Non-Prime Mortgage Securities: *An Industry Overview*

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This article is designed to give an overview of the non-prime industry, primarily using data from Option One Mortgage, a national residential lender and division of H&R Block. There is no central source for industry data, but it is fair to say that Option One reflects trends in the overall non-prime industry unless otherwise stated.

Today more Americans than ever enjoy the benefits of homeownership, 69% according to the National Association of Realtors, and there are also more minority homeowners than ever before (49% of African Americans, 47% of Hispanics, 58% of Asians, Pacific Islanders, and Native Americans). Low interest rates are clearly a large factor, but the non-prime mortgage industry has played a major role in this expansion of the American dream as well, particularly over the past 5 to 10 years as the industry has successfully extended credit to millions in underserved markets.

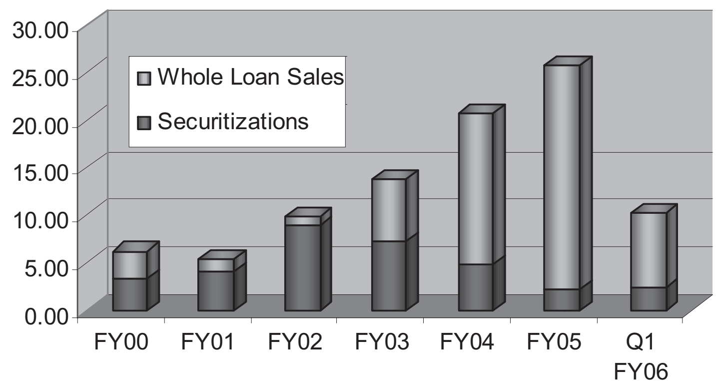
At the core of this decade of change is loan securitization. Making mortgage loans to those with less than stellar credit or other non-conventional characteristics, such as the self-employed, used to be the purview of finance companies: portfolio lenders that made loans for everything from furniture to homes. But there was a change in the market when a new type of independent non-prime mortgage lender saw an opportunity to create a better product at a better price to the customer and still enjoy an attractive profit. They did this by financing loans through securitization, which gave them almost an unlimited source of funding. Borrowers, some of whom were not able to get loans at all in the past, responded to these companies' competitive offerings and the non-prime mortgage business grew into what is now a sophisticated $600 billion industry* fueled by investors seeking high-quality instruments that offer predictable performance and an excellent return.

While non-prime mortgage lenders began securitizing loans early on, the wide acceptance of credit scores in the mid-to-late 1990s increased the ability for both lenders and investors to assess risk. This increased the market for non-prime securitizations, thus providing more liquidity for non-bank lenders to expand their business successfully. While prime lenders (which are usually banks and other traditional financial services companies) typically sell the bulk of their production to Fannie Mae or Freddie Mac, non-prime lenders securitize the bulk of their production in the asset-backed securities (ABS) market.

There are two main reasons for this. One, most non-prime products are adjustable-rate mortgages and these loans typically do not qualify for purchase under agency guidelines. These are sold to investors as floating-rate securities that typically carry a higher yield compared to other ABS securities. Second, non-prime mortgages provide consistent loan performance because of their highly predictable pattern of prepayments and defaults.

EXHIBIT 1
Capital Market Disposition

Non-prime Volume in $Billions-Fiscal Year (May 1-April 30)



	FY00	FY01	FY02	FY03	FY04	FY05	Q1 FY06
Securitization	54%	77%	89%	59%	24%	8%	23%
Whole Loan	46%	23%	11%	41%	76%	92%	77%

Non-Prime only

Unlike the prime market, where a drop in interest rates leads to a refinance boom, in the non-prime market prepayments are based primarily on the age of the loan. A major factor in this is the prepayment charge. A large percentage of non-prime loans, 70% at Option One, have a two- or three-year prepayment charge, which has the effect of limiting the amount of loans that prepay during that two- or three-year time frame. Lenders provide borrowers a reduced interest rate, usually 1% or 100 basis points less for accepting a prepayment charge and in return get a more marketable product for investors.

Non-prime securitizations also provide numerous levels within the credit spectrum for investors to participate based on yield requirements and risk tolerance ("AAA" down to "BB"). Although investors range from banks to insurance companies to pension funds, the largest investors in non-prime securities are Fannie Mae and Freddie Mac. Non-prime lenders structure securitizations at the "AAA" level specifically for Fannie and Freddie with loans that fit into their required point and fee structures and are within their loan-amount ceilings. Working with the non-prime sector allows Fannie and Freddie to round out their range of borrowers while continuing their mission of creating liquidity in the market that makes it possible for low-, moderate-, and middle-income families to buy homes.

While non-prime lenders create leading-edge products and have flexible underwriting guidelines to attract borrowers, this is always done with investors in mind as illustrated above with the prepayment charge. Some of the industry pioneers have many years of experience in non-prime lending with a wealth of data on how loans perform under a variety of market circumstances, lending criteria, and servicing models. Through sophisticated risk management, non-prime lenders are making loans to increasingly more reliable borrowers and are servicing the loans more effectively to ensure timely payment. This creates consistent quality loan pools, thus producing highly rated investments.

NON-PRIME SECURITIZATION

Non-prime mortgage securities are considered asset-backed securities, but are in a separate class from prime loans. Non-prime securities are made up primarily of first-lien mortgages, which are sometimes known as home equity loans (HEL). Non-prime lenders make few stand-alone, second-lien loans. The small percentage of seconds in a non-prime securitization (approximately 5% at Option One) usually come from stacked loans—80/20 or 90/10 loans—often used for home purchase.

Non-prime lenders typically create bonds in a senior-subordinated structure with classes ranging from "AAA" to "BB." Bonds include a mix of loans at various prices with the risk to the investor managed in the senior-subordinate structure. The industry also uses over-collateralization, excess spread, performance triggers, and sometimes mortgage insurance, and/or external insurance to enhance its offerings.

Non-prime lenders also sell their loans to third-party investors in what are referred to as whole loan sales. Some, like Option One, sell a mix of whole loans and securitizations in varying ratios to capitalize on the market situation. For example, in fiscal year 2005, 91% of Option One's loan sales were whole loans and just 9% were securitization, whereas the opposite was true in 2002. Option One's capital markets disposition is illustrated in Exhibit 1.

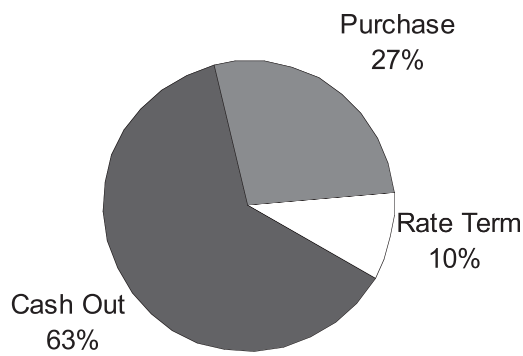
With both whole loan sales and securitizations, the originating lender often retains the servicing. Non-prime servicing, which is significantly more intensive than prime loan servicing, is discussed later in this article.

