

WHOLESALE ANNOUNCEMENT

DATE: March 26, 2008
MEMO TO: All Brokers/Correspondents
RE: Policy Updates

DECLINING/SOFT MARKET GUIDELINES:

Market conditions continue to require increased consideration before maximum financing can be deemed appropriate therefore we are implementing the following guidelines effective immediately.

A property is determined to be in a declining market if any of the following conditions are present:

1. The appraisal indicates a declining market ;
2. DU indicates a declining market message;
3. The property county is on McCue Mortgage's At risk List (list available on the wholesale website)

All conventional loans secured by properties determined to be in a declining market are ineligible for maximum financing. A minimum LTV/CLTV/HTLTV reduction of 5% from the loan program maximum financing LTV/CLTV/HTLTV will be required and the additional appraisal review followed. FHA/VA loans are not subject to the LTV/CLTV/HTLTV reduction but do require the additional appraisal review.

Additional Appraisal Review:

In order to determine that the property value is supported, especially for properties located in a declining area, the following criteria is required:

- At least two of the comparable sales must have been closed within three months of the appraisal
- At least one additional comparable that is a pending sale from the immediate neighborhood.

If the appraiser is unable to provide this data, the appraiser must provide supportive comments identifying why this information cannot be supplied and whether there is any impact on value or marketability of the property as a result.

Refinance Guidelines

When in a Flat or Rising rate environment the underwriter should understand the motivation and benefit to the borrower of any refinance.

Title Changes:

If the original borrower(s) will not be the same with the new refinance please contact your underwriter to review the scenario. Both agencies and FHA have specific requirements relating to title changes. In addition ADDING someone on a refinance requires at least one person with continuity of title for both FHA and Agency loans.

When a borrower has been transferred into title and is attempting to refinance the previous owner's

mortgage to obtain financing in his own name, the transaction presents red flags similar to those of a flip transaction. This type of scenario is generally not acceptable. Please call your underwriter to review your scenario.

Loan Churning:

Loan churning identified by the rapid refinance or transfer of a property is not eligible for sale to most investors or agencies. Any third refinance within the last consecutive 12 month period requires documentation of the financial benefit to the borrower.

IDENTITY OF INTEREST GUIDELINES

Definitions:

Non Arm's Length Transaction is one where the parties to the transaction are related – such as family members or employer/employee.

Identity of Interest Transaction involves persons who are not related or closely tied but may have a greater vested interest in the transaction such as realtor selling their own property or a builder also acting as the realtor.

Both of these types of transactions involve increased risk therefore additional precautions must be taken to evaluate and prudently underwrite for that risk. On a case by case basis, non arm's length OR identity of interest may be considered when the borrower is purchasing the property as a primary residence. Loans for Investment or Second Homes are not eligible for either scenario. Please call your underwriter to review your scenario. Family sales that involve a gift of equity will require that the borrower has saved 5% of their own funds.