Property and Appraisal Standards

Appraisal Standards

Appraiser Qualification

The Broker may use the appraiser of their choice to perform the initial appraisal for all transactions as long as the appraiser does not appear on ALC's Exclusionary Appraiser List.

A desk review, field review or second full appraisal may be required for certain transactions or when deficiencies are found in the initial appraisal. When required, the field review or second appraisal must be prepared by an appraiser who appears on ALC's Selected Appraisal Firms list
a specific appraiser designated by ALC on a transaction basis.
ALC's Selected Appraisal Firms list consists of independent contractors and employees. Every effort is made to ensure that only qualified, competent appraisal companies/appraisal management firms are impaneled with us. However, use of an appraiser on the list does not absolve Brokers of the responsibility for delivering accurate appraisals through the use of sound appraisal techniques.

Acceptable Appraised Value

The Acceptable Appraised Value will be the lowest value presented by any appraisal or appraisal review of the Subject Property.

Expiration of Appraisal/ Inspection Report

The appraisal may be dated no earlier than 120 days from the date of the Note, regardless of whether the property was appraised as proposed or existing construction.

When the appraisal will be more than 120 days old but less than 1 year old on the date of the Note, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. If the appraiser indicates that the property has declined in value, a new appraisal must be obtained. If the appraiser indicates that the property has not declined in value, the appraiser must provide a certification to that effect, based upon an exterior inspection of the property and knowledge of current market conditions. The inspection and the certification must occur within the 120 days that precedes the date of the Note.

In no case may the appraisal be dated more than 1 year prior to the date of the Note.

Property Inspection Reports/Condition and Marketability Reports (Fannie Mae Form 2070/Freddie Mac Form 2075 may be dated no earlier than 120 days from the date of the Note.

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Appraisal Standards (continued)

Appraisal and Inspection Forms

Appraisals, inspection reports and addenda must be prepared on the current form applicable to the property being appraised as specified below:

Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70)

Form 1004/70 is used to report the results of an appraisal of one-family properties and units in planned unit developments (including those that have an accessory apartment that we will consider as acceptable security). In addition, appraisals for units in condominium projects that consist solely of detached dwellings (site condos) may be documented on Form 1004/70 if there are no common area improvements (other than greenbelts, private streets, and parking areas) and the appraiser includes an adequate description of the project and information about the owners' association fees and the quality of the project maintenance

The form is designed to report the results of a complete appraisal as defined by the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation. It provides for a complete description of the Subject Property and immediate neighborhood as well as any indication of adverse or atypical conditions. The report contains sections for reporting the results of the sales comparison, cost and income approaches to value, as well as a section for reconciling to a final value conclusion. The form requires an interior inspection of the Subject Property.

Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073/Freddie Mac Form 465)

Form 1073/465 is used to report the appraisal results for individual condominium units. It contains sections for reporting the results of the sales comparison, cost and income approaches to value, a section for reconciling to a final value conclusion, sections for detailed project information and analysis of the condominium project budget. The form requires an interior inspection of the Subject Property.

Individual Cooperative Interest Appraisal Report (Fannie Mae Form 1075)

Form 1075 is used to report the appraisal results for individual cooperative unit properties. It contains sections for reporting the results of the sales comparison, cost and income approaches to value, a section for reconciling to a final value conclusion, and sections for providing project information. The form requires an interior inspection of the Subject Property.

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Appraisal Standards (continued)

Small Residential Income Property Appraisal Report (Fannie Mae Form 1025/Freddie Mac Form 72)

Form 1025/72 is used to report the appraisal results for 2, 3 or 4 unit properties, including 2 to 4 units that are part of a condominium or PUD project. It contains sections for reporting the results of the sales comparison, cost and income approaches to value, a section for reconciling to a final value conclusion, sections for comparison of available listings, comparable rent data and the Subject Property's rent schedule. The form requires an interior inspection of the Subject Property.

Certain Loan transactions will qualify for use of limited appraisal or property inspection/condition and marketability reports in lieu of the appraisal forms specified above.

Summary Quantitative Analysis Appraisal Report (Fannie Mae/Freddie Mac Form 2055)

Form 2055 is designed to report the results of a limited appraisal process, as defined by USPAP. It provides for an abbreviated description of the Subject Property and immediate neighborhood as well as any indication of adverse or atypical conditions and contains a section for reporting the results of the sales comparison approach only. This form may not be used for manufactured housing units– a Uniform Residential Appraisal Report is required in all cases.

