

SECOND MORTGAGES

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Second Mortgage Programs

Three loan types are available under the second mortgage program: an open end revolving line of credit - "HELOC" which has an interest rate tied to the Prime Rate plus a margin; and "Fixed 2nd", a closed-end, fixed rate, fully amortizing, 2nd mortgage whose proceeds are distributed to the Borrower in a single disbursement. Both loans can be used simultaneously with a purchase money first, or as method to draw equity from one's home. The third program available is a 125% closed end 2nd mortgage which will be discussed later in this chapter.

These loans may only be underwritten by our Home Equity Division.

Mortgage Eligibility

Product Types

- ◆ HELOC – Home Equity Line of Credit;
- ◆ Fixed 2nd Closed End Second Mortgage; and
- ◆ 125% Second Program.

Occupancy

- ◆ *Primary Residence (Owner-occupied)*; and
- ◆ *Second/Vacation Homes (Owner-occupied)*. A second home is a **1-unit** property which is owned and occupied by the Borrower for his or her exclusive use and enjoyment. The property is not controlled by a management firm nor is it subject to any rental pools or agreements to rent. The following conditions must also be met:
 - ◇ CLTV must not exceed 80%;
 - ◇ Loan may not exceed \$50,000;
 - ◇ Credit score of at least 680, no exceptions;
 - ◇ Maximum DTI ratio of 45%;
 - ◇ Must be full URAR, (FNMA 1004/FHLMC 70, or a second mortgage appraisal, (FNMA 2055/FHLMC 704), not dated more than 360 days prior to date of 2nd note;
 - ◇ Stated income not permitted.
- ◆ Investment Property (**HELOCs only**).

Borrower Eligibility

US Citizen

A US citizen is eligible for all loan programs.

Permanent Resident Alien

A permanent resident alien is defined as a non-US citizen who maintains legal permanent residency in the US. For a resident alien to be eligible as a Borrower, the following requirements must be met:

- ◆ Borrower holds alien registration ("green") card;
- ◆ Borrower is employed by a US company and has been for a minimum of two years;
- ◆ Borrower has 2 year history of funds on deposit in US financial institution; and
- ◆ Borrower has 2 year credit history with at least one of the three major US credit repositories.

Ineligible Borrowers

- ◆ Non-permanent Resident Alien(s);
- ◆ Non-occupant Co-Borrower(s); and
- ◆ Foreign National(s).

Ownership Interest

Fee Simple

Fee Simple ownership describes the greatest interest an owner can have in real estate. An owner in fee simple has the right to dispose of the property or pass it on to heirs.

Leasehold

A leasehold is an estate or an the interest in real property held by a lease. The leasehold refers to the land leased to the owner(s) of the structure. Leasehold estates are permitted provided the following conditions and warranties are met:

- ◆ *Ground Lease Analysis:* An analysis must be made and reported on the FHLMC Ground Lease Analysis Form (#461). The form must be submitted in the credit package. A leasehold property is subject to declination if analysis does not prove satisfactory.
- ◇ *Warranties:* The lease must include language which allows for the mortgaging of the estate, permits assignment without the lessor's consent and grants the mortgagee the right to acquire the rights of the lessee upon foreclosure or "deed in lieu". In addition, it must be warranted that:
 - ◇ The lease is executed by the fee owner or lessor;
 - ◇ Mortgaged premises is located in an area where the leasehold transaction is an accepted practice and properties are readily marketable;
 - ◇ Loans are acceptable to FNMA, FHLMC and private mortgage insurance companies;
 - ◇ The lease and/or sublease are recorded with no party being in breach of any provision;
 - ◇ The lease may not terminate earlier than 10 years past the maturity of the mortgage loan; and
 - ◇ If a sublease is involved, those sublease payments are at least equal to the lease payments and payments are due at the same frequency, (i.e., monthly, annually, etc.).

Property Types

Eligible Properties

- ◆ Single Family, 1 (attached, semi-detached, detached);
 - ◆ Unit within a PUD;
 - ◆ 2 unit properties;
 - ◆ 3-4 unit properties are eligible provided:
 - ◇ CLTV does not exceed 80%;
 - ◇ Loan may not exceed \$50,000
 - ◇ Maximum DTI ratio of 45%;
 - ◇ Credit score must be 680 or higher - no exceptions;
 - ◇ Appraisal standards must meet requirements outlined in this section;
 - ◇ Stated income programs are not eligible for 2nd mortgages on 3-4 unit properties; and
 - ◇ there will be margin/yield adjustment.
 - ◆ Modular pre-cut/panelized housing;
 - ◆ FHLMC Class I, II, and III Condominiums with one to eight stories;
 - ◆ Manufactured Housing.
- (NOTE: For all loans secured by condominiums, a Condo Warranty Certificate is required.)*

Additional Property Considerations

- ◆ Properties currently listed for sale or those which have been listed for sale within the previous 6 months are not eligible.
- ◆ If property is in an area of declining values, CLTV may not exceed 75%.

Mortgaged Premises with Less Than 800 Square Feet

Dwellings with less than 800 square feet must be supported by an appraisal that substantiates such square footage is typical and readily marketable for the subject area. Urban and suburban dwellings will be considered. Rural dwellings are not acceptable under this program.

Acreage

A maximum of 10 acres is allowed.

