

## Hobby Farm Maximum LTV/CLTV (Purchase and Refinance)

| Program   | Loan Amount               | LTV/CLTV  | FICO |
|---|---------------------------|-----------|------|
| <b>Hobby Farm</b><br>(\$500+ of annual ag income) | ≤ \$750,000               | 80% / 95% | 680  |
|   | \$750,001 - \$1,200,000   | 75% / 90% |      |
|   | \$1,200,001 - \$2,000,000 | 70% / 80% |      |
|   | \$2,000,001+ <sup>1</sup> | 55% / 55% |      |

1. Reviewed on case-by-case basis, requires investor approval

## Hobby Farm Highlights

- 15- and 30-year fixed rate term
- Up to 95% CLTV
- Loan amounts up to \$2,000,000
- 5-160 acres and up to 50 heads of livestock
- DTI up to 39%; up to 43% w/compensating factors

### LHFS PROGRAM CODES

|                           |            |
|---------------------------|------------|
| W Exp Hobby Farm Fixed 30 | WEHF30-000 |
| W Exp Hobby Farm Fixed 15 | WEHF15-000 |



| GENERAL REQUIREMENTS                   |  |
|--|--|
| <b>Acreage</b>                         | <ul style="list-style-type: none"> <li>• Properties generally range from 5-160 acres</li> <li>• Acreages 160+ considered on a case-by-case basis.</li> </ul>   |
| <b>Agricultural Income</b>             | <p>Acreages of 5+ need to have reasonable potential to produce \$500/annually.<br/>         If an applicant has a property under 5 acres (and needs to be classified as a hobby farmer) then the annual agriculture income must be \$5,000.</p>  |
| <b>Appraisal</b>                       | <p><b>***COVID 19 - UPDATE***</b></p> <ul style="list-style-type: none"> <li>• Until further notice, for the safety of all involved, we are waiving the requirement and prohibiting interior inspections of residences. Please ask the owners to send interior pictures if possible. For interior inspections of outbuildings, IF you can maintain "social distance", inspections are allowed. Over the phone interviews of owners and buyers are highly encouraged versus in-person interviews. Please address these circumstances in the narrative of your report and add any necessary extraordinary assumptions and hypothetical conditions. Please review USPAP FAQ 189 and AO-2.</li> <li>• Site/land values should be supported with additional comments/addendums in the appraisal report. At least 3 land sales should be provided to support the value.</li> <li>• Fannie Mae 1004 / Freddie Mac 70 appraisal forms or Uniform Agricultural Appraisal Report (UAAR)</li> <li>• The appraiser should choose the reports which best supports the value given to the subject property.</li> <li>• The appraisal report must contain the full legal description of the subject property. An addendum which shows the legal description (that matches the title work description) is acceptable.</li> <li>• Appraiser must have one of the following appraisal certifications:             <ul style="list-style-type: none"> <li>• Certified Residential</li> <li>• Certified General</li> </ul> </li> <li>• Assignments of appraisals are not permitted.</li> <li>• Both the Sales and Cost Approaches are required. Comparable sales should be under 12 months old and generally within 50 miles of the subject property (include an explanation when distances are greater than 25 miles) If the subject property is in a location that has declining values, document time adjustments to account for value trends in the area. The cost approach should be completed with the analysis of contributory value of any buildings other than the residence.</li> <li>• Acreages – properties with significant acreage may result in difficulty finding comparable with similar acres. If comparable sales are not similar in acreage size, adjustments for the number of acres and characteristics of the land should be made. Include explanations for the adjustments and support with independent land sales if needed. Properties with noncontiguous parcels will require two appraisal reports.</li> <li>• Style/age of home – challenges in finding similar homes in the comparable sale analysis. LHFS may be able to expand the time/distance if it helps in the search for good comparable sales.</li> <li>• A minimum of three comparable sales are required. Current listing can be used in addition to, but not in lieu of actual comparable sales.</li> <li>• Interior photos of the subject property are required.</li> <li>• Appraisers should address obvious issues relative to property access, environmental, neighborhood appeal, well/septic concerns, etc.</li> <li>• Reconcile the differences (if any) between the sales price and the appraised value.</li> <li>• Description of acres – Appraisers are encouraged to include an acreage breakdown relative to the number of tillable, pasture, woods, etc. This could be supplemented with an aerial photo.</li> <li>• Site/land values should be supported with additional comments/addendums in the appraisal report.</li> <li>• The appraisal must contain location maps, property plats and aerial photos as necessary to allow the reader to physically locate, inspect and clearly identify property boundaries of the subject property utilizing the appraisal document alone.</li> <li>• Appraiser should give no value to items considered to be personal property (i.e.; singlewide mobile home, irrigation equipment, grain bins, etc).</li> </ul> |
| <b>Borrower and Ownership Entities</b> | Individuals only   |
| <b>Cash-Out Restrictions</b>           | <p>Undocumented actual cash out to the borrower will be limited to the lesser of \$100,000 or 25% of the loan amount.</p> <p>Example of ineligible purposes: investments, second homes or providing funding for non-agricultural business purposes.</p>  |
| <b>Credit</b>                          | <p>Minimum mid-score of 680</p> <p>Bankruptcies, foreclosures, short sales, significant mortgage late pays, significant collections Tax liens, etc.</p> <ul style="list-style-type: none"> <li>• Applications with 4+ Years of solid credit history since date of credit event (discharge date for bankruptcies) will be considered.</li> </ul>  |



| GENERAL REQUIREMENTS (CONTINUED)                       |  |
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| <b>DTI</b>   | <ul style="list-style-type: none"> <li>• 39%; up to 43% w/compensating factors</li> <li>• DTI ratios between 39% and 43% could be approved with compensating factors and will be reviewed on a case-by-case basis.</li> <li>• Some examples of compensating factors may include 750+ mid score, 50% owner equity, lower LTV than stated guidelines, or significant cash reserves.</li> </ul>   |
| <b>Gifts</b>   | <p><b>Gifts of Cash:</b><br/>         Gifts of cash must be received from an immediate family member. The gift should be in the form of a Cashier's check or evidence must be present to validate the transfer of the funds to the borrower's account. A standard Gift of Cash form must be completed for the file documentation.</p> <p><b>Gifts of Equity:</b><br/>         A gift of equity is permitted when purchasing from an immediate family member.</p> <ul style="list-style-type: none"> <li>• The purchase price in the purchase agreement should be as close to the estimated value of the property as possible. The purchase price and the appraised value should be within 5% of each other.</li> <li>• The purchase agreement must include a statement regarding the gift of equity and the amount of the gift.</li> <li>• If the amount is higher than 5%, the investor will need to evaluate, on a case-by-case basis, whether or not to require the original purchase agreement to be amended. An amendment is likely to be required in cases when there is a difference of 10% or more.</li> </ul> <p>The Gift of Equity form should be formatted the same way as a Gift of Cash. The amount to use on the Gift of Equity form will be the difference between the purchase agreement price and the loan amount.</p> <p>The purchaser is encouraged to consult with a tax professional about whether the gift amount is taxable. The settlement statement should include a line item for the gift of equity with the amount of the gift shown as a subtraction from the purchase price.</p> |
| <b>Home Only Value Restrictions</b>                    | None   |
| <b>Home Value to Overall Property Value Percentage</b> | Ideally 30%+, but lower levels considered  |
| <b>Income</b>  | <p>All applications must include copies of the most recent:</p> <ul style="list-style-type: none"> <li>• Wage earning statements / pay stubs</li> <li>• 2 years of W2's</li> <li>• 2 years of 1040 personal tax returns</li> </ul> <p>Self-Employed applicants (25% minimum ownership per K1 form) must also include copies of the most recent:</p> <ul style="list-style-type: none"> <li>• 2 years of Business Tax Returns (3 years if applicants are full-time farmers) for each business.</li> <li>• Business balance sheet containing detailed repayment terms for the business-related debts.</li> </ul> <p style="text-align: center;"><b>Agricultural Income</b></p> <p style="text-align: center;"><b>Hobby Farm (500+ of annual AG income)</b></p> <p>Acreages of 5+ need to have reasonable potential to produce \$500/annually. If an applicant has a property under 5 acres (and needs to be classified as a hobby farmer) then the annual agriculture income must be \$5,000.</p>  |
| <b>Ineligible Property Types</b>                       | <ul style="list-style-type: none"> <li>• Full-time farming</li> <li>• Business property</li> <li>• Manufactured homes (wood framed modular homes are permissible)</li> <li>• Investment homes</li> <li>• Unique homes (i.e. earth berm homes, domes, shed with livestock facilities)</li> <li>• Townhomes, duplexes, and condominiums</li> <li>• Lot or land only properties</li> <li>• Properties with deferred maintenance or incomplete construction</li> <li>• Leasehold</li> </ul>  |



## GENERAL REQUIREMENTS (CONTINUED)

|   |   |
|---|---|
| <p><b>Insurance</b></p>                   | <p><b>Home Owners Insurance</b></p> <p><u>Purchase:</u><br/>         LHFS requires that the premium for the first year either be paid through the closing/signing process or evidence provided that it has been paid outside of closing.</p> <p><u>Refinance:</u><br/>         When an escrow is applicable, amounts to be escrowed are dependent upon the month of the closing and when the premium for the following year is due.<br/>         If the renewal date and the premium amount due are within 45 days of closing, LFHS requires the premium to be paid through closing and shown on the Closing Disclosure.<br/>         If current insurance premium payments are paid monthly, quarterly, or semi-annually, LHFS requires full payment through the next due date, either through the closing/signing process or evidence provided that the premium has been paid in full outside of closing.<br/> <b>**All loans: Insurance provider must be AM Best rated "A" or better.</b></p> <p><b>Flood Insurance</b></p> <p>Flood Insurance is required if any determination indicates that the buildings on the property lie within a Flood Zone.<br/>         Flood insurance is generally required on any building with a value of \$500 or more. Flood insurance coverage required on the home will be in an amount equal to the required amount on the property/casualty policy. This will apply even if the amount exceeds to common coverage ceiling of \$250,000.<br/>         Flood Insurance coverage on outbuildings used in relation of agriculture or business purposes will also be required in an amount equal to the value determined by underwriting during the approval process.<br/>         The flood insurance requirement may be waived if a building is used only for consumer purposes (i.e. garage or small storage shed).<br/>         When an escrow is applicable, LHFS requires the collection of a 2-month tax escrow cushion, except as otherwise required by state law.</p> |
| <p><b>Livestock</b></p>                   | <p>Generally 50 head or less</p>  |
| <p><b>Property Type and Ownership</b></p> | <p>Single Family, Primary, and Secondary Residence home in good condition</p>   |
| <p><b>Property Eligibility</b></p>        | <ul style="list-style-type: none"> <li>• Properties are generally 5-160 acres, properties with acreages under 5 or over 160 will be considered on a case-by-case basis.</li> <li>• Owner occupied, single family, and primary residences with a primary home in good condition.</li> <li>• Consumer outbuildings are permitted.</li> <li>• Primary homes should have a value of at least 30% of the overall property value. Properties with a home valued less than 30% will be reviewed on a case-by-case basis.</li> </ul>  |
| <p><b>Property Taxes / Title</b></p>      | <p><b>***COVID 1 - UPDATE***</b></p> <ul style="list-style-type: none"> <li>• <b>Title requirement for all loan types:</b> <ul style="list-style-type: none"> <li>• Activity may proceed in counties in which the courthouse is operational, searches can still be completed online, or the county accepts E-Recording.</li> <li>• A 2006 ALTA title insurance form with Covered Risk 14 provides gap coverage for matters arising between the loan closing date and the mortgage recording date. This will be considered acceptable as long as there is no exception for this coverage under Schedule B of the policy.</li> <li>• If Covered Risk 14 is not evident, the final title insurance policy must include evidence of Gap Insurance for the time between disbursement and recording of the new deed and/or mortgage.</li> </ul> </li> <li>• If taxes are due and payable within 45 days of closing, LHFS requires the taxes to be paid through the closing and shown in the Closing Disclosure.</li> <li>• Alta 2006 Residential Loan Policy with Alta 8.1 Environmental Protection Lien Endorsement is required.</li> </ul>  |
| <p><b>Purpose</b></p>                     | <p>Purchase and Refinance</p>   |



| <b>GENERAL REQUIREMENTS (CONTINUED)</b> |   |
|---|---|
| <b>Second Mortgage</b>                  | <ul style="list-style-type: none"> <li>• Allowed if financed through financial Institution / Government</li> </ul>  |
| <b>Second Home on Property</b>          | <ul style="list-style-type: none"> <li>• One additional home on the subject property is allowed.</li> <li>• Two additional homes allowed on a case by case basis.</li> <li>• The comparable sale analysis should focus on the primary home.</li> <li>• Ancillary value can be given to the additional home(s) if the home(s) are not a manufactured.</li> </ul> |
| <b>Seller Closing Cost Contribution</b> | <ul style="list-style-type: none"> <li>• Up to 5% (No seller carrybacks allowed)</li> </ul>   |

**For specific scenario requests, please go to the eScenarios tab located in [eXPRESS](#), and post your scenario.**

**Guidelines are for use by mortgage professionals only and subject to change without notice.**

