

Underwriting Guidelines

The requirements in this section apply to all Loans submitted to ALC for purchase or funding. However, agency eligible conforming Loans must meet applicable Fannie Mae and Freddie Mac requirements in addition to the requirements herein. All of the requirements of this Guide must be met unless differing.

General Information

Loan amounts greater than \$1,000,000 require ALC Investor approval. Additional conditions may result from these reviews.

ALC reserves the right to exercise its discretion in determining whether to approve a Loan.

ALC reserves the right to purchase Loans which may vary from these guidelines under separate negotiated Master Commitments and/or individual Loan exception requests. These waivers will be granted based on a variety of risk-based characteristics of each Loan.

Loans that require an exception must first be submitted for manual underwriting. Such exceptions require both underwriter approval and special pricing, as determined on a case-by-case basis.

When submitting a Loan that will require an exception, the Seller should so indicate by checking the appropriate box on *Loan Submission Form*. The ALC underwriter will submit the exception for consideration.

Income

Adequacy and Continuance of Income

Borrowers must have a history of receiving stable income from employment or other sources and a reasonable expectation that the income will continue to be received in the foreseeable future. The adequacy and continuance of income are as important as stable employment. Income may come from many different sources. Salary and wage income is the easiest to determine and verify. Income from most other sources can be considered as qualifying income as long as it is properly documented (although retained earnings in a company are not an acceptable source of income). Income received from any source that cannot be adequately verified is not acceptable for the purpose of qualifying Borrowers.

Typical sources of income that may be used for qualification purposes are discussed later in this section.

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Underwriting Guidelines, Continued

Income (continued)

Nontaxable Income

Special consideration should be given to regular sources of income that are nontaxable – such as child support payments, disability retirement payments, workers' compensation benefits, certain type of public assistance payments, food stamps, etc. Verification must be made that the particular source of income is nontaxable and that both the income and its nontaxable status are likely to continue. If they are, 25% may be added to the income to develop an "adjusted gross income," that may be used in the calculations for housing expense and total debt ratios. The adjustments made must be documented and supported when this special consideration is needed to qualify the Borrower. Nontaxable income status can be verified from IRS publications.

"Trailing" Secondary Wage Earner's Income

Expected income from a secondary wage earner may be used for qualification purposes if the following criteria are met:

- The primary wage earner has received a documented corporate relocation plan from his or her employer. A copy of the relocation agreement must be provided.
- The secondary wage earner is a relative, domestic partner, fiancée, or fiancé of the primary wage earner. A relative is the primary wage earner's spouse, child, or other dependent or any other individual who is related to the primary wage earner by blood, marriage, adoption or legal guardianship.
- The secondary wage earner intends to reside with the primary wage earner at the new location.
- The secondary wage earner was employed as a salaried employee or as an hourly wage or commissioned employee in the same profession for the last 2 years and must provide a written statement indicating his or her intention to obtain employment in the new location.
- One hundred percent of the amount of the secondary wage earner's documented income can be used to qualify as long as the secondary wage earner's income does not exceed 33% of the total qualifying income. If the secondary wage earner's income exceeds 33% of the total qualifying income, only 50% of his or her income can be used for qualifying purposes.
- The Borrowers have cash reserves (or liquid assets that are easily converted to cash) at closing equal to at least 6 months' payments for the mortgage and all other recurring debt obligations.
- Full/Alternate documentation is required.

Unacceptable Income

The following types of income are unacceptable for qualifying purposes:

- VA education payments
- Profits and retained earnings of a partnership or corporation
- Rent received from a boarder
- Income tax declared on tax returns
- Income derived from illegal activities
- Any source of income than cannot be adequately verified.

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Assets

General Requirements

The Broker must verify that the Borrower has sufficient cash deposits and other assets to complete the mortgage transaction, and also must confirm the level of reserves the Borrower will have after closing. Generally, the Borrower must have enough assets to cover the minimum required down payment that must come from his or her own funds. However, funds received from other acceptable sources can be used to supplement the minimum down payment from the Borrower's funds, to pay the Borrower's share of the closing costs and prepaid items that have to be paid by the property purchaser, and to satisfy any financial reserve requirement.

Adequacy of Financial Reserves

Financial reserves must be comprised of those liquid or near liquid financial assets that a Borrower can readily access, such as funds in the Borrower's checking or savings accounts; investments in stocks, bonds, mutual funds, certificates of deposit, and money market funds; the amount vested in a retirement savings account; the cash value of a vested life insurance policy; etc. The Borrower's access to the funds may be through drafting or withdrawing funds from an account, selling an asset, redeeming vested funds, or obtaining a loan secured by assets from the fund administrator or insurance company. Funds that have not been vested or that cannot be withdrawn under circumstances other than the account owner's retirement, death, or employment termination should not be counted as part of the Borrower's financial reserves, nor should stock held in an unlisted corporation. When the conversion of a financial asset (such as stocks and bonds) into cash is dependent on market acceptance, there must be a market demand for the specific asset.

Typical sources of funds for a Borrower's down payment, closing costs, and financial reserves are discussed later in this section.

Unacceptable Assets

The following types of assets are not acceptable sources of funds:

- Pooled Funds: Funds "pooled" with the funds of other members of an organization and that cannot be adequately verified in an account belonging to the Borrower.
- Cash-on-hand.
- Sweat equity (the value of labor contributed by the Borrower).
- Unsecured Borrowed Funds: Signature loans, unsecured lines of credit, credit card lines of credit, overdraft protection and other unsecured borrowed funds.
- Gifts of equity from the current owner of the Subject Property to the Borrower.
- Assets obtained from illegal activities.
- Any assets that cannot be verified as required herein.

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Underwriting Guidelines, Continued

Verification Documents

General Requirements

Documents used for written verifications, verbal verifications, and third-party verifications must meet the requirements of this section.

The documents must not contain any alterations, erasures, correction fluid, or correction tape.

Written Verifications

When standard verification forms are used, such as the verification of employment (VOE), verification of deposit (VOD), mortgage payment history or verification of rental payments, the forms must be sent directly from the originator to the Borrower's employer, depository, creditor or landlord and, upon completion, returned directly from that entity to the originator.

Pay stubs, Payroll Statements, W-2's

Pay stubs, payroll earnings statements, and W-2 forms must clearly identify the Borrower as the employee. Generally, they must have been computer-generated or typed by the Borrower's employer(s); pay stubs or payroll earnings statements that the Borrower downloads from the Internet are also acceptable. Pay stubs or payroll earnings statements must show the Borrower's gross earnings for both the most recent pay period and year-to-date. If these documents are "faxed" to the Broker or the Borrower downloaded them from the Internet, the documents must clearly identify the employer's name and source of information – for example, by including that information in the Internet or "fax" banner that is at the top of the document.

Tax Returns

Copies of individual and business tax returns must include the Borrowers' signature(s).

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Underwriting Guidelines Continued

Account Statements

Copies of bank statements or investment portfolio statements that cover activity in the Borrower's account(s) may be obtained directly from the Borrower. The statements may be computer-generated forms, including on-line account or portfolio statements that the Borrower obtained through the Internet. Bank statements and investment portfolio statements must clearly identify the Borrower as the account holder and include the following:

- Account number
- Time period covered by the statement
- For depository accounts, all deposits and withdrawal transactions
- For financial portfolio accounts, all purchase and sale transactions, and the ending account balance

Retirement account statements must identify the Borrower's vested amount and the terms and conditions for funds withdrawal or loans. If statements are "faxed" to the lender, or the Borrower downloaded them from the Internet, the documents must clearly identify the name of the depository or investment institution and the source of the information, by including that information in the Internet or "fax" banner that is at the top of the documents.

