



The power of yes.

UNDERWRITING GUIDELINES CONFORMING

V. 6.20.

CONTENTS

1. GENERAL REQUIREMENTS	4
1.1. AGE OF DOCUMENTS.....	4
1.2. AUTOMATED UNDERWRITING SYSTEMS (AUS).....	4
1.3. DATA INTEGRITY.....	5
1.4. EXCESSIVE NUMBER OF SUBMISSIONS	5
1.5. AUS CREDIT RISK ASSESSMENT.....	6
1.6. FRAUD PREVENTION	6
2. BORROWER ELIGIBILITY	8
2.1. TRUSTS	8
2.2. BORROWER’S IDENTITY.....	9
2.3. RESIDENT AND IMMIGRATION STATUS.....	9
2.4. INELIGIBLE BORROWERS.....	10
2.5. POWER OF ATTORNEY	10
VA POWER OF ATTORNEY	11
2.6. LEGAL NAME POLICY	11
2.7. LIFE ESTATES	12
3. CREDIT ELIGIBILITY	13
3.1. CREDIT HISTORY	13
3.2. CREDIT REQUIREMENTS.....	13
3.3. AUTHORIZED USER ACCOUNTS	14
3.4. PAYING OFF / CLOSING ACCOUNTS	15
CONVENTIONAL LOANS	15
GOVERNMENT LOANS.....	15
3.5. MAXIMUM NUMBER OF FINANCED PROPERTIES.....	15
CONVENTIONAL AND USDA LOANS	15
FHA AND VA LOANS.....	15
3.6. CREDIT INQUIRIES	15
3.7. EXTENDED FRAUD ALERTS OR ACTIVE MILITARY ALERTS	15
3.8. BORROWERS RESPONSIBILITY IN REGARDS TO SHORT SALE / FORECLOSURE / DEED IN LIEU.....	16
3.9. EXCEPTIONS	16
3.10. CREDIT REPORT POLICY.....	16
3.11. DEROGATORY EVENT SEASONING	17
3.12. CREDIT REPORT DELIVER.....	18
3.13. FHA LOANS – ADDITIONAL RISK REQUIREMENTS.....	18
4. EMPLOYMENT AND INCOME	19
4.1. FAMILY-OWNED BUSINESS.....	19
4.2. 4506-T REQUIREMENTS	19

ITEMS THAT CANNOT BE USED IN LIEU OF TRANSCRIPTS	20
ITEMS THAT MAY BE USED IN LIEU OF TRANSCRIPTS.....	20
4.3. VICTIMS OF TAXPAYER IDENTIFICATION THEFT	21
5. ASSETS	22
5.1. ASSET REQUIREMENTS	22
5.2. RESERVES.....	22
5.3. EARNEST MONEY DEPOSIT AND GIFTS TO TITLE VIA WIRE	22
6. COLLATERAL	23
6.1. INELIGIBLE PROPERTY TYPES	23
6.2. CONDOMINIUMS.....	23
6.3. PROJECT REVIEW REQUIREMENTS.....	24
DETERMINE APPROPRIATE PROJECT REVIEW REQUIRED	24
FLORIDA SPECIFIC.....	24
CONFIRM THE CONDO PROJECT INSURANCE REQUIREMENTS	25
Confirm the Condo Project Insurance Requirements	26
FHA CONDOMINIUMS.....	28
VA CONDOMINIUMS.....	28
6.4. PUD PROJECT	28
6.5. NEW CONSTRUCTION	28
CONVENTIONAL	28
FHA	28
VA	29
6.6. VACANT / REO PROPERTIES.....	29
6.7. MANUFACTURED HOUSING	29
6.8. PROPERTIES LISTED FOR SALE	29
RATE / TERM REFINANCE	29
CASH-OUT REFINANCE.....	29
6.9. REPLACEMENT / SECOND APPRAISAL	30
REPLACEMENT APPRAISAL	30
SECOND APPRAISAL.....	30
6.10. TRANSFERRED APPRAISAL	30
6.11. FHA APPRAISAL EXPIRATION DATE.....	32
6.12. WDO FOR FHA LOANS.....	32
6.13. VA APPRAISAL EXPIRATION DATE	32
6.14. DISASTER POLICY	32
7. COMPLIANCE	33
7.1. ADVERSE ACTION LETTERS.....	33
7.2. CONFLICTS OF INTEREST	33
7.3. ELECTRONICALLY SIGNED APPLICATION DISCLOSURES	33

7.4. FAIR LENDING POLICY	33
7.5. LOAN DISCLOSURES	33
7.6. LOAN SUBMISSIONS	33
7.7. PRINCIPAL REDUCTIONS	34
7.8. TITLE INSURANCE ERRORS AND OMISSIONS COVERAGE	34
7.9. VERBAL CREDIT AUTHORIZATION	34
8. REPAIR ESCROW HOLDBACK	35
8.1. REPAIR ESCROW DETERMINATION	35
8.2. PRODUCTS AND LOAN-TO-VALUE	35
8.3. ACCEPTABLE WEATHER-RELATED ITEMS – NEW CONSTRUCTION ONLY	35
8.4. UNACCEPTABLE REPAIRS FOR NEW OR EXISTING CONSTRUCTION	36
8.5. PROCESS STEPS	36
9. INSURANCE AND TAXES	37
9.1. HAZARD INSURANCE	37
9.2. DEDUCTIBLES	37
9.3. ACCEPTABLE PAID RECEIPT	37
9.4. REFINANCES	37
9.5. FLOOD INSURANCE	38
9.6. FLOOD DETERMINATIONS	38
9.7. FLOOD INSURANCE REQUIREMENTS	38
9.8. COVERAGE REQUIREMENTS	38
9.9. TAXES	39
10. QUALIFIED MORTGAGE / ABILITY TO REPAY	40
10.1. REBUTTABLE PRESUMPTION	40
RESIDUAL INCOME – OWNER-OCCUPIED PROPERTIES.....	40
11. DISCRETIONARY PRICING POLICY	41

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

Information used to make the credit decision must be current. The table below shows the maximum age of documents allowable at funding:

DOCUMENTATION AGE REQUIREMENTS	
Item	New and Existing Construction
Credit Report	120 days old
Income	120 days old
Assets	120 days old
CPL	60 days old
Title	60 days old
Appraisal	120 days old (180 new constr.)

1.2. AUTOMATED UNDERWRITING SYSTEMS (AUS)

All loans are required to be scored through one of the following systems:

- Desktop Underwriter (DU)
- Loan Product Advisor (LPA)

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) or Freddie Mac’s Loan Product Advisor (LPA) as applicable. A&D uses Fannie Mae’s Desktop Underwriter (DU) as the “primary” automated underwriting system however may elect to modify its guidelines on the selection of a “primary” system from time to time.

All loans must be scored through appropriate and acceptable AUS. Manual underwrites are not allowed for Conventional loans.

