

825.01: General Information (03/29/2010)

The information contained in this section represents Wells Fargo's Underwriting Guidelines for Non-Conforming Loan products. Non-conforming Conventional Loans sold to Wells Fargo should be underwritten to the standards and guidelines stated in this section to ensure salability to our investors. Where policy is not stated, Sellers should refer first to [Section 820](#) of this Seller Guide and then to the more restrictive of standard FNMA/FHLMC guidelines. Refer to [Section 805.09](#) for Direct Express, Wells Fargo's proprietary feedback tool.

Please note: A separate approval is required by Wells Fargo for clients who wish to sell Non-Conforming Loans.

825.02: Borrower - General Information (05/29/2007)

The Seller should refer to [Section 820.02](#) of this Seller Guide for specific requirements regarding Illinois Land Trusts and Living "Inter Vivos" Trusts.

825.04: Multiple Loans to One Borrower (03/29/2010)

MULTIPLE FINANCED PROPERTIES

The following guidelines apply to the number of 1-4 unit financed properties owned by all Borrowers on the Loan transaction, not just the primary Borrower.

Property Type	Then the maximum number of 1-4 Unit properties that may be financed with WFHM is:	and the total maximum number of financed 1-4 Unit properties with all lenders including WFHM is:
Primary	4	4
Second Home	Not Allowed	Not Allowed
Investment	Not Allowed	Not Allowed

PROPERTY OWNERSHIP LIMITATIONS

There are no restrictions on the number of properties that a Borrower owns free and clear.

825.05: Citizenship (06/21/2010)

SOCIAL SECURITY NUMBER – U.S. CITIZENS AND NON-U.S. CITIZENS

Each borrower on the loan transaction must have a valid Social Security number.

In addition, any borrower who is not a U.S. citizen must meet the requirements in the following section and must provide evidence of legal residency. Please refer to [Section 820.04](#) for documentation requirements.

NON-PERMANENT RESIDENT ALIENS

All non-permanent resident aliens must provide evidence of an acceptable visa. Please refer to [Section 820.04](#) for acceptable visa classes and documentation requirements.

Restrictions

All non-permanent resident aliens must have a minimum two-year history of credit and employment in the U.S. or another country. In addition, non-permanent resident aliens who meet at least one of the following requirements are generally eligible for the same financing terms as U.S. citizen:

- Minimum two-year history of residence, employment and credit in the U.S., or
- Borrowing with a U.S. citizen or permanent resident alien.

FOREIGN NATIONALS

Not allowed

DIPLOMATIC IMMUNITY

Not allowed. Refer to [Section 820.04](#) of this Seller Guide.

825.06: Income Analysis (03/29/2010)

SELF EMPLOYED BORROWERS

All self-employed Borrowers are required to provide copies of signed individual (and business if appropriate) tax returns, including all applicable schedules, for the previous two years.

Year-to-date Income/Expense Statement and Balance Sheet are also required if more than 120 days have lapsed since the last fiscal year end.

VERBAL VERIFICATION OF EMPLOYMENT

Refer to [Section 820.05](#) for Verbal Verification of Employment requirements.

825.07(a): Borrower Liquidity (09/13/2010)

LIQUIDITY REQUIREMENTS

Evidence the borrower meets Wells Fargo's reserve (post-closing liquidity) requirements for certain Non-conforming programs or parameters must be provided. Post-closing liquidity is defined as a percentage of the new loan amount.

10% post-closing liquidity, unless specified below:

- Some purchase and rate/term refinance transactions with high LTV require higher reserve levels.

Liquid assets verified to meet the reserve (post-closing liquidity) requirements may be in the form of:

- Cash equivalents (checking, savings, or money market accounts)
- 100% of the vested value of Publicly Traded Stocks, Mutual Funds and Government Securities may be used.
- Cash surrender value of life insurance (less outstanding loans, if repayment not included in debt ratio calculation)
- For borrowers who have reached the required age for non-penalty withdrawal: 70 percent of vested pension, profit sharing, 401K, or IRA (less outstanding loans)
- For purchase and rate/term refinance transactions that require at least 20 percent post-closing liquidity, half of the required reserves may come from 70 percent of vested pension, profit sharing, 401K, or IRA (less outstanding loans) for borrowers who have not reached the required age for non-penalty withdrawals
- Certain primary residence purchase and rate/term refinance transactions with low LTV allow half of required reserves to come from vested pension, profit sharing, 401K, or IRA (less outstanding loans) for borrowers who have not reached the required age for non-penalty withdrawals.
- Equity proceeds from the sale of a residence.

