

Stars & Stripes Loan Program Guidelines



The following policies and procedures apply to all USA DIRECT FUNDING loan programs. All loans must adhere to the criteria of these policies or individual loan programs. USA DIRECT FUNDING's philosophy is to weigh all the risk factors inherent in the loan file. Consideration is given to each individual transaction, applicant profile, documentation provided, and collateral. Because each loan is unique and underwriting is an art, not a science, underwriters are expected and encouraged to use professional judgment in making a lending decision. The risk involved with a loan decision must be kept in perspective. One means of maintaining this perspective is by defining eligible borrowers, properties and transaction types while placing restrictions on transactions that pose a higher risk.

Our commitment to fairness and equal opportunity is clear. In keeping with that, all transactions and borrowers will be treated in a consistent and fair manner. All customers should receive the HIGHEST level of customer service.

Any specific guidelines NOT addressed within this guide, refer to standard FHLMC requirements.

Exceptions can be granted on a case by case basis. Please refer to your underwriter for any exceptions to the USA DIRECT FUNDING guidelines. Pricing hits WILL apply.

Guidelines are not "All inclusive". Although we have made every effort to give you the best summary of guidelines, these may change at any time without notice.

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Appraisal	<p>A full URAR (1004) appraisal is required, regardless of AUS response. If the loan size exceeds \$850,000, a second full appraisal is required. Interior photos required.</p> <p>Age of appraisal:</p> <ul style="list-style-type: none">• USA DIRECT FUNDING will not accept appraisals dated more than 12 months prior to the note date.• An Appraisal Update is required on all appraisals dated more than 90 days prior to the note date.• If the appraisal indicates that the subject property was previously sold within the last 12 months, the underwriter is required to determine the change in value. If the value has increased, the lender must document improvements that support the increase and/or the appraiser must document rapid increases in value within the market.• All appraisals should contain 2 comparable sales within the past 90 days, as well as 1 current listing. All comps used must contain information on how many days they were on the market.• Loans with LTV > 70% will be subject to an appraisal review. This review must be agreed upon by the broker, and all costs for review will be the responsibility of the broker.
Borrower Eligibility	<p>Eligible:</p> <ul style="list-style-type: none">• US Citizens <p>Permanent Resident Aliens:</p> <ul style="list-style-type: none">• As long as the borrower holds a "Green Card" (an Alien Registration Receipt Card, INS Form I-551), the loan is eligible under the same guidelines/terms as a loan made to a U.S. citizen. A copy of the front and back of the Green Card must be included in the file. An approved Green Card application will not be acceptable. Must also provide a valid Social Security number. <p>Non-Permanent Resident Aliens:</p> <ul style="list-style-type: none">• Max LTV/CLTV 75% for 1-2 units, 70% for 3-4 units.• Must provide a valid Social Security number• Must provide documentation to support that the Borrower is eligible to work in the U.S. as evidenced by an unexpired Employment Authorization Document (EAD) issued by the U.S. Citizenship and Immigrations Services (USCIS). For further info, see www.uscis.gov<ul style="list-style-type: none">- If the authorization for temporary residency status will expire within one year, and a prior history of residency status renewal exists, continuation may be assumed. If there are no prior renewals, the likelihood of renewal must be determined based on information from USCIS.- Borrowers sponsored by a specific employer do not need an EAD. A valid passport, a letter from the employer/sponsor and an I-94 or I-797 form proving they may work in the U.S. are acceptable in lieu of the EAD.- A social security card may not be used as evidence of eligibility of employment; the USCIS EAD must be used. <p>First-time Homebuyers:</p> <ul style="list-style-type: none">• Verification of 12 months rental payments is required. The loan file must contain 12 months cancelled checks or bank statements to evidence eligibility for mortgage/housing history for the loan program under which the loan was submitted. Written verification or verification via credit report is not permitted. Direct written verification of rent is acceptable in lieu of canceled checks only if the landlord is a large professional management company.• First time homebuyers require 12 months reserves.• Borrower(s) living rent-free require 12 months reserves, excluding retirement accounts. This only applies if all borrowers on the loan have been living rent-free.

