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NOTES

600 - VA Loans

Product Description and Product Codes

Product Description

Fixed Rate Loans that meet applicable Veterans Administration (VA) government guidelines.

Presentation

To minimize repetition, general guidelines and requirements that affect all government loans are presented first, and then product-specific guideline requirements are presented as a sub-section of this Product Guideline. Each sub-section has a loan parameter matrix for easy reference.

IMPORTANT: Information within this lender guide are intended to be used in conjunction with VA guidelines within <http://www.va.gov>

Product Highlights

Loan programs extended to veterans under the Veterans Administration offering long-term, low down payment mortgages.

Continued on next page

Product Description and Product Codes, Continued

FRM Product Codes

The following Product Code Matrix outlines the applicable product codes for VA products.

Loan Terms:

FRM available loan terms are included in the product code. (i.e., V30 is a VA FRM, 30-year term and V-15 is a 15-year VA FRM).

Product Name	Product Code		Product Feature Options
VA Fixed Rate – <u>GNMA I Pricing</u>	V15 V20	V25 V30	VA Fixed Rate Terms: 15; 20; 25; 30-year
High Balance Loans	V30HB		High Balance Terms: 30-year
VA Fixed Rate – <u>GNMA II Pricing</u>	V30-2		Interest Only Option Term: Not permitted.
High Balance Loans	V30-2HB		
VA Fixed Rate IRRRLs – <u>GNMA I Pricing</u>	V30IRL		VA IRRRL Fixed Rate Terms: 30-year
VA Fixed Rate IRRRLs – <u>GNMA II Pricing</u>	V30IRL-2		VA IRRRL High Balance Terms: Not Permitted
IMPORTANT: Currently not available in the state of Nevada.			

ARMs

Not Permitted.

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Product Description and Product Codes, Continued

High Balance Overlays

- ✓ High Balance product codes required for all loan amounts greater than conforming limits based on the number of units.
- ✓ Regardless of calculation and VA, the maximum Final Loan Amount including the funding fee may not exceed \$700,000.
- ✓ Gifts are not permitted
- ✓ Eligible for 30 year FRM term only.
- ✓ Full appraisal required.
- ✓ 2-4 units are not permitted.
- ✓ Maximum cash to veteran after all liens have been satisfied is \$325,000.
- ✓ 0x30 payment history for all mortgages or rental payments due within the most recent 12 months, regardless of DU.
- ✓ No bankruptcy or foreclosures in the most recent 7 years, regardless of DU.
- ✓ IRRRL transactions are not permitted.

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Product Description and Product Codes, Continued

- Ineligible Scenarios**
- ✓ Higher Priced Mortgage Loan (HPML)
 - ✓ Shared equity (non-veteran)
 - ✓ Less than the minimum 25% Guaranty
 - ✓ Any loan that VA's LGC cannot be issued

AUS Requirements Loans submitted to DO/DU must meet the VA guidelines for those loan products.

Product	AUS System Credit Recommendation	Comments/Requirements
VA	DU/Approve	VA DU loans submitted for funding must include the findings and credit report in the file.
	DU/Refer	Not permitted and may not be overturned via manual underwriting.
	LP Recommendations	Not permitted.
	Manually UW	Not permitted.

Certificate of Eligibility

Verify the veteran's eligibility for home loan benefits and amount of available entitlement by obtaining a Certificate of Eligibility (COE):

- VA Form 26-8320, Certificate of Eligibility for Loan Guaranty Benefits, or
- VA Form 26-8320a, Certificate of Eligibility for Loan Guaranty Benefits (Reserves/National Guard)

A Certificate of Eligibility is the *only* reliable Proof of Eligibility.

NOTE: An on-line Certificate of Eligibility must be obtained from the Automated Certificate of Eligibility (ACE) application in WebLGY to verify sufficient VA entitlement for loan. Original Certificates of Eligibility may only be used if obtained from Winston-Salem, NC VA Eligibility Center and is less than 60 days old at time of application.

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Product Description and Product Codes, Continued

Eligible Borrowers**Eligible Borrowers**

- ✓ Veteran (single or married)
 - Minimum service required during wartime periods is 90 days of active duty
 - Minimum service required for the peacetime periods is 181 days of continuous active duty
 - Must have been discharged or released from active duty under other than dishonorable conditions ; if served less than the minimum requirement period may be eligible if discharged because of service-connected disabilities.
- ✓ Veteran and non-Veteran Spouse
- ✓ 2 Veterans who are married to each other
- ✓ Unmarried surviving spouse of an otherwise eligible veteran, who died as a result of service or service-connected injuries.
- ✓ Non-occupant co-borrowers are not permitted
- ✓ 2 Veterans that are NOT married to each other. Prior VA approval is required.
- ✓ Members of the Reserves or National Guard are eligible upon completion of six years of service in the Selected Reserve, or upon discharge from the Reserves or National Guard because of a service-connected disability before completing six years.
- ✓ Loans will be granted only to natural persons. Title must be held in individual names only. All borrowers must have a valid social security number.
- ✓ An Inter Vivos Trust will be accepted as long as it meets all requirements within current VA guidelines. Permitted for Fixed Rate Mortgages (FRM), 1-unit Primary Residence only.

Active Military Form

VA Form 26-0592 (6/95) – Counseling Checklist for Military Homebuyers is required.

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Product Description and Product Codes, Continued

Additional Forms

- ✓ VA Benefit Questionnaire
 - ✓ Statement of Active Duty Status
 - ✓ VA 26-0286 (11/08) – VA Loan Summary Sheet
 - ✓ IRRRL: Comparison Old Loan versus New Loan
-

Ineligible Borrowers

Ineligible Borrowers

- ✓ Non-profit organization borrowers
 - ✓ Possession by corporations or partnerships is not acceptable, including, but not limited to, the following:
 - S Corporations
 - Life Estates
 - Real Estate Syndication
 - LLC's
 - DBA's
 - ✓ Remarried surviving spouses of otherwise eligible veterans
 - ✓ All other Veterans not meeting the eligibility requirements of the VA Form 26-1880
 - ✓ Veteran and a non-veteran (who is not the spouse of the veteran)
 - ✓ Refer to VA guidelines for additional restrictions.
-

Escrow / Impound Waiver

Waiver of escrows/impounds is not permitted for VA loans under any circumstances.

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Product Description and Product Codes, Continued

Occupancy

- ✓ Owner-occupied properties are eligible for government loans.
 - Veterans purchasing a primary residence, refinancing or improving their home must certify that they intend to live in the home.
 - If the (married) buyer is on active duty, a spouse may certify occupancy. A single veteran must occupy within 60 days of closing.
- ✓ Second Vacation Home and Investment (Non-owner occupied)
 - Not permitted.

Occupancy Examples

Examples where a veteran **does** meet VA's occupancy standards:

- ✓ Veteran will occupy the home within 60 days of closing.
- ✓ A single active duty member will occupy the home within 1 year of closing. 12 months is the rule. Will VA consider 13 months—the answer is "Probably Not".
- ✓ The spouse of an active duty veteran will occupy the home (no time limit).
- ✓ A married veteran works overseas for a private contractor, but there is evidence in the file that the veteran is granted regular leaves of absence to come back to the United States. In this case the spouse will occupy the home.
- ✓ A married veteran works a few hours away from the residence and rents in their work location during the week, but comes back to the home on weekends.

Examples where a veteran **does not** meet VA's occupancy standards:

- ✓ A single veteran has more than 12 months remaining in their military obligation and the home is not close in proximity to where the active duty member is stationed.
- ✓ A veteran who is on active duty for a period of more than 12 months and they would like to have parents/friends/siblings/relatives live in the home.
- ✓ A veteran and spouse live overseas with a private job commitment in a foreign country, and they want to buy a home in the United States now with the intent of moving into the home several months after closing.
- ✓ A veteran wants to buy a second home in a location that is not in close proximity to their employer, with the intent of moving the spouse into that second home (buying a vacation home would be a good example).

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Product Description and Product Codes, Continued

Property Types **Eligible Property Types**

As permitted by VA, the following properties are eligible for funding:

- ✓ 1-4 Unit Properties, Attached and Detached
- ✓ VA approved Condominiums; refer to State Restrictions and AUS Requirements section within this summary for specific guidelines within the state of Florida.
- ✓ 1-unit PUDs in accordance with VA guidelines

Ineligible Property Types

Unless otherwise specifically permitted by the applicable loan parameters, the following property types are not acceptable:

- ✓ "To Be Determined" property addresses (i.e. all submissions must contain an actual property address)
- ✓ Cooperative Share Properties (Co-Op)
- ✓ Manufactured Homes – INCLUDING VA IRRRL transactions
- ✓ Mobile Homes
- ✓ Subsidized Condos also known as Limited Equity Condos
- ✓ Condo subject properties will NOT be permitted if located within the state of Florida.
- ✓ True and Sided Log Homes
- ✓ Commercial enterprises
- ✓ Boarding houses, hotel, motels, and tourist homes.
- ✓ Private clubs
- ✓ Sanitariums
- ✓ Fraternity and sorority houses
- ✓ Condotels
- ✓ Investment properties
- ✓ Deed Restricted Properties; note such properties typically involve age restricted communities.
- ✓ Leasehold Condos

NOTE: Eligibility of Unique Properties, such as extra small homes, and homes with lower than normal ceiling heights; depend on whether or not the property is structurally sound and readily marketable. If a property meets these criteria, the appraiser estimates market value. However, depending on the uniqueness, the final determination to accept the property is at the underwriter's discretion.

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Product Description and Product Codes, Continued

Principal Reduction

Lender Paid Transactions

On transactions where the loan originator is paid by the lender, CPF will permit a Principal Curtailment on purchase and refinance loans unless noted below as a result of excess premium rate credit. The excess premium must be identified on the HUD-1 Settlement Statement and is limited to the amount of the excess premium rate credit below. The premium rate credit is the amount associated with the lowest pricing rate option that allows for some or all of the borrower's closing costs to be paid so the borrower does not have to pay those closing costs out of pocket.

- ✓ Premium rate credits are permitted up to or equal to \$2,000 for loan amounts up to \$350,000, or \$4,000 for loans amounts exceeding \$350,000.

If the program permits, the borrower may also receive cash back within program guidelines in addition to the amount of the curtailment. Check your product summary for cash back eligibility criteria.

Borrower Paid Transactions

Not permitted.

Hazard and Flood Insurance

- ✓ For hazard insurance, the amount of coverage must be equal to at least the principal balance of the new loan or replacement cost.
- ✓ All loans require a flood certification.
- ✓ Flood insurance is required on all properties located in a Special Flood Hazard Area (SFHA).

Temporary Buydown

- ✓ Not permitted.

Third Party Originations

Co-brokering or Third Party Originations are not permitted.

Underwriting Guidelines

Overview VA loans must be underwritten to the current VA guidelines. ClearPoint Funding requires the use of either Fannie Mae Desktop Originator and/or Underwriter® (DO/DU); manually underwritten loans are not permitted.

AUS Requirements Government loans submitted to DO/DU must meet the credit guidelines for those loan products.

Loan Limits VA does not have maximum loan amount; however, ClearPoint Funding will accept a loan up to \$700,000, including the VA Funding Fee, and depending upon:

- The availability of the borrower’s available entitlement; AND
- The county limit in which the property is located.

Property Type	General
1 Unit	\$417,000
2 Units	\$533,850
3 Units	\$645,300
4 Units	\$801,950
NOTE: High Balance loan amounts are permitted.	
<p>NOTE:</p> <ul style="list-style-type: none"> ✓ Minimum \$50,000 loan amount. ✓ Maximum loan amounts by County (for determining maximum guaranty) can be located at http://www.vba.va.gov/ro/cleveland/VA_High_Cost_County_Loan_Limits.pdf <ul style="list-style-type: none"> • *However, regardless of calculation, the final loan including the funding fee amount may not exceed \$700,000. 	

