



CONFORMING GUIDELINES

Last updated: 9-3-2010 (changes highlighted in yellow)

- Added interior photograph requirements for appraisal reports (page 3): Added 9-3-10
- Added a full kitchen as a mandatory requirement (pages 3 & 30): Added 9-3-10
- Updated qualifying ratios on loans with non-occupying co-borrowers (pages 7 & 23): Updated 9-3-10
- Non-occupant co-borrowers allowed on fully amortized loans only (page 7): Updated 9-3-10
- Power of Attorney information added (page 8): Added 9-3-10
- Minimum tradeline requirement added (page 10 & 11): Added 9-3-10
- Updated DU Refi Plus Fieldwork Waiver options (page 12): Updated 9-3-10
- Clarified that gift fund transfer documentation includes a copy of the donor's certified check or cancelled check (page 15): Updated 9-3-10
- Rental income from family members not allowed (page 18): Updated 9-3-10
- Updated unacceptable properties (page 30): Updated 9-3-10

*****For quick search results, utilize the word search option in the pdf document*****

FIXED

PRIMARY RESIDENCE

Purchase & Rate/Term Refinance										
	PROPERTY TYPE		LTV*		CLTV / HCLTV		FICO		UNDERWRITING OPTIONS**	
	1 unit		95		95		640		DU or LP	
	2 unit		80		80		640		DU or LP	
	3-4 unit		75		75		640		DU or LP	
Cash Out Refinance										
	1 unit		85		85		640		DU	
	1 unit		80		80		640		LP	
	2-4 unit		75		75		640		DU or LP	

SECOND HOME

Purchase & Rate/Term Refinance										
	PROPERTY TYPE		LTV*		CLTV / HCLTV		FICO		UNDERWRITING OPTIONS**	
	1 unit		90		90		640		DU	
	1 unit		85		85		640		LP	
Cash Out Refinance										
	1 unit		75		75		640		DU or LP	

INVESTMENT PROPERTY

Purchase										
	PROPERTY TYPE		LTV*		CLTV / HCLTV		FICO		UNDERWRITING OPTIONS**	
	1 unit		80		85		640		DU or LP	
	2-4 unit		75		75		640		DU or LP	
Rate/Term Refinance										
	1 unit		75		75		640		DU or LP	
	2-4 unit		75		75		640		DU or LP	
Cash Out Refinance										
	1 unit		75		75		640		DU or LP	
	2-4 unit		70		70		640		DU or LP	

*LTV over 80% must meet all MI company guidelines (INCLUDING CREDIT SCORE REQUIREMENTS)

** A 5% mandatory reduction in maximum LTV applies if using LP and transaction has subordinate financing.

DU REFI PLUS: FIXED

PRIMARY RESIDENCE

Rate/Term Refinance										
	PROPERTY TYPE		LTV*		CLTV / HCLTV		FICO		UNDERWRITING OPTIONS	
	1-2 unit		90		90		680		DU	
	1-2 unit		80		80		640		DU	
	3-4 unit		75		75		640		DU	

SECOND HOME

Rate/Term Refinance										
	PROPERTY TYPE		LTV*		CLTV / HCLTV		FICO		UNDERWRITING OPTIONS	
	1 unit		90		90		680		DU	

INVESTMENT PROPERTY

Rate/Term Refinance										
	PROPERTY TYPE		LTV*		CLTV / HCLTV		FICO		UNDERWRITING OPTIONS	
	1 unit		80		80		680		DU	

*LTV over 80% must meet all MI company guidelines (INCLUDING CREDIT SCORE REQUIREMENTS)

FIXED INTEREST ONLY

PRIMARY RESIDENCE

Purchase & Rate/Term Refinance

PROPERTY TYPE		LTV	CLTV / HCLTV		FICO	UNDERWRITING OPTIONS**	
1 unit		70	70		720	DU	

SECOND HOME

Purchase & Rate/Term Refinance

1 unit		70	70		720	DU	
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LIBOR ARM

PRIMARY RESIDENCE

Purchase & Rate/Term Refinance

PROPERTY TYPE		LTV*	CLTV / HCLTV		FICO	UNDERWRITING OPTIONS**	
1 unit		95	95		640	DU	
2 unit		80	80		640	DU	
3-4 unit		75	75		640	DU	

Cash Out Refinance

1 unit		85	85		640	DU	
1 unit		80	80		640	DU	
2-4 unit		75	75		640	DU	

SECOND HOME

Purchase & Rate/Term Refinance

1 unit		90	90		640	DU	
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Cash Out Refinance

1 unit		75	75		640	DU	
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INVESTMENT PROPERTY

Purchase

1 unit		80	85		640	DU	
2-4 unit		75	75		640	DU	

Rate/Term Refinance

1-4 unit		75	75		640	DU	
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Cash Out Refinance

1 unit		75	75		640	DU	
2-4 unit		70	70		640	DU	

*LTV over 80% must meet all MI company guidelines (INCLUDING CREDIT SCORE REQUIREMENTS)

** DU is required on all 3/1 and 5/1 LIBOR ARMs. Notes:

- LP is an available Underwriting Option for 7/1 and 10/1 LIBOR ARMs
- A 5% mandatory reduction in maximum LTV applies if using LP and transaction has subordinate financing.

LIBOR ARM INTEREST ONLY

PRIMARY RESIDENCE

Purchase & Rate/Term Refinance

PROPERTY TYPE		LTV	CLTV / HCLTV		FICO	UNDERWRITING OPTIONS**	
1 unit		70	70		720	DU	

SECOND HOME

Purchase & Rate/Term Refinance

1 unit		70	70		720	DU	
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AGE OF DOCUMENTS:

- Credit Documents (credit report / employment / income / assets / preliminary title report) must be no more than 90 days at the time of funding.
- New Construction - Credit documents must be no more than 120 days old at time of funding
- For age requirements related to appraisals, see Appraisal section below

APPRAISAL:

General Guidelines:

- PCM will not accept an appraisal dated more than 6 months prior to the Note Date. An Appraisal Update on form 1004D is required on all appraisal dated more than 90 days from the Note Date. If the value of the property is less than the original appraised value then a new appraisal will be required after 6 months.
 - Underwriter may require an appraisal update sooner if the dynamics of real estate market warrants it.
- All appraisals must reflect the current transaction information.
- Appraiser must be in good standing with state licensing and does not appear on any exclusionary lists.
- Appraisal should contain a minimum of 2 comps dated within 90 days and 1 pending sale. If appraiser is unable to provide the required comps, they must comment on the reasons why.
- Days on market must also be completed on subject and all comps.
- The appraiser must be provided with a copy of both the purchase contract and all addenda to ensure any financing and/or sales concessions are considered when determining impact on the value of the property. Amendments or adjustments received after the appraisal must be complete and supplied to the appraiser for review.
- If a supervisory appraiser signs the appraisal, the Supervisory appraiser must perform the property inspection.
- If an appraiser uses comparable sales outside the subject neighborhood when comparable sales are available, an explanation must be provided.
- Appraisers must provide a 12-month listing history for the property. Frequent listings and/or sales require explanation on each occurrence or listing and should include the data source(s), offering prices, and date(s), and any further evaluation as they may indicate "flipping." See Property section for further information on PCM's Flipping and Rapid Appreciation Policy.
- In the analysis and completion of the sales comparison approach, the appraiser may determine that time adjustments are required. These adjustments may be either positive or negative. The adjustments must reflect the difference in market conditions between the date of sale of the comparable and the effective date of appraisal for the subject property.
- A full appraisal is required on all purchase transactions of REO properties and all purchases of properties whose most recent transaction was a foreclosure sale. This is required on all conventional loans regardless of the AUS findings.
- Interior photographs of specific rooms must be included in the appraisal report whenever an interior inspection is performed. At a minimum, interior photos must include: Kitchen, all bathrooms, main living area, examples of physical deterioration (if present) and examples of recent updates/restoration/remodeling/renovation (if present).
- Properties without a full kitchen (working sink, working stove & cabinets) are not eligible.
- Transferred Appraisals: Not Accepted

1007/216 Requirements

Single Family Comparable Rent Schedule (1007) and/or Operating income statement (216) are ALWAYS required REGARDLESS if using rental income from the subject property to qualify the borrower. *This includes 2-4 unit properties in which the applicant will occupy one unit as a principal residence regardless if using rental income to qualify the borrower. The subject's monthly rental amount must be disclosed in the REO section of the 1003 and/or listed in the 1008 comment section.*

NOTE: Fannie Mae Form 1007 pertains to Single Family Residence properties and must be analyzed by the underwriter.

