09/07/2021

Two months Bank Statement Average / Six months Income Program

(TAB-SI)

UNDERWRITING GUIDELINE

LENDER YOU CAN TRUST

NMSI, INC. | 3700 Wilshire Blvd. Ste. 330, Los Angeles, CA 90010

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1 Introduction

1.1 Underwriting Philosophy

NMSI, Inc. ("NMSI") originates loans to borrowers on one- to four-family properties. This section describes the underwriting philosophy and general underwriting guidelines applied to all mortgages during the origination process. NMSI reserves the right to modify these underwriting guidelines.

The soundness of a loan is dependent on the applicant's ability to repay the debt, verifiable credit history, and the market value of the property. All property values are supported by appraisal reports completed by appraisers that are licensed or certified in the state where the property is located.

All loans are reviewed by authorized underwriters to ensure the loan file documentation complies with Federal and State regulations, and that all loans are approved or denied based on the underwriting standards and guidelines set forth in this Guide.

Each loan is individually underwritten with professional judgment. NMSI's underwriting objective is to remain uninfluenced until the loan analysis is complete, at which a definite decision is rendered. The applicant's past and present payment history, employment, assets, liabilities, and property value are all critical factors considered during the underwriting review process. All loans are reviewed for accuracy, credit discrepancies, and misrepresentations during the underwriting process. The loan package must be documented as required for the loan program and must contain sufficient information to render a knowledgeable decision.

1.2 Fair Lending and Fair Credit Reporting Act (FCRA) Notices

It is illegal to discriminate against credit applicants on the basis of race, color, religion, sex, marital status, national origin, ancestry; as well as the conditions, characteristics, or trends in the neighborhood or geographic area surrounding a housing accommodation. NMSI is committed to treating all mortgage applicants in a fair and responsible manner in accordance with all applicable federal, state and local fair lending laws and regulations. We expect our approved originators to be equally diligent in conducting their lending in accordance with all applicable fair lending laws and regulations.

The Fair Credit Reporting Act (FCRA) requires that when an application is denied on the basis of information provided by a consumer reporting agency, the applicant must be given notice identifying the consumer reporting agency and include a statement of the applicant's rights under FCRA. If the lender has approved the request and NMSI has denied it, the Statement of Denial will be sent directly to the applicant by NMSI.

1.3 Ability to Repay

In accordance with the general ATR standard, NMSI will make a reasonable, good-faith determination before or when NMSI consummates a mortgage loan that the consumer has a reasonable ability to repay the loan.

At minimum, NMSI will consider the following eight ATR underwriting factors:

- Current or reasonably expected income or assets (other than the value of the property that secure the loan) that the consumer will rely on to repay the loan.
- Current employment status (if NMSI relies on employment income when assessing the consumer's ability to repay).
- Monthly payment on the covered transactions. This will be calculated using the introductory or fully-indexed rate, whichever is higher, and monthly, fully-amortizing payments that are

substantially equal.

- Monthly payment on any simultaneous loans secured by the same property
- Monthly payments for property taxes and insurance that NMSI requires the consumer to buy, and certain other costs related to the property such as homeowner's association fee or ground rent
- Debts, alimony, and child support obligations
- Monthly debt-to-income ratio or residual income, that NMSI calculated using the total of all the mortgage and non-mortgage obligations listed above, as a ratio of gross monthly income
- Credit history

NMSI will generally use reasonably reliable third-party records to verify the information NMSI uses to evaluate the factors provided by applicants.

1.4 Underwriting

All loans must be manually underwritten.

1.5 Program Highlights

- Asset Based Stated Income program.
- Assets must be traditionally documented.
- Minimum to maximum loan amount of $75,000 to $1,500,000

1.6 Maximum Fees

NMSI will not purchase any loan where the total combined Lender Fees and Broker Fees exceed 5.00% of the gross loan amount for loan requests or the maximum allowed under applicable state laws and predatory lending practices. Non-grossed up third-party fees are not included.

2 Program Matrix

PURCHASE & RATE/TERM REFINANCE			
PRIMARY RESIDENCE, 2ND HOME & INVESTMENT			
Property Type	Max. Loan amount	Max. LTV/CLTV	Min. FICO
1 Unit SFR & PUD	$1,000,000	70%/70%	680
	$1,500,000	65%/65%	700
Condo	$1,000,000	65%/65%	680
	$1,500,000	60%/60%	700
2 Units	$1,500,000	65%/65%	700
3-4 Units	$1,500,000	60%/60%	700

*Minimum loan amount: $75,000

3 Eligible Products

- 7/1 Fully Amortizing CMT ARM

4 ARM Information

FULLY AMORTIZING

Qualifying Ratios are based on PITI payment with the principal and interest payments amortized over the loan term.

- 7/1 CMT:
  - Qualifying rate: Qualify borrower(s) at the greater of the fully indexed rate or note rate
  - INDEX: 1 Year CMT
  - MARGIN: 2.750
  - CAPS: 2/2/6

5 Subordinate Financing

Purchase loans with new subordinate financing are permitted.

Secondary financing must be institutional. Lenders must employ reasonable underwriting policies and procedures designed to determine whether the borrower has applied for another credit transaction secured by the same dwelling. Existing secondary financing must be subordinated and recorded or refinanced. HELOC CLTV must be calculated at the maximum available line amount unless the borrower can provide documentation that the line of credit is past its draw period.

For HELOCs, count monthly payment amount. If there is none, use current balance with current rate and current payment as detailed on the HELOC agreement or note. If interest only payment will change to fully amortized payment within 3 years, fully amortized payment for amortization period must be used to qualify. For example, if a HELOC only has 2 years of interest only payments remaining and will then change to a fully amortized payment for 15 years, the 15-year amortization period will be used at current rate to qualify.

6 Temporary Buydowns

Temporary interest rate buydowns are NOT permitted.

7 Borrower Eligibility

7.1 Eligible Borrowers

- **U.S. Citizen / Permanent Resident Alien**

  All US citizens and Permanent Resident Aliens are eligible provided that the borrower must be a natural person.

- **Permanent Resident Alien**

  A permanent resident is a non-U.S. citizen who is legally eligible to maintain permanent residency in the U.S. and holds a Permanent Resident Card. A permanent resident must document legal residency with one of the following:

  - A valid and current Permanent Resident Card (form I-551) with photo.
  - A passport stamped "processed for I-551, Temporary evidence of lawful admission for permanent residence. Valid until ______. Employment authorized." This evidences that the holder has been approved for, but not issued, a Permanent Resident Card.

- **First-Time Homebuyer**

  First Time Home Buyer is defined as a borrower who had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the security property. There is no prior rental requirement. However, if the borrower has rent or mortgage history, it must meet credit requirements.

7.2 Ineligible borrowers

- Foreign Nationals
- Non-occupant co-borrowers
- Applicants possessing diplomatic immunity
- Borrowers from OFAC sanctioned countries
- Politically exposed borrowers
- Any material parties (company or individual) to transaction listed on HUD's Limited Denial of Participation (LDP) list, the federal General Services Administration (GSA) Excluded Party list or any other exclusionary list

7.3 Non-occupant Co-Borrower

Non-occupant co-borrower is NOT allowed

7.4 Trusts

An inter-vivos revocable trust/living trust/revocable living trust are NOT allowed

7.5 Non-Arm's Length Transactions

Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property. Non-arm's length transactions are NOT permitted. For sale by owner transactions are also NOT permitted as it is considered as a Non-arm's length transaction.