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Underwriting Guidelines, Continued

LTV Limits

Transaction Type	LTV/CLTV Maximum
Purchase	<p>Generally limited to the amount shown on the NOV, (up to 100% of the lesser of the NOV or the purchase price); however, the maximum loan amount may be limited by the amount of remaining eligibility/entitlement.</p> <p>NOTE: If the total loan amount is greater than \$417,000, a down payment may be required and the LTV may be reduced accordingly.</p>
Other Refinancing	<p>Not subject to the 90% LTV limit; however, the new loan amount may not exceed the lesser of the NOV or the sum of the outstanding balance of the loan plus allowable closing costs and discounts. NOTE: If the loan is a refinance of an existing construction loan, the balance of the loan may include the balance of both the construction loan and lot lien(s), if any.</p> <p>IMPORTANT: Also referred to as "Other Refinancing Loans" in the VA Lenders Handbook, Chapter 6, Topic 5 and ONLY includes the refinance of construction loans, installment land sale contracts, and loans assumed by veterans at interest rates higher than that for the proposed refinance.</p>
Cash Out and Rate Term Refi	<p>90.00% of the amount of the appraised value (or NOV); however, the maximum loan amount may be limited by the amount of remaining eligibility/entitlement.</p> <p>IMPORTANT: All remaining refinance scenarios NOT described under "Other Refinancing" are considered cash out, whether the borrower receives cash back at closing or not.</p>
IRRRL	<p>100% LTV/CLTV based on existing VA loan balance, plus:</p> <ul style="list-style-type: none"> • Unpaid principal balance (including accrued interest and late fees, if applicable), regardless of seasoning • Allowable fees and charges • Prepaid expenses • Up to 2% discount points (when allowed) • VA funding fee • No cash back to borrower (incidental cash back not to exceed \$500). It is not acceptable to calculate the loan amount with the intention of returning cash to the veteran. <ul style="list-style-type: none"> ✓ No satisfaction of junior liens ✓ New subordinate financing is not permitted. ✓ Total loan amount, including all the above items, may not exceed the appraised value or the maximum loan amount permitted for this product; High Balance not permitted. ✓ Bonus entitlement not applicable.
<p>NOTE: VA Circular 26-08-19 announced a temporary increase in the maximum guaranty amount for loans closed January 1, 2009 through December 31, 2011. The maximum guaranty amounts will be adjusted annually. The first adjustment will affect loans closed on or after January 1, 2010.</p>	

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Underwriting Guidelines, Continued

Guaranty A minimum of 25% of the loan amount must consist of available guaranty. If less than 25% guaranty is indicated on the Loan Guaranty Certification (LGC), the worksheet must be attached indicating the calculations used to determine the full 25% guaranty.

Loan Guaranty / Entitlement The maximum guaranty is the lesser of the veteran’s available entitlement or the maximum potential guaranty amount detailed in the following table:

Loan Amount	Loan Types	Maximum Potential Guaranty
Up to \$45,000	All	50% of the loan amount
\$45,001 to \$56,250	All	\$22,500
\$56,251 to \$144,000	All	40% of the loan amount with a maximum of \$36,000
\$144,001 to \$417,000	Purchase	25% of the loan amount with a maximum of \$104,250

Calculating Entitlement

For loan amounts over \$144,000:

A. Amount of Entitlement Used \$ _____

B. \$104,250 minus Line A \$ _____ **Available Entitlement

C. Line B x 4 \$ _____ ***

**Line B should be moved to line #3 on the VA Purchase worksheet.

***Line C is the highest loan amount allowed without equity in the property.

Bonus Entitlement

Bonus Entitlement is available:

- ✓ Only for loan amounts greater than \$144,000
- ✓ For veterans with full basic entitlement available
- ✓ For veterans with partial entitlement available

Continued on next page

Underwriting Guidelines, Continued

Bonus Entitlement – FULL Entitlement

Bonus Entitlement when the Veteran has FULL Entitlement

- ✓ If the veteran has full entitlement, Bonus Entitlement or additional entitlement is calculated as follows:
 - $\$417,000 \times 25\% = \$104,250 - \$36,000 = \$68,250$
 - ✓ It is this bonus entitlement that allows a veteran to purchase a zero down payment home for greater than \$144,000 and still received full VA guaranty up to \$417,000
-

Bonus Entitlement – PARTIAL Entitlement

Bonus Entitlement when the Veteran has PARTIAL Entitlement

If veteran only has partial entitlement, meaning he still has an open VA loan, he may still be able to obtain another VA loan for more than \$144,000, using bonus entitlement, provided he intends to occupy this property.

Example – For loan amounts over \$144,000*

Current entitlement *in use* \$7500.

Veteran's wishes to purchase a home for \$250,000.

- $\$250,000 \times 25\% = \$62,500$ (Purchase Price x 25% as required by Ginnie Mae)
 - $\$104,250 - \7500 (*in use*) = \$96,750 --Maximum amount of available entitlement for the new loan
 - The maximum loan amount the veteran can obtain without a down payment is $\$96,750 \times 4 = \$387,000$.
 - In this case the borrower is able to purchase this property without a down payment.
-

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Underwriting Guidelines, Continued

Joint Loans

Joint loans must be underwritten and then forwarded to the VA for FINAL approval before closing

A joint loan is a loan made to:

- ✓ The veteran and one or more veterans (not spouse) who will not be using their entitlement
- ✓ The veteran and one or more veterans (not spouse) **ALL** of who will use their entitlement. Example: Two unmarried veterans
- ✓ The veteran and the veteran's spouse who is also a veteran and both entitlements to be used
 - A loan involving a veteran and his/ her spouse will not be treated as a joint loan if the spouse is not a veteran or is a veteran who will not be using his/her entitlement on the loan.

Continued on next page

Underwriting Guidelines, Continued

Purchase Worksheet 1:

Required Cash Down Payment & Minimum Guaranty Calculation for Loan Amounts up to \$417,000

Step #	Action	Amount
1	Subject property is located in: Montgomery County PA NOTE: Check VA County Limits. If the county name does not appear on this list, the VA limit is set at 417,000.	(1) \$417,000
2	Enter less of Sales Price (SP) \$300,000 or NOV (Notice of Value) / NOV (Notice of Value) \$300,000 Note: If the Sales Price exceeds the NOV, the applicant must have sufficient cash to cover the difference.	(2) \$300,000
3	Veteran's Funding Fee: 2.15% x Line (2) Borrower's Requested Loan Amount (Base + Financed FF)	(3) \$306,450
4	Minimum Guaranty required by GNMA (25% of Line (2))	(4) \$75,000
5	Maximum VA Guaranty / Available Entitlement = 25% of Line (3) IMPORTANT: If the minimum guaranty required by GNMA is less than the maximum guaranty VA will provide, then no cash down payment is required from the borrower and the requested loan amount would be acceptable. NOTE: This scenario assumes the veteran has full entitlement; if the veteran has used any portion of entitlement that will not be restored, then following the below example.	(5) \$76,612.50
Second Example: (If the maximum guaranty/available entitlement is less than the minimum guaranty required by GNMA, then the veteran must provide a cash down payment in order to meet the FNMA requirement).		
6	Down Payment in the amount of the minimum GNMA requirement less the remaining available entitlement	(6) \$11,750
7	Since a down payment is required, the base loan amount must be reduced by the amount of the down payment. Line (2) minus Line (6)	(7) \$308,250
8	Confirmation of 25% Minimum Guaranty; Line (5) plus Line (6) divided by Line (2)	(8) 25%
9	Adjusted Funding Fee; Line (7) x Veterans Funding Fee	(9) \$10,172.50
10	Adjusted Total Loan Amount; Line (7) plus Line (9) (rounded to the lowest dollar)	(10) \$318,422

Continued on next page

Underwriting Guidelines, Continued

Purchase Worksheet 2:

Required Cash Down Payment & Minimum Guaranty Calculation for Loan Amounts greater than \$417,000

Step #	Action	Amount
1	Subject property is located in: <u> Pike County PA </u> NOTE: Check VA County Limits. If the county name does not appear on this list, the VA limit is set at 417,000.	(1) \$625,500
2	Enter less of Sales Price (SP) <u> \$1,000,000 </u> or NOV (Notice of Value) / NOV (Notice of Value) <u> \$1,000,000 </u> Note: If the Sales Price exceeds the NOV, the applicant must have sufficient cash to cover the difference.	(2) \$1,000,000
3	Veteran's Funding Fee: <u> 2.15% </u> x Line (2) Borrower's Requested Loan Amount (Base + Financed FF)	(3) \$1,021,500
4	Minimum Guaranty required by GNMA (25% of Line (2))	(4) \$250,000
5	Maximum VA Guaranty / Available Entitlement = 25% of Line (1) since the county limit is less than the sales price; VA will not guarantee more than the county limit. IMPORTANT: If the minimum guaranty required by GNMA is less than the maximum guaranty VA will provide, then no cash down payment is required from the borrower and the requested loan amount would be acceptable. NOTE: This scenario assumes the veteran has full entitlement; if the veteran has used any portion of entitlement that will not be restored, then the available entitlement must be reduced by that amount.	(5) \$156,375
6	Down Payment in the amount of the minimum GNMA requirement less the remaining available entitlement *PLUS any additional amount required to reduce the final loan amount to \$700,000.	(6) \$300,000*
7	Since a down payment is required, the base loan amount must be reduced by the amount of the down payment. The lesser of Line (2) minus Line (6) OR \$685,266 based on 2.15% funding fee	(7) \$685,266
8	Confirmation of 25% Minimum Guaranty; Line (5) plus Line (6) divided by Line (2)	(8) Amt greater than 25% confirmed
9	Adjusted Funding Fee; Line (7) x Veterans Funding Fee	(9) \$14,733.22
10	Adjusted Total Loan Amount; Line (7) plus Line (9) (rounded to the lowest dollar) OR \$700,000, whichever is less.	(10) \$700,000
NOTE: *If the calculated final loan amount is reduced down to the maximum final loan amount of \$700,000 as required by CPF overlays, the dollar amount difference must be included as part of the veteran's down payment.		

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Underwriting Guidelines, Continued

Cash Out Refinance Worksheet 1:

Required Cash Down Payment & Minimum Guaranty Calculation for Loan Amounts up to \$417,000

Step #	Action	Amount
1	Subject property is located in: Montgomery County PA NOTE: Check VA County Limits. If the county name does not appear on this list, the VA limit is set at 417,000.	(1) \$417,000
2	Enter NOV (Notice of Value) / NOV (Notice of Value) \$300,000	(2) \$300,000
3	Veteran's Funding Fee: 2.4% x 90% of Line (2) Borrower's Requested Loan Amount (Base + Financed FF)	(3) \$276,480
4	Minimum Guaranty required by GNMA (25% of Line (2))	(4) \$75,000
5	Maximum VA Guaranty / Available Entitlement = 25% of Line (3) IMPORTANT: If the minimum guaranty required by GNMA is less than the maximum guaranty VA will provide, then no cash down payment is required from the borrower and the requested loan amount would be acceptable. NOTE: This scenario assumes the veteran has full entitlement; if the veteran has used any portion of entitlement that will not be restored, then the available entitlement must be reduced by that amount.	(5) \$69,120
6	Equity is calculated as appraised value less base loan amount	(6) \$30,000
7	Minimum required equity is Line (4) minus Line (5); since additional equity is required, the base loan amount must be reduced by the amount of the minimum required equity.	(7) \$5,880
8	Confirmation of 25% Minimum Guaranty; Line (5) plus Line (7) divided by Line (2)	(8) 25%
9	Adjusted base loan amount = 90% of Line (2) minus Line (7)	(9) \$264,120
10	Adjusted Funding Fee; Line (9) x Veterans Funding Fee	(10) \$6,338.88
11	Adjusted Total Loan Amount; Line (9) plus Line (10) (rounded to the lowest dollar)	(11) \$270,458

Continued on next page

Underwriting Guidelines, Continued

Cash Out Refinance Worksheet 2:

Required Cash Down Payment & Minimum Guaranty Calculation for Loan Amounts greater than \$417,000

Step #	Action	Amount
1	Subject property is located in: Westchester County, NY NOTE: Check VA County Limits. If the county name does not appear on this list, the VA limit is set at 417,000.	(1) \$625,500
2	Enter NOV (Notice of Value) \$1,000,000	(2) \$1,000,000
3	Veteran's Funding Fee: 3.3% x 90% of Line (2) Borrower's Requested Loan Amount (Base + Financed FF)	(3) \$929,700
4	Minimum Guaranty required by GNMA (25% of Line (2))	(4) \$250,000
5	Maximum VA Guaranty / Available Entitlement = 25% of Line (1) IMPORTANT: Since the minimum guaranty required by GNMA is greater than the maximum guaranty VA will provide, the borrower must have sufficient equity in the property to help meet the minimum required guaranty and the requested base loan amount must be reduced. NOTE: This scenario assumes the veteran has full entitlement; if the veteran has used any portion of entitlement that will not be restored, then the available entitlement must be reduced by that amount.	(5) \$156,375
6	Equity is calculated as appraised value less base loan amount (10% of Line (2))	(6) \$100,000
7	Minimum required equity is Line (4) minus Line (5); since additional equity is required, the base loan amount must be reduced by the amount of the minimum required equity *PLUS any additional equity amount required to reduce the final loan amount to \$700,000.	(7) \$300,000
8	Confirmation of 25% Minimum Guaranty; Line (5) plus Line (7) divided by Line (2)	(8) Amt greater than 25% confirmed
9	Adjusted base loan amount = the lesser of 90% of Line (2) minus Line (7) OR \$677,637 based on 3.3% funding fee	(9) \$677,637
10	Adjusted Funding Fee; Line (9) x Veterans Funding Fee	(10) \$22,362.02
11	Adjusted Total Loan Amount; Line (9) plus Line (10) (rounded to the lowest dollar) OR \$700,000, whichever is less.	(11) \$700,000
NOTE: *If the calculated final loan amount is reduced down to the maximum final loan amount of \$700,000 as required by CPF overlays, the dollar amount difference must be included as part of the veteran's additional equity requirement.		