Age of Documentation

Verifications of employment, income, and assets must be made within 120 days before the date of the Note. Any information verified more than 120 days before the date of the Note must be re-verified through updated, written verifications.

As an exception, the verifications may be 180 days old for new construction where the Borrower has entered into a purchase contract with a builder for a home where the construction is not yet complete. In no event may the verifications be older than 180 days, irrespective of the actual completion date of the property.

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Underwriting Guidelines, Continued

Employment, Income and Asset Requirements

General Requirements

ALC offers six options for verification of employment, income and assets: Full, Stated Income, Ez Doc, No Ratio, No Income/No Asset, and No Doc. The following table summarizes the documentation requirements for each documentation type:

	Employment & Income	Assets
Full/Alternate	Fully verified	Fully verified
EZ Doc	Salaried: Verbal VOE and most recent pay stub & W-2 or IRS 4506 Non-salaried: 1 year personal & business tax returns & IRS 4506	Fully verified
Stated Income	Income stated, not verified; Verbal VOE required	Fully verified
No Income	Income neither stated not verified; Verbal VOE required	Fully verified
No Income/No Asset	Income neither stated nor verified; Verbal VOE required	Neither stated nor verified
No Doc	Neither stated nor verified	Neither stated nor verified

This section describes in further detail the requirements for each documentation type

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Underwriting Guidelines, Continued

Employment, Income and Asset Requirements (continued)

Full Documentation – Employment & Income

General requirements are specified below. Documentation requirements may vary by Loan characteristics.

I) Employment

- Borrowers must have 2 continuous years of employment with the same employer (or, if self-employed, in the same business) or an established and consistent source of income for 2 continuous years.

For self-employed Borrowers currently paid on a contract basis, less than 2 years of self-employment will be permitted if the Borrower worked in the same field prior to becoming self-employed. A copy of the Borrower's current contract(s) is required in addition to the documentation specified for self-employed Borrowers in this section.

II) Base Employment, Overtime, Commission, Bonus Income

- Documentation required:
 - Written Verification(s) of Employment; or
 - Copies of W-2(s) for the 2 most recent tax years; and
 - Copies of 2 pay stubs (the most recent and one no older than 60 days from the date of the Note) reflecting year-to-date earnings.
 - Copies of signed tax returns, including all schedules for the 2 most recent tax years are required for the following:
 - Borrowers paid on a per job/contract basis and such income represents more than 25% of the Borrower's total income
 - Borrowers receiving commission income and such income represents more than 25% of the Borrower's total income
 - Borrowers employed by the property seller, realtor, a relative or in a family business
- Base Employment Income: If earnings shown on verifications are not stated as a gross monthly income figure, the earnings must be translated into a monthly figure, using one of the following methods:
 - Dividing annual income by 12
 - Multiplying weekly income by 52, and then dividing by 12
 - Multiplying hourly income by the number of hours worked per week, then multiplying that result by 52, and finally dividing by 12.

If the Borrower is paid on an hourly basis and the hours worked each week fluctuates or the verification does not provide the number of hours worked or if it gives a range of hours, the Borrower's actual earnings for the past year and his or her year-to-date earnings should be averaged to determine the monthly gross income.

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Underwriting Guidelines, Continued

Full/Alternate Documentation – Employment & Income (continued)

- **Commission income:** Commission income may be subject to fluctuation from year to year. Therefore, an average of the last 2 years' income must be developed to determine the amount of income that may be considered for qualifying purposes.

If commission income exceeds 25% of the Borrower's total employment income, copies of signed tax returns, including all schedules, for the 2 most recent tax years are required. At least 6 months of commission income must be reported on the latest tax return. In addition, if it has been more than 60 days from the date of the last tax return, a current pay stub or 1099 must be provided to confirm that current earnings support the income on the tax returns.

It is also important to establish an earnings trend for commission income. Annual earnings that are level or increasing from one year to the next are acceptable. Any decline from one year to the next must be adequately addressed.

All un-reimbursed business expenses must be shown on IRS Form 2106.

Commission income should be calculated as follows: Total commission income for last 2 years, minus applicable business expenses divided by 24 months. The resulting amount may be used for qualification purposes unless current earnings shown on a pay stub or 1099 do not support the use of the 2-year average. In this event, the current level of commission earnings must be used.

- **Overtime and bonus income:** Overtime and bonus income can be used to qualify the applicant if the employer verifies that the applicant has received it for the last 2 years and indicates that the overtime or bonus income will in all probability continue. An average of the last 2 years' overtime and bonus income must be developed to determine the amount of income that may be considered for qualifying purposes.

It is also important to establish an earnings trend for bonus and overtime income. Annual earnings that are level or increasing from one year to the next are acceptable. Any decline from one year to the next must be adequately addressed.

- **Part-time income or second-job income:** Part-time or second-job income may be used if it can be verified as having been uninterrupted for the previous 2 years and if it has a strong likelihood of continuation. Seasonal part-time or second-job income – such as that received by a person who works part-time at a department store during the holiday shopping period – can be considered uninterrupted if the Borrower has worked in the same job "in season" for the past 2 years and expects to be rehired for the next "season."

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Underwriting Guidelines, Continued

Full Documentation – Employment & Income (continued)

III) Self-employment Income

- Documentation required:
 - Copies of signed personal tax returns for the 2 most recent tax years, including all schedules, and
 - Copies of signed business tax returns for the 2 most recent tax years, including all schedules:
 - General Partner: Form 1065 plus the applicable K1 Form(s)
 - Limited Partner: K1 Form(s)
 - Sub-Chapter S Corporation: 1120S plus the applicable K1 Form(s)
 - Corporation: Form 1120; and
 - Year-to-date Profit and Loss Statement, and
 - Current Balance Sheet
- Non-purchasing spouse: Only the income of the purchasing spouse may be used to qualify. If the Borrower and non-purchasing spouse are jointly self-employed and the self-employment income is reported on Schedule C, only 50% of such income may be used to qualify.
- Self-employment income will be analyzed and calculated in accordance with Fannie Mae guidelines.

IV) Dividend/Interest Income

- Documentation Requirements:
 - Copies of signed tax returns and all supporting schedules for the 2 most recent tax years, and
 - Copies of the most recent statement for each account
 - Copies of account statements for each account for the most recent 2-year period.
- The income must have been received for the past two years. An average of the income for the last 2 years must be developed to determine the amount of income that may be considered for qualifying purposes. Current assets less any funds used for the down payment or closing costs must support the income used for qualifying purposes.

V) Note Receivable Income

- Documentation requirements:
 - A copy of the note to establish the amount and length of payments; and
 - Copies of bank statements or signed tax returns to evidence receipt of the income for the previous 12 months.
- The income must have been received for the past 12 months and the note(s) must indicate the income will continue for at least 3 years.

