Wells Fargo JUMBO FIXED & ADJUSTABLE RATE MORTGAGES

POLICY	GUIDELINE
Investor	Wells Fargo Funding
Product Type & Terms	**<u>15 & 30 YEAR FIXED</u>** • 15 & 30 Year amortization **<u>5/1, 7/1 and 10/1 LIBOR ARM</u>** • Margin = 2.25% • No negative amortization • Caps = 2/2/5 • Non-convertible • Index = 1 year LIBOR • 30 year amortization only Investment property and LTVs over 80% not permitted in conjunction with 5/1 ARM
Underwriting Submission and Review Process	**All loans must be underwritten by Wells Fargo. Some loans may require University Bank Board approval as detailed in the Residential Mortgage Banking Policy. Please allow additional time for the following processes:** 1. Processor to complete the Wells Fargo Non-Conforming Initial Loan Submission Checklist and assemble underwriting package accordingly. 2. Loan file must be reviewed and substantially approved by MLS Underwriting prior to submission to Wells Fargo for loan decision. MLS Underwriting Department will submit loan to Wells Fargo for underwriting. 3. Review the Residential Mortgage Banking Policy document on the intranet's Corporate Policies webpage for information related to required Authority Levels. Authority Levels vary based on loan size and may require University Bank Board Approval.
Encompass Loan Programs	Use the following Encompass loan programs: • Jumbo WF Conventional Fixed • Jumbo WF 5/1 Libor ARM 2/2/5 • Jumbo WF 7/1 Libor ARM 2/2/5 • Jumbo WF 10/1 Libor ARM 2/2/5
Occupancy	• Primary Residence • Second Home • Investment Property – 1 unit only (not eligible in conjunction with 5/1 ARM) • LTVs over 80% - 1 unit primary residence only and not eligible in conjunction with 5/1 ARM
Loan Purpose	• Purchase • Rate/Term Refinance • Cash-out Refinance LTV over 80% available for purchase only Texas 50 (a)(6) not permitted
Loan amount, LTV/CLTV, Credit Score	Minimum Loan Amount – greater than conforming loan amount Maximum Loan Amount – University Bank's Lending Limit (refer to University Bank Defined Limits posted on the Mortgage Tools intranet webpage for lending limit) Refer to **Wells Fargo Non-Conforming LTV Matrix Chart** located on the intranet
Subordinate Financing	Subordinate financing is permitted. The CLTV is calculated by adding the first mortgage amount to all subordinate financing and dividing that sum by the value of the mortgaged premises. When subordinate financing is a HELOC, the credit line limit – rather than the amount of the HELOC is use must be used. • If an existing HELOC is not in the repayment period and is reduced without modifying the original Note, the original line limit must be used to calculate the CLTV ratio. • If an existing HELOC is in the repayment period, the current balance is used to calculate the CLTV ratio. A copy of the line agreement is required to verify the customer can no longer draw on the account. **Balloon Payments and Negative Amortization is not allowed.**
Property Eligibility	• 1-4 Unit (second home, investment property and LTVs over 80% are limited to 1 unit) • Warrantable Condos – (note: A site condominium property that consists of single family detached homes requires no project review/analysis, but must be coded as a condominium property type) • Warrantable PUDs • Factory built except manufactured (mobile) Property located in Fairfield County, CT and Condos located in Miami-Dade County, FL are not eligible for LTV over 80% **Leaseholds are not permitted** **Property flip transactions are not permitted.**

Title Changes less than 12 months

The following title changes are eligible with appropriate documentation to evidence the relationship and to show that there is not an unrelated party entering the chain of title. Eligible title changes:

- Marriage/domestic partnership/civil union
- Court-ordered, including but not limited to, divorce, death, or inheritance
- Transfer out of an LLC where the borrowers match the members of the LLC
- Transfer in or out of a trust where the borrowers match the settlor/trustor/grantor of the trust.

Borrower Eligibility

- All borrowers must have a valid U.S. Social Security number
- U.S. Citizens
- Permanent Resident Aliens with valid green card
- Non-permanent Resident Aliens permitted with a valid, acceptable visa and subject to the following additional requirements:
    - Minimum two-year credit history and employment in the U.S. or another country. In addition, non-permanent aliens who meet at least one of the following requirements are generally eligible for the same financing terms as a U.S. citizen:
        - Minimum two-year history of residence, employment and credit in the U.S., or
        - Borrowing with a U.S. citizen or permanent resident alien
- Illinois Land Trusts are allowed subject to Wells Fargo guidelines.
- Must have established credit in the U.S.
- Must be paid in U.S. dollars
- Power-of-Attorney (POA) is permitted. Initial application must be signed by the borrower (some exceptions may apply). Parties that are connected to the transaction may not act as POA. POA may not be used for cash-out transactions.