Continued on next page

Underwriting Guidelines, Continued

**IRS Form
4506-T prior
to April 15th**

For loans receiving an Approve/Accept recommendation, obtain tax transcripts for the number of years of income documentation required on the Desktop Underwriter Findings Report (DU/DO). ClearPoint Funding requires the most recent Tax Return Transcript for all borrowers.

- ✓ For loans underwritten before April 15, 2012, if the borrower has NOT filed their 2011 tax returns, obtain the number of year(s) income documentation according to the DU/DO findings. If the borrower has filed 2011, then follow instructions under the prior to June 15th section.

- **For Salaried Borrowers:**

- If DU/DO requires 1 year documentation, obtain 2010 tax transcript, current paystub and 2011 W-2.
- If DU/DO requires 2 years documentation, obtain 2009 and 2010 tax transcripts, current paystub and 2010 and 2011 W-2s.

- **For Self-Employed Borrowers:**

- If DU/DO requires 1 year documentation, obtain 2010 tax returns and tax transcript.
- If DU/DO requires 2 years documentation, obtain 2009 and 2010 tax returns and transcripts.
- 2011 accountant prepared P&L; declining incomes will be taken into account.

Continued on next page

Underwriting Guidelines, Continued

IRS Form 4506-T prior to June 15th

- ✓ For loans underwritten prior to June 15, 2012, if the borrower has filed their 2011 tax returns, and the tax transcripts are not yet available, the tax transcript request will be returned from the IRS and reflect "No Record Found", the following must be provided:
 - 2011 Tax Transcript showing "No record or return filed"; and
 - Copy of the 2010 Tax Return reflecting proof of filing; and
 - **For Salaried Borrowers:**
 - If DU/DO requires 1 year documentation, obtain 2010 tax transcript, current paystub and 2011 W-2.
 - If DU/DO requires 2 years documentation, obtain 2009 and 2010 tax transcripts, current paystub and 2010 and 2011 W-2s.
 - **For Self-Employed Borrowers:**
 - If DU/DO requires 1 year documentation, obtain 2010 tax returns and tax transcript.
 - If DU/DO requires 2 years documentation, obtain 2009 and 2010 tax returns and transcripts.
 - 2011 accountant prepared P&L is required (if a filed/stamped copy of the 2011 returns are not provided); declining incomes will be taken into account.

NOTE: See below if borrower filed an extension.

Continued on next page

Underwriting Guidelines, Continued

IRS Form 4506-T after June 15th

- ✓ For loans underwritten on or after June 15, 2012, the 2011 Tax Return Transcripts must be provided. If a borrower has filed an extension, the following must be provided:
 - Evidence that the extension was filed and evidence of tax payment; and,
 - A 2011 Tax Transcript showing "No record or return filed"; and,
 - **For Salaried Borrowers:** See above directions based on DU/DO recommendations.
 - **For Self-Employed Borrowers:** See above directions based on DU/DO recommendations. 2011 accountant prepared P&L; declining incomes will be taken into account.

NOTE: Extension requests that exceed the October 15th filing date will require verification of further extension approval from the IRS.

IRS Form 4506-T Not Required to File

Borrowers Not Required to File a 2011 Tax Return

If a borrower is not required to file a 2011 tax return and the source of income cannot be validated through the 4506-T process, alternative documentation must be obtained. Examples of documentation include 1099 transcripts or an award letter with a bank statement.

Continued on next page

Underwriting Guidelines, Continued

Community Property States

IF PROPERTY IS LOCATED IN A COMMUNITY PROPERTY STATE, OR THE BORROWER RESIDES IN A COMMUNITY PROPERTY STATE, THE FOLLOWING REQUIREMENTS APPLY

- ✓ A credit report for the non-purchasing spouse is required to determine any joint or individual debts. The spouse's authorization to pull a credit report must be obtained. If the spouse refuses to provide authorization for the credit report, the loan must be rejected
 - Even if the non-purchasing spouse does not have a social security number, the credit reporting company should verify that the non-purchasing spouse has no credit history and no public records recorded against him/her.
 - Credit Company should be given non-purchasing spouse information: Name(s), address, birth date and any other significant information requested in order to do the records check.
- ✓ Except for those obligations specifically excluded by state law, the debts of the non-purchasing spouse must be considered in the qualifying ratios.
- ✓ The greater of the monthly payment amount or 5% of the outstanding balance (if minimum payment is not reflected on credit report) of the non-purchasing spouse must be included in the qualifying ratios
 - Disputed debts of the non-purchasing spouse need not be counted provided the file contains documentation to support the dispute.
 - Credit history of the non-purchasing spouse should not be the basis for declining the loan. The FICO score for the non-occupying co-borrower is not considered for eligibility or MIP.

NOTE: In California, all delinquent debts, including those of the non-purchasing spouse, must be satisfied prior to or at closing.

Co-signers or Guarantors

Ineligible for VA loans.

Non-Arms Length Transactions

Refer to current VA guidelines for full requirements.

NOTE: Not permitted on construction (to permanent) loans or when the property is the result of a short sale/pre-foreclosure.

Continued on next page

Underwriting Guidelines, Continued

Credit Requirements

ClearPoint Funding requires the following credit requirements for government loans:

Product	ClearPoint Funding Credit Requirements
VA	<p>Credit</p> <ul style="list-style-type: none"> ✓ Less than or equal to \$417,000: Minimum credit score of 640 is required. ✓ Greater than \$417,000: Minimum credit score of 680 is required. ✓ Obtain a minimum of two credit scores must be obtained for each veteran. ✓ Non-traditional credit is not permitted.

Housing History

No more than 1x30 for Purchases; 0x30 for refinances within a 12 month review period.

Tradelines

- ✓ At minimum, 12 months credit history for at least 3 trade lines.
- ✓ At minimum, 3 tradelines as reported by the credit reporting service.
- ✓ **NOTE:** At the Underwriter's discretion, DU/DO recommendations/approval may be used to determine if the number of tradelines is acceptable.

Collections

Follow DU recommendations.

Judgments

Must be paid in full.

Continued on next page

Underwriting Guidelines, Continued

Down Grade Policy

In the event that credit terms or loan information was not considered or available in the AUS decision, an Approve/Eligible must be downgraded to a Refer and, therefore, no longer eligible for approval by ClearPoint Funding:

- ✓ Delinquent federal debt, CAIVRS, and suspended and debarred individuals.
 - Disputed accounts, significant inaccuracies or undisclosed debt.
- ✓ Previous mortgage foreclosure (within 3 years of application) and bankruptcy (within 2 years of application).
- ✓ Collection accounts, tax lien, charge-off, judgment.
- ✓ Bank statements that indicate multiple non-sufficient funds (NSF) charges.
- ✓ Failure to meet the specific conditions of the DU/DO approval.

Continued on next page

Underwriting Guidelines, Continued

Credit Overlays

All Approve/Eligible decisions must be reviewed for the following credit tradeline overlays as these factors are not permitted regardless of DU findings:

- ✓ Delinquent federal debt, CAIVRS, and suspended and debarred individuals.
- ✓ Disputed accounts, significant inaccuracies or undisclosed debt.
- ✓ Previous mortgage (pre) foreclosure/short sales/restructured (within 3 years of application) and bankruptcy (within 2 years of application).
- ✓ Delinquent items and any mortgage trade line, including HELOC payments, during the most recent 12 months consisting of any of the following:
 - More than one late payments greater than 30 days
- ✓ Bank statements that indicate multiple non-sufficient funds (NSF) charges.
- ✓ Failure to meet the specific conditions of the DU/DO approval.

Continued on next page

Underwriting Guidelines, Continued

**Consumer
Credit
Counseling**

If a veteran, or veteran and spouse, have prior adverse credit and are participating in a Consumer Credit Counseling plan, they may be determined to be a satisfactory credit risk if they demonstrate 12 months of satisfactory payments and the counseling agency approve the new credit.

If a veteran, or veteran and spouse, have good prior credit and are participating in a Consumer Credit Counseling plan, such participation is to be considered a neutral factor, or even a positive factor, in determining creditworthiness. Do not treat this as a negative credit item if the veteran entered the Consumer Credit Counseling plan before reaching the point of having bad credit.

**Multiple
Mortgages**

Owner Occupied Primary Residences:

- ✓ No limit to the number of properties owned or financed.
 - ✓ Borrower is not permitted to purchase more than one primary residence within a 12 month period.
-

**Non-Occupying
Co-Borrower**

Not permitted on VA loans.

Continued on next page

Underwriting Guidelines, Continued

Qualifying Ratios

Debt to income ratio requirements are as follows:

QUALIFYING RATIOS

- ✓ Preferred qualify ratio is 41%; however, CPF will allow for higher ratios with compensating factors as deemed appropriate by the Underwriter and as permitted by DU/DO.
- ✓ Note the underwriter must receive a second level signature if the ratio exceeds 41% **and** there is less than the 120% required residual income, regardless of the DU/DO Approve/Eligible decision.
- ✓ For new construction properties, borrowers should be qualified using the estimated real estate taxes based upon the completed property improvements, not the unimproved lot taxes.
- ✓ **Fixed Rate:** Qualify at Note Rate
- ✓ The payoff of revolving accounts is permitted if the account is paid in full prior to closing. The payoff and zero balance must be documented directly from the creditor and must be completed prior to closing. The payoff may not be reflected on the HUD-1. It is not required to close the revolving account.
- ✓ **Not applicable to streamline refinances** unless PITI is increasing by more than 20%.

Continued on next page

Underwriting Guidelines, Continued

Undisclosed Debt

ALL existing debt must be disclosed within the loan application. In addition, any *pending* transactions which may result in new debt must be disclosed on the 1003. Supporting documentation for pending transaction in which an application has been submitted in anticipation of new debt being extended to the borrower must be included in the loan package. Supporting documentation may include sales agreement, loan commitment, security agreement, etc.

Examples of Pending Debt (but not limited to):

- Auto loan purchase or refinance in process
- Newly submitted Credit Card Applications
- Pending or Applied Credit Application for Refinance and/or Purchase of Real Estate

Failure to disclose existing or pending debt is considered to be material misrepresentation and default in violation of the agreements set forth within the Loan Application. Non-disclosure of existing and/or pending debt will result in acceleration of the indebtedness in accordance with the terms of the Security Instrument.

Employment and Income

Income Documentation**VA Form 26-6393, Loan Analysis**

Only verified income can be considered in total effective income. The income calculation and analysis performed by the Underwriter, on Form 26-6393, to determine the veteran's income must be documented in the file.

Wage Earner Income

Full documentation is required.

- ✓ 24 month verification of primary source via VOE or tax returns as necessary. Must explain employment gap more than 30 days.

For Non-self-employed borrowers, one of the following must be used to verify employment income:

- A "Request for Verification of Employment" using FNMA, HUD, VA or RD forms AND the most recent paystub or payroll earnings statements covering the most recent 30-day period AND W-2 tax forms for the previous 2 years.

