



Community Mortgage Residential Mortgage Program & Underwriting Guidelines

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Community Mortgage Residential Mortgage Program & Underwriting Guidelines

I. Loan Program Mission

Empowering the dreams of diverse homeowners and underserved communities by providing non-traditional access to prime capital for underbanked borrowers and communities.

II. Community Development Financial Institution (“CDFI”) Overview

A. CDFI Certification

Notice of Certification dated April 20, 2018, Certification Number 171CE014651 issued by the U.S. Department of Treasury certifying The Capital Corps, LLC and Commerce Home Mortgage, LLC, each as a CDFI as defined in 12 C.F.R. 1805.104.

B. CDFI Exemption

Under Applicable Law, a loan originated by a CDFI is exempt from the Ability-to-Repay (“ATR”) requirements set forth in Section 1411 of the Dodd-Frank Act and Regulation Z. So long as originator is certified as a CDFI when it originates the loan, the exemption to ATR is effective and unconditional. Accordingly, the originator or purchaser of such loan shall not have any liability with respect to claims to legal actions brought by borrowers based on originators failure to comply with the ATR requirement.

III. Community Mortgage Residential Mortgage Program Overview

Community Mortgage focuses on underbanked and underserved borrowers and communities with a holistic approach to credit underwriting and loan origination focused on the Five C’s of Credit Principles:

Character	Measures the borrower’s reputation, record of accomplishment and experience of repayment.
Collateral	Measures the lender’s security for the loan.
Capital	Measures the borrower’s equity contribution and level of seriousness.
Capacity	Measures the borrower’s capacity to repay the loan.
Conditions	Measures the terms of the loan verses the purpose of the loan.

Community Mortgage mortgages are well structured to help borrowers establish and enhance their credit to improve their access to prime financing and do not have predatory prepayment penalties or other consumer adverse terms or conditions.

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Community Mortgage borrowers often need credit underwriters to consider compensating factors or alternative documentation due to limited or irrelevant quantitative underwriting factors to establish a reasonable expectation of repayment in the following areas:

Character & Credit History	Credit underwriting seeks to understand a borrower’s character as part of the process. This can include reference letters, community activities, and reputation as well as credit history. Certain borrowers with limited FICO scores (e.g., new immigrants etc.) or with irrelevant or misleading FICO scores (e.g., identity theft etc.) may need more bespoke underwriting which considers alternative credit scoring and borrower character to evaluate the borrower’s reliability and reasonable expectation of repayment.
Income	Borrowers who meet the Community Mortgage eligibility requirements are not required to provide income documentation. Income is therefore not calculated nor stated on the loan application (1008/1003) nor is a debt-to-income ratio calculated as part of the programs established reasonable expectation of repayment.
Loan Documentation	Credit underwriting will often use “common sense” approach and use alternative and compensating forms of documentation to evaluate a reasonable expectation of repayment.

Community Mortgage focuses on the following borrower populations:

- Low Income Individuals and Communities
- Underserved and/or underbanked borrowers due to ATR and Regulation Z requirements:
 - Limited Income History
 - Limited or No Credit History
 - Inadequate Income Documentation

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IV. Community Mortgage Loan Terms

Loan Types	<ul style="list-style-type: none">• 5 Year Fixed Rate ARM• 7 Year Fixed Rate ARM• 10 Year Fixed Rate ARM• 30 Year Fixed Rate
Loan Term	360 months
Payments	Payments, unless otherwise required, are interest only minimum payment for the fixed period of the ARM or first 10 years on Fixed Rate product, and then fully amortized for the remaining life of loan.
ARM Index	30 Day Avg SOFR
Floor Rate	Start Rate
ARM Margin	4.500% - Subject to any loan level margin adjustments
ARM Interest Rate Caps	<ul style="list-style-type: none">• 5/6 Month ARM 2/2/5 Caps• 7/6 Month ARM 5/2/5 Caps• 10/6 Month ARM 5/2/5 Caps
Prepayment Penalty	None
Balloon Payment	None
Impound Account	Required
Ineligible State(s)	Nevada

