Fannie & High BalanceGuidelines

Agency	Fannie Mae-DU Approval			Fannie Mae-DU Approval		
Finance Type	**Purchase and Rate/Term**			**Cash Out Refinances**		
Occupancy	Owner Occupied			Owner Occupied		
Term	Fixed Rate and Fixed Period ARM's			Fixed Rate and Fixed Period ARM's		
High balance and transactions with non-occupant co-borrowers are limited to 95% LTV/CLTV. High Balance Cash Out Transactions are limited to 75%	**Property Type**	**LTV, CLTV, HCLTV**	**Min Credit**	**Property Type**	**LTV, CLTV, HCLTV**	**Min Credit**
	1 Unit	FRM/ARM 97/90	620	1 Unit	FRM/ARM 80/75	620
	2 Unit	FRM/ARM 85/75	620	2 Unit	FRM/ARM 75/65	620
	3-4 Unit	FRM/ARM 75/65	620	3-4 Unit	FRM/ARM 75/65	620
	Second Home			**Second Home**		
	Fixed Rate and Fixed Period ARM's			Fixed Rate and Fixed Period ARM's		
	Property Type	**LTV, CLTV, HCLTV**	**Min Credit**	**Property Type**	**LTV, CLTV, HCLTV**	**Min Credit**
	1 Unit Purchase	FRM/ARM 90/80	620	1 Unit	FRM/ARM 75/65	620
	1 Unit Rate/Term	FRM/ARM 90/80	620			
	Investment Property			**Investment Property**		
	Fixed Rate and Fixed Period ARM's			Fixed Rate and Fixed Period ARM's		
	Property Type	**LTV, CLTV, HCLTV**	**Min Credit**	**Property Type**	**LTV, CLTV, HCLTV**	**Min Credit**
	1 Unit Purchase	FRM/ARM 85/75	620	1 Unit	FRM/ARM 75/65	620
	1 Unit Rate/Term	FRM/ARM 75/65	620			
	2 Unit	FRM/ARM 75/65	620	2 Unit	FRM/ARM 70/60	620
	3-4 Unit	FRM/ARM 75/65	620	3-4 Unit	FRM/ARM 70/60	620
Max Loan Amounts	Current Guidance is available at: https://www.fanniemae.com/singlefamily/loan-limits					

Agency	**Fannie Mae**
Ability to Repay and Qualified Mortgage Rule	• For loans subject to the ATR/QM rule, Magnolia Bank will only purchase loans that comply with the ATR/QM requirements. **Note:** Investment properties which are 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 fees 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. • See Seller Guide section "Ability to Repay and Qualified Mortgage Rule" under "Delivery Procedures" for more details.
Age of Documents	• For new and existing construction, credit documents must be no more than 120 days old 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.
Appraisals	• Determined by AUS Findings. Property Inspection Waivers, through Desktop Underwriter, are acceptable with a $75.00 delivery fee. • High Balance Loans only: A One-Unit Residential field review is required for properties valued at $1,000,000 or more and the LTV/CLTV/HCLTV is greater than 75%. *If the field review results in a different opinion of value than the appraisal, the lowest of the original appraised value, the field review, or the sales prices (for purchases) should be used to calculate the LTV ratios. Magnolia Bank will purchase loans secured by properties with “unpermitted” structural additions under the

Appraisals Cont.	following conditions: • 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: 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. • Recert of values in accordance with Fannie Mae guidelines are acceptable.
Assignment of Mortgages	All loans must be registered with MERS at time of delivery to Magnolia Bank and a MERS transfer of beneficial rights and transfer of servicing right must be initiated by the Seller, to Magnolia Bank, within 24-hours of purchase.
AUS	• Desktop Underwriter with "Approve/Eligible" Findings is required.
Borrowers Eligibility	• U.S. citizens • Permanent resident aliens, with proof of lawful permanent residence • Nonpermanent resident alien immigrants with proof of lawful permanent residence • Magnolia Bank does not accept borrowers that receive Government/Public Assistance Income (commonly known as Section 8).
Credit	• At least one borrower must have a minimum of one credit score to be eligible. • Current Housing Payment: When the payment is not reported on the credit report, provide third party verification of payment amount. If living rent free, a rent free letter from landlord or person obligated on lease required.
Condosminiums and or Puds	• Must follow Fannie Mae published Condominium Eligibility Guidelines. See https://www.fanniemae.com/singlefamily/project-eligibility for more information. • Limited Review allowed in accordance with Fannie Mae Guidelines • Limited Review for attached Condominium Units in Established Condominium Projects not located in Florida: O/O up to 90% Second Homes up to 75% N/O/O not Eligible • Magnolia Bank will not allow any project (condo, or PUD) for which the homeowners' association is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project. **Note:** Projects for which the lender determines that pending litigation involves minor matters are not considered ineligible projects, provided the lender concludes that the pending litigation has no impact on the safety, structural soundness, habitability, or functional use of the project. **The following are defined to be minor matters:** - non-monetary litigation involving neighbor disputes or rights of quiet enjoyment; - litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the association's insurance; or - the homeowners' association is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due homeowners' association dues. • Florida Condos are allowed in accordance with Fannie Mae requirements with the exception of newly converted condo projects (see ineligible section): PERS is required for new condo projects Lender full review allowed

Condosminiums and or Puds Cont.	- CPM/Limited Review: o O/O up to 75% o Second Homes up to 70% o N/O/O must follow Fannie Guidelines
Continuity of Obligation:	Continuity of obligation occurs on a refinance transaction when at least one of the borrower(s) on the existing mortgage is also a borrower on the new refinance transaction secured by the subject property. Although the following refinance transactions don't meet the definition of continuity of obligation, the new refinance transaction will be eligible and not bound by the limited eligibility parameters described below if any of the following are applicable: • The borrower on the new refinance transaction was added to title 24 months or more prior to the disbursement date of the new refinance transaction. • The lender documents that the borrower acquired the property through an inheritance or was legally awarded the property (for example, divorce, separation, or dissolution of a domestic partnership). There is no minimum waiting period with regard to when the borrower acquired the property before completing a new refinance transaction. • The borrower on the new refinance transaction has been added to title through a transfer from a trust, or a limited liability company (LLC), or partnership. The following requirements apply: - the borrower must have been a beneficiary/creator (trust) or a 25% or more owner of the LLC or partnership prior to the transfer, and the transferring entity and/or the borrower has had a consecutive ownership (on title) for at least the most recent 6 months prior to disbursement of the new loan. Note: Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement. • The borrower has been on title for at least 12 months but is not obligated on the existing mortgage(s) that is being refinanced and the borrower meets at least one of the following requirements: - has been residing in the property for at least 12 months, - has paid the mortgage for at least 12 months, or - can demonstrate a relationship with the current obligor (for example, relative or domestic partner). All other refinance transactions that do not meet either the continuity of obligation requirements or a permissible exception must comply with the following LTV, CLTV ratio restrictions regardless of the occupancy of the property. The LTV, CLTV ratios must be based on the current appraised value. • Less than 6 months on title: Ineligible • ≥ 6 months < 24 months: Limited to 50% LTV/CLTV ratios • ≥ 24 months: No additional restrictions

	Derogatory Event	Waiting Period Requirements
Derogatory Credit	**Bankruptcy — Chapter 7 or 11**	• 4 years
	Bankruptcy — Chapter 13	• 2 years from discharge date
		• 4 years from dismissal date
	Multiple Bankruptcy Filings	5 years if more than one filing within the past 7 years
	Foreclosure	• 7 years • 3 years with documented extenuating circumstances (see section below) allowed subject to: - up to the lesser of 90% LTV/CLTV or the max LTV/CLTV per the eligibility matrix, purchase of an OO, or rate and term of any occupancy • If a mortg rate and term of any occupancy the lender obtains the appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy. Otherwise, the greater of the

Derogatory Credit Cont.	applicable bankruptcy or foreclosure waiting periods must be applied. **Deed-in-Lieu of Foreclosure, Preforeclosure Sale (Short Sale), Mortgage Charge-Off** • 4 years • 2 years with documented extenuating circumstances. (Circumstance must be approved by Senior Mangagement). All transactions require a DU Approve/Eligible regardless of which time frame for the derogatory event is met, standard or extenuating circumstances.
Disaster Policy	Magnolia Bank may require a post-disaster inspection when the appraisal occurred before the incident end date of the disaster.
Documentation Type	• Determined by AUS • 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 variance exceeds 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
Down Payment Assistance	• Down Payment Assistance is allowed as long as the assistance is provided by a government entity. Evidence of the terms and provider must be included in the loan file and must meet Fannie Mae requirements. • Employer assistance is acceptable in accordance with Fannie Mae guidelines.
Extenuating Circumstances	• Extenuating circumstances are nonrecurring events that are beyond the borrower's control that result in a sudden, significant, and prolonged reduction in incomeor a catastrophic increase in financial obligations. • If a borrower claims that derogatory information is the result of extenuating circumstances, the lender must substantiate the borrower's claim. Examples of documentation that can be used to support extenuating circumstances include documents that confirm the event (such as a copy of a divorce decree, medical reports or bills, notice of job layoff, job severance papers, etc.) and documents that illustrate factors that contributed to the borrower's inability to resolve the problems that resulted from the event (such as a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns (covering the periods prior to, during, and after a loss of employment), etc.). • The lender must obtain a letter from the borrower explaining the relevance of the documentation. The letter must support the claims of extenuating circumstances, confirm the nature of the event that led to the bankruptcy or foreclosure-related action, and illustrate the borrower had no reasonable options other than to default on their financial obligations.
Eligible Mortgage Products	Magnolia Bank will only purchase the following products: • Agency Fixed Rate: 10, 15, 20, 25, 30 Year; • Agency Libor ARM: 5/1 (2/2/5 caps, 3528 ARM plan and 3187 Rider), 7/1 (5/2/5 caps, 3528 ARM plan and 3187 Rider) and 10/1 (5/2/5 caps, 3528 ARM plan and 3187 Rider).
Employment Income Verification	• For salaried employees the verbal verification of employment must be completed within 5 business days prior to the note date. • For self-employed borrowers the verbal verification of employment must be completed within 30 days prior to the note date. • For borrowers in the military, a military Leave and Earnings Statement dated within 30 days prior to the note date is acceptable in lieu of a verbal verification of employment. • Borrowers with employment contracts: borrowers must begin employment before the closing of the loan. The lender must obtain a paystub from the borrower that includes sufficient information to support the income used to qualify the borrower prior to delivering the loan to Magnolia Bank. • Mortgage Credit Certificates (MCCs) enable an eligible first-time home buyer to obtain a mortgage secured by his or her principal residence and to claim

Employment Income Verification Cont.	a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments. When calculating the borrower's debt-to-income ratio, treat the maximum possible MCC income as an addition to the borrower's income, rather than as a reduction to the amount of the borrower's mortgage payment. Use the following calculation when determining the available income: [(Mortgage Amount) x (Note Rate) x (MCC %)] ÷ 12 = Amount added to borrower's monthly income. For example, if a borrower obtains a $100,000 mortgage that has a note rate of 7.5% and he or she is eligible for a 20% credit under the MCC program, the amount that should be added to his or her monthly income would be $125 ($100,000 x 7.5% x 20% = $1500 ÷ 12 = $125). The lender must obtain a copy of the MCC and the lender's documented calculation of the adjustment to the borrower's income and include them in the mortgage loan file. For refinance transactions, the lender may allow the MCC to remain in place as long as it obtains confirmation prior to loan closing from the MCC provider that the MCC remains in effect for the new mortgage loan. Copies of the MCC documents, including the reissue certification, must be maintained in the new mortgage loan file.
Escrow Holdbacks	• Follow FNMA guidelines regarding reason, type of improvements, time to complete, quality, disbursements, and post closing documentation. • Post funding stip for 1004D confirming completion will be placed on loans where appraisal is "subject to" completion of improvements. • Post funding stip for a final title policy endorsement that ensures the priority of the first lien will be placed on loans where the appraisal is "subject to" completion of improvements. • A copy of the escrow agreement will be required to show how the escrow account will be managed and how funds will be disbursed.
Financing Concessions	• Financing concessions for primary residences and second homes must be within the following allowable percentages: - 9% of value with LTV/CLTV ratios less than or equal to 75% - 6% of value with LTV/CLTV ratios greater than 75% up to and including 90% - 3% of value with LTV/CLTV ratios greater than 90% -The maximum financing concession for investment properties is 2% of value regardless of the LTV ratio • Value is the lesser of the sales price or appraised value
Gift Funds	• Follow Fannie Mae's guidelines for gift funds. See B3-4.3-04 for additional details. • Generally, the borrower is not required to provide a 5% contribution on a 1 unit, owner occupied, standard balance purchase.
High Cost and High Priced Mortgages	• Magnolia Bank will not purchase High Cost Loans • Higher Priced Mortgage Loans (HPML) transactions are eligible for purchase. HPML guidelines require: Establishment of an escrow account for taxes and insurance premiums on any transaction secured by a principal residence. Must meet all applicable state and/or federal compliance requirements. - A prohibition on ARM loans with an initial fixed rate period of less than seven years (7/1 ARMs are eligible).
Loan Purpose	**• Purchase** - >95% LTV requires at least one borrower to be a first time home buyer. **• Limited Cash-Out/Rate & Term Refinance** >95% LTV requires the lender to document the existing loan being refinanced is owned (or securitized) by Fannie Mae. Documentation may come from any of the following: • The lender's servicing system, • The current servicer (if the lender is not the servicer), • Fannie Mae's Loan Lookup tool, or • Any other source as confirmed by the lender. Proceeds can be used to pay off a first mortgage regardless of age Proceeds can be used to pay off any junior liens related to The purchase of The subject property pay related closing costs and prepaid items - Disburse cash out to the Borrower in an amount not to exceed 2% of the new Mortgage or $2,000, whichever is less.

Loan Purpose Cont.	• **Cash Out** - 6 months seasoning required; measured from settlement date to the disbursement date of the new loan, unless delayed financing is met. - Fannie Mae's delayed financing provision is acceptable if all of the following requirements are met: • The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points (subject to the maximum LTV/CLTV ratios for the transaction). • The original purchase transaction was an arms-length transaction. • The borrower(s) may have initially purchased the property as one of the following: - a natural person; - an eligible inter vivos revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust; - an eligible land trust when the borrower is the beneficiary of the land trust; or - an LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%. • The original purchase transaction is documented by the HUD-1, which confirms that no mortgage financing was used to obtain the subject property. A recorded trustee's deed (or similar alternative) confirming the amount paid by the grantee to trustee may be substituted for a HUD-1 if a HUD-1 was not provided to the purchaser at time of sale. • The sources of funds for the purchase transaction are documented (such as, bank statements, personal loan documents, HELOC on another property). • All other cash-out refinance eligibility requirements are met and cash-out pricing is applied. Note: The preliminary title search or report must not reflect any existing liens on the subject property. If the source of funds to acquire the property was an unsecured loan or HELOC (secured by another property), the new HUD-1 must reflect that all cash out proceeds be used to pay down, if applicable, the loan (unsecured or secured by an asset other than the subject property) used to purchase the new property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction. Funds received as gifts and used to purchase the property any not be reimbursed with proceeds of the new mortgage loan. • All refinance transactions must meet Continuity of Obligation requirements
Mortgage Insurance	**Acceptable MI Types:** Borrower Paid Single Premium Lender Paid Single Premium **Unacceptable MI Types:** Lender Paid Monthly Lender Paid Annual Borrower Paid Annual Any MI type not listed as acceptable Reduced coverage
Occupancy	• Primary Residence - 1-4 units • Second Homes - 1-unit only • Investment Properties 1-4 units
Property, Eligible Types	• Single Family Detached Single Unit • Single Family Attached Single Unit • Low-rise and High-rise Condominiums (must be Fannie Mae eligible) • Rural Properties (in accordance with agency Guidelines, loans must be residential in nature) • Leaseholds • PUDs • 2–4 Unit Attached/Detached

Property, Ineligible Types	• Manufactured homes • Mobile Homes • Cooperatives • Condotels • Hotel Condominiums • Timeshares • Working Farms and Ranches • Unimproved Land • Property currently in litigation • Land Trust • Condition Rating of C5/C6 or a Quality Rating of Q6 • Homes purchased using HomeStyle Financing
Property Flipping Policy (Properties resold within 180 days of purcahse)	• Properties that involve a re-sale that occurred within the last 180 days that have a non-arms length relationship between the buyer and seller are prohibited. Time frame is established by seller's date of acquisition as the date of settlement on the seller's purchase of that property and the execution of a sales contract to another party • Lenders must pay particular attention and institute extra due diligence for those loans in which the appraised value is believed to be excessive or where the value of the property has experienced significant appreciation in a short time period since the prior sale. Magnolia Bank believes that one of the best ways lenders can reduce the risk associated with excessive values and/or rapid appreciation is by receiving accurate appraisals from knowledgeable, experienced appraisers.
Property; Maximum Number of Financed Properties	• The loan must comply with Fannie Mae's limitations on the maximum number of financed properties, including ownership interest in financed properties. Fannie Mae has imposed LTV/CLTV, minimum credit score, transaction type, reserves and other miscellaneous requirements that may not be assessed by DU. • Borrowers can have up to four Magnolia Bank serviced properties (including the subject transaction), regardless of occupancy. (Exceptions must be approved by Senior Managegment).
Ratios	• The Maximum DTI is 50% with a DU Approve/Eligible. • 5/1 ARMs are qualified at the greater of the Note rate plus 2% or the fully indexed rate. 7/1 & 10/1 ARMs are qualified at the greater of the note rate or fully indexed rate.
Recently Listed Properties	• No Cash-Out Transaction - The subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan. Borrowers must confirm their intent to occupy the subject property (for principal residence transactions). • Cash-Out Transaction - Properties listed for sale in the six months preceding the disbursement date of the new mortgage loan are limited to 70% LTV/CLTV. Properties that were listed for sale must be taken off the market on or before the disbursement date of the new mortgage loan. **Note:** If the property was listed in the prior 30 days to the application date, the Early Pay-off (EPO) provision will be extended to 1 year.
Rental Income Calculation	When the borrower has a history of owning rental property, net rental income or loss is calculated by: • The lesser of the gross rent (minus a 25% expense factor) or the market rent established by the appraiser for properties not reflected on the borrower's tax returns. • When the property is reflected on the borrower's tax returns, analyze the borrower’s cash flow and calculate the net rental income (or loss), making sure that depreciation or any interest, taxes, or insurance expenses were added back in the borrower’s cash flow analysis. • The full PITI for the rental property must be factored into the amount of the net rental income or loss. When the borrower does not have a history of owning rental property, follow the Fannie Mae requirements.
Reserves	• Primary Residence - Follow AUS findings. Required in addition to DU Required reserves.

Reserves Cont.	• N/O/O - Follow AUS findings.
State Restrictions	▪ Illinois Land Trust Vestings are not eligible for loan sale to Magnolia Bank. • Texas 50 (a)(6) refinance mortgages are eligible with Magnolia Bank Seller Approval: - Fixed Rate and 5/1, 7/1 & 10/1 ARMs - Owner-Occupied, 1 unit only - Maximum 80% LTV/CLTV - 3% fee restriction in accordance with Texas Constitution Full appraisal Required No new secondary financing loans Must comply with Fannie Mae and Texas Constitution requirements Power of Attorney not allowed