- Funds held in business accounts may be eligible for use if the requirements detailed in [Section 825.07\(b\)](#) are met.

The following assets are **ineligible** for purposes of meeting the minimum reserve requirement:

- For borrowers who have not reached the required age for non-penalty withdrawal: Retirement funds, including but not limited to vested pension, profit sharing, 401K, or IRA, except as noted in the asset section above
- Gift funds
- Borrowed funds
- Stock in a closely held corporation
- Proceeds from the sale of assets other than the sale of a residence
- Proceeds from a cash-out refinance transaction

825.07(b): Down Payment (09/13/2010)

MINIMUM DOWN PAYMENT

For LTV less than or equal to 80 percent, full down payment may be gifted.

CASH ASSETS FOR DOWN PAYMENT AND CLOSING COSTS

Refer to [Section 820.08](#).

USE OF CREDIT CARD FOR PAYMENT OF FEES

Refer to [Section 820.08](#).

GIFT FUNDS

For primary homes the full down payment may be from a gift when the LTV/CLTV is 80% or less.

Use of Business Funds

When a Borrower has insufficient personal liquid assets to qualify or close, but has sufficient verified funds in a 100 percent owned business, the business funds may represent an adequate source of down payment and reserves both of the following conditions are met:

- Business average annual cash flow is greater than the amount to be withdrawn/reserves.
- Cash on company year-end balance sheet for each of the previous three years is greater than the amount to be withdrawn/reserves. This information is found on line 1 of the schedule L for the Partnership, S-Corporation and the Corporation. A three-year history of a balance greater than or equal to the amount being considered for reserves or down payment is required. Two years of the schedule L will show three years of cash on hand for the company.

Full analysis of the business must consider the effect of the withdrawal of the assets and how it will impact the strength and viability of the business in the future.

The following questions need to be considered:

- What is the pattern of company cash flows? Do we have declining gross or net income?

- Do we have concerns about the type of business? Is the business experiencing a downturn?

Extreme care needs to be taken when considering business use of funds and in some cases even though a business is profitable, it may not be prudent to use the business assets in our transaction.

GROUP SAVINGS

Not allowed.

POOLED FUNDS

Not allowed

SAVING CASH TO CLOSE

Not allowed

INDIVIDUAL DEVELOPMENT ACCOUNT

Not allowed

PROCEEDS FROM SECURED LOANS

Subordinate Financing

Subordinate financing, Closed End or HELOC, is allowed subject to the guidelines in [Section 820.07\(a\)](#).

The maximum LTV/CLTV* may not exceed the guideline limits for the product and occupancy type shown in [Section 950](#).

*For **non-conforming loans**, the CLTV is calculated by adding the first mortgage amount to all subordinate financing and dividing that sum by the value of the mortgaged premises. When subordinate financing is a HELOC, the credit line limit – rather than the amount of the HELOC in use – must be used.

TRADES

Equity from trading a Borrower's existing property is acceptable after the Borrower has made a 5% cash down payment. The amount of equity is determined by subtracting the outstanding Loan balance of the property that is being traded, plus any transfer costs, from the lesser of that property's appraised value or its trade-in value, as agreed to by both parties.

A separate written appraisal for the property that is being taken in trade is required. A search of the land records to verify ownership of the property and to document if there are any existing liens on the property is also required.

SWEAT EQUITY

Not allowed

1031 TAX DEFERRED EXCHANGES

Not allowed

STOCK, BONDS, MUTUAL FUNDS, U.S. GOVERNMENT SECURITIES AND PUBLICLY TRADED SECURITIES

Allowed, refer to [Section 820.08](#).