EXHIBIT 2
Option One Borrower Profile

	2002 Fundings	2004 Fundings	Since Inception
Average Age	43.17	43.02	43.21
Annual Income	$60,999	$64,459	$60,591
Years in Home	6.34	6.59	6.19
Years in Job	7.48	7.27	7.32
Years in Profession	11.14	10.78	11.00
Property Type (SFR and PUD)*	85%	85%	85%
Year Home Built	1959	1963	1970
Average Square Feet	1693	1679	1679
Average Number of Bedrooms	3.3	3.3	3.3
Average Number of Bathrooms	1.8	1.9	1.8

* SFR = single family residence and PUD = planned unit development

EXHIBIT 3
Purpose of Loan Stated By Option One Borrowers in 2004



NON-PRIME CHARACTERISTICS

Non-prime loans are originated through two primary channels, direct and indirect. In the direct channel, the non-prime lender works with borrowers in person or via the phone through retail offices or online. In the indirect channel, the lender works through brokers serving as an intermediary between a variety of lenders and the borrower, or through a financial institution as their provider of non-prime loans.

One of the common misunderstandings of those outside the non-prime industry is who exactly is the non-prime borrower. Non-prime borrowers look very much like prime borrowers except for the fact that they may be carrying higher debt loads, may be unable or unwilling to prove all of their income, may be carrying higher debt loads, may have had some credit problems in the past due to one of the "four Ds" (death, disability, divorce, dismissal from job), or may simply not manage their money well. Option One is able to offer products to borrowers with credit scores as low as 500.

The non-prime borrower is probably one of your neighbors. It is estimated that 10% to 20% of loan originations are to non-prime borrowers. Also, the non-prime borrower is not necessarily a person with low income. Average household incomes exceed $60,000 annually for Option One customers and loan sizes can go well over $1 million for many originators. Exhibit 2 shows Option One's borrower profile.

The non-prime borrower is also part of an overall trend in the use of home equity for financing other purchases, particularly in this period of escalating home values. These are often investments such as sending their children to college, improving their home or starting businesses. Exhibit 3 shows the purpose of loans stated by Option One borrowers.

Because non-prime borrowers do not typically have the liquid assets of prime borrowers, they are more likely to use the equity in their homes. This makes them less interest-rate sensitive than prime borrowers. While the rate of prime refinancing will decrease as interest rates rise, non-prime refinancing is expected to be more consistent. This, combined with the fact that people will always have life events that cause financial difficulties, makes non-prime securities a viable market to investors over the long term.

Although each lender has its own mix of products, it is fair to say that the majority of non-prime loans are adjustable rate mortgages (ARMs). In fact, at Option One, just over 70% of loans are two-year ARMs (fixed rate for 2 years and adjustable rate thereafter) and have been for the majority since 1997. Most non-prime borrowers are seeking ways to reduce their interest rate, and ARMs help keep the loan price down. Another reason for the product's popularity is that borrowers who do have credit issues can use their non-prime loan to build a strong credit record, which usually takes two years, and then move on to a prime loan. Brokers often use this as a selling point, and then have the opportunity to provide additional services at the end of the fixed-rate period. For more details on loan characteristics, see Exhibit 4.

RISK MANAGEMENT IN NON-PRIME ORIGINATION

The core of risk management in non-prime lending is taking extra steps to understand borrowers and assess risk. In contrast, prime lenders make loans only to borrowers that fit clearly into the limited Fannie Mae and Freddie Mac specifications. While non-prime lenders also have guidelines within which borrowers are required to fit, they are more likely to balance risk factors against one another and take extra steps to learn about the borrower. This helps lenders develop a broader and more accurate assessment of a borrower's ability to repay.

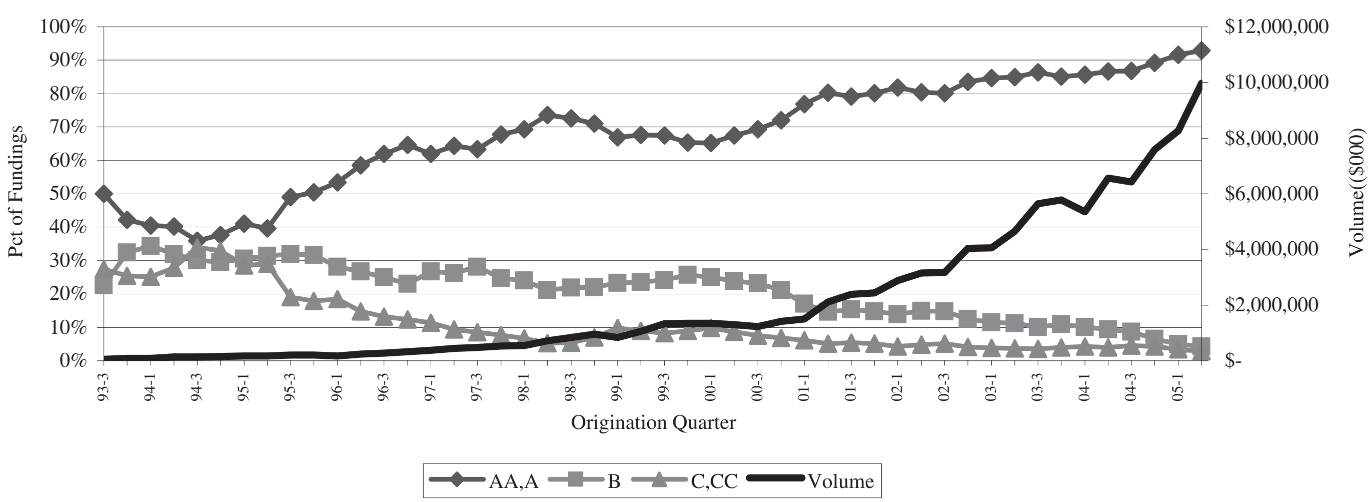
Lenders use several factors to consider the risk involved and price loans accordingly or choose not to make loans at all, if the risk is too great. Risk factors are weighed and borrowers placed in risk grades to determine appropriate pricing. Although there are no standard industry criteria for risk grades, they are roughly similar across the industry. More than 87% of Option One's borrowers rank in the least risky grades, "AA+" and "AA." In general, the lines between prime, Alt-A, and

EXHIBIT 4
Collateral Characteristic Trends—Non-Prime

	FY06-Q1	FY05	FY04	FY03	FY02
Collateral Balance (Mil)	**$10,488**	**$29,983**	**$21,998**	**$15,357**	**$10,274**
Product					
Fixed 1st	13.99%	17.70%	28.70%	23.93%	18.11%
Fixed 2nd	4.84%	3.80%	1.62%	0.71%	1.76%
2-Year ARM	73.15%	61.60%	63.40%	70.30%	74.77%
3-Year ARM	3.66%	4.00%	5.21%	5.13%	5.36%
5-Year ARM	3.84%	0.00%	0.00%	0.00%	0.00%
Attribute					
Average Loan Balance	$166,000	$160,000	$151,000	$144,000	$126,000
Weighted Average Coupon	7.52%	7.36%	7.39%	8.15%	9.09%
Weighted Average LTV	81.06%	78.86%	78.10%	78.66%	78.55%
Interest Only %	24.72%	12.60%	0.68%	0.00%	0.00%
40 Year Amort./ 30 Year Term	1.21%	0.00%	0.00%	0.00%	0.00%
Property Type SFR & PUD	84.87%	83.62%	82.38%	84.04%	86.00%
Owner Occupancy	92.35%	92.93%	92.99%	93.51%	94.83%
Full Documentation	59.32%	60.27%	62.39%	63.07%	66.90%
Loan Purpose					
Purchase	37.41%	30.80%	25.99%	26.92%	32.40%
Cash-Out	56.93%	63.50%	67.10%	64.87%	58.04%
Rate/Term Refinance	5.66%	5.70%	6.90%	8.20%	9.57%
Credit Score					
620+	50.67%	45.38%	42.45%	39.24%	35.68%
580-619	25.86%	24.95%	23.12%	22.61%	24.31%
540-579	13.65%	16.13%	17.85%	19.97%	20.64%
500-539 (includes no scores)	9.75%	13.51%	16.51%	18.14%	19.30%
<500	0.06%	0.03%	0.07%	0.04%	0.07%
WA Credit Score	622	614	608	604	600
Prepayment charge					
With charge	70.79%	70.66%	73.34%	79.45%	83.12%
Charge Duration (months)	24.75	24.98	26.07	26.20	26.39