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Underwriting Guidelines, Continued

Full Documentation – Employment & Income (continued)

VI.) Capital Gains

- Documentation required:
 - Copies of signed tax returns with all schedules, including Schedule D *Capital Gains and Losses* for the 2 most recent tax years.
 - Evidence of current ownership of additional assets that can provide a continuing source of capital gains income.
- The income shown on Schedule D, Capital Gains and Losses, must show that the Borrower has realized capital gains for the last 2 years. The gains must be recurring and the Borrower must provide evidence that he or she owns additional assets that can be sold. Capital gains cannot be used as qualifying income if the Borrower has not realized the gain for each of the last 2 years and cannot demonstrate that gains are reasonably expected to recur in future years.

If the recurring capital gains or losses relate to the sale of business property, the Borrower must provide a copy of the Sale of Business Property (IRS Form 4797) to support the recurring nature of the capital gains or losses. If Schedule D includes gains, losses, or principal payments on an installment sales contract, the Borrower must provide a copy of IRS Form 6252, Installment Sales Income, and a copy of the note or contract to verify that such income will be received for at least three years. If the capital gain on the principal payment and interest income from an installment sales contract is determined to be non-recurring, it must be deducted from the cash flow to determine qualifying income.

VII.) Trust Income

- Document trust income with a copy of trust agreement or letter from the trustee that specifies the amount, frequency, and duration of the trust.
- Trust income may not be used for qualifying purposes unless it will continue for at least three years.

h) Rental Income

- Documentation requirements:
- Copy of signed tax return, including Schedule E, for the most recent tax year.
- If the property(s) is not listed on Schedule E, a copy of the current signed lease(s) must be provided.
- No more than 75% of the gross rental income may be used unless the tax returns clearly support the use of a higher percentage. Depreciation should be added back to the net income or loss when on Schedule E. Unallowed losses should be deducted from the net income that is shown on Schedule E, and any loss carry-overs from previous years should be added to the net income.

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Underwriting Guidelines, Continued

Full Documentation – Employment & Income (continued)

h) Rental Income (continued)

- For investment property Loans, if the total expense ratio includes the entire payment (i.e., income from the property not considered), no documentation is required. The entire payment must be entered as Negative Cash Flow.
- Rent from boarders in a single-family property that is also the Borrower's primary residence or second home will not be considered for qualifying purposes.

i) Retirement/Pension Income

- Document corporate, government, or military retirement/pension income with one of the following documents:
 - Letter from the organization; or
 - W-2(s) for the most recent tax year; or
 - Copy of signed tax return for the most recent tax year; or
 - Two most recent months' bank statements reflecting deposit of the income.
- Proof of continuance is not required.
- If the retirement income is in the form of monthly annuity payments, or 401(k) or IRA monthly distributions, evidence must be provided that it will continue for at least 3 years.

j) Social Security/Disability

- Document social security income with a copy of the award letter or the 2 most recent bank statements to confirm regular deposit of the payments. If the Borrower is of retirement age, verification of continuance is not required. If not, a copy of the award letter is required.
- Document disability income with a copy of the award letter that specifies the agency making the payments, identifies the Borrower as the recipient of the income and contains information that indicates the date or event that will cause the income to end.
- Benefits that have defined expiration dates must have a remaining term of at least 3 years to be considered stable income.

k) VA Benefits

- Document VA benefits with a copy of a letter or distribution form from the Department of Veterans Affairs that contains the date or event that will cause the income to end.
- This income cannot be used for qualifying unless it will continue for at least 3 years.
- Education benefits may not be used for qualifying purposes because education expenses offset the income.

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Underwriting Guidelines, Continued

Full Documentation – Employment & Income (continued)

l) Unemployment or Welfare Benefits

- Documentation requirements:
 - Document unemployment or welfare benefits with a copy of letter or exhibits from the paying agency; and
 - Copies of signed tax returns for the 2 most recent tax years to establish receipt of the payments.

m) Foster Care Income

- Income received from a state or county sponsored organization for the temporary care of one or more children may be considered as acceptable income as long as the Borrower has a 2 year history of providing foster care services under a recognized program and is likely, in the foreseeable future, to continue to provide such services at a level that supports the amount of income needed for qualification.
- Foster care income may be verified by letters from the organizations providing the income, signed copies of tax returns, or copies of the Borrower's bank statements that confirm the regular deposit of payments. The documentation must verify the most recent 2-year period.
- If the income has been received for less than 24 months, it cannot represent more than 30% of the total gross income used to qualify the Borrower. If it is greater than 30%, the income may not be used.

n) Alimony Or Child Support Income

- Documentation requirements:
 - Copy of divorce decree, separation agreement, court decree, or other legal agreement that describes the payment terms, and
 - One of the following to evidence receipt of payments for the last 3 months:
 - Bank statements that reflect the payment deposit being made to the Borrower's account; or
 - Cancelled checks from the obligor; or
 - Correspondence from the court indicating payments were made through the court system.
- The income must continue for at least 3 years or it may not be used for qualification.

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Underwriting Guidelines, Continued

Full Documentation – Employment & Income (continued)

o) Automobile Allowance or Expense Account Payments

- Document automobile allowance or expense account payments with copies of signed tax returns for the 2 most recent tax years including Form Employee Business Expenses.
- Only the amount by which the Borrower's automobile allowance and expense account payments exceed his or her actual expenditures may be considered for qualification purposes.
- A 2-year average of the income may be used for qualifying purposes. However, if the calculations indicate a loss, the Borrower's total income must be reduced accordingly.

p) Mortgage Differential Income

- An employer may subsidize an employee's mortgage payments by paying all or part of the interest differential between the employee's present and proposed mortgage payments. These payments can be considered as acceptable income if the Borrower's employer verifies them in writing.
- The Borrower's employer must verify the amount and duration in writing.
- The income may not be used for qualifying purposes unless it will continue for at least three years.
- The differential payments should be added to gross income when income ratios are calculated. They cannot be used to directly offset the mortgage payment.

q) Military Income

- Documentation requirements:
 - Copy of the most recent Leave and Earnings Statement; or
 - Verification of Employment.
- Military personnel may be entitled to different types of pay in addition to their base pay. Flight or hazard pay, rations, clothing allowance, quarters allowance, and proficiency pay will be accepted as part of qualifying income as long as its future continuance can be established.

r) Assets

Refer to the subsection *Full, EZ Doc, Stated Income and No Ratio Documentation – Assets*, for information concerning verification of assets.

Limited Documentation – Employment and Income

a) Employment

Borrowers must have 1 year of employment with the same employer (or, if self-employed, in the same business) or an established and consistent source of income for 1 year.

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Underwriting Guidelines Continued

EZ Doc – Employment and Income (continued)

b) Base Employment, Overtime, Commission, Bonus, Military Income

The following documentation requirements apply when the Borrower is using only base employment, overtime, commission, bonus and/or military income for qualification purposes, is not self employed, and is not employed by the property seller, realtor, a relative or in a family business. Income will be calculated by using the gross income shown on the W-2(s) plus the year to date gross income shown on the pay stub, divided by the total number of months covered by the documentation.