Fannie Mae Form 216 pertains to One to Four Family Investment Properties and Two to Four Family Owner-Occupied Property and must be analyzed and signed and dated by PCM underwriter.

Appraisal Review Policy

LARA Appraisal Review

- All loans with a CLTV equal or greater than 70%
- Required on all loans above 60% CLTV when an AVM does not support value
- Any time the DU findings indicate value may be excessive (regardless of LTV)

Acceptable LARA Review Response

- Must receive a quality rate of 3, 4, or 5 to support value and loan approval
- A LARA response of 4 or 5 requires no additional items from the appraiser.
- A LARA response of 3 must be reviewed and any deficiencies noted by the reviewer should be addressed by the appraiser.
- A LARA response of 2 will give a reduced value; reduced value must be used unless value is successfully disputed or per LARA a recommendation of a field review, 2055E or a 2nd appraisal that supports the original value. Loan can be approved using the reduced value.
- A LARA response of 1, or Undetermined can be rebutted by the original appraiser. The following requirements apply:
 - If there are UAP (Unacceptable Appraisal Practices) identified that cannot be cured or corrected, a 2055 or Field Review is required.
 - If there are reasons other than UAPs or correctable UAPs, then a rebuttal may be ordered from the appraiser. Upon receipt of the rebuttal, a LARA escalation may be ordered.
 - If the rebuttal cannot resolve the issues identified on the LARA, then an Enhanced Desk Review may be ordered.

Loans that meet any of the following criteria are not eligible for a LARA review and must have either a Field Review or a 2055 Exterior

- Transferred within the past 90 days and reflects an increase in value
- Value appreciation justified because the previous transfer was a foreclosure, REO or distress sale
- LARA does not support value and loan does not qualify on reduced value
- Appraised value greater than \$1,000,000

Appraisal Items that should be addressed prior to Ordering Appraisal Review

- Appraisal does not have 2 sales closed within 90 days and a current pending sale
- Days on market exceeds 6 months
- Declining market indicated by PCM Declining Market list or appraiser
- High foreclosure activity in the neighborhood
- Unrecorded property transfers
- Major renovations being used to support value increase
- Comps further than 1 mile from the subject in a highly populated neighborhood
- Non-arms length transfers
- For Sale By Owner

Health and Safety Issues

- Appraisers must comment on all health and safety issues & all deficiencies and needed repairs
 - Security bars: there must be an emergency release latch for at least one window in each room where the security bars are located

Limited Appraisals and Appraisal Alternatives:

- Fannie Mae Property Inspection Waiver (PIW) and Freddie Mac Property Inspection Alternative (PIA) not currently available. Additionally, Exterior-Only appraisal options are not available.

Market Conditions Addendum to the Appraisal Report (1004MC)

The Market Conditions Addendum to the Appraisal Report (Form 1004MC) is required for all conventional loans with appraisals on one- to four-unit properties.

Rapid Appreciation

Refer to the "Flipping and Rapid Appreciation Policy" in the Property Eligibility section.

Re-Inspection and Review Requirements for Disaster Areas

Pinnacle Capital Mortgage requires additional property re-inspection and review requirements on loans secured by properties located in disaster areas. It is important to note that not all disaster areas as determined by PCM are qualified as FEMA disaster declarations. Please refer to the following procedures on loans that are located in PCM-determined disaster areas.

- Any Appraisal Performed on or Before Incident Period End Date for Disaster:
 - Property must be re-inspected by the original appraiser or acceptable inspection source (such as, a nationally recognized field company or local professional licensed inspector). The appraiser/property inspector must provide the following commentary/ evidence: Property is free from damage and the disaster had no affect on value or marketability.
 - If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by Form 1004D, Appraisal Update and/or Completion Report, with photos, prior to funding the loan.

- Standard Appraisal Performed After Incident Period End Date for Disaster (Appraisal report forms 1004, 1004c, 1025, 1073 and 2090):
 - If the property is free from damage: Preferably, all comparables should be post-disaster; however, if sufficient comparables are not available, then the appraiser must provide current photos of the subject property and comparables. Multiple Listing Service (MLS) photos or photos used for previous appraisals are not acceptable.
 - If the appraisal indicates damage: The extent of the damage must be addressed. Completion of repairs is required evidenced by Form 1004D, Appraisal Update and/or Completion Report, with photos, prior to funding.
- Non-Standard Appraisals (Property Valuation Update, PIW, 1075, 2055, 2075 and 2095):
 - Not allowed for 1 Year after the disaster incident period end date.

ASSETS:

General Guidelines

- If funds to close are coming from a non-liquid asset (Stocks, IRA, 401K, etc.) proof of liquidation is required regardless of AUS findings.
- All assets input into DU must be verified regardless of the findings.
- If a VOD is provided to verify assets it must be supported by 1 month bank statements.
- If an account is held jointly a letter will be required from the joint account holder to verify our borrower has 100% access to those funds. This is required regardless of the relationship.

Business Funds

The use of business funds as a source for down payments, closing costs and reserves are allowed under the following guidelines:

- Entities: sole proprietors, corporations and partnerships
- Ownership: Borrower's ownership or interest in the business must be confirmed by documentation such as business license, corporate or partnership tax returns.
- Verification of the ability of funds:
 - Sole proprietor: Verification of 100% ownership of the business.
 - Corporation: If the borrower is not a 100% stockholder, verification of the ability to withdraw funds to the extent of the percentage of ownership is required and approval of the stockholders with a corporate resolution. Note: borrower cannot use business funds for cash reserves (only down payment and closing costs).
 - Partnerships: Borrower must be a general partner. Verification of the ability to withdraw funds to the extent of the percentage of ownership and approval of the other partners is required. Note: borrower cannot use business funds for cash reserves (only down payment and closing costs).
- A cash flow analysis on the business and/or a CPA letter is required:
 - The cash flow analysis can be performed by a licensed CPA.
 - A letter from the CPA must include the following information:
 - The borrower has full use of the business funds
 - No repayment is required (and that the funds are not an advancement against future earnings or cash distributions).
 - The withdrawal of funds will not have a negative impact on the business.
 - CPA to address if the withdrawal of funds will have any future tax implications
- If business funds are used for down payment and/or closing costs, the accountant may not be related to the borrower or be an interested party to the transaction.

Checking and Savings Accounts

- Funds held in checking, savings, certificate of deposit, and money market accounts are acceptable sources of funds provided verification of deposit (VOD) or acceptable alternative documentation is used to verify these accounts. Unverified funds are not acceptable.
- The source of funds for a recently opened account or for a large increase must be explained and verified. Copies of the borrower's bank statements must reliably document that the funds were not recently borrowed by the borrower, particularly if the account was opened within the past 90 days or if the balance increased significantly within the past three months. The statements should show that the funds were accumulated prior to funding. If the account is shown in the name of the borrower **or** the other depositors that is sufficient to indicate the borrower(s) has access to all the funds. If the account is in the name of the borrower **and** another person or persons other than the borrower's spouse, obtain a letter from the non-borrowing co depositor (s) stating the relationship with the borrower and that the borrower has full access and use of all the funds for this transaction and for reserves.