7.6 At-Interest Transaction

An at-interest transaction involves persons who are not closely tied or related but may have a greater vested interest in the transaction, such as a party who plays more than one role in the same transaction. Acceptable examples of at-interest transactions include builder also acting as realtor/broker, dual real estate agent (selling/listing agent), and realtor/broker selling own property. Unacceptable examples of at-interest transactions include realtor/broker acting as listing/selling agent as well as the mortgage loan originator, seller acting as the mortgage loan originator, borrower's family member acting as the mortgage loan originator and real estate broker at the same time. Transaction includes unacceptable at-interest characteristics are not permitted.

7.7 Power of Attorney

A Power of Attorney (POA) is acceptable for the signing of loan documents, as long as the POA is executed prior to signing the loan documents and the signature is complete on each document. POA must be specific to the transaction and specifically identify the subject property address, be signed and dated by the party granting the power of attorney and be notarized. POA cannot be an interested party in the transaction (i.e. real estate agent, seller, or closing agent).

If using POA to sign the loan documents, a letter of explanation stating the relationship between the borrower and attorney-in-fact and the reason for using POA must be obtained from the borrower. Customer Identification Program Form for the borrower must be completed and acknowledged by notary public or escrow officer even if loan docs are signed using POA. Power of Attorney is not allowed for Investment Properties.

7.8 Multiple Financed Properties for the Same Borrower

A borrower may finance multiple properties if he or she is qualified and if the following requirements are met:

7.8.1 Limits on the Number of Financed Properties

If the subject property is a primary residence or second home, there is no limit to the number of financed properties. If the subject property is an investment property, the borrower may own or be obligated on up to 10 financed properties.

The financed property limit applies to the borrower's ownership of one-to four-unit financed properties or mortgage obligations on such properties and is cumulative for all borrowers. These limitations apply to the total number of properties financed.

7.8.2 Limits on the Number of Financed Properties

If a borrower financed multiples properties with NMSI, following restrictions must be applied:

- Aggregate loan amount to one borrower may not exceed $10 million.

8 Occupancy

8.1 Types

Occupancy is determined in accordance with the borrower's intent at the time of loan closing. The following occupancy types are permitted subject to LTV and FICO restrictions:

- Primary Residence
- Second Home
- Investment Property

Refer to the applicable program eligibility matrix for the specific guidelines in Section 2.

Shared equity arrangements, where there is both an owner-occupant and an owner non-occupant investor, are not eligible.

8.2 Documentation

Occupancy must be consistent with and supported by documentation in the file. When circumstances arise that raise questions about the borrowers' intent to occupy the property as a primary residence, the originator should confirm occupancy and include the confirmation in the file. Circumstances that raise questions include:

- Borrower is employed a long distance from the intended primary residence
- The size of the proposed residence is inconsistent with the size of the borrower's family and number of dependents
- Borrower already owns a primary residence near the subject property and is intending to retain it (as a rental or second home) rather than sell it
- The proposed primary residence is near the existing primary residence, but the new residence is not worth materially more than, or is worth less than, the existing residence
- Borrower is currently purchasing another property, or has done so in the last 12 months
- Borrower is in the business of "flipping" homes

The occupancy indicated on the borrower's signed application is sufficient to document that the borrower intends to occupy the property as a primary residence. Occupancy as primary residence should occur within 60 days of closing

8.3 Occupancy Conversions

When a borrower purchases a new property, this may cause the occupancy of an existing owned property ("departure residence") to change. There are legitimate reasons that lead to an occupancy change for a departure residence, but misrepresentations regarding intent to occupy present elevated risk. Most often, misrepresentation involves the misstated intent to convert a departure residence to a rental and occupy the new property as a primary residence.

Because of the elevated risk, NMSI applies the restrictions described below when a departure residence will be or recently converted to a rental or second home.

For the purpose of this policy, a recent conversion which occurred within the last 60-days must show a signed lease agreement and a bank statement showing the deposit of the security check and/or rental payment(s).

9 Purpose

9.1 Purchase

Purchase loans are those in which the proceeds are used solely to pay the property seller. To determine underwriting value on a purchase loan, use the lesser of the appraised/alternative market property value or sales price. Purchase loans require copies of the sales contract and/or escrow instructions and all other agreements between the buyer and seller related to the property. All documents should be fully executed by all parties. Proof of earnest money deposit is required.

9.2 Rate and Term Refinance

A rate and term refinance transaction represents a loan that is used to pay off an existing loan by obtaining a new first mortgage secured by the same property. This type of refinance is allowed under the following conditions:

- Closing costs, including prepaid items, may be included in the new loan amount provided that they are reasonable and customary for the market.
- Cash back to the borrower(s) cannot exceed 2% of the new loan amount or $2,000.00, whichever is less.
- Delinquent real estate taxes (past due by more than 60 days) may not be included in the loan amount.
- Subject property cannot be listed for sale and listing must be withdrawn prior to the application date.

Rate and term refinance whose proceeds are being used to pay off a junior lien are allowed with the following conditions:

- The junior lien must have 12 months seasoning from the closing date of the refinanced mortgage to be considered a rate and term refinance. If the junior lien is not seasoned for at least 1 year and it is being paid off with the new mortgage loan, it is ineligible for purchase. The 12 months will be calculated from the closing date of the current junior lien to the consummation date of the new rate and term refinance.
- If a non-purchase money junior lien is seasoned for 12 months, it does NOT require proof of no withdrawals in the past 12 months.
- The seasoning may be waived if the junior lien was originated as a purchase-money second mortgage (seller or institutional financing) with the first and second lien was recorded simultaneously.

9.3 Cash-Out Refinance

A cash-out refinance is not available for this product

9.4 Continuity of Obligation

Continuity of obligation occurs on a refinance transaction when at least one of the borrower(s) on the existing mortgage is also a borrower on the new refinance transaction secured by the subject property. Continuity of obligation requirements do not apply when there is no existing mortgage on the subject property as a result of the borrower either having purchased the subject property with cash or when any prior mortgage for which the borrower was an obligor was paid in full.

If any of the following parameters can be met, loan may be eligible for refinance transaction even if the continuity of obligation does not exist:

- The borrower on the new refinance transaction was added to title prior to loan application date.
- The borrower acquired the property through an inheritance or was legally awarded the property (e.g. divorce, separation, or dissolution of a domestic partnership).
- The borrower on the new refinance transaction has been added to title through a transfer from any legal entity (LLC, Corporation, Limited Partnership & Etc.) and the borrower is 100% owner prior to the transfer. The transferring entity and/or the borrower has had a consecutive ownership (on title) for at least the most recent 6 months prior to disbursement of the new loan.
- The borrower on the new refinance transaction has been added to title through a transfer from a trust and the borrower is a beneficiary/creator of the trust.

9.5 Property Assessed Clean Energy Loans

Certain energy retrofit lending programs, often referred to as Property Assessed Clean Energy (PACE) programs, are made by localities to finance residential energy improvements and are generally rapid through the homeowner's real estate tax bill. These loans typically have automatic first lien priority over previously recorded mortgages. NMSI prohibit loans that have senior lien status to a mortgage. NMSI will not purchase mortgage loans secured by properties with an outstanding PACE loan.

- Paying off the Pace Loan: For purchase transaction, existing PACE loan must be paid off at closing. For refinance transaction, if outstanding PACE loan balance is less than 15% of current appraised value of the property, the payoff amount will be included in the limited cash-out transaction. If outstanding PACE loan balance exceeds 15% of current appraised value of the property it is ineligible to be considered as the limited cash-out transaction.

9.6 Construction to Permanent

Construction to Permanent loan is Ineligible.

10 Income Documentation and Calculations

10.1 General Income Documentation Requirements

This section of the guidelines describes the income documentation requirements.

Income is required to be disclosed on the loan application (form 1003) from the borrower with minimum of two years of employment or self-employment history. This income will be utilized to calculate qualifying debt to income ratio discussed in section.