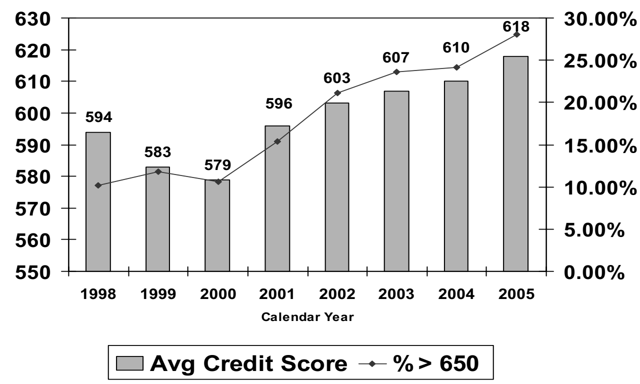
Fiscal Year: May 1- Apr 30

EXHIBIT 5
Option One Credit Mix (As of July 2005)



*Data are for those loans originated by Option One. Loans that Option One services but that it did not originate are excluded.

EXHIBIT 6
Credit Quality—Trends in Credit Scores



non-prime lending are beginning to blur as non-prime lenders make Alt-A loans and prime lenders go into the non-prime business. In addition, the overall quality of the non-prime borrower is increasing, as illustrated in Exhibit 5.

Borrowers in the top non-prime risk category are close to prime, but they have other considerations that preclude them from getting prime loans such as higher debt ratios, income documentation issues, or they request a higher loan-to-value than is allowed by prime lenders. Borrowers in the lower grades such as "C" and "CC" typically have credit issues such as late mortgage or credit card payments. These loans are generally priced higher to compensate for the greater risk factors.

Following is a description of considerations involved in assigning risk grades and determining loan pricing.

Credit Scores

As mentioned previously, credit scores are one of the primary measurements of risk. One major trend in non-prime lending is the overall increase in borrower credit scores, as illustrated in Exhibit 6. In 2000, just over 10% of Option One borrowers had credit scores above 650, but in 2005 nearly 30% did. In fact, much of the industry growth over the last three years has come at this higher end of the spectrum, what many are now referring to as Alt-B, which was a formerly underserved part of the market. Particularly with rising home prices, even borrowers with strong credit scores are often turned down by prime lenders because they are seeking cash-out refinances, loan-to-value ratios (LTV), and debt-to-income ratios outside the range of prime lenders. Now that the non-prime industry is better at assessing risk, it is able to provide products and pricing that were previously unavailable.

There is a strong correlation between these higher credit scores and higher average loan balances. The better credit borrowers make more money and can afford more expensive homes. But having borrowers with higher credit scores allows lenders to take risks elsewhere in the assessment process, such as the following factors.

Income Documentation

Prime lenders usually require full income documentation; however, those who are self-employed, derive extra income from self-employment, are newly employed, or are at a new job have difficulty meeting prime lending requirements of traditional income documentation such as a history of W-2 forms and pay stubs. This also includes many recent immigrants and families that pool their income to purchase a home. That's why these borrowers end up with non-prime loans, which can be made with limited documentation or on a stated income basis. Approximately 40% of Option One's loans are made on limited documentation or stated income.

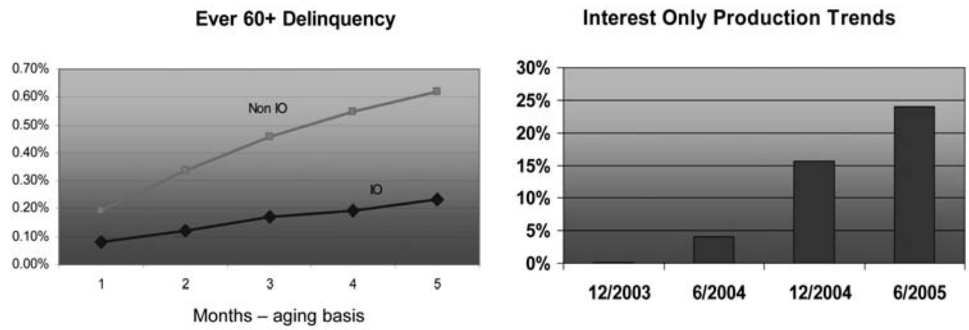
Lenders assess risk in this category based on the amount of income documentation available. In stated income situations, in which there is no documentation of earnings, non-prime lenders often take extra steps to assess how the borrower has met other financial obligations, such as rent payments, and confirming their current employment or the existence of a self-employed borrower's business.

While the industry continues to increase the amount of stated income loans it makes, the loans are made to borrowers with increasingly higher credit scores, thus balancing the risk. In addition, borrowers in limited or stated income documentation programs may pay rates that are 40 to 100 basis points higher depending on their credit scores and the loan-to-value ratios.

Loan-to-Value Ratio (LTV)

The higher the loan-to-value ratio, the greater the risk; therefore, loans with lower LTVs are priced at lower rates. Loan-to-value ratios can go to as much as 103% (but only to 100% on refinances). Prime lenders will make loans with an LTV of greater than 90%, but require a minimum credit score as much as 100 points higher than non-prime lenders.

EXHIBIT 7
Interest-Only Production



- Minimum credit score is 580
- 5-year interest only term
- Minimum loan amount is $100,000
- Manufactured homes or non-owner occupancy not allowed
- Qualified at the interest only payment amount
- 97% of interest-only loans are ARM production

Debt-to-Income Ratio

Non-prime lenders allow higher debt-to-income ratios, some as high as 55%, compared to 36% or 38% required by Fannie Mae guidelines. As always, this is balanced against other risk factors.

Property Type

Single-family homes and owner-occupied properties present lower risks; therefore, Option One rates may increase the interest rate 0.4% to 1% if a property is not owner-occupied, or is a condominium, a rural property, or a three-to-four unit property.

LEADING-EDGE LOAN PRODUCTS

There has been much discussion about leading-edge loan products recently. This includes high-LTV loans, interest-only (IO) loans, and 100% financing. With the dramatic increase in home prices, borrowers are stretching to get into the market at all. People are also buying more home than they did a generation ago as the philosophy of personal investing has changed. While a house is still a home first and foremost, it is also part of an investment portfolio along with stocks, bonds, and 401(k) plans. People's tolerance for being leveraged is higher than it used to be, in part out of necessity and in part out of a change in perspective.