1.3. DATA INTEGRITY

Regardless of the underwriting method, additional information may be requested at the discretion of the underwriter. The underwriter must:

- Ensure data is entered accurately into AUS in order to receive the appropriate verification messages and approval (e.g., commission income, bonus income, gift information)
- Confirm the accuracy of the data submitted, making sure to include any data that might have affected the AUS recommendation.
- Review the credit report to confirm that the data that AUS evaluated, with respect to the borrower's credit history, is accurate and complete.
- Ensure that the loan complies with all of the verification messages and approval conditions specified in the AUS Underwriting Findings / Feedback Report.
- Apply due diligence when reviewing the documentation in the loan file.
- Determine if there is any potentially derogatory or contradictory information that is not part of the data analyzed by AUS.
- Take action when erroneous data in the credit report or contradictory or derogatory information in the loan file would justify additional investigation or would provide grounds for a decision that is different from the recommendation that the AUS returned.

1.4. EXCESSIVE NUMBER OF SUBMISSIONS

AUS findings must be reviewed for warnings or “Potential Red Flags” for excessive submissions. All AUS recommendations must be followed and documented in the loan file. It is the responsibility of the Loan Officer to address at the time of submission to underwriting.

1.5. AUS CREDIT RISK ASSESSMENT

Desktop Underwriter (DU) and Loan Product Advisor (LPA) evaluate mortgage delinquency risk and arrive at an underwriting recommendation by relying on a comprehensive examination of the primary and contributory risk factors in a mortgage application. They analyze the information in the loan case file to reach an overall credit risk assessment to determine eligibility.

No one factor determines a borrower's ability or willingness to make his or her mortgage payments. DU and LPA identify low-risk factors that can offset high-risk factors. When several high-risk factors are present in a loan case file without sufficient offsets, the likelihood of serious delinquency increases. DU and LP conduct analyses uniformly and without regard to race, gender, or other prohibited factors. DU uses validated, statistically significant variables that have been shown to be predictive of mortgage delinquency across all groups.

DU and LPA do not evaluate a loan's compliance with federal and state laws and regulations, including, without limitation, a loan's potential status as a qualified mortgage under applicable laws and regulations.

Borrower Resides in Foreign Country – DU and LPA do not recognize foreign addresses. It is not permissible to enter an invalid US address to run the AUS, as Fannie Mae and Freddie Mac consider the findings invalid.

Comprehensive Risk Assessment – Underwriters must evaluate the overall level of serious delinquency risk that is present in each mortgage application by taking into consideration any layering of risk factors, the significance of risk factors, and the overall risks present in the mortgage application.

The underwriter's determination of the mortgage delinquency risk, the assessment of the adequacy of the property as security for the mortgage, the determination of whether the mortgage satisfies established mortgage eligibility criteria, and the acceptability of the documentation in the mortgage file should all enter into the decision on whether or not to approve the mortgage.

The underwriter must fully document the results of his or her comprehensive risk assessment and final underwriting decision and ensure that the information used to reach the comprehensive risk assessment is valid, accurate, and substantiated.

1.6. FRAUD PREVENTION

All A&D loans are underwritten with fraud prevention and detection as part of the lending decision process. A&D employs various methods to prevent and detect fraud, which may include random and risk-based prefunding reviews in compliance with internal policy. The following fraud prevention requirements are used for all transactions as applicable, which include, but are not limited to:

- Internal Fraud Prevention Tools (Fraudguard).
- Ineligible Party List search requirements.
- IRS Transcripts to support income when required for qualification.
- Verbal Verification of Employment requirements.
- MERS search prior to closing.

- Internal settlement agent and title company approval process.
- A&D will obtain a Loan Review Report in compliance with Fannie Mae's LQI to determine if the borrower may have taken out new credit prior to closing.
- Originators are required to originate loans in compliance with all applicable federal, state and local laws, rules and regulations, including the USPAP and the FACT Act.

The Fraud Report is reviewed by the A&D Underwriter at initial approval and again prior to issuing a clear to close if the report is more than 30 days old. All variances noted on the Fraud report must be reviewed and mitigated with comments and supporting documentation, if necessary, before the final clear to close can be issued.

Clearing Variances on Fraud Report: Underwriters must note how they mitigated the Moderate and High-Risk Variances on the Fraud report by making notes on the report. Supporting documentation should be uploaded and indexed appropriately to A&D's document management system before the final clear to close is issued.

A&D requires underwriters to confirm by reviewing the Fraud Tools if any of the companies or individuals involved in the origination, underwriting, or servicing of the mortgage transaction are on any of the following lists:

- General Services Administration (GSA) Excluded Party List
- HUD Limited Denial of Participation List (LDP List)
- OFAC List
- Freddie Mac Exclusionary List
- A&D / Investor Excluded Parties List

Regardless of the reason or the scope for the party being excluded, any party to the transaction included on either list will result in the loan being ineligible for delivery.

2. BORROWER ELIGIBILITY

A&D will lend on mortgages made to borrowers who are natural persons who have reached the age at which the mortgage note can be enforced in the jurisdiction where the property is located. There is no maximum age limit for a borrower.

A&D does not make loans on properties held in Life Estates, Non-Revocable Trusts, Guardianships, LLCs, Corporations, or Partnerships. Exceptions to the requirement that borrowers be natural persons are inter-vivos revocable trusts.

2.1. TRUSTS

The Trust must be a living revocable trust, also known as a "family trust" or an "inter vivos trust."

- Title Company must agree to insure over the trust with no exceptions for the trust or trustees.
- A copy of the trust must be included in the submission package.
- The settlor or grantor must be a natural person.
- The settlor must also be the trustee or one of the co-trustees.
- Freddie Mac requires a full title to the property must be vested in the trust; there may be no other owners.
- 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.
- Freddie Mac loans, the note is executed by the trustee in an individual capacity and by the trustee on behalf of the inter vivos trust and the security instrument is executed by the trustee on behalf of the inter vivos trust.
- The primary beneficiary of the trust must be the settlor or grantor.
- If there is more than one settlor or grantor, then there may be more than one primary beneficiary, as long as the income or assets of at least one of the grantors or settlors will be used to qualify for the mortgage and that grantor or settlor will occupy the property and sign the mortgage instruments in his / her individual capacity.
- 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.

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.

2.2. BORROWER'S IDENTITY

A borrower is any applicant (individually or jointly) whose credit is used for qualifying purposes to determine the ability to meet A&D's underwriting and eligibility standards. "Co-borrower" is a term used to describe any borrower other than the first borrower whose name appears on the note.

Underwriters must confirm each borrower's identity prior to the extension of credit. A&D's requirements for borrower identity verification are intended to align with existing federal obligations under laws requiring information and document verification, including the Department of Treasury's Office of Foreign Assets Control (OFAC) regulations and the U.S. Patriot Act.

A&D requires all borrowers to have a valid Social Security number (in addition to meeting existing legal residency and documentation requirements).

- Files must contain a copy of the Social Security Card
- Direct validation with SSA is required if the borrower does not have his / her Social Security Card.
- If the Social Security number cannot be validated with the card or via SSA, the loan is not eligible.

2.3. RESIDENT AND IMMIGRATION STATUS

A&D will close mortgages made to non-U.S. citizens who are lawful permanent or non-permanent residents of the United States under the same terms, mortgage product, transaction type, occupancy status, and loan-to-value ratios that are available to United States citizens. Borrowers that are not citizens must currently reside in the United States to be eligible. Permanent Resident Alien Status must be documented with a copy of the borrower(s) green card.