Definition of PITIA for Reserves

The definition of PITIA for reserves has been clarified to include all components of the monthly housing expense:

- principal and interest
- hazard, flood, and mortgage insurance premiums (as applicable),
- real estate taxes,
- ground rents or special assessments
- owners' association dues (excluding individual unit utility charges),
- monthly cooperative corporation fees
- Subordinate finance payments on mortgages secured by the subject property. (Refer to product guidelines for specific qualifying information on subordinate financing.)

Earnest Money Deposit

- Must be verified and documented by one of the following:
 - Copy of the cancelled check (a copy of the check, escrow deposit slip and bank statements supporting available borrower funds is acceptable in lieu of the copy of the cancelled check).
 - Copy of the deposit check and proof the check was cashed
 - Verification of sufficient funds on the deposit in the depository account for the down payment, closing costs, etc.
- The source of the deposit check must be documented to ensure that the deposit is not counted twice in the file (deducted from the fund to close and counted in the assets).

Gift Funds

See Gift Funds section in guidelines

Reserve Requirements for Borrowers with Multiple Properties

- **2-4 Unit Primary Residence**
 - Follow AUS findings for reserve requirements.
- **2nd home**
 - 2 months PITIA on subject property or AUS findings whichever is more restrictive, PLUS:
 - 2 months additional reserves required for each additional financed Second/Vacation Home and Investment Property owned
- **Non-Owner Occupied**
 - 6 months PITIA on subject property or AUS findings whichever is more restrictive, PLUS:
 - 2 months additional reserves required for each additional financed Second/Vacation or Investment Property owned

Trust Funds Disbursement

Funds disbursed from a trust are acceptable assets with a typed copy of the trust agreement or signed statement on letterhead from the trustee that details the following information:

- Identify the trustee including name, address, telephone number and individual contact. The trustee must be an independent party that typically handles trust accounts (trust company, financial institution, CPA, lawyer).
- Identify the Borrower as the beneficiary
- Show that the Borrower has access to all or certain specific amounts of the funds
- The Trust has the assets to disburse funds to the Borrower
- If the assets are required for closing, proof of receipt is required

Unacceptable Sources of Funds

The following are considered unacceptable sources of funds and cannot be used for down payment, closing costs or reserves unless permitted in product or program:

- Cash advance on credit card
- Cash for which the source cannot be verified (cash on hand)
- Commission from sale of subject property
- Depletion of assets
- Gift that must be repaid
- Pension fund
- Personal loan
- Reverse mortgage
- Salary advance
- Signature loan
- Sweat equity (contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash)
- Unsecured financing
- Unverifiable source of funds

Verification of Stocks, Bonds, Mutual Funds and Retirement Accounts

- The following calculations should be used when determining the value of the asset being used for reserves:
 - Stocks, bonds and mutual funds: 70% of the value may be used as reserves
 - Retirement Accounts: 60% of the vested value may be used as reserves
- Stock options and non-vested restricted stock are not eligible for use as reserves

AUS:

An Automated Underwriting System approval is required on all conforming loan transactions. Refer to Conforming LTV Matrixes for DU and LP requirements.

- DU: Must receive an Approve/Eligible response.
- LP: Must receive an Accept & Eligible response.

BORROWERS:

Borrower Eligibility

Not Eligible:

- Foreign Nationals
- Borrower with diplomatic immunity
- Borrowers without a valid social security number that is eligible for work in the U.S.
- Inter Vivos or "Living" revocable trusts
- A Conservator or Guardian to a borrower

Eligible:

- Individuals
- If borrowers reside in a community property state and the spouse is not taking title, a quitclaim deed must be on record, or record concurrently with the transaction.
- Borrower must have reached the age at which the mortgage note can be legally enforced

Maximum Number of Borrowers

- Maximum four borrowers on a transaction

Non-Occupying Co-Borrowers

- DU/LP findings must identify that a non-occupant was used for qualification.
- Non-occupant co-borrower must be an immediate family member.
- The owner-occupant must qualify at 35%/43% maximum ratios, regardless of AUS findings
- Fully amortized loan programs only (no interest only)
- Maximum LTV is the lesser of 90% or program guidelines.
- If the LTV is greater than 80% the occupant borrower must have 5% of their own funds.
- Non-occupying co-borrowers being added to a rate/term refinance to help qualify: may be allowed.
- Non-occupying co-borrowers being added to a cash-out refinance to help qualify: not allowed.
- See "Continuity of Obligation" section under "Refinances" for further information regarding non-occupying co-borrowers

Non-Permanent Resident Aliens

- Non-permanent resident aliens are non-United States citizens who are permitted to reside in the United States on a temporary basis and may have been granted authorization to work in the U. S. by the U. S. Citizenship & Immigration Services (USCIS). These borrowers follow the non-permanent resident alien guidelines. These Non-permanent resident aliens must have valid Visas or other proof of legal residency.
- Acceptable Visas include but are not limited to:
 - E-1: (Treaty Trader & Qualified Employee)
 - H-1B, H 2A, H-2B, H-3: (Temporary Worker)
 - L-1: (Intra-Company Transferee)
 - G series: (International Organization)
 - O-1: (Persons with extraordinary ability (i.e. Sciences))
 - TN NAFTA Visa: Used by Canadian and Mexican citizens. Foreign nationals from Canada and Mexico who are working in the U. S. under the terms of NAFTA must be treated as non-permanent resident aliens when determining their eligibility for mortgage financing. They must meet standard requirements established for non-permanent resident aliens. NAFTA Workers must provide a NAFTA Worker's Visa.
- For more information about Visas, visit the USCIS website: www.uscis.gov
- **Note: There is no minimum time required to be left on the Visa; however, underwriter discretion is advised. If there is less than six months remaining, the borrower should provide a letter explaining his/her intention to remain in the country and a copy of their application for the Visa extension.**

- There are no restrictions for non-permanent resident aliens; they should be underwritten using the same criteria as United States citizens. Standard loan documentation must be provided in order to document the following:
 - Show the borrower is a legal resident in the United States.
 - Minimum 2 year history of residency, credit and employment and currently resides and works in the US.
 - Income can be expected to continue for three years.
 - Sources of all funds used for qualifying must be verified as for a borrower who is a U.S. citizen.
 - Funds for the down payment, closing costs and reserves must be verified as being on deposit in a U.S. bank prior to closing
 - If funds were recently deposited into a U.S. depository institution these funds can be deemed acceptable if there is evidence that the funds were transferred from the country from which the borrower permanently resides, and it can be established that the funds were the borrower's before the date of transfer.
 - Copy of the Wall Street Journal showing the conversion rate used should be provided in the loan file along with a written conversion of the beginning and ending balances.
 - Funds for the down payment, closing costs and reserves must be verified as being on deposit in a U.S. Bank prior to closing.
 - Non-citizens who have been granted political asylum require underwriting to non-permanent resident alien guidelines.
 - Asylees and refugees must provide their Arrival and Departure Records (INS Form I-94) and copies of their employment authorization documents. A grant of asylum is for an indefinite period.
- If employed abroad by a foreign company, the income is ineligible for qualifying

Permanent Resident Aliens

Permanent resident aliens are non-United States citizens who hold acceptable evidence of permanent residency issued by the U.S. Citizenship and Immigration Services (USCIS). PCM will originate and close mortgages made to non-U.S. citizens who are lawful, permanent residents of the United States under the same terms available to U.S. citizens. Permanent resident aliens must have any of the following documentation:

- Permanent Resident Card (USCIS form I-551 "Green Card")
 - May be issued as a conditional right to reside for individuals seeking residency through marriage to a U.S. citizen/permanent resident or based on a financial investment in a U.S. business.
 - These cards will have an expiration date and are valid for two years.
 - At the end of the two years the individual must apply for an unconditional right to reside or risk losing their permanent resident status.
 - Cards that are due to expire within 90 days must be accompanied by a copy of USCIS form I-751 (Petition to Remove Conditions on Residence) or USCIS form I-829 (Petition by Entrepreneur to Remove Conditions) filing receipt.
 - Cards may be issued without conditions and are valid for ten years.
 - Cards that are due to expire within 6 months must be accompanied with a copy of USCIS form I-90 (Application to Replace Permanent Resident Card) filing receipt.
 - There are numerous versions of the I-551 card that are no longer issued but are considered valid as long as unexpired.
 - Cards that are due to expire within 6 months must be accompanied with a copy of USCIS form I-90 (Application to Replace Permanent Resident Card) filing receipt.
 - Unexpired Foreign Passport
 - Must contain an unexpired stamp reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy. Employment authorized."