Manufactured Housing

Financing for manufactured housing is available subject to the following conditions:

- ◆ Existing properties only.
- ◆ Property is owner-occupied or a second/vacation home;
- ◆ Available on Purchase, R/T Refinance and Cash-out Refinance, (cash out to \$50,000);
- ◆ Purchase transactions require 10% Borrower's own funds;
- ◆ Max LTV/CLTV is reduced by 5%; an additional 5% reduction is required if more than one comparable is greater than three (3) miles from the subject property;
- ◆ If property is less than two (2) years old, LTV/CLTV is calculated based on the lesser of the original purchase price or appraised value.
- ◆ Property must have a minimum width of "double wide";
- ◆ Property must have a minimum living area of 960 square feet and have at least two (2) bedrooms;
- ◆ Property must be legally classified as real estate, and meet all Federal Home Construction and Safety Standards as set forth by the department of HUD in June, 1976 as evidenced by a "certification label" that is permanently affixed to each transportable section of the unit;
- ◆ Unit must have the wheels and axles removed and be attached to a permanent foundation which is suitable for the soil conditions of the site, with an acceptable perimeter wall of concrete, masonry or treated wood (under code) and proper perimeter and interior footings located below the frost line;
- ◆ Full utilities must have been installed to meet all local health and safety standards including:
 - ◇ Continuing supply of potable water;
 - ◇ Public sewer or certified septic system; and
 - ◇ Public electricity.
- ◆ Property must take on all characteristics of a "site built" single family home which must include, but are not necessarily limited to;
 - ◇ Interior walls of drywall or sheet rock;
 - ◇ Roof of shake, composite or tile;
 - ◇ Poured parking slab and permanent carport or garage if reasonable and customary to the area;
 - ◇ Permanent steps and stoops for all external doors.
- ◆ Appraiser must identify which building codes the unit was constructed in compliance with, and confirm that such compliance is fully acceptable, appropriate and satisfactory of all state specific and local requirements. Proof of certification must be included in the appraisal;
- ◆ Acceptable comparables must be available to substantiate the value; marketing time must not exceed six (6) months. At least two comparables must be manufactured homes.
- ◆ The appraisal must address local demand, marketability and supply of manufactured housing in the area;
- ◆ Property must be insured as a single family residence with all the appropriate title endorsements including merging and elimination of any vehicle or U.C.C. licensing or filing;
- ◆ Vehicular access to the property must exit via an abutting all weather public or private street. In case of a private road, there must be a permanent easement and provisions for road maintenance;
- ◆ Property may not be located in a mobile home park.

Ineligible Property

- ◆ Houseboats
- ◆ Cooperatives
- ◆ Condotels
- ◆ Unimproved land
- ◆ Multifamily dwellings containing more than (4) four units
- ◆ Timeshares
- ◆ Tax sheltered syndicates
- ◆ Working farms, ranches and orchards
- ◆ Non-conforming zoning uses
- ◆ Commercial or industrial zoned and/or usage of property

Appraisal Requirements

In addition to the guidelines set forth in the following chart, the following requirements apply:

- ◆ All appraisals must be completed based on an “as is” valuation. If not, they must include a completion certificate (FHLMC 442) if the estimate of value was made “subject to repairs, alterations and/or conditions” or “subject to completion per plans and specifications”.
- ◆ An original signed appraisal or copy of the appraisal with legible copies of the original photographs of the mortgaged premises and comparables, are required.
- ◆ In areas of declining property values, the CLTV is limited to 75% on owner occupied, fully documented loans. Stated Income, 2nd/vacation homes and 3-4 unit properties and not eligible in areas of declining value.

Appraisals Dated Up to 360 Days From Date of Home Equity Note

Property Type	Loan/Line Amount*	Appraisal Type	Additional Information
Stated Value Program: Single-family; 1-2 unit	To \$30,000	No appraisal required	Borrower must list prop.value on 1003; and meet A1, or A2 credit grade - 1st mortgage must have 12 months seasng. Max DTIR 45%
SFR; 1-8 story condo; PUD; 2nd home; 2-unit	\$10,000 to \$100,000 2nd Home to \$50,000	FNMA 1004/FHLMC 70 or FNMA 2055/FHLMC 704 LP Collateral Assessment LSI Real Estate Evaluation FNMA 1025	Condos from 2-8 stories req. FNMA 1073 or FHLMC 465
3-4 units	\$10,000 to \$50,000	FNMA 1004/FHLMC 70 FNMA 1025	No exceptions on loan amt.
SFR; 1-8 story condo; PUD; 2-unit	Over \$100,000	FNMA 1004/FHLMC 70	Condos from 2-8 stories req. FNMA 1073 or FHLMC 465

*For HELOCs, the Loan amount will be the maximum amount of the line

Appraisals greater than 360 days but less than 2 years from date of Home Equity Note

Property Type	Loan/Line Amount*	Appraisal Type	Additional Information
Single-family 1-2 unit; 1-8 story condo; PUD; 2nd/vac home; 3-4 unit	Up to \$200,000 and CLTV is less than or equal to 80%	Recertification of Value, Statistical Valuation or Field Review	A copy of FNMA 1004 or FHLMC 70 dated between 360 days and two years.
SFR; 1-8 story condo; PUD; 2-unit	Up to \$200,000 and CLTV greater than 80%	Recertification of Value, or Field Review	A copy of FNMA 1004 or FHLMC 70 dated between 360 days and two years.

**For HELOCs, the Loan amount will be the maximum amount of the line

Underwriting Standards

Credit Quality

Fully documented loans must meet the credit standards of A1, A2 or A3 as defined below. Loans using stated income must fit credit grades of A1 or A2. In addition to meeting the credit grade, the Borrower must have at least 12 months of previous mortgage experience, with the exception of First Time Home Buyers meeting specific provisions.

Credit Report Criteria

The credit report must contain complete information from all repositories used and be issued by an independent agency. If the Borrower(s) has resided at his current address for less than 1 year, credit must be searched using the former and current addresses.

The loan file must include, for each Borrower whose income and/or assets is required for qualification, one of the following:

- ◇ A full Residential Mortgage Credit Report (RMCR); or
- ◇ An In-File credit report accessing at least 2 or three repositories (3 sources are preferred).
- ◇ A minimum of two credit scores is required for each Borrower. If two repository scores are reviewed, lowest score is used; if three repository scores are reviewed, middle score is used. If more than one score is provided by the same repository, the first score is used.