825.08(b): Evaluating Credit Information (03/29/2010)

MINIMUM LOAN SCORE REQUIREMENTS

To be eligible for non-conforming conventional financing, Wells Fargo Funding requires a minimum Loan Score (refer to [Section 800.07](#)) of *at least* 720. Non-traditional credit is not allowed.

Additionally, a housing payment history (mortgage, rental or combination of the two) covering the most recent 12 months (minimum) with no late payments must be verified either by the credit bureau or by direct verification.

BANKRUPTCY/FORECLOSURE REQUIREMENTS

Borrowers with a bankruptcy, foreclosure, deed-in-lieu or settled-for-less proceeding discharged within the last seven years are not eligible.

825.09: Long Term Debt (03/29/2010)

PAYOFF VS. PAYDOWN

Accounts may not be "paid down" to 10 months or less to allow the Borrower to qualify. Installment or Mortgage accounts must be paid in full. Payoff of revolving accounts in order to qualify the Borrower is not allowed.

CONTINGENT LIABILITY

Please refer to [Section 820.12](#) of this Seller Guide.

BUYDOWNS

Please refer to individual product descriptions in [Section 900](#).

ARM LOANS

Please refer to individual product descriptions in [Section 900](#) and the *Qualifying Ratio Tables* in [Section 850](#).

QUALIFYING RATIOS

Please refer to the *Qualifying Ratio Tables* in [Section 850](#).

MORTGAGE CREDIT CERTIFICATES

Not allowed

825.10(a): Age of Documents (11/01/2010)

Please refer to [Section 820.13\(a\)](#) for Age of Documents requirements.

825.11: Number of Appraisals Required / Exhibit Requirements (03/07/2011)

Appraisal requirements are determined by the Wells Fargo loan amount. Appraisal and review products must be ordered through RESdirect and obtained from Rels Valuation. Only Rels Valuation products will be permitted.

Total Loan Amount Provided by Wells Fargo	Appraisal Documentation Required	
	Median Home Price <= \$200,000	Median Home Price > \$200,000
≤ \$1,000,000	One Full Appraisal	One Full Appraisal
> \$1,000,000 ≤ \$1,500,000	One Full Appraisal (1004 Form) completed by a certified appraiser and one of the following: <ul style="list-style-type: none">Collateral Consultation Review (CCR); Field Review orAnother Full Appraisal (1004 Form) completed by a Certified appraiser Loan To Value (LTV)/Combined Loan to Value (CLTV) will be based on the lower of the appraised value, the reviewed value with data verification, or the sales price).	One Full Appraisal (1004 Form) completed by a certified appraiser and one of the following: <ul style="list-style-type: none">Collateral Consultation Review (CCR); Field Review orAnother Full Appraisal (1004 Form) completed by a Certified appraiser (Loan To Value (LTV)/Combined Loan to Value (CLTV) will be based on the lower of the appraised value, the reviewed value with data verification, or the sales price).
> \$1,500,000 ≤ \$2,000,000	Two Full Appraisals (1004 Form) completed by Certified appraisers, and a Desk Review with data verification on each appraisal, completed by Rels Valuation (RELS).	One Full Appraisal (1004 Form) completed by a certified appraiser and one of the following: <ul style="list-style-type: none">Collateral Consultation Review (CCR); or

	(LTV/CLTV will be based on the lower of the reviewed value or the sales price).	<ul style="list-style-type: none"> Another Full Appraisal (1004 Form) completed by a Certified appraiser (Loan To Value (LTV)/Combined Loan to Value (CLTV) will be based on the lower of the appraised value, the reviewed value with data verification, or the sales price).
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***Note:** A full appraisal is one prepared on [Form 1004/70](#), [2090](#) or [1073](#). A PIA/PIW, [2055](#), [1075](#) or [2095](#) Summary Report is not acceptable.

All appraisals and valuation review products must be ordered by the Seller from RESdirect. Sellers are required to obtain Rels Valuation products from RESdirect.