NOTE:

- ✓ Within 10 days prior to the note date for all borrowers using non self-employed income, ClearPoint Funding will independently verify borrower is still employed via a Verbal VOE.
- ✓ Assess whether the applicant's training and/or education equipped him or with particular skills that relate directly to the duties of his/her current position. This generally applies to skilled positions. Examples include nurse, medical technician, lawyer, paralegal, and computer systems analyst.
- ✓ If the probability of continued employment is high based on these factors, then the underwriter may give favorable consideration to including the income in the total effective income. An explanation of why income of less than 12 months duration was used must accompany the loan submission.

Continued on next page

Employment and Income, Continued

Self-Employed Income

Self-employment income must be verified with 2 years previous tax returns. Additionally, an accountant prepared P&L must be provided if the most recent tax period is more than 12 months prior.

NOTE:

- ✓ Within 30 days prior to the note date for all borrowers using self-employed income, ClearPoint Funding will independently verify employment via a verbal verification of employment.
- ✓ On-line searches and just using tax returns as proof of self-employment is not sufficient. Third party documentation is required, such as business license, regulatory agency, CPA letter (letters must be dated within 30 days of loan closing), verification from business bureau.

Part-Time Income

- ✓ Part-time income with a duration of at least 24 months may be used

Overtime & Bonus

- ✓ Overtime and bonus income may be used to qualify if the employer verifies borrower has received for last 24 months and indicates it will continue

Alimony & Child Support

- ✓ Alimony, child support or separation maintenance may be used to qualify if borrower has received for last 12 months and proof of 3 year continuance.

NOTE: If DU/DO only requires 3 months of documentation, the findings may be followed.

Disability Income

- ✓ Disability Income may be verified with a recent copy of benefits letter and confirmation of 3 year continuance

Following documentation is required if the borrower is using short term disability to qualify:

- Borrower's letter of intent to return to work
- Employer letter or other communication of the borrower's right to return to work and under what terms

Continued on next page

Employment and Income, Continued

Retirement Income

- ✓ Retirement income may be verified by letters from organizations providing income, tax returns, or W-2s with confirmation of 3 year continuance.
- ✓ Social Security Income may be verified with copy of award letter or borrower's most recent 2 months bank statements showing regular deposits of SSI.
 - Social Security income must be "grossed" up only for calculating the DTI; grossing up is not permitted for the purposes of calculating residual income.

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Employment and Income, Continued

Non-Taxable Income

Tax free income may be “grossed up” for purposes of calculating the debt to income ration only; it may not be grossed up for the purposes of calculating residual income. This is a tool that may be used to lower the debt ratio for veterans who clearly qualify for the loan. “Grossing up” involves adjusting the income upward to a pre-tax or gross income amount which, after deducting state and federal income taxes, equals the tax exempt income. Use the current income tax withholding tables to determine an amount which can be prudently employed to adjust the borrower’s actual income. Do not add non-taxable income to taxable income before “grossing up”.

Example for Non-Taxable Income:	
<i>Borrower is married with 3 total dependents, including a non-working spouse, for a total of 4 family members. Earnings are \$3500 a month from employment and \$750 a month from VA Disability totaling \$4250 a month.</i>	
Federal Taxes	Amounts
Taxes on \$3500 a month	\$161*
Taxes on \$4250 a month	\$275*
Difference (Gross Up #1)	\$275 - \$161 = \$114
State Taxes	
Taxes on \$3500 a month	\$120**
Taxes on \$4250 a month	\$167**
Difference (Gross Up #2)	\$167 - \$120 = \$47
Total Non-Taxable Income	Disability: \$750 + \$114 + \$47 = <u>\$911</u>
Total Income Available for <u>DTI</u>	\$3500 base income + \$911 for grossed-up disability = <u>\$4411</u>
Total Income used for <u>Residual Income</u>	<u>\$4250</u> ; taxes on non-grossed up income must be entered into DU/DO for residual income to calculate correctly (\$275 federal & \$167 state)
NOTE: Other deductions, such as social security, Medicare and any other local deductions, should be based on \$3500 a month.	
*Federal amounts obtained from http://www.irs.gov/pub/irs-pdf/p15.pdf	
**Examples of state taxes based on Georgia; amounts will vary according to state tax amounts.	

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Employment and Income, Continued

**Projected
Income**

Defined as income from a new or current job, started within 60 days of closing where the borrower was in the same or similar position AND has a copy of a non-revocable contract or an offer letter AND VOEs to document the most recent two years of employment AND a paystub from former employer.

- ✓ This income may only be used as a **compensating factor** if the borrower has not started the job and does not have paystubs documenting 30 days of income.

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Employment and Income, Continued

- Rental Income** Prospective rental income may only be included in effective income if *both* of the following are met:
- ✓ Evidence indicates the borrower has a reasonable likelihood of success as a landlord.
 - Documentation to support the borrower's prior experience managing rental units or other background involving both property maintenance and rental must be provided.
 - ✓ For 2-4 unit subject properties (regardless of rental income), it must be verified that the borrower has cash reserves totaling minimum of 6 months PITI.
 - ✓ For rents generated from other real estate owned, it must be verified that the borrower has cash reserves totaling a minimum of 3 months.
- The amount of rental income to include in effective income is based on 75% of either:
- ✓ Verified prior rent collected on the units of existing properties OR
 - ✓ The appraiser's opinion of the subject property's fair monthly rental for new construction.

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Employment and Income, Continued

**When
Converting
Current
Primary
Residence**

Conversion of Principal Residence to a Second Home

If the Veteran is converting the current principal residence to a second home upon the purchase of the new principal residence:

- ✓ Both the current and proposed principal, interest, taxes and insurance (PITI) must be used to qualify the borrower for the new loan; and
- ✓ Minimum reserves of six (6) months PITI for both properties are required. However, only reserves of two (2) months PITI are required for both properties if 30% equity in the existing principal residence is documented with an AIR-compliant appraisal report.

Conversion of Principal Residence to an Investment Property

If the Veteran is converting a current principal residence to a rental property upon the purchase of a new principal residence, the following requirements apply:

- ✓ Both the current and proposed monthly housing expenses must be used to qualify veteran. **Rental income may not be used to offset the mortgage payment.**
- ✓ Evidence of cash reserves totaling six (6) months PITI for both properties must be provided.

Continued on next page

Employment and Income, Continued

Pending Sale of Real Estate

In instances where the Veteran intends to sell the property but will not close before the purchase of a new principal residence occurs:

The principal, interest, taxes and insurance (PITI) on both the pending sale and the new property must be included in qualifying the Veteran AND the following documentation must be obtained:

- Cash reserves totaling at least six (6) months PITI for both properties, **or**
- Cash reserves totaling at least two (2) months PITI for both properties if able to document equity of a least 30% in the existing principal residence property. Acceptable documentation for determining the equity position is an AIR-compliant appraisal report.

Exception:

The PITI of the pending sale does not need to be included in qualifying the Veteran as long as the six (6) months of reserves (or two (2) months with documented equity) for both properties are documented and the following additional documentation is provided:

- The executed sales contract for the current residence and confirmation that any financing contingencies have been cleared.

Continued on next page

Employment and Income, Continued

Active Military Income

Determine if the service member is within 12 months of release from active duty or end of the contract term. If the date is within 12 months of the anticipated loan closing date, obtain any of the following:

- ✓ Documentation of re-enlistment to a date beyond the 12-month period following the projected closing of the loan; OR.
- ✓ A statement from the service member the he/she intends to reenlist or extend his/her period of active duty to a date beyond the 12-month period plus a statement from the service member's commanding officer confirming that the service member is eligible to re-enlist or extend his/her active duty and that the commanding officer has no reason to believe that the reenlistment or extension of active duty will not be granted; OR.
- ✓ Verification of a valid offer of local civilian employment following the release from active duty.
- ✓ Statement of service

DOCUMENTATION: Obtain an original military Leave and Earning Statement (LES) dated no more than 120 days prior to the Note signing date instead of a VOE.

Subsistence and Clothing Allowances

Verified allowances may be included as effective non-taxable income

DOCUMENTATION: The subsistence (rations) and clothing allowances are indicated on the LES.

Military Quarters Allowances

If verifiable, military quarters allowance may be included as effective non-taxable income. In most areas there will be an additional variable housing allowance that can also be included.

- Verification of this income may be obtained from the borrower's paystub, or an military.com under Benefits on the Basic Allowance for Housing (BAH) Rate Tables (amount must be verified based on geographic duty, location, pay grade and dependency status), or on the Department of Defense Web site.
 - Tax-free income may be "grossed up" only for calculating the debt to income ratio, not residual income. Do not add non-taxable income to taxable income before "grossing up".
-

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Employment and Income, Continued

Other Military Allowances

Other allowances include pro-pay, flight or hazard pay, overseas pay, and combat pay.

To consider a military allowance in the underwriting analysis, obtain verification of the type and amount of the military allowance and how long the veteran has received it. These types of pay are subject to periodic review and/or testing of the recipient to determine eligibility. These allowances are considered taxable income. These allowances may be included in effective income only if it is expected to continue because of the nature of the veteran's assigned duties; for example, flight pay for a verified pilot.

Special Separation Benefit (SSB)

- ✓ A one-time lump sum.
- ✓ Taxable in the year received.
- ✓ Treat as any substantial cash reserve.

Voluntary Separation Incentive (VSI)

- ✓ Annual payments
- ✓ Include in effective income
- ✓ Taxable in the year received
- ✓ Payment period is calculated by multiplying the veteran's years of service time two
- ✓ Available only to veteran's with six or more years of service

Reserves or National Guard Income

Income from service in the Reserves or National Guard may be included in effective income if the length of the veteran's total active and Reserve/Guard service indicates a strong probability that the Reserve Guard income will continue. Otherwise, this income may be used to offset obligations that have 10 to 24 months duration.

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Employment and Income, Continued

**Recently
Activated
Reserve or
National
Guard**

ClearPoint Funding will inquire with every veteran whose income is being used to qualify for a loan if their income is subject to change due to participation in a Reserves/National Guard unit due to activation. It must determine what the veteran's income will be upon unit activation:

- Reduced: Carefully evaluate the impact the reduction may have on the veteran's ability to repay the loan.
- Increased: Consider the likelihood the income will continue beyond a 12-month period.

Carefully and thoroughly document, including reasons for using/not using reserve/guard income, these situations on the Form 1008, Underwriting Transmittal Summary, or on a separate memorandum to the file.

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Employment and Income, Continued

Residual Income

- ✓ Residual income is the amount of income available for family support after taxes and Social Security Expense has been subtracted from the gross income and after the house payment and other long-term debt has been paid. This remaining income (residual income is the amount remaining to be used for groceries, insurance, utilities, medical, etc.).
- ✓ Formula for residual income is the total gross monthly income minus the following:
 - Federal, State, and Local Taxes (see State Withholding Tax Charts within this summary for additional details)
 - Social Security expense
 - Total housing expense: calculate maintenance and utility costs using 14 cents per square foot
 - Long-Term Debt
- ✓ Tax-free income may not be grossed up for calculating residual income.
- ✓ Count ALL members of the household without regard to the nature of the relationship when determining "family size".
- ✓ The loan must meet the minimum amount of residual income as determined by VA. (See Residual Charts below).

FOR LOAN AMOUNTS \$79,999 AND BELOW				
FAMILY SIZE	NORTHEAST	MIDWEST	SOUTH	WEST
1	\$390	\$382	\$382	\$425
2	\$654	\$641	\$641	\$713
3	\$788	\$772	\$772	\$859
4	\$888	\$868	\$868	\$967
5	\$921	\$902	\$902	\$1,004
OVER 5	ADD \$75 FOR EACH ADDITIONAL MEMBER UP TO A FAMILY OF 7 PERSONS.			

FOR LOAN AMOUNTS \$80,000 AND ABOVE				
FAMILY SIZE	NORTHEAST	MIDWEST	SOUTH	WEST
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1,062	\$1,039	\$1,039	\$1,158
OVER 5	ADD \$75 FOR EACH ADDITIONAL MEMBER UP TO A FAMILY OF 7 PERSONS.			