- Copy of W-2 for the most recent tax year from all employers; and
 - Copy of pay stub for the most recent pay period reflecting year-to-date earnings; and
- or
- An executed IRS Form 4506 for the most recent tax year submitted to the IRS by ALC prior to Funding. Income will be calculated by dividing the gross income reported on the tax return by 12.

c) Other Types of Income

The following documentation requirements apply when the Borrower is employed by the property seller, realtor, relative or in a family business or is self-employed, or is using income other than base employment, overtime, commission, bonus or military pay for qualification purposes. Income will be calculated by dividing the gross income reported on the tax return by 12.

- Copy of signed personal tax return, including all schedules, for the most recent tax year, and
- An executed IRS Form 4506 for the most recent tax year.

In addition to the above documentation, a verbal verification of employment is required, regardless of the type of income used to qualify. Verbal verification of employment requirements:

- Salaried Borrowers: A certification, prepared and signed by the Broker, that includes the employer's name, the name and title of the person providing the information, the date the information was verbally verified, the Borrower's current employment status, date of employment, and position.
- Non-salaried Borrowers: A letter or document provided by a neutral third-party such as a Certified Public Account, regulatory agency or professional organization that indicates that the Borrower has been self-employed or has earned income from other sources for at least 2 years.
- For third party originations, the verbal verification of employment must be completed and signed by the ALC & Broker

d) Assets

Refer to the subsection *Full/Alternate, Limited, Stated Income and No Ratio Documentation – Assets*, for information concerning verification of assets.

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Underwriting Guidelines, Continued

Stated Income Documentation – Employment & Income

a) Employment

- Borrowers must have 2 continuous years of employment with the same employer (or, if self-employed, in the same business) or an established and consistent source of income for 2 continuous years.
- A verbal verification of employment is required:
 - Salaried Borrowers: A certification, prepared and signed by the Broker, that includes the employer's name, the name and title of the person providing the information, the date the information was verbally verified, the Borrower's current employment status, date of employment, and position.
 - Non-salaried Borrowers: A letter or document provided by a neutral third-party such as a Certified Public Account, regulatory agency or professional organization that indicates that the Borrower has been self-employed or has earned income from other sources for at least 2 years.
 - For third party originations, the verbal verification of employment must be completed and signed by the ALC & Broker
- A signed IRS Form 4506 may be required for some approvals.
- Borrowers whose employment or source of income cannot be verbally verified are not eligible.
- Borrowers employed by the property seller, realtor, a relative or in a family business must submit Full/Alternate or Limited documentation.

b) Income

Income stated by the Borrower on the application will be used for qualification. The Borrower must have 2 times the amount of the stated income in average balances of certain verified assets in order to qualify for stated income documentation. Only the following types of assets will be considered in meeting this requirement:

- Depository accounts (Checking, savings, certificate of deposit, money market funds)
- Stocks, bonds, mutual funds, and trust funds
- Retirement accounts (IRA, 401(k), Keogh).

The lesser of the current asset value or the average balance for a 2-month period must be used as the asset value.

c) Assets

Refer to the subsection Full/Alternate, Limited, Stated Income and No Ratio Documentation – Assets, for information concerning verification of assets.

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Underwriting Guidelines, Continued

No Ratio Documentation – Employment & Income

a) Employment

- Borrowers must have 2 continuous years of employment with the same employer (or, if self-employed, in the same business) or an established and consistent source of income for 2 continuous years.
- A verbal verification of employment is required:
 - Salaried Borrowers: A certification, prepared and signed by the Seller, that includes the employer's name, the name and title of the person providing the information, the date the information was verbally verified, the Borrower's current employment status, date of employment, and position.
 - Non-salaried Borrowers: A letter or document provided by a neutral third-party such as a Certified Public Account, regulatory agency or professional organization that indicates that the Borrower has been self-employed or has earned income from other sources for at least 2 years.
 - For third party originations, the verbal verification of employment must be completed and signed by the Broker
- A signed IRS Form 4506 may be required for some approval.
- Borrowers whose employment or source of income cannot be verbally verified are not eligible.
- Borrowers employed by the property seller, realtor, a relative or in a family business must submit Full or Limited documentation.

b) Income

Income must not be stated on the Borrower's application or any other Loan documents and is not verified.

The Loan application must be fully completed except for any reference to income. No income verification may be submitted. Loans must be originated as No Ratio Loans. Loans submitted with any reference to or documentation related to income will only be considered under Full/Alternate or Limited documentation guidelines.

c) Assets

Refer to the subsection *Asset Documentation* for information concerning verification of assets.

d) Power of Attorney

A power of attorney may not be used in conjunction with the execution of any origination or closing document on behalf of any Borrower when No Ratio, No Income/No Asset or No Doc documentation is used.

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Underwriting Guidelines, Continued

No Income/No Asset Documentation

a) Employment

- Borrowers must have 2 continuous years of employment with the same employer (or, if self-employed, in the same business) or an established and consistent source of income for 2 continuous years.
- A verbal verification of employment is required:
 - Salaried Borrowers: A certification, signed by the Broker, that includes the employer's name, the name and title of the person providing the information, the date the information was verbally verified, the Borrower's current employment status, date of employment, and position.
 - Non-salaried Borrowers: A letter or document provided by a neutral third-party such as a Certified Public Account, regulatory agency or professional organization that indicates that the Borrower has been self-employed or has earned income from other sources for at least 2 years.
- Borrowers whose employment or source of income cannot be verbally verified are not eligible.
- Borrowers employed by the property seller, realtor, a relative or in a family business must submit Full/Alternate or Limited documentation.

b) Income and Assets

Income and assets must not be stated on the Borrower's application or any other Loan documents and are not verified.

The Loan application must be fully completed except for any reference to income and assets. No income or asset verifications may be submitted. Loans must be originated as No Income/No Asset Loans.

c) Power of Attorney

A power of attorney may not be used in conjunction with the execution of any origination or closing document on behalf of any Borrower when No Ratio, No Income/No Asset or No Doc documentation is used.

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Underwriting Guidelines Continued

No Doc Documentation

a) Employment, Income and Assets

Employment, income and assets must not be stated on the Borrower's application or any other Loan documents and are not verified.

The Loan application must be fully completed except for any reference to employment, income and assets. No employment, income or asset verifications may be submitted. Loans must be originated as No Doc Loans.

b) Power of Attorney

A power of attorney may not be used in conjunction with the execution of any origination or closing document on behalf of any Borrower when No Ratio, No Income/No Asset or No Doc documentation is used.

Asset Documentation

General requirements for documentation of assets for Full/Alternate, Limited, Stated Income and No Ratio documentation are specified below.

Verification of assets is not required for:

- No Income/No Asset and No Doc documentation Loans
- Streamline Refinance Loans
- HELOCs, Closed End Seconds and Remodeler Closed End Seconds with Full/Alternate documentation.

a) Checking Account, Savings Account, Certificate of Deposit, Money Market Funds, Stocks, Bonds, Mutual Funds

- Documentation requirements:
 - Written Verification of Deposit for each account with current and average balance for the last 2 months; or
 - Copies of statements for each account for the 2 most recent months.
- The lesser of the current balance or the average balance for the 2-month period must be provided.
- Proof of liquidation of stocks, bonds, mutual funds and certificates of deposit is not required.
- For foreign national Borrowers, if assets are held in a foreign account, a copy of *The Wall Street Journal's* most recent conversion table must be included for converting the Borrower's foreign currency to U.S. dollars. Sufficient funds to close the transaction must be deposited into a U.S. bank account prior to closing and must be verified with a VOD or bank statement.

