CLEARPOINT FUNDING

Lending Guide Announcement

IMPORTANT

ClearPoint Funding is providing a detailed outline of most recent updates to:

- Conventional Lending Guide
- FHA financing

100 – Lending Guide

Page 100-48

Auto Allowance – new section.

Automobile allowances will be considered stable income for a Borrower who has been receiving the income for the past two years, provided all associated business expenditures are included in the calculation of the Borrower's total Debt-to-Income Ratio.

Either an actual cash flow approach or an income and debt approach may be used to calculate the income.

Actual Cash Flow Approach

- When the Borrower files an IRS form 2106, the actual cash flow approach should be used. Any funds in excess of the Borrower's monthly expenses are added to the Borrower's monthly income.
- Any expenses in excess of the monthly allowance must be included in the Borrower's total monthly obligations. When the Borrower uses the form 2106 and recognized "actual expenses" instead of the standard mileage rate, look at the actual expenses section to identify the Borrower's actual lease payments, and then make the appropriate adjustments.
- If a Borrower elected to use a standard mileage deduction instead of taking the actual cash expenditure for auto expenses when he or she completed their federal income tax return, an add-back can be used for qualification purposes. The applicable add-backs are as follows:

Tax Year Add-Back per Mile	
2008	$0.50
2009	$0.55
2010	$0.50

Income and Debt Approach

- When the Borrower does not report the allowance on form 2106, the income and debt approach should be used. The full amount of the allowance is added to the Borrower's monthly income. The full amount of the lease or financing expenditure for the automobile must be added to the Borrower's total monthly obligations.

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Lending Guide Announcement, Continued

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<tr><td>Page 100-54</td><td>
Non-Taxable Income – new section.

Non-taxable income may be shown on the borrower's tax return but is not taxed. All non-taxable income must be grossed-up, if disclosed on the 1003 application, when determining qualifying income. The factors used to gross up income is based on:

The type of non-taxable income the borrower receives and
Whether the borrower receives income from other sources subject to income tax depending on the borrowers adjusted gross income.

If a borrower receives income from other sources, benefits will not be taxed until the total adjusted gross income is more than the base amount for the borrower's filing status. The following calculation will determine if any of the borrower's income is subject to income taxes.

Add one-half of the total non-taxable income received to all other income received, including any tax-exempt interest and other exclusions from income.
Compare this total to the base amount for the borrower's filing status.

If the total is more than the base amount, some of the benefits may be taxable.

The borrowers other income received may be determined by one of the following:
Annualizing the disclosed income provided by the borrower on the initial application OR
Obtain the first two pages of the borrower's income tax returns OR
Process the IRS Form 4506-T.
NOTE: Additional information, including calculations and percentages, is located within the full Conventional Lending Guide; pages 100-55 & 56.
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<tr><td>Page 100-78</td><td>
Employer Assistance Programs – new section.

An owner-occupant Borrower can use funds provided by his or her employer to pay part of the closing costs or to supplement reserves, however, the Borrower must use his or her own funds to meet the minimum required down payment. Assistance from the Borrower's employer must come directly from the employer. NOTE: It cannot be provided by a company-affiliated credit union.

The employer's financial assistance for either closing costs or the down payment may be in the form of a grant, a direct, fully repayable second mortgage or unsecured Loan, a forgivable second mortgage or unsecured Loan, a deferred payment second mortgage or unsecured Loan or mortgage payment assistance. When the assistance is a secured second mortgage, the transaction must satisfy standard Secondary Financing guidelines.

The program must be an established company program, not just an accommodation developed for an individual employee. There must be documentation that describes the terms of any Loan agreement and other employee assistance being offered to the Borrower (such as relocation benefits), including the employer's written verification of the dollar amount of the assistance. When the assistance is funded before settlement, there must be confirmation of receipt of the funds.
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Lending Guide Announcement, Continued

100 – Lending Guide

Page 100-82	**Retirement - modified.** Retirement accounts (IRAs, Keogh accounts, 401(k) accounts, etc.) are subject to withdrawal penalties and tax surcharges if withdrawn prior to normal distributions. Because of these restrictions, the following guidelines apply to the use of retirement accounts for closing-fund requirements: Unless specified by an automated underwriting system, 60% of IRAs, Keogh Accounts, 401(k) Accounts, and the cash value of annuities can be used to determine funds available for withdrawal, less any loans. Borrower must provide evidence of the receipt of sufficient funds for closing. For IRA distributions, verification continues to be required confirming the distribution plan the borrower has chosen and the actual monthly distributions the borrower will be receiving; verification of the 3 year continuance continues to be required as well. *NOTE:* ***When retirement accounts only allow for withdrawal in connection with the Borrower's employment termination, retirement or death, the vested funds should not be considered as reserves.***
Page 100-91	**Manufactured Homes on Site – new section.** Habitable manufactured homes located on the subject property site are not permitted, regardless of omitting value. The restriction includes manufactured homes that are and are not permanently affixed to the property. **NOTE:** Habitable is defined as connected water, electricity, sewer, etc.
Page 100-93	**Distance of Comparables – new section.** Urban area; typically comparables within 1 mile of the subject property are acceptable. Suburban area; a 1 to 2 mile radius is acceptable; however, in the case of a PUD, the subject must be compared to properties in the same subdivision as that of the subject.
Page 100-94	**Land to Value Ratios – new section.** Areas that are built up 25% or more, the property's land to value ratio must be consistent with other properties in the area. Areas that are built up less than 25%, the property's land to value ratio must also be consistent with other properties in the area, but should not exceed 40%. In rural areas, the appraiser must address site values and land to value ratios. The appraisal must include the actual size of the site and not a hypothetical portion of the site; the appraised value must reflect the entire parcel. The appraiser must consider all acres of the subject property and comparable must be of similar size to establish marketability.