Upgrade Requirements

When a Form 2055 with an exterior-only inspection is required, the appraiser must upgrade to the appropriate full appraisal form specified above or a Form 2055 with an interior inspection when one or more of the following conditions exist:

- The appraiser cannot obtain sufficient information about both the interior and exterior physical characteristics of the Subject Property from third-party sources in order to develop a reliable appraisal.
- The appraiser cannot reconcile all significant discrepancies (e.g., size, condition, etc.) among available data sources.
- The appraiser's exterior inspection does not provide sufficient information to develop a reliable appraisal, including the inability to view the property improvements from the street.
- The property is either new construction, and has not yet been occupied as a residence, or is undergoing renovation or rehabilitation.
- The appraiser observes apparent physical deficiencies or adverse property conditions or adverse external influences that would negatively affect the property's marketability during the exterior property inspection, or the data sources used to develop the appraisal (including the purchase contract) indicate the presence of physical deficiencies or an adverse condition.

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Property Inspection Report (Fannie Mae Form 2075)/ Condition and Marketability Report (Freddie Mac Form 2070)

Forms 2075/2070 are appraiser-completed inspection reports. They are not appraisal reports and, therefore, the appraiser provides no estimate of value. The forms are used to report the condition and marketability of the property. The forms may be completed with either an interior inspection or an exterior-only inspection; This formmay not be used for manufactured housing units – a Uniform Residential Appraisal Report is required in all cases.

Upgrade Requirements

When the Freddie Mac Form 2070 is used, the appraiser must upgrade from an exterior-only inspection to an interior inspection if the appraiser is unable to view the Subject Property adequately from the street. In addition, the inspection must be upgraded to an appraisal using a Form 1004/70, 1073/465 or Form 2055 with an interior inspection if:

The Condition and Marketability Factors section of the Form 2070 indicates such an upgrade is required.

The appraiser observes any factor that may have an adverse effect on the marketability of the Subject Property or the quality or condition of the property appears unacceptable to the typical purchaser in the area in which the Subject Property is located.

When the Fannie Mae Form 2075 is used, the appraiser must upgrade the property inspection to an appraisal if the property does not conform to the neighborhood or if adverse physical deficiencies or conditions or adverse external influences that would negatively affect the property's marketability were observed. For example, if the Subject Property is significantly larger or smaller than the properties in the neighborhood, or has apparent physical deficiencies such as needing significant repairs, the appraiser must upgrade the inspection to an appraisal with an interior and exterior inspection reported on Form 2055.

Single Family Comparable Rent Schedule (Fannie Mae Form 1007/Freddie Mac Form 1000)

With the exception of Loans approved under the conforming program, the form is required for one-unit investment properties when rental income from the Subject Property is used in qualifying the Borrower. This requirement applies whether the net cash flow is positive or negative. The form is not required if the Borrower qualifies with the full PITI payment for the subject investment property counted in the monthly debt-to-income ratio.

Continued on next page

Appraisal Standards (continued)

Operating Income Statement (Fannie Mae Form 216/Freddie Mac Form 998)

For non-conforming program loans, the form is not required.

Other Appraisal Documentation

In addition to the forms and addenda specified herein, other appraisal documentation may be required

Additional Appraisal Requirements

All information specified on the appraisal, inspection forms or addenda must be complete without any blanks, alterations or omissions.

The appraiser's name, address, license number and license expiration date must be shown on the appraisal report.

Original photographs of the Subject Property and comparable sales as specified for the applicable appraisal or condition and marketability report are required. Digital photographs transmitted through electronic data interchange are acceptable. Loan files that do not contain original photographs will not be reviewed.

I) Listing/Sales History

For properties in Idaho, Indiana, Montana, New Mexico, Texas and Utah, a 2-year Multiple Listing Service (MLS) printout for the Subject Property must be included with the appraisal. For properties in other states, the appraisal must contain a 5-year sales history for the Subject Property. These requirements are waived if satisfactory evidence is provided that the Borrower has owned the property for a longer period of time than specified above.

If there is an increase or decrease in value reflected in the appraised value that is not attributable to market trends, the appraiser must adequately explain the variation. Failure to provide adequate information will result in additional requirements.

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Appraisal Standards (continued)

Additional Appraisal Requirements (continued)

II) Comparable Sales

Appraisals that do not meet the following criteria may require a field review or second appraisal. The requirement for an additional review or appraisal is at the discretion of ALC and is not limited to the issues below:

- All comparable sales must have closing dates within six months of the appraisal date. If the appraiser is unable to provide such comparables, the following will also be required:
    - The appraiser must provide an explanation of the reasons the recent sales were not available, and
    - For every comparable sale used that does not have a closing date within the last six months, an additional listing or pending sale comparable must be included to reflect current market conditions.
- Loan amounts greater than $650,000 and subprime Loans amounts greater than $500,000 require a minimum of 5 comparables (comparables 4 and 5 may be pending sales or active listings).
- At least 2 comparable sales must be within the applicable distances from the Subject Property:
    - Within 1 mile for urban and suburban properties.
    - Within 3 miles for rural properties.
- At least 2 comparable sales must have gross adjustments and/or net adjustments less than or equal to 25% and/or 15%, respectively, or any single adjustment less than or equal to 10%.