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Cash Reserves	<p>Ineligible:</p> <ul style="list-style-type: none"> Foreign nationals, borrowers with diplomatic immunity, temporary protected status, deferred enforced departure or Humanitarian Parole. Borrowers without social security numbers.
Condos	<p>Only site condominiums (1 unit) are allowed; all other condominiums are ineligible for this loan program.</p>
Credit History	<p>Acceptable Individual Credit Reports:</p> <ul style="list-style-type: none"> Residential Mortgage Credit Report Merged in-file credit report with information pulled from at least two (2) national credit repositories. Individual in-file credit reports from at least two (2) national credit repositories. <p>Credit Score Determination:</p> <ul style="list-style-type: none"> Use FNMA/FHLMC qualifying score criteria: lower of two (2), middle of three (3). The lowest middle score of all borrowers on the loan will be used. <p>Credit Score Requirements:</p> <ul style="list-style-type: none"> All borrowers must have a minimum 700 middle credit score. <p>Minimum trade line requirement</p> <ul style="list-style-type: none"> 3 trade lines with a minimum 12 month history. <p>Housing Payment History:</p> <ul style="list-style-type: none"> 0x30 mortgage/rental delinquency in the past 12 months. No 60+ mortgage/rental delinquency in the past 24 months Subject mortgage must be current on delivery. <p>Bankruptcy/Foreclosure/Deed In Lieu:</p> <ul style="list-style-type: none"> None allowed in the past 7 years Time measured by discharge or dismissal date.
Construction to Perm Financing	<ul style="list-style-type: none"> LTV is based on the lesser of acquisition cost or appraised value, regardless of the amount of time the lot has been owned. Documentation of acquisition cost is required. Builder bailouts not allowed.
Documentation	<p>AGE OF DOCUMENTATION:</p> <ul style="list-style-type: none"> Credit documentation may not be dated more than 90 days prior to the Note date.

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Down Payment/ Funds to Close	<ul style="list-style-type: none"> • Please refer to Appraisal requirements for age of appraisal criteria.
Down Payment/ Funds to Close	<p>A down payment of 100% gift funds is allowed at LTV's/CLTVs less than or equal to 75%. However, the borrower must pay their own closing costs and no secondary financing may exist.</p> <p>Asset documentation requirements: Fully executed VOD or 2 months' recent bank/brokerage statements and must be sourced and seasoned for 60 days, including earnest \$ deposit in excess of 2%</p> <p>Gift Requirements: Gift funds are acceptable with following requirements:</p> <ul style="list-style-type: none"> • Donor must be family member or a person with a significant prior relationship. • Gift letter is obtained indicating the amount of the gift, date gift will be given, donor's name and address, • Borrower makes required contribution toward down payment from own funds. • The funds are verified in either the borrower's or donor's account. • Document transfer of funds from donor to borrower. • Gifts funds may be used for the full down payment when the LTV/CLTV is 80% or less <p>Unacceptable sources of down payment include:</p> <ul style="list-style-type: none"> • Sweat Equity, Cash on Hand, proceeds from unsecured loans or personal loans, Salary/bonus advances received against future earnings, and cash advances from a credit card or other revolving account.
Income Documentation	<p>Only Full Documentation is permitted.</p> <ul style="list-style-type: none"> • 4506-T is required to be executed by all borrowers on all loans.
Leaseholds	<ul style="list-style-type: none"> • Leaseholds are not allowed on non-conforming loans.
Liabilities	<ul style="list-style-type: none"> • Revolving charges. If no payment is showing, underwriting will use 5% of the outstanding balance. • Lease payments are always included regardless of number of payments remaining. • Real Estate loans. • Installment debts with >10 months remaining. • Automobile leases (must be included in the DTI even if fewer than 10 payments are remaining). • Net rental losses from real estate owned. • Deferred Student Loans. • Alimony, child support or maintenance payments with 10 or more remaining payments. • Divorced and separated borrower's joint obligations will be considered in accordance with co-signed and divorce debt guidelines. <p>Business Debt: Debts paid by the business will not be considered in the borrower's ratios if 12 months of canceled checks drawn on the business account are provided.</p> <p>Co-Signed Debt: If a borrower is a co-signer or guarantor on any loans, those liabilities must be indicated on the loan application. The payments for these loans will be included in the borrower's total monthly debt unless satisfactory documentation is provided to prove that the primary debtor has been making the payments on a regular basis (<i>12 Months canceled checks will be required</i>)</p>