Continued on next page

Underwriting Guidelines, Continued

Asset Documentation (continued)

- For any account opened within 90 days of verification, or with a balance that is significantly greater than the previously shown balance, reliable documentation to show that the funds were not borrowed must be provided.
- In the case of joint accounts where one or more account owners are not also Borrowers, evidence must be provided that the Borrower may withdraw 100% of the account balance at any time.
- Non-purchasing spouse: Only the assets of the purchasing spouse may be used to qualify. For assets jointly held by the Borrower and the non-purchasing spouse, only 50% of the total asset value may be used for qualification purposes.

b) Stock Options

The net, after-tax proceeds from the exercise and sale of vested stock options may be used for closing funds and financial reserves when the following requirements are met:

- Documentation requirements:
 - Copy of statement that lists the number of vested options and the option price (the right to purchase stock at a set price, the “strike price”).
 - A newspaper stock list or on-line stock quote obtained through the Internet to document the current stock price. The list or quote must contain the date of the quote and such date may be no earlier than 30 days prior to the date of submission of the file to ALC.
 - An estimate of the costs that will be incurred for the exercise and sale of the stock (brokerage fees and transaction costs).
- Only the net, after-tax proceeds for vested options may be considered.

Continued on next page

Underwriting Guidelines, Continued

Asset Documentation (continued)

- Proceeds should be calculated as follows:
 - Multiply the number of vested options owned by the Borrower by the current market price shown on the stock list or quote to determine the total current market value.
 - Multiply the number of vested options by the "strike price" to determine the total purchase price.
 - Subtract the total purchase price from the total current market value to determine the gross proceeds.
 - Subtract the brokerage fees and transaction costs to determine the pre-tax proceeds.
 - Subtract 25% of the pre-tax proceeds to account for income taxes.

Example:

5,000 shares X \$25.00 current market price = current market value	\$125,000
Less 5,000 shares X \$12.00 strike price = total purchase price	60,000
Gross proceeds	65,000
Less 1-1/2% brokerage and transaction fees (1.5% of \$125,000.00)	1,875
Net pre-tax proceeds	63,125
Less 25% income taxes (25% of \$63,125)	15,781
Net proceeds	47,344

- When stock options are used for the down payment or closing costs, verification is required of the Borrower's actual receipt of the funds realized from the stock sale.
- Non-purchasing spouse: Only the stock options of the purchasing spouse may be used to qualify.

c) Cash Deposit on Purchase Contract

When the cash deposit on the purchase contract is greater than 2% of the purchase price, a copy of the canceled check or a written statement from the holder of the deposit is required. The source of the funds for the deposit must be verified with the most recent bank statement or a VOD covering a 2-month period.

d) Tax Deferred Retirement Accounts (IRA, 401(k), Keogh)

- Documentation requirements:
 - Copies of statements for each account covering the most recent 2 months
 - Documentation regarding the conditions under which the funds may be withdrawn.
- To account for withdrawal penalties and taxes, only 70% of the vested amount of the account(s) may be used. The lesser of the current vested balance or the average vested balance for the 2-month period must be provided and the lender will use 70% of the amount entered in calculating total qualifying assets.
- Loans against the account must be subtracted from amount described above.
- Proof of liquidation is required if the funds are required for the down payment or closing costs.

Continued on next page

Underwriting Guidelines, Continued

Asset Documentation (continued)

e) Net Proceeds from Sale of Real Estate

- The actual proceeds from the pending sale of real estate must be verified with a copy of the fully executed settlement statement.
- Transfer of the property must be completed prior to or simultaneous to closing on the Subject Property. Copies of sales contracts or listing agreements may not be used as verification.

f) Bridge Loan Proceeds

- Third party bridge loans are a form of second mortgage that is collateralized by the Borrower's present home. Disclosure of the loans must be provided, including the amount, term, rate, payment amount and whether it is renewable in the event the property used as security does not sell.
- Funds from such financing are acceptable provided that:
 - The payment on the bridge loan is included in the Borrower's recurring monthly debts. If the terms of the bridge loan do not require regular monthly payments, a minimum interest only payment must be calculated and used for qualification purposes.
 - The bridge loan may not be cross-collateralized against the Subject Property unless IndyMac is providing bridge funds in connection with a construction to permanent Loan.
- Documentation requirements:
 - A copy of the bridge loan note
 - A copy of the listing agreement or purchase agreement for the property being sold
 - Evidence of the deposit of the bridge loan proceeds into the Borrower's account or to the closing agent for the subject Loan

g) Secured Borrowed Funds

- Borrowed funds secured by assets may be used. Unsecured borrowed funds are not permitted.
- Documentation requirements:
 - Copies of documents that verify the terms of the loan and the fact that it is secured; and
 - Evidence of the deposit of the loan proceeds into the Borrower's account or to the closing agent for the subject Loan is required.

Continued on next page

Underwriting Guidelines, Continued

Asset Documentation (continued)

h) Trust Funds

- Documentation requirements:
 - Copy of trust agreement or letter from the trustee that specifies the amount of funds available to the Borrower; and
 - Written Verification of Deposit for each account with current and average balance for the last 2 months; or
 - Copies of statements for each account for the 2 most recent months.
- The lesser of the current balance or the average balance for the 2-month period must be provided.
- Proof of liquidation is required.

i) Life Insurance Net Cash Value

Documentation requirements:

- Copies of documents that verify the cash value of the policy, reflect the Borrower as the policy owner, show the period covered and the ending cash value and any outstanding loans; and
- Evidence of liquidation and transfer of the funds to the Borrowers account.

j) Sale Of Personal Assets Or Chattel

Documentation requirements:

- Copy of documentation evidencing the value of the asset;
- Copy of documentation to support the value of the asset;
- Evidence of the transfer of ownership (a copy of a bill of sale); and
- Evidence of the receipt of the purchase proceeds by the Borrower (deposit slip or bank statement).

Continued on next page

Underwriting Guidelines, Continued

Asset Documentation (continued)

k) Trade Equity

- Documentation requirements:
 - A copy of the appraisal for the property that is being taken in trade. If proceeds have been transferred to an accommodator, then a copy of a statement from the accommodator showing equity funds available is required instead of the appraisal;
 - A copy of the title search to verify the ownership of the property and to determine if there are any existing liens, unless funds have been transferred to an accommodator; and
 - A copy of the exchange/trade agreement; and
 - A copy of the HUD-1 for the transaction for the property that is being taken in trade.
- The Borrower must also make a 5% cash down payment in addition to the equity trade.
- The Borrower's equity contribution must be a true-value consideration. This is determined by subtracting the outstanding loan balance of the property that is being traded, plus any transfer costs, from the lesser of its appraised value or trade-in value (as agreed to by both parties).
- Transfer of the property must be completed prior to or simultaneous to closing on the Subject Property.

l) Rent with Option to Purchase

- Documentation requirements:
 - Copy of the rental/purchase agreement;
 - Copies of canceled checks to document the rental payments for the last 12 months; and
 - Evidence of market rent provided by the appraiser.
- The original term of the lease must have been at least 12 months.
- Only the portion of the rent payment that exceeds the market rent can be applied as a credit. The amount of the allowable credit must be provided.

m) Land Equity

In a Home Construction Lending construction to permanent Loan, the land equity may be applied toward the down payment.