A Non-Permanent Resident Alien must have a valid social security number and evidence of an acceptable visa, an acceptable expired visa along with I-797A with detachable I-94 or an EAD Card. Acceptable Visa includes E Series (E-1, E-2, E-3), G Series (without Diplomatic Immunity), H Series (H1-B, H1-C, H-2, H-3, H-4), L Series (L-1A, L-1B, L-2), O Series (O-1) and NATO (TN-1 and TN-2). For NAFTA professionals from Canada and Mexico, a VISA or EAD card is not required as long as the borrower(s) has an unexpired passport that is stamped with the H1B status. If a borrower(s) visa expires within six months of the loan application and the borrower has not changed employers, a copy of the employer's letter of sponsorship for visa renewal must be provided. If the EAD expires within 120 days, the borrower must show evidence they have applied for an extension or provide a letter from their employer indicating they will continue to sponsor their employment. Loans requiring MI may have additional restrictions.

If the borrower has an expired VISA we will accept form I-797A with detachable I-94 along with an EAD. However, if the EAD will expire within 6 months the borrower must show evidence they have applied for an extension or provide a letter from their employer indicating they will continue to sponsor their employment. Loans requiring MI may have additional restrictions.

A permanent resident alien is an individual who is lawfully accorded the privilege of residing permanently in the United States. The Immigration and Naturalization Service (INS) uses the word "immigrant" to describe these individuals. We also consider another group of individuals—such as refugees and others seeking political asylum, who are immigrating to and seeking permanent residency

in, the United States to be permanent resident aliens. The INS has special immigration programs that enable these individuals to seek (and accept) employment while they are in the process of obtaining their permanent resident alien status (which generally will take from two to three years).

A non-permanent resident alien is an individual who seeks temporary entry to the United States for a specific purpose. The Immigration and Naturalization Service (INS) uses the word "non-immigrant" to describe these individuals. The INS has several classifications for "non-immigrants"—foreign government officials, visitors for business or pleasure, aliens in transit through the United States, treaty traders and investors, students, international representatives, temporary workers and trainees, representatives of foreign information media, exchange visitors, fiancés or fiancées of U.S. citizens, intra-company transferees and NATO officials. For most classifications, the "non-immigrant" must have a permanent residence abroad and must qualify for the admission classification being sought.

A United States credit history shorter than two years is permissible provided it meets AUS requirements with an acceptable finding. Borrowers for whom an adequate credit history cannot be established will not be eligible for a conventional mortgage until such time that adequate credit history has been established.

2.4. 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 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

2.5. POWER OF ATTORNEY

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

- 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, and the POA must be reviewed by 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 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. The 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.

VA POWER OF ATTORNEY

The veteran must execute a general or specific power of attorney which is valid and legally adequate. The veteran's attorney-in-fact may use this power of attorney to apply for a Certificate of Eligibility and initiate processing of a loan on behalf of the veteran.

To complete the loan transaction using an attorney-in-fact, ensure that the general or specific power of attorney complies with state law to the extent that:

- The mortgage can be legally enforced in that jurisdiction, and Clear title can be conveyed in the event of foreclosure.
- To complete the loan transaction using an attorney-in-fact, VA also requires the veteran's written consent to the specifics of the transaction. This requirement can be satisfied by either:
 - the veteran's signature on both the sales contract and the Uniform Residential Loan Application, as long as the veteran's intention to obtain a VA loan on the particular property is expressed somewhere in those documents, or
 - A specific power of attorney or other document(s) signed by the veteran, which encompasses the following elements:
 - Entitlement - A clear intention to use all or a specified amount of entitlement.
 - Purpose - A clear intention to obtain a loan for a purchase, construction, repair, alteration, improvement, or refinancing.
 - Property Identification - Identification of the specific property.
 - Price and Terms - The sales price, if applicable, and other relevant terms of the transaction.
 - Occupancy - The veteran's intention to use the property as a home to be occupied by the veteran (or other applicable VA occupancy requirement).

2.6. LEGAL NAME POLICY

The Legal name is the name that is on the Driver's License. If a borrower does not have a Driver's License, the originator can utilize a state-issued identification card or Social Security Card to confirm the legal name.

A&D has established this consistent policy to make sure we correctly identify borrowers. We require Originator / Underwriter to address and resolve any multiple names or name mismatches.

It is acceptable to USE ONLY the MIDDLE INITIAL instead of the full middle name as it appears on the License / ID card. Please be certain the middle initial used matches the name or initial on the Driver's License or state-issued identification card.

Generational indicators (Jr., III, etc.) should be used when taking the application and pulling credit, provided the indicator is evident on the Driver's License or state-issued identification card.

If the borrower has varying names or surnames, the one on the Driver's License or state-issued identification card will be considered the accurate name for our purposes. Should other documents show variations, they must be acceptably addressed as well.

In the case of a refinance, the borrower's name currently on Title should match what we show as the legal name on file. If we are using only an initial in place of full middle name, that is an acceptable variation. For other variations, Title will need to correct the name at the time of closing, including potentially executing a Quit Claim Deed to correct title vesting to reflect the accurate and consistent name of borrower(s). (For example, title originally taken in maiden name and borrower now using a married name will require correction to current married name.)

It is the Originator's responsibility to ensure that all of the critical items noted above match at the time of submission and the Underwriter must review; to obtain corrected documentation if necessary, including credit (re-run if necessary) in the correct name (especially including generational indicators – Jr., III – and maiden vs. married name) and to provide explanations for any name variations within the file. Files must match and contain any necessary explanatory information with submission to underwriting. An AKA may be used to explain variations but NOT be used to resolve inconsistencies among the main documents.

The documents that must match exactly are the purchase contract, as applicable, FHA connection or VA Certificate of Eligibility, as applicable, 1003 vesting, Warranty Deed proposed vesting, title commitment, CPL, and all final legal documents in the closing package. The credit report and name on the 1003 must match each other and be a variation of the legal name. An AKA will be used to address all name variations.

The documents must match and contain any necessary explanatory information with submission to underwriting. An AKA may be used to explain variations but NOT be used to resolve inconsistencies among the main documents.

2.7. 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.

3. CREDIT ELIGIBILITY

3.1. CREDIT HISTORY

An individual's credit history is considered to be one of the strongest indicators of future credit performance. People who have maintained a long history of excellent credit can and do manage personal finances properly. Likewise, a borrower who has a history of slow payments or has defaulted in the repayment of debt generally does not change their credit habits.

The evaluation of the borrower's credit profile must be based on the entire credit history documented in the loan file. The manner in which the borrower has managed his or her previous credit is a strong indicator of future performance. In a subjective evaluation of credit, many factors are considered when evaluating a borrower's credit history. These include:

- Credit utilization
- Inquiries
- Undisclosed Liabilities
- Number and age of accounts
- Payment history
- Public record information

The following factors may not be used as offsets for weaknesses in the borrower's credit reputation because they have already been considered in creating the credit score:

- The absence of, or age of, derogatory information.
- The number / proportion of accounts paid as agreed versus delinquent.
- The types of accounts paid as agreed versus the type of accounts that are delinquent.
- Recent pay down or consolidation of account balances by the borrower.
- The length of the borrower's credit history.
- Any combinations of the above factors.

3.2. CREDIT REQUIREMENTS

All borrowers must have at least one valid credit score to be eligible (please refer to Product Matrix links on the last page of this document). The credit report must access all three major credit bureaus to ensure valid repository scores are generated.