RESDirect process

- Sellers must have an account with RESDirect www.RES-direct.com/lender and Rels Valuation. Select this link for information on how to establish an account with RESDirect.
- Once an account is established, you may access RESDirect via our *Lender's Alliance*SM website. Simply select the applicable Loan from your Wells Fargo Funding pipeline, click on the red "Order Appraisal" button at the bottom of the Loan Summary Page and you will be directed to RESDirect.
- From the RESDirect ordering site, Sellers will choose Rels Valuation as the appraisal management company.

Contact Information:

- RESDirect: www.RES-direct.com/lender or (877) 279-0234
- Rels Valuation: www.relsvaluation.com or (877) 844-8573

PROPERTY VALUE GREATER THAN \$1,000,000

For every loan secured by a property valued at more than \$1,000,000 (based on purchase price, or, for refinance transactions, the borrower's estimate of present market value as disclosed on the application), WFF requires a full appraisal on [Form 1004/70](#), [1095](#), or [1073](#) be provided (i.e., PIA/PIW or a [2055/1075](#) Summary Report is not acceptable), except for:

- Conforming (Agency salable) loans

Certified Appraiser Requirement

A certified appraiser must inspect the property and complete the appraisal for:

- Loan amounts greater than \$1,000,000, **or**
- Federal or state regulatory requirements

Appraisal Exhibits

In addition to standard exhibits required to be included as part of the appraisal report, at minimum interior photographs of the following areas of the subject is required:

- Kitchen
- All bathrooms
- Main Living area
- Physical deterioration, if present
- Recent updates, such as restoration, remodeling, and renovation if present. Recent is defined as any improvement with a material impact to the market value within the lesser of 12 months or the effective date of the appraisal or since the transfer date or the property from an unrelated party.

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825.12: Specific Property Types (03/29/2010)

ACCEPTABLE PROPERTY TYPES

Acceptable property types are:

- **All products:**
 - Single family detached or attached dwellings
 - Condominiums/PUDs.
 - Factory built except manufactured (mobile) homes
 - Cooperatives Refer to [Section 820.14\(b\)](#) for Cooperative guidelines and [Section 950](#) for LTV/CLTV limits.

UNACCEPTABLE PROPERTY TYPES

Unacceptable property types include, but are not limited to:

- 2-4 unit
- Time-share projects
- Unimproved land
- Mobile home type manufactured housing
- Condotels/Resort Condominiums

- Hotel Condominium
- New construction homes purchased through auction
- Log, earth or dome homes
- Hobby farms

AUCTION TRANSACTIONS

New Construction homes purchased through auction is not allowed, see [820.14\(b\)](#)

PROPERTY FLIP TRANSACTIONS

Not allowed

PROPERTIES WITH RESALE/DEED RESTRICTIONS

Not allowed

SPECIFIC PROPERTY LOCATIONS AND TYPES

Please refer to [Section 820.14\(a\)](#) for properties located in Lava Zones, [Section 820.14\(b\)](#) for Mixed Use Properties and Ohanas.

PROPERTIES LOCATED ON ISLANDS

The following are considerations when making lending decisions on island properties:

- Regardless of where a property is located, it must be suitable for residential use and occupancy year-round. This is the area of greatest concern and the one most critical in determining acceptability. On some islands, public and private utilities such as water and electricity are not available year round, and the properties have no central heat source. These properties are ineligible for Wells Fargo financing.
- The island should be accessible via public transportation. If a boat or ferry is the only means of access, it should be public, not private transportation. Public transportation is defined as that which is owned or controlled by local or state governing agencies or has been established for generations and is now considered public with assurance of public ownership should the business close.
- Due to location, access, and availability of utilities, the property may suffer limited marketability. Marketability must be demonstrated by sales of comparable properties.

CONDOMINIUMS

Refer to [Section 820.14\(b\)](#) for underwriting guidelines.

PLANNED UNIT DEVELOPMENTS (PUDS)

Refer to [Section 820.14\(b\)](#).

FACTORY BUILT HOUSING / MANUFACTURED HOUSING

- Factory built housing may not be part of a PUD or condo project.

- Manufactured/Mobile homes are not allowed.

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825.14: Disasters (03/29/2010)

The Seller should refer to [Section 820.19](#) and [820.20](#) of this Seller Guide.