Once the score for each Borrower is determined, use for qualification as follows:

- ◆ For Stated Income use the lowest score among all Borrowers;
- ◆ For Full/Alt doc loans, use score of primary Borrower, (Borrower with highest income).

In addition to the credit score requirement, the Borrower must have:

- ◆ A minimum two year established credit history;
- ◆ A minimum of four rated tradelines; and
- ◆ At least one trade must have been reported in the last six months.

Liabilities

All outstanding liabilities must be listed as debt and include all:

- ◆ Revolving charges;
- ◆ Installment debt and leases;
- ◆ Real estate loans;

- ◆ Auto Loans; and
- ◆ Net losses from real estate owned.

Credit Scoring

<i>Credit Quality Grade</i>	<i>Minimum Credit Score</i>	<i>Housing Payment, Bankruptcy, Foreclosure, Major Adverse Credit History</i>	<i>Qualifying DTI Ratios*</i>
A1	720+	Housing payment: 0x30 day and day mortgage/rental delinquency in last 12 mo. and no 60+ day mortgage/rental delinquency in last 24 mo. Bankruptcy: None Foreclosure: None Major Adverse Credit: **None reported in last 24 months.	45%
A2	680-719	Housing payment: 0x30 day and day mortgage/rental delinquency in last 12 mo. and no 60+ day mortgage/rental delinquency in last 24 mo. Bankruptcy: None in last 7 years Foreclosure: None in last 7 years Major Adverse Credit: **None reported in last 24 months.	45%
A3	620-679	Housing payment: 0x30 day and day mortgage/rental delinquency in last 12 mo. and no 60+ day mortgage/rental delinquency in last 24 mo. Bankruptcy: None in last 7 years Foreclosure: None in last 7 years Major Adverse Credit: **None reported in last 24 months.	45%

* **DTI of 50%** if credit score is equal to or greater than 680, **or** residual income \geq \$3,000.

****Major Adverse Credit** includes 90 day lates on revolving and installment debt; collections; judgments; liens; and garnishments.

Income Documentation

Full Doc

Salaried Wage Earner

Income must be verified for most recent 2 years. The following documentation is required:

- ◆ Paystubs for the most recent 30 day period showing YTD income and W-2s for last 2 years;
- OR**
- ◆ Written verification of employment which must include:
 - ◇ Dates of employment;
 - ◇ Position;
 - ◇ Probability of continued employment;
 - ◇ Base pay and frequency; and
 - ◇ Itemization of overtime and bonus income if applicable. If bonus or commission income is 25% or more of Borrower’s income, two years of personal tax returns, including all schedules, are required.

Self-Employed

- ◆ Two years personal tax returns with all schedules;
- ◆ Two years business tax returns with all schedules; and
- ◆ YTD P&L, dated and signed, (if over 120 days since filing tax return) **or** six months bank statements supporting a steady income stream.

Fixed Income

- ◆ W2-P Forms for past two years;
- ◆ Award letter or court order and evidence of receipt;
- ◆ Two years 1099s;
- ◆ Two years personal tax returns with all schedules;
- ◆ Current financial statement;
- ◆ Copy of divorce stipulation and decree or court order, if applicable; and
- ◆ Three months personal bank statements documenting the receipt of income.

Stated Income

Stated income may be used provided the following criteria is met:

- ◆ CLTV does not exceed 75%;
- ◆ Loan amount does not exceed \$50,000;
- ◆ The DTI Ratio does not exceed 45%;
- ◆ Loan meets credit grade of A1 or A2;
- ◆ Property is primary residence; and
- ◆ Appraisal is a full URAR or a second mortgage appraisal dated not more than 360 days prior to the date of the Home Equity Note.
- ◆ A verbal VOE with no income verified (for salaried borrowers) or 3rd party documentation of existence of business (for self-employed borrowers) will be required
- ◆ Borrowers will be required to sign a 4506 (Authorization to release tax returns) at closing.

Income and Debt Ratio Analysis

In addition to standard calculations for debt to income ratios, the following Home Equity Loan requirements must be met:

- ◆ All Borrowers whose income is used to qualify must occupy the property as their primary residence or second home;
- ◆ The payment of the new second mortgage must be added to current housing expense and other monthly debt to calculate the DTI ratio.

DTI Ratio Upgrades

DTI Ratios may be increased to from 45% to 50% , on owner occupied primary 1-2 unit properties, when one of the following compensating factors are present:

- ◆ Credit score is equal to or greater than 680; or
- ◆ The Borrower's residual income is at least \$3,000.

Down Payment

Not applicable to Home Equity Loans

Reserve Requirements

Though reserves aren't required for Home Equity Loans, when originating a simultaneous first and second mortgage, the Borrower is must meet reserve requirements in accordance with 1st mortgage guidelines.

Financing Closing Costs

There is no limit on the amount of closing costs which can be financed as part of the Loan, except for any state limitations.

Age of Documents

Credit documents must be dated no more than 180 days prior to the date of the Home Equity Note. The Credit Report must be dated no more than 120 days prior to the date of the Home Equity Note and the Appraisal should be dated within 360 days of the Home Equity Note.

Subordinate Financing

When the 2nd mortgage is originated, the total amount of the subordinate financing (if any), the payment on the first mortgage and the new home equity loan must not exceed the maximum CLTV as defined in this section of your guide.