10.1.1 Salaried Borrowers

A verbal verification of employment (VOE) form completed by the lender must contain following information:

- Date of employment
- Position
- Prospect of continued employment, when available

Note: Borrower's Current Employment on 1003 must show on the credit report

10.1.2 Self-Employed Borrowers

self-employed applicant is an individual who has total or proportionate ownership of a business. That business may be a sole proprietorship, a partnership or a corporation. At least a two-year history of self-employment is required to establish and document a stable income level. No gaps in verified income should exist. Less than two years of self-employment may be acceptable if an employment history has been established in the same or a related field and the applicant can document a reasonable probability of success based on market feasibility studies and/or operating statements. Following documents are required to verify the length of the self-employment:

- CPA letter verifying business ownership in the same line of business over the last two years at the same location. CPA or licensed independent third-party tax preparer (Enrolled Agent, CTEC and PTIN) license must be verified. CPA letter must be provided by the CPA or licensed independent third-party tax preparer who filed borrower's tax returns; OR
- Two years of current Business license

Note: LOE from the borrower with definitive description of business and industry is required

10.1.3 Form 4506

A complete and signed IRS Form 4506-T is NOT required.

10.1.4 Verbal Verification of Employment

A verbal verification to confirm the borrower's current employment status is required for each borrower within 10 business days prior to the funding date for salaried borrower. Verification of the existence of the borrower's business must be obtained through a third-party source within 30 calendar days prior to the funding date for self-employed borrower. To comply with a verbal verification of employment (or telephone confirmation) requirement, independently obtain the phone number and address for the borrower's employer. This can be accomplished using a telephone book, directory assistance, Superpages.com, Yellowbook.com, Yellowpages.com, etc., or by contacting the applicable licensing bureau.

- Verbal Verification of Employment for Salaried borrower must contain following information:
  - Date of contact
  - Borrower's date of employment
  - Borrower's employment status and job title
  - Name, phone number and title of individual contacted at entity
  - Name of the entity contacted
  - Name and title of associate contacting employer
  - Method and source used to obtain the phone number
- Self-Employed Confirmation of Employment Requirements
  - Verification of the existence of the borrower's business from a third party, such as a CPA, regulatory agency, or the application licensing bureau
  - Verify the listing and address for the borrower's business using a telephone book, the internet, or directory assistance

10.2 General Income Calculation Requirements

Borrower's qualifying income is Calculated by the **lesser** of

- Income disclosed on loan application (form 1003); OR
- Two months bank statements' average balance divided by 6 months.

10.3 Rental Income Calculation

All properties that the applicant owns, and their statistics must be listed either in the Schedule of Real Estate Owned section of the 1003, or on an attached Schedule of Real Estate Owned, signed by the applicant. Rental income received from other properties borrower owns should be verified from fully executed lease agreement. If the borrower's principal residence is a 2-4 unit property, rental income from the principal residence can be used to qualify the borrower. If the borrower is purchasing a principal residence and is retaining his or her current residence as a rental property, rental income from the departing residence can be used to qualify the borrower. When the borrower is purchasing investment property, fully executed lease agreement may not be needed and rental income from Market Rent Value (Form 1007) from appraiser will be used. Net rental income shall be calculated by subtracting the PITIA from 75% of the gross rental income figure. If the result is a positive cash flow, it will be added to gross income. If the result is negative cash flow, it must be considered a liability. On non-subject investment properties in which the borrower holds title with a third party (non-spouse), the % of the borrower's ownership interest must be multiplied by 75% of the gross income to calculate the borrower's rental income on said property. For example, a borrower that has 50% ownership in a non-subject investment property, will calculate the qualifying income as such:

- Gross Rental Income x .75 x .5 = Qualifying Rental Income.

Rental income with a term of less than 30 days are not acceptable including but not limited to Air BnB rentals.

11 Assets

11.1 Minimum Borrower Contribution

Evidence must be provided to determine that the borrower has sufficient funds to pay the down payment, prepaid items, and closing costs as well as adequate additional cash reserves as required by the Underwriting Guidelines. There is no required minimum borrower contribution to the down payment and/or closing costs regardless of occupancy type.

Plate note: The income calculation method requires borrower's own funds to validate the income even if no minimum contribution is required for down payment and/or closing costs.

Interested party contributions (IPCs) are costs that are normally the responsibility of the property purchaser that are paid directly or indirectly by someone else who has a financial interest in, or can influence the terms and the sale or transfer of, the subject property. IPCs may not exceed 3% of the sales price for primary and second home ownership, or 2% for non-owner occupied properties. IPCs may be used towards closing costs only, not for repair or down payment or reserves. If the transaction is an acceptable at-interest transaction in which the realtor/broker is also the borrower or is an immediate family member of the borrower, the realtor/broker commission cannot be used towards down payment, closing costs, or reserves.

11.2 Cash Reserves Requirement

Cash reserves are a strong indicator of a borrower's ability to manage financial resources and build a financial cushion. The cash reserves requirements are as follows:

- 12 months P&I for all Asset Based Income loans regardless of LTV.
- Business funds cannot be used as reserve unless transferred to a personal account with acceptable paper trail.
- Refund of escrow deposit can be used for reserves if funds have been sourced for required two (2) months.
- Reserves must be held in a US institution.
- Gift funds may be used as reserves if gift funds were deposited into borrower's personal account.

11.3 Acceptable Sources of Assets

Asset documents must be no more than 90 days old on the date of loan closing. When consecutive asset documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. For example, when two consecutive monthly bank statements are used to verify a depository asset, the date of the most recent statement must be no more than 90 days old on the loan closing date.

11.3.1 Bank Accounts

Bank/financial institution accounts include funds on deposit in savings accounts, checking accounts, certificate of deposits, and money market accounts. These funds may be used for down payment, closing costs, and reserves.

- Individual Accounts: Funds in the borrower's individual account are acceptable.
- Joint Accounts: Funds in a joint account are acceptable if borrower has access to all funds in the account at all times. This may be demonstrated with the 100% access letter from the joint account holder.
- Trust Accounts: Funds disbursed from a trust account where the borrower is the beneficiary are acceptable if the borrower has immediate access to them. Borrower must provide proper documentation to verify he/she is the beneficiary and has direct access to the funds. Accounts that do not allow the borrower to have immediate access to the funds for the above stated purposes may not be used as acceptable assets, including funds in accounts where the borrower is not the beneficiary, such as custodial accounts.

Bank accounts shall be examined carefully for signs of fabrication or alteration. Analyzing the documentation to calculate interest and reviewing deposits against income levels and sources may be necessary to validate the documents. The borrower must provide a written explanation and documentation of the source of funds for any large deposits if those large deposits are needed to meet borrower funds and/or required reserves. When a deposit is not documented and is not needed for borrower funds/reserves, reduce the funds used for qualifying purposes by the amount of the unverified deposit. Large deposits are defined as a single deposit that exceeds 100% of the total monthly qualifying income for the loan. If the source of the large deposit is readily identifiable on the account statement, such as a direct deposit from an employer, the Social Security Administration, etc., additional documentation may not be required. If there is any question that the funds may have been borrowed or there are consistent deposits that are not income, additional documentation must be obtained.

Documentation Requirement

One of the following is acceptable:

- Account Statements for 2 months: Quarterly and annual account statements dated greater than 30 days and less than 90 days are acceptable. Account 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 depository account or all purchase and sale transactions for a financial portfolio account, and ending account balance.
- Verification of Deposit ("VOD"): VOD must be issued by the depository institution and each VOD must clearly identify the name and address of the depository or investment institution, the borrower as the account holder, account number, type of account, the open date, the account balance as of the date of the VOD, and the average balance.