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Employment and Income, Continued

Residual Income, continued

KEY TO GEOGRAPHIC REGIONS			
NORTHEAST	MIDWEST	SOUTH	WEST
CONNECTICUT	ILLINOIS	ALABAMA	ALASKA
MAINE	INDIANA	ARKANSAS	ARIZONA
MASSACHUSETTS	IOWA	DELAWARE	CALIFORNIA
NEW HAMPSHIRE	KANSAS	WASHINGTON, DC	HAWAII
NEW JERSEY	MICHIGAN	FLORIDA	IDAHO
NEW YORK	MINNESOTA	GEORGIA	MONTANA
PENNSYLVANIA	MISSOURI	KENTUCKY	NEW MEXICO
RHODE ISLAND	NEBRASKA	LOUISIANA	OREGON
VERMONT	NORTH DAKOTA	MARYLAND	UTAH
	OHIO	MISSISSIPPI	WASHINGTON
	SOUTH DAKOTA	NORTH CAROLINA	WYOMING
	WISCONSIN	OKLAHOMA	
		SOUTH CAROLINA	
		TENNESSEE	
		TEXAS	
		VIRGINIA	
		WEST VIRGINIA	

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Employment and Income, Continued

State Withholding Tax Chart

Most VA loan transactions require the calculation of the borrower's monthly net income or take home pay. The monthly net income is then used to determine the residual income that is available to support the family for each month. In addition to the federal income tax withheld from an employee's pay, most states also levy taxes of their own.

The below links provided are for the states ClearPoint Funding currently operates; in most cases, the links will take you directly to the withholding table. In other cases, the link will take you to the main page for the Department of Revenue in that state from where will be able to select the appropriate withholding table based on the applicant's pay schedule (weekly, bi-weekly, monthly, etc.)

State	Website
California	http://www.edd.ca.gov/taxrep/taxrte9x.htm#Withhold Please use Method A on the tax table. In addition: The State Disability Insurance (SDI) withholding rate for 2007 is 0.6%. The taxable wage limit is \$83,389 for each employee per calendar year. The maximum to withhold for each employee is \$500.33.
Connecticut	http://www.ct.gov/drs/lib/drs/forms/2007withholding/2007withholdingtaxtables.pdf
Delaware	http://revenue.delaware.gov/services/wit_folder/section17.shtml
DC	http://otr.cfo.dc.gov/otr/frames.asp?doc=/otr/lib/otr/tax/forms/2007/2007_FR-230.pdf Tax Tables start on page 7
Florida	http://dor.myflorida.com/dor/taxes/new.html Florida does not impose personal income, inheritance, or gift taxes.
Georgia	http://www.dor.ga.gov/taxguide/EMPLOYERS%20TAX%20GUIDE_2007.pdf Tax Tables start on page 21
Illinois	http://www.revenue.state.il.us/taxforms/Withholding/il700t.pdf Tax Tables start on page 9 Withholding tables effective (rev.) 12/04 remain in effect for 2007.
Maine	http://www.maine.gov/tools/whatsnew/index.php?topic=mrs_income_wh_faq&id=8106&v=faq
Maryland	http://business.marylandtaxes.com/taxinfo/withholding/default.asp
Massachusetts	http://www.mass.gov/Ador/docs/dor/Forms/Wage_Rpt/PDFs/circ_m07.pdf
Minnesota	http://www.taxes.state.mn.us/taxes/withholding/instructions/wh_tables.pdf
New Hampshire	http://www.nh.gov/revenue/ NH does not have a state income tax on an individual's W-2 reported wages.
Rhode Island	http://www.tax.ri.gov/info/09WT.pdf Tax Tables start on page 7
Texas	http://www.window.state.tx.us/taxes/ Texas does not have an income tax on an individual's W-2 reported wages.

Continued on next page

Employment and Income, Continued

**Trailing Co-
Borrower
Income**

Not Permitted on VA loans.

Assets

Real Estate Commissions

An aggregate real estate commission including a “bonus” greater than 8% of the sales price of the subject property is considered a sales concession and that commission and/or bonus amount over 8% must be deducted from the sales price.

Cash Reserves

None required, except for:

- ✓ For 2-4 unit subject properties (regardless of rental income), it must be verified that the borrower has cash reserves totaling minimum of 6 months PITI.
 - ✓ For rents generated from other real estate owned, it must be verified that the borrower has cash reserves totaling a minimum of 3 months.
-

Reserves / Assets

Assets:

Assets will be needed for the following:

- ✓ Closing costs or points which are the applicant’s responsibility and are not financed in the loan
- ✓ Difference between the sales price and the loan amount if the sales price exceeds the reasonable value established by VA
- ✓ **NOTE:** Verify all liquid assets owned by the veteran or spouse to the extent they are needed to close the loan and/or those that may have a bearing on the overall credit analysis.

Documentation of Assets:

- ✓ VA Form 26-08497a, Request for Verification of Deposit plus one (1) month’s bank statement.
 - ✓ Original or certified true copies of the applicant’s last two (2) bank statements.
 - ✓ The Internet or fax may be used to verify borrower's bank statements from the depository directly to ClearPoint Funding. In cases where the lending institution uses Internet based verifications, ensure the URL appears on the document.
-

Continued on next page

Assets, Continued

Non-Liquid Assets

Non-liquid assets such as 401K, IRA, Stocks, Bonds and other types of retirement accounts cannot be used to document cash to close or VA reserve requirements. Liquidated funds from non-liquid accounts can be used if liquidation and deposit into a demand deposit account are documented.

Non-liquid accounts such as 401k, IRA, Stocks, Bonds and other types of retirement accounts discounted by 40% of vested value can be used to meet reserve requirements (overlay) for Conversion of Principal Residence into rental property or second home or pending sale of principal residence after closing. Non-liquid accounts used to meet CPF's reserve requirements should not be entered into the AUS (DU/LP) submission or be noted in the findings.

Gifts

Permitted.

Continued on next page

Assets, Continued

Business Funds

The use of business funds for down payment, closing costs and reserves is allowed for sole proprietors, partnerships and corporations, including S Corporations.

When using these funds, each transaction must be analyzed in order to determine the borrower's percentage of ownership in the business, validate the borrower's ability to access business funds without any detrimental effect to the business and to ensure there is strength and stability within the business.

Ownership Verification: Borrower's ownership or interest in the business must be confirmed by documentation such as a business license or partnership or corporate tax returns.

- ✓ **Verification of the Availability of Funds:** Based on the ownership type, the following requirements apply:
 - **Sole Proprietor:** Verification that the borrower has 100% ownership of the business, for example using the tax returns provided or a copy of the business license.
 - **Partnership:** Borrower must be a general partner and verification of the percent of ownership is required. Verification of the ability to withdraw funds to the extent of the percentage of ownership and approval of the other general partners is required. The percentage of ownership can be validated using the U.S. Partnership Return of Income (IRS Form 1065) and the Partner's Share of Income, Credits, Deductions, etc. (Schedule K-1) for filing income tax returns for the partnership.
 - **Corporation:** Verification that the borrower is 100% owner of the corporation or if the applicant is not a 100% stockholder verification of the percent of ownership. In addition verification of the ability to withdraw funds to the extent of the percentage of ownership is required, along with approval of the stockholders with a corporate resolution. The applicant's percentage of ownership can usually be determined from the Compensation of Officers section of the corporate tax return.

The following requirements are applicable for self-employed borrowers if using business funds in a mortgage transaction.

- Business funds from a partnership or corporation may **not** be used to meet any required product/program minimum down payment requirements. These funds must all be from the borrower's personal assets. This does not apply to a sole proprietorship where personal and business funds can be comingled.

Continued on next page

Assets, Continued**Business
Funds,
continued**

Copies of most recent and concurrent six months business account bank statements. For a sole proprietor the funds may be in either a personal or business account.

- ✓ All funds must be seasoned with the source of funds for any large deposits fully documented and explained. Review the most recent bank statements provided to ascertain what is normal and typical for the business.
- ✓ A cash flow analysis on the business is required. The cash flow analysis can be performed by the accountant, CPA or the borrower, if the borrower completes his own tax returns. If completed by a CPA, a letter from the licensed CPA completing the business returns which must be on the firm's letterhead and provide the CPA's address, phone number and signature
- ✓ The file must contain evidence the borrower has full use of business funds and there is no required repayment. The written document must be from the accountant, CPA, or borrower if returns are self-prepared for sole proprietors, for partnerships it may come from the accountant, CPA, or other general partners, for corporations from the accountant, CPA or it may be found on the corporate resolution.
- ✓ The file must contain evidence that the funds are not advancement against future earnings or future cash distributions. The written document must be from the accountant, CPA, or borrower if returns are self-prepared for sole proprietors, for partnerships it may come from the accountant, CPA, or other general partners, for corporations from the accountant, CPA or it may be found on the corporate resolution.

The loan file documentation must include a review of any potential tax implications on funds received.

Secondary Financing

Overview

Not Permitted.

Funding Fee

VA Funding Fee Requirements as follows:

VA FUNDING FEE	CALCULATION
Federal law requires all Veterans to pay a Funding Fee, with a few exceptions.	The funding fee is calculated based upon the loan amount and whether the Veteran is a first-time or subsequent user. Depending on the amount of Eligibility the Veteran has, the loan amount may be for 100% of sales price of the property (or appraised value, lesser) or the sales price/appraised value less any down payment.

VA FUNDING FEE ¹						
LOAN TYPE	USE	DOWN PAYMENT	ACTIVE DUTY OR VETERAN	ACTIVE DUTY OR VETERAN	NATIONAL GUARD OR RESERVIST	NATIONAL GUARD OR RESERVIST
			Closed on / after 11/22/2011	11/18/11 to 11/21/2011	Closed on / after 11/22/2011	11/18/11 to 11/21/2011
PURCHASE	Initial	0%	2.15	1.40	2.40	1.65
PURCHASE	Subsequent	0%	3.30	2.80	3.30	2.80
PURCHASE	Initial and Subsequent	>= 5% & <10% DP	1.50	0.75	1.75	1.00
PURCHASE	Initial and Subsequent	>= 10% DP	1.25	0.50	1.50	0.75
REFINANCE	Initial	NA	2.15	1.40	2.40	1.65
REFINANCE	Subsequent	NA	3.30	2.80	3.30	2.80
ASSUMPTION	NA	NA	0.50	0.50	0.50	0.50
IRRRL	NA	NA	0.50	0.50	0.50	0.50

NOTE: In certain cases, a veteran may be exempt from the VA Funding Fee.
¹ For prior Funding Fee amounts, refer to:

<ul style="list-style-type: none"> VA Circular 26-11-12 VA Circular 26-11-15 VA Circular 26-11-16 	<ul style="list-style-type: none"> VA Circular 26-11-17 VA Circular 26-11-18 VA Circular 26-11-19
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Funding Fee, Continued

Funding Fee Exemption

A veteran must establish any claim for exemption from the fee. The following are the only exceptions allowed:

- ✓ Veterans receiving VA compensation for service-connected disabilities.
- ✓ Veterans who would be entitled to receive compensation for service-connected disabilities if they did not receive retirement pay or active service pay.
- ✓ Surviving spouses of veterans who died in service or from service-connected disabilities (regardless of whether such surviving spouses are veterans with their own entitlements and whether they are using their own entitlements on the loan).
- ✓ Veterans who are rated by the VA as eligible to receive compensation as a result of pre-discharge disability examination and rating.

Exempt status may be verified by obtaining the following:

- ✓ A properly completed and signed VA Form 26-8937, Verification of VA Benefits, indicating the borrower's exempt status. Form must be completed and contain authorized signature from the VA Regional Loan Center (RLC).
 - ✓ Indications on the Certificate of Eligibility that the borrower is entitled as an unmarried surviving spouse.
 - ✓ Link to RLC contact information:
<http://www.vba.va.gov/ro/central/stpau/Lenders/RLC%20numbers.html>
-

Property Requirements

Appraisal Requirements

An appraisal is required to help ensure that any property that will become the security for a VA-guaranteed loan:

- Has a loan-to-value within program parameters, and
- Is in a condition acceptable to VA

VA requires appraisers to include Fannie Mae's Market Conditions Addendum, Form 1004MC, in all VA appraisal reports.

NOTE: "Real Estate Owned" property may not be processed under Lender Appraisal Process Program; these cases must be ordered as an "IND" appraisal.

The procedure to request an appraisal is as follows:

Appraisal Requirement, Step 1

Ensure the property is eligible for a VA appraisal and all other appraisal request requirements can be satisfied. Contact the VA office of jurisdiction for the property if there are:

- Questions about the property's eligibility, or
- If the property is not eligible for appraisal but is already the security for a VA loan.