V. Community Mortgage Program Eligibility & Credit Guidelines

A. Eligible Transactions*

Eligible Transactions	Requirements
Purchase	Maximum 75% LTV
Rate & Term Refinance	Maximum 75% LTV. Borrower proceeds limited to 2% of loan amount. Any subordinate loan not used in the initial acquisition of the subject property is eligible for payoff should one of the following apply: <ul style="list-style-type: none">• Closed end loan, at least 12 months seasoning has occurred; or

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	<ul style="list-style-type: none">• HELOC, at least 12 months of seasoning has occurred and total draws over the most recent 12 months are less than \$2,000. HELOC must be closed.• Debt Consolidation Cash out transactions meeting the following additional requirements may be treated and priced as Rate & Term transactions:<ul style="list-style-type: none">○ Borrower is to receive zero cash in hand (loan proceeds are to be applied solely to debt payoff)○ The Closing Disclosure must reflect the paid off debts.
Cash Out Refinance	Maximum 70% LTV. *A prior cash out transaction within the last 12 months disqualifies the borrower from an additional cash out transaction, unless a documented benefit exists.
Delayed Financing Option	Borrowers who purchased the subject property within the past 6 months are eligible for a cash out refinance if all of the following requirements are met: <ul style="list-style-type: none">• The original purchase was arm's-length.• The original purchase is documented by a title search and final settlement statement confirming no mortgage financing was used to obtain the subject property.• The source of funds for the original purchase are documented.• If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property, the settlement statement must reflect that all cash out proceeds are used to pay off the loan used to purchase the property.• Property value is based on the lower of the initial purchase price or current appraised value. The new loan amount cannot exceed the actual documented amount of the borrower's initial investment plus the financing of closing costs, prepaid fees, and points on the new mortgage. All other cash out eligibility requirements are met. Cash out pricing applies.
Secondary/Subordinate Financing	Allowed up to 85% max CLTV.

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- Secondary financing must be institutional. Seller-held subordinate liens are not permitted.
- Existing secondary financing must be subordinated and recorded or refinanced, paid off or closed. HELOC CLTV must be calculated at the maximum available line amount unless the borrower can provide documentation the line of credit is past its draw period.
- Unacceptable forms of subordinate financing include mortgages with negative amortization and/or mortgages due and payable within the next 5 years. Subordinate mortgages due within the next 5 years may be allowed if borrower provides sufficient assets to cover the amount due.

TILA High Priced Mortgage Loan Allowed, subject to TILA HPML requirements.

B. Community Mortgage Eligibility Grids:

Primary Residence & Second Home	LTV/CLTV	FICO	Reserves ^①
Purchase Rate & Term	75%	740	6 months
		700	12 months
		680	18 months
		640	24 months
Primary Residence & Second Home	LTV/CLTV	FICO	Reserves ^①
Cash Out	70%	740	6 months
		700	12 months
		680	18 months
		640	24 months
Maximum Loan Amounts			
All LTVs based on grid above	\$3,000,000		
Additional Financed Properties			
Each additional financed property owned requires 2 months additional reserves of each property's PITIA			

① Community Mortgage Reserve Calculation Index: 1 month reserve = 1 month PITIA

C. Borrower Eligibility

Borrower Type	Requirements
U.S. Citizens	Must have a valid Social Security Number.

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An individual who was born or naturalized as a citizen of the United States.

Permanent Resident Aliens (Green Card)

An individual legally authorized to reside and work in the United States indefinitely.

Legally authorized to reside and work in the United States indefinitely.

- Must have a valid Social Security Number
 - A fully executed Certification of Resident Alien Status Form must be provided at the time of submission
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Non-Permanent Resident Aliens

An individual employed in the United States but does not have a green card.

Valid Social Security Number is required. The borrower's current visa must meet lender requirements and have a minimum of one year remaining prior to expiration.