A&D does not have a minimum trade line requirement with a DU / DO Approve / Eligible or LP Accept findings. The underwriter will evaluate each loan based upon its own merits. The borrower's overall profile must demonstrate his or her past willingness and ability to meet credit obligations in a way that will enable the underwriter to draw a logical conclusion about the borrower's commitment to making payments on the new mortgage obligation.

Regardless of the AUS requirements, additional information may be requested at the discretion of the underwriter.

Factors that contribute to the borrower's overall profile and the ability to meet the new mortgage obligation include, but are not limited to:

- Length of time on current job
- Months of reserves
- Debt-to-income ratio
- Amount of own funds into the transaction
- Current housing payment history

Note: For a conventional loan with an LTV >80%, the Mortgage Insurance is required, and the individual Mortgage Insurance companies may impose their own restrictions regarding a borrower's credit profile.

A&D reserves the right to decline any transaction with 10 or greater mortgage inquiries in the last 90 days for risks associated with "excessive credit solicitation". Underwriting also reserves the right to require additional information or potentially decline any loan where the credit report appears to be incorrect, incomplete, or invalid due to "credit cleaning" that removed pertinent information, such as recent foreclosure, etc., that is otherwise evident such as through public record.

When underwriting a credit report, the borrower's credit use and limits must be reviewed to ensure consistency with the reported income, assets, and application information. The borrower's address history must be examined for consistency with other file documentation. Discrepancies must be adequately explained, and questionable explanations researched.

Credit scores rank borrowers according to the likelihood that they will default on the mortgage loan in the future using statistical modules. The higher the score, the lower the risk of default, and conversely, the lower the score, the higher the risk. As a result, credit scores are a powerful tool for underwriters to use when evaluating the layered risk within the borrower's credit profile.

Credit scores alone, however, are not sufficient to make an informed decision about the acceptability of a borrower's credit history. The borrower's credit information should still be reviewed to ensure an acceptable level of risk.

Although a credit score cannot predict which individuals or percentage of applicants will default on a loan, the ranking of relative risks for default holds true and is considered reliable.

The majority of merged in-files will include a credit score for each borrower. There are minimum requirements that must be met in order to score a person's credit profile. If these requirements are not available, a score will not be provided.

3.3. AUTHORIZED USER ACCOUNTS

Authorized users are individuals given permission by the credit account owner to have access to the use of an account. Typically, an authorized user is a relative who is managing credit for the first time.

Credit reports containing authorized user accounts require additional evaluation and documentation regardless of any AUS recommendation. If the primary account holder is another borrower on the transaction, no further action is required.

3.4. PAYING OFF / CLOSING ACCOUNTS

CONVENTIONAL LOANS

A&D will follow the Agency guidelines to include the following: Payoff or pay down of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. Generally:

- Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments do not need to be included in the borrower's long-term debt.
- If a revolving account balance is to be paid off at or prior to closing, a monthly payment on the current outstanding balance does not need to be included in the borrower's long-term debt, i.e., not included in the debt-to-income (DTI) ratio. Such accounts do not need to be closed as a condition of excluding the payment.

GOVERNMENT LOANS

Installment loans may not be paid down to exclude less than 10 months, and revolving debt paid off to qualify must be closed prior to closing, evidenced via a letter from the creditor or a credit supplement.

3.5. MAXIMUM NUMBER OF FINANCED PROPERTIES

CONVENTIONAL AND USDA LOANS

A&D follows Agency Guidelines.

FHA AND VA LOANS

Maximum 4 financed properties including the subject property.

3.6. CREDIT INQUIRIES

The report must list all inquiries that were made in the previous 120 days. All applicants with credit inquiries are required to complete the Undisclosed Debt Acknowledgement and disclose the nature of all credit inquires within the previous 90 days. The number of mortgage inquiries will be taken into consideration and could result in a denial.

Inquiries showing any Fannie Mae or Freddie Mac credit reseller as the credit inquiry will be deemed to be a mortgage inquiry. Other inquires that cannot be identified as being for purposes other than mortgage (auto, department store, etc.) will be counted toward the limit.

3.7. EXTENDED FRAUD ALERTS OR ACTIVE MILITARY ALERTS

Applicants with credit reports containing Extended Fraud Alerts or Active Military Alerts will be contacted by A&D Compliance Department prior to the loan being underwritten.

When the credit reporting agency has incomplete information, discovers that the borrower might not have disclosed all information that should be found in the public records, or obtains other information that indicates the possible existence of undisclosed credit records, the credit reporting agency must

interview the borrower(s) to obtain additional information that is needed to provide an accurate report or perform additional research to verify whether the purported undisclosed records actually exist.

All credit reports must include FACT Act messages and at least one repository fraud alert product (Hawk Alert, FACS+ or Safe Scan).

3.8. BORROWERS RESPONSIBILITY IN REGARDS TO SHORT SALE / FORECLOSURE / DEED IN LIEU

If a borrower was married at the time of purchase of the property in question, on title, came to be on title via a refinance transaction, quit-claimed on to title AND was residing in the property at the time of the negative event and is later removed from the title, the borrower will still be held accountable to the same time frames as the primary owner.

3.9. EXCEPTIONS

A&D Mortgage does not allow exceptions for conventional or government loans. All loans must meet the agency requirements.

3.10. CREDIT REPORT POLICY

Credit reports, once submitted to Underwriting, shall not be re-pulled by the Loan Officer. A new credit report may only be pulled by A&D Operations if one of the following occurs:

- A conventional loan and Underwriter require disputes to be removed. Then, a new credit report shall be obtained and run with the current AUS findings to ensure valid approval.
- The credit is expiring before the funding date as per Underwriter approval.

3.11. DEROGATORY EVENT SEASONING

The following table summarizes the waiting period requirements for conforming loans:

DEROGATORY EVENT	WAITING PERIOD REQUIREMENTS	WAITING PERIOD WITH EXTENUATING CIRCUMSTANCES
Bankruptcy – Chapter 7 or 11	4 years	2 years
Bankruptcy – Chapter 13	<ul style="list-style-type: none"> • 2 years from discharge date • 4 years from dismissal date 	<ul style="list-style-type: none"> • 2 years from discharge date • 2 years from dismissal date
Multiple Bankruptcy Filings	5 years if more than one filing within the past 7 years	3 years from the most recent discharge or dismissal date
Foreclosure	7 years	3 years Additional requirements after 3 years up to 7 years: <ul style="list-style-type: none"> • 90% maximum LTV ratios • Purchase, principal residence • Limited cash-out refinance, all occupancy types
Deed-in-Lieu of Foreclosure, Preforeclosure Sale, or Charge-Off of Mortgage Account	4 years	2 years

1. Additional requirements after 3 years up to 7 years: 90% maximum LTV ratios; purchase of principal residence only; Limited cash-out refinance (all occupancy types.) Reference: B3-5.3-07
2. A&D will not underwrite FHA loans with extenuating circumstances underwritten to FHA's "Back to Work" guidelines referenced in HUD's Mortgage Letter# 2013-26.
3. A Chapter 13 bankruptcy does not disqualify a borrower from obtaining an FHA-insured mortgage, provided that the lender documents that at least one year of the pay-out period under the bankruptcy has elapsed; the borrower's payment performance has been satisfactory, and all required payments have been made on time, and the borrower has received written permission from the bankruptcy court to enter into the mortgage transaction. TOTAL Scorecard Accept / Approve Recommendation: If the Chapter 13 bankruptcy has not been discharged for a minimum period of two years, the loan must be downgraded to a Refer and evaluated by a Direct Endorsement (DE) underwriter.
4. If the borrower was current at the time of short sale: A borrower is considered eligible for a new FHA-insured mortgage if, from the date of loan application for the new mortgage, all mortgage and

installment payments on the prior mortgage were made within the month due for the 12-month period preceding the short sale.