11.3.2 Sale Proceeds

The proceeds from the sale of a borrower's present home are a common and acceptable source for the down payment and closing costs on a new home.

Documentation Requirement

Copy of final settlement statement (HUD-1) or Closing Disclosure for the sale showing sufficient net cash proceeds to consummate the purchase of the new home must be obtained. If the net cash proceeds are not sufficient to meet the cash requirements for the purchase of the new home, the borrower must have other liquid assets to make up the difference.

11.3.3 Business Funds

If business funds are used for down payment, and closing costs, the borrower must be the sole proprietor or 100% owner of the business. If borrower is not 100% owner of the business, business funds may not be used for down payment or closing costs. Funds in the business account may be used up to 100% of current balance verified by CPA that the withdrawal of funds will not have a detrimental effect on the borrower's business. Business funds may not be used for reserves unless it has already been deposited into borrower's personal account. If business funds are related to a business that the borrower did not disclose on the loan application, CPA letter must confirm that borrower has 100% ownership in the business and that the use of funds will have no negative impact on the business.

11.3.4 Gifts

The borrower may use funds received as a gift from an acceptable donor to use towards down payment and closing costs. An acceptable donor is a relative, defined as a spouse, child, parent, sibling, grandparent, aunt, uncle, cousin, domestic partner, fiancée, or fiancé. The donor may not be, or have any affiliation with the builder, developer, real estate agent, or any other interested party to the transaction. Gift funds may be used as reserves if gift funds were deposited into borrower's personal account. If donor provides gift funds from business account, 100% ownership verification required (Ex. CPA; K-1).

Transfer of Gift Funds

Verification and documentation that sufficient funds to cover the gift are in the donor's account or have been transferred to the borrower's account is required. Acceptable documentation to verify sufficient funds to cover the gift funds are either in the donor's account or have been transferred to the borrower's account, include the following:

- A copy of the cashier's check with remitter name as donor
- A copy of wire receipt showing donor as originator

- A copy of the donor's personal check, cancelled check, and the borrower's deposit slip If gift funds were sent directly to escrow:
- Copy of the donor's check to the closing agent and escrow receipt.

Documentation Requirement

A gift letter providing the amount of the gift, the donor's name, address, and telephone number, donor's relationship to the borrower, donor statement that repayment is not required, subject property address, and donor's signature is acceptable documentation.

11.3.5 Foreign Assets

Foreign assets being used for down payment and closing costs must be held in a U.S. account prior to closing. If the assets are derived from a sale of a foreign asset or from assets held in a foreign institution, the assets must be converted into United States currency by an independent third-party and placed in a United States financial institution. The sale of the foreign asset and conversion of foreign currency must be fully documented and verified.

Funds that a non-U.S. citizen borrower recently deposited in a U.S. depository institution are an acceptable source of funds provided all the following requirements are met:

- There is documented evidence of funds transfer from the country from which the borrower immigrated;
- It can be established that the funds belonged to the borrower before the date of the transfer; AND
- The sources of all funds used for closing can be verified just as they would for a borrower who is a U.S. citizen.

The borrower's source of funds for the down payment and/or closing costs must comply with the Office of Foreign Assets Control (OFAC).

11.3.6 Retirement Accounts

Vested funds from individual retirement accounts (IRA, SEP-IRS and KEOGH) and tax-favored retirement savings account (e.g. 401(k), 403(b)) may be used as the source of funds for down payment, closing costs and cash reserves. The most recent retirement account statement must be provided and must identify the borrower's vested amount and the terms. Terms of withdrawal may be required.

When funds from retirement accounts are used for reserves, NMSI does not require the funds to be withdrawn from the account(s).

11.3.7 Stocks/Bonds

Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. The borrower's ownership of the account or asset must be verified. The value of stocks, bonds or mutual funds must be documented by current statement. When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required. When used for the down payment or closing costs, if the value of the asset is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented. Stock options and non-vested restricted stocks are not an eligible asset source for reserves.

11.3.8 Cash Value of Life Insurance

Net proceeds from a cash value or from the surrender of a life insurance policy are an acceptable source of funds for the down payment, closing costs and reserves. The most recent statements must be provided. If the funds are needed for the down payment or closing cost, proof of liquidation and receipt of the funds by the borrower must be documented. If the cash-value of the life insurance is being used for reserves, the cash-value must be documented but does not need to be liquidated and received by the borrower.

11.3.9 Unacceptable Sources of Assets

Sources of funds considered ineligible include, but is not limited to the following:

- Cash advance on a revolving charge account.
- Bridge Loan.
- Cash for which the source cannot be verified.
- Funds in a custodial or “in trust for” account.
- Gift that must be repaid in full or in part.
- Sweat Equity.
- Personal unsecured line of credit or loan.
- Salary advance.

12 Credit History

NMSI underwrites and evaluates each borrower’s willingness and ability to manage debt by reviewing credit history. Each borrower should have an adequate credit history, defined by the number of accounts and length of time the accounts have been established.

Credit documents including credit reports must be no more than 90 days old on the date of loan closing.

12.1 Payment History

NMSI reviews the frequency and severity of adverse credit events to determine whether a borrower’s credit history presents an acceptable risk. Borrower must have at least 3 tradelines in good standing seasoned for at least 12 months. If borrower cannot demonstrate 3 tradelines in good standing on traditional credit report, borrower may provide a non-traditional credit reference from US institutions for the past 12 months. Non-traditional credit may be used when the borrower's traditional credit history indicates derogatory references that occurred and were addressed more than 36 months in the past. This includes references such as late payments, collection accounts, or judgments. Non-traditional credit cannot be used as a means to offset derogatory references or enhance a poor credit history with the traditional providers of credit. Authorized user account may be counted as borrower’s tradeline and the payment must be included as borrower’s liability. The adverse credit events, if any, should not reflect disregard for, or mismanagement of, financial obligations.

The table below outlines the acceptable number of late payments, but in general, isolated instances of a late payment will not adversely affect the underwriting decision:

Mortgage/Rent			
Maximum allowed	Past 12 months	Past 24 months	Past 36 months
X 30	1	2	4
X 60	0	1	2
X 90	0	0	0
Installment/Revolving Debt			
Maximum allowed	Past 12 months	Past 24 months	Past 36 months
X 30	3	3	4
X 60	0	1	2
X 90	0	1	1

*No Limit if past 36 months.

When a borrower has late payments, underwriting judgment is required to determine the intent of the borrower. The determination must be made whether the borrower's late payments were due to a disregard of financial obligations or whether outside factors beyond the borrower's control contributed to the late payment. Indictors of borrower's intent include the frequency and timing of late payments, whey they occurred, their severity, and the size of the account balance.

Although a borrower's history may include an acceptable level of late payments, the reasons for failure to pay as agreed must be reasonable, corrected, and not likely to reoccur. These reasons should be stated in a letter explaining the time frame around the late payment. All obligations of the borrower must be current at the time of closing.

12.1.1 Bankruptcy

Before considering a loan application from someone who has history of filing bankruptcy, consideration must be given to the following:

- Letter of explanation (prepared, signed and dated by the borrower);
- Residential mortgage credit report verifying that satisfactory credit has been re-established, and the bankruptcy must be discharged for at least 3 years prior to application. Re-established credit is defined as a minimum of 3 accounts that have been open and active for the past 1 year. These accounts must be in good standing (no late payments) and documented by a traditional credit report.
- No multiple bankruptcies allowed per borrower.

12.1.2 Short-sale and Deed in Lieu

A borrower who has had a short-sale or deed in lieu completed within the last 2 years is not eligible.