Note: A copy of the resident documents is required for all permanent resident aliens whose income and/or assets are being used to qualify for a loan. A copy of the front and back of the document is required and must be included in the loan file. While the document itself states "Do Not Duplicate" for the purpose of replacing the original card, US Citizenship and Immigration Services (USCIS) allows photocopying the document. Making an enlarged copy of copying on colored paper may alleviate any concerns the borrower may have with photocopying.

Power of Attorney

A Power of Attorney can be an acceptable instrument used to close a loan. All transactions involving a POA must be approved by PCM Management.

- Limited, Specific or Durable POAs only
- A copy of the POA is required from Title/Escrow
- POA cannot be utilized on the initial loan application
- At least one borrower must be present at loan signing
- Signatures and typed names must match exactly

CAPS, MARGINS, INDEX & FLOOR (ARM LOANS ONLY):

	<u>CAPS</u>	<u>MARGIN</u>	<u>INDEX</u>	<u>FLOOR</u>
3/1:	2/2/6	2.25	1 YR LIBOR	margin
5/1, 7/1, 10/1:	5/2/5	2.25	1 YR LIBOR	margin

CONSTRUCTION TO PERMANENT FINANCING:

Construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim financing used by the borrower to fund construction of the home.

General Guidelines:

- Financing must have been obtained through a legitimate financial institution.
- Non-arm's length transactions are not allowed. This includes any transaction where the borrower was the builder.
- Single family detached primary residences and second homes only. (No condos. Also, no PUDs that are part of a Master Planned Community. PUDs that are part of a subdivision are allowed.)
- Transaction must be input in to DU/LP as construction to permanent.
- All improvements must be completed prior to funding and all other property eligibility requirements must be met.
- Value may be determined by acquisition cost if the land has been owned less than 12 months.
- 30 year loan term only.
- A final Certificate of Completion must be obtained.
- Photographs of the completed property are required.
- Must be an Arms-Length transaction

Documenting Land Acquisition

Purchases:

- The cost of the land acquisition is determined by a certified copy of the closing statement (HUD-1) from the purchase of the land.
- If the land was purchased more than 2 years prior to the loan, the current land value may be used if substantiated by a separate land appraisal.
- If the land was a gift and the value has appreciated, the value based on a current land appraisal may be used as the borrower's down payment.

Purchase Transactions:

- Loan must be converted within 180 days of completion of the construction and improvements.
- Minimum 5% down payment is required (this can include the cash investment in the land if it was acquired 12 months or more before the date of application). Acceptable documentation includes the final HUD1 and a copy of the warranty deed showing no liens (or a copy of a release of the lien).
- Cash in hand to the borrower is not allowed.
- Total acquisition cost is based on:
 - With a sales contract: appraised value of the land (if not included in contract price) and paid receipts and canceled checks for costs that exceed the contract price.
 - Without a sales contract: current appraised value of the land, contractor's construction breakdown and paid receipts and cancelled checks for costs that exceed interim financing.
 - If the borrower is also the builder (or an employee, relative, domestic partner or fiancé of the builder), the builder's profit is not considered an allowable cost and may not be included in the acquisition cost.
- See chart for LTV determination

Ownership of Land	Determination of LTV
Borrower owned the land for less than 12 months	LTV is based on the lesser of the current appraised value or acquisition value of the land plus any documented improvement costs
Borrower owned the land for at least 12 months or received it as a gift	LTV is based on the lesser of the current appraised value or appraised value of the land plus any documented improvement costs.

Refinance Transactions:

- The borrower must be the owner of the lot and be the primary obligator on the current financing.
- There is no time limitation, if the application date is more than 180 days after the completion of the construction is must be considered a refinance.
- Cash in hand to the borrower is allowed.

- See chart for LTV determination

Ownership of Land	Determination of LTV
Borrower owned the land for less than 12 months	LTV is based on the lesser of the current appraised value or sales price plus any documented improvement costs.
Borrower owned the land for at least 12 months	LTV is based on the current appraised value.
Borrower received the land as a gift	The LTV is based on the lesser of the current appraised value or the appraised value of the lot plus and documented improvement costs.

CONVERSION OF PRIMARY RESIDENCE:

Converting current primary residence to an investment property

- All of the following conditions must be met to use rental income:
 - Up to 75% of the rental income may be used to offset the mortgage payment with documented 30% equity in the existing property
 - 30% equity must be verified with a HVCC appraisal or AVM, minus outstanding liens
 - The rental income must be documented with a copy of the fully executed lease agreement
 - Copy of receipt of the security deposit from the tenant and proof of deposit into borrower's account is required
- If the above conditions can not be met:
 - Payment for both properties must be used to qualify the borrower
 - 6 months PITIA reserves are required for both properties
- If 30% equity in the departing residence is not verified, 6 months reserves must be verified for each property.
- If the subject property is an Investment property, refer to the Investment Property section for Management History and Rent Loss Insurance Requirements that must be met in order to use rental income to qualify the borrower.

Converting primary residence to a second home

- Payment for both properties must be used to qualify the borrower
- 6 months PITIA reserves are required for both properties (2 months reserves is acceptable with documented 30% equity in the existing property)
- 30% equity must be verified with a HVCC appraisal or AVM, minus outstanding liens

Current residence is pending sale and will not close prior to funding

- Payment for both properties must be used to qualify the borrower
- 6 months PITIA reserves are required for both properties (2 months reserves is acceptable with documented 30% equity in the existing property. Note: the 30% equity must be verified with a HVCC appraisal or AVM, minus outstanding liens).

CREDIT :

General Guidelines:

- As approved by DU/LP
 - Each borrower must have a minimum of 3 tradelines that have been active for a minimum of 12 months (regardless of AUS findings). **Note:** Authorized User accounts to not count towards this requirement.
- LOX required for all inquiries within 90 days of the credit report
- LOX required for derogatory credit (required at underwriter's discretion)
- All Judgments and/or liens on title must be satisfied prior to funding and funds sufficient to do verified

Authorized User Accounts:

- An authorized user account is when a credit account owner permits another person, typically a family member who is managing credit for the first time, to have access to and use an account, the user is referred to as an "authorized user" of the account. If the account is included in the AUS run, no further action is required. To exclude the account from DTI calculations - credit supplement deleting the account is required. Authorized User Accounts must be fully investigated.

Bankruptcy, Foreclosures and Short Sales:

- AUS findings must be followed.
 - AUS cannot identify a pre-foreclosure or short sale. The PCM Underwriter is responsible for reviewing the credit report and manually applying the appropriate LTV and waiting period below:

	Waiting Period	LTV/CLTV
Financial Mismanagement	4 years	90%
	7 years	Standard LTV/CLTV matrix
Extenuating Circumstances	2 years	90%

- Extenuating circumstances must be documented

Collections and Charge-offs:

In most instances DU/LP feedback will apply as it relates to payment of collections. However, borrowers will be required to pay off outstanding collections or charge-offs—regardless of the amount—if the collection will threaten PCM's first-lien position.

- For all owner-occupied and second home properties, collections and charge-offs totaling more than \$5,000 must be paid in full prior to or at closing.
- For investment properties, individual accounts equal to or greater than \$250 and accounts that total more than \$1,000 must be paid in full prior to or at closing.