Non-prime lenders have responded with products that provide opportunities for borrowers who don't qualify under conforming guidelines, but demonstrate a strong ability to repay the loan. This is where experience in balancing the risk factors and understanding borrower behavior pays off in the non-prime market. For example, some products, such as IO loans, and even regular adjustable rate mortgages are not intended to be held for the entire, or even the majority, of the loan term. For many borrowers, these are bridge loans to get them into a home and/or suffice until they are able to qualify for a lower-priced prime loan, are able to refinance and take out additional cash, or sell their property. See Exhibit 7, entitled "Interest Only Production Trends."

In addition to balancing borrower risk factors in originating loans, the industry is continually monitoring what is happening in the marketplace and with existing loan portfolios. Companies like Option One that service their own loans are able to monitor them in a nearly real-time basis. After more than 12 years of experience, Option One has effective processes and metrics in place to handle delinquencies and, should it be necessary, has the ability to staff up to manage any increase. If there are geographic areas experiencing economic decline, guidelines may be tightened for originations in those specific markets. If home values begin to decline, guidelines are tightened to ensure appraisals are as recent as possible.

In short, what appear to some to be "riskier" products are, on closer inspection, provided by reputable and experienced lenders only with significant restrictions that provide a level of confidence in the borrower's ability to repay the loan and with a broad understanding of the environment in which the loan is made.

Following is a summary of some of the considerations involved in leading-edge loan products.

Interest-Only (IO) Loans

The primary goal of interest-only loans is to give the borrower a low starter payment. Interest-only loans are usually made on adjustable rate mortgages, so the biggest concern is the simultaneous reset of the interest rate along with the end of the interest-only period. Most reputable lenders avoid this problem by staggering these two events or putting them far enough in the future so the borrower has the time to prepare for the adjustment. For example, at Option One, IO loans don't amortize for five years. It is expected that many borrowers will change loans prior to the start of amortization, thus avoiding the issue altogether.

Underwriting guidelines are much more restrictive for interest-only loans. The average credit score for an Option One IO origination is approximately 30 points higher than the combined portfolio average. At Option One, the average IO loan credit score is 650 compared to 620 for other loans. Also, Option One does not make IO loans on properties that are not owner-occupied or to any fixed-income borrowers. Although it is still early for Option One to have a lot of data on IO loans, as expected, they are performing well. Since these loans are made to better-credit borrowers, on average, they are outperforming their non-IO peers.

Since their introduction to the non-prime industry in early 2004 it seems that IO loans have stormed the marketplace. Option One only started offering this product widely in late 2004 and it now makes up more than 20% of the company's origination. While IO loans are here to stay, the market for them is expected to taper off as interest rates rise because the benefit will decrease. Instead, customers are likely to be attracted to a new product, the 40-year loan, which was introduced by non-prime lenders this year. At Option One, this product has a 40-year amortization with a 30-year balloon maturity.

100% Financing

Many homebuyers are stretched to make a substantial down payment, or prefer to preserve their cash for reasons ranging from an emergency to making improvements to their new home. The industry has responded with 100% loans or stacked first and second mortgages such as 80/20 or 90/10 loans, financing both the down-payment and the primary loan.

The advantage of an 80/20 or 90/10 loan is that it may be possible to get a lower payment overall by splitting the loan. Also, borrowers like the fact that they can pay off one of the loans fairly quickly. From an investor perspective, stacked first and second loans provide a variety of product offerings for whole loan sales and securitization.

Some companies, including Option One, even have "103" products, which cover not only the cost of the home but the closing costs as well. These loans are restricted only to the borrowers at the lowest risk levels. These lenders are similar to Alt-A (between non-prime and prime) with credit scores at or above 620 and full income documentation, but they may have higher debt ratios and less-than-pristine credit.

High LTV Loans

Greater debt loads, particularly in this era of low interest rates, have become a way of life for many who prefer to preserve their cash. And, as mentioned previously, many non-prime borrowers don't have liquid assets, so they turn to their home equity to help pay for college educations and other major purchases.

But having a higher LTV requires an offset with other risk factors. For example, higher LTVs require higher credit scores. These high LTV loans perform well; better, in fact than their lower LTV counterparts.

Servicing

Servicing plays a major role in non-prime risk management; therefore investors should pay close attention to ratings. Non-prime servicers are assessed by all three major credit rating agencies, Fitch Ratings, Moody's, and Standard and Poor's. The ratings agencies investigate everything from long-term management to procedures and controls. They also review the delinquency status of loans including securitizations. Because of the importance of servicing in loan performance, investors will pay extra for a top-rated servicer.

Non-prime borrowers require more attention than prime borrowers, so this cost is factored into the loan. Reputable servicers tend to have strong best practices in place to ensure consistent, proactive contact with borrowers and diligent follow-up on any inquiries or even minor delinquencies. These servicers generally take a consultative approach in working with their borrowers because they are more likely to have questions and need guidance and education in financial literacy.

Clear and understandable documents and materials are also crucial and borrowers are encouraged to set up escrow accounts so they will not be unprepared for large tax and insurance payments that could upset the balance of their household budget.

Top servicers often give borrowers assistance in working out payment programs. In addition, a servicer's loss mitigation team may tailor programs for borrowers with difficulties so they can become current in their payments. Servicers also work with community groups, borrower advocacy groups, and financial education programs to enhance awareness and knowledge, and keep the dialogue open between lenders and borrowers.

All this is designed to approach troubled borrowers on every level possible to mitigate losses. Foreclosure is always a last resort because there is usually significant loss in that transaction. While lenders strive to ensure borrowers have the ability to repay, there will always be unforeseen difficulties. The job of a good servicer is to anticipate issues, help borrowers avoid problems, and provide as much assistance as possible to keep the loan in good standing.

UNDERWRITING GUIDELINES AND LOSS EXPERIENCE

Exhibits 8 through 11 show examples of underwriting loan-to-value (LTV) guidelines for non-prime mortgage products. Exhibit 8 shows the underwriting guidelines and Exhibit 9 shows the LTV guidelines for Option One's credit-score-based product called Latitude. The following two exhibits show underwriting guidelines for Legacy, Option One's traditional underwriting product, Exhibit 10 for loans up to 80% LTV and Exhibit 11 for greater than 80% LTV. Then Exhibit 12 shows LTV guidelines for the Legacy product.

CONCLUSION

The maturation of the non-prime industry has expanded the opportunity for homeowners and investors to participate in and profit from the residential real estate market. Through careful consideration and balancing of risk factors, credit can be extended successfully to borrowers who were previously not well served or not served at all. This has helped contribute to record-high levels of homeownership, which strengthens communities and the economy by providing wealth accumulation opportunities.

Investors can take advantage of highly rated securities offerings from reputable lenders with strong servicing operations. They should consider the non-prime securities market as a viable and profitable investment in both the short and long term as the industry continues to seek out new opportunities in underserved and emerging markets. Not only will the industry continue to develop products to meet borrowers' changing needs, it also will continue to meet the steady demands of non-prime borrowers to use their assets to obtain liquidity.

Ultimately, it is investors that provide opportunities for borrowers through non-prime securitization. While non-prime lending takes extra effort in both origination and servicing, data shows that the result is a high-quality loan pool that benefits borrowers and is profitable for both lenders and investors.