5. If the applicant has satisfactorily made at least 12 months' worth of the payments and the Trustee or the Bankruptcy Judge approves of the new credit, the lender may give favorable consideration.

6. If the foreclosure was on a VA loan, the applicant may not have full entitlement available for the new loan. Ensure that the applicant's Certificate of Eligibility reflects sufficient entitlement to meet any secondary marketing requirements of the lender.

3.12. CREDIT REPORT DELIVER

A&D may not provide a written copy of the credit report to an applicant under any circumstances. It is not allowed due to A&D is not a registered credit / consumer agency. A&D may provide to the applicant the credit score information, however, any further information, such as the entire written report can only be obtained directly from an authorized reseller or the bureaus themselves. Providing it directly is a violation of the consumer protection laws of a credit agency.

3.13. FHA LOANS – ADDITIONAL RISK REQUIREMENTS

- Manual underwriting is permitted in a case-by-case basis.

4. EMPLOYMENT AND INCOME

A&D will follow agency guidelines for employment and income

- We will validate all applicable years required
- We will only use income that can be validated via a 3rd party
- We reserve the right to request additional documentation if the situation warrants

4.1. FAMILY-OWNED BUSINESS

A borrower who is employed by a family member is not necessarily considered self-employed. The originator should clarify potential ownership by the borrowers of family-owned businesses. A borrower may be an officer of a family-operated business but not an owner. Borrowers must provide the preceding 2 years signed, dated individual and business (if applicable) tax returns, with all supporting schedules, and IRS Form 4506-T for all applicable tax returns for prior years.

Qualifying income will be based on the last two years of verified income. If the borrower receives a raise from a family-run business, the underwriter cannot use that new income for qualifying as it has not been verified with the IRS.

4.2. 4506-T REQUIREMENTS

A&D's procedures and policy for ordering 4506T results and under what circumstance alternative documentation MAY be acceptable.

Extension: If the borrower has filed an extension for 2018, please provide the following:

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

4506T Results: Typically takes 4-6 weeks once the tax return is filed with the IRS to obtain 4506T results for that year.

If the 2018 returns are filed by the borrower prior to April 15th, you should be checking the date filed. If less than 4-6 weeks, 2016 results may not be required. If two years of results are required, then 2016 & 2017 returns, and results must be included if 2016 is not yet available.

What year to use: If you have accurate results that match the tax return(s) provided for 2019, use 2019. If we are provided with 2019 tax returns and unable to obtain 4506T results, A&D must condition for the 2017 and 2018 returns and 4506T results or W2 transcripts as per AUS requirements. If tax returns are being used to determine income, the A&D Underwriter would qualify the borrower with the income shown on the validated tax returns (2019 or 2017 / 2018) if borrower's situation requires the use of tax returns to determine income. If a particular program requires 4506T results regardless of employment type or borrowers' situation, we must have the 4506T results.

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 the "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.

ITEMS THAT CANNOT BE USED IN LIEU OF TRANSCRIPTS

- End of the year paystub. While the December 2019 paystub can be used to support income, it does not replace a transcript.
- A written VOE. A written VOE may be used to support income but cannot be used in lieu of a transcript.

ITEMS THAT MAY BE USED IN LIEU OF TRANSCRIPTS

- 1040 stamped by the IRS and either the cancelled check to the IRS or evidence of the direct deposit refund. This is allowable until June 1st.
- Evidence of E-file, cancelled check, payment via credit card, or receipt of direct deposit refund.
- A Record of Account

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).

4.3. 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

5. ASSETS

5.1. ASSET REQUIREMENTS

Funds held in a checking, savings, money market, certificate of deposit, or other depository account may be used for the down payment, closing costs, and financial reserves. The funds must be verified. Any indication of borrowed funds must be investigated.

- **Individual Accounts:** Funds in the borrower's individual bank account are acceptable.
- **Joint Accounts:** Funds held in a joint checking or joint savings account are acceptable since the borrower has access to all funds in the account at all times. If the joint account holder is not a borrower on the transaction, a letter stating that the borrower has full access to the funds is required.
- **Minor Accounts:** Funds held in an account for the benefit of a minor may not be used for the loan – i.e., UTMA accounts.

Bank statements must clearly identify:

- Name and address of the depository or investment institution.
- The borrower as the account holder
- Account number
- Time period covered by the statement.
- All deposits and withdrawal transactions for a depository account or all purchase and sale transactions for a financial portfolio account.
- Ending account balance.

A Verification of Deposit (VOD) is allowed for the verification of assets.

5.2. RESERVES

Required reserves are based on AUS requirements, Agency Guidelines, Program requirements, and QM requirements.

5.3. EARNEST MONEY DEPOSIT AND GIFTS TO TITLE VIA WIRE

Documentation requirements are as follows:

- A request of the wire from the borrower / donor
- Evidence of the wire being transmitted
- Receipt of the wire by the escrow / title company into their escrow account – a letter is acceptable if it identifies the individual sending the wire
- A gift to be itemized separately on CD
- Gift Funds sent via a 3rd party are not eligible to be refunded to the borrower if a borrower has not contributed EMD to the transaction
- Any additional title company requirements
- Government loans require a copy of the donor's bank statement as a PTA condition

6. COLLATERAL

6.1. INELIGIBLE PROPERTY TYPES

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

- Assisted living projects
- Bed and Breakfast
- Builder Model leaseback
- Cooperatives (Co-ops)
- Houseboats
- Investment securities
- Mobile Home
- Multi-family dwelling containing more than 4 units
- Properties not suitable for year-round occupancy
- Properties with resale restrictions that do not meet agency eligibility
- A 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 the property
- Tax-sheltered syndicate
- Timeshare unit
- Unimproved land
- Working farm, ranch, hobby farm or orchard if income-producing
- 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

6.2. CONDOMINIUMS

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

6.3. PROJECT REVIEW REQUIREMENTS

DETERMINE APPROPRIATE PROJECT REVIEW REQUIRED

Limited Review Eligible Transactions – Attached Units in Established Condo Projects (For Projects Outside of Florida)	
Occupancy Type	Maximum LTV, CLTV, and HCLTV Ratios
Principal residence	90%
Second home	75%
Investment property	75%

FLORIDA SPECIFIC

The following tables describe the maximum LTV ratios that are permitted for the specific project review type for loans secured by units in condo projects located in Florida. Unless noted otherwise, these requirements are based on the LTV ratio of the mortgage loan.