Consumer Fraud Alerts

- All Fraud Alerts must be addressed in the file with a Certification evidencing the borrower was contacted and confirmed the validity of the loan application
- If the Fraud Alert does not contain a phone number for the borrower to be contacted the file must evidence how the borrower phone number was verified. The Underwriter must condition for one of the following:
 - Copy of public directory listing
 - Recent phone bill sent to the borrower's home address.
 - Notarized Statement from the Borrower signed through closing: This letter must include their phone number and indicate they authorize the transaction.

Credit Report

- Credit Scores
 - The minimum credit scores must be met regardless of DU/LP
 - A tried merged credit report is required.
 - If 3 scores are provided, the credit score for the loan file will be determined by taking the middle score for each borrower and using the lowest middle score of all borrowers .
 - If AUS provides an "indicator" score, that score must be used
 - If only 2 scores are provided for a borrower the lower of the scores will be used.
 - If one score is provided, the borrower is not eligible.
- Disputed Tradelines
 - **If the tradeline DOES NOT belong to the borrower**, or the reported payment history is inaccurate, written documentation must be obtained satisfying the AUS condition and include it in the loan file. Under these circumstances, when the information is validated, AUS may require no further action.
 - **If the tradeline DOES belong to the borrower** and the reported payment history is accurate, the disputed tradeline(s) must be considered in the credit risk assessment. To ensure the disputed tradeline is considered, a new credit report must be obtained with the tradeline(s) no longer reported as disputed and resubmit the loan casefile to AUS.
 - If this guideline is met, then disputed tradelines may remain open up to a maximum of \$500 with a written explanation from the borrower and underwriter discretion.

- Minimum Tradeline Requirement

- Each borrower must have a minimum of 3 tradelines that have been active for a minimum of 12 months (regardless of AUS findings).
 - **Note:** Authorized User accounts to not count towards this requirement.

Extenuating Circumstances:

To be eligible for the reduced seasoning time due to extenuating circumstances borrower must have re-established credit for 2 years and provide letter of explanation and documentation evidencing the incident was not due to financial mismanagement. Following are some examples of acceptable situations:

- Death of primary wage earner
- Long term illness or disability not covered by insurance
- Prolonged loss of employment for reasons beyond borrower's control (such as site closings or mergers)

Red Flag Alerts & Documentation Requirements

- Red Flag Alerts on the credit report must be addressed by either confirming the information with other documentation in the file or requesting additional documentation as needed.

Appraisal Requirements

- DU to determine appraisal requirement. For certain DU Refi Plus loans, DU will offer Property Fieldwork Waiver (aka "Property Inspection Waiver") or exterior-only inspection.
 - Exterior-Only Inspection
 - On refinances of properties where the most recent transaction was an REO sale, an HVCC interior/exterior inspection is required regardless of DU requirement
 - If there is a Red Flag per DU findings of Excessive Value or Rapid Appreciation, the minimum requirement will be an exterior-only inspection.
 - Property Fieldwork Waiver Requirements:
 - Eligible per DU decision
 - The final submission of the loan casefile to DU must result in a property fieldwork waiver offer
 - AND
 - The property fieldwork waiver offer does not exceed four months from the note date
 - 1 unit properties only
 - \$75 fee
 - On refinances of properties where the most recent transaction was an REO sale, an HVCC interior/exterior inspection is required regardless of DU requirement
 - A fieldwork waiver may not be used, and must order the minimum level of property fieldwork as specified by DU, if PCM has reason to believe that fieldwork is warranted based on additional information obtained about the property or subsequent events (such as a hurricane or other natural disaster), or based on additional information provided by DU regarding the subject property and/or loan casefile.
 - **Additional Disclosure Requirements:**
 - Letter Of Explanation from borrower disclosing the length of time the borrower has owned the property and confirmation the subject property is not currently for sale. (to be signed prior to documents)
 - "Notice About Appraisal of Your Property" (final disclosure to be signed at closing)
- DU Refi Plus loans on condominiums and Planned Unit Developments (PUDs) must be warranted according to the DU certificate and meet the requirements listed in the PCM Underwriting Guidelines.

Borrower and Occupancy Eligibility

- A borrower may be added, as long as the original borrower remains
- Borrowers may be removed from the new transaction, subject to the following requirements:
 - The remaining borrower must provide evidence that he or she has been making payments on the existing mortgage from his or her own funds for the most recent 12-months prior to the origination of the new mortgage (the 12-month payment history must be on the existing mortgage),
- AND
 - The borrower(s) removed from the loan must also be removed from the deed. If a borrower is removed as the result of a death, the 12-month payment history and removal of the borrower from the deed is not required, although the remaining borrower must provide evidence of the previous borrower's death.
- Occupancy on the current transaction must match the occupancy on the loan being paid off
- A copy of the deed for the current mortgage should be reviewed to confirm the original borrower and occupancy meets PCM guidelines.

Credit & Documentation Requirements

- Credit score must meet the minimum score requirement in the guideline matrix.
- Most recent year W-2 is required for salaried borrowers, regardless of findings
- 0 x 30 Mortgage late payment history in the past 12 months on the subject
- Bankruptcy discharge must be seasoned for at least 48 months.
- Foreclosures must be seasoned for at least 84 months.
- All standard guidelines and existing credit overlays to DU including restrictions of manufactured housing, number of financed properties, and subject property listing seasoning will also apply to DU Refi Plus loans.
- DU underwritten loans only.
- A payoff demand is required in the file to document the current servicer

Eligibility

General Eligibility

- DU Refi Plus decisions will be identified by the presence of the following message on the certificate:
This loan case file was underwritten according to the DU Refi Plus expanded eligibility guidelines offered on certain limited cash-out refinance loan case files where the borrower's existing loan is identified by DU as a Fannie Mae loan. This loan case file must be delivered with Special Feature Code 147.
- Loans with DU Refi Plus findings must be locked as DU Refi Plus
- Rate and term refinance of an existing Fannie Mae Loan.
- Approve/Eligible response only.
- DU Refi Plus transactions must provide a benefit to the borrower in the form of either:
 - Reduced monthly mortgage principal and interest payment, or
 - More stable loan product.
- Maximum LTV/CLTV as indicated in the guideline matrix.
- Max cash back to borrower is \$250
- No secondary financing on 2-4 unit properties
- Lenders are prohibited from specifically targeting borrowers whose mortgages are owned or securitized by Fannie Mae, for a refinance.
- Lookup tool to identify if a property is currently owned or securitized by FNMA:
 - <http://loanlookup.fanniemae.com/loanlookup/>

Ineligible for Refi Plus

- Loans that require Mortgage Insurance
 - The following message must be displayed on the DU findings indicating this waiver:
Mortgage insurance is not required for this DU Refi Plus loan casefile.
- Refinances of mortgage delivered to Fannie Mae **on or after** March 1, 2009.
- Loans with new subordinate financing or payoff of existing subordinate financing (re-subordination of existing financing is acceptable with DU approval).
- Interest-only programs
- High Balance
- Adjustable rate mortgage programs
- Balloon mortgages
- MyCommunityMortgage[®] loans.
- Loans subject to temporary interest rate buydowns
- Loans subject to any outstanding repurchase request from Fannie Mae.
- Loans that do not meet current PCM LTV/CLTV guidelines
- "Expanded Approval/Eligible", "Approve/Ineligible" and "Refer" decisions will be ineligible.

Escrow/Impound Account Waivers

Escrow/impound accounts **may not** be waived on loans with loan-to-values (LTV) greater than 80% (or 90% for California properties).

ELIGIBLE TRANSACTIONS:

Chain of Title:

- 24 months Chain of title is required on all transactions, including a copy of the last recorded Transfer Deed.