Eligible

- New construction
- Existing construction (previously owner-occupied or had all onsite and off-site improvements fully completed for one year)
- Proposed construction
- Under construction
- Property to be altered, improved, or repaired
- Already securing an existing VA Loan (eligible for refinance or partial release of security)

VA-approved condominiums. Eligibility can be verified at

<http://condopudbuilder.vba.va.gov/2.2/frames.html>

Continued on next page

Property Requirements, Continued

Appraisal Requirement, Step 1, continued

Ineligible

- ✓ Properties not likely to meet Minimum Property Requirements (MPRs);
- ✓ Location-related problems;
 - A Special Flood Hazard Area (SFHA), and
 - The property's proposed, under, or new construction with elevation of the lowest floor below the 100-year flood level, or
 - Flood insurance is not available.
 - An area subject to regular flooding whatever reason, whether or not it is in an SFHA).
 - A Coastal Barrier Resources System area
 - An airport Noise Zone 3, if proposed or under construction
 - A transmission line easement involving high-pressure gas or liquid petroleum or high-voltage electricity, if any part of the residential structure is located within the easement, or
 - An area susceptible to geological or soil instability (such as earthquakes, landslides, or other history of unstable soils), if proposed/under/new construction and the builder cannot provide evidence that either the site is not affected or the problem has been adequately addressed in the engineering design.
 - Condominium project not approved
- ✓ Ownership not fee-simple

Continued on next page

Property Requirements, Continued

Appraisal Requirement, Step 2

Access web LGY at <http://www.benefits.va.gov/homeloans/> selecting "Veterans Information Portal" providing all necessary information about the case. LGY assigns:

- A case number
- An appraiser
- Produces a completed VA Form 26-1805-1, VA Request for Determination of Reasonable Value

NOTE: LAPP Clients and loan holders/servicers may include their email address in item 5 of the appraisal request to receive an email appraisal report.

Operational Details for VA Website

Access web LGY at <http://www.benefits.va.gov/homeloans/>

- ✓ Select "Veterans Information Portal"
 - ✓ User ID and password are required to access the system
 - ✓ System will issue VA Form 26-1805, VA Request for Determination of Reasonable Value which details the VA Case Number and appraiser assigned to task
 - ✓ Appraiser uploads report upon completion
 - ✓ Appraisal order is entered as LAPP or "IND" (order IND while CPF is in test case phase)
 - ✓ NOV (Notice of Value) is issued by VA when ordering IND
 - ✓ NOV is issued by Lender when ordering LAPP
-

Appraisal Requirement, Step 3

On the same day of assignment, e-mail, fax, or mail the LGY-generated VA Form 26- 1805-1 along with a copy of the agreement of sale and all addenda to the appraiser. If the agreement of sale is amended during the process, the requester must provide the updated contract to the appraiser.

Continued on next page

Property Requirements, Continued

Appraisal Requirements, continued

Inspection, continued:

The information in the report must be accurate, internally consistent, written in clearly understandable language, fully supported, and sufficiently documented to VA standards.

- ✓ The NOV for existing or new construction must be dated within 120 days of the note date.
- ✓ If the appraisal (NOV) is greater than 120 days old, the original appraiser or a qualified appraiser must certify that the subject property has not declined in value since the date of the original appraisal. NOTE: Appraisals expire at 180 days.
- ✓ New construction is defined as properties that are fully completed or completed except for customer preference items, and are less than one year old and have never been owner-occupied. Reference Chapter 10.09 of the VA Lender Handbook for underwriting and documentation requirements specific to new construction.
- ✓ Properties appraised in "Fair Condition" are unacceptable. The property must be brought up to at least "Average Condition" and meet VA MPRs prior to loan closing. A final inspection showing the work has been completed must be included in the file. ClearPoint Funding and fee appraisers should use their own letterhead when certifying that required repairs have been satisfactorily completed.

Survey:

If the title company insuring the mortgage requires a survey to remove exception to survey matters, the survey must conform to the requirements of the title insurance company's standards, or any applicable legal standards relating to surveys.

Continued on next page

Property Requirements, Continued

NOV and Minimum Property Standards

Notice of Value (NOV)

The NOV for property appraised as existing, new, proposed, or under construction is valid for six months.

Minimum Property Requirements

VA Minimum Property Requirements (MPRs) provide general acceptability criteria for properties that will become the security for VA-guaranteed loans. MPRs provide a basis for determining that the property is safe, structurally sound, sanitary, and meets the standards considered acceptable in a permanent home in its locality. All properties, including foreclosed properties, must be in a condition that meets MPRs or have a reasonable likelihood the property can be repaired to meet the MPRs prior to loan closing. In those cases where repairs are required, the VA appraiser must list on the appraisal report any repairs necessary to meet MPRs and provide an estimate of the fair market value for the property, as if repairs are completed. The property seller is expected to pay for these required repairs since they are included in the estimate of value. It is not allowable to escrow funds from the veteran purchaser for use in making the required repairs.

Value Adjustments

Per VA Circular 26-11-2, the SAR (Lender's Staff Appraisal Reviewers) are no longer authorized to issue VA Notices of Value (NOV) higher or lower than the VA appraiser's estimate of fair market value regardless of the 5% margin tolerance.

The NOV must be issued at the appraised value reflected in the appraisal report. Note that the VA Regional Loan Center staff appraisers continue to have authority to make adjustments to the NOV as necessary. Only VA SARs are permitted to contact the VA fee appraiser regarding appraisal errors, omissions or discrepancies that arise during the initial review. SARs should attempt to work with the fee appraisers to resolve differences in value estimates or appraisal methodology before contacting the VA Regional Loan Center.

Continued on next page

Property Requirements, Continued

UAD Condition Ratings

UAD compliant appraisal report forms must include a UAD Condition Rating (C1, C2, C3, C4, C5 or C6) that best describes the overall condition of the subject property and each comparable property.

- ✓ UAD Condition Ratings C5 or C6 are not acceptable.
 - All issues that caused the C5 or C6 rating must be cured. Once cured, the condition rating on the appraisal report must be updated to reflect a C4 or better rating. If a property has deficiencies or defects that are severe enough to affect the safety, soundness or structural integrity of the improvements, then the property's condition must be rated as a C6.
- ✓ UAD Condition Ratings C1, C2, C3 or C4 may be subject to completion or repairs; however, the repairs must be addressed and completed.

NOTE: The appraisal report must contain additional commentary, descriptions, and explanations to enable the appraisal reviewer to understand the property condition and quality.

UAD Quality Ratings

UAD compliant appraisal report forms must incorporate a UAD Quality Rating (Q1, Q2, Q3, Q4, Q5 or Q6) that best describes the overall quality of the subject property and each comparable property.

- ✓ UAD Quality Ratings Q6 is not acceptable.
 - All issues that caused the Q6 rating must be cured including modifying the property to make it habitable as a year-round residence; upgrading the electrical, plumbing, and other mechanical systems and equipment to meet community standards; correcting any substandard or non-conforming additions to the original structure; and curing any other quality related items needed to make the property acceptable to typical purchasers in the market in which the property is located. Once items are cured, the quality rating on the appraisal report must be updated to reflect a Q5 or better rating.
 - ✓ UAD Quality Ratings Q1, Q2, Q3, Q4 or Q5 may be subject to completion or repairs; however, the repairs must be addressed and completed.
-

Continued on next page

Property Requirements, Continued

Condition and Quality Adjustments

The appraiser must make appropriate adjustments for differences in condition and quality between the subject property and each comparable property to reflect the value, if any, of the differences in the market place. If the appraiser makes an adjustment for differences in quality and condition between the subject property and a comparable property that have the same UAD quality or condition rating, or does not make an adjustment for properties that receive different quality and condition ratings, the appraiser is expected to provide a sufficient explanation for the basis and rationale for all adjustments.

Interior Photos

Appraisers must include interior photographs of the subject property, which at a minimum, show:

- Kitchen
- All bathrooms
- Main living area
- Examples of physical deterioration, if present.
- Examples of recent updates, such as restoration, remodeling and renovation, if present.

Additional reminders:

- ✓ Appraisal reports must include clear, illustrative, original photographs showing the front, rear view (preferably including a different side view in each photograph), and a street scene of the subject property and the front of each comparable sale.
 - ✓ Include photographs of any improvement, site feature, or view affecting value.
 - ✓ Acceptable photographs include clear, illustrative images. Copies of photographs from a multiple listing service are acceptable only with an explanation on why the original photos are not available (i.e. gated communities where access may require trespass to photograph, etc.).
-

Appraisal Portability / Transfer

Permitted.

Continued on next page

Property Requirements, Continued

Private Road Properties on a privately maintained road are eligible with a recorded private road maintenance agreement.

Termite Inspections Refer to VA Lenders Handbook, VA Pamphlet 26-7; http://www.warms.vba.va.gov/pam26_7.html

Listed for Sale Properties that have been listed for sale within the most recent six months are eligible with the following restrictions:

- Property has been taken off the market on or before the application date; Borrower must provide documentation of the cancelled MLS listing.
- Borrower must provide written confirmation of the intent to occupy the property as their primary residence.

NOTE:

- ✓ Properties currently listed are not eligible for any refinance transactions.

Continued on next page

Property Requirements, Continued

Declining Markets

- ✓ Appraised values must reflect the current fair market value for the subject property.
- ✓ VA fee appraisers must provide a value in accordance with VA's regulatory definition of reasonable value (38 CFR 36.4301); "value which represents the amount a reputable and qualified appraiser, unaffected by personal interest, bias, or prejudice, would recommend to a prospective purchaser as a proper price or cost in light of prevailing conditions."
- ✓ Circular 26-93-25, dated October 22, 1993 required appraisers to specifically address certain market trend indicators for every appraisal; however, VA later changed "required" to "factors to be considered", as summarized below:
 - Determine whether sales or financing concessions are being offered in the subject property's market area. If so, determine the effect on the sales price of comparable properties.
 - Consider the supply and demand for available housing in the subject market and compare the average listing price to the sales price ratio in the subject market area.
 - Consider the marketing time trend (increasing or decreasing) in the subject marketing area.
 - Analyze sales listings, contract offers, and unsettled sales to determine if market conditions changed between the date each comparable sold and the date of subject property appraisal. Provide an addendum if a significant market transaction is indicated due to changes in employment opportunity, housing supply/demand, average marketing time, seller concessions, etc. Appraisers must certify in the appraisal report, "I have considered relevant competitive listings/contract offerings in performing this appraisal, and any trend indicated by that data is supported by the listing/offering information included in this report."
- ✓ Trend analysis performed by professional organizations or educational institutions, published in journals or newspapers, may be used to support an appraiser's conclusions. If market trend indicators reveal the need to use either positive or negative time adjustments, VA accepts such adjustments as long as they are adequately supported.
- ✓ Note that VA does not object to guaranteeing a VA loan in a declining market area as long as the appraiser has properly and completely documented the facts of the case.

Continued on next page

Property Requirements, Continued

Contributions

A maximum of 4% of the value of the property as indicated on the Notice of Value (NOV) may be contributed from an interested party (property seller concession) to be applied toward closing costs and/or prepaid items.

Any property seller concession or combination of concessions which exceeds 4% of the established reasonable value of the property is considered excessive and unacceptable for VA-guaranteed loans. A reduction of the sales price in the amount equal to the excess is required in these instances.

- ✓ Property seller concessions include, but are not limited to, the following:
 - Payment of the VA funding fee
 - Prepayment of the veteran's property taxes and insurance
 - Gifts such as a television set or microwave oven
 - Payment of additional discount points to provide permanent interest rate buydowns
 - Payoff of credit balances or judgments on behalf of the veteran
- ✓ Property seller concessions do **not** include:
 - Payment of the veteran's closing costs
 - Payment of points as appropriate to the market

Example: If the market dictates an interest rate of 7.5% with two discount points, the property seller's payment of the two points would not be a property seller concession. If the property seller paid five points, three of these points would be considered a property seller concession.