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(continued)

Additional Appraisal Requirements (continued)

III) Manufactured Housing Appraisal Requirements

1) A full Uniform Residential Appraisal Report (Freddie Mac Form 70/Fannie Form 1004) is required for all manufactured homes, regardless of specific program features that permit other collateral assessment forms.
2) All manufactured home information contained in the appraisal must be completed and the following should be indicated:
    - General description – Design: "Manufactured housing"
    - Exterior description – Manufactured House: “Yes”
    - The appraiser’s comments should state that the subject property is legally classified as real estate.
3) The appraisal must confirm that all requirements specified in Section 2302 Acceptable Property Types, Manufactured Housing Property Standards, are met.
4) The appraisal must include a photograph of the permanent foundation.
5) At least two of the comparables sales must be manufactured housing of similar size and style.
6) In addition to a listing/sales history for the Subject Property as described above, a listing/sales history for 2 closed comparable sales is also required.
7) All comparables must substantiate value.
8) Marketing time should not exceed six (6) months.
9) The appraisal must address local demand, marketability, and supply of manufactured housing in the area.
10) Chattel (e.g. furniture, etc.) may not be included in the appraisal value or sale price.

d) Construction to Permanent Appraisals

All appraisals should be prepared “subject to completion per plans and specifications.”

As part of each construction appraisal assignment, the appraiser is to obtain a copy of the construction cost breakdown, description of materials and plans and specifications. The appraiser is to adequately address any variances in excess of 10% between the submitted cost breakdown and the appraiser’s soft / hard costs. In addition, the appraiser’s estimated soft costs and entrepreneurial profit (if appropriate) are to be included on separate line items and not simply included in the hard cost number.

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Disclosure of Information to Appraiser

The Broker must disclose to the appraiser any and all information about a security property that it is aware of if the information could affect either the marketability of the property or the appraiser's estimate of its market value. Specifically, the Broker must provide the appraiser with a copy of the complete, ratified sales contract including all appropriate financing data and sales concessions for the Subject Property that will be, or have been, granted by anyone associated with the transaction. If a home inspection is obtained, the Broker must provide the appraiser with a copy of the inspection report. If the Broker is aware of additional pertinent information that is not included in the sales contract, it should inform the appraiser. Information that must be disclosed includes:

- Settlement charges
- Loan fees or charges
- Discounts to the sales price
- Payment of condominium/PUD/co-op fees
- Interest rate buydowns or other below-market-rate financing
- Credits or refunds of the Borrower's expenses
- Assignment of rents
- Non-realty items included in the transaction.

TheBroker must also disclose to the appraiser any information about an environmental hazard in or on the Subject Property or in the vicinity of the property that it obtains from the Borrower, the real estate broker, or any other party to the transaction so the appraiser can consider any influence the hazard may have on the property's value and marketability.

With respect to each appraisal report, the Broker represents and warrants that all information known to the Broker that may affect the estimate of value or marketability has been provided to the appraiser in conjunction with the appraisal request.

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Acceptable Property Types

Introduction

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.

Single Family Residence-Detached

A detached single family residence sharing no ground with neighboring properties, intended for use by one family and not part of a condominium or PUD plan.

A single family residence includes the following types of factory-produced housing:

- Modular/Sectional Homes: Factory built and finished 3 dimensional sections or boxes designed, approved, built and inspected under local state, regional, county or city standard building codes including ICBO (UBC), BOCA, CABO, and BBLL, the same as required for site built homes. A certification that the property meets CABO codes is required by ALC in order for this type of home to be classified as an SFR. The boxes are transported to the site on special transporters and placed by crane and attached to a permanent concrete or block foundation. One, two and three story residential designs may have high-pitched roofs shipped knocked down for site assembly for more design latitude.
- Panelized Homes: Panelized homes normally include plans (except site and foundation) to meet local city, state, or regional standard building codes and include factory pre-assembled exterior and interior walls usually including windows and exterior doors, and pre-cut or pre-fabricated floor and roof panels or systems including any required pre-fabricated trusses to complete the building shell. Exterior wall panels may be closed (finished both sides) including wiring, piping, and insulation, or open on one side (exterior finish only), or open on both sides. Optional material packages may include finish roof covering, insulation, sheetrock, paneling, interior finish doors, trim and cabinetry, appliances and fixtures shipped after basic framing package.
- Packaged Homes: Factory pre-cut material packages including conventional homes and log homes transported to the site knocked down for on-site assembly. Packages usually include plans (except site and foundation) and structural engineering to meet local city, state or regional standard building codes and include sufficient materials for the building shell including pre-cut lumber, plywood, siding, trusses, and exterior doors, windows and trim. Optional packages may include finish roof covering, insulation, sheetrock, paneling, interior finish doors, trim, and cabinetry, appliances and fixtures shipped after the basic framing package.

