

Magnolia Bank Inc VA Overlays and Guidelines

Maximum LTV/FICO Requirements					
Purchase			Cash-Out Refinance		
LTV/CLTV	Min FICO	LTV/CLTV	Min FICO	LTV/CLTV	Min FICO
96.50%	600	100.00%	600	100%	600
Exclusive of Financed VA Guaranty Funding Fees					
See the Underwriting Section for other FICO requirements for manual underwrites					
Maximum Guaranty					
The Maximum Guaranty, when the Veteran has full entitlement, is shown in the table below:					
Loan Amount		Maximum Potential Guaranty			
up to \$45,000		50% of the loan amount			
\$45,001 to \$56,250		\$22,500			
\$56,251 to \$144,000		40% of the loan amount, with a maximum of \$36,000			
\$144,001 to \$417,000		25% of the loan amount			
Greater than \$417,000		The Lesser of 25% of the VA county loan limit; or 25% of the loan amount			
The percentage and amount of guaranty is based on the loan amount including the funding fee portion when the fee is paid from loan proceeds.					
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 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. 				
Appraisal	<ul style="list-style-type: none"> • All appraisals must be ordered through VA's TAS (The Appraisal System), which will assign the order to a VA approved Appraiser *include an interior and exterior inspection of the subject property • A notice of value for property appraised as existing or new construction is valid for six months. Rapidly fluctuating real estate market conditions may temporarily dictate the use of a shorter validity period. • No new Appraisal can be requested on a property which already has a valid VA value determination (No duplicate appraisals) Unpermitted Property Additions Penny Mac will purchase loans secured by properties with “unpermitted” structural additions under the following conditions: • The subject addition complies with all investor guidelines; 				

Appraisal Cont.	<ul style="list-style-type: none"> • 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.
Age of Documents	120 days for existing construction from the date the note is signed. 180 days for new construction.
Borrowers	<ul style="list-style-type: none"> • Must be a veteran with eligibility documented with a Certificate of Eligibility (COE), which will also indicates the Veteran's Entitlement. • Resident Alien permitted as long as primary borrower is a veteran. • Joint loans are not allowed. A veteran borrower plus spouse co-borrower is not considered a joint loan.
Buy Downs	No Temp Buy Downs
Condominiums	Condo must be approved by VA. The approval condo list is available on TAS.
Credit	<ul style="list-style-type: none"> • All borrowers must return at least 1 credit score via three-in-file merged credit report. Non-traditional credit is not allowed. If the subject property is located in a community property state and the borrower has a non-purchasing spouse, a credit report for the non-purchasing spouse must also be ordered • Cannot be delinquent on any Federal Debt unless the delinquent account has been brought current or a satisfactory arrangement has been made - Check CAIVRS • The credit of a spouse who will not be contractually obligated on the loan does not need to be considered, except: <ul style="list-style-type: none"> *if the applicant is relying on alimony, child support, or maintenance payments from the spouse (or former spouse), or *in community property states, whether or not the spouse will be personally liable on the note.
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 • All judgments must be paid in full or subject to a repayment plan with a history of timely payments.
Disaster Policy	Magnolia Bank Inc. may require a post-disaster inspection when the appraisal occurred before the incident end date of the disaster.
Documentation Type	<ul style="list-style-type: none"> • 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. If only W2 income is used to qualify, the lender may obtain W2 transcripts as long as tax returns are not included in the loan file. 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

<p>Documentation Type Cont.</p>	<p>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.</p> <ul style="list-style-type: none"> • A 4506-T, signed at application and closing, is required for all transactions.
<p>DTI</p>	<ul style="list-style-type: none"> • Any allotments reflected on the LES or paystubs must be investigated, to determine if the allotment has an affiliated debt. • In community property states, the spouse’s debts and obligations must be considered even if the veteran wishes to obtain the loan in his or her name only.
<p>Employment/ Income</p>	<ul style="list-style-type: none"> • Active Military income must be documented with a Leave and Earnings Statement (LES) • Provide an acceptable VVOE for all borrowers that are a source of repayment. • Mortgage Credit Certificates (MCCs) issued by state and local governments may qualify a borrower for a Federal tax credit. The Federal tax credit is based on a certain percentage of the borrower’s mortgage interest payment. Lenders must provide a copy of the MCC to VA with the loan package which indicates: <ul style="list-style-type: none"> *the percentage to be used to calculate the tax credit, and - the amount of the certified indebtedness. The certified indebtedness can be comprised of a loan incurred by the veteran to acquire a principal residence or a qualified home improvement or rehabilitation loan. • If the percentage on the MCC is more than 20 percent, there is an annual limit on the tax credit equal to the lesser of \$2,000 or the borrower’s maximum tax liability. Calculate the tax credit by applying the specified percentage to the interest paid on the certified indebtedness. Then, apply the annual limit. Example: The MCC shows a 30-percent rate and \$100,000 certified indebtedness. The borrower will pay approximately \$8,000 in annual mortgage interest. Borrower’s estimated total Federal income tax liability is \$9,000. Calculate the tax credit as follows: <ul style="list-style-type: none"> *30 percent of \$8,000 = \$2,400 *Apply the annual \$2,000 limit *The tax credit will be \$2,000 *Use \$167 (one-twelfth of \$2,000) in the monthly analysis. *Note: If the mortgage on which the borrower pays interest is greater than the amount of certified indebtedness, limit the interest used in the tax credit calculation to that portion attributable to the certified indebtedness. • 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>Eligible Mortgage Products</p>	<ul style="list-style-type: none"> • Fixed Rate: 10, 15, 20, 25 and 30 year terms. High Balance allowed on all terms. • CMT ARM: 5/1 (1/1/5 caps). High Balance allowed on ARMs. 7/1 ARMs are no longer allowed.