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Loan Terms	<ul style="list-style-type: none"> 10, 15, 20, 25, 30 year fixed rate 3/1, 5/1, 7/1, and 10/1 arms allowed. 30 yr amortizations only. 2-1 buy-downs allowed – Calculated using the actual payment method for pricing.
Non-Occupant Co-Borrowers	<ul style="list-style-type: none"> An established relationship with the borrower exists A party with an interest in the property sales transaction (including but not limited to the builder, seller, or real estate broker) is not eligible to be a non-occupant co-borrower Max 75% LTV/CLTV, or maximum permitted by product, whichever is less. Occupant borrower's DTI cannot exceed 45%.
Number of Properties owned/financed	<ul style="list-style-type: none"> Borrower may not own more than 4 properties (combined if more than one borrower.) Ownership in commercial properties, multi-family (5+ units) properties and properties owned free & clear is included in this limitation. USA DIRECT FUNDING will not do more than 4 loans per borrower. Maximum 20% concentration in any one project or subdivision.
Occupancy	Owner occupied properties only.
Property Eligibility	<p>ELIGIBLE PROPERTY TYPES:</p> <ul style="list-style-type: none"> 1-4 unit properties (primary residence only for multi-unit properties) PUDs, Townhomes (Attached or Detached) Site Condominiums (1 unit) <p>INELIGIBLE PROPERTY TYPES:</p> <ul style="list-style-type: none"> Purchase transactions of Properties sold at auction by the builder, developer or construction lender. Properties without full kitchen or full utilities installed to meet all health & safety standards Properties with more than 10 acres. Condominiums Houseboats Cantilevered Property Unimproved land Assisted Living Projects Common Interest Apartments Coops or Condo-tels Dwellings with pending litigation (non-structural litigation allowed on case-by-case) Investment Securities Mixed-Use Properties Multi-Family dwelling with more than 4 units Timeshares, syndicated units or segmented ownership projects Properties located in a coastal barrier resource system, federally declared wetlands or other federally protected areas. Properties which represent an illegal use under zoning regulations, or subject to hazards, noxious odors, etc.

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<p>Properties</p>	<ul style="list-style-type: none"> • Properties on Native American Reservations • Manufactured Homes, Mobile Homes, and other Factory Built Housing • Properties that are landlocked, without full utilities and/or not accessible year round • Non-Warrantable Condos • Tax-Sheltered Syndicate • Refinances on Properties listed For Sale in the last 6 months prior to loan application • Working farm, hobby farm, ranch or orchard <p>Assignment of Purchase Contract:</p> <p>Transactions where the purchase contract is in the name of the “borrower and/or assignees”, “seller and/or assignees”, or “borrower and/or nominees” or has been assigned to the borrower or seller are NOT acceptable.</p> <p>Purchase Money Transactions: The purchase contract for all purchase money transactions must be provided to the appraiser so that sales contributions or concessions can be accounted for in the valuation.</p>
<p>Ratios</p>	<p>LTV/CLTV <=75% - max DTI 45%.</p> <p>Debt may not be paid down or paid off to qualify.</p>
<p>Refinances</p>	<p>Rate-term Refinance:</p> <ul style="list-style-type: none"> • No seasoning of first mortgage required. • If owned <12 months, LTV must be based on lower of appraised value or original sales price + cost of documented improvements. If the value has increased more than 15%, photographs of improvements are required • If owned >12 months, LTV is based on current appraised value. HUD-1 or Deed must be provided to verify ownership • Reasonable and customary closing costs, prepaids and seasoned junior liens may be incorporated into the loan amount. • Cash-back at closing not to exceed 1% or \$2,000 of the principal amount of the new loan. • One year seasoning on junior liens from funding unless documentation is provided to verify it was incurred as part of acquisition or for home improvement. This does not apply to draws of 1% or less of the new loan amount (maximum \$2,000) within the past 12 months. • Properties listed for sale in the last 6 months are ineligible for refinance. <p>Cash-Out Refinances:</p> <ul style="list-style-type: none"> • All borrowers must have held title to subject property for a minimum of 6 months (note date to application date) • If owned <12 months, LTV must be based on lower of appraised value or original sales price + cost of documented improvements. If the value has increased more than 15%, photographs of improvements are required • If owned >12 months, LTV is based on current appraised value. HUD-1 or Deed must be provided to verify ownership • Properties listed for sale in the last 6 months are ineligible for refinance. • Cash-out limitation includes payoff of unseasoned second mortgages, HELOCs and/or

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non-mortgage debt. Max cash-out is as follows:

- LTV/CLTV $\leq 65\%$ = \$350,000
- LTV/CLTV $> 65\%$ $\leq 75\%$ = \$250,000
- If property is 3-4 units, max Cash-Out limited to \$150,000

A short-term refinance mortgage that combines a first mortgage and a non-purchase money subordinate mortgage into a new first mortgage that is temporarily held by the lender and then is immediately refinanced again will be viewed as a cash-out transaction. A short-term refinance mortgage loan that combines a first mortgage and a non-purchase money subordinate mortgage into a new first mortgage is considered a cash-out transaction. Any refinance of that loan within 6 months will also be considered a cash-out transaction.

Continuity of Obligation:

An acceptable continuity of obligation (assuming there is an outstanding lien) exists when:

- There is at least one borrower obligated on the new loan who was also a borrower obligated on the existing loan being refinanced.
- The borrower has been on title and residing in the property for at least 12 months and has either paid the mortgage for the last 12 months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.
- The existing loan being refinanced and the title have been held in the name of a natural person or an LLC as long as the borrower is 100% member of the LLC prior to transfer. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.
- The borrower has recently inherited or legally awarded the property (divorce, separation).