Florida – Attached Units in Established Condo Projects			
	Maximum LTV Ratios		Maximum LTV, CLTV, and HCLTV Ratios
	PERS Approved	Full Review (with or without CPM)	Limited Review
Principal Residence	95% Manual 97% DU		75 / 90 / 90%
Second Home	90%		70 / 75 / 75%
Investor	85%		70 / 75 / 75%

CONFIRM THE CONDO PROJECT INSURANCE REQUIREMENTS

	Limited Review	Condo Project Manager
Ineligible Project Types	Must not be a project type that is on the Ineligible Project Types list in <i>Selling Guide B4-2.1-02</i> , Ineligible Projects.	
Property Requirements	Compliance with all applicable requirements in <i>Selling Guide B4-1</i> , Appraisal Requirements is required.	
Insurance Requirements	Compliance with all applicable requirements in <i>Selling Guide Liability Insurance B7-4-01</i> & Fidelity / Crime Insurance <i>B7-4-02</i> , is required.	
Review Requirements	If the subject unit is a detached unit, the unit must be 100% complete. See <i>Selling Guide B4-2.2-01</i> , Limited Review for additional details.	A review may be completed manually or with the aid of CPM. Project must meet all applicable requirements in <i>Selling Guide B4-2.2-02</i> , Full Review for Attached Units in Condo Projects, and any applicable requirements for New and Newly Converted Condo Projects in <i>Selling Guide B4-2.2-03</i> if the unit is in a new or newly converted project, including but not limited to the following: <ul style="list-style-type: none"> • Budget review • Common expense delinquencies • Ownership of amenities • Completion and legal document requirements for New Projects

Confirm the Condo Project Insurance Requirements

	Limited review	Condominium Project Manager
Property Insurance For Project	<p>The homeowners' association (HOA) must maintain a master property insurance policy that must cover 100% of the insurable replacement cost of the project improvements, including the individual units in the project.</p> <p>The policy must indicate a breakdown of number units, number of buildings in order to ascertain sufficient coverage</p> <p>Sufficient coverage is determined by replacement cost; if it is a limited replacement cost and our loan amount is not covered, then you must obtain a replacement cost coverage estimator.</p> <p>An insurance policy that includes any of the following coverage, either in the policy language or in a specific endorsement to the policy, is acceptable.</p> <p>Guaranteed Replacement Cost – the insurer agrees to replace the insurable property regardless of the cost,</p> <p>Extended Replacement Cost – the insurer agrees to pay more than the property's insurable replacement cost, or</p> <p>Replacement Cost – the insurer agrees to pay up to 100% of the property's insurable replacement cost.</p> <p>The insurance requirements vary based on the type of HOA master or blanket insurance policy as follows:</p> <p>“Single Entity” policy: The policy must cover all of the general and limited common elements that are normally included in the coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the improvements and betterments that have been made inside the individual unit being financed. The amount of coverage must be sufficient to restore the condo unit to its condition prior to a loss claim event. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.</p> <p>“All-in” (sometimes known as an “all-inclusive”) policy: The policy must cover all of the general and limited common elements that are normally included in the coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the HOA. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.</p> <p>“Bare Walls” policy: This policy typically provides no coverage for the unit interior, which includes fixtures, equipment, and replacement of interior improvements and betterments. As a result, the borrower must obtain an individual HO-6 policy that</p>	

	provides coverage sufficient to repair the condo unit to its condition prior to a loss claim event, as determined by the insurer.	
Property Insurance For Units (HO-6)	The borrower must maintain an HO-6 policy if the HOA's master property policy does not include unit interior improvements under the terms of this policy type. The coverage provided by the HO-6 policy must be sufficient to repair the condo unit to its condition prior to a loss claim event as determined by the property insurer.	
Flood Insurance	<ul style="list-style-type: none"> • The HOA must obtain a Residential Condominium Building Association Policy (RCBAP) or equivalent private flood insurance coverage for each building that is located in a Special Flood Hazard Area (SFHA) (Selling Guide B7-3-07: Flood Insurance Coverage Requirements). The policy must cover all of the common elements and property (including machinery and equipment that are part of the building), as well as each of the individual units in the building. • Flood insurance policy – indicate same flood zone as an appraisal and flood cert; meet or exceed the coverage of hazard up to \$250,000 	
Liability Insurance		The HOA must maintain a Commercial General Liability policy with \$1,000,000 in coverage for all common areas and elements, public ways, and other areas under the HOA's supervision. Common areas, including structures, must also be covered.
Fidelity / Crime Insurance	Not required	<p>The HOA must maintain a fidelity / crime policy covering anyone with access to association funds, including a management agent, for projects that have both:</p> <ul style="list-style-type: none"> • More than 20 units AND • Need more than \$5,000 in required coverage (based on either the maximum funds held or three months of assessments, depending upon which method applies to the project).
Special Endorsements	<p>The requirements for endorsements for condo, co-op and PUD projects are as follows:</p> <ul style="list-style-type: none"> • Building Ordinance or Law Endorsements, if the enforcement of any building, zoning, or land-use law would result in loss or damage, increased cost of repairs or reconstruction, or additional demolition and removal cost to rebuild after a covered loss event occurs. The endorsement must provide for contingent liability from the operation of building laws, demolition costs, and increased costs of reconstruction. The endorsement is not required if it is not applicable, or the coverage is not obtainable in the insurance market available to the association; and 	

	<ul style="list-style-type: none"> Boiler and Machinery / Equipment Breakdown Endorsement if the project has central heating or cooling. This endorsement should provide for the insurer's minimum liability per accident to at least equal the lesser of \$2 million or the insurable value of the building(s) housing the boiler or machinery. In lieu of obtaining this as an endorsement of the commercial package policy, the project may purchase separate standalone boiler and machinery coverage. 	
		The full review requires the verbiage of the separation of insureds or Severability of interests in the body or in a specific endorsement.

FHA CONDOMINIUMS

- Previously / Currently approved in FHA Connection
- Master Policy
- HO6 policy, as applicable
- FHA Condo Questionnaire
- Bylaws, Budget
- Builder Condo Pre-Sale Certification- as applicable*
- FHA UW Condo Certification – Certificate for individual unit financing

VA CONDOMINIUMS

- Must be previously / currently approved by VA per the VA Condo Approval List

6.4. PUD PROJECT

- As per Agency Guidelines
- Master Policy must contain the following endorsement:
 - Separation of Insureds required

6.5. NEW CONSTRUCTION

CONVENTIONAL

- Agency Guidelines
- Clear Certificate of Occupancy
- Final appraisal or 1004D reflecting as is per plans and specs

FHA

- Agency Guidelines
- Permit

- HUD 92541 – Builder’s Certification*
- HUD 92544 – Builder’s one-year warranty*
- HUD NPMA 99a*
- HUD NPMA 99b*
- Well and Water inspections, as applicable
- Certificate of Occupancy
- 10-year warranty as applicable if 1 and 3 is not obtained.

VA

- Agency Guidelines
- Permit
- HUD 92541 – Builder’s Certification*
- HUD 92544 – Builder’s one-year warranty*
- HUD NPMA 99a*
- HUD NPMA 99b*
- Well and Water inspections, as applicable
- Certificate of Occupancy
- 10-year warranty as applicable if 1 and 3 is not obtained.
- Evidence Builder is approved through VA

6.6. VACANT / REO PROPERTIES

Properties that have a well and septic will require inspections to ensure no underlying issues due to property status as this is our collateral and in the best interest of the borrower.

6.7. MANUFACTURED HOUSING

A&D does not allow manufactured homes.

6.8. 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

CONVENTIONAL

Properties that were listed for sale must have been taken off the market on or before the disbursement date of the new mortgage loan.