The above construction types may be compared to site-built sales; however, comparable sales should include the same construction type as the subject, if possible. The appraiser must address the marketability of such factory-produced homes as compared to site-built homes.

Continued on next page

Acceptable Property Types (continued)

Single Family Residence-Attached

This category includes attached and semi-detached single family housing that is not part of a condominium or PUD plan.

Two-to-Four Unit Properties

Single properties that provide separate units for two to four families.

Mixed Use Properties

A mixed use property consists of a primary residence with limited commercial use. The following criteria must be met:

- The property must be the Borrower's primary residence.
- The owner of the property must be the operator of the business.
- The space used for the business should not exceed 50% of the total square footage.
- The mixed use of the property must represent a legal, permissible use of the property under the local zoning requirements.
- The property must be appraised as residential real estate and the appraiser must use adequate comparable properties in the sales comparison.

Some examples of acceptable uses include day care facility, doctor’s office, lawyer’s office and beauty salon. Condo hotels are not permitted.

Continued on next page

Acceptable Property Types (continued)

Manufactured Housing

I) Definition

ALC defines manufactured housing as follows:

- Manufactured homes are built to conform to National Housing and Urban Development safety code standards.
- They are built on a steel undercarriage (chassis) with the wheel assembly necessary to transport the structure to a permanent site.
- The wheel assembly can be removed when the residential structure is placed on permanent foundation, but the steel undercarriage remains intact as a necessary structural component.
- The presence of the steel undercarriage limits a manufactured home to a single story construction only and is a primary distinguishing factor between a manufactured home and a modular home. Manufactured homes are built to minimum property requirements set forth by HUD in June 1976.
- Other types of factory-built housing, not on a permanent chassis, such as modular/sectional, panelized, or packaged homes are not classified as manufactured housing.

II) Manufactured Housing Property Standards

1) The unit must be certified to the National Manufactured Housing Construction and Safety Standards, which were established by HUD in June 1976. Compliance with these standards must be evidenced by a "certification label" that is permanently affixed to each transportable section of the manufactured home.
2) The manufactured home must not be more than five years old at time of loan submission.
3) Materials and construction of the improvements must be acceptable in the area.
4) Construction must be double wide or greater.
5) Wheels, axles, and hitches must be removed from the unit.
6) The home must have permanent steps and stoops for all external doors.
7) The site must be served by utilities and off-site improvements meeting community standards, including a finished grade with positive drainage, and landscaping.
8) The property must conform to all applicable use restrictions.
9) The property must be zoned 1-4 residential.
10) The unit must be permanently affixed to a foundation, which is suitable for the soil conditions of the site and complies with local code. For new construction, the Certificate of Occupancy must be provided. All foundations, both perimeter and interior, must have footings that are located below the frost line.
11) The unit must meet state, local and Building Officials and Code Administrators International (BOCA) building codes. Certification that the unit meets these requirements must be included in the appraisal.

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Acceptable Property Types (continued)

Manufactured Housing (continued)

III) Manufactured Housing Property Standards (continued)

12) The land must be owned in fee simple. Leasehold estates are not permitted.
13) The land and unit must be conveyed together and represent a single real estate transaction under applicable law.

PUDs (Planned Unit Developments)

A planned unit development (PUD) is a development that has all of the following characteristics:

- The individual unit owners own or have a leasehold interest in a parcel of land improved with a dwelling. This ownership is not in common with other unit owners.
- The development is administered by a homeowner's association that owns or has a leasehold interest in and is obligated to maintain property and improvements within the development (for example, greenbelts, recreation facilities and parking areas) for the common use and benefit of the unit owners.
- The unit owners have an automatic, non-severable interest in the homeowners association and pay mandatory assessments.

Condominiums

A condominium unit is a dwelling located in a condominium project. A condominium project is real estate that includes the separate ownership in fee or on an acceptable leasehold estate of a specified residential unit with an undivided interest in the real estate designated for common ownership solely by unit owners. Condominiums must meet project requirements that follow. Condo hotels are not permitted.

I) High-rise Condominiums

Condominium buildings with more than four stories are considered a high-rise. Ground floor or subterranean parking is not considered in the number of stories counted for the purposes of this section. All comparable sales listed in the appraisal must be high-rise condominium units from the Subject Property's immediate neighborhood, preferably from the subject project. If comparables from other projects are used, the projects must be comparable in size to the subject property – the projects may not have more than 50% greater or fewer units than the subject project.

II) Low-rise Condominiums

Condominium buildings with four or fewer stories are considered low-rise.

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Acceptable Property Types (continued)

Condominium Project Requirements

Condominium projects must meet the requirements specified in this section for warrantable or non-warrantable projects.