First Mortgage Requirements

Eligibility

The underlying first mortgage can be:

- ◆ Conventional;
- ◆ VA or FHA;
- ◆ Balloon loans with reset option;
- ◆ Balloon loans without a reset option are permitted only if the balloon payment does not occur prior to the maturity of the Home Equity Loan.
- ◆ Negatively amortizing loans are permitted if CLTV remains within the allowable guidelines when adjusted as follows;
 - ◇ Calculation of Maximum Possible Principal Balance: Multiply the original principal balance by 1.25, or capped amount (not to exceed 125%).
 - ◇ Calculation of Adjusted CLTV: The maximum possible principal balance (as calculated above) is added to the amount of the new home equity loan/line and any subordinate lien and divided by the appraised value.
 - ◇ Example: Original 1st mortgage balance - 100,000 x 1.25 = 125,000 (max possible balance) + 2nd mortgage of 30,000 = 155,000 / by value of 275,000 = CLTV of 56.36%.

Ineligible First Mortgages

The underlying first mortgage loan may not;

- ◆ Be a contract for deed, purchase or land contract;
- ◆ Be held by a private party;
- ◆ Have any provision prohibiting the placement of an additional lien on the Mortgaged Premises; and
- ◆ Have any provision which allows for future advances (i.e., LOC).

First Mortgage Payment History

The underlying 1st mortgage loan (or the previous 1st mortgage loan if Home Equity Loan is being originated simultaneously with a new 1st mortgage loan), must be current as of the funding date of the Home Equity Loan and must not have been more than 30 days late in the previous 12 months nor 60 days late during the previous 24 months.

Temporary Buydowns

Though not permitted on second mortgage loans, a temporary buydown may be used on a first mortgage, when closed simultaneously with a second, and when in accordance with the guideline requirements of the first mortgage. The rate in effect at the beginning of the second year of the first mortgage term is used for qualification. If the first mortgage is seasoned for more than 1 year, the current bought down rate is used.

Mortgage Insurance

None required.

Max CLTVs / Loan Amounts

Maximum Loan/Line Amounts for HELOC/Fixed 2nd Programs

Primary Residence, Owner Occupied

*Single Family (detached, semi- detached, attached) *Condominium worth one to eight stories (I,II,III)		*2-unit (attached or detached)	*PUD
Credit Grade/ Score	Max Loan/Line Amount	CLTV	DTI
A1 - A2 ≥680	\$100,000	95% (100% if stand-alone)	45% (50% if residual income ≥\$3000 or credit score ≥ 680)
	\$200,000	80%	45% (50% if residual income ≥\$3000 or credit score ≥ 680)
A-3 640-679	\$50,000	95%	45% (50% if residual income ≥\$3000 or credit score ≥ 680)income ≥\$3,000.
A-3 620-639	\$25,000	90%	45% (50% if residual income ≥\$3000 or credit score ≥ 680)

Second Homes & 3-4 units

*Second/Vacation Home (1-Unit only)			
	Max Loan/Line Amount	CLTV	DTI
A1 - A2 ≥680	\$50,000	80%	45%

Home Equity Program for First Time Home Buyers

Borrower's with less than 12 months previous mortgage experience are eligible as follows:

Primary Residence, Owner Occupied

Single Family (detached, semi detached or attached); 1-2 unit; PUD (attached or detached); and Condo w/ 1-8 stories (Class I, II, III)		
Credit Grade Minimum Score	A1, A2, A3 640	A1, A2 680
DTI Ratio	45%	45%
Maximum LTV	95%	95%
Max Loan Amount	\$25,000	\$50,000
Documentation	Full	Full

Stated Value Home Equity Program

Stated Value home equity loans/lines are based on the value of the property as stated by the Borrower. **The first mortgage must have not less than a 12 month rated payment history** and the following guidelines apply:

Primary Residence, Owner Occupied

Single Family (detached, semi detached or attached); 1-2 unit; PUD (attached or detached); and	
Credit Grade	A1, A2
Minimum Score	680
DTI Ratio	45%
Maximum CLTV	Up to 100%
Max Loan Amount	\$30,000
Documentation	Full

Rescission Period

The Borrower(s) have the right to rescind the transaction and must be informed of that right. Funds may be advanced to the Borrower prior to the expiration of the rescission period only if the Home Equity Loan is used to fund the purchase of the Mortgaged Premises.

Sales Concessions

Sales concessions are not applicable to the Home Equity Programs unless the Home Equity Loan is being originated simultaneously with a first mortgage, in which case the maximum allowable sales concessions must follow the guidelines of the first mortgage.

Title Requirements**Home Equity Loans/Lines =< \$100,000****Stand alone transactions**

A title insurance policy, binder or title search must be obtained to determine that the new home equity loan/line creates a valid first lien or second lien subordinate only to the lien of the holder of the first mortgage loan on the subject property. Title insurance is not required.

Simultaneous transactions - Refinance or Purchase

For home equity loans/lines closing simultaneously with the origination of a new first mortgage for the purpose of purchase or refinance, the second mortgage must be shown on the title insurance policy with the new first mortgage as proposed insured in second position for the amount of the home equity loan/line. No separate policy is required as long as the title insurance policy for the new first mortgage is written on the current standard form of the American Land Title Association (ALTA).

Home Equity Loans/Lines > \$100,000

A mortgagee title insurance policy which is valid and binding and remains in full force and effect is required for loan/line amounts in excess of \$100,000. The form of the title insurance policy must be written on the current standard form of the American Land Title Association (ALTA). Coverage must be sufficient to cover the original principal balance of the loan or maximum amount of the line of credit.

Hazard Insurance Requirements

At a minimum, the mortgaged premises must be protected against loss or damage from fire and other perils covered within the scope of standard extended coverage. At a minimum, the hazard insurance coverage must provide for either guaranteed replacement of the value of the improvements or the actual unpaid balance of the first mortgage plus the amount of the second mortgage (or line of credit). If the first mortgage has potential for negative amortization, the hazard insurance coverage must be either guaranteed replacement coverage or the combination of the highest balance permitted under the terms of the note plus the amount of the second mortgage (or line of credit).