FHA

- Property must be off the market for 12 months prior to the application date.
- This does not include on the market due to the current owner's purchase transaction of the property, but it does limit to the lesser of the purchase price or new appraised value.

6.9. REPLACEMENT / SECOND APPRAISAL**REPLACEMENT APPRAISAL**

A replacement appraisal is only allowed to be ordered when:

- There is a reasonable basis to support a conclusion that the initial appraisal contains flaws or defects that are material in nature.
- The first appraisal was deemed deficient, in which case the underwriter must use the value of the second appraisal in determining the LTV / TLTV. The underwriter is responsible for determining if an appraisal is defective. However, if the replacement appraisal is also deemed deficient, both appraisals must be handled according to the Appraisal Escalation process.

SECOND APPRAISAL

A second appraisal is only allowed to be ordered when a second appraisal is a requirement of the loan program. If a second appraisal or field review is required by the loan program, the second appraisal or field review ensures that the appraisal is an accurate representation of value.

- 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.
- If a second appraisal report is not acceptable, the underwriter may require the appraiser to provide additional information regarding how the value was determined and / or require the appraiser to correct material errors within the appraisal report.

6.10. TRANSFERRED APPRAISAL

A&D will accept a 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.

6.10.1. APPRAISAL TRANSFER LETTER MUST INCLUDE THE FOLLOWING LANGUAGE

1. Provide on the lender's letterhead
2. Current date
3. Borrower name
4. Property address
5. A statement transferring all rights of the appraisal to A&D

6. The “Transfer Letter” is to include the following statement:
 - a. (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.
7. 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)
8. 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.
9. The transferring lender’s name appears on the appraisal as the transferring lender / client.
10. The appraisal transferred is the only appraisal ordered by the lender for this transaction.

6.10.2. APPRAISAL TRANSFER DOCUMENTATION AND REQUIREMENTS

- An appraisal is to be submitted to A&D Mortgage’s ADM system
- The transferring lender’s “Certificate of Appraiser Independence” letter that was issued with the original appraisal
- 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 to 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 the 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.
- The transferred appraisal and transfer letter will be reviewed by A&D Mortgage Credit Committee as a second level review.
 - If Credit Committee determines the appraised value is unacceptable, a new appraisal will be required.

Government - Originator must initiate the case number transfer to A&D using FHA or VA required procedures.

6.11. FHA APPRAISAL EXPIRATION DATE

- DE Underwriter may extend for 30-days from the original expiration date provided the borrower is already in contract.
- After the 30-day extension, the appraisal may not be extended any further, and a second appraisal will be required.

6.12. WDO FOR FHA LOANS

A&D will require either a wood-destroying organism (WDO) report or a WDO inspection waiver on all FHA Loans.

6.13. VA APPRAISAL EXPIRATION DATE

All VA appraisals are valid for 180-days as per the NOV (Notice of Value)

6.14. DISASTER POLICY

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 / Freddie Mac Form 2070), or
- Appraisal Update and / or Completion Report (Fannie Mae Form 1004D / Freddie Mac Form 442), or
- Uniform Residential Appraisal Report (Fannie Mae Form 1004 / Freddie Mac Form 70)
- Exterior Only Appraisal Report (Freddie Mac Form 2055)
- Individual Condominium or PUD Unit Appraisal Report (Fannie Mae Form 1073 / Freddie Mac Form 465)
- 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 are required. If damage is revealed by the inspection, it must be repaired prior to closing.

7. COMPLIANCE

7.1. 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.

7.2. CONFLICTS OF INTEREST

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.

7.3. 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.

7.4. 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.

7.5. 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.

7.6. 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.

7.7. PRINCIPAL REDUCTIONS

Loan Type	Principal Reduction Permitted
Conventional Conforming	Up to 1% of the loan amount
DU Refi Plus or FHMLC Open Access	\$250
FHA & VA Loans	The lessor of 1% or \$1,000

7.8. TITLE UNSURANCE 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.

7.9. 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., a 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.

8. REPAIR ESCROW HOLDBACK

A&D will consider holdbacks on all loans if items are minor in nature. All Holdbacks must be resolved, inspected for completion, and disbursed within 10 days of the closing. Holdbacks for items that contain the potential for undiscovered additional issues are not allowed, such as swimming pool issues or roof repairs.

All escrow holdbacks must be approved by both the underwriter and by the Director of Operations prior to allowing; it must also not conflict with any program restrictions.

8.1. REPAIR ESCROW DETERMINATION

- Total escrow to be 150% times the amount of approved repairs.
- An Underwriter must review the copy of the bids from a licensed contractor.
- Title Company will hold the money which must be collected on the CD at closing.
- The re-inspection fee must have been included on the LE.
- The re-inspection fee must be included in the holdback amount as well as the escrow holdback amount and show on the CD.
- Limited to \$2500 maximum holdback.
- Improvements must not affect the livability, soundness, or structural integrity of the property.
- After repairs are completed, any funds remaining that were contributed by the property seller must be applied to the outstanding principal balance.
- Seller funded escrow: Loan to value based on the lower of purchase price or as repaired value.
- Borrower funded escrow: LTV based on the lower of purchase price or as is appraised value.
- Only funds contributed by the borrower from his / her own funds may be returned to the borrower.

8.2. PRODUCTS AND LOAN-TO-VALUE

- Owner-occupied one to two-unit 97% LTV / CLTV limit
- Second Home 90% LTV / CLTV Limit
- 1-unit investment property 85% LTV / CLTV limit
- AUS Approve response
- No major repairs between November 15 and March 15 in cold weather states
- Weather related repairs are only eligible for new construction
- Roof or pool repairs are not eligible for holdbacks

8.3. ACCEPTABLE WEATHER-RELATED ITEMS – NEW CONSTRUCTION ONLY

- Driveway
- Sidewalk
- Landscaping

- Sprinklers
- Sod

8.4. UNACCEPTABLE REPAIRS FOR NEW OR EXISTING CONSTRUCTION

The following are some examples of items that are not eligible for an escrow holdback, but are not limited to:

- Plumbing, electrical, septic, or HVAC systems not fully functional
- Kitchen not fully functional
- Roofing issues including leaks past or present unless certified as having been repaired
- Foundation cracks or settling including leaks past or present unless certified as having been repaired
- Water in basement
- Siding or fascia along eaves that is missing or has significant damage
- Mold of any significance

8.5. PROCESS STEPS

- Originator to provide 2 bids or builder contracts
- All repair escrows to be held by the title company
- Loan to have the full amount of the escrow holdback added to the fee screen as Misc. Fee line1319 (escrow holdback).
- The loan will have the following conditions at closing:
 - Borrower to sign the A&D Escrow Holdback Agreement. A repair escrow to be established for \$X,XXX for the following repairs:
 - Final inspection by the appraiser, with photos, to confirm completion of the following repairs:
_____ . Repairs to be completed within 10 days of the closing date.

9. INSURANCE AND TAXES

9.1. HAZARD INSURANCE

Property insurance for home mortgages must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. Although policies containing the “full replacement cost” are preferred, A&D will allow specific coverage amounts if they conform to the requirements set out below.