ALC warrantable and non-warrantable requirements do not apply to the following:

- PUD projects
- Condominium projects with 4 or less units
- Detached condominium units (site condos) as defined later in this section.
- Two-to-four unit condominiums

I) ALC Warrantable Condominium Projects

1) Pre-sale: A minimum of 50% of the total available units for the applicable phase must be sold (purchase contract executed and deposits paid).
2) Investor Concentration: A minimum of 50% of the total sold units for the applicable phase must be occupied as primary residences or second homes. The appraiser must comment on the investor concentration and its affect on marketability.
3) Leasehold/Fee Simple Estate: The project may not contain both fee simple and leasehold estate properties. The properties within the project must be all leasehold estate or all fee simple estate.
4) Association Management: The control of the condominium association management must be transferred to the unit owners and operated in a prudent and professional manner, or, if the builder is still in control, then all common areas, facilities and amenities must be complete for the entire project. The association bylaws must contain a binding arbitration agreement.
5) Pending Litigation: The association must not be involved in any pending litigation of any nature.
6) Ownership By One Entity: One individual or entity may own no more than 10% of the units. This provision does not apply to builder-owned units where it has been less than 6 months since completion of construction of the applicable phase.
7) Utilities: The units within the project must have separate and individual electric and gas meters. For projects that do not have separate and individual electric and gas meters, at least 2 of the comparable sales shown in the appraisal must also have shared gas and electric meters and the appraisal must indicate the specific utilities that are shared. It is not necessary for the units to have separate and individual heating oil and water meters.
8) Insurance Coverage: The requirements for condominium insurance specified in must be met.
9) Commercial Usage: Commercial usage should not represent more than 20% of the square footage of the project. Any commercial space in the project should be compatible with the overall residential nature of the project and commercial general liability insurance must be maintained which specifically covers the commercial space.
10) A homeowner's association certification that verifies all of the above information is required.

Continued on next page

Acceptable Property Types (continued)

Condominium Project Requirements (continued)

I) ALC Non-Warrantable Condominium Projects

For projects that do not meet the requirements of ALC Warrantable Projects above, the following requirements apply:

1) Pre-sale & Investor Concentration:

   If less than 50% but greater than 30% of the total available units for the applicable phase are sold (purchase contracts executed and deposits paid), the following restrictions apply:

   - A minimum of 50% of the total sold units for the applicable phase must be occupied as primary residences or second homes. The appraiser must comment on the investor concentration and its affect on marketability.
   - The occupancy for the Loan must be primary residence. Second homes and investment properties are not permitted.
   - The Loan requires Full, or Stated Income documentation. No Ratio, No Income/No Asset and No Doc documentation are not permitted.

2) Leasehold Estates: Projects located on land held in a leasehold estate are not eligible.
3) Association Management: The control of the condominium association management must be transferred to the unit owners and operated in a prudent and professional manner, or, if the builder is still in control, then all common areas, facilities and amenities must be complete for the entire project. The association bylaws must contain a binding arbitration agreement.
4) Pending Litigation: The association must not be involved in pending litigation except where such litigation does not create excessive risk. In order to assess the risk of any pending litigation, the following documentation, at a minimum, is required:

   - Copy of lawsuit(s) or summary letter from association attorney outlining possible outcomes
   - Copies of current applicable association insurance policies
   - Current Statement of Financial Position or Balance Sheet, Statement of Cash Flows or Cash Flow Analysis and Current Budget for the association
   - Copies of the minutes of the last three association Board of Directors' meetings
   - The appraiser must comment on any litigation and its affect on marketability.

The above information will be reviewed to determine the stability of the association and quality of management and representation. Possible impacts of pending litigation, including legal fees and insurance deductibles, will be weighed against association solvency. Litigation that concerns uncorrected construction defects will generally not be acceptable.

Continued on next page

Acceptable Property Types (continued)

Condominium Project Requirements (continued)

5) Ownership By One Entity: One individual or entity may own no more than 10% of the units. This provision does not apply to builder-owned units where it has been less than 6 months since completion of construction of the applicable phase.
6) Utilities: The units within the project must have separate and individual electric and gas meters. For projects that do not have separate and individual electric and gas meters, at least 2 of the comparable sales shown in the appraisal must also have shared gas and electric meters and the appraisal must indicate the specific utilities that are shared. It is not necessary for the units to have separate and individual heating oil and water meters.
7) Commercial Usage: Commercial usage should not represent more than 20% of the square footage or operating budget for Condominium projects. Any commercial space in the project should be compatible with the overall residential nature of the project and commercial general liability insurance must be maintained which specifically covers the commercial space.
8) Insurance Coverage: The requirements for condominium insurance specified in must be met.
9) A homeowner's association certification that verifies all of the above information is required.

III) Condominium Projects of 4 or Less Units

The following requirements apply to projects of 4 or less units.