Non-Arms Length:

- Non-Arms Length transactions are when a personal or business relationship exists between the borrowers, builder or seller. They must be disclosed and are only allowed on Full doc, owner-occupied transactions as indicated below. Additional documentation may be required based on Underwriter assessment of risk.
- If the borrower is an Interested Party:
 - This transaction is **not allowed** if the builder, property seller and/or any party currently on title on the subject property is any one of the following:
 - A company owned by the borrower
 - A borrower who is related to the builder, property seller or any party currently on title as a:
 - Registered agent
 - Sales agent
 - Partner
 - Employee

- A borrower may act as an interested party to a sales transaction for the subject property; however, the borrower may not use any payment for services rendered from the sales transaction of the subject property towards the down payment, closing cost or reserve requirements. Payment for services rendered means payment for, but is not limited to:
 - Realtor commissions
 - Broker commissions
 - Sales associate commissions
- Corporate sales or transfers are not eligible.
- If LTV > 80%: The borrower must have a minimum 5% of his or her own funds in the transaction.
- Non-Arms Length transactions are not intended to bail out a family member or current owner from an existing delinquent mortgage. When individuals wish to purchase or refinance property currently or recently owned by an individual with whom they have an Established Relationship, the following requirements apply:
 - **Purchases** – Title Commitment may not evidence Foreclosure Proceedings or Notice of Default
 - **Refinances** – If the Borrower has been on title less than six months from date of application, payoff demand from the purchase transaction must reflect the mortgage was current at the time the Borrower purchased the property. In purchase transactions where the seller is a corporation, partnership, or any other business entity, the borrower can not be an owner of the business entity selling the subject property.
- Refer to the "Flipping and Rapid Appreciation Policy" in the Property section of the guidelines for further information

Title Seasoning:

- Only the owner of record can be the seller and the transaction can not involve any assignment of the sales contract.
- See Refinance section for additional requirements for cash-out refinance
- Refer to the "Flipping and Rapid Appreciation Policy" in the Property section of the guidelines for further information

ESCROWS:

- Required if LTV > 80%, except where prohibited by state law
- California loans: required if LTV is 90% or greater.

GIFT FUNDS:

General Guidelines:

As approved by DU/LP

Additional Requirements:

- Gift of Equity is allowed on the purchase of a primary residence subject to the following requirements:
 - The LTV should be based on the lesser of the purchase price or appraised value.
 - The relative may not be, or have any affiliation with, the builder, developer, real estate agent or any other interested party to the transaction.
 - The gift of equity must be documented by a gift letter that meets the requirements listed above and the transfer should be documented on the Final HUD.
 - Gifts of equity are acceptable if verified by an appraisal and the appraised value of the property is well supported, particularly for gifts of equity or gifts of more than 20% of the LTV.
- Down payment cannot be in the form of gift funds for Second Homes and Investment Properties

Gift Fund Documentation Requirements:

A gift from a relative, domestic partner, fiancé, or fiancée must be evidenced by a letter that is signed by the donor. The letter must:

- Specify the dollar amount of the gift and the subject property address
- Include the donor's statement that no repayment is expected
- Indicate the Donor's name, address, telephone number and relationship to the borrower.
- When a gift is being pooled with the borrower's funds to make up the required minimum cash down payment, the letter also should include a certification from a donor who is a relative or domestic partner stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence. The donor should provide appropriate documentation to demonstrate a history of shared residency—such as a copy of a driver's license, bill, bank statement, etc., that shows that the donor's address is the same as the borrower's address.

- PCM must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. When the funds are not transferred prior to settlement, the donor may give the closing agent a certified check, cashier's check, or other official check for the amount of the gift.
 - Acceptable documentation to show the transfer of funds includes:
 - A copy of the donor's certified or cancelled check
 - OR
 - A withdrawal slip and the borrower's deposit slip
 - OR
 - A copy of the donor's certified/cashier's check to the closing agent
 - OR
 - A settlement statement showing receipt of the donor's check.

Gift Fund Eligibility:

A borrower may use funds received as a gift from a relative, domestic partner, fiancé, or fiancée to pay part of the closing costs or to supplement his or her financial reserves. The borrower generally must use his or her own funds to make the required minimum cash down payment, although that down payment may be supplemented with a gift from a relative, domestic partner, fiancé, or fiancée. We do make the following exceptions to this policy:

- We will permit a borrower to come up with the required minimum cash down payment by pooling his or her funds with funds received as a gift from a relative or domestic partner who has lived with him or her for the last 12 months or from a fiancé or fiancée—as long as both individuals will use the home that is being purchased as their principal residence.
- We will permit a borrower to use funds received as a gift from a relative, domestic partner, fiancé, or fiancée to make the entire down payment for any mortgage that has an 80 percent (or lower) loan-to-value ratio (or combined loan-to-value ratio, for a mortgage that has subordinate financing).

INCOME & EMPLOYMENT DOCUMENTATION:

General Guidelines:

- As determined by DU/LP.
- Tax Returns: Number of years required per AUS findings (note: At the PCM Underwriter's discretion, 2 years tax returns may be required regardless of AUS findings).
- A written VOE must be supported by paystub and W-2, Written VOE may not be the only income documentation provided
- All income sources (salary, bonus, commission, etc) included in qualifying income must be broken out and input separately into the AUS.
- If Amended Tax Returns are used for qualification:
 - The original filed return and the amended return are required.
 - Tax returns must have been amended prior to application date.
 - If the tax returns were amended 60 days or less from the application date, evidence of payment (if any) is required.

4506-T:

- An initial signed 4506-T is required on all loan submissions.
- PCM will process the signed 4506-T on all transactions.
- IRS Transcripts must be requested and analyzed by PCM as follows:
 - All loan transactions must include IRS Transcripts dated prior to the closing date.
 - In all instances, the transcript requirements apply to borrower personal returns (1040s).
 - Number of years of IRS Tax Transcripts are required per number of years Tax Returns on AUS findings & PCM Underwriter.
 - If the IRS returns "no transcripts available" for the time period requested, proof of extension and the most recent two years' IRS transcripts available must be provided.
 - IRS Transcripts do not replace any required tax returns on a loan transaction.
 - An Initial 4506-T and Final 4506-T are required on all loan transactions.

Automobile Allowance or Expense Account Payments:

Income from automobile allowances or expense account payments (but not reimbursements) may be used if the income has been received for at least two years and is properly documented. The information must also be included in an analysis developed from IRS Form #2106. Acceptable documentation can be written VOE covering two full years, most recent year-to-date paystub covering at least 30 days of employment or W-2s covering the most recent two years. If the allowance is not reflected on the VOE, additional documentation must be obtained from the employer. The documentation provided must clearly specify the following information:

- Payment amount
- Duration and frequency
- The likelihood of continuing for the next three years

Commission, Bonus and Overtime Income

- When commission income is used for qualifying income, the borrower must have a two-year consecutive history of receiving commission income and the income must be likely to continue for the next three years. The following documentation must be obtained:
 - Written VOE covering two full years with a breakout detailing commission income
- OR
 - Most recent year-to-date paystub covering at least 30 days, with a breakout detailing commission income
 - W-2s and/or 1099s covering the most recent two years
- AND
 - Complete signed individual federal tax returns for the most recent two years
- Employee-paid business expenses reflected on the borrower's tax returns must be deducted from the gross commission income when calculating income.
- It is important to establish an earnings trend for the income. Annual earnings must be level or increasing. If earnings show a decline in the current year, there must be strong offsetting factors to make the commission and/or bonus income acceptable (particularly if commission or bonus income for any borrower accounts for > 50% of their total qualifying income).