Continued on next page

Underwriting Guidelines, Continued

Asset Documentation (continued)

n) Business Assets

Assets used for qualification and closing must be the Borrower's personal assets and not assets of the Borrower's business unless the following requirements are met:

- The Borrower must report business income as a sole proprietorship on IRS Schedule C or as an S Corporation on IRS Schedule 1120S;
- The Borrower must own 100% of the business;
- A maximum of 50% of the business assets may be used;
- Documentation must be provided to evidence the Schedule C or 1120S income, the percentage ownership interest in the business and the total amount of business assets available.

o) Gifts

Grants made to the Borrower that require repayment under any circumstances and/or require that a lien be placed against the Subject Property may not be considered gift funds. Such grants are considered subordinate financing and must meet the requirements

Gift funds are not permitted for:

- Investment property Loans;
- Closed End Second Loans
- Remodeler Closed End Second Loans
- HELOCs
- Loans with LTVs or CLTVs greater than 97%

Construction to permanent Loans – permitted for Full/Alternate and Limited documentation Loans on a case-by-case basis.

Minimum down payment requirements:

- The Borrower must make a down payment of 5% from their own funds if the LTV or CLTV for the Loan is 80.01 to 95.00%.
- The Borrower must make a down payment of 3% from their own funds if the LTV or CLTV for the Loan is 95.01 to 97.00%.
- For Loans with LTVs and CLTVs less than or equal to 80%, the entire down payment may come from a gift.

Continued on next page

Underwriting Guidelines, Continued

Asset Documentation (continued)

1) Gifts From a Relative

Note: For the purposes of this section, relative is defined as the Borrower's spouse, child, or dependent, or any other individual related to the Borrower by blood, marriage, adoption, or legal guardianship. Therefore, a gift can come from the Borrower's spouse, parent, sibling, child, grandparent, aunt, uncle, cousin, stepparent or stepchild, regardless of whether the relationship is by blood, adoption, marriage, or legal guardianship. The gift may also come from the Borrower's domestic partner, fiancée, or fiancé.

- A gift letter signed by the donor including the following information is required:
 - The amount of the gift and the date the funds were transferred;
 - The donor's name, address, phone number and relationship to the Borrower;
 - The donor must include a statement that no repayment is expected
- The gift funds must be verified in the Borrower's account (copy of recent statement or letter from the bank), or, through other evidence, that it passed through the Borrower's account (copy of certified/cashier's check to the closing agent drawn on Borrower's bank, showing the Borrower's account on which the check was drawn).
- Gifts from the property seller, realtor or other interested party to the transaction are not permitted.

2) Gifts From a Church, Municipality or Non-Profit Organization

- A copy of the letter awarding the gift or grant to the Borrower or a copy of the legal agreement that specifies the terms and conditions of the gift or grant is required.
- The document must include language indicating that no repayment of the gift or grant is expected and an indication of how the funds will be transferred (to the Borrower or the closing agent).
- If the letter or agreement specifies that the funds are to be transferred to the Borrower, the funds must be verified in the Borrower's account (copy of recent statement or letter from the bank), or, through other evidence, that it passed through the Borrower's account (copy of certified/cashier's check to closing agent drawn on Borrower's bank, showing the Borrower's account on which the check was drawn).
- If the letter or agreement specifies that the funds are to be transferred to the closing agent, a copy of the donor's canceled check or a settlement statement showing receipt of the check including the name of the payer is required.

p) Other Assets

Other assets not addressed in this section may be considered on a case-by-case basis. Adequate verification of such assets will be required.

Continued on next page

Underwriting Guidelines, Continued

Credit Report

Credit Report Requirements

Credit reports obtained by ALC meet the following standards. Credit reports for Loans that are not submitted to ALC must also meet these standards.

- Must be a three repository, merged or joint/merged credit report with Safescan (or equivalent). A merged credit report is issued by a credit repository or a consumer reporting agency or bureau and includes the credit information from the three credit repositories. A merged credit report includes all credit repository credit data for an individual Borrower. A joint merged credit report includes all credit repository credit data on two individual Borrowers that are married to each other. The consumer reporting agency or bureau should eliminate duplicate records through an automated merge process. Each consumer reporting agency or bureau may have slightly different merge logic to eliminate duplicate records.
- Credit scores must be requested from all three of the following repositories: Equifax, Experian, and TransUnion. However, in some cases, all three credit scores may not be available for each Borrower. If a score is not available, the report must reflect this fact.
- Must have no erasures, alterations, correction fluid or correction tape.
- Show the names of the national credit repositories from which the information was obtained. Separate credit repository inquiries are necessary when multiple Borrowers have maintained credit individually.
- Be issued by a consumer-reporting agency that obtains or verifies all information from sources other than the applicant.
- Present all credit data in a format that is easy to read and free of excessive coding. All codes must be clearly defined.
- Identify the full name, address and telephone number of the repository, consumer reporting agency or bureau issuing the report.
- Be delivered to the office of the requestor.
- List all inquiries made within the previous 90 days
- Include all available public records information. The legal search must disclose whether any judgments, foreclosures, tax liens or bankruptcies were discovered in the public records. Adverse items must be reported as provided under the Fair Credit Reporting Act.
- List, in all cases, the historical status of each account. This status must be in a "number of times past due" format. For example, the format of "0 x 30, 0 x 60, 0 x 90 days" late, or R1, R2, etc., (if the meaning of the ratings is given and the credit report also gives historical negative ratings, such as "was R3 in 6/84."). As long as its meaning is clear from the credit report, a consecutive numbering sequence for payment history -- such as "00010000..." is also acceptable. Statements such as "current," "as agreed," or "satisfactory" are not acceptable by themselves because they are too vague.
- Indicate the dates the accounts were last updated with the creditors.

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Underwriting Guidelines, Continued

Credit Report Requirements (continued)

- Contain all discovered credit and legal information that is not considered obsolete under the Fair Credit Reporting Act. Currently, this time frame includes all credit and legal activity that has occurred in the last seven years and any bankruptcies within the last 10 years. (The Fair Credit Reporting Act permits information related to a bankruptcy to be reported for 10 years). Reports that restrict information collection to shorter time periods are not acceptable.
- Credit reports obtained through ALC must be reviewed to ensure that they contain correct material identifying information for all Borrowers. Incorrect identifying information may result in the invalidation of the approval decision.

Age of Credit Report /New Credit Reports

ALC will obtain new credit reports under the following circumstances:

- More than 120 days have elapsed since the date of the last credit report;
- A Borrower is added or deleted;
- The order of the Borrowers on the application is changed;
- A Borrower's name or social security number is altered;
- The joint credit report flag is changed.
- For agency eligible conforming Loans, new credit may be obtained if the Borrower's current address or the property address is changed.

In addition, the date of the Note may be no later than 120 days from the date of the credit report. As an exception, the date of the Note may be no later than 180 days from the date of the credit report for new construction where the Borrower has entered into a purchase contract with a builder for a home where the construction is not yet complete. In no event may the date of the Note be later than 180 days from the date of the credit report, irrespective of the actual completion date of the property.

When a new credit report is pulled, additional credit report charges will be incurred and Loan approval and pricing may be affected.