1) There are no pre-sale, investor concentration, or single entity ownership restrictions.
2) Association Management: The control of the condominium association management need not be transferred to the unit owners. All common areas, facilities and amenities must be completed for the entire project. The association bylaws must contain a binding arbitration agreement.
3) Utilities: The units within the project must have separate and individual electric and gas meters. For projects that do not have separate and individual electric and gas meters, at least 2 of the comparable sales shown in the appraisal must also have shared gas and electric meters and the appraisal must indicate the specific utilities that are shared. It is not necessary for the units to have separate and individual heating oil and water meters.
4) Insurance Coverage: The requirements for condominium insurance specified must be met.
5) Such properties are not subject to ALC warrantable or non-warrantable project requirements.

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Acceptable Property Types (continued)

Condominium Project Requirements (continued)

IV) Detached Condominium Units (Site Condominiums)

Condominium projects composed of only detached one-unit dwellings (site condominiums) that meet the following conditions are eligible.

1) The project may contain no manufactured housing units.
2) A condominium rider to the Security Instrument and a condominium title endorsement are required.
3) Insurance requirements for condominiums as specified in must be met.
4) Appraisals for such properties may be documented on either the Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70) or the Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073/Freddie Mac Form 465).
5) Such properties are not subject to IndyMac warrantable or non-warrantable project requirements.

V) Two-to-Four Unit Condominiums

A two-to-four unit condominium is a single property with single ownership and one legal description that provides separate units for 2 to 4 families. The following requirements apply:

1) A condominium or PUD rider to the Security Instrument and a condominium or PUD title endorsement are required, as applicable.
2) Insurance requirements for condominiums or PUDs as specified must be met, as applicable.
3) Appraisals for such properties must be documented on the Small Residential Income Property Appraisal Report (Fannie Mae Form 1025/Freddie Mac Form 72).

Loans secured by such units will be subject to 2 to 4 unit underwriting requirements and pricing.

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Acceptable Property Types (continued)

Cooperative Units

A cooperative unit is a residential property in which a corporation holds the title or trust that sells shares of stock representing the value of a single unit to purchasers who receive a proprietary lease as evidence of title. The following requirements must be met:

1) Properties located in New Jersey and New York only.
2) Minimum pre-sale of 51% sold or under contract.
3) 60% of the units sold must be primary residences or second home.
4) Minimum square footage is 600 (400 in Manhattan).
5) All comparable sales listed in the appraisal must be cooperative share units from the Subject Property's immediate neighborhood, preferably from the subject project. If comparables from other projects are used, the projects must be comparable in size to the subject property – the projects may not have more than 50% greater or fewer units than the subject project.
6) Buildings over four stories must have elevators.
7) The sponsor's negative cash flow must not exceed 20% of the maintenance fee paid by the shareholders.
8) The sponsor must be current on all obligations to the cooperative corporation.
9) The cooperative corporation must have fee simple ownership of the land.
10) The pro rata share of the project debt that is related to the cooperative share Loan cannot exceed 40% of the sum of the related pro rata share of the project debt and the lower of the sales price or Acceptable Appraised Value of the cooperative shares. For example:

    Unit's pro-rata share of all underlying mortgage debt: ……………… $52,973

    Value (lower of Sales Price or Acceptable Appraised Value: ………. <u>115,000</u>

    Sum of pro rata share of project debt and value: ……………………. $167,973

    Percentage ($52,973 / $167,973, expressed as a percentage): …….31.54%

11) Commercial Usage: Commercial usage should not represent more than 20% of the square footage or operating budget for the project. Any commercial space in the project should be compatible with the overall residential nature of the project and commercial general liability insurance must be maintained which specifically covers the commercial space.
12) The cooperative corporation must qualify under IRS Code 216. This provision is required in order for tenant-stockholders to deduct their proportionate shares of the corporation's taxes and interest payments. Among the main qualifications for a cooperative housing corporation under Section 216 is are the requirements that 80% of the corporation's income come from tenant-stockholders and that each tenant-stockholder must be entitled to occupy a unit for residential purposes. Therefore, the corporation's income from commercial space is limited to 20% of its total income.

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Property and Appraisal Standards Continued

Cooperative Units (continued)

13) The cooperative corporation must own all amenities and facilities relating to the cooperative project.
14) All amenities and/or improvements must be complete or adequate reserves for completion must be in place.
15) Zoning must be conforming; however, non-conforming zoning that permits building a replacement property upon partial destruction is acceptable.
16) The following searches for both the Borrower and property seller must be obtained: UCC-1s (county level only), federal and state tax liens, judgments, and bankruptcies.
17) A search on the cooperative corporation must be obtained for the following: Last owner's search establishing deed transfer from sponsor to cooperative corporation, federal and state tax liens, judgments, bankruptcies, real property records (county level) of property owned by the cooperative corporation.
18) No gap in UCC-1 filing will be permitted; therefore, UCC pre-filing will be required prior to closing.
19) Financial statements of the cooperative corporation for the last 2 years are required.
20) ALC Form , Cooperative Project Approval Information, completed by the project managing agent and the closing agent is required.