Deductible

The deductible may not exceed the lower of \$1000 or 1% of the applicable coverage amount.

Mortgagee Clause

Prior to the home equity loan closing, Cherry Creek Mortgage Company, Inc., must be added as to the hazard insurance policy as a second mortgagee. It must identify Cherry Creek Mortgage Company, Inc., as the second mortgage interest and must not replace the mortgagee clause pertaining to the first mortgage loan unless the home equity loan will be assuming first position on the property.

Flood Insurance Requirements

CCMC will provide a flood certification to determine whether a building is located within an identified "Special Flood Hazard Area" (SFHA) as determined by the Federal Emergency Management Agency (FEMA). Flood insurance will be required if any part of the principal structure is located within a SFHA. Coverage, deductible, and mortgagee clause requirements are the same as listed above under Hazard Insurance.

HELOC - Home Equity Line of Credit

The HELOC is an open-end line of credit which is secured by a lien on the Mortgaged Premises. The Line is subordinate only to the first mortgage lien. In addition to the criteria previously outlined in this section of your guide, the following paragraphs apply to the *HELOC - Home Equity Line of Credit*.

Loan Term

The term of the HELOC consists of one of the following:

- ◆ A 25 year term consisting of a 15 year draw period and a 10 year repayment period.
- ◆ A fifteen year term consisting of a 5 year draw period and a 10 year repayment period is required when;
 - ◇ The underlying first mortgage is a balloon mortgage with a refinance option;
 - ◇ The underlying first mortgage has a negative amortization feature;
 - ◇ The HELOC is secured by second/vacation home or investment property;
 - ◇ The HELOC is a Stated Income loan; and
 - ◇ If the CLTV exceeds 90%.

Borrower Servicing Information

Statement/Payment Dates & Amounts

The payment date will be disclosed in the monthly statement which will be mailed directly to the Borrower at least 15 days prior to the due date.

- ◆ HELOC w/ draw and repayment period: The minimum payment due during the draw period will be the **greater** of:
 - ◇ 1% of the outstanding principal balance on the last day of the billing cycle;
 - ◇ \$100.00; **or**
 - ◇ The amount of interest accrued.

At the end of the draw period, the remaining balance will amortize over 10 years to pay balance down to zero. Rate will continue to vary with prime. No further draw available.

Checks

The Borrower will generally receive their checks within 60 days of loan closing. No access to remaining funds will be available until servicing has been set up.

Minimum Initial Advance and Draw Requirements

- ◆ A minimum initial advance may be subject to individual State Regulations.
- ◆ Checks must be written for a minimum of \$100 (or that amount regulated by individual State Law).

Interest Rate and Interest Charge Information

- ◆ *Interest will accrue from the date of disbursement.*
- ◆ *The monthly interest rate is tied to the Prime Rate plus the margin as indicated on daily rate sheets.*

Execution of Legal Documents

The Security Agreement or Note and Security Instrument must be dated as of the same date and that date must be prior to the date of initial disbursement. Additionally, the Borrower(s) must execute the documents prior to the date of disbursement.

Borrower Disclosure Requirements

To comply with all Federal and State disclosure requirements, including, but not limited to the following, must be provided to the Borrower:

- ◆ A variable rate disclosure at application, if applicable;
- ◆ A copy of the Federal Reserve General Information brochure;
- ◆ The Home Equity Revolving Loan Disbursement Schedule must be completed if the finance charges are to be paid from the loan proceeds. The Schedule must be signed by each qualifying Borrower; and
- ◆ Notice of Right of Rescission.

Criteria for Investment Properties – HELOCs Only◆ **General Requirements**

- ◇ The term of the "line" will not exceed 15 years;
- ◇ Line amounts \$10,000 to \$50,000;
- ◇ Full income documentation required;
- ◇ Allowable property types;
 - > SFD, one and two unit detached, semi detached or attached;
 - > PUD
 - > Condo in 1-8 story building;
 - > Modular pre-cut panelized housing;
 - > Must be a site built structure.
- ◇ No prepayment penalty;
- ◇ No foreign Nationals or Non-permanent Resident Aliens;
- ◇ Minimum credit grade of A2 (680 credit score)
- ◇ 6 months PITI verified post closing
- ◇ Full appraisal required
- ◇ Maximum Debt-to- Income ratio of 45%.
- ◆ **70% CLTV**
 - ◇ Stand-alone/cash-out transactions;
 - ◇ Margin of 3.00%.
- ◆ **90% CLTV**
 - ◇ Purchase and rate/term refinance transactions;
 - ◇ Both first and second mortgages (if applicable) must be sold to CCMC.
 - ◇ The first mortgage must be locked under the JT15X or JF15X product.
 - ◇ The first mortgage must meet the "Expanded Criteria" guidelines;
 - ◇ Borrower must have 10% of own funds into the transaction prior to closing.
 - ◇ Loans >70% CLTV have a margin of 5.00%.

Fixed 2nd - Home Equity Loan

The Fixed 2nd is a Close-end Home Equity Loan which is secured by a lien on the Mortgaged Premises. The Loan is subordinate only to the first mortgage lien. In addition to the criteria previously outlined in this section of your guide, the following paragraphs apply to the *Fixed 2nd - Home Equity Loan*.

Loan Term

The term of the Closed-end Home Equity Loan consists of one of the following:

- ◆ *Fixed Rate Loans*: 10, and 15 year terms;
- ◆ *Balloon Loans* have a term of 15 years with an amortized payment of 30 years;
- ◆ If the first mortgage is a balloon with a reset option, the term of the Fixed 2nd cannot exceed the balloon date.