Credit Reporting Corrections

In the event that information has been reported incorrectly to the credit repositories, it may be possible to have the information corrected and a new report obtained through ALC. Examples of the types of corrections that can be made include erroneous late payments, credit information that does not belong to the Borrower, unreported bankruptcy or foreclosure dispositions.

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Underwriting Guidelines

Underwriting Guidelines, Continued

Credit History

General Information

Credit quality standards vary depending upon other Loan characteristics. The following factors are included in determining the credit quality for each Loan:

- Number and age of trade lines
- Decision Credit Score
- Age of any bankruptcy or foreclosure
- Frequency and age of late payments
- Other derogatory credit issues such as liens, collections, judgments, charge-offs, and repossessions.

Credit is evaluated according to the above characteristics and a determination is made whether the credit profile meets the requirements for the Loan parameters requested.

Decision Credit Score

ALC uses a Decision Credit Score, along with other credit characteristics in determining Loan eligibility. The Decision Credit Score is defined below.

The credit scores for all Borrowers are considered. Select the Decision Credit Score as follows:

Step 1: Select one credit score for each Borrower as follows:

- The middle score, if three scores received;
- The lower score, if two scores received; or
- The one score received.

If there is only one Borrower, the individual credit score selected above is the Decision Credit Score. Note: If a repository produces more than one score for a Borrower, the lowest score from that repository will be used before making the selection above.

Example:

Credit Score	Borrower # 1
Equifax	785
Experian	665
Transunion	680

In this example, the middle score of 685 is selected and becomes the Decision Credit Score.

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Underwriting Guidelines, Continued

Decision Credit Score (continued)

Step 2: If there are multiple Borrowers, determine the Decision Credit Score by selecting the lowest of the individual scores selected in Step 1.

Example:

Credit Score	Borrower # 1	Borrower # 2
Equifax	720	680
Experian	660	642
Transunion	665	634

In this example, each Borrower's middle score is selected as their Individual Score. The lower of the two selected scores, **642**, becomes the Decision Credit Score.

Alternative Sources of Credit

Alternative sources of credit may be used if the Borrower does not have a sufficient credit history with a credit repository to meet minimum trade line requirements and/or a credit score cannot be produced. The Borrower should provide alternative sources as follows:

- A minimum of 3 alternative sources such as auto insurance premium payments, utility payments, or local retail credit payments.
- The alternative sources must be documented for a minimum period of 12 months, and there may not have been any delinquencies during the 12-month period.

For non-permanent resident alien and foreign national Borrowers, a credit report is required if available. If a credit report and/or a credit score cannot be produced due to insufficient reported trade lines, the Borrower should provide alternative sources as follows:

- Three original bank reference letters from financial institutions located in the country of origin; or
- One original credit reference letter from a large, internationally known financial institution.

The credit letter(s) should provide information concerning the Borrower's 2-year credit history. The credit reference letter(s) must indicate no adverse credit.

Mortgage & Rent Verification

The Borrower's payment history for all existing mortgages must be verified. For Borrowers who currently rent, the rental payment history must be verified. The payment history must consist of the most recent 12 months' payments.

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Underwriting Guidelines, Continued

Mortgage & Rent Verification (continued)

Acceptable methods of verification include any one of the following:

- A 12 month payment history contained in the credit report; or
- Written Verification of Mortgage/Rent; or
- Mortgage payment history; or
- Copies of canceled checks to cover the most recent 12-month period for mortgage and/or rental payments

A mortgage payment history must:

- Be computer-generated or typed (not handwritten)
- Identify the issuing company (lender or servicing agent)
- Clearly identify the Borrower and the mortgage
- Show the total mortgage payment due
- Show the due date of each payment
- Show a 12-month history of the dates when payments were applied
- Show the current outstanding principal balance

Copies of canceled checks must:

- Be legible
- Show the bank endorsement for deposit
- Show the date of bank endorsement
- Identify the mortgage servicer or landlord as payee
- Be copied, front and back

Changes or strikeouts on original documentation are unacceptable. A new verification must be obtained if any alterations appear.

Verification of Other Liabilities

In some cases, the payment history for obligations other than rent and mortgages that are not contained in the credit report must be verified by direct verification. ALC will specify such verification when required.

Age of Verifications

The date of the Note may be no later than 120 days from the date of any mortgage, rent or other liability verification. As an exception, the date of the Note may be no later than 180 days from the date of any verification for new construction where the Borrower has entered into a purchase contract with a builder for a home where the construction is not yet complete. In no event may the date of the Note be later than 180 days from the date of the verifications, irrespective of the actual completion date of the property.

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Underwriting Guidelines, Continued

Delinquent Accounts, Liens, Judgments, Collection Accounts and Charge-Offs

All liens, judgments, collection accounts, charge-off accounts and accounts that are delinquent must either be brought current or paid in full prior to or at closing and funds sufficient to settle the accounts must be verified and documented. Exceptions to this requirement:

- Collections and charge-offs up to \$250 per account, or collections and charge-offs up to \$1,000 in aggregate do not have to be satisfied. Further exceptions to the requirement for satisfaction of collection and charge off accounts may be considered on a case-by-case basis at the sole discretion of ALC. Such exceptions will require the review of the reason for the non-payment of the debt, the Borrower's credit history, income and assets.
- If the Borrower has made formal, written arrangements for the repayment of liens or judgments, including IRS and state tax liens, such arrangements will be considered subordinate financing when all of the following conditions are met. These provisions apply to both purchase and refinance transactions.
- The judgment or lien will be subordinated to the subject ALC mortgage. A recorded subordination agreement will be required. Title evidence must show that the lien is subordinate to the ALC mortgage.
- A copy of the re-payment plan, fully executed by all parties must be submitted in the Loan file.
- The Loan may not be a No Income/No Asset or No Doc documentation Loan.
- The Loan may not be an agency eligible conforming Loan.

Bankruptcy and Foreclosure Actions

Bankruptcy actions must be fully discharged or dismissed.

No properties that the Borrower owns may be in the process of foreclosure.

In most cases, the Borrower must have cash reserves composed of acceptable assets at closing equal to 1 to 6 months' payments for the mortgage and all other recurring debt obligations. The required number of month's reserves is dependent upon other Loan characteristics.

Proceeds from the subject Loan may not be used in determining whether minimum reserve requirements have been met except for Full, Limited and Stated Income documentation Loans that meet the following requirements:

- Primary Residence only
- Decision Credit Score greater than or equal to 680

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Underwriting Guidelines, Continued

Income Ratios

ALC will consider housing to expense ratios and total debt ratios, along with other Loan characteristics in determining Loan eligibility.