Residential Lots (Residential Lot Acquisition First Mortgages)

Lot size should conform to the general area, and be considered "residential" in nature. The lot must have improvements to the site,legally accessible street with sewer, electricity and water stubbed to the site or available in the street. Hillside lots are generally not eligible. The lot should not have been on the market for more than one year from the time of original listing (marketing time should be reasonable). The zoning and highest and best use for the lot must be residential.

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Additional Property Requirements

Leasehold Properties

Loans secured by leasehold estate properties are only eligible in areas where they are common and have received market acceptance. The lease term, rental adjustment period and transferability of the lease must be considered. The lease payment must be included in the housing expense ratio. The following requirements must be met:

- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor. The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee. The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee or by any default of a sublessor. The lease must also provide for the Borrower to retain voting rights in any owners' association.
- The ground lease may not terminate earlier than 5 years after the Maturity Date of the Loan unless the property reverts to a fee simple estate upon an earlier termination.
- The ground lease may not provide for termination of the lease in the event of lessee's default without the mortgagee being entitled to receive written notice of, and a reasonable opportunity to cure the default.
- The ground lease must permit the mortgaging of the property.
- The ground lease must protect the mortgagee's interests in the event of a property condemnation.
- All ground lease rents, other payments, or assessments that have become due must be paid.

Properties With Acreage

Loans secured by properties with 21 to 50 acres that consist of one contiguous parcel are generally acceptable if the primary dwelling represents at least 30% of the total Acceptable Appraised Value and the property conforms to the local market. In addition, the LTV will be limited as follows:

Number of Acres	Maximum LTV & CLTV
21 — 30	75%
31 — 40	70%
41 — 50	65%
50+	not Permitted

Orchards, ranches, farms, vineyards and other similar agricultural properties are not permitted. The highest and best use of the property must be as a single family residence in all cases.

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Additional Property Requirements (continued)

Multiple Parcels

When the Subject Property consists of more than one parcel, the parcels must be adjoining. The parcels must have a consistent use, the total Subject Property must conform to the area in which it is located, and the encumbrance of the multiple parcels may not compromise the property's highest and best use or valid lien position. In addition, only one parcel may contain a residence. For example, the Loan may be secured by one parcel of real estate with a residence and an adjoining parcel that contains either vacant land or a garage; but the adjoining parcel cannot contain another residence. The vacant parcel is to be valued as "excess land" and not at its retail value. The parcels may have separate tax assessor's identification numbers.

Commercial Zoning

Properties with commercial zoning should exhibit no negative impact on marketability or habitability as residential properties and should not change the residential character or atmosphere of properties. The majority of the uses on the Subject Property's street must also be 1-4 family and at least two of the comparable sales must be from the Subject Property's immediate neighborhood and have the same zoning.

Residential properties with commercial zoning should reflect the current usage as the highest and best use and be eligible to be rebuilt in the case of partial or total destruction.

Inclusionary Zoning Restrictions

To provide affordable housing for low- and moderate-income persons, some state and local governments have introduced the concept of "inclusionary zoning." ALC will approve Loans secured by properties that are subject to this type of zoning restriction or land-use regulation. In such cases, the deed restrictions must be subordinate to the mortgage and the mortgage holder must have the first claim to any hazard insurance settlement or condemnation award. In addition, the restrictions cannot impair the mortgage holder's legal rights to remedy a default under the mortgage terms, nor should they require the mortgage holder to send a notice of default or foreclosure to any third party. The source of the deed restrictions must be included in the public land records so that it is readily identifiable in a routine title search.

Any resale controls that affect the restricted units must be for a fixed period of any term up to 30 years. They must be administered by an authorized governmental unit that has established procedures for screening and processing applicants. The zoning authority or local jurisdiction may retain the "right of first refusal" to purchase a restricted unit that is being resold. This right must be exercised within 90 days after the property is listed for sale. However, the deed restrictions cannot obligate the mortgage holder to notify the zoning authority or local jurisdiction separately about a pending foreclosure sale of the restricted unit.

When the mortgage holder acquires a restricted unit through foreclosure or acceptance of a deed-in-lieu of foreclosure, future sales of the unit must not be subject to any resale restrictions.

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Additional Property Requirements (continued)

Inclusionary Zoning Restrictions (continued)

When a condominium project is located in an area that has passed "inclusionary zoning" restrictions, the project's declaration must address the following:

- The source of the deed restrictions in the public land records;
- The subordination of the deed restrictions to a mortgage on the unit estate, and the priority of the mortgage holder's rights to any hazard insurance settlement or condemnation award;
- The number of restricted units;
- Any provision of the deed restrictions that would impair a mortgage holder's legal rights to remedy a default under the mortgage or that would require the mortgage holder to send a notice of default or notice of foreclosure to any third party (including the zoning authority or local jurisdiction); and
- The terms of any resale controls that affect the restricted units.