Condo / PUDS

VA must approve condominium projects. Effective December 7, 2009, VA will no longer accept FHA approvals of condominium projects. Refer to VA Circular 26-09-19 for complete information

Documentation Requirements:

- ✓ Printed copy of the VA Approved Project page must be retained in the loan file. A list of approved projects can be found at: <http://condopudbuilder.vba.va.gov/2.2/frames.html>
 - ✓ Insurance: Evidence that the project is covered by the appropriate hazard, liability, fidelity bond if more than 20 units and, if applicable, flood insurance. Refer to HUD Mortgagee Letter 209-46A and 46B.
 - ✓ Appraisal
-

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Property Requirements, Continued

REV 04/20
**Geographic
Restrictions**

Temporarily suspended for the following States:

- ✓ Iowa, Kansas, Kentucky, Mississippi, Nebraska, South Dakota, Wisconsin, West Virginia.
- ✓ **Florida:** Condominium properties located within the state of Florida are not permitted.
- ✓ ClearPoint Funding currently lends in the states of Alabama, Alaska, Arizona, California, Colorado, Connecticut, Delaware, DC, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, Nevada, New Hampshire, New Jersey, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and Wyoming.
- ✓ **Texas** Section 50a6 equity cash out is not permitted.

**Escrow
Holdbacks**

Not permitted; all work must be complete.

**Carbon
Monoxide
Detectors**

For California properties, evidence that a carbon monoxide detector has been installed is required:

- On purchase transactions when installation is required per sales contract or appraisal report or when the appraisal indicates detectors have not been installed.
 - On refinance transactions when installation is required per the appraisal or when the appraisal indicates detectors have not been installed.
-

Transaction Type

Purchase and Other Refinance

For a loan amount in excess of 4 times the veteran's available guaranty, the maximum loan amount is 75% of the lesser of the purchase price or NOV, plus the veteran's available VA guaranty. The down payment must also include the amount, if any, by which the purchase price exceeds the NOV. The down payment may not be derived from a second mortgage on the property

[VA Circular 26-08-19](#) provides for a temporary increase in the maximum guaranty amount for loans closed January 1, 2009 through December 31, 2011. The maximum guaranty amounts will be adjusted annually. The first adjustment will affect loans closed on or after January 1, 2010. Refer to the circular for complete details.

- Transactions with loan amount of \$417,000 or less: There are no changes.
- Transactions with loan amounts greater than \$417,000: VA will guarantee 25% of the original principal loan amount, up to the maximum guaranty amount. The maximum guaranty amount will differ depending upon where the property is located.

NOTE: Permitted ONLY if a result of an at-closing excess from premium rate credits up to (may not exceed) the lesser of 2% of the new principal loan amount or \$2000.

IMPORTANT: Also referred to as "Other Refinancing Loans" in the VA Lenders Handbook, Chapter 6, Topic 5 and ONLY includes the refinance of construction loans, installment land sale contracts, and loans assumed by veterans at interest rates higher than that for the proposed refinance.

"Rate Term" Refinance Benefit

CPF requires that, unless the new loan is refinancing ARM to fixed, reducing the term or providing a cash out benefit to the borrower, then the VA refinance transaction should generally meet at least 2 of the following criteria in order to benefit the veteran:

- Borrower's payment reduced by at least 10% or \$50, whichever is less.
 - Borrower's interest rate reduced at least by 1%.
 - Closing costs (not including prepaids) recaptured through the monthly PITI savings in 5 years or less.
-

Continued on next page

Transaction Type, Continued

Texas Refinances

For Refinance, Primary Residence properties located in Texas:

- In addition to the title commitment, a copy of the current mortgage or note is required to determine the previous terms are not subject to Texas Section 50(a)(6) also known as (Home Equity Deed of Trust, Home Equity Installment Contract or Residential Home Loan Deed of Trust) requirements.

Cash Out Refinance

NOTE: Includes all refinance transaction that are not "Other Refinancing Loans" as defined above.

A VA-guaranteed cash-out refinance may be used to pay off any type of lien or liens against the secured property. The liens to be paid off may be from any source (for example, VA, FHA, or conventional mortgages and/or tax judgments/liens).

NOTE: The veteran must have ownership rights to the property with the existing lien (i.e. must be on title, but not required to be on the note). Free and clear properties are ineligible.

Maximum Loan-to-value:

- ✓ Up to 90% of the value of the property indicated on the Notice of Value (NOV) plus the cost of any energy-efficient improvements (less than or equal to \$6,000) plus the VA funding fee.
 - For a loan amount in excess of 4 times the potential maximum guaranty, the maximum loan amount may not exceed 75% of the NOV plus the available VA Guaranty (NOV x 75% plus available VA Guaranty).
- ✓ Cash proceeds from loan may be used to pay fees, charges, and discount points.
- ✓ If paid from loan proceeds, the total of the following items cannot exceed 90% of reasonable value:
 - Payoff of liens
 - Fees and charges, other than VA funding fee
 - Reasonable discount points
 - Cash to the veteran

Maximum Cash-Out: Unlimited

Geographic restrictions: VA cash-out loans not allowed in Texas.

NOTE: Permitted ONLY if a result of an at-closing excess from premium rate credits up to (may not exceed) the lesser of 2% of the new principal loan amount or \$2000.

Streamline Refinance (IRRRLs)

Overview

VA's Interest Rate Reduction Refinance Loan (IRRRL) is designed to allow the refinance of a current VA insured mortgage without obtaining a new entitlement.

Streamline Refinance (IRRRLs)

- ✓ Minimum Credit Score of 640 is required.
- ✓ If subordinate financing will remain in place, the CLTV may not exceed 100% regardless of DU/DO findings.
- ✓ Mortgage history must reflect 0x30 in the most recent 12 months. Credit report for the mortgage history must be updated to include the payment made for the most recent month due.

IMPORTANT: Refer to the Streamline Refinance section within the manual for complete details.

Benefit to Borrower

To qualify for this type of financing:

- ✓ The interest rate on the IRRRL must be lower than the interest rate on the current loan. The only exception to this rule is a VA ARM that is refinanced to a Fixed Rate Mortgage.
- ✓ The mortgage term on the refinance cannot exceed the original term by more than 10 years, but not to exceed 30 years.
- ✓ The P&I payment on an IRRRL must be less than the P&I payment on the loan being refinanced unless one of the following exceptions applies:
 - The IRRRL is refinancing an ARM to a fixed rate,
 - Term of the IRRRL is shorter than the term of the loan being refinanced

NOTE: ClearPoint Funding requires that the refinance be beneficial to the veteran. Generally speaking, the total number of months to recoup ALL closing costs (both paid outside of closing and those financed into the loan) should not exceed 84 months, supported by completion of the Rate Reduction Certification form to be signed by the borrower.

IMPORTANT: VA Form, Comparison of Old Loan vs. New Loan is required for all IRRRL transactions.

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Streamline Refinance (IRRRLs), Continued

Underwriting Method

Not eligible for submission to DU/DO.

General Guidelines

The loan being paid off with the refinance must be the loan indicated on the IRRRL Case Number. A copy of the note may be required to verify the LHG number.

High Balance IRRRLs

Not Permitted.

State Restrictions specific to IRRRL:

Colorado: Income must be stated on the application; however, no verification of income is required nor analysis of income performed.

Florida: Broward and Dade County require income and employment to be fully documented; ratios must be calculated and the borrower must qualify for the loan.

Hawaii: Not permitted.

Kansas: Requires the tax assessor's statement of value in order to meet Kansas law. If the loan amount, including the funding fee, exceeds the tax assessors' statement of value, a written notice to the consumer regarding High LTV mortgages and is required along with the availability of credit counseling.

Texas:

- If the first mortgage is subject to Texas Section 50(a)(6), IRRRL financing is not permitted (once a cash out; always a cash out).
- No cash back to borrower is permitted for any transaction.

West Virginia: Full interior/exterior 1004 appraisal is required.

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Streamline Refinance (IRRRLs), Continued

Loan Purpose	<p>The borrower may not receive cash proceeds from the loan; however, in a limited number of situations, the borrower may receive cash at closing, not to exceed \$500. Some examples of situations in which VA does not object to the borrower receiving cash are:</p> <ul style="list-style-type: none"> • Computational errors • Changes in final pay-off figures • Up-front fees paid for the appraisal and/or credit report that are later added into the loan; AND • Refund of the escrow balance on the old loan. This often occurs when a party other than the present holder originates the loan. • Principal reductions are not permitted
Occupancy Type	<p>Primary residence only.</p>
Change of Borrowers	<ul style="list-style-type: none"> ✓ Must be same applicant(s) unless death or divorce of an applicant. Cannot remove currently separated spouse. ✓ Only person eligible to be added to loan is new spouse (provide evidence). ✓ If veteran is deceased, spouse on original loan is eligible for IRRRL; such surviving spouse must own and occupy the property to be refinanced.
Borrower Eligibility	<p>In lieu of a Certificate of Eligibility (COE), eligibility for an IRRRL is determined by a Prior Loan Validation (PLV) showing an active loan matching the borrower and property. If the PLV shows more than one active loan, an Application for Restoration must be processed.</p>

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Streamline Refinance (IRRRLs), Continued

Required Documents

The following IRRRL specific documents are required in addition to standard VA forms:

- ✓ VA IRRRL Case Assignment screen print out to confirm new case number (verify that veteran's name and address match the new application)
- ✓ All veteran-borrowers whose income is being used to qualify for the loan transaction must complete and sign the VA Reserves or National Guard Certification. The VA Underwriter must use this information to determine the veteran-borrower's monthly qualifying income
- ✓ Verification of VA Benefit- (VA Form 26-8937) required only if the COE does not contain the funding fee exemption status and monthly disability information or if instructions on COE direct Lender to send the 26-8937 to the RLC.
- ✓ Original, signed and completed Uniform Residential Loan Application (Fannie Mae Form 1003)
- ✓ Original HUD/VA Addendum to the URLA (VA Form 26-1802a)
- ✓ Current payoff statement for existing mortgage
- ✓ Copy of original Note
- ✓ VA Interest Rate Reduction Refinancing Worksheet (VA Form 26-8923) signed by the VA Underwriter
- ✓ VA Loan Summary Sheet (VA Form 26-0286) must be in the file but VA Underwriter does not need to sign
- ✓ CAIVRS information must be verified and noted on the IRRRL Worksheet
- ✓ Nearest Living Relative Information
- ✓ Initial Good Faith Estimate and Truth in Lending disclosures
- ✓ Affiliated Business disclosure
- ✓ Counseling checklist for Military Homebuyers (VA Form 26-0592) required for credit qualifying streamline and active duty borrowers
- ✓ Federal Collection Policy Notice (VA Form 26-0503)
- ✓ VA Payment Comparison Letter and Lender Certification
 - Must be signed by the veteran acknowledging the effect of the refinance loan on the veteran's loan payments and interest rate. Statement must show the interest rate and monthly payments for the new loan versus the old loan.
 - Must disclose to the borrower how long it will take to recoup all closing costs (both those included in the loan and those paid outside of closing.)
 - If the PITIA increases by 20% or more, a Lender's Certification must be completed by the Underwriter:
 - The VA Underwriter signs and certifies the Lender Certification that "the borrower qualifies for the new monthly mortgage payment which exceeds the previous payment by 20% or more"
- ✓ All other applicable VA related forms

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Streamline Refinance (IRRRLs), Continued

Credit Requirements

A tri-merged credit report (or a mortgage only credit report showing scores from 3 bureaus) must be obtained *and provided by ClearPoint Funding* to verify the minimum score requirements. No further evaluation of the credit report is necessary beyond current policy requirements.

- ✓ Minimum 640 credit score.
- ✓ Credit score is required; non-traditional credit is not permitted.
- ✓ Overall credit quality, however, must meet all guidelines for acceptable credit history.
- ✓ The mortgage history must reflect 0x30 in the last 12 months.
 - Mortgage must be current for the month due.
- ✓ Loans seasoned less than 12 months on a primary residence may be considered subject to review of the following documentation and requirements:
 - Full tri-merge in-file credit report.
 - Evidence the existing loan has no 30-day late payments since the inception of the loan, and
 - Evidence of no 30-day late payments in the most recent 12 months on **any** mortgage account for any property where any borrower has an ownership interest.
 - Bankruptcy or foreclosure discharged the required 24 months.
 - Judgments of any amount must be paid.
- ✓ Loans seasoned less than six (6) months are not allowed under streamline documentation.
- ✓ No other credit information or underwriting is required unless the monthly PITI will increase 20 percent or more. Refer to the VA manual for additional guidelines.