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825.15: Eligible Transactions (03/29/2010)

RATE/TERM REFINANCES

Wells Fargo will consider transactions meeting the following criteria to be Rate/Term refinances (additional requirements apply to owner-occupied homestead properties in Texas - refer to [Section 820.40](#)):

- Payoff of the current mortgage (principal balance plus accrued interest, and any required prepayment penalty, only; other costs such as late fees and past-due amounts may not be paid with the new loan)
 - If the first mortgage is a Home Equity Line of Credit (HELOC) a copy of the HUD-1 Settlement Statement from the borrower's purchase of the subject property, or documentation of home improvements made to the property, must be provided evidencing the proceeds were used in their entirety to acquire or improve the subject property
- Payoff (as defined above) of any subordinate mortgage lien used in its entirety to acquire or improve* the subject property
- Payoff (as defined above) any other mortgage lien against the subject, provided:
 - The lien has been open at least 12 months, and
 - Total draws in the past 12 months do not exceed 2% of the new first mortgage amount
- Standard loan fees (e.g., closing costs on the new mortgage; prepaids, such as interest, taxes and insurance, etc; and points)
- Incidental cash to the borrower not to exceed 1% of the principal balance of the new loan amount

Please note: Home improvement costs may include the following:

- Materials
- Architectural fees
- Supplies

- Labor
- Liability insurance on laborers
- Installation costs (water, sewer, well, etc)
- Permits
- Non-recurring costs of obtaining financing, including origination fees, discount points, title searches, recording fees
- Temporary buydowns are not allowed

Property Listed for Sale

WFHM will not provide financing on any refinance transaction secured by a property:

- Currently listed for sale, or
- Listed for sale within the six months prior to the loan application.

CASH-OUT REFINANCES

Not allowed

PAYOFF OF INSTALLMENT LAND CONTRACT OR CONTRACT FOR DEED

The payoff of an installment land contract or contract for deed may be treated as a purchase or a refinance transaction.

The appraised value can be used to determine the LTV in a purchase transaction regardless of the remaining Loan balance if the land contract or contract for deed has been seasoned for at least two years. The Seller should also refer to [Section 820.24](#) of this Seller Guide.

NEW CONSTRUCTION

Age of Documents

The Seller should refer to [820.13\(a\)](#) of this Seller Guide.

SINGLE CLOSE CONSTRUCTION

The credit documents and the appraisal must meet the New Construction Age of Documents requirements in [Section 820.13\(a\)](#) at the time of the Loan Modification Agreement.

The actual, final acquisition cost will often be unknown at the time of underwriting; the Seller will provide a cost estimate breakdown. Final approval may be conditioned upon verification of actual acquisition cost. The final LTV will be determined by using the lower of the appraised value or final acquisition cost.

The Seller should refer to [Sections 820.34](#) of this Seller Guide.

IDENTITY OF INTEREST TRANSACTIONS

The Seller should refer to [Section 820.26](#) of this Seller Guide.

REO CONTRACTS

Allowed, see [Section 820.41](#).

MARKET CLASSIFICATION

The Seller must also check WFF Market Classification list ([Exhibit 20](#)) for all transactions. Restrictions are published in the LTV matrix for properties located on the Wells Fargo Funding Market Classification List.

Direct ExpressSM

Direct Express is Wells Fargo's online feedback tool for Non-conforming Loans. To assist Sellers in complying with these requirements, *Direct Express* will include messaging on the Feedback to identify when a subject property is located in a Market Classification as follows:

"The county of the subject property is located on the Market Classification List as a market classification 4 (or, as appropriate, market classification 3 or 2) Market. An LTV/CLTV reduction may be required. Refer to Market Classification Policy for details."

Please note: *Direct Express* does not automatically reduce the LTV/CLTV according to the new guidelines. Therefore, the Seller is required to review the LTV, CLTV, and Doc Type of the subject loan for compliance prior to delivery to Wells Fargo Funding.

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825.16: Prepaids (05/29/2007)

PREPAIDS

The Seller should refer to [Section 820.29](#) of this Seller Guide. Prepaids may be financed in a refinance transaction except on Texas Rate/Term Refis.