Borrower Servicing Information

Calculation of payment

The Loan payment is a fixed payment which is fully amortized over the term of the loan and which is added to the monthly housing expense and other debt to calculate the DTI ratio.

Borrower's Payment Statement

The Borrower will receive a statement indicating the monthly payment amount and due date. The date of the first payment must be greater than 30 but not more than 60 days from the date of the Note.

Borrower Disclosure Requirements

To comply with all Federal and State disclosure requirements, including, but not limited to the following, must be provided to the Borrower:

- ◆ Truth in Lending Disclosure Statement;
- ◆ Good Faith Estimate; and
- ◆ Notice of Right of Rescission.

100% Simultaneous Close

The "100% Simultaneous Close" allows for two financing options, the 70/30 split and the 80/20 split. Both are available under the HELOC and Fixed 2nd loan programs. Outlined below are the guidelines for both options.

70/30 Option

First Mortgage Investors

- ◆ CCMC does not have to be the investor on the first mortgage lien; however, if a CCMC JT15X or JF15X program is chosen for the first mortgage, the following criteria must be met:
 - 15 or 30 year fixed rate loan;
 - Must meet guidelines for Expanded Criteria;
 - Max DTI 45%
 - .25 add-on to cost;
 - Owner occupied primary residence only; and
 - Max LTV of first mortgage is 70%.

Second Mortgage Type

- ◆ HELOC; or
- ◆ Fixed 2nd

Loan Amount Max (2nd)

- ◆ \$100,000

Minimum Credit Score

- ◆ 680

Margin/yield

- ◆ As posted on daily rate sheets

Appraisal Requirements

- ◆ Full Standard appraisal required (FNMA 1004 or FHLMC 70)

Property Types

- ◆ Single-family 1-2 unit detached, semi-detached or attached properties;
- ◆ Condos 1-8 story.

Pre-closing Assets

Verified assets must be equal to 5% of the lesser of the purchase price or appraised value. (Assets cannot include gift funds and verification must be submitted with the loan file.)

First-time Home-buyers

Not Eligible.

80/20 Option

First Mortgage Investors

- ◆ CCMC **must** be the investor on the first mortgage lien and the following criteria must be met:
 - 15 or 30 year fixed rate loan;
 - First mortgage must be locked under the JT15X or JF15X programs only
 - Must meet guidelines for Expanded Criteria;
 - Max ratios of 36/45%;

.25 add-on to cost;
Owner occupied primary residence only; and
Max LTV of first mortgage is 80%.

Second Mortgage Type

- ◆ HELOC; or
- ◆ Fixed 2nd

Loan Amount Max (2nd)

- ◆ \$50,000

Minimum Credit Score

- ◆ 720

Margin/yield

- ◆ As posted on daily rate sheets

Appraisal Requirements

- ◆ Full Standard appraisal required (FNMA 1004 or FHLMC 70)

Property Types

- ◆ Single-family 1-2 unit detached, semi-detached or attached properties;
- ◆ Condos 1-8 story.

Pre-closing Assets

Verified assets must be equal to six months PITI. (Assets cannot include gift funds and verification must be submitted with the loan file.)

First-time Home-buyers

Must have a minimum (pre-closing) verified liquid assets of 9 months PITI.

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125% Equity Loan Program

The 125% program provides a closed end loan for Home Improvement, Debt Consolidation and Asset acquisition. Loans are secured by first or second liens on owner occupied 1-4 family primary residences. Borrowers must be vested with fee simple estate in the property. Mortgages secured by leasehold estate may be eligible under certain conditions.

Occupancy

Owner occupied primary residences only. (*Second/vacation homes and non-owner occupied properties are **not** eligible.*)

Borrower Eligibility

U.S. residents and permanent resident aliens only. (*Non-occupant co-borrowers and non-permanent resident aliens are ineligible for this program.*)

First Time Home-buyers

Borrowers with less than 12 months mortgage history will be considered for financing under this program if the following criteria are met.

- ◆ 680 or better credit score;
- ◆ Maximum loan amount of \$50,000; Maximum cash out \$10,000
- ◆ 6 months mortgage history (on current residence) and 18 months rental history prior to the purchase on the home;
- ◆ 0x30 days late on mortgage/rental accounts for the past 24 months;
- ◆ 0x90 days late on consumer accounts in the past 12 months;
- ◆ Grade 4 pricing will apply; and
- ◆ Bankruptcy must be discharged 7 years.

Ownership Interest

Property Ownership

- ◆ Fee simple;
- ◆ Leasehold: Loans on properties in a leasehold estate may be eligible, provided all of the following conditions are met:

The lease is executed by the fee owner.

The use of leasehold or ground rent estates for residential properties is an acceptable practice in the area where the Mortgaged Property is located.

Residential properties in the area consisting of leasehold or ground rent estates are readily marketable.

Loans covering such residential properties are commonly acceptable to FNMA, FHLMC and private institutional investors.

The lease is recorded, and no party is in any way in breach of any provision of the lease.

The leasehold is in full force and effect and is not subject to any prior lien or encumbrance by which the leasehold could be terminated.

The remaining term or exercised renewal must extend 5 years beyond the term of the proposed loan.

Tile Vesting

- ◆ Individual;
- ◆ Joint Tenants;
- ◆ Tenants in Common; and Family Trust.

Property Types

Eligible Properties:

- ◆ One (1) unit attached, semi-detached **or** detached single family dwelling;
- ◆ A unit within a condominium complex up to 8 stories - Maximum loan amount \$35,000 (all credit grades) up to 125% CLTV. (Note: Condominium HOA Certification required)
- ◆ A unit within a PUD;
- ◆ Modular pre-cut/panelized housing;
- ◆ 2-unit properties; and
- ◆ 3-4 unit structures which adhere to all of the following conditions:
 - Credit score must be at least 680;
 - Grade 4 pricing will apply** to all loans for 3-4 unit properties;
 - Maximum debt-to-income ratio is 50% (refer to loan grading matrix for ratio requirements).
 - Maximum loan amount is \$35,000.