Multiple Financed Properties

Property Type	Maximum # of 1-4 unit properties	Maximum # of 1-4 unit properties owned free & clear
Primary	4	Unlimited
Second Home	4	Unlimited
Investment	4	5
LTV over 80%	2	N/A

When aggregate financing for all properties owned by borrower exceeds $3 million one of the following is required:

- Minimum reserve (post-closing liquidity) is 36 months PITI or
- Maximum 50% LTV/CLTV

Identity of Interest

Loans for second home or investment properties are not eligible for purchase by Wells Fargo Funding if the transaction includes non-arm's length and/or at-interest characteristics.

Underwriting Method

Manual underwriting by Wells Fargo is required. MLS Underwriter will upload underwriting package to Wells Fargo's website for underwriting.

Automated underwriting is not allowed.

Loan Score Selection

After selecting the representative credit score for each borrower. Use the following to determine the appropriate loan score used for the transaction:

- The credit score of the borrower with the highest income and a valid credit score is used as the Loan Score.
- When there is a non-occupant co-borrower, the credit score of the occupying borrower with the highest income is used as the Loan Score
- If a borrower does not have a valid credit score, that score is not considered in the selection of the Loan Score, regardless of the borrower's income
- In the event multiple borrowers have the same highest income, the borrower with the highest valid credit score is used as the Loan Score. Income sources must be verified and cannot be excluded in order to change the primary income earner.

Credit Vendor

All Non-Conforming Credit Packages must include a *CoreLogic® Credco®* credit report. The credit report MUST be obtained from Credco's website directly (order the "instant merge" credit product). Loan Officer must complete the Wells Jumbo Credco Credit Reissue Form and email it to MB Support in order to have the credit report pulled into Surveyance.

Credit Reputation	Refer to Loan Score Selection Section above for instructions on determining credit score used for transaction. To be eligible for Non-Conforming conventional financing, Wells Fargo Funding requires sufficient credit with a minimum Loan Score of at least:

- 700 for purchase and rate/term transactions with fixed rate product
- 740 for investment property transactions
- 740 for LTVs over 80%
- 720 for all other transactions

Non-traditional credit is not permitted.

Note: Soft Pull Credit Report is required prior to loan delivery to Wells Fargo

Housing payment history (mortgage, rental or combination of the two) covering the most recent 12 months (minimum) with no late payments must be verified either by the credit bureau or by direct verification.
A professional management company or an individual landlord may verify rental housing payments. If an individual landlord provides a reference, either directly or on a credit report, the borrower must provide evidence of timely payment for the most recent 12 months with:

- Canceled checks, or
- Bank statements showing the payment, or
- Money order receipts, or
- Cash receipts
  - Cash receipts are not allowed, and canceled checks, bank statements, or money order receipts are required, if the landlord:
    - is a relative, or
    - has an established relationship, prior to the Loan transaction, with the borrower beyond their connection as renter and landlord (examples include, but are not limited to, co-workers, close personal friends, partner, business associate, relator, etc.).
  - If using cash receipts, the name, address, and telephone number of the individual receiving the payments must be provided.

In the event the borrower is living with family, or when no mortgage or rental payment history can be obtained the following documentation must be provided:

- A letter of explanation, and
- Credit report verifying an acceptable traditional credit history and evidencing compliance with minimum Loan Score requirements.

Insufficient Credit
Insufficient credit is defined as any of the following:

- Fewer than three tradelines
- No tradeline with activity in the most recent 12-months
- No tradeline with at least a 24-month history

There may be instances where the borrower's credit score is valid but insufficient credit exists.

In addition, the credit risk of the entire borrower profile must be evaluated to determine if the credit history supports the borrower's ability and willingness to repay the Loan.

Authorized User Accounts – a tradeline for which the borrower is not the primary account holder, but is listed as an authorized user. When the borrower is the authorized user and the account is being used as a tradeline, the debt must be considered in the credit analysis and the monthly payment obligation must be included in the debt to income (DTI) ratio.