- New application date must be at least 2 years from the close and/or transfer of title due to short-sale or deed in lieu
- No multiple short-sales or deed in lieu allowed per borrower.

12.1.3 Foreclosure

A borrower who has had an ordinary foreclosure commenced within the last 5 years is not eligible.

- No multiple foreclosures allowed per borrower.

12.1.4 Judgments

All judgments, liens, garnishments, etc. which have a balance greater than $1,000.00 must be **paid in full** at or prior to closing. All tax liens must be paid in full at or prior to closing.

12.1.5 Collections/Charge-off of Non-Mortgage Accounts

For a collection account or non-mortgage charge-offs with less than $250 balance or an aggregate balance of less than $1,000.00, the collection(s) or non-mortgage charge-offs need not be paid prior to closing. All other collections or non-mortgage charge-offs must be paid at or prior to closing (including medical collections).

12.1.6 Loan Modification

A borrower who has applied for or received a loan modification is eligible if the loan modification has been seasoned for at least 5 years prior to loan application date. Details of the modification must be reviewed to ensure the eligibility of the transaction. Following documents must be provided:

- Letter of explanation required from borrower
- Document to verify the loan modification date if not presented on credit report

12.1.7 Disputed Accounts

When there is a disputed tradeline with a reported derogatory payment within the last two years, the accuracy and completeness of the information reported on the borrower's credit report for the disputed tradeline must be confirmed. If it is determined that the disputed tradeline information is accurate and complete, the lender must ensure the disputed tradelines are considered in the credit risk assessment and all payments are included in the debt to income ratios. If documentation can be provided to substantiate the dispute, updated information can be utilized. For instance, if a collection is currently showing an outstanding balance and is in dispute, but the borrower is able to provide a letter from the creditor confirming payment has been made, the collection is not required to be paid.

12.2 Credit Scores

NMSI requires minimum credit score 680 and will make price adjustment according to credit scores. Credit scores, often called the FICO score, are documented on traditional tri-merged credit reports. If there are only two scores, use the lower one. If there are three, use the middle score of the three. If only one score is available, the credit report is still acceptable as long as following conditions are met:

- Credit data is available from the repository; AND
- A credit score is obtained from that repository; AND
- The lender requested a tri-merged report.

12.3 Credit Documentation

A traditional credit report must be included for each borrower whose income is being relied upon for qualification. Credit Report may not be more than 90 days old at the time of closing. If the credit report exceeds the 90-day limit, a new or updated (not revised) report is required. Note: Rapid Rescores to improve FICO scores are not acceptable. Worst-case scores and liabilities amounts will be used to qualify.

If required information is not included in the traditional report, alternative credit references should be submitted along with the report. Direct verification is required for any accounts not on the credit report that is being used as a reference. If adverse items exist on the credit report, a letter of explanation is required.

12.3.1 Established Credit

A borrower with established credit has a history that can be verified through traditional credit reports. The report used is a tri-merge credit report from the three major credit bureaus: Experian, Equifax, and Transunion.

12.3.2 Disputed Accounts

Borrowers whose credit cannot be verified through traditional sources are considered to have non-established credit or no credit history. These borrowers may pose a higher risk because there is no information to substantiate their ability to manage debt.

12.4 Credit Inquiries

Excessive inquiries by credit bureaus in the past 90 days before the date of application must be explained and investigated when there was no account opened as a result of the inquiry. A letter of explanation from the borrower stating the reason for each inquiry must be obtained.

13 Liabilities and Qualification Ratios

13.1 Qualification Ratios

The total obligations-to-income ratio compares the sum of a borrower's debts and housing expenses with his or her gross monthly income.

A borrower's total obligations are the sum of:

- The monthly housing expense (projected);
- The monthly payments on installment debt that extend beyond ten months;
- The monthly payments on revolving debt or line of credit (use 5% of the outstanding balance if minimum monthly payment cannot be verified)
- The monthly payment of any contingent liabilities the borrower is obligated to pay unless the borrower can show **6 months** of cancelled checks showing that another party has been making timely payments or prove the debt has been assigned to another through a court order, and if applicable, title has been transferred;
- The monthly mortgage payments on any real estate that is not producing income -- including payments related to a second home that secures a mortgage being delivered to NMSI; AND
- Any monthly alimony and/or child support payments for which the borrower is responsible.

A borrower's monthly housing expense, including principal, interest, taxes, insurance, and association payments should be no more than **38%** of his or her stable gross monthly income. Further, a borrower's maximum total obligations should be no more than **43%** of his or her stable gross monthly income, regardless of the loan-to-value ratio for the mortgage.

13.2 Liabilities

The long-term liabilities of the applicant must be examined to determine whether, when coupled with the applicant's income and proposed housing expenses, the applicant meets the debt-to-income criteria required to qualify for the loan. The requirements for evaluating the applicant's long-term liabilities are outlined below. Liabilities of the borrower may be counted as follows:

13.2.1 Alimony

Deduct from income if more than 10 months remain. Copy of Divorce decree is required

13.2.2 Business loans

May be excluded from total debt if evidence showing payment by company for the past 6 months

13.2.3 Child support

Deduct from income if more than 10 months remains. Copy of Divorce decree required

13.2.4 Co-signer obligations

Not counted if verified that 6 months paid by other party. 6 months cancelled checks required. For a brand-new account with less than 6 months history, payment proof from the opening date is required.

13.2.5 Installment account

Less than 10 months balance not counted. Borrower may pay down or pay off the installment loan to exclude from the liability. Account must be paid down or paid off at or prior to closing.

13.2.6 Monthly housing expense

Count PITI, MI premium, flood insurance premium if applicable, leasehold payment, HOA dues, subordinate financing payments. If borrower does not own a primary residence, but does own an investment property, a Verification of Rent (VOR) will be required to satisfy primary residence housing expense. If spouse owns primary residence solely, verification of mortgage (VOM) will be required, and payment will be included in DTI as monthly housing expense. VOM on spousal solely owned primary residences are not required in non-community property states.

13.2.7 Previous / Proposed housing expense

Used to calculate the impact on the borrower's monthly housing payment. Significant increases must be offset by savings or increase in income along with good credit history.

13.2.8 Revolving accounts

Payment shown on credit report or statement. If none, use the higher of $10 or 5% of balance for bank cards or retail stores, 2% for personal credit lines. Borrower may pay off the revolving account at or **prior to closing** in order to exclude from the liability. Such accounts do not need to be closed as a condition of excluding the payment from the DTI ratio.

13.2.9 Open 30-day charge accounts

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, borrower must demonstrate funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves. If the borrower paid off the account balance prior to closing, borrower may provide proof of payoff in lieu of verifying funds to cover the account balance.

13.2.10 Student loans

Always counted even if deferred. If monthly payment after the deferred period cannot be verified, use 1% of the outstanding balance.

13.2.11 Subordination financing

For HELOCs, count monthly payment amount. If there is none, use current balance with current rate and current payment as detailed on the HELOC agreement or note. If interest only payment will change to fully amortized payment within 3 years, fully amortized payment for amortization period must be used to qualify. For example, if a HELOC only has 2 years of interest only payments remaining and will then change to a fully amortized payment for 15 years, the 15-year amortization period will be used at current rate to qualify.

14 Property Eligibility and Project Eligibility

14.1 Eligible Property Types

14.1.1 Single Family Residence (SFR)

An attached or detached single-family dwelling, including town homes and row homes.

14.1.2 Two-to-Four (2-4) Unit Property

A two-to-four unit property is a residential structure with more than one unit but not more than four units.

14.1.3 Planned Unit Development (PUD)

A PUD is a real estate project in which each unit owner has title to a residential lot and building and a nonexclusive easement on the common areas of the project. The owner may have an exclusive easement over some parts of the common areas (e.g., parking space).