Ineligible Properties:

- ◆ Co-operatives;
- ◆ Timeshares;
- ◆ Condo-hotels;
- ◆ Unimproved land;
- ◆ Manufactured housing; and
- ◆ Properties currently listed for sale or that have been listed for sale within the last six months

CLTV

The Combined Loan To Value is the sum of the proposed 125 Loan, the unpaid principal balance of the first mortgage loan and the outstanding amount of any secured lien subordinate to the 125 loan, divided by the value of the property. Financing to the maximum CLTV ratio, as established in the Loan Grading Matrix, is acceptable where property values are stable or increasing. **In areas where property values are declining, the maximum CLTV ratio may be decreased on a case-by-case basis.**

Credit Requirements

Credit Quality Standards

Grade	Score	Housing Payment, BK, Foreclosure, Adverse Credit History	Qualifying Ratios
Grade 1	700+	<u>Housing Payment</u> : 0x30 mortgage/rental delinquency in last 12 months; and no 60+ mortgage/rental lates in last 24 months. <u>Bankruptcy</u> : 7 years discharged*. <u>Foreclosure</u> : 7 years.* <i>Major</i> <u>Adverse Credit</u> : None reported in last 24 months.	≤45% with residual income ≥ \$1500. 45.01%-50% w/resid.inc.≥ \$2k
Grade 2	680-699	<u>Housing Payment</u> : 0x30 mortgage/rental delinquency in last 12 months; and no 60+ mortgage/rental lates in last 24 months. <u>Bankruptcy</u> : 7 years discharged*. <u>Foreclosure</u> : 7 years.* <i>Major</i> <u>Adverse Credit</u> : None reported in last 24 months.	≤45% with residual income ≥ \$1500. 45.01%-50% w/resid.inc.≥ \$2k
Grade 3	660-679	<u>Housing Payment</u> : 0x30 mortgage/rental delinquency in last 12 months; and no 60+ mortgage/rental lates in last 24 months. <u>Bankruptcy</u> : 7 years discharged*. <u>Foreclosure</u> : None. <i>Major</i> <u>Adverse Credit</u> : None reported in last 24 months.	≤45% with residual income ≥ \$1500. 45.01%-50% w/resid.inc.≥ \$2k
Grade 4	640-659	<u>Housing Payment</u> : 0x30 mortgage/rental delinquency in last 12 months; and no 60+ mortgage/rental lates in last 24 months. <u>Bankruptcy</u> : None. None None reported in last 24 months. <i>Foreclosure: Major Adverse Credit:</i>	≤45% with residual income ≥ \$1500.

*If a bankruptcy or foreclosure has ever occurred, the maximum loan is \$50,000 and the maximum DTI ratio is 45%. Grade 4 pricing will apply.

Credit Criteria – Loan Grading Matrix

The 125 Program provides for four credit grades depending on credit score. The following tables indicate additional credit requirements and other criteria for all four credit grades:

Credit Rating	1	2	3	4
Credit Score	700+	680 - 699	660 - 679	640 - 659
Max Loan Amount¹	\$75,000	\$60,000	\$50,000	\$35,000
Credit History (4 lines)	3 years	3 years	3 years	3 years
Max cash out	\$30,000	\$20,000	\$15,000	\$10,000
Home Ownership	1+ years months + ² 6	1+ years months + ² 6	1+ years	1+ years
Mortgage Credit History³	0 x 30 (12 months) x 60 (24 months) 0	0 x 30 (12 months) x 60 (24 months) 0	0 x 30 (12 months) x 60 (24 months) 0	0 x 30 (12 months) x 60 (24 months) 0
Bankruptcy Filing⁴	7 years discharged ≤\$50k - 45% DTI	7 years discharged ≤\$50k - 45% DTI	7 years discharged ≤\$50k - 45% DTI	None
Foreclosure History Deed-in-Lieu	7 years discharged ≤\$50k - 45% DTI	7 years discharged ≤\$50k - 45% DTI	None	None
Employment	Waged 2 years (Same Industry) 3-years Self-employed	Waged 2 years (Same Industry) 3- years Self-employed	Waged 2 years (Same Industry) 3- years Self-employed	Waged 2 years (Same Industry) 3-years Self-employed
OTHER REQUIREMENTS				
Debt Ratio	≤45% w/residual income ≥\$1500/month 45.01 - 50% w/residual income ≥\$2000	≤45% w/residual income ≥\$1500/month 45.01 - 50% w/residual income ≥\$2000	≤45% w/residual income ≥\$1500/month 45.01 - 50% w/residual income ≥\$2000	≤45% w/residual income ≥\$1500/month
Property/Occupancy	1-4 units Condos ≤8_stories Owner- occupied ⁵	1-4 units Condos ≤8_stories Owner- occupied ⁵	1-2 units Condos ≤8_stories Owner- occupied SFR	1-2 units Condos ≤8_stories Owner- occupied SFR
CLTV Ratio	125% all property types	125% all property types	125% all property types	125% all property types
Appraisal	>\$35K - property valuation per guidelines If ≤ \$35k, stated value ⁶	>\$35K - property valuation per guidelines If ≤ \$35k, stated value ⁶	>\$35K - property valuation per guidelines If ≤ \$35k, stated value ⁶	>\$35K - property valuation per guidelines If ≤ \$35k, stated value ⁶
Prepayment Penalty⁷	3 Year	3 Year	3 Year	3 Year
Major Adverse Credit	No adverse credit reported with the last 24 months - must satisfy anything ≥\$1000	No adverse credit reported with the last 24 months - must satisfy anything ≥\$1000	No adverse credit reported with the last 24 months - must satisfy anything ≥\$1000	No adverse credit reported with the last 24 months - must satisfy anything ≥\$1000

¹ Minimum loan amount \$10K.