825.17: Contributions (03/29/2010)

CONTRIBUTION LIMITS

The maximum allowable contributions from interested parties are based on the lesser of the purchase price or appraised value.

Property Type	LTV	Contribution ¹
Primary Residence	≤80%	6%
1. Seller contributions for HOA dues must be paid directly to the Association		

825.18: Tax and Insurance Escrows (12/01/2006)

ESCROW WAIVER (IMPOUNDS)

The Seller should refer to [Section 820.31](#) of this Seller Guide.

825.20: Relocation (03/29/2010)

EVIDENCE OF SALE OF CURRENT RESIDENCE OWNED

Departure Residence Policy for Relocation Borrowers

The monthly PITI on the property pending sale does not need to be included in the monthly debt payment-to-income ratio when the mortgage file contains **all** of the following documentation:

- The borrower's executed non-contingent sales contract for the previous residence **and**
- A Lender's Commitment to the buyer of the previous residence if the executed sales contract includes a financing contingency **and**
- The greater of six months PITI, standard post-closing/reserve requirements for both properties, 10% post-close liquidity is required

The Seller does not need to include the amount of the payment on the property pending sale in the monthly debt payment-to-income ratio when the mortgage file contains the following documentation:

- An executed buyout agreement that is part of an employer relocation plan where the employer/relocation company takes responsibility for the outstanding mortgage(s)
- 10% post-close liquidity is required

The Seller should refer to [Section 820.33](#) of this Seller Guide for additional policy.

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825.23: Departure Residence Policy – Requirements for Conversion of Principal Residence to Second Home or Investment Property (02/14/2011)

Current principal residence is pending sale but will not be sold (closed) prior to the new transaction:

- Both the current and the proposed mortgage principal, interest, taxes and insurance (PITI) payments must be used to qualify the borrower for the new transaction, **and**
- The greater of six months PITI, standard post-closing/reserve requirements for both properties, or 10% post-close liquidity is required.

Existing Property Converting to Second Home

- Both the current and the proposed mortgage PITI payments must be used to qualify the borrower for the new transaction, **and**,
- The greater of six months PITI, standard post-closing/reserve requirements for both properties, or 10% post-close liquidity is required.

Existing Property Converting to Investment Property

If there is documented equity of at least 30 percent in the departure property, 75 percent of rental income may be used to offset the mortgage PITI payment in qualifying when:

- Reserve requirements are the greater of six months PITI for both properties or 10% post-close liquidity, **and**
- Rental income is documented with a fully executed lease agreement when the borrower's tax returns reflect a two-year history of managing investment properties, as evidenced by the most current two years filed and signed Federal IRS 1040 tax returns, **and**
- Proof is provided that a security deposit was received from the tenant and deposited into the borrower's account.

If rental income will not be used to offset the mortgage payment to qualify, the following reserve requirements must be met:

- The greater of six months PITI, standard post-closing/reserve requirements for both properties or 10% post-close liquidity is required.

If 30% equity in the departure property cannot be documented, or the borrower does not have a two-year history of managing investment properties as evidenced by the most current two years filed and signed Federal IRS 1040 tax returns, rental income may not be used to offset the mortgage PITI payment in qualifying **and**:

- Both the current and the proposed mortgage PITI payments must be used to qualify the borrower for the new transaction; **and**
- The greater of six months PITI, standard post-closing/reserve requirements for both properties, or 10% post-close liquidity is required.

Departure Residence Appraisal Hierarchy

The following product order should be adhered to when documenting equity position in the departure property. Users may select either product from the list below to calculate the LTV/CLTV; however, a lower level product or moving backwards in the list is not allowed. The products must be ordered through Wells Fargo Funding.

- AVM
 - Not eligible on the following property types:
 - Condominiums
 - Co-operatives
 - Manufactured homes
 - Properties located on a leasehold
- Full Appraisal

Wells Fargo Funding will require the Full Appraisal or Automated Valuation Model (AVM) documenting the current residence's equity must be dated within 60 days of the Note Date of the current transaction.