14.1.4 Condominium

A condominium is a unit in a project in which each unit owner has title to their individual unit, an undivided interest in the project's common areas, and in some cases, exclusive use of certain limited common areas. A condominium project is created according to local and state statutes. The structure is two or more units with the interior airspace individually owned. The balance of the property (land and building) is owned in common by the individual unit owners.

For additional PUD/Condo requirements, see Project Eligibility section.

14.2 Ineligible Properties

- Vacant land or land development properties Properties that are not readily accessible by roads that meet local standards
- Agricultural properties, such as farms or ranches
- Boarding Houses
- Bed and breakfast properties
- Properties that are not suitable for year-round occupancy regardless of location
- Manufacture homes
- Mobile homes
- Properties in non-residential zoning
- Mixed use properties
- Title to the property not held as fee simple (leasehold)
- Co-Operatives

14.3 Condominium/PUD Project Eligibility & Review

All condominium & attached PUD projects require a Homeowners Association (HOA) Questionnaire. For LTV less than or equal to 50% on established condominiums, a limited HOA Questionnaire will be acceptable. For all other condominium loans including new construction, a full HOA Questionnaire must be completed. The completed questionnaire must confirm that the condo project is eligible.

14.3.1 Maximum Loan Concentration

The maximum number of loans that the NMSI may extend in a condominium or attached PUD project may not exceed 20% of the total units in the project.

14.3.2 New Condo Project

A new condo project is a project for which one or more of the following is true:

- fewer than 90% of the total units in the project have been conveyed to the unit purchasers;
- the project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo;
- the project is newly converted; OR
- the project is subject to additional phasing or annexation

At least 70% of the total units in the project or subject legal phase must have been conveyed or be under contract for sale. At least 50% of the total units in the project must have been conveyed or be under contract for sale to principal residence or second home purchasers when subject is an investment property.

14.3.3 Ineligible Attached/Detached Condo & Attached PUD Projects

The following types of condominium projects are ineligible:

- Projects that contain commercial space exceeding 50%.
- Timeshare or segmented ownership projects.
- Manufactured homes.
- Condo-hotel.
- Houseboat projects.
- Projects that represent a legal, but non-conforming use of the land, if zoning regulations prohibit rebuilding the improvements to current density in the event of their partial or full destruction.
- Projects involved in any type of litigation
- Projects with owner-occupied occupancy ratio less than 50% when subject is investment property.
- Projects with more than 15% of the condo association dues delinquent.
- Projects that contains 8+ units with single entity owning more than 30% of the entire project.
- Projects that contains equal or less than 8 units with single entity owning more than 50% of the entire project.
- Projects subject to resale restrictions. (Age restriction is exempted for senior condo)
- Lender is liable for more than 6 months delinquent common charges.
- Lender is liable for more than 6 months for any delinquent common charges when a unit is taken over in Deed-In-Lieu or foreclosure.

- HOA owns or operates any non-incidental business operation.
- High Rise condominium project in Nevada: Due to the unknown risks surrounding super priority lien status in Nevada State Law NRS 116.3116, high rise condominiums in Nevada are not eligible at this time. Detached/attached condominiums in Nevada are acceptable.

15 Appraisal

NMSI requires an appraisal report for all residential mortgage loans. The purpose of valuation or appraisal review is to determine if a loan is secured by property that provides sufficient value to recover the investment if loan default occurs. Establishing the adequacy of the collateral for an investment quality loan requires an accurate assessment of the current fair market value and condition of the property. The appraiser must address any factors likely to affect the property's future value and provide a visual picture of the neighborhood, site, and improvements. The appraiser must use the comments section of the report to achieve this goal and attach additional documentation if necessary.

15.1 Appraiser Requirement

The appraiser must remain free of any outside influence in the valuation process. Appraisers must provide complete and accurate reports. The estimate of market value must represent the appraiser's professional conclusion, based on market data, logical analysis, and judgment.

15.2 Age of Appraisal

The effective date of the appraisal report must be dated within 120 days of the Note date. If the effective date of the appraisal report is more than 120 days but less than 180 days from the Note date, the appraiser must provide an update to the appraisal based on his or her knowledge of current market conditions. The appraiser must acknowledge that the value of the subject property has not declined since the effective date of the original appraisal. The update must be completed on Fannie Mae Form 1004D/Freddie Mac Form 442 and must be dated within 120 days prior to the Note date.

15.3 Appraisal Types

NMSI will accept the following types of appraisal forms:

- Uniform Residential Appraisal Report: (Fannie Mae 1004 / Freddie Mac 70)
- Individual Condominium Unit Appraisal Report: (Fannie Mae 1073 / Freddie Mac 465)
- Small Residential Income Property Appraisal Report (Fannie Mae 1025 / Freddie Mac 72)
- Appraisal Update or Completion Certificate (Fannie Mae 1004D / Freddie Mac 442)

15.4 Appraisal Review & Evaluation

As the underwriter evaluates a file to determine its eligibility for a loan, he/she considers the collateral property's marketability and justification of its value. Factors that affect marketability and value include the comparability of the subject property with surrounding structures and land use, condition and appeal of the property, quality of construction and equipment, characteristics of design, and the local home market real estate trends.

Information regarding these factors is documented on the appraisal, most inclusively on the Universal Residential Appraisal Report (URAR). There are three approaches generally used by the appraiser to establish value. These are the cost approach, the sales comparison analysis/market value analysis (market approach), and the income approach. For residential properties of 1-4 units, the market and cost approaches are the appraisal methods most widely used so therefore NMSI only accepts values based on these two approaches.

All residential appraisals and Evaluation reports should be made on an “as is” basis unless:

- The appraisal is made “subject to” repair alterations and/or conditions, which the appraiser lists in the comment section or by addendum.
- The property and appraisal is “subject to completion per plans and specifications.”

In both cases above, the appraiser must make a subsequent inspection of the subject and verify that such repairs, alterations or construction have been completed as represented in the appraisal, and the appraiser must complete an Appraisal Update and/or Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442) to verify compliance with his or her original appraisal conditions. A photograph attachment showing completion should be attached. When the appraiser makes the appraisal “subject to” any repairs, the repairs must be a requirement of loan approval. The repair work must be completed prior to funding, unless part of the approval funds is to be withheld to cover the cost of the repairs. Proof of completion of such repairs must be in writing in the funding, signed and dated by the appraiser.

15.4.1 Property Location

Rural properties may require additional analysis due to lack of available comparables and limited utilities and services. Any “fair” or “poor” ratings regarding the subject neighborhood should be explained.

15.4.2 Property Values

Declining property values represent higher, possibly unacceptable risk because of the potential for a loss in borrower equity. The rate of decline is a key factor.

15.4.3 Demand/Supply (Marketability)

An oversupply of housing units—within a neighborhood or citywide—may reflect problems with marketability. The reason for an oversupply and its effect on the property’s value requires explanation from the appraiser.

15.4.4 Occupancy

High-vacancy rates or an abundance of tenant occupants indicates that the neighborhood may be oriented to rental rather than owner-occupied housing.

15.4.5 Predominant Value

A property whose value falls outside the neighborhood price range or is at the extreme high or low end of the range may be a higher-risk property. Compatibility should be supported by use of similar properties from the same neighborhood and explained by the appraiser.

15.4.6 Land Use and Land Use Change

A strong residential base is important to overall neighborhood desirability.

Non-compatible land use (for example, a high percentage of commercial or industrial land usage) could negatively affect marketability. Change in land usage can have a significant effect, positively or negatively, on the long-range value of the property and requires explanation from the appraiser.