Certificate of Occupancy

A certificate of occupancy issued by the applicable authority for the jurisdiction in which the Subject Property is located must be provided for all newly constructed homes that have not been previously occupied, whether built by the Borrower or purchased from a builder.

Property Condition

With the exception of construction to permanent Loans, all property improvements must be in good condition and rated as average or better, with no evidence of deferred maintenance.

Properties rated as fair or with deferred maintenance or other damage may be considered only if the appraiser values the property “as is” and certifies that the property is habitable and marketable in its current condition. The appraiser must also provide an estimate of the cost to cure any substandard items.

For construction to permanent and remodeler Loans, property improvement conditions will be evaluated subject to plans and specifications.

Incomplete Properties

With the exception of Home Construction Lending construction to permanent loans, a Fannie Mae Form 442 final inspection with original pictures will be required prior to purchase or funding of any Loan where the appraisal is not prepared on an “as is” basis or where there is evidence that the Subject Property has habitability or marketability issues which would deem the Loan ineligible.

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Unacceptable Properties

The following properties are not acceptable:

- Multifamily properties with more than four dwelling units
- Condo hotels
- Time share units/projects
- Earth shelter or berm homes
- Unimproved land (except for the Lot Loan Program)
- Properties that are not designed for year round residential use or are not accessible year round
- Properties located directly on or in immediate proximity to hazardous substances or waste sites including, but not limited to such businesses as printing shops, photo finishing shops, auto repair shops and dry cleaning plants
- Properties situated in a flood hazard area that is not eligible for participation in the National Flood Insurance Program
- Properties that do not represent reasonable collateral for the Loan
- Mobile homes – factory-built homes that do not meet the definitions and requirements of manufactured housing, single family detached - modular/sectional homes, panelized homes, or packaged homes discussed earlier in this section
- Properties greater than 50 acres
- Properties with generators or solar panels as their only permanent energy source

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Escrow Holdback for Completion of Property

In cases where closing is prior to completion of improvements on the property, ALC will consider an escrow for completion of minor work, if it can be shown that the property is habitable and marketable prior to completion. Prior approval is required and will be made on a case-by-case basis and at the sole discretion of ALC. At a minimum, the following will be required:

- The Subject Property must be the Borrower's Primary Residence. Second Homes and Investment Properties are not eligible.
- Appraiser or other qualified individual must provide estimate of cost to cure the deficiencies.
- Completion cost may not exceed 10% of value.
- Escrow amount must be for one and one half times the cost of completion.
- Value minus completion cost cannot result in a LTV greater than 10% above the original LTV of the Loan, not to exceed a total LTV of 100%.
- Loan file must contain complete documentation of an escrow holdback agreement in substantially on a ALC form .
- In connection with the sale and transfer of the Loan to ALC, Broker must assign all of its rights and interests under the escrow hold-back agreement to ALC by executing and delivering to ALC an assignment in substantially on ALC form.
- Broker shall be responsible for monitoring the completion of the required repairs and/or improvements and disbursing the funds held in escrow in accordance with the escrow holdback agreement. Seller must notify ALC as soon as Broker becomes aware that the repairs and/or improvements will not be completed in the time prescribed by the escrow hold-back agreement, or the cost of the repairs and/or improvements will exceed the amount deposited into the escrow hold-back account. At the sole discretion of ALC, Seller may be required to repurchase any Loan with an escrow hold-back if the repairs and/or improvements are not completed in the time prescribed by the escrow hold-back agreement, or the cost of the repairs and/or improvements exceeds the amount deposited into the escrow hold-back account.
- For Loans sold to ALC with servicing retained by the Broker, the servicing rights relating to a Loan subject to an escrow hold-back agreement may not be pledged, assigned, hypothecated, sold or otherwise transferred by Broker until the required repairs and/or improvements have been completed and all funds in the escrow hold-back account have been disbursed in accordance with the terms of the escrow hold-back agreement. Broker must deliver evidence of the foregoing to ALC's Master Servicing Manager prior to receiving ALC's consent to any pledge, assignment, hypothecation, sale or other transfer of such servicing rights. Nothing contained herein prohibits Broker from utilizing an eligible Sub-Servicer to service a Loan subject to an escrow holdback agreement.
- At any point in time, the aggregate dollar amount of pending escrow hold-backs relating to Loans sold to ALC by a Broker may not exceed the lesser of 10% of the Broker's current net worth, or $1 million.
- Final inspection must be provided and all escrow holdback funds must be disbursed within 60 days of ALC's purchase of the Loan.