Housing Expense-to-Income Ratio

The housing expense-to-income ratio is calculated by dividing the total qualifying income for all Borrowers by the total housing expense payments for all Borrowers, expressed as a percentage. Monthly housing expense includes the following:

a) Primary Residence Loans

- Principal and interest payments on the subject Loan (based on the qualifying rate for ARM and temporary buydown Loans);
- Property hazard and flood insurance premiums;
- Real estate taxes. The calculation of the monthly tax payment must be based upon the following, unless evidence is provided that a different rate is applicable.
 - Properties in California:
 - Purchase transactions – an annual rate of 1.25 % of the purchase price must be used.
 - Refinance transaction – the current tax rate shown on the preliminary title report or a copy of the Borrower's most recent tax bill.
 - Properties in other states:
 - Permanent home Loans – the current tax rate shown on the appraisal report or title binder or commitment must be used. In the case of refinance transactions, a copy of the Borrower's most recent tax bill may be used.
 - For construction to permanent Loans, an annual rate of 2.5% must be used.
- Mortgage insurance premiums;
- Leasehold payments;
- Homeowner's Association dues, condominium or co-operative unit maintenance fees (excluding unit utility charges);
- Payments for subordinate financing, including home equity lines of credit that provide for a monthly payment of principal and interest or interest only;
- Payment on the 1st mortgage, if the subject Loan is a second mortgage;
- Monthly rent or mortgage payment for any non-occupant co-Borrower (principal, interest, taxes, and insurance, and, when applicable, leasehold payments, homeowner association dues, condominium maintenance fees, etc.)

Continued on next page

Underwriting Guidelines, Continued

Income Ratios (continued)

Housing Expense-to-Income Ratio (continued)

b) Second Home and Investment Property Loans

The Borrower's monthly primary residence expense, which includes: monthly rent or mortgage payment (principal, interest, taxes, insurance, leasehold payments, homeowner association dues, condominium maintenance fees, payments for subordinate financing, etc.)

Total Debt-to-Income Ratio

The total debt-to-income ratio is calculated by dividing the total qualifying income for all Borrowers by the total monthly recurring debt payments for all Borrowers, expressed as a percentage. Total month debt includes the following:

a) Monthly Housing Expense.

b) Revolving Charge Accounts. Monthly payments on revolving or open-end accounts, regardless of the balance must be included, including those revolving debts that will be paid off at or prior to Loan closing. If the credit report does not show a required minimum payment amount, 5% of the outstanding balance shown on the credit report will be considered to be the required monthly payment.

c) Installment Debt. Payments on all installment debts with more than 10 months of payments remaining must be included. The monthly payment for installment debts with deferred payment options, such as those available with student loans or retail purchase accounts, or loans in forbearance must be included. If the credit report does not indicate the monthly payment that will be payable at the end of the deferment period, a copy of the Borrower's payment letter or forbearance agreement must be provided to determine what payment amount to use in calculating the Borrowers total monthly obligations.

d) Lease payments. Because the expiration of a lease agreement for rental housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle, lease payments must always be considered a recurring monthly debt, regardless of the number of months remaining on the lease.

e) Payments on Real Estate. When the Borrower owns mortgaged real estate (other than investment properties), the full mortgage payment (principal, interest, taxes, insurance, homeowner association dues, etc.) that the Borrower is obligated to pay is considered as part of the Borrower's recurring monthly debts. There is no need to add the full mortgage payment for an investment property to the Borrower's monthly obligations since it is already factored into the net monthly rental income (or loss) amount.

Continued on next page

Underwriting Guidelines, Continued

Income Ratios (continued)

Total Debt-to-Income Ratio (continued)

f) Negative Net Rental Income. Aggregate negative net rental income from all investment properties, including the Subject Property, if applicable, must be included.

g) Alimony, Child Support, or Maintenance Payments. When the Borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement and those payments must continue to be made for more than 10 months, the payments must be included in the Borrower's recurring monthly debts. However, voluntary payments need not be included. A copy of the divorce decree or separate maintenance agreement will be required to verify the amount and term of payments.

Exclusion of Obligations

Payments for certain obligations may be excluded from the Borrower's recurring monthly debts under the following conditions:

a) Payments on Homes To Be Sold – Home Construction Lending Transactions

For Home Construction Lending construction to permanent Loans, if the Borrower has a home to sell prior to occupying the home under construction (the Subject Property), payments for the current home need not be included in the Borrower's recurring monthly debts as long as a the Borrower's intention to sell the current residence is evidenced by a signed letter of intent or a copy of the listing agreement.

If the Borrower intends to retain and rent their existing residence, a Single Family Comparable Rent Schedule (Fannie Mae Form 1007 / Freddie Mac Form 1000) must be provided. The net rental income (positive or negative) will be calculated by using 75% of the market rent less the new PITI payment.

b) Employer Relocation Buyout

The Borrower's previous housing payment may be excluded from the Borrower's recurring monthly debts as long as a copy of an executed buyout agreement that is part of an employer relocation plan where the employer/relocation company takes responsibility for the outstanding mortgages(s) is provided. The agreement must be fully executed and expressly state that the employer/relocation company has taken full responsibility for all payments on the home.

c) Cosigned Loans

When a Borrower cosigns for a loan to enable another party (the primary obligor) to obtain credit – but is not the party who is actually repaying the debt – the Borrower has a contingent liability. To exclude payments for such contingent liabilities, copies of the 12 most recent months' cancelled checks showing payments made by the primary obligor are required. The primary obligor must have made at least 12 payments. If the primary obligor has a history of delinquent payments, the payment must be included in the Borrower's recurring monthly debts.

Underwriting Guidelines, Continued

Exclusion of Obligations (continued)

d) Property Settlement "Buyout"

When a Borrower's interest in a property is "bought-out" by another co-owner of the property (as often happens in a divorce settlement), but the lender does not release the Borrower from liability under the mortgage, the Borrower has a contingent liability. Such liabilities need not be included as part of the Borrower's recurring monthly debts as long as a copy of the recorded transfer of title to the property has been provided.

e) Mortgage assumption

When a Borrower sells a mortgaged property that he or she owns and the property purchaser assumes the outstanding mortgage debt without a release of liability, the Borrower has a contingent liability. To exclude payments for such contingent liabilities, evidence of the transfer of ownership and a copy of the formal, executed assumption agreement must be provided.

f) Court-Ordered Assignment of Debt

When a Borrower has an outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement) and the creditor does not release the Borrower from liability, the Borrower has a contingent liability. In such cases, the payment(s) need not be included in the Borrower's recurring monthly debts as long as a copy of the court order is provided.

g) Loans Secured By Financial Assets

When a Borrower uses his or her financial assets – life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc. – as security for a loan, the Borrower has a contingent liability. In such cases, the payment(s) need not be included in the Borrower's recurring monthly debts. If the Borrower intends to use the same asset to satisfy asset requirements for closing or reserves, the value of the asset must be reduced by the proceeds from the secured loan and any related fees.

h) Business Debt In Borrower's Name

When a self-employed Borrower claims that a monthly obligation that appears on his or her personal credit report is being paid by the Borrower's business, the Borrower has a contingent liability. To exclude payments for such contingent liabilities, copies of the 12 most recent months' cancelled checks showing payments made by the business are required. When the account in question has a history of delinquency, the debt must be included in the Borrower's recurring monthly debts.

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Underwriting Guidelines, Continued

Payment Shock

One of the strongest indicators of a Borrower's capacity to repay a mortgage is their past record of handling housing expenses. The current level of housing expense, which is verified through a mortgage or rental payment history, is compared to the proposed new obligation.

Payment shock is defined as the percentage increase from the current payment to the new payment. It can be calculated as follows:

[PITI Payment for new Loan – current housing expense] / current housing expense (multiplied by 100 and stated as a percent)

ALC will consider any increase in the Borrower's housing expense along with other factors such as LTV and the adequacy of the Borrower's reserves after closing in determining eligibility.