Max Number of Borrowers Allowed

4 Borrowers. Greater than 4 borrowers considered on a case-by-case basis.

Ineligible Borrowers

- Diplomats
 - Diplomatic Immunity
 - Applicants with temporary protected status
 - Irrevocable Trusts
 - Land Trusts
 - Limited or general partnerships (LLC)
 - S Corporations
 - Corporations
-

D. Property Eligibility

Eligible Properties

- Primary Residences
 - Second Homes
 - must be occupied by the borrower some portion of the year
 - must be located a reasonable distance from the borrowers current residence
 - restricted to one-unit dwellings
 - the borrower must have exclusive control over the property
 - must not be a rental property or a timeshare agreement
 - 1-4 Unit Residential Properties
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- Condominiums – FNMA warrantable allowed up to max LTVs per grid
- Agriculturally/Rural Zoned Properties
 - Working farms, ranches or orchards are ineligible
 - Acreage limited to 20 acres max

Ineligible Properties	<ul style="list-style-type: none">• Investment Properties• Condotels• Manufactured / Mobile Homes• Zoned Retail / Commercial
Condominiums	Follow review process as required by Fannie Mae.
Hazard Insurance	The insurance coverage should reflect one of the following: <ul style="list-style-type: none">• 100% of the insurable value of the improvements, as established by the property insurer; or• 100% of the Total Estimate Cost-New per the appraiser; or• the unpaid principal balance of the mortgage, as long as it is at least equals the minimum amount – 80% of the insurable value of the improvements – required to compensate for damage or loss on a replacement cost coverage.

E. Vesting Eligibility

Vesting Type	Requirements
Individual / joint Tenant	Acceptable
Community Property	Acceptable
Tenants in Common	ALL parties must be borrowers on the transaction.
Power of Attorney	<ul style="list-style-type: none">• Acceptable for rate/term refinance, no cash out and purchases military use only.• Must be “specific” and reference the loan transaction.• POA needs to be notarized within 60 days of note date
Revocable Trust / Inter-Vivos	A completed Trust and / or Trust Certification. At least one borrower on the transaction must be the Trustor (Settlor) and a Trustee.
Blind Trust	Acceptable, see Revocable Trust.

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Ineligible Vesting	<ul style="list-style-type: none">• Tenants in Common with parties who are NOT borrowers on transaction• Corporation• Irrevocable Trust• Qualified Personal Residence Trust (QPRT)
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F. Appraisal Eligibility

Appraisal Items	Requirements
Appraisal Ordering	All appraisals must be ordered and completed by a Commerce Home Mortgage approved appraiser or AMC, in accordance with Appraisal Policy.
Second Appraisal	A Second Appraisal from a Commerce Home Mortgage approved appraiser or AMC is required when the loan amount exceeds \$1,500,000. When a second appraisal is provided, the transaction's "Appraised Value" will be the lower of the two appraisals. The second appraisal must be from a different company and appraiser than the first appraisal.
Appraisal Review	All appraisals require an acceptable, pre-closing, third-party desk appraisal review by an approved vendor in accordance with Appraisal Policy.
Distressed Markets	If an appraiser identifies a property as "distressed", it must be determined whether any deterioration is material and impactful to the overall value of said property. A minimum reduction of the maximum program LTV will be applied, additional reduction will be subject to underwriter discretion.
Appraisal Age	Recertification of value will be required on appraisals dated 121-180 day from the closing / funding of loan. At 181 days, a new full appraisal is required.
Loan to Value (LTV)	<p><u>Purchase Transactions</u> – LTV equals the lesser of the purchase price or appraised value.</p> <p><u>Refinance Transactions</u> – If seasoned ownership is 12 months or greater, current appraised value is used. If the seasoned ownership is less than 12 months, use lesser of original purchase price or current appraised value.</p>

G. Credit Eligibility

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Credit Items	Requirements
Minimum Credit Score	FICO ≥ 640
Tradelines Requirement	<p>Two (2) tradelines reporting for 12+ months or one (1) tradeline reporting for 24+ months, all with activity in the last 12 months. *First Time Home Buyers are allowed to apply a 12 month recent and satisfactory VOR towards the tradeline requirement.</p> <p>The following are not acceptable tradelines:</p> <ul style="list-style-type: none">• “Non-traditional” credit as defined by Fannie Mae• Any liabilities in deferment status• Accounts discharged through bankruptcy• Authorized user accounts• Charge-offs or collection accounts• Foreclosures, deed in lieu of foreclosure, or short sales
VOM	<p>VOM required on refinance transactions only. If Primary is Free and Clear, no VOM is required. Mortgage being paid off through the transaction must be current, cannot be currently past due or in forbearance within the last 12 months. 0 x 30 last 12 months. All disclosed mortgage payment history is subject to review at Underwriter discretion.</p> <ul style="list-style-type: none">• All other disclosed current mortgages tied to any other properties owned by the borrower (not our subject property) that are currently in forbearance and are not current must be reinstated per FNMA requirements before the borrower is eligible for new financing.
Foreclosures, Short/Deed-in-Lieu Sales, Loan Modifications	<p>A 2 year waiting period is required. All of these major derogatory events require a letter of explanation from the borrower. The situation causing the event must be adequately documented as resolved. If multiple events exist in this time frame each must be addressed in the explanation. Compensating documentation may be required at underwriter’s discretion. The length of time is measured from the settlement date to the note date.</p> <ul style="list-style-type: none">• In the case of any event which was included in Bankruptcy, the seasoning timeline will start from the earlier of: a) the date of discharge of bankruptcy; and b) the event completion date. Re-established credit of at least 2 tradelines paid as agreed for 12 months is required or the event date will be used. Active major derogatory events are not allowed.

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Bankruptcies	Must be fully discharged, no seasoning requirements. LOE required. Compensating documentation may be required at underwriter's discretion.
Judgements	Must be paid at time of closing. Acceptable LOE required.
Tax liens	Acceptable, proof of release. LOE required. Compensating REP documentation may be required at underwriter's discretion.
Derogatory Credit	LOE required. Compensating documentation may be required at underwriter's discretion.
Collections	Acceptable, all open collections reporting in the most recent 24 months must be paid at time of closing. LOE required. Compensating documentation may be required at underwriter's discretion. Medical collections not included.
Schedule of REO	Initial 1003 must reflect a complete Schedule of Real Estate for all properties owned by the Borrower and must also include the full PITIA validation for each property.

H. Verification of Asset Eligibility

Verification of Assets	Requirements
Verification of Reserves	<ul style="list-style-type: none">• Reserves are calculated after considerations for required down payment.• 100% value of stocks, bonds, mutual funds, 401k, retirement accounts and deferred compensation are acceptable sources of reserves.• Must provide API data or most recent 1 month third-party statement in borrower's name to meet reserves requirements. Documentation provided must, at minimum, validate the current month's beginning balance, total deposits, total withdrawals, and current month's ending balance. Assuming this required information is provided, all pages of the statements may not be required.• Must provide source of funds for any recent significant deposits. A significant deposit is defined as 10% or more of the loan amount.• Business funds are acceptable, must show proof of ownership. Will calculate and use the funds equal to the percentage of ownership.• Verified home improvements within last 6 months.• Gift funds are not acceptable for reserves.

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	<ul style="list-style-type: none">• Cash out from transaction cannot be used to meet reserve requirement.
Verification of Down Payment or Principle Pay Down	<ul style="list-style-type: none">• Must provide most recent 1 month third-party statement in borrower's name.• Must provide source of funds for any recent significant deposits. A significant deposit is defined as 10% or more of the loan amount.• Business funds are acceptable, must show proof of ownership. Will calculate and use the funds equal to the percentage of ownership.• Assets held in foreign accounts may not be used as a source of funds to close or for reserves. These funds must be transferred to a U.S. banking institution account in the Borrower's name and seasoned at least thirty (30) days prior to closing.
Gift Funds	<ul style="list-style-type: none">• Gift funds are acceptable for 100% or a portion of the down payment, principal pay down & closing costs, and require a gift letter with the givers name, address, relationship to borrower, amount and verify that the money is a gift and does not have to be repaid.• Must document sufficient funds to cover the gift are either in the Donor's account or have been transferred to the Borrower's account. Follow FNMA requirements.• Gifts of equity are not permitted.
Seller Credit	Seller credit not to exceed 6% on purchase transactions.

I. Homeowner Education Requirement for all Transactions

Counseling Requirement	Borrower Paid Cost (POC)
Framework Online Homebuyer Course	\$75