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Lending Guide Announcement, Continued

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Page 100-98	**Property Conditions – new section.** All subject properties must be habitable and all appliances, plumbing, electrical, etc. must be functional and in good working condition. **NOTE:** The kitchen must be fully functional defined as containing at minimum cabinets with countertops, a working sink and working stove. This applies to ALL real estate transfers, including HUD Repo properties.
Page 100-99	**Swimming Pools – modified.** ▪ Empty swimming pools are not acceptable due to associated safety hazards. If pools are empty at time of appraisal, recertification with photos is required. ▪ Green or moss covered pool water is not acceptable.
Page 100-121	**Transferred Policies (Flood) - new section.** Flood insurance may be transferred from the seller to the buyer; however, it must be in effect for a full 12 months from the closing date. The original seller's expiration date may not stand.

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Page 100-162	**Paying off Installment Debt – modified.** Paying off accounts for installment debt to qualify for a mortgage is discouraged; however, may be permitted at the discretion of the underwriter. ▪ If the account is paid off (in full), the debt may be omitted from the DTI ratio calculation. ▪ If the debt is paid with loan proceeds (cash out refinance), the HUD-1 must reflect the payoff of the required account. **NOTE:** In all cases, the file will be reviewed to determine if the borrower has a history of accumulating debt, then refinancing to manage the debt. If such history exists and there is no history of savings, then the borrower must qualify with all payments.
Page 100-162	**Paying off Revolving Debt – modified.** Paying off accounts for revolving debt to qualify for a mortgage is discouraged; however, may be permitted at the discretion of the underwriter. ▪ If the account is paid off (in full), the debt may be omitted from the DTI ratio calculation. ▪ If the debt is paid with loan proceeds (cash out refinance), the HUD-1 must reflect the payoff of the required account. **NOTE:** In all cases, the file will be reviewed to determine if the borrower has a history of accumulating debt, then refinancing to the manage debt. If such history exists and there is no history of savings, then the borrower must qualify with all payments.

200 – Conforming Product

Page 200-28 & 200-32	**Loan Parameters – Agency FRM & ARM Year with Mortgage Insurance** NOTE: Due to technical factors Condos, Primary Residence, Purchase or Rate Term Refinance have been reduced back to 90.00%. Refer to matrix for complete details.

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Lending Guide Announcement, Continued

200 – Conforming Product

Page 200-39	**DU Refi Plus / Mortgage Insurance – modified.** If the existing loan being refinance: ▪ Was equal to or less than 80% LTV, mortgage insurance is not required on the subject refinance and the loan is eligible. ▪ Was greater than 80% LTV and the mortgage insurance was previously cancelled or terminated in accordance with FNMA guidelines, mortgage insurance is not required on the subject refinance and the loan is eligible. ▪ Was greater than 80% LTV and the mortgage insurance is still applied to the current loan, but the new loan LTV is less than or equal to 80%, mortgage insurance is not required on the subject refinance and the loan is eligible. The new loan being created in the refinance: ▪ Loans requiring or issued with MI are not permitted DU/DO recommendation MUST specifically state NO MI is required

300 – FHA Guidelines

Page 300-7	**Anti-Flipping and the Sales Contract – new section.** It is not acceptable practice for the sales contract to be re-signed for the sole purpose of circumventing HUD's 90 day flip rule. NOTE: This includes any evidence within the file, such as original sales contract date on the appraisal, indicating that the loan was re-structured for the sole purpose of circumventing HUD's 90 day flip rule.
Page 300-55	**Employer Assistance Plans – modified.** Assistance from the Borrower's employer must come directly from the employer. It cannot be provided by a company-affiliated credit union.
Page 300-65	**Cash Out Refinance – modified.** Six month ownership seasoning required; for newly purchased properties, six month time frame is from the note date of the current loan to the application date of the new loan. In addition, all Borrowers on the new loan must have been in title for at least six months.
Page 300-80	**Property Conditions – new section.** All subject properties must be habitable and all appliances, plumbing, electrical, etc. must be functional and in good working condition. **NOTE:** The kitchen must be fully functional defined as containing at minimum cabinets with countertops and a working sink. This applies to ALL real estate transfers, including HUD Repo properties.

Thank you for your business and please do not hesitate to contact your ClearPoint Funding Account Executive with any questions.