Significant Adverse or Derogatory Credit/Waiting Periods

Significant Derogatory Event	Adverse credit due to Financial Mismanagement Recovery Time Periods for Reestablishment of Credit	Adverse credit due to Extenuating Circumstances Recovery Time Periods for Reestablishment of Credit
Bankruptcy, Foreclosure; Deed-in-Lieu, Short Sale; Repossessions and Loan Modifications	LTV $\leq$70% - 84 months reestablishment of credit since the discharged/dismissal/completion date. LTV > 70% - Not Allowed	LTV $\leq$70% - A minimum of 60 months re-establishment of credit since the discharged/dismissal/completion date LTV > 70% - Not Allowed

Charge-Off
The following requirements apply to accounts reporting as charge-offs:

- An individual, paid or unpaid account that was charged-off within two years of the application date for an amount greater than $500 is not allowed.
- An individual, unpaid account that was charged-off more than two years from the application date for an amount greater than $500 is not allowed.

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Credit Reputation (continued)

Collections, Judgments, and judgment liens must be:

- Considered in the overall evaluation of the credit
- Reviewed for possible impacts to the borrower's ability to repay the mortgage or impacts to title
- Explained in a letter of explanation provided by the borrower.

Collections, judgements, and judgment liens that have not already been satisfied are subject to payoff and the requirements indicated in the table below:

Collections, judgements, and judgment liens			
Account Types (not attached to title)	**Dollar amount per tradeline**	**Payoff Required?**	**Included in DTI?**
Judgment/Judgment Lien	Any	Yes	N/A
Collection	≤ $500	No[1]	No
Collection	> $500	Yes[1][2]	N/A

[1]Accounts may not be paid down to $500 to avoid payoff.
[2]Collection accounts > $500 must be paid off unless the borrower can document a formal dispute. The rationale for not paying the collection must be documented and reasonable. The borrower must have funds available to pay off the collection in the future, if necessary.

Note: Loans with open collection accounts are not eligible for LTV over 80%

Non-real estate settled-for-less accounts

Accounts that are settled for less than full payment may impact the borrower's ability to repay the mortgage or may impact title to the property. Loans with non-real estate settled-for-less accounts that settled less than two years prior to the application date are not eligible.

Employment and Income

Refer to Wells Fargo Jumbo Employment & Income Analysis attachment for complete guidelines

Must use Wells Fargo's Verbal Verification of Employment (Exhibit 3).

Rental Income Documentation Requirements

Rental Income may be used for qualification provided the borrower has a 24-month history of managing rental properties or rental income history and subject to the requirements listed below:

The following are acceptable sources of rental income:

- Rent received from investment properties or other units of an owner-occupied multifamily property may be considered stable income.
- Rents received from a live-in aide, generated from a disabled borrower's 1 unit, primary residence may be used for qualifying purposes, in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage.

Typically, a live-in aide will receive room and board payments through Medicaid waiver funds from which the live-in-aide then makes rental payments to the borrower. This source of income is non-taxable and is not reported on the borrower's personal filed and signed federal IRS 1040 tax returns.

This income source may be considered stable monthly income, if both of the following are met:

- The borrower has received rental payments from a live-in aide for the past 12 months on a regular basis.
- The live-in aide plans to continue to reside with the borrower for the foreseeable future

Ineligible Rental Income

The following are ineligible rental income types:

- Rent from boarders in a single-family property that is also the borrower's primary residence.
- Rent from a property that is the borrower's second home.

Maximum DTI

Transaction Type	Front End Ratio	Total Debt to Income Ratio	Occupant Borrower Ratio w/Non-Occupant Co-borrower
Fixed Rate, Primary Purchase and Primary Rate/Term Refi Transactions	36%	43%	43%
Investment Property	36%	38%	38%
All other Transactions	36%	40%	43%

Qualifying Rate for Calculating Debt-to-Income Ratios	
5/1 ARMs	The higher of : Fully indexed rate (index plus margin) **OR** Initial Note rate plus two percent.
7/1 and 10/1 ARMs	The higher of : Fully indexed rate (index plus margin) **OR** Initial Note rate, not to exceed the start rate plus lifetime cap.

Liabilities	

Liabilities

Ratio Analysis
Debt ratios are based on the borrowers' stable monthly income and are the primary indicators used to determine their capacity to repay a mortgage.
The following is required:

- Underwriters must review the application to confirm that all housing expenses and long-term debts are listed on the application and were included in the ratio calculations.
- The underwriter must evaluate the ratios to determine if the Loan is an acceptable risk to Wells Fargo. See program guidelines and the Qualifying Ratio Tables for specific requirements.
- The underwriter must evaluate changes in present versus proposed housing expenses and consider future increases associated with adjustable rate products in the overall capacity risk assessment.
- If the borrower has several debts with large payments, the underwriter must consider the borrower's ability to make the payments when there are less than 10 monthly payments remaining.