Editor's Note

Founded in 1992, Option One consistently ranks among the top five non-prime lenders and servicers by dollar volume as rated by Inside B&C Lending.

ENDNOTES

*Nonprime home equity loan originations in 2004 exceeded $600 billion. Source: Coalition for Fair and Affordable Housing at http://www.fairlendingnow.org/aboutnonprimelending.phtml

EXHIBIT 8

Latitude Advantage Underwriting Guide

		Full Doc	Stated Income	No Doc
CREDIT	**Credit Scores** Min 2 repository scores required.	500 minimum credit score. Use middle of 3 or lower of 2 scores for the primary wage earner, except on Score Advantage. Minimum 580 score for manufactured homes (no variances).	Min. 500 - Use lowest scoring borrower	Min 660 - Use lowest scoring borrower
	Mortgage History Foreclosures	Current 12-month mortgage rating is required. Current foreclosures are eligible for full doc only. Foreclosures within the last 12 months are limited to 65% LTV. Refer to the BackPack section below for 80/20 foreclosure requirements.		0x30
	Bankruptcies	Must be discharged, dismissed or paid off at or prior to funding. Bankruptcy filings that have been dismissed within the last 6 months are limited to 80% LTV. The payoff of Chapter 13 is permitted to a maximum of 95% LTV. Chapter 13 Trustee rating will be used in addition to the mortgage rating on Chapter 13's to determine the risk grade.		
	C/O's, Coll. & Judgments	Disregard all items >12 months old. Single items <12 months and >$5,000 must be paid off or paid down to $5,000.		
	Credit Report Tradelines	Regardless of LTV/CLTV or credit score, the credit report of the borrower whose score is being used must reflect: a) 3 tradelines of at least $1,000 each, one of which must have been rated for at least 24 months, **OR** b) 1 tradeline of at least $5,000 that was rated for 12 months and 2 other tradelines. Any student loans that have been in repayment and all mortgages may be counted as tradelines. Tradelines do not have to be re-established, recent, open or satisfactory.		
OTHER	**First Time Home Buyer (FTHB)**	2 months PITI reserves required for stated income > 95% LTV/CLTV. 90% max CLTV for < 580 credit score. Credit profile must support the new housing payment. > 95% CLTV w/ at least 620 credit score: If tradeline requirements for "b" (above) are not satisfied, tradelines specified for "a" AND a 12-mo housing history (non-private VOR or cancelled checks) are required. > 95% CLTV w/ credit score below 620: Tradelines specified for "a" or "b" (above) AND a 12-month housing history (non-private VOR or cancelled checks) are required.		Max 85% CLTV Credit profile must support the new housing payment.
	Risk Upgrade	AA to AA+, A to AA, B to A, and C to B are allowed. CC to C – Not allowed with a foreclosure within the last 12 months or an unrated mortgage - otherwise allowed up to 80% LTV. 80/20 loans upgraded from A to AA with a credit scores of 580 (570 in Texas) to 599 must satisfy the 24-month foreclosure seasoning requirement.		
	Funds to Close	For purchase transactions, source or season all borrowers' funds to close if greater than $2,500.		N/A
INCOME	**Wage Earner**	Recent pay stub and the prior year 1040 (with all schedules) or W-2.	Stated on 1003 (N/A for BackPack loans)	N/A
	Self Employed > 25% Ownership	Over 80% LTV: Must be self-employed with the same company for at least the last 2 years, and must provide: a) Most recent 2 years 1040s (with all supporting schedules) **or** b) 12 months most recent personal bank statements. Up to 80% LTV: Must provide: a) Prior year 1040s (with all supporting schedules) **or** b) Most recent 12 months personal bank stmts. Income averaged unless declining.	Stated on 1003. < 80 LTV requires evidence of self-employment. > 80% LTV requires evidence of self-employment with the same company for at least 2 years.	N/A
	Fixed Income	Award letters or 1099s for all fixed income.	All fixed income borrowers must use Full Doc only.	
	Rental Income	75% of gross rents may be used with lease agreements and a complete Schedule of Real Estate Owned (REO). 90% may be used with lease agreements and most recent, complete 1040s (including Schedule E).	Use 75% of stated gross rents to qualify with complete REO schedule.	N/A
	Debt Ratio	(see tables below)	- Auto lease payments must be included regardless of remaining term. - Deferred student loans can be excluded from the D/R if credit report, lender or other reliable source provides evidence that the deferment period is at least 6 mo from the date of submission. - For Score Advantage, debt ratio must be 5% below the maximum debt ratio requirement for the transaction	
	Disposable Income	Max debt ratios (as shown in the table above) or qualifying income of < $2500 require minimum disposable income of $600 for the 1st family member plus $250 for each additional member. For Full Doc loans only, DR can be increased up to 55%. Any increase above max allowabele DR requires double the disposable income (or an exception).		N/A
PROPERTY	**Types**	SFR's, PUD's, fee simple townhouses, condos, 2-4 units, and manufactured homes	No manufactured homes	No 3-4 units or manufactured homes
	Occupancy	Owner occupied, 2nd home and non-owner occupied		Owner occupied and 2nd home
	Other	3% appraisal variance allowed over 95% LTV and on 80/20 BackPacks. Properties with a marketing time of 9 to 12 months are limited to 85% LTV. Minimum 600 sq ft. All property must be in average to good condition. Deferred maintenance must not exceed the lesser of 3% of the appraised value or $5,000, regardless of LTV.		
LIEN STRUCTURE	**First Mortgage**	$50,000 minimum loan amount. See High Loan Amounts by State matrix for AA+, AA, & B maximum loan amounts. $400,000 maximum loan amount for C & CC grades.		
	Stand-Alone 2nd Mtg	Stand alone 2nd mortgages require a 540 minimum score and are limited to 85% CLTV for AA+ and AA, 80% for A and B.		No second mortgages allowed
	BackPack Concurrent 1st and 2nd (80/20 and 80/15 loans)	(see table below)		Combo loans not allowed for No Doc

Debt Ratio — All Borrowers (Except Fixed Income ARM loans)

Max DTI	LTV	To 70%	70.01 to 90%	Over 90%
	Max in CA	55%	50%*	50%*
	Max Outside CA	55%	50%*	45%*
	CC Loans in Foreclosure	50%	N/A	N/A

Debt Ratio — Fixed Income ARM Loans (qualified at 3% over start rate)

Max DTI	Grade	AA+, AA, A, & B	C	CC
	DTI	55%	60%	60%
	CC Loans in Foreclosure	N/A	N/A	50%

* DTI can be increased to 55% for full doc loans with twice the amount of disposable income shown below.