All files **must have** an original homeowner’s insurance policy and contain all of the following:

- The borrower must be listed as the principal insured on all policies.
- Insured’s name and property address, which must match mortgage records (mortgage, note, and title policy) exactly.
- Policy inception and expiration dates must be clearly indicated. An annual premium must be indicated along with a paid receipt.
- Insurance carrier and agent must be indicated.
- Property insurance for home mortgages must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement.

Coverage amount must be equal to the lesser of the following:

- 100% of the insurable value of the improvements, as established by the property insurer; or
- The unpaid principal balance of the mortgage, as long as it equals the minimum amount (80% of the insurable value of the improvements) required to compensate for damage or loss on a replacement cost basis. If the above requirements are not met, then the coverage that does provide the minimum required amount must be obtained.

9.2. DEDUCTIBLES

Homeowner policy deductibles cannot exceed 5% of the dwelling coverage. Windstorm, Hail, and / or Hurricane coverage deductibles (whether included in the homeowner’s policy or written under a separate policy) cannot exceed 5% of the dwelling coverage unless a higher deductible is required by state law.

9.3. ACCEPTABLE PAID RECEIPT

Each policy must be current and must have a paid receipt. New policies must be valid for one year. In the case of a refinance, the original policy and the paid receipt are preferred. In lieu of providing a paid receipt, evidence of the amount disbursed on the CD is acceptable for both purchase and refinance transactions. We will accept a copy of the original policy, certified as a true and exact copy by the agent. Also, faxed copies are not acceptable.

9.4. REFINANCES

On a refinance, an endorsement will be required to reflect the change in the amount of coverage if the new loan amount exceeds the current coverage. If an existing policy is being used, the policy must have

a minimum of 60 days remaining before expiration / renewal from the date of closing. With this in mind, never will more than 10 months of hazard insurance be collected in reserves at the time of closing. Any policies renewing at, prior to, or within 60 days of closing will be the responsibility of the borrower or closing / disbursement agent to ensure remittance to the carrier for the next 12-month period.

9.5. FLOOD INSURANCE

It is the policy of A&D that it shall not make, increase, extend or renew any Designated Loan unless a flood determination is obtained and the residential building(s) and any applicable personal property securing the loan is covered by flood insurance for the term of the loan if the subject property is in a SFHA. In addition, for the purposes of this policy, all loan modifications shall be considered to be a renewal or extension. Under no circumstances can A&D release a borrower from the mandatory flood insurance requirement.

9.6. FLOOD DETERMINATIONS

Flood determinations are ordered by A&D. It is the policy of the A&D that it will not rely on a previous flood determination under any circumstances.

To meet FEMA requirements, the flood certification must include the following information:

- Flood zone determination on a Standard Flood Hazard Determination Form (SFHDF)
- Community and panel number
- Date of the flood map
- Flood zone and status of community (NFIP participating or non-participating)

Any flood zone beginning with an A or V is considered a Special Flood Hazard Area (SFHA).

9.7. FLOOD INSURANCE REQUIREMENTS

If it is determined that the property is located in a SFHA, the Underwriter must then determine if the community in which the property is located participates in the National Flood Insurance Program (NFIP). If the property is located in a SFHA and in a participating community, federal flood insurance is available under NFIP and will be required on loan. However, if it is determined that the property is located in a SFHA but in a non-participating community, NFIP flood insurance will not be available and it is A&D policy that it will not make, extend, renew or increase these types of loans. In addition, A&D will not accept or approve any loans secured by property located in a Coastal Barrier Resources Area (CBRA) or Otherwise Protected Area (OPA).

Regardless of the community's NFIP participation, the originator is required to notify the borrower when the property is located in a SFHA.

9.8. COVERAGE REQUIREMENTS

Flood coverage needs to meet or exceed the hazard amount to a maximum of \$250,000. Hazard is the ultimate decision-maker of "replacement cost."

- The above statement applies to Condo / PUD Master policies as well. The Underwriter must ensure the building coverage divided by the units is equal to or greater than the required hazard coverage.
- A&D does not allow GAP policies for FHA – an exception to this is if the Master Flood is an “RCBAP” Policy
- A&D Underwriter must review the plat map AND the photos to identify other structures on the property, including sheds. Sheds / other structures must be addressed, and additional coverage supplied if the below does not apply.
- If Flood or Appraisal Company is willing to state the shed is valued less than \$1000.00 or not on a solid foundation, coverage is not required.
- If the property is on a split flood map, the determination needs to match the flood map. This may require the determination to be disputed. An underwriter must verify that the most recent flood maps are used in the determination.
- A&D does not accept Accord binders. A&D requires either a fully completed flood application with evidence of payment OR an in-force declarations page.

9.9. TAXES

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

10. QUALIFIED MORTGAGE / ABILITY TO REPAY

10.1. REBUTTABLE PRESUMPTION

A&D has developed specific Residual Income guidelines to ensure compliance with the CFPB’s direction to ‘consider’ residual income during the underwriting of a Qualified Mortgage loan that falls into the higher risk Rebuttable Presumption loan. Lenders must verify sufficient residual income to meet monthly living expenses after the borrower(s) pay their mortgage and other debts. The ability to repay requirement is a statutory obligation under TILA. QM Loans that are classified “rebuttable presumption” regardless of loan type must pass the residual tests.

Residual income is the amount of gross income remaining after subtracting the total monthly debt obligations considered for loan qualification from the total monthly qualifying income. The difference is considered Residual Income.

RESIDUAL INCOME – OWNER-OCCUPIED PROPERTIES

The chart below will illustrate A&D’s requirement for residual income and liquid reserves when a loan’s QM findings are Rebuttable Presumption.

Amount of Monthly Residual Income	Reserves Required	Notes
Above \$2,500	N/A	
\$800-\$2,500	Greater of 3 months PITI or Minimum required per loan program	Additional Reserves may be required if additional layers of risk are present in the loan
Below \$800	Not Eligible for closing	The loan does not meet QM guidelines

Residual Income – Second Homes

Amount of Monthly Residual Income	Reserves Required	Notes
Above \$2,500	N/A	
Below 2,500	Not Eligible for closing	The loan does not meet QM guidelines

10.2. NON-QM LOAN

A&D will not close any conforming loan that is considered non-QM.

11. DISCRETIONARY PRICING POLICY

A&D Mortgage is committed to supporting a fair and transparent mortgage marketplace.

A&D Mortgage is aware of fair lending requirements and has implemented procedures and controls to identify practices that could result in discriminatory treatment of any class of borrowers. Discretionary pricing that is not properly controlled may increase fair lending risk.

As required for regulatory compliance, it is the policy of A&D Mortgage to promote the availability of credit by providing credit to an applicant based on a lawful exception when exceptions practices are complemented by an appropriate system of fair lending compliance management.

A&D Mortgage will allow discretionary pricing to be used when any of the following are determined by A&D Management:

1. Meet a competitive offer;
2. Renegotiation after rate lock;
3. Address customer service issue or operational error;
4. Needed to avoid High-Cost Loan;
5. Change in loan parameters after lock;
6. Borrower needed closing cost assistance;
7. Needed to meet Net Tangible Benefit test

The Management of A&D Mortgage will document any pricing discretion by acknowledging the presence of the adjustment, the amount of the adjustment, and who within the Management Team approved the adjustment. Loan Officers may request price adjustments via the A&D Exception form, and all approvals / denials will be completed by Management.