Payoff Vs. Paydown
Accounts may not be "paid down" to less than 10 months to allow the borrower to qualify. Installment or mortgage accounts must be paid in full. Payoff of revolving accounts in order to qualify the borrower is not allowed.

Revolving Accounts
Revolving accounts, including credit cards, department store accounts, equity lines and other open-ended accounts are accounts that do not fully amortize and have balances and payments that vary from month-to-month.

The minimum payment amount for all revolving accounts with a balance must be included in the total monthly obligations.
If the credit bureau does not reflect a payment on a current reporting liability, a payment should be calculated as follows:

- Revolving: The greater of $10 or 5 percent of outstanding balance.
- Home equity line of credit (HELOC): When calculating the DTI, full principal and interest payments are used for all other mortgages, including home equity lines of credits (HELOCs) on other real estate held by the borrower. **Refer to the HELOC Liabilities Analysis Chart** for methods of calculating HELOC payments. This is to account for loans that require less than a full principal and interest payment, including but not limited to Interest Only.

Installment accounts
Whenever the installment debt's payment amount is not provided on the credit report then documentation of the payment amount must be obtained. Examples of documentation of the payment include but are not limited to:

- Direct verification from the creditor.
- Copy of the installment loan agreement.

Installment debts with less than 10 monthly payments remaining may be excluded from the qualifying ratios, but must be listed on the application. It is not acceptable to pay down installment debts to less than 10 months in order to qualify. Installment debts must be verified as paid-in-full at closing in order to exclude the debt from the borrower's qualifying ratios.

Lease Payments
The monthly payment associated with a lease must be included in the total monthly obligations regardless of the number of payments remaining until the end of the lease term, with the following exception:

- Payments for a solar panel system lease or Power Purchase Agreement (PPA), regardless of the number of payments remaining, can be excluded from the total monthly obligations.

Business Debt
Business debts for which the borrower is personally liable are usually included in long term debt according to the requirements for revolving or installment accounts. Installment debts with 10 or more monthly payments remaining and revolving debts may be excluded if the account has a satisfactory payment history and all of the following is provided as evidence that the business is paying the debt:

- The account does not have a history of delinquency.
- Minimum of 12 months of consecutive canceled checks from the business.
- The cash flow analysis of the business takes the payment obligation into consideration.

Child Support
Child support payments must be documented with a copy of the court order (such as a divorce decree).
Child support payments with less than 10 monthly payments remaining may be excluded from the qualifying ratios. A copy of the court order is required.

Subordinate Financing
Payments on closed end subordinate financing (installment loan) must be included in the monthly housing expense or in long term debt if there are 10 or more monthly payments remaining. Payments on any HELOC with an outstanding balance must be included in the monthly housing expense or in long term debt (depending on whether the primary residence of other real estate secures the line).

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Liabilities (continued)

Deferred Payments, Balloon Payments, and Single Payments Notes (including interest only payment Notes)
Some debts may have deferred payments or are in a period of forbearance. These debts must be included in the qualifying ratios if scheduled to begin or come due within 12 months of the mortgage Loan closing. Examples of installment debts with deferred payments include:

- Debts on automobiles, furniture, and appliances for which the initial payment is delayed for a period of time as part of a promotional campaign by the retailer. Some deferred payments must be included in the qualifying ratios even if deferred 12 months or more. Examples include:
    - Deferred payments must be included if the amount of the debt or payment affects the borrower's ability to pay the mortgage after Loan closing, especially if the borrower will have limited or no cash assets after Loan closing, (such a borrower with high ratios / no or low cash assets after closing with a sizable debt event that is just outside of the 12 month window for inclusion in ratios).
    - **Deferred payments on student loans and deferred payments on revolving accounts must be included in the total debt ratio (for Student Loans, please refer to the Student Loan section).**
    - Balloon and single payment Notes must be considered in the underwriting analysis:
        - If sufficient liquid assets (excluding assets used to meet reserve (post-closing liquidity)/down payment/closing costs requirements) can be verified to pay off Note, the Note does not need to be included in the ratios.
        - If sufficient liquid assets cannot be verified, verify the term of the Note, and include a payment in the ratios based on amortization over remaining term of the Note.

When the credit report does not include a payment on the debt, documentation of the payment amount must be obtained. Examples of documentation of the payment include but are not limited to:

- Direct verification from the creditor.
- Copy of the installment loan agreement.
- Student loan certification from the financial institution holding the loan.