BackPack — Concurrent 1st and 2nd (80/20 and 80/15 loans)

Minimum Loan Amounts	Minimum combined loan amount is $75,000 for 80/20 and $95,000 for 80/15. Minimum $15,000 2nd unless State Specific requirement is higher. The loan amount/LTV on the 1st mortgage may be adjusted to meet minimum 2nd mortgage requirements.
Maximum Combined Loan Amounts	AA+, AA, A & B: For 80/20 loans, use the amount specified for 80/20 BackPacks on the High Loan Amount by State matrix. If no 80/20 amount is specified, or if BackPack is 80/15, use the limit shown in 0% column.
State Specific	Not available in AK. Available for purchase only in OH, OK, and KS (CorOne lenders must be properly licensed). In TX, both purchases and rate & term refinances are allowed, but no A6/Texas Equity loans are allowed > 80% LTV/CLTV. Refer to the Latitude Advantage LTV Guide for income types and minimum score requirements. For 80/20s only: Technical appraisal review required in San Jose - CA, Denver - CO, Detroit - MI, Charleston - SC, and Greenbay - WI.
Prepayment	Refer to: http://corp.oomc.com/OLL/oomc/state_specific/OC_Matrix_Orig_Prepay_2nd.htm. The prepayment duration on the 2nd must not exceed the duration on the 1st.
Property/Occupancy	Owner occupied SFR's, PUD's, fee simple townhouses, condos and 2 units. No 2nd homes or manufactured homes.
Foreclosure	No foreclosures allowed within last 24 months for 80/20 loans with credit scores of 580 to 599. In Texas, no foreclosures allowed within last 24 months for 80/20 loans with credit scores of 570 to 599.
Reserves	2 months PITI reserves required for 80/20 loans with credit scores of 580 to 599. In Texas, 6 months PITI reserves required for 80/20 loans with credit scores of 570 to 579.
Other	Refer to pricing guide for credit score and LTV restrictions. No points or fees are allowed on the 2nd.

These guidelines reflect Option One's policy as of the date shown at the bottom of this document and are subject to change without notice. Please contact an Option One representative for a copy of the most recent guidelines.

Option One Mortgage Corporation, 3 Ada, Irvine, CA 92618, is an Arizona Mortgage Banker #BK15204; Loans made or arranged pursuant to a Department of Corporations California Finance Lenders License; Option One Mortgage Corporation is a Georgia Residential Mortgage Licensee; is an Illinois Residential Mortgage Licensee; is a Massachusetts Mortgage Lender #ML0863; is licensed as a Mortgage Banker #5043-MB & 5045-MHL by the New Hampshire Banking Department; is a licensed Mortgage Banker - NYS Banking Department; is licensed by the Pennsylvania Department of Banking; is a Rhode Island Lender Licensee. Option One Underwriting Guidelines apply to all loan programs. #8578

EQUAL HOUSING LENDER

September 2, 2005 (policies/UW_Latitude_Advantage_Guide.xls)

Exhibit 9

Latitude Advantage LTV Guide

Latitude Advantage

AA+ — Mortgage = 0 x 30 — 580 min. credit score required for Interest Only — No Doc 660 to 85%, 680 to 90%, and 700+ to 95%

AA+	Full Doc								Stated (Wage Earner Max 80% for 500-599, 85% for 600-619, 90% for 620-679, and 95% for 680+)							
	65%	70%	75%	80%	85%	90%	95%	100%	65%	70%	75%	80%	85%	90%	95%	100%
700+	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X	*X	*X 1,2,3
680-699	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X	*X	*X 1,2,3
660-679	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X	*X	*X 1,2,3
640-659	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X	*X	*X 1,2,3
620-639	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X	*X	
600-619	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X		
580-599	X	X	X	X	X	X	*X	80/20	X	X	X	X	X			
560-579	X	X	X	X	X	X			X	X	X	X				
540-559	X	X	X	X	X				X	X	X	X				
520-539	X	X	X	X					X	X	X	X				
500-519	X	X	X	X					X	X	X	X				

* Either standalone or combo.

B — Mortgage = 4 x 30 or 2x30 and 1 x 60

B	Full Doc								Stated							
	65%	70%	75%	80%	85%	90%	95%	100%	65%	70%	75%	80%	85%	90%	95%	100%
700+	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X		
680-699	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X		
660-679	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X		
640-659	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X		
620-639	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X		
600-619	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X			
580-599	X	X	X	X	X	X			X	X	X	X				
560-579	X	X	X	X					X	X	X	X				
540-559	X	X	X	X					X	X	X	X				
520-539	X	X	X	X					X	X	X	X				
500-519	X	X	X	X					X	X	X	X				

AA — Mortgage = 1 x 30 (580 min. credit score required for Interest Only)

AA	Full Doc								Stated (Wage Earner Max 80% for 500-599, 85% for 600-619, 90% for 620-679, and 95% for 680+)							
	65%	70%	75%	80%	85%	90%	95%	100%	65%	70%	75%	80%	85%	90%	95%	100%
700+	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X	*X	*X 1,2,3
680-699	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X	*X	*X 1,2,3
660-679	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X	*X	*X 1,2,3
640-659	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X	*X	*X 1,2,3
620-639	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X		
600-619	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X		
580-599	X	X	X	X	X	X	*X	80/20	X	X	X	X	X			
560-579	X	X	X	X	X	X			X	X	X	X				
540-559	X	X	X	X	X				X	X	X	X				
520-539	X	X	X	X					X	X	X	X				
500-519	X	X	X	X					X	X	X	X				

C — Mortgage = 6 x 30 and 1 x 60 and 1 x 90 or 6 x 30 and 2 x 60 (if no 90-day lates)

C	Full Doc								Stated							
	65%	70%	75%	80%	85%	90%	95%	100%	65%	70%	75%	80%	85%	90%	95%	100%
700+	X	X	X	X	X	X	*X		X	X	X	X	X	X		
680-699	X	X	X	X	X	X	*X		X	X	X	X	X	X		
660-679	X	X	X	X	X	X	*X		X	X	X	X	X	X		
640-659	X	X	X	X	X	X	*X		X	X	X	X	X	X		
620-639	X	X	X	X	X	X	*X		X	X	X	X	X	X		
600-619	X	X	X	X	X	X	*X		X	X	X	X	X			
580-599	X	X	X	X	X				X	X	X	X				
560-579	X	X	X	X					X	X	X	X				
540-559	X	X	X						X	X	X					
520-539	X	X	X						X	X	X					
500-519	X	X	X						X	X	X					

A — Mortgage = 2 x 30

A	Full Doc								Stated (Wage Earner Max 80% for 500-599, 85% for 600-619, 90% for 620-679)							
	65%	70%	75%	80%	85%	90%	95%	100%	65%	70%	75%	80%	85%	90%	95%	100%
700+	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X		
680-699	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X		
660-679	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X		
640-659	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X		
620-639	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X		
600-619	X	X	X	X	X	X	*X	*X 1,2,3	X	X	X	X	X	X		
580-599	X	X	X	X	X	X			X	X	X	X	X			
560-579	X	X	X	X	X	X			X	X	X	X				
540-559	X	X	X	X					X	X	X	X				
520-539	X	X	X	X					X	X	X	X				
500-519	X	X	X	X					X	X	X	X				

CC — Mtg = Other

CC	Full	Std
	65%	65%
700+	X	X
680-699	X	X
660-679	X	X
640-659	X	X
620-639	X	X
600-619	X	X
580-599	X	X
560-579	X	X
540-559	X	X
520-539	X	X
500-519	X	X

[1] Refi not available in Ohio, Kansas, Oklahoma and Texas. [2] Technical appraisal review required in San Jose-CA, Denver-CO, Detroit-MI, Charleston-SC and Greenbay-WI.
[3] $75,000 minimum loan amount required. In NJ - 80/20s can be converted to standalone 100% LTV from a 580 credit score.
In TX - 80/20s are available from 570 (6 months reserves required from 570-579) for grades AA+ and AA Full Doc only.