15.4.7 Neighborhood Comments

Factors that affect the marketability of the properties in the neighborhood, such as proximity to employment and amenities and employment stability and appeal to the market, require an explanation from the appraiser. Analysis could include economic trends, location influences and neighborhood amenities.

15.4.8 Market Conditions

Market conditions and trends should be supported by statistical information.

15.4.9 Zoning Compliance

The property should be zoned as "residential." Highest and best use as improved should be the "Present use." Properties with commercial zoning should exhibit no negative impact on marketability or habitability as residential properties and should not change the residential character or atmosphere of properties. The majority of the uses on the Subject Property's street must also be 1-4 family and at least two of the comparable sales must be from the Subject Property's immediate neighborhood and have the same zoning. Properties with agricultural zoning must be verified that property is residential in nature, its residential use is a permissible use under the zoning classification and its use does not primarily involve commercial activities such as farming or ranching. Residential properties with commercial and agricultural zoning should reflect the current usage as the highest and best use and be eligible to be rebuilt in the case of partial or total destruction and 100% rebuild letter from the city/county required.

15.4.10 Utilities

The source and type of all utilities should be identified. Utilities which are not typical for the area increase risk.

15.4.11 Off-site Improvements

Private road maintenance should be identified. If the condition or adequacy of a private road is not typical, an explanation is required.

15.4.12 Drainage/Flood Hazard

Drainage problems or the existence of a flood hazard condition require explanation from the appraiser. Such conditions or major problems may require physical correction or flood hazard insurance.

15.4.13 Site Comments

Adverse site conditions, including adverse easements, encroachments, or special assessments may affect the value or marketability and require explanation by the appraiser.

15.4.14 Improvements

A property's physical features should be most like other similarly sized dwellings in the market. If characteristics are not similar—for example, a room list that is not typical for the market, or heating that is unusual or not in good condition—they may affect market appeal. The affect the non-conformity has on value and marketability requires explanation from the appraiser. Construction components and special features should be similar to other properties in the marketplace. Amenities that do not meet market expectations may negatively affect marketability.

15.4.15 Condition of Improvements

Property improvements should be at least in average condition and should not negatively affect the livability or marketability of the property. Minor cosmetic deficiencies are not a major concern. The condition of the major components, including the roof, foundation, plumbing, electrical, and heating, may be an issue. Incurable structural factors that are not typical for the market—for example, a room list that is unusual or location of rooms that is not typical—may decrease the value and market acceptance of the property. Curable structural factors may be acceptable under certain conditions when properly justified.

Homes with energy efficiency improvements are eligible when marketability can be justified through comparable sales, and any additional cost is supported by the market. NMSI underwrites these properties based on the evaluation of the individual loan and does not generally have special documentation requirements or ratio guidelines for energy efficient properties except for Solar Panels.

For properties with solar panels, copy of purchase contract or lease agreement for solar panel must be reviewed to determine if there is any recurring monthly payment. Any monthly payment must be included in debt-to-income calculation. If solar panel contract is recorded as a lien against subject property, it cannot be in a first lien position. For purchase transaction, if borrower assumes the existing solar panel contact from the current owner/seller, assignment of lease or similar documents must be reviewed to determine the term and validity of transfer.

15.4.16 Adverse Environmental Conditions

Environmental items that have a negative effect on value—such as proximity to a hazardous waste site—must be identified and fully explained. Comparables should have similar environmental conditions. Generally, properties with material environmental hazards are ineligible for a loan. The effects of such hazards on the safety, value, and marketability of the property make it unacceptable collateral for low down payment lending. NMSI may require removal of such hazards as a closing condition

15.4.17 Property Condition and Quality of Construction of the Improvements

The Condition and Quality ratings must be based on a holistic view of the property and any improvements. When selecting the Condition and Quality ratings, an appraiser must:

- Consider all improvements to determine an overall Condition and Quality rating. The appraiser should select the rating that best reflects the property as a whole and in its entirety.
- Describe the subject property as of the effective date of the appraisal on an absolute basis, meaning the property must be rated on its own merits. The rating should not be selected on a relative basis, meaning it is not selected on how the property relates or compares to other properties in the neighborhood. Additionally, the Condition and Quality ratings for comparable properties must be made on an absolute basis, not on a relative basis, and reflect the property as of the date of sale of that comparable property.
    - Note: These requirements also apply to all other ratings or descriptions, including the View and Location

When an appraiser selects a rating and/or description of the subject property for a sales transaction, the selected rating and/or description must remain the same when reflecting that specific transaction. For example, if a C4 rating is selected for the sale of the subject property, then that property remains a C4 when using that specific sale as a comparable in future reports. The same expectation holds true for ratings and descriptions of comparable sales. When a comparable is used in a subsequent appraisal, the ratings and descriptions of that property should not change from one appraisal to the next when it reflects the same sale transaction.

- Note: Properties can have the same rating or description and still require an adjustment. It should be noted that this does not only apply to Conditions and Quality ratings and can apply to other ratings or descriptions as well. For example, all water views may not be equal. In this instance, an adjustment should be made and explained in the Additional Comments section of the form in an addendum.

Acceptable Property Condition and Quality Ratings are as follows:

- Condition Rating Range: C1 – C5
- Quality Rating Range: Q1 – Q5

15.4.18 Cost Approach

The cost approach is one of the ways an appraiser comes up with the final value of a home. The following applies to the cost approach method:

- **Site value:** The proportion of site value to the value of the residence must be in line with other values in the neighborhood. A property with a site value higher than the area norm may be considered a higher-risk property.
- **Estimated reproduction cost:** The estimated reproduction cost per square foot should not be higher than the area norm.
- **Depreciation:** The appraiser must make adjustments for physical, functional, and external depreciation when appropriate.

15.4.19 Sales Comparison Analysis/Market Value Analysis

Another method used by the appraiser to come to a final value of a home. The following applies to the sales comparison approach:

- **Comparable sales:** A minimum of 3 comparable sales is required for the market value analysis. Comparables should be similar to the subject property in size, room count, location, condition, etc. Comparable sales generally should have closed within 6 months of the appraisal date.
- **Location of comparables:** Except for rural locations, 2 of the 3 required comparables should be located within 1 mile of the subject property. Beyond that, an appraiser's explanation is required. Comparables for rural properties may fall outside the 1 mile range; therefore, it's important that the comparables be from locations that have the same influences, such as distance from schools, shopping, and employment Departments.
- **Source of comparables:** No more than 1 of the 3 comparables may be supplied by the lender or developer from its own files, unless justified by the appraiser. The 3 comparables must be closed sales, not listings. As alternatives, listings, offers and contracts can help support value; however, they may not accurately reflect market value since the details of the transaction could change prior to closing.
- **Adjustments:** Adjustments must be logical. The size of the adjustments indicates the extent of differences between the comparables and the subject property. Large adjustments should be fully explained. Large adjustments for site/view, design and appeal, quality of construction, age, or condition may be an indication that the comparables are not really comparable. Adjustments must be consistent for all comparables. Total net adjustments for any comparables used should not exceed 15% of the sales price. Total gross adjustments should not exceed 25%. Individual line adjustments for comparables should not exceed 10% of the sales price. If any of the net, gross, or individual line adjustments exceed these thresholds (15%/20%/10% respectively), the appraiser must address the adjustment, explain reason for use of comparable, and confirm comparable is the best available. One-directional adjustments will also need further explanation. Property value may be inflated when all of the comparables are significantly superior or inferior to the subject property. When all of the adjustments are positive or all negative, the valuation may be questionable.
- **Personal property/options:** Furniture, fixtures, and other personal property cannot be included in the market value of the property. Additional builder options on newly constructed properties should be reviewed and considered. For example, if the subject has $5,000 in options, such as upgraded wall coverings, carpeting and built-ins, the appraiser must evaluate that the costs of these items are truly reflected in the resale market. Often the options do not recapture dollar-for-dollar cost in market value. At least,

1 comparable sale should have options or extras similar to the subject's.