HELOCS on Real Estate Owner Other Than the Subject Property
First mortgages on a non- subject property will use the following data to calculate a qualifying principal and interest payment:

- Outstanding principal balance
- Fully indexed note rate
- Existing amortization term

Borrowers should be qualified with a full PITI payment including Homeowner Association fees, if applicable. When the borrower is the credit account owner on an authorized user account, the debt must be considered in the credit analysis and the monthly payment obligation must be included in the debt to income (DTI) ratio. When the borrower is the authorized user and the account is being used as a tradeline, the debt must be considered in the credit analysis and the monthly payment obligation must be included in the debt to income (DTI) ratio.

Certain open-ended accounts (such as American Express) require payment in full monthly. For such accounts, one of the following options may be used for qualifying:

- Document sufficient assets to pay off the full balance (beyond cash required to close and reserves). In addition, use the greater of 5 percent of the balance or $10 for a qualifying payment.
- If sufficient assets are not available, use the full balance for a qualifying payment; if a lower payment amount can be documented from the creditor, that amount may be used for qualifying purposes.
- Follow verbal verification requirements or obtain a written verification or account statement.

Student Loans

Student loans must be included in the qualifying rations even if deferred for 12 months or more.

For student loans that are deferred, in forbearance, or not reporting a payment:

- Calculate a payment using 1.15% of the higher of the original high credit limit or current balance.
- Documentation for the actual payment may be requested in lieu of the 1.15% calculation. Documentation options include, but are not limited to, the following:
    - Direct verification from the creditor,
    - A copy of the installment loan agreement

For student loans that are reporting a payment on the credit report:

- Compare the reported payment to 1.15% of the current balance and use the higher of the two payments.
    - If using the 1.15% calculated payment for qualifying and the DTI exceeds the maximum, the actual payment must be documented.
- Documentation options include, but are not limited to, the following:
    - Direct verification from the creditor
    - Copy of the installment loan agreement
        - The documentation must be reviewed to confirm the reported payment is reasonable.
        - If the student loan is an income-based repayment plan, the documentation must be reviewed to confirm it is reasonable that the qualifying income on the loan application mates the qualifying income used to assess the student loan payment.
            - If the student loan payment will be reassessed less than 12 months after the borrower started the most recent job, the underwriter must perform additional investigations to validate the borrower will not experience payment shock upon reassessment. The 1.15% calculation should be used for qualifying unless the underwriter can document rationale for using the lower payment.
            - If the student loan payment will be reassessed more than 12 months after the borrower started the most recent job, the documented payment may be used for qualification purposes.

Reserves Requirements

Liquid assets verified to meet the reserve (post-closing liquidity) requirements may be in the form of:

- Cash equivalents (checking, savings, or money market accounts)
- 100% of the vested value of publicly traded stocks, mutual funds, and government securities may be used.
- Cash surrender value of life insurance (less outstanding loans, if repayment not included in debt ratio calculation)
- Retirement funds may be valued as follows:
  - Tax- deferred retirement funds must be discounted by 30% to account for tax consequences (less any outstanding loan balances) to determine the actual funds available for reserve requirements.
  - There must be an additional 10% reduction if an early withdrawal penalty exists.
  - 100% of Roth IRA funds (less outstanding loan balances).
- Retirement funds may be used as follows:
  - Borrowers without penalty-free access: Retirement funds may be used to meet up to 50% of the minimum reserve requirements.
  - Borrowers with penalty free access: Retirement funds may be used to meet 100% of the minimum reserve requirement.
- Tax advantaged college savings plans (529 college savings plans) funds may be used to meet the retirement
  - The borrower must be the custodian on the account
  - The balance must be reduced by 10% to account for tax consequences for drawing funds for non-educational purposes.
- Equity proceeds from the sale of a residence.
- Funds held in business accounts may be eligible for use if the requirements listed in the asset section are met.

The following assets are **ineligible** for purposes of meeting the minimum reserve (post-closing liquidity) requirement:

- Gift funds
- Borrowed funds
- Stock in a closely held corporation
- Proceeds from the sale of assets other than the sale of a residence.
- Proceeds from a cash-out refinance transaction.

Provide all pages of the most recent and consecutive 2 months asset statements dated within 45 days of the 1003.