	LTV Adjustments from Maximum Eligible LTV											
	Full Doc						Stated					
	AA+	AA	A	B	C	C C	AA+	AA	A	B	C	C C
Non-Owner Occupied (Max 90% stated) (No MH)	-5	-10	-10	-10	-10	-10	-5	-10	-10	-10	-10	N/A
3-4 Units (max 90%)	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	N/A
*MH's (min 580; max 85% LTV) No N/O/O	-10	-10	-10	-10	-10	N/A	N/A	N/A	N\A	N/A	N/A	N/A
*Second Home >80% (Max 90% stated)	-5	-5	-5	-5	-5	N/A	-5	-5	-5	-5	-5	N/A
Stated Wage Earner (SWE)	Max 80% for 500-599, 85% for 600-619, 90% for 620-679, 95% for 680+ 80/20 BackPack not available for Stated wage earners.											

*Property type not available on combo loans.

Pricing Adjustments (see rate sheets)

Buyups/Buydowns
- 2 Year Fixed
- 3 Year Fixed
- Fixed
- 6 Month ARM

Loan Balance Tiers
- $600,000 +
- $130,000 - $599,000
- $50,000 - $129,999

Prepay Charges 2/28 = 2 yrs, 3/27&Fixed = 3 yrs
- No prepay
- 1 year prepay
- 2 year prepay (3/27 or Fixed)

Occupancy
- Non-owner

Property Type
- Condo / MH / 3-4 units

Products
- Fixed
- 3 Year Fixed
- 6 Mo ARM
- BackPack 15% Second Mortgage Rate
- Submitted with Original Appraisal
- Stand-Alone Second Mortgage
- Secondary Financing (CLTV > LTV)

EQUAL HOUSING LENDER

May 6, 2005 (policies/UW_Latitude_Advantage_LTV_Guide.xls)

EXHIBIT 10
Legacy

LEGACY
Up to 80% LTV

	Risk Grade	AA	A	B	C	CC
Credit – General	Credit Score	Minimum 500 credit score using the middle of three, lower of two or one. Manufactured housing requires 580 credit score.				
Credit – General	Mortgage History < 12 Months	1x30	2x30	4x30 or 2x30 and 1x60	6x30, 1x60, 1x90 (2x60 OK if no 1x90)	Considered on case by case basis
Credit – General	Foreclosures	> 36 months	> 24 months	> 18 months	> 12 months	Foreclosures OK
Credit – General	Consumer Credit	No 60 day lates allowed in the last 12 months.	Max 2x60 in the last 12 months	No 90 day lates allowed. 50% must be good. Additional adverse credit may be considered on a case-by-case basis. No reported credit may be considered with satisfactory verification of alternate forms of established credit.	Adverse credit exceeding "B" Grade guidelines or no established credit	Credit problems acceptable. Recent BK filing OK
Credit – General	Collections, Charge Offs & Judgments < 12 Months	>$500 must be paid off or paid down to $500	> $1000 must be paid off or paid down to $1000	> $1,500 must be paid off or paid down to $1,500	> $5,000 must be paid off or paid down to $5,000	Underwriter's discretion
Credit – Bankruptcies	Dismissed BKs	Disregard	Disregard	Disregard	Disregard	Disregard
Credit – Bankruptcies	Chapter 7	Discharged > 36 months permitted with re-established credit	Discharged > 24 months permitted with re-established credit	Discharged > 18 months permitted with re-established credit	Discharged > 12 months permitted	Active BKs permitted with payment in full, discharge or dismissal at/or prior to closing
Credit – Bankruptcies	Chapter 11 and Chapter 13	Filing dates > 36 months are acceptable, subject to a rating from the Trustee showing max 1x30 in last 12 months.	Filing dates > 24 months are acceptable, subject to a rating from the Trustee showing max 2x30 in last 12 months.	Filing dates > 18 months are acceptable, subject to a rating from the Trustee showing max 4x30 or 2x30, 1x60 in last 12 months.	Chapter 13 filed > 12 months is acceptable.	
Credit – Bankruptcies		Where mortgage arrearages are paid in plan and regular payments outside of plan, rolling lates >12 months should not be considered in the mortgage rating.				
Credit	Mortgage Credit Only (MCO)	Maximum loan amount as shown under the "0" column of the High Loan Amount by State Matrix. Owner occupied only. *50% max DTI. Re-established credit not required for Chapter 7 bankruptcies. 60-day (or greater) mortgage lates NOT permitted. Cancelled payment checks required to support private party mortgage histories. Guidelines above for Consumer Credit, Collections, Charge Offs & Judgments may be disregarded for MCO documentation.			MCO option not available.	MCO option not available.
Other	Maximum Loan Amount	Refer to High Loan Amount by State Matrix			$400,000	$400,000
Other	Risk Upgrades (RUGs)	Not Applicable	A to AA Permitted	B to A Permitted	C to B Permitted	CC to C not permitted with foreclosure < 12 months or an unrated mortgage.
Other			Refer to Risk Upgrade guidelines for additional restriction details.			
Other	Maximum Debt-to-Income Ratio (DTI)	55% max DTI ≤ 65% LTV 50% max DTI > 65% LTV * 55% max DTI > 65% LTV	55% max DTI ≤ 65% LTV 50% max DTI > 65% LTV * 55% max DTI > 65% LTV	55% max DTI ≤ 70% LTV 50% max DTI > 70% LTV * 55% max DTI > 70% LTV	60% max DTI ≤ 65% LTV 55% max DTI > 65% LTV	60% max DTI with no foreclosures < 12 mo 50% max DTI with foreclosure < 12 mo
Other		55% for fixed income ARM loans (qualified at 3% over start rate.)			60% for fixed income ARM loans (qualified at 3% over start rate)	
Other	Disposable Income	Standard disposable income: DTI over 45% or total qualifying income < $2500/mo requires disposable income of $600 for 1st family member plus $250 for each additional member, or more as indicated below. * Increased disposable income: DTI up to 55% permitted for full documentation loans with disposable income of $1,200 for 1st family member plus $500 for each additional member.				
Other	Funds to Close	Purchase transactions require satisfactory sourcing or seasoning of funds for amounts > $2500. Refer to Funds to Close guidelines.				
Other	LTV	Refer to Legacy LTV Guide Matrix				
Other	Property	Minimum 600 sq ft. Deferred maintenance must not exceed the lesser of 3% of the appraised value or $5,000, regardless of LTV. Average to good condition required. 85% max LTV for marketing time 9-12 months.				

	Documentation Type	Full	Lite	Stated Income
Documentation	Wage Earner	Recent pay stub and the prior year 1040 (with all schedules) or W-2.	Pay stubs or last 3 months personal bank statements	Stated 1003 (not available for CC currently in foreclosure)
Documentation	BFS (>25% ownership)	Prior year 1040s or 12 months recent personal bank statements	Last three months personal bank statements	Stated 1003 (not available for CC currently in foreclosure) Proof of self employment is required.
Documentation	Fixed Income	Prior yr 1040s or 1099. Social Security income requires recent award letter only For ARM's – Refer to Debt Ratio guidelines	Not permitted for fixed income. Use Full documentation	Not permitted for fixed income. Use Full documentation
Documentation	Rental Income	75% of gross rents may be used with lease agreements and a completed Schedule of Real Estate Owned (REO). 90% of gross rents may be used with lease agreements and most recent and complete 1040/s and Schedule E.	75% of gross rents may be used with a complete Schedule of Real Estate Owned (REO).	75% of gross rents may be used with a complete Schedule of Real Estate Owned (REO).