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Streamline Refinance (IRRRLs), Continued

**Employment /
Income**

No income documentation required, **except** where PITI will increase 20% (note, greater than 20% increases are only permitted if refinancing from an ARM to a Fixed Rate or the term of the loan is being reduced).

Documentation for loans if PITI increases by 20% or more

- ✓ Determine that the borrower has stable and reliable income to support the proposed housing payment along with other recurring monthly obligation
 - Must fully credit qualify
 - Pay stubs covering at least the most recent 30 day-period
 - 2 years W2s or 2 years personal tax returns for self-employed borrowers
 - Verbal VOE of the borrower's current employment
 - 4506-T must be processed

Verbal VOE

A verbal verification of employment must be completed and documented within the file no more than 30 calendar days prior to the loan closing, which requires at a minimum for the current employer to be completed on the 1003 for all borrowers.

Assets

No asset verification or minimum reserves are required unless the borrower is required to bring funds to closing.

**Qualifying
Ratios –
Streamline**

Not applicable.

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Streamline Refinance (IRRRLs), Continued

Appraisal Requirements

Although not required by VA, ClearPoint Funding requires all VA IRRRL transactions to obtain a AIR compliant conventional appraisal that includes a FNMA Market Conditions Addendum, Form 1004-MC

- ✓ Conventional 2055 Exterior Appraisal Report in compliance with Appraisal Independence Requirements (1075 Exterior Only Form for condos and full 1025 Interior/Exterior Appraisal Report for 2-4 units).
 - Appraisal is to be underwritten to meet all conventional appraisal requirements; VA specific appraisal requirements will not apply.
- ✓ Market Conditions Addendum is required.
- ✓ Subject property must be rated as "average" or higher condition.
- ✓ Any repair requirements noted by appraiser that impact the safety, structural soundness and habitability of subject property must be completed.
- ✓ Notice of Reasonable Value is not required to be issued in webLGY (i.e. appraisal may not be ordered through the VA Appraisal System and does not have to be performed by a VA approved appraiser).
- ✓ No minimum requirements regarding length of ownership will apply to value.
- ✓ Appraised value must be supported and must equal or exceed the total loan amount including the financed funding fee.

IMPORTANT:

The exterior only Form 2055 must be upgraded to an interior and exterior report (Form 1004) if the any of the following conditions exist:

- The property does not conform to the neighborhood, or
- Adverse physical deficiencies or environmental conditions are observed (appraisal must show the property rated as "average" or better condition), or
- Data sources do not provide sufficient information about the property to perform the appraisal.
- Regardless of the appraisal report being used the appraisal should be reviewed to determine that the property is acceptable to ClearPoint Funding.

Any repairs that impact safety, livability, or habitability must be completed. The property condition must be rated "average" or better.

- ✓ Refer to [Circular 26-09-04](#) for complete information regarding [Form 1004MC](#).
- ✓ Appraisal for IRRRL transactions must be dated within 90 days of the date of the note.
- ✓ Veteran may be charged for the cost of the appraisal.
- ✓ Although the appraisal is not completed by a VA approved appraiser, a new case number must be obtained on each transaction.

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Streamline Refinance (IRRRLs), Continued

**Termite / Well
Inspections**

Only required if appraiser refers to an infestation.

Settlement Requirements

Escrow Waivers Not permitted.

Allowable and Unallowable Fees VA policy has evolved around the objective of helping the veteran to use his or her home loan benefit; therefore, VA regulations limit the fees that the veteran can pay to obtain a loan. ClearPoint Funding will require strict adherence to the limitations on veteran-paid fees and charges as shown below when making VA loans.

Fees/Charges Veteran CAN Pay	Fees/Charges Veteran CANNOT Pay
<ul style="list-style-type: none"> ✓ The VA Funding Fee ✓ The maximum of: <ul style="list-style-type: none"> • Reasonable and customary amounts for any or all of the Itemized fees and Charges designated by the VA, plus • A 1% flat charge by the Broker, plus • Reasonable discount points 	<ul style="list-style-type: none"> ✓ Appraisals requested for reconsideration of value ✓ Appraisals requested by parties other than the veteran or Broker ✓ Attorney’s fees ✓ Brokerage fees ✓ Consulting and Referral Fees ✓ Flood zone determination made by CPF to VA appraiser ✓ Pest/Termite Inspection fees ✓ Prepayment fees of an existing loan (may not be paid with VA-guaranteed loan proceeds) ✓ Tax service fee ✓ Any other non-invoiceable fees

NOTE: If the veteran was charged an ineligible fee(s), ClearPoint Funding requires the fee(s) to be refunded and the refund documented in the loan file.

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Settlement Requirements, Continued

VA and RESPA In response to a new Real Estate Settlement Procedures Act (RESPA) rule, the VA is requiring an Origination Statement or a breakout of the origination fees on the HUD -1, eliminating the Interest Rate and Discount Disclosure, and clarifying fees that can be charged to the veteran/borrower. This impacts all VA loans.

The originator may charge the veteran an origination fee of up to 1% of the loan amount, plus reasonable discount points, as well as reasonable and customary amounts for certain itemized fees.

If a 1% origination fee is not charged, the originator may assess other fees as long as the aggregate amount does not exceed 1% of the loan amount.

Itemized Fees and Charges

The veteran can pay any or all of the itemized fees and charges listed below, in amounts that are reasonable and customary. For services performed by a third party, the amount paid by the veteran cannot exceed the actual charge of that third party.

- ✓ Appraisals and inspection fees not to exceed the maximum indicated by VA within the below link, including second appraisals requested by the veterans for reconsideration of value.
 - http://www.benefits.va.gov/homeloans/fee_timeliness.asp
 - ✓ Credit report or on AUS-decisioned loans, up to \$50 evaluation fee charged in lieu of a credit report.
 - ✓ Flood zone determination: the veteran may pay for a life-of-the-loan flood determination service purchased at the time of loan origination
 - ✓ Hazard insurance premium including flood insurance, if required.
 - ✓ Mortgage Electronic Registrations Systems (MERS) fee.
 - ✓ Prepaid items such as taxes, assessments, and similar items for the current year chargeable to the veteran and the initial deposit for the tax and insurance account.
 - ✓ Recording fees and recording taxes or other charges incidental to recordation.
 - ✓ Special mailing fees such as Federal Express®, Express Mail®, etc. for refinance transactions only.
 - ✓ Survey, if required. Condominium surveys must have prior approval of the VA.
 - ✓ Title examination and title insurance including environmental protection lien endorsement, if required.
 - ✓ Other fees as authorized by the VA
-

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Settlement Requirements, Continued

Itemizing Credits

RESPA requirements require all borrower charged fees to be disclosed in the borrower column on the HUD-1 and that any credits paid on the borrower's behalf must be disclosed on the first page on the HUD-1. In addition, all credits to the veteran from the seller, lender, mortgage broker, real estate agent or any other party to the transaction must be itemized by specifying what fees were paid by the credits. Lump sum disclosure of borrower credits is not acceptable. The itemization of credits is designed to enable VA reviewers to determine who paid what charges of the transaction and to ensure that the veteran did not pay unallowable fees. The itemization of credits can be accomplished in a number of ways:

- ✓ Itemize the credits in the empty 200 series lines on the HUD-1 Settlement Statement.
 - ✓ Disclosure the credit as a lump sum on 200 series line and then itemize the credits on a HUD-1 addendum or on a separate lender-created attachment to the settlement statement.
-

Itemization of Title Charges

A break out of the aggregate charges shown on line 1101, "Title services and lender's title insurance", is required. The specific charges can be itemized on the HUD-1 addendum or on a separate lender-created attachment to the settlement statement. This requirement for the break out of the line 1101 charges is similar to the break out required on line 801 described in VA Circular 26-10-1. The break out of line 1001 fees may be added to the itemization statement of line 801 fees. The purpose of the itemization is to permit VA reviewers to ensure that veterans have not been assessed unallowable fees.

General Compliance with RESPA and VA Requirements

All must continue to comply with RESPA requirements regarding completion of the Good Faith Estimate (GFE) and HUD-1. Note, RESPA officials report that there are no prohibitions to VA asking for the itemization of fees and credits as discussed in this announcement. Compliance with these policies when making VA loans is required.

All must strictly adhere to the limitations on borrower-paid fees and charges when making VA loans. See VA regulation 38 C.F.R. 36.4813 and Chapter 8 of the Lenders Handbook (VA Pamphlet 26-7) on the limits of fees that a veteran may pay when obtaining a VA-guaranteed home loan.

Closing Policies & Procedures

Scheduling a Loan

- ✓ Loan must be Cleared to Close in order to schedule for Closing.
- ✓ Request to Close (Broker Fee Sheet) and Preliminary HUD must be uploaded into Image Flow.
- ✓ To schedule the loan, the Broker will email closer@clearpointfunding.com with the date and time of the closing:
 - Allow a minimum of 48 hours from when loan is being scheduled to closing/signing date.
 - A confirmation email will be sent to the Broker.

Closing Practices

The next sections reiterate and highlight best practices for ClearPoint Funding's closing and funding process.

Verification of Employment

- ✓ A verbal verification of employment must be completed within 5 days of closing and must be completed prior to the Note Date and must include:
 - Independent Verification of Employer's phone number.
 - Borrower's start date.
 - Verification borrower is still employed.

Closing Protection Letter

Clear Point Funding will validate all Closing Protection Letters as well as Closing Agents wiring information prior to the loan funding.

Taxes

Any taxes that are due within 60 days of closing must be collected at closing and be reflected on the HUD-1 settlement statement regardless if loan is escrowing or not.

Insurance

Insurance must be paid through the first mortgage payment.

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Closing Policies & Procedures, Continued

Escrow Accounts

- ✓ Insurance escrows can be waived if loan is eligible for escrow waivers.
- ✓ Flood insurance may only be waived if escrows are waived on both taxes and insurance. If taxes are escrowed, then flood insurance will be escrowed as well.

Seller Contributions

- ✓ Seller Contributions are limited to program maximums as identified on the Loan Approval.
- ✓ Allowable Seller Paid Fees on Lender Paid Transaction:
 - Any or all 3rd Party Fees (Title, Appraisal, Credit, etc.)

Premium Pricing Credits

Allowable Fees Paid By Premium Credit:

- Any and all Third Party Fees (Title, Appraisal, Credit, etc.)
- Interest, Escrow Accounts, Taxes Due, HOA Dues, Oil Adjustments, etc.
- POC Items, such as appraisal and insurance on Purchase Transactions.
- Interest on loan being paid off as well as any fees associated with payoff.

NOTE: Broker compensation of any kind may not be paid by the Premium Credit.

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Closing Policies & Procedures, Continued

REV 04/20

**Principal
Reductions –
Lender Paid
Transactions**

- ✓ If there is excess Premium Credit after all allowable fees have been paid, a Principal Reduction may be applied as follows:
 - VA Loans:
 - For all loans amounts, the maximum principal reduction is \$2000.

NOTE: If the excess credit or contribution exceeds the above Principal Reduction, the interest rate will need to be lowered and the GFE will need to be re-disclosed. The broker will need to contact Rate Lock to lower the interest rate and complete a Change Request so the loan may be re-disclosed.

- ✓ The Principal Reduction will be listed on page 2 of the HUD-1 Settlement Statement as a charge, which will be covered by the excess premium or contribution.

**HUD Approval
Process**

ClearPoint Funding will approve all HUD-1 statements prior to the loan funding and wire being released.

- ✓ The HUD Approval Process ensures:
 - Borrower has brought the minimum funds to closing as required per program.
 - Borrower's funds to close do not exceed assets verified per the loan approval.
 - Borrower is not receiving more than the allowable cash at closing per program maximum.
 - Premium Pricing Credit does not exceed allowable costs.
 - Principal Reduction is within guideline.

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Closing Policies & Procedures, Continued

Funding

- ✓ Wire cutoff time is 3:30pm EST.

Prior to ordering the wire, ClearPoint Funding will verify the following:

- VOE has been completed within 5 days of the closing
- HUD has been approved
- All Prior To Fund (PTF) conditions have been satisfied
- ✓ Fed Reference numbers are available upon request. Note, there may be a delay in retrieving once the wire has been ordered.

Interest Credit

Permitted up to the 5th day of the month.



VA Lending Guide

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