Disability Income

- If a borrower is currently on a leave of absence or short-term disability (including Maternity Leave), income may be used per the following requirements:
 - Letter from the Employer with the following information:
 - The date the Employee will return to work
 - **Note:** this date must be before the date of the first mortgage payment
 - Rate of pay while on leave
 - If the Employee will be working under the same terms they were previously working upon their return
 - Letter from the Borrower with the following information:
 - They intend to return to work
 - The date they will return to work
 - **Note:** this date must be before the date of the first mortgage payment
 - Worse-case income must be used for qualification
- Also refer to Worker's Compensation topic within the Income & Employment section

Declining Income:

- Salaried/Hourly & Self-Employed borrowers:
 - Declining income sources should not be averaged and the most recent lower income must be used to qualify.
 - An explanation for decline must be obtained and the underwriter must deem why use of the income is acceptable.
- Additional requirements for Self-Employed borrowers:
 - A steady decrease in business income for the previous two or three years may not be acceptable even if the borrowers' current ratios conform to program requirements unless it can be verified that profitability has stabilized or if strong compensating factors such as low loan-to-value coupled with far below maximum debt ratios or substantial liquid assets are present. Particular attention should be placed on the business' earnings trend to ensure income is steady or increasing, and to the source of that income. Increases should not be due to factors not related to the business (such as capital gains from the sale of real estate), unless this is the character of the business. Even if income from the self-employed borrower's business is not used for qualification purposes, the business must still be analyzed to ensure that it will not affect the borrower's personal income or assets negatively. An analysis of the borrower's experience, income stability, financial strength of the business, location and nature of the business, and demand for service or product offered by the business should be performed.

Employed by Family Member

- If borrower is employed by a relative, domestic partner, fiancé/fiancée, or closely held family business, the property seller or real estate broker, the following documentation is required:
 - Most recent paystub documenting 30 days of income
 - W2s covering the most recent 2 years
 - Complete signed individual federal tax returns for the most recent 2 years (verifying no ownership in the company).
 - Written VOE covering the most recent 2 years
 - A minimum 24 month average of income must be used for qualifying.

Notes:

- If the borrower owns 25% or more of the business, the borrower is considered to be self-employed.
- If the borrower is newly hired, previous employment in the same or related field must be verified.

Foreign Income

- When the borrower is a U.S. Citizen or Permanent Resident Alien:
 - Employed in the United States by a foreign corporation, the income may be used to qualify when documented by a VOE evidencing a two-year earnings history. The earnings must be in U.S. dollars (or converted to U.S. dollars) and the employer must confirm that the income is protected from any exchange rate fluctuations.
 - Employed abroad by a U.S. company or a foreign company, the personal tax statement filed with the IRS will be required to indicate the income earned outside the United States. Income tax returns indicate U.S. dollars and have been adjusted for any exchange rate fluctuations. The income may be used to qualify.
- When the borrower is a Non-Permanent Resident Alien:
 - Employed in the United States by a foreign corporation, the income may be used to qualify when employment, residence and credit have been verified for a minimum two-year period. Income must be verified by obtaining either a written VOE (with income converted to U.S. dollars) or copies of the most recent two years' federal income tax returns.
 - Employed abroad by a foreign company, the income is ineligible for qualifying.

Future employment

- Under certain circumstances income from future employment may be used. The underwriter may qualify a borrower utilizing the income documented in the employment contract. The borrower must have accepted the position with a guaranteed starting date prior to the date of the first mortgage payment. Borrower must be on the job prior to closing. Past experience and income levels are considered when determining if future income is acceptable. A verbal VOE is also required from the new employer.
 - The employment contract is fully executed by the employer and employee and does not contain contingencies
 - The terms of the contract are deemed reasonable by the underwriter
 - The loan application and file documentation verify the required minimum two-year employment history for the borrower. An underwriter may elect to accept college transcripts in lieu of employment history.
 - Verification that the borrower has started employment must be done prior to loan funding
- **Note: Per DU findings will need a 30 day YTD paystub.**

Gap in Employment

- Document gaps of more than 30 days on the application and provide an explanation from the borrower. If the borrower is re-entering the workforce, obtain documentation to support that the borrower has been at the current employment for a minimum of six months and documentation to show a previous work history.
- Multiple gaps in employment or frequent changes in employment within the past 24 months should be carefully reviewed to determine if the borrower's employment is stable and likely to continue. No gaps of verified employment income may exist for self-employed borrowers.

Housing Allowance

- Housing or parsonage allowance may be considered income for qualifying with the appropriate documentation to show a 12 month history of receipt. A written VOE or letter from the employer must be obtained to show the terms under which the allowance is paid and pay stubs to show the borrower receives the allowance. The allowance may not be used to offset the monthly housing payment.

Military Income

- Provided its continuance is verified, the following forms of military pay are acceptable:
 - Income from variable housing allowances
 - Clothing allowances
 - Flight or hazard pay
 - Rations
 - Proficiency pay
- Reserves or National Guard Not Called to Active Duty
 - Military Reservists who have not been called to active duty may use their military reserve income to qualify, as long as they can provide a two-year history of receiving that income.
- Reserves or National Guard called to Active Duty:
 - If one of the borrowers is on active duty or has been called to active duty after the loan application has been taken, the loan is in process and the borrower wants to refinance his or her primary residence, which the family does not currently occupy, the loan must comply with the following:
 - The Borrower must certify that the subject property is their primary residence
 - The subject property must be vacant, will remain vacant and will again be the Borrower's primary residence when the temporary assignment is completed
 - The Borrower must certify that they will returning to the subject property as their primary residence upon completion of the temporary assignment
 - The Borrower must provide documentation regarding their temporary assignment (orders supporting that the assignment including duration)

Non Taxable Income

- If the income is verified to be non taxable, and the income and its tax exempt status are likely to continue, an "adjusted gross income" **MUST be developed** for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrowers income.

Part-Time or Second Job

- Income must be verified as having been uninterrupted for the previous two years, with a strong likelihood to continue for the next three years. Documentation must be on a Verification of Employment covering two full years or must be supported by W-2 forms and a current pay stub or salary voucher with year-to-date earnings for the most recent 30 days.

Rental Income

- General Rental Income Guidelines:

- **Rental Income from a Family Member (or other individual with an established relationship or an interested party to the transaction):** Not allowed

- **Rental Income History**

When rental income relates to the subject property and the borrower has no history of receiving rental income from the property, the rental income must be documented by obtaining an appraiser's opinion of market rent, and if applicable, copies of the current lease agreements. The lesser of the appraiser's opinion of market rent or the lease agreements must be used. The gross rental income from the property will be equal to the lesser of the market rent established by the appraiser or the current rent based on the existing lease agreement(s). Net rental income will equal 75 percent of the gross rent; the remaining 25 percent of the gross rent is absorbed by vacancy losses and ongoing maintenance expenses. When the borrower has a history of receiving rental income for the subject property, the rental cash flow should be analyzed.

- If rental income is being used to qualify the borrower and the property is an investment property, there must be evidence of a 2-year property management history unless the borrower qualifies with the full mortgage payment (PITIA).

- **Rental income from a property other than the Subject Property**

When the rental income relates to rental property other than the subject property, rental income may be documented by obtaining copies of the pages from the borrower's most recent two years of signed federal income tax returns. Current lease agreements may only be used if a property is not listed on Schedule E because it was acquired subsequent to filing the tax return. If using the current lease agreements, use the net rental income of 75 percent of the gross rent from the lease agreements, with the remaining 25 percent being absorbed by vacancy losses and ongoing maintenance expenses. A cash flow analysis should be used when federal tax returns are obtained.

- **Rental income from a property other than the borrower's Primary Residence**

If the net rental income relates to a property other than the borrower's primary residence, the monthly net rental income (as determined above, but excluding the full amount of the related mortgage payment) should be added to the borrower's total monthly income, while any monthly net rental loss should be added to the borrower's total monthly obligations. The full amount of the mortgage payment for the rental property (PITIA) is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation. However, the full amount of the mortgage payment for the borrower's principal residence must be counted as a monthly obligation.

- Rental Income from Primary Residence:

- **Boarder Income**

- Rent from boarders in a single family property that is also the borrower's primary residence or second home may not be considered as income.