² See First Time Homebuyers Criteria (a minimum of 6 months payment history); Grade 4 pricing only.

³ If current loan has less than 1 year history, the previous mortgage/rental must be verified.

⁴ Bankruptcy and Foreclosure receive Grade 4 pricing, \$50k max loan amount with maximum DTI of 45%.

⁵ 3-4 units receive Grade 4 pricing only. Condos to 8 stories: max loan amount \$35k with maximum DTI of 45%.

⁶ 3-4 unit properties require full appraisal

⁷ Prepayment penalties are acceptable as allowed by applicable state law. Follow individual State guidelines regarding prepayment penalties.

Credit History

Minimum 3 year history; 4 rated trade lines; and at least 1 trade line must have reported in the last six months.

Credit Report

The credit report must access at least two (2) or three (3) credit repositories and must be dated not more than 45 days prior to the date of the new 125 Note. The usable score will be determined by picking the middle of three scores or, if the report provides scores from only two repositories, the lower of the two will be used. The usable score for the primary wage earner will be used to determine credit grade.

Income and Debt Ratio Analysis

The following "125" documentation and income requirements must all be met:

Wage Earner

- ◆ Two current paystubs and previous two years W-2 forms;
- ◆ At least 2 full years in the same industry must be documented.

Self-Employed Borrower

- ◆ At least 3 full years of self-employment;
- ◆ Two year's tax returns and YTD profit and loss statements; and
- ◆ IRS Form 4506 signed by all taxpayers;

Rental Income

Rental income is permitted only if the following conditions are met:

- ◆ Signed rental/lease (income will be based on 25% vacancy factor);
- ◆ 2 year's 1040s with signed IRS 4506; and
- ◆ Minimum cash reserves of 3 months PITI for each property owned, (up to 5 properties). No limit on number of properties owned.

Debt Payoff

If the Borrower will be paying an installment or revolving debt with the loan proceeds, the corresponding debt payments will not be used in the calculation of the debt ratio. The Loan Disbursement Schedule or HUD-1A must show the debt being satisfied, with the payment being made directly to the creditor or the borrower and creditor jointly. This applies to asset acquisitions as well.

If the loan proceeds are to be used for home improvement, the following conditions must be met:

- ◆ Bids are required for any work over \$5,000. Some smaller projects will require bids on a case by case basis.
- ◆ A construction cost breakdown is required on all home improvements of less than \$5,000.
- ◆ Signed contracts are required.
- ◆ A final completion certificate is required on all home improvement regardless of cost.
- ◆ At closing, CCMC will either:
 - Hold inspection fee at closing to be forwarded to the inspection company; or
 - Make checks payable to Borrower and contractor, for the borrower's release to contractor.

First Mortgage Calculations

- ◆ ARMs - Qualification will be at the maximum 2nd year interest rate.
- ◆ Buydowns - Qualification will be at the maximum 2nd year payment.

Eligible First Mortgages:

An existing **first mortgage must have a minimum of three months rated payment history if the first mortgage was a purchase or cash out refinance transaction.** R/T refinances do not require the 3 months seasoning, however the 125% loan must be originated subsequent to the rate and term refinance. The HUD 1 for the first mortgage is required to verify the transaction type if less than 3 months seasoned.

- ◆ Conventional, VA, or FHA fully amortized fixed rate or ARM loans;
- ◆ Balloon Loans with a refinance option which obligates the first mortgage lender to refinance the mortgage at maturity provided the borrower meets terms and conditions of the Note; and
- ◆ Negatively Amortizing Notes (some restrictions apply – see general program guidelines)

Ineligible First Mortgages:

- ◇ Contracts for deed, purchase or land;
- ◇ Mortgages held by a private party;

- ◇ Mortgages with a provision which prohibits the placement of an additional lien on the mortgaged property;
- ◇ Mortgages with a provision which allows for future advances;
- ◇ Cal-Vet Loans; or
- ◇ Interest only mortgages.

Appraisal Requirements

The following forms of property valuation are acceptable as required by the Loan Grading Matrix;

- ◆ Full Appraisal including photos of subject and Comparables;
- ◆ HUD1/HUD1-A on the purchase transaction of the property will be required and used in establishing value if the property was purchased within the past 12 months;
- ◆ FHLMC drive-by appraisal completed within the past 12 months including photos of subject and comparables;
- ◆ URAR completed within the last 12 months; and
- ◆ For condominiums 1-4 stories, a minimum appraisal requirement is Form 704, evidencing the project meets FHLMC Class II requirements.
- ◆ Loan amounts ≤\$35,000 must state value, no appraisal is required (subject to the credit grade).
- ◆ Loan amounts >\$35,000 property value per guidelines.

125% Loans based on the value of the property as stated by the Borrower are eligible as follows:

Primary Residence, Owner Occupied

Property Type	Loan Amount	Appraisal Type	Additional Info
1-2 units	≤\$35,000	Stated Value on 1003	None
1-2 units	>\$35,000-≤\$75,000	FNMA 1004/FHLMC 70, or FNMA 2055/FHLMC 704	None
Condo 1-8 Stories	≤\$35,000	Stated Value on 1003	HOA cert/project name required
3-4 units	≤\$35,000	FNMA 1004/FHLMC 70, or FNMA 1025	Credit Score ≥680 Grade 4 Pricing

Other Key Information

Hazard coverage must be at least 100% of the guaranteed replacement cost.

Title policy changes may not have occurred within the past 6 months.

Please refer to the Second Mortgage Program Underwriting Standards earlier in this chapter for additional information regarding Hazard coverage and Title policy.