Loans with an acceptable continuity of obligation may be underwritten, priced, and delivered as either a limited cash-out refinance or a cash-out. Payoffs of Installment Land Contracts remain in place and are unaffected by these changes.

If the borrower is currently on title but is unable to demonstrate an acceptable continuity of obligation, or there is no outstanding lien against the property, the loan is still eligible for delivery but with additional restrictions. The loans must be underwritten, priced, and delivered as a cash-out refinance transaction with these additional restrictions:

- **No outstanding liens (e.g. purchased for cash or previous mortgage loans have been paid off):**
 - If the property was purchased within the 6 to 12 month period prior to the application date for the new financing, the LTV ratios will be based on the lesser of the original sales price/acquisition cost (documented by the HUD-1 Settlement Statement) or the current appraised value.
 - If the property was purchased more than 12 months prior to the application date for new financing, the current appraised value may be used to calculate the LTV ratios. Maximum LTV is 50%.

Outstanding liens with no continuity of obligation:

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 	<ul style="list-style-type: none"> – If the borrower has been on title for at least 6 months but continuity of obligation does not exist, the maximum LTV ratios will be limited to 50 percent based on the current appraised value. <p>USA DIRECT FUNDING has received many questions regarding the delivery of mortgage loans that have previously been restructured. A “restructured” loan for purposes of this policy is a mortgage loan in which the terms of the original transaction have been changed resulting in either absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in:</p> <ul style="list-style-type: none"> • forgiveness of a portion of principal and/or interest on either the first or second mortgage; • application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness; • conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage; or • Conversion of any portion of the original mortgage debt from secured to unsecured. <p>Mortgage loans that have previously been restructured (as defined above) are not eligible for delivery to USA DIRECT FUNDING.</p>
Seller/Interested Party Contributions	<p>Owner Occupied:</p> <ul style="list-style-type: none"> • Maximum contribution is 3% <p>Contributions may be used towards closing costs. They may also be used towards prepaids as long as:</p> <ul style="list-style-type: none"> • The borrower puts 5% down payment into the transaction. • The loan is being secured by a single-family, owner-occupied property.
Subordinate Financing	<ul style="list-style-type: none"> • The total financing, including any secondary or subordinate financing, cannot exceed the allowable combined LTV/CLTV ratios. • Seller-Held and Builder-Held second mortgages are not permitted.
Title Reports	<p>A 24 month chain of title will be required for all transactions. Your title commitment/preliminary title report must show an acceptable history or the underwriter must pull it from another acceptable source.</p> <p>Judgment/lien search required on all borrowers/title holders.</p>
Underwriting	<p>The Non-Conforming loan programs require:</p> <ul style="list-style-type: none"> • All loans must be submitted through Fannie Mae DU/DO to receive appropriate fraud alerts, and contributory messages prior to performing a manual underwriting review. <ul style="list-style-type: none"> - DU Decision is not applicable to the loan review or underwriting decision. It is not acceptable to apply the level of documentation identified via the AU system for credit, income, assets or appraisal review. – for all Jumbo loans, refer to the applicable documentation requirements identified on the product summary via the selected processing style • Loan may be subject to corporate review, which can increase the overall time the file is in underwriting.

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Non-Conforming LTV/CLTV Matrix

PRIMARY RESIDENCE					
MAX LTV/CLTV & LOAN AMOUNT	Purchase & Rate/Term Refinance				
	Loan Amount:	MAX LTV*	MAX CLTV*	Minimum Decision Credit Score	Required Reserves**
1-2 UNITS	\$1,000,000	80%	80%	700	6-12 months PITI
3-4 UNITS	\$1,000,000	70%	70%	720	6-12 months PITI
MAX LTV/CLTV & LOAN AMOUNT	Cash-Out Refinance (See Refinance section for max Cash allowed)				
	Loan Amount:	MAX LTV*	MAX CLTV*	Minimum Decision Credit Score	Required Reserves**
1-2 UNITS	\$1,000,000	75%	75%	720	6-12 months PITI
3-4 UNITS	\$1,000,000	70%	70%	720	6-12 months PITI

* Max LTV/CLTV will be reduced if property is located in a declining market. Declining market designations are determined by zip code – please contact your AE or the secondary department to see if your borrowers' property is eligible for the financing you are looking for before submission and locking.

** See 'Cash Reserves' section for information on when the reserve requirements may be increased, and what types of reserves is eligible/ineligible for usage towards meeting this requirement.