

Magnolia Bank Inc FHA Overlays and Guidelines

Maximum LTV/FICO Requirements					
Purchase		No Cash-Out Refinance		Cash-Out Refinance	
LTV/CLTV	Min FICO	LTV/CLTV	Min FICO	LTV/CLTV	Min FICO
96.50%	600	97.75%	600	85%	600
See FHA Streamline Product Profile for Streamline requirements					
see HUD REO section for HUD REO LTV/CLTV exception					
Mortgage Insurance Premium					
Purchase, No Cash-Out Refinance, Cash-Out Refinance					
>15 Year terms			≤ 15 Year term		
Applies to Case Numbers assigned on or after January 26, 2015 for base loan amount equal to or less than 625,500					
LTV	UFMIP	Annual	LTV	UFMIP	Annual
>95%	1.75%	0.85%	>90%	1.75%	0.70%
≤ 95%	1.75%	0.80%	≤ 90%	1.75%	0.45%
Applies to Case Numbers assigned on or after January 26, 2015 for base loan amount greater than 625,500					
LTV	UFMIP	Annual	LTV	UFMIP	Annual
>95%	1.75%	1.05%	>90%	1.75%	0.95%
≤ 95%	1.75%	1.00%	78.01%-90.00%	1.75%	0.70%
			≤ 78%	1.75%	0.45%
For case numbers assigned before January 26, 2015, please se ML 2013-04					
Ability To Repay and Qualified Mortgage Rule	<ul style="list-style-type: none"> • For loans subject to the ATR/QM rule, Magnolia Bank Inc. will only purchase loans that comply with ATR/QM requirements. Investment properties for business purposes (borrower does not intend to occupy for greater than 14 days in the year) are exempt from ATR/QM; however, such loans must meet agency eligibility requirements and are subject to the applicable points and fess threshold. • Correspondents are responsible for providing evidence of compliance with the ATR/QM rules. • Clear itemization of fees and application of all credits that indicate paid by/to will be required on all loans. 				
Appraisal	<ul style="list-style-type: none"> • A full appraisal (e.g. form 1004 or equivalent, accompanied by form 1004MC) is required for all submissions • The FHA appraiser who performed the original appraisal, if currently in good standing on the FHA Appraiser Roster, may use Part A (Summary Appraisal Update Report) or Part B(Completion Report). Any other FHA appraiser, Report). Any other FHA appraiser, currently in good standing on the FHA Appraiser Roster, may only use Part B. 				

<p>Appraisal Cont.</p>	<ul style="list-style-type: none"> • Appraisers may perform an update of a previously completed appraisal using the Fannie Mae Form 1004D/Freddie Mac Form 442/March 2005 when requested by the Mortgagee. <p>Unpermitted Property Additions</p> <p>Magnolia Bank Inc. will purchase loans secured by properties with “unpermitted” structural additions under the following conditions:</p> <ul style="list-style-type: none"> • The subject addition complies with all investor guidelines; • The quality of the work is described in the appraisal and deemed acceptable (“workmanlike quality”) by the appraiser; • The addition does not result in a change in the number of units comprising the subject property (e.g. a 1 unit converted into a 2 unit). • If the appraiser gives the unpermitted addition value, the appraiser must be able to demonstrate market acceptance by the use of comparable sales with similar additions and state the following in the appraisal: <ul style="list-style-type: none"> o Non-Permitted additions are typical for the market area and a typical buyer would consider the "unpermitted" additional square footage to be part of the overall square footage of the property. o The appraiser has no reason to believe the addition would not pass inspection for a permit.
<p>Age of Documents</p>	<ul style="list-style-type: none"> • Credit documents must be no more than 120 days old (180 days for New Construction) on the date the Note is signed, including credit reports and employment, income and asset documents. • Preliminary Title Policies must be no more than 180 days old on the date the Note is signed.
<p>Assignment of Mortgages</p>	<p>All loans must be registered with MERS at time of delivery to Magnolia Bank Inc. and a MERS transfer of beneficial rights and transfer of servicing rights must be initiated by the Seller, To Magnolia Bank Inc. within 24 hours of purchase.</p>
<p>AUS</p>	<ul style="list-style-type: none"> • All loans must be submitted and approved through FHA TOTAL Scorecard • No Manual UW
<p>Borrower Eligibility</p>	<ul style="list-style-type: none"> • U.S. citizens • Permanent resident aliens, with proof of lawful permanent residence • Nonpermanent resident alien immigrants • Magnolia Bank Inc. allows Mortgage Credit Certificates (MCCs) in accordance with FHA policy (can be considered as acceptable income or used to offset the mortgage payment, before calculating the qualifying ratios). Include a copy of the MCC and lender's documented calculation in the file. • Housing Choice Voucher Homeownership Program income (commonly known as Section 8 for homeowners) paid via Housing Assistance Payments (HAPs) are an acceptable source of income. However due to operational constraints, transactions involving HAPs paid directly to the Servicer are ineligible for purchase by Magnolia Bank. Transactions with HAPs paid directly to the borrower continue to remain eligible for purchase.
<p>Condominiums</p>	<ul style="list-style-type: none"> • Must be located in an FHA approved Condominium Project • HUD REOs do not require FHA Condominium Project approval. • Condominiums involved in minor litigation subject to DE approval and in accordance with FHA requirements.

Credit	<ul style="list-style-type: none"> • Minimum FICO score of 600 • Each borrower must have at least one credit score to be eligible.
Derogatory Credit	<ul style="list-style-type: none"> • 2 years elapsed since completion or discharge of Ch 7 or Ch 13 Bankruptcy • 3 years elapsed since completion of Foreclosure, Deed in Lieu or Short Sale <ul style="list-style-type: none"> The wait period for short sales can be waived if all of the following conditions are met: <ul style="list-style-type: none"> o The loan was current at the time of the short sale o The loan was paid on time in the 12 months preceding the short sale o All other installment debts were paid on time in the preceding 12 months • Purchase or Rate/Term refinances require manual downgrade if payment history for any mortgage, including HELOCs, reflect 3x30x12, or 1x60x12 plus 1x30x12, or 1x90x12 within the most recent 12 months. • Cash-Out refinance requires manual downgrade if payment history for any mortgage, including HELOCs, reflects current delinquency or any delinquency with 12 months of case number assignment. <p>Collections:</p> <ul style="list-style-type: none"> ▪ If the total outstanding balance for all borrowers is less than \$2,000, a capacity analysis is not required to be performed. ▪ If the total outstanding balance for all borrowers is equal to or greater than \$2,000 at time of underwrite, lender must perform a capacity analysis. Capacity include: <ul style="list-style-type: none"> Payment in full of collection accounts, prior to or at closing, along with documentation of acceptable source of funds, Borrower makes payment arrangements, and provides proof of arrangement with payment included in DTI, or 5% of the outstanding balance of each collection account is included as monthly payment in DTI. ▪ Non-borrowing spouse collection accounts ARE included in cumulative balance. ▪ Medical collections and charge offs are excluded. <p>Judgments:</p> <p>Judgments must be paid prior to or at closing. An exception to the payoff of a court ordered judgment may be made if the borrower has an agreement with the creditor to make regular and timely payments. Provide a copy of the agreement and proof of 3 months payments made prior to credit approval. Borrowers may not prepay the scheduled payments to qualify.</p> <ul style="list-style-type: none"> ▪ If the cumulative outstanding balance of disputed derogatory accounts are greater than or equal to \$1,000, then the TOTAL Scorecard decision requires a manual downgrade if the disputed accounts contain derogatory information. Magnolia Bank Inc. does not allow manually downgraded loans. ▪ Cumulative outstanding balance of disputed derogatory accounts less than \$1,000: Manual downgrade NOT required. ▪ Disputed medical accounts, disputed derogatory accounts resulting from identity theft may be excluded from the \$1,000 limit. Identity theft documentation must be provided. <p>Disputed Derogatory Accounts defined as:</p>

<p>Derogatory Credit Cont.</p>	<p>Disputed charge-off accounts, Disputed collection accounts, and Disputed accounts with late payments in the last 24 months</p> <p>The following disputed non-derogatory accounts are not included in the \$1,000 limit: Disputed accounts with \$0 balance, Disputed accounts with late payments 24 months or older, or Disputed accounts that are current and paid as agreed.</p> <p>Tax liens</p> <ul style="list-style-type: none"> • Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt and the Borrower has made timely payments for at least three months of scheduled payments. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments. • Lender must provide proof of satisfactory payment agreement, and minimum of three months timely payments. • Lender must include the payment amount in the agreement in the calculation of the Borrower’s Debt-to-Income (DTI) ratio.
<p>Disaster Policy</p>	<p>Magnolia Bank Inc. may require a post-disaster inspection when the appraisal occurred before the incident end date of the disaster.</p>
<p>Documentation Type</p>	<ul style="list-style-type: none"> • Tax transcripts are required for each borrower whose income is utilized as a source of repayment. Transcripts must be provided for the number of years of income used to qualify the borrower. Tax transcripts are required to support the income used to qualify the borrower. Generally, when the documentation used to verify income is from the same calendar period as the tax transcript, the information must match exactly. However, if the income documentation is from the current calendar year and the transcript is from a prior year, there can be acceptable variances. If this variances exceed 20%, document the rationale for using current income. If tax transcripts are not available (due to a recent filing) a copy of the IRS notice showing “No record of return filed” is required along with documented acknowledgement receipt (such as IRS officially stamped tax returns or evidence that the return was electronically received) from the IRS and the previous one years tax transcripts. • A 4506-T, signed at application and closing, is required for all transactions • TOTAL AUS "Accept" Self Employed Borrowers (ML 2012-03): P&L and Balance Sheet required if more than a calendar quarter has elapsed since date of most recent calendar or fiscal-year end tax return was filed by the borrower- with no exceptions. • The Lender must obtain a year-to-date Profit and Loss (P&L) statement and balance sheet if more than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was filed by the Borrower. A balance sheet is not required for self-employed Borrowers filing Schedule C income. If income used to qualify the Borrower exceeds the two year average of tax returns, an audited P&L or signed quarterly tax return must be

Documentation Type Cont.	<p>obtained from the IRS.</p> <ul style="list-style-type: none"> • Additionally, if income used to qualify the borrower exceeds the two year average of tax returns, an audited P&L or signed quarterly tax returns obtained from IRS are required.
Down Payment Assistance	<p>Down Payment Assistance programs from government entities are permitted in accordance with FHA's guidelines</p> <p>*Non Profits, Trade Unions, etc. are not permitted</p> <p>*No maximum CLTV when the second is provided by a government entity.</p> <ul style="list-style-type: none"> • Secondary financing from family members allowed in accordance with FHA's guidelines. Maximum CLTV is 100%. • All other sources of secondary financing must meet FHA's requirements. Maximum CLTV is 96.5
Escrows Holdbacks	<p>Escrow holdbacks are allowed in accordance with FHA guidelines, including but not limited to:</p> <ul style="list-style-type: none"> • A post funding stipulation for a copy of a 1004D confirming completion will be placed on loans where the appraisal is "subject to" improvements. • A post funding stipulation for a final title policy endorsement that ensures the priority of the first lien will be required on any loan where the appraisal is "subject to" improvements. • A copy of the escrow agreement (HUD 92300 on FHA loans) will be required that states how the escrow account will be managed and how the funds will be disbursed.
Financing Concessions	<p>Financing concessions cannot exceed 6% of the sales price.</p>
High Cost/High Priced High Cost/High Priced Cont.	<ul style="list-style-type: none"> • Magnolia Bank Inc. will not purchase High Cost Loans <p>Higher Priced Mortgage Loans (HPML) transactions are eligible for purchase. HPML guidelines require:</p> <p>Establishment of an escrow account for taxes and insurance premiums on any transaction secured by a principal residence.</p> <p>Must meet all applicable state and/or federal compliance requirements.</p> <p>A prohibition on ARM loans with an initial fixed rate period of less than seven years (7/1 ARMs are eligible).</p>
HUD REO Transactions	<ul style="list-style-type: none"> • Owner-occupied and Non-owner occupied transactions allowed Investment properties eligible up to maximum 75% LTV for one unit, and 85% for 2-4 units. • Approve/Ineligible due to LTV/CLTV is acceptable for owner-occupied transactions only. • 110% of the estimated cost of the repairs, not to exceed \$5,500, may be included in the mortgage amount. • Title policy is required. • Full "as is" appraisal is required. • Utilities should be on at the time the appraisal is conducted, unless there is a documented extenuating circumstance. • 1004D or CIR HUD 92051 required to confirm repairs are completed, which may be provided post-funding.
Identity of Interest Transaction	<ul style="list-style-type: none"> • The maximum LTV percentage for Identity-of-Interest transactions on Principal Residences is restricted to 85%. See 4000.1 II.A.2.b.ii (A) for exceptions. • The maximum LTV percentage for a transaction where a tenant-landlord relationship exists at the time of contract execution is restricted to 85%.

<p>Identity of Interest Transaction Cont.</p>	<ul style="list-style-type: none"> • An Identity-of-Interest Transaction is a sale between parties with an existing Business Relationship or between Family Members. • Business Relationship refers to an association between individuals or companies entered into for commercial purposes. • Family Member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status: <ul style="list-style-type: none"> *child, parent, or grandparent; o a child is defined as a son, stepson, daughter, or stepdaughter; o a parent or grandparent includes a step-parent/grandparent or foster parent/grandparent; *spouse or domestic partner; *legally adopted son or daughter, including a child who is placed with the Borrower by an authorized agency for legal adoption; *foster child; *brother, stepbrother; sister, stepsister; - uncle; aunt; or *son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the Borrower.
<p>Loan Limits</p>	<p>FHA mortgage limits for all areas:</p>
<p>Loan Purpose</p>	<ul style="list-style-type: none"> • Purchase <ul style="list-style-type: none"> Includes Simple Refinances meeting FHA requirements Proceeds can be used to Pay off an FHA or non-FHA first mortgage regardless of age Proceeds can be used to pay off any junior liens related to the purchase of the subject property, or that are seasoned at least 12 months Pay related Closing Costs and Prepaid items Disburse cash out to the Borrower in an amount not to exceed \$500 • Cash Out <ul style="list-style-type: none"> LTV is based on Purchase Price if property owned less than 12 months Borrower must be 0x30x12 on the subject mortgage history Non-occupant co-borrowers may not be added in a cash out refinance transaction in order to meet FHA’s credit underwriting guidelines for the mortgage. Any co-borrower or co-signer being added to the note must be an occupant of the property. • Loans with less than 6 months seasoning are ineligible due to manual downgrade to TOTAL decision per TOTAL Scorecard User guide 2.4.2
<p>Mortgage Products, Eligible</p>	<ul style="list-style-type: none"> • Fixed Rate: 10, 15, 20, 25 & 30 year terms. • Section 203(b) Basic with ADP code of 703 • Section 234 (c) Condominiums with ADP codes of 734

Mortgage Products, Eligible Cont.	<ul style="list-style-type: none"> • CMT ARM: 5/1 (1/1/5 caps) and 7/1 (2/2/6 caps). HPML eligible for 7/1 only. (FHA High Balance ARMs are allowed) • Simple Refinances allowed in accordance with FHA's guidelines. Investment properties ineligible for ARM • For Streamline Refinance transactions, please refer to the FHA Streamline Refinance Product Profile.
Mortgages Products, Ineligible	<ul style="list-style-type: none"> • Any FHA programs/mortgage types identified in the FHA Handbook that are not specifically allowed in the Eligible Mortgage Types above, including but not limited to Energy Efficient Mortgages, Weatherization, Solar and Wind, GPM. • Temporary buydowns are ineligible.
Occupancy	<ul style="list-style-type: none"> • Owner-occupied • Investment: See HUD REO section
Property, Eligible Types	<ul style="list-style-type: none"> • Single Family Detached • Single Family Attached • 2-4 Unit Detached/Attached • PUDs • Low-rise and High-rise Condominiums (must be FHA eligible) • Rural Properties (in accordance with agency Guidelines, loans must be residential in nature)
Property, Ineligible Types	<ul style="list-style-type: none"> • Manufactured homes (built on a permanent chassis and attached to permanent foundations) • Modular Homes • Cooperatives • Condotels • Hotel Condominiums • Timeshares • Geodesic Domes • Working Farms and Ranches • Unimproved Land and property currently in litigation • 2-4 Unit properties in New Jersey, effective with commitments issued on or after 7/1/13.
Property Flipping Policy	<ul style="list-style-type: none"> • Properties resold 90 days or fewer following the date of acquisition by the seller are not eligible for FHA financing unless the loan meets the exceptions set forth in 4155.2 4.7.H. The date of acquisition is defined as date of settlement on the seller's purchase of the property. The resale date is defined as the date of execution of the sale contract by a buyer intending to finance the property with an FHA-insured loan. • Properties resold between 91 and 180 days after acquisition require a second appraisal by a different appraiser if the resale price is 100% or more over the price paid by the seller when the property was acquired.
Qualifying	<ul style="list-style-type: none"> • Fixed rate qualify at the Note rate. • 5/1 and 7/1 ARMs qualify at the Note rate.

Ratios	DU Approval
Recent Listed Properties	<ul style="list-style-type: none"> • No Cash-Out Transaction - Allowed when the property is listed for sale. The property and the borrower must be eligible and qualified for the refinance. • Cash-Out Transaction - the listing must have expired or been withdrawn prior to the application date. <p>Note: property was listed in the prior 30 days to the application date, the Early EPO provision will be extended to one year.</p>
State Restriction	<ul style="list-style-type: none"> • Texas 50 (a) (6) Refinance Mortgages are prohibited • 2-4 Unit properties in New Jersey, effective with commitments issued on or after 7/1/13.
Up Front Mortgage Insurance Premium (UFMIP)	A copy of the FHA Connection Case Query evidencing receipt of the UFMIP must be included in the loan file at the time of delivery.
Important Note	Any loan with a credit score below 640 must meet Magnolia Bank Inc. Sub 640 Over Lay.