- **Prior sales activity:** The appraiser must identify and describe prior sales activity for the most recent 12 months for the subject and the comparables. Adverse value trends need to be identified and explained.

15.4.20 Changes to the Appraised Value

Particular attention and extra due diligence must be instituted for those loans in which the appraised value is believed to be excessive or when the value of the property has experienced significant appreciation in a short time period since the prior sale. Any appreciation within 12 months greater than 20% of the previous sale value, will require additional explanation from the original appraiser. If the appreciation occurred in under 6 months, a Field Review will be required.

15.4.21 Final Value

Final value must reflect the most reliable sales data, not an average of comparable.

15.5 Additions without Permits

If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

15.5.1 Attached Un-Permitted Additions

When reviewing a property with an attached un-permitted addition, the appraiser should address and comment on the following items:

- Describe the un-permitted work and whether is it common for the area.
- Is there a health or safety issue?
- Does zoning permit the type of work that was done?
- Was value given to the un-permitted addition? If value is given, it must be supported by comps.
- What is the effect of the un-permitted addition on the marketability of the property?
- If a permit was required for the work done, state what the consequences/penalties of not having obtained a permit for the work are.

15.5.2 Detached Un-Permitted Additions

When reviewing a property with a detached un-permitted addition or accessory dwelling unit that does not comply with zoning, the property may be eligible if the appraiser and/or lender address and comments on the following items:

- The current use conforms to the subject neighborhood and to the market.
- The property is appraised based upon its current use.
- The appraisal must report that the improvements represent a use that does not comply with zoning.

15.6 Third Party Appraisal Review

NMSI will utilize **AVM** to validate the value of the property. If the AVM is failed, the seller must order an appraisal desk review product for each loan from a vendor listed on the Approved Appraisal Desk Review Vendors.

- CDA report from Clear Capital
- ARR from ProTeck
- ARA from Computershare

A copy of the appraisal desk review report should be submitted in the loan file. The review must not be over 120 days old from the date of the Note.

If the desk review produces a value in excess of a 10% negative variance to the appraised value, the loan is not eligible for purchase; provided, the seller has the option to then ask the NMSI to order a Field Review to support the appraised value. If the field review also produces a value in excess of a 10% negative variance to the appraised value, then the loan will remain ineligible for purchase.

All appraisals are reviewed for eligibility as well as value support. However, the use of an appraisal review product does not relieve the seller of its representations and warranties relating to the property and the appraisal including the underwriting thereof.

15.7 Home Equity Combined Loan-to-Value (HCLTV)

The HCLTV is calculated by adding the first lien amount to the combined total of the junior liens. (adding the outstanding balance of loans, the remaining balance of lines in repayment without ability to make new draws, and the greater of the line amount or outstanding balance for lines of credit that are active where the borrower continues to have the ability to make new draws). When a junior lien is present, payment must be included when calculating the qualifying ratios, and the HCLTV must not exceed program guidelines.

15.8 Value Seasoning

If borrower has less than 12 months ownership in the property, LTV/CLTV is calculated on the lower of the purchase price or appraised value. If the borrower has owned property for more than 12 months, LTV/CLTV is based on the appraised value.

15.9 Loan Amount

The maximum loan amount is contained in the applicable product eligibility matrix.

15.10 Insurance Requirements

15.10.1 Flood Insurance

Flood insurance consistent with standard Fannie Mae/Freddie Mac requirements must be in place.

15.10.2 Hazard Insurance

Hazard insurance consistent with standard Fannie Mae/Freddie Mac requirements must be in place.

15.10.3 Title Insurance

Title insurance consistent with standard Fannie Mae/Freddie Mac requirements must be in place.

16 Legal and Regulatory Requirements

Loans must be originated in accordance with applicable federal, state, and local laws and regulations.

17 Age of Documentation

Credit Documentation: All credit documentation must be dated within 90 days of closing.

Asset Statements: The most recent asset statement to verify the source of funds or reserves must be dated no more than 45 calendar days earlier than the date of the loan application, and not more than 90 days earlier than the date of the Note. Quarterly statements are permissible.

Income Documentation: No income document should be included in the loan file.

CPA letter/Verification of Employment: no more than 90 days of closing.

Appraisal: Eligible appraisals must be dated within 120 days from the Note date.

Title & CPL: Eligible Title & CPL must be dated within 90 days of closing.

18 Additional Requirements

18.1 Escrow Waivers

- Property tax and insurance escrows may be waived.
- Individual state laws may supersede this requirement.

18.2 Escrow Holdback

Escrow Holdback is not eligible.

18.3 Section 32: High-Cost Loans

High-cost loans (Section 32) as defined by applicable state and/or local regulations are not permitted.

18.4 Section 35: Higher Priced Mortgage Loan (HPML)

NMSI will purchase loans that are defined as HPML only if all of the requirements listed below are met along with applicable product guidelines;

- QM Points and Fees audit must pass
- Escrows/Impounds are required for property taxes and homeowner's insurance (including flood insurance)
- All federal and state guidelines are met

Use the FFIEC Rate Spread Calculator to help determine Higher Priced Mortgage Loan (HPML) status: https://www.ffiec.gov/ratespread/newcalc.aspx

The calculator requires: Lock-In Date, APR, and the fixed term of the mortgage (in years).

A loan is "higher priced" if:

- It is a first-lien mortgage (other than a jumbo loan) with an Annual Percentage Rate (APR) that exceeds the published Average Prime Offer Rate (APOR) at the time the APR is set (lock date) by ≥ 1.5 percentage points
- It is a first-lien jumbo loan with an APR that exceeds the APOR at the time the APR is set (lock date) by ≥ 2.5 percentage points

Property Flipping with HPML is Ineligible

- Limitations on HPML loans for resale transactions within 180 days
- When a second appraisal is required per the TILA HPML Appraisal Rule the loan is considered on a case by case basis

For principal residences where the price reflected in the buyer's purchase agreement is higher than the amount listed below compared to the seller's acquisition price, a second appraisal will be required.

The amounts are as follows:

- More than a 10% increase if the seller acquired the property in the past 90 days;
- More than a 20% price increase if the seller acquired the property in the past 91 to 180 days
- See the CFPB TILA HPML Appraisal Rule for exemptions from this requirement.

18.5 State Restrictions

Refer to eligible states at http://www.nmsigroup.com/licensing
Texas refinance loans that must close under Section 50(a) (6) requirements are not eligible.

18.6 Legal Documentation

Available Fannie Mae security instruments, notes, riders/addenda, and special purpose documents can be utilized for loan documentation. In the case when Fannie Mae doesn't offer current documentation such as interest only, a document vendor should be utilized for forms.

18.7 Fraud Prevention

All loans are underwritten with fraud prevention and detection as part of the lending decision process. The following fraud prevention requirements are used for all transactions as applicable which include but are not limited to:

- Internal Fraud Prevention Tools (CoreLogicTM or FraudGuard® Reports).
- Ineligible Party List search requirements.
- Verbal Verification of Employment requirements.
- MERS search prior to closing.
- Internal settlement agent and title company approval process.
- Soft-pull credit 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 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 included in file before the final clear to close be issued.

FraudGuard® scores above 800 from CoreLogicTM require management review and approval by the Underwriting Manager in order to proceed with the loan.

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

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.

18.8 Pre-Funding Audit

NMSI strongly recommends but does not require that lender's implement a pre- funding audit process (such as those prescribed by Fannie Mae and Freddie Mac) to improve loan origination quality.