EQUAL HOUSING LENDER

Option One Mortgage Corporation, 3 Ada, Irvine, CA 92618, is an Arizona Mortgage Banker #BK15204; Loans made or arranged pursuant to a Department of Corporations California Finance Lenders License; Option One Mortgage Corporation is a Georgia Residential Mortgage Licensee; is an Illinois Residential Mortgage Licensee; is a Massachusetts Mortgage Lender #ML0863; is licensed as a Mortgage Banker #5043-MB & 5045-MHL by the New Hampshire Banking Department; is a licensed Mortgage Banker - NYS Banking Department; is licensed by the Pennsylvania Department of Banking; is a Rhode Island Lender Licensee. Option One Underwriting Guidelines apply to all loan programs. u/c 01/04/00 n:\underwriting\uw matrices 2001\Income Doc Req LTV less 80%.doc

July 15, 2005 (policies/UWL_Up_to_80LTV.xls)

EXHIBIT 11
Legacy

LEGACY
LTVs Greater Than 80%
FULL INCOME DOCUMENTATION ONLY

	Risk Grade	AA	A	B
	Maximum LTV	Up to 95%	Up to 90%	Up to 85%
CREDIT	Mortgage Credit* (If renting, VOR is required)	1x30 maximum in the last 12 months. 3x30 in the last 24-months. No foreclosure proceedings in the last 36 mos.	2x30 maximum in the last 12 months. 0x60 in last 24 months. No foreclosure proceedings in the last 24 months.	4x30 maximum, 0x60 in the last 12 months. 1x60 in the last 24 months. No foreclosure proceedings in the last 24 mos. (No B RUGs)
CREDIT	Consumer Credit Minimum 500 credit score, using middle of three, lower of two or only score.	No 60 day lates allowed in the last 12 months.	Max 2x60 in the last 12 months	No 90 day lates allowed in the last 12 months. 50% of credit must be good. Cannot build credit for this program.
CREDIT	Bankruptcies	Bankruptcies discharged or dismissed 36 months plus are OK with a minimum of 2 re-established tradelines, not including the mortgage, paid as agreed for a minimum of 24-months.	Bankruptcies discharged or dismissed 24 months plus are OK with re-established credit.	Bankruptcies discharged or dismissed 24 months plus are OK with re-established credit.
CREDIT	Collections, Charge Offs, Judgments (< 24 months old)	>$500 must be paid off or paid down to $500	> $1000 must be paid off or paid down to $1000	> $1,500 must be paid off or paid down to $1,500
INCOME	Debt Ratio	≤ 90% LTV - 50% Max > 90 LTV - 45% Max	50% Max	50% Max
INCOME		55% DR permitted with twice the disposable income shown below. Auto lease payments must be included in DR, regardless of remaining term. Deferred student loans can be excluded from the D/R if the credit report, lender or other reliable source provides evidence that the deferment period is at least 6 months from the date of submission. 55% DR permitted for fixed income ARM loans (qualified at 3% over the start rate.)		
INCOME	Disposable Income	DTI over 45% or total qualifying income < $2500/mo requires disposable income of $600 for 1st family member plus $250 for each additional member		
INCOME	Wage Earner	Recent pay stub and the prior year 1040 (with all schedules) or W-2.		
INCOME	Self-Employed (> 25% ownership)	Must be self employed for a minimum of two years with the same company and provide recent two years 1040s (with all supporting schedules) or 12 months most recent personal bank statements.		
INCOME	Fixed Income (For ARMs, refer to Debt Ratio Guidelines)	Prior year 1040 or 1099 and copies of current check. Social Security income requires recent award letter only. No foster income allowed.		
INCOME	Rental Income	75% of gross rents may be used with lease agreements and a complete Schedule of Real Estate Owned (REO) 90% may be used with lease agreements and the most recent, complete 1040's and Schedule E.		
OTHER	Funds to Close	Sourcing or seasoning of funds is required for any amount > $2500 on purchase transactions.		
OTHER	Miscellaneous	Cannot subordinate tax liens. See High Loan Amount Matrix to determine maximum loan amount by state.		
OTHER	Property and Occupancy	Owner occupied permitted to 95% LTV. Second homes permitted to 90% LTV. Non-owner occupied properties are not permitted. Manufactured homes require a 580 middle credit score and are limited to 85% LTV. 3-4 units are not permitted over 90% LTV. Minimum 600 square feet. No leasehold properties in Hawaii. Deferred maintenance must not exceed the greater of 3% of the appraised value or $5,000. Appraisal variance is 5%.		

EQUAL HOUSING LENDER

September 2, 2005 (policies/UW80AAAB.xls)

EXHIBIT 12
Legacy

Legacy LTV Guidelines

Doc	Property Type	Owner Occupied					Non-Owner Occupied				
		AA	A	B	C	CC	AA	A	B	C	CC
Full	SFR/PUD	95%	90%	85%	75%	65%	75%	75%	75%	70%	65%
	Condo	95%	90%	85%	75%	65%	75%	75%	75%	70%	65%
	2 Unit	95%	90%	85%	75%	65%	75%	75%	75%	65%	65%
	3-4 Unit	90%	85%	80%	75%	65%	75%	75%	75%	65%	65%
	MH [3]	85%	85%	85%	75%	N/A	N/A	N/A	N/A	N/A	N/A
Lite	SFR/PUD	80%	80%	80%	70%	65%	70%	70%	70%	65%	60% [1]
	Condo	80%	80%	80%	70%	65%	70%	70%	70%	65%	60% [1]
	2 Unit	80%	80%	80%	70%	65%	70%	70%	70%	65%	60% [1]
	3-4 Unit	75%	75%	75%	70%	65%	70%	70%	70%	65%	60% [1]
	MH [3]	80%	80%	80%	70%	N/A	N/A	N/A	N/A	N/A	N/A
Stated	SFR/PUD	80%	80%	80%	70%	65% [2]	60%	60%	60%	N/A	N/A
	Condo	80%	80%	80%	70%	65% [2]	60%	60%	60%	N/A	N/A
	2 Unit	80%	80%	80%	70%	65% [2]	N/A	N/A	N/A	N/A	N/A
	3-4 Unit	70%	70%	65%	65%	N/A	N/A	N/A	N/A	N/A	N/A
	MH [3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MCO	SFR/PUD	80%	75%	75%							
	Condo	80%	75%	75%							
	2 Unit [4]	75%	70%	70%							
	3-4 Unit [4]	75%	70%	70%							
	MH [3]	80%	75%	75%							

Notes

[1] On CC N/O/O purchases, increase LTV to 65%.
[2] Mortgages currently in foreclosure are ineligible for the stated program.
[3] Manufactured homes must have a minimum 580 score. Manufactured homes are not permitted for Retail (HRBMC) transactions.
[4] On stated income program, AA requires 10% reduction; A & B requires 5% reduction.

Second homes are treated as owner occupied to 90% LTV.
Check State Specific for maximum LTVs.

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EQUAL HOUSING LENDER

April 8, 2005 (policies/UWLTV_Guidelines.doc)