- **Rental income from a borrower's Primary Residence**

- If the net rental income relates to the borrower's primary residence, the monthly net rental income should be added to the total monthly income. Any net rental loss should be added to the borrower's total monthly obligations. The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.

- **Rental Income from 2 – 4 Unit Primary Residence**

- In cases where the borrower occupies one unit of the 2-4 unit property, do not include income or expenses from the owner-occupied unit.

- Rental Income from Investment Property:

The housing expense for the rental property (PITIA) is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation. Reasonable adjustments to gross rental income must be made to compensate for vacancies, operating and maintenance expenses, and rental income received for furniture.

- If rental income is being used to qualify, there must be evidence of a 2-year property management history unless the borrower qualifies with the full mortgage payment (PITIA).

Retirement Income

- Income from retirement accounts, retirement benefits and pensions may be used as qualifying income if the income will continue for at least three years. Documentation must be provided by the entity providing the income.
Acceptable forms of documentation are:
 - Copy of the retirement award lettersOR
 - Most recent year's W-2 forms or 1099 formsOR
 - Twelve months' most recent bank statements showing receipt of the income
- Income from a retirement annuity may be used for qualification with proper documentation. A statement from the financial institution managing the annuity is required to verify the balance in the annuity, the monthly payments and the term of the payments to be distributed. Payments to the borrower must continue for a minimum of three years. Regular distributions from IRA and Keogh accounts may be used as qualification income provided the distributions will continue for a minimum of three years. A letter from the administrator of the account is required to verify the terms of the distributions and document the receipt of the funds and the current balance on the account.
- **Note:** Retirement accounts used as income cannot be used to determine interest income.

Seasonal Income

- When using seasonal income to qualify the borrower, a minimum two-year history of receipt in the same line of work is required, the borrower must be reasonably expected to be rehired the next season and the income must be likely to continue for the next three years. Seasonal employment income must be reported on the borrower's two most recent year's individual federal tax returns. To document, obtain all of the following:
 - Most recent year to date paystub or salary voucher documenting at least one month of income
 - W2s covering the two most recent years
 - Written VOE covering two full years for all seasonal employment. If verbal verification occurs during the off season and the borrower is not currently working for that business, independent verification that the business exists and that the borrower previously worked for that business as stated on the loan application is required, at minimum.
 - Verbal VOE not more than ten business days prior to the note date.
 - Proof of receipt of unemployment compensation for two years, if applicable
- Unemployment compensation associated with seasonal income

In addition to the above requirement, the unemployment compensation must be reported on the borrower's two most recent year's individual federal tax returns and proof of receipt of unemployment compensation for two years must be documented.

Self Employed Income

- A YTD Income/Expense statement and Balance Sheet is required if the individual tax returns are more than 16 months old.
- When using tax returns to calculate income, include a self employed analysis to show how income was calculated.
- Unaudited Profit and Loss statements can be provided to support determination of the stability or continuance of the borrower's income (income cannot be used to qualify)
- Tax Returns: Number of years required per AUS findings (note: At the PCM Underwriter's discretion, 2 years tax returns may be required regardless of AUS findings).
 - 2 years business tax returns required per AUS findings or PCM Underwriter discretion for business analysis
- A borrower who holds a Limited Partnership interest that has been formed for the purpose of real estate investment or development or a General Partner who has personal liability and whose **primary income** is derived through the partnership's long-term investments MUST include all properties owned and financed by that partnership.

Spousal or Child Support

- Spousal or child support must continue at least three years after the date of the original mortgage loan application to be considered. PCM will accept as verification of the award of spousal and/or child support one of the following documents: a copy of the divorce decree, the formal separation agreement, court records, any other type of legal agreement or court decree that describes the payment terms, or a copy of any applicable state law that requires alimony, child support or maintenance payments and specifies the conditions under which the payments must be made.
- The document must specify the amount of the award and the period of time over which it will be received. The borrowers must provide evidence that the funds have been received for the last 12 months. Acceptable evidence would be deposit slips, canceled checks, bank statements or signed.
- Federal income tax returns. A 6 to 12-month documented history of receipt of income is acceptable providing the income does not exceed 30% of the total gross qualifying income. Conforming loans may provide a three month documented history of receipt of income, but only if the AUS certificate provides an Accept recommendation.

Temporary Income

- Temporary employment may be considered when the borrower works through an agency (or agencies) and has demonstrated this to be a stable form of income. The borrower's work history must be verified for two years and the borrower must have worked steadily as a temporary employee for a **minimum** of 24 months.
 - Income will be averaged over the two-year period, but not less than 24 months.
 - Obtain W-2s for the most recent 2 years plus a current paystub documenting at least 30 days of income.
- **Note:** No consideration will be given to temporary income of a borrower who is not employed through a temporary agency and whose sole employer states the borrower's employment is temporary

Tip Income

- Tip income may be used as follows:
 - The borrower has received tip income for the last two years
 - The employer indicates the tip income will, in all probability, continue
- A two-year average will be used to determine the amount of income that may be considered in qualifying the borrower.
- Tip income must be entered in DU in the other monthly income section of the loan app as OTHER TYPES OF INCOME and verified according to these requirements
- Most recent two year's personal income tax returns with all schedules are required.

Trailing Secondary Wage Earner Income

- Not allowed

Trust or Estate Income

- Trust income may be used if it is properly documented. The income must have been received for at least three months and must continue at least three years. The following documentation is required:
 - A copy of the trust agreement as permitted by state law or the trustee's statement confirming the amount, frequency and duration of payments to the borrower.
 - Bank statements to show proof of receipt of the trust income for at least three months. Lump sum distributions made before loan closing may be used for the down payment, mortgage pay down, or closing costs if they are verified by a copy of the check or the trustee's letter shows the distribution amount.

Unacceptable Income

- PCM will not accept the use of any income or compensation for qualifying borrowers whose source of income cannot be verified. The following are certain types of income that may not be considered for qualification:
 - Allowance income (for example, an allowance received from a family member)
 - Depletion of Assets
 - Educational benefits, such as VA benefits or scholarships
 - Gifts, regardless of duration or amount
 - Lump sum payments of lottery earnings that are not ongoing
 - Lump sum payments such as inheritances or lawsuit settlements (may be verified as assets to close)
 - Non-borrower spouse income
 - Payments that are received for purchase or reimbursement of specified items
 - Retained earnings
 - Room and board received for the borrower's principal residence, unless specifically allowed per the product or program under which the loan was submitted.
 - Secondary income that will continue for less than three years
 - Severance Pay
 - Stock options (Although stock options are not considered qualifying income, they may be used as reserves)
 - Student loans/grants
 - Taxable forms of income that the borrower does not declare on federal income tax returns
 - Trailing wage earner income
 - Unverifiable income
 - Value of a company furnished automobile
 - Value of employment benefit packages that are not received as cash wages

Verbal VOE:

- PCM will perform a Verbal VOE for all borrowers within 48 hours of funding

Worker's Compensation

- Worker's compensation benefits differ by state and benefits are usually reevaluated annually.

A consistent and diligent effort must be made to obtain adequate information to allow the use of the income as qualifying income. Any worker's compensation income used must be documented in the file, and the file must contain:

- A copy of the borrower's benefits statement to verify the amount of benefit payments and to determine whether there is a contractually established termination or modification date.

AND

- A statement from the benefit's payer (the insurance company, employer or other qualified and disinterested party) to confirm the borrower's current eligibility for the benefits.
 - The justification for worker's compensation income used must be indicated on the Underwriter's Loan Analysis.
- Temporary income benefits are paid for injuries that are expected to medically improve, usually for a term of two years, or until such time that the employee can return to work. The worker's compensation benefit will be used as qualifying income, unless the employee will be returning to work at a set time in the immediate future (for example, within 60 days of closing). If the employee will be returning to work, the