replacement cost coverage or
- Provide a replacement cost estimator to evidence adequate dwelling coverage

10.3 RENT LOSS COVERAGE

Rent loss insurance is not required.

10.4 EFFECTIVE DATE REQUIREMENTS FOR PURCHASE TRANSACTIONS

All policies cannot go into effect more than 30 days prior to closing unless policy has been paid in full.

10.5 ACCEPTABLE FLOOD INSURANCE POLICIES

Flood insurance should be in the form of the standard policy issued under the NFIP or by a private insurer. The terms and conditions of the flood insurance coverage must be at least equivalent to the terms and conditions of coverage provided under the standard policy of the NFIP for the appropriate property type. The paid receipt and Policy Declaration page of a policy are acceptable evidence of coverage.

Flood insurance protection is required on all mortgaged properties when applicable. Additionally, each flood insurance policy must include coverage and evidence of conformance to currently effective Fannie Mae guidelines. Flood insurance is required for any property that has a building, dwelling, structure or improvement located in a Special Flood Hazard Area ("SFHA") that has federally mandated flood

insurance purchase requirements must comply with all applicable law for obtaining and maintaining flood insurance. A&D must determine whether any of the improvements for a mortgaged property are located in a SFHA by using the most recent standardized form published by Federal Emergency Management Agency regardless if the use of such form is required by law, rule, or regulation for the particular type of mortgage which may be purchased by the Firm. Refer to published Fannie Mae guidelines for all details outlining flood insurance requirements.

Flood insurance requirements should include compliance with the HFIAA including the escrow requirement.

10.6 FLOOD COVERAGE

The amount of flood insurance coverage and the deductible amount for each mortgage property type must meet the requirements of the Agencies. In some cases, Fannie Mae may require additional coverage beyond what is required by applicable law.

10.7 ADDITIONAL INSURANCE COVERAGE REQUIREMENTS

Refer to published Fannie Mae guidelines for all details outlining additional insurance policy, coverage and evidence requirements.

10.8 NAMED INSURED

The table below provides the requirements regarding the name of the insured entity.

Condo Projects	The policy must show the HOA as the named insured. If the condo's legal documents permit it, the policy can specify an authorized representative of the HOA, including its insurance trustee, as the named insured. The "loss payable" clause should show the HOA or the insurance trustee as a trustee for each unit owner and the holder of each unit's mortgage loan.
PUD common areas	The policy must show the HOA as the named insured.

10.9 TAXES

1. Property taxes that are due within 60 days of the first payment date must be collected in full regardless if escrowed or not.

2. By Transaction Type:

STATE	Purchase Transaction (Existing Construction)	Purchase Transaction (New Construction)	Refinance Transaction (Existing Construction)	Refinance Transaction (New Construction)
California	1.25% of purchase price	1.25% of purchase price	Current or Existing Tax Bill	1.25% of appraised value
All other states	Current or Existing Tax Bill	1.50% of purchase price	Current or Existing Tax Bill	1.50% of appraised value

11. QUALIFIED MORTGAGE/ABILITY TO REPAY**11.1 VERIFICATION SAFE HARBOR / REBUTTABLE PRESUMPTION**

Rebuttable presumption is not allowed. Loans must meet safe harbor via APR at maximum 1.5% spread over APOR.

11.2 HPML

High prices mortgage loans are not allowed.