Primary Residence Reserve/PCL Requirements

Loan Amount/Adjusted Combined Loan Amount	Single Family Detached/Attached, PUD, Condo	2-unit	3- to 4-unit
Up to $1,000,000	12 months' PITI	12 months' PITI	36 months' PITI
Greater >$1,000,000	12 months' PITI	18 months' PITI	
Adjusted combined loan amount (total of all loans/outstanding line balances against the subject property) applies when secondary financing exists (i.e., when subordinate financing is a line of credit, the outstanding balance is used).			

Second Home Reserve/PCL Requirements

Loan Amount/Adjusted Combined Loan Amount	Minimum Reserves
Up to $1,000,000	18 months' PITI
Greater >$1,000,000	24 months' PITI
Adjusted combined Loan amount (total of all loans/outstanding line balances against the subject property) applies when secondary financing exists.	

Investment Property Reserve/PCL Requirements

- Loan Amount/Adjusted Combined Loan Amount up to $1,000,000: 24 months' PITI
- Loan Amount/Adjusted Combined Loan Amount Greater >$1,000,000: 30 months' PITI

Adjusted combined loan amount (total of all loans/outstanding line balances against the subject property) applies when secondary financing exists (i.e., when subordinate financing is a line of credit, the outstanding balance is used).

When the aggregate financing/combined loan amounts for all properties owned by the borrower exceeds $3,000,000 – refer to the "Multiple Financed Properties" section for specific reserve requirements.

Assets

All asset sources must be legal in accordance with all applicable federal, state, and local laws, rules and regulations, without conflict.

<u>Minimum down payment</u>
The full down payment may be gifted.
<u>Bonus Income Used for Cash to Close</u>
A borrower's recent bonus may be used for cash to close when the impact to the borrower's qualifying income is analyzed.

It may be required to deduct the bonus from qualifying income when it is used as cash to close if the underwriter determines that the borrower is unable to meet all financial obligations and living expenses until the next bonus payout.

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Assets (continued)	Use of Business Funds The use of business funds is eligible under the following conditions: • Borrower must be 100% owner of the business • Business average annual cash flow is greater than the amount to be withdrawn/reserves • Cash on company year-end balance sheet for each of the previous 3 years is greater than the amount to be withdrawn and/or used towards reserves. This information is found on line 1 of the Schedule L for the Partnership, S-Corporation and the Corporation. Two years of the Schedule L will show 3 years of cash on hand for the company. • Full analysis of the business must consider the effect of the withdrawal of the assets and how it will impact the strength and viability of the business in the future. IRA, 401(k) IRA, 401(k) and other IRS-qualified employer plans may be used for down payment and closing costs, up to the post-tax and post-penalty amount available to the borrower for distribution. A copy of the plan statements for the most recent 2 months is required. The statements should be viewed to determine the borrower's vested amount in the plan. If there is a penalty for withdrawal, discount the asset by the applicable amount. Verification of liquidation is required. Ineligible Assets The following assets are not allowed: • Sweat equity • Group savings • Pooled funds • Saving cash to close • Stock options in a qualified plan but not fully vested • Stock options in a non-qualified plan Use of Credit Card for Payment of Fees A credit card may be used to pay fees associated with the Mortgage. Acceptable fees are: • Appraisal • Credit Report • Origination fee • Commitment fee • Lock-in fee • Extended Lock fee Acceptable credit cards are: Visa, MasterCard and Discover The Loan must meet all of the following requirements: • Borrower must have sufficient liquid assets to pay the amount charged (in addition to all other Closing costs). • The maximum amount charged or advanced may not exceed 2 percent of the Mortgage amount. • Under no circumstances may credit card financing be used for the down payment. • The amount charged or advanced must be included in the borrower's total outstanding debt and the repayment of that amount must be included when determining qualifying ratios (greater of $10 or 5 percent of the outstanding balance). • A copy of the charge receipt must be included in the Loan file • The HUD-1 or Closing Disclosure must reflect a paid outside/before Closing (POC) credit to the borrower for the amount charged.
Gift Funds	For primary homes, the full down payment may be from a gift when the LTV/CLTV is 80 percent or less.
Departure Residence Policy	**Current principal residence is pending sale but will not be sold (closed) prior to the new transaction:** Both the current and the proposed mortgage PITI payments must be used to qualify the borrower for the new transaction, unless the following requirements can be met: • A copy of the fully executed non-contingent sales contract for the departure residence (cash sale of the departure residence is not allowed); and • A lender's commitment from a regulated institution to the buyer of the departure residence with all financing contingencies cleared; and • Standard reserve requirements PLUS an additional 6 months PITI for departure residence. • Borrower is required to have a 20% equity position in the departure residence based on contracted sales price. Further documentation may be required if there is a significant difference between the sales price and estimated property value. When the departure residence will not be sold at the time of closing and is in a negative equity position, the following may be required to reduce the overall risk: • Additional reserves to cover the negative equity of the departure residence; or • Pay down the lien on the departing residence to eliminate the negative equity. **Existing Principal Residence Converting to Second Home** • Both the current and the proposed mortgage PITI payments must be used to qualify the borrower for the new transaction; and • Reserve requirements are the greater of 6 months PITI for both properties or the standard post-closing/reserve requirements. **Existing Principal Residence Converting to Investment Property** If there is documented equity of at least 30% of the departure property, 75% of rental income may be used to offset the mortgage PITI payment in qualifying when: • Reserve requirements are the greater of 6 months PITI for both properties or the standard post-closing/reserve requirements; and *Continued on next page*

Departure Residence Policy (continued)

- Rental income is documented with a fully executed lease agreement when the borrower's tax returns reflect a 2 year history of managing investment properties, as evidenced by the most current 2 years filed and signed Federal IRS 1040 tax returns; and

- Proof is provided that a security deposit was received from the tenant and deposited into the borrower's account.

If rental income will not be used to offset the mortgage payment to qualify, the following reserve requirements must be met:

- The greater of 6 months PITI for both properties or the standard post-closing/reserve requirements.

If 30% equity in the property cannot be documented, or the borrower does not have a 2 year history of managing investment properties as evidenced by the most current 2 years filed and signed Federal IRS 1040 tax returns, rental income may not be used to offset the mortgage PITI payments in qualifying; and

- Both the current and proposed mortgage PITI payments must be used to qualify the borrower for the new transaction; and
- Reserve requirements are the greater of 6 months PITI for both properties or the standard post-closing/reserve requirements.

<u>Departure Residence Converting to Investment Property Equity Position</u>
To document equity position in the departure property converting to an investment property, a full appraisal must be obtained from CoreLogic Valuation Solutions (fka Rels Valuation). The appraisal must be dated within 120 days of the date printed on the Note of the current transaction.

Identity-of-Interest Transaction

Loans for second home or investment properties are not eligible if the transaction includes non-arm's length and/or at-interest characteristics.

Use of Premium Pricing

For all transactions, the funds derived from premium pricing (credit for the interest rate chosen), are only allowed to be used to pay the borrower's typical closing costs and/or prepaid expenses.

Interested Party Contribution

The maximum allowable contributions from interested parties are based on the lesser of the purchase price or appraised value.

Property Type	LTV	Contribution [1]
Primary Residence	≤ 80%	6%
	>80%	3%
Second Home	≤80%	6%
Investment	Any	2%

[1]HOA fees/dues prepaid by any party other than the borrower are not allowed.

Appraisals

- Appraisals must be ordered through CoreLogic Valuation Service (fka Rels Valuation).
- For all loans, one full appraisal is required and must be completed by a certified appraiser.
- Extra appraisal documentation (RVS Desk Review or RVS Interior Field Review) may be required as identified in the chart below. RVS products will be ordered by Wells Fargo.
- **Cost of RVS Products - $110 for Desk Review and Interior Field Review ranges from $395-$960.**

Loan Amount	Appraisal Documentation Required
≤ $1,000,000	One full Appraisal[1]
>$1,000,000 - $2,000,000	One full Appraisal[1] completed by a certified appraiser[2]
> $2,000,000	One full appraisal[1] Completed by a certified appraiser[2] and a Residential Valuation Services (RVS) Field Review[3]

[1] A full appraisal is one prepared on form 1004/70, 2090, or 1073. A PIA/PIW, 2055, 1075 or 2095 Summary Report is not acceptable.
[2] When ordering the appraisal, Lender must specify that the appraisal be completed by a certified appraiser and, upon receipt of the appraisal, Lender must confirm the appraisal was completed by a certified appraiser.
[3] RVS review products will be ordered by Wells Fargo Funding. LTV/CLTV will be based on the lower of the reviewed value or the sales price.

<u>**Accessory Units:**</u>
If the property contains an accessory unit that is illegal or unpermitted, the property is eligible when all of the following are met:

- The appraisal report demonstrates the improvements are typical for the market with ***at least two*** comparable properties that have noncompliant accessory units.
- The appraisal report is completed based upon the property's current use
- The hazard insurance provider confirms the existence of the illegal unit will not jeopardize any future hazard insurance claims.

Refinances

Refinance of Loans with Less than One Year Seasoning
The underwriter should analyze transactions involving the payoff of a first lien that has been seasoned for less than one year.
If the first lien being paid off was a purchase transaction, and the original purchase price, as stated on the application, is less than the new appraised value the file should contain documentation supporting the increase in value (e.g. appraisal indicates increasing values for the market, appraisal comparables support increasing values, documented home improvements, or a copy of the original appraisal showing the original appraised value higher than the original sales price). If the increase in value is unsupported, the underwriter should use the lower of the original purchase price or the new appraised value to determine LTV/TLTV/CLTV.

Rate/Term Refinance
A rate/term refinance is a new first lien that replaces the borrower's existing financing on a property. The purpose of any simultaneous secondary financing does not impact the rate/term classification of the new first lien.

The new first lien amount for a rate/term refinance may not exceed the sum of:

- Payoff of the current mortgage (principal balance plus accrued interest, and any required prepayment penalty, only; other costs such as late fees and past-due amounts may not be paid with the new Loan)
    - If the first mortgage is a Home Equity Line of Credit (HELOC) a copy of the HUD-1 Settlement Statement or Closing Disclosure from the borrower's purchase of the subject property, or documentation of home improvements made to the property, must be provided evidencing the proceeds were used in their entirety to acquire or improve the subject property.
- Payoff (as defined above) of any subordinate mortgage lien used in its entirety to acquire or improve the subject property. Home improvements costs may include the following: materials, architectural fees, supplies, labor, liability insurance on laborers, installation costs (water, sewer, well, etc.), permits, non-recurring costs of obtaining financing, including origination fees, discount points, title searches, recording fees.
- Payoff (as defined above) any other mortgage lien against the subject, provided:
    - The lien has been open at least 12 months, and
    - Total draws in the past 12 months do not exceed 2% of the new first mortgage amount.
- Standard Loan fees (e.g., closing costs on the new mortgage; prepaids, such as interest, taxes and insurance, etc. and points). Prepaids cannot be financed on Texas transactions.
- Incidental cash to the borrower not to exceed 1% of the principal balance of the new Loan amount.

Property Listed for Sale
Wells Fargo will not provide financing on any refinance transaction secured by a property:

- Currently listed for sale, or
- Listed for sale within the six months prior to the Loan application.

Investment Properties
Investment properties are allowed with the following restrictions:

- Allowed on one unit properties only
- Two years property management experience required if rental income from subject is used to qualify
- Maximum DTI of 38%

<u>Cash-Out Refinances</u>
Allowed. Any refinance transaction not meeting the requirements for a rate/term refinance is a cash-out refinance.
Delayed Financing/Allowable Cash-out for Properties Recently Purchased with Cash
If borrowers have purchased a primary, second home, or investment property for cash within the preceding 90 days, an application may be considered to provide cash-out as a reimbursement of the borrower's cash investment providing all of the following are met:

- Not allowed in Texas
- HUD-1 or Closing Disclosure indicating cash purchase within 90 days prior to the application.
- Maximum LTV/CLTV based on the purchase LTV/CLTV matrix.
- Maximum DTI based on the purchase DTI requirements.
- Minimum Loan Score based on the purchase Loan Score requirements.
- The LTV/CLTV will be based off the lesser of the original purchase price or current appraised value.
- Borrower has exhibited a historic level of assets to support the cash purchase (supported by Schedule B of the last two years' tax returns) or other supportive documentation to verify receipt of such funds. A paper trail evidencing the funds used to acquire the subject property is acceptable as long as the funds had been on deposit at least 90 days prior to the date of the original transaction.
- Funds used for the original purchase cannot be borrowed, except by means of a fully secured Loan (for example, margin account, or other real estate). These will be treated on a case-by-case basis.
- The Loan must be registered and Closed as a Cash-out refinance since the borrower is already in title to the property. The Loan can be underwritten based on purchase transaction guidelines.

Mortgage Insurance

Mortgage Insurance is not required.

Escrow Waivers

Permitted when the LTV is 80% or less.

Document Age	• Credit Docs = **120 days** • Appraisal = **120 days[(1)]** [(1)]At closing, if the appraisal is older than 120 days but is less than one year old at closing, obtain an update from the appraiser indicating that the property value has not declined since the original appraisal date. If the effective date of the appraisal exceeds one year or the value has declined, a new appraisal is required. • For a property located in a Market Classification of 3 or 4, a field review (Fannie Mae Form 2000/2000A or Freddie Mac Form 1032/1072) obtained from an AMC authorized to provide valuation products for Non-Conforming Program Loans is required in addition to the appraisal update.