Eligible Mortgage Products Cont.	<ul style="list-style-type: none"> • Temporary buydowns are ineligible.
Entitlement	<ul style="list-style-type: none"> • Entitlement is the amount of VA Guaranty available to a Veteran for use on a loan. The amount of entitlement will be displayed near the center of the COE. • VA loans must conform to GNMA secondary market guidelines which include the minimum 25% coverage requirement. Coverage is a combination of VA provided entitlement plus cash down payment/equity. • The COE will never reflect any additional specific entitlement amount over \$36,000 for loans greater than \$144,000, but will reflect "Available"
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.
Escrows / Impounds	<p>An impound account for collection of taxes and insurance (or additional escrow items) is required.</p>
Funding Fee	<ul style="list-style-type: none"> • The Funding Fee may be financed in the loan. • The following Veterans are exempt from paying the funding fee: <ul style="list-style-type: none"> *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 *Veterans who are rated by VA as eligible to receive compensation as a result of pre-discharge disability exam and rating *Veterans entitled to receive compensation, but who are not presently in receipt of the compensation because they are on active duty
High Cost/High Priced	<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> <ul style="list-style-type: none"> *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 Limits	<ul style="list-style-type: none"> • VA Loan Limits by geographic region can be located at: http://www.benefits.va.gov/homeloans/loan_limits.asp • Maximum base loan amount cannot exceed \$1,500,000. Base loan amounts greater than \$1,000,000 must have a minimum FICO of 700. If the loan limit for a county decreased in 2015, Magnolia Bank will allow a loan using the previous higher limit if there is proof of a pre-approval based on a sales contract and URLA executed on or before December 31, 2014.
Loan Purpose	<ul style="list-style-type: none"> • Purchase • VA IRRRL - See VA IRRRL Product Profile.

Loan Purpose Cont.	<ul style="list-style-type: none"> • Rate & Term--payoff of an existing non-VA loan (and purchase money second, if applicable) *Disbursed cash out to the Borrower cannot exceed \$500 • Cash Out - Cash out funds, including non-purchase money second liens are limited to \$100k. There must be an existing lien against the property. • No Construction Loans, used to finance the construction of the subject • No Energy Efficient Mortgage Loans • No Graduated Payment Mortgages
Occupancy	<ul style="list-style-type: none"> • Owner-occupied only • Second Homes not allowed • Investment Properties not allowed
Property, Eligible Types	<ul style="list-style-type: none"> • Single Family Detached • 2–4 Unit Detached/Attached • PUDs • Condominiums • Leaseholds with proof of prior VA approval
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 • Commercial Enterprises (e.g. Bed and Breakfast, Boarding House, Hotel) • 2-4 Unit properties in New Jersey, effective with commitments issued on or after 7/1/13.
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.
Recent Listed Properties	<ul style="list-style-type: none"> • Rate & Term - the listing must have been expired or been withdrawn on or before the application date. Note: if the property was listed in the prior 30 days to the application date, the Early EPO provision will be extended to one year. • Cash-Out Transaction - the listing must have been expired or been withdrawn 180 days prior to the application date.
Reserves	<ul style="list-style-type: none"> • SFR, Reserves are not required • Verify assets to close • If using rental income from the subject 2-4 unit property, 6 months reserves required for multi unit properties.

Residual Income	<ul style="list-style-type: none"> • Residual Income is the borrower's net effective income minus monthly shelter expenses • Residual Income must be in accordance with regional table and is a required calculation in addition to DTI • Net Effective Income is taken from Line 41 of VA Form 26-6393 • Monthly Shelter Expense is taken from Line 21 of VA Form 26-6393
Sale Concessions	<ul style="list-style-type: none"> • Sales concessions cannot exceed 4% of the established reasonable value of the property (NOV). • Does not include normal discount points and payment of the buyer's closing costs .
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.
Title Insurance	Required
Underwriting Method	<ul style="list-style-type: none"> • Loans can be submitted and approved through DU or LP. • Manual underwriting on non IRRRL transactions are permitted under the following conditions: <ul style="list-style-type: none"> *660 FICO on purchase & rate/term transactions; 700 for cash out transactions *0 x 30 in the most recent 12 months for all prior mortgages *Maximum DTI of 45% *loan must comply with all VA requirements for manual underwriting - Include a copy of the AUS Refer/Eligible in the loan file
Important Note	Any loan ith a credit score below 620 must meet Magnolia Bank Inc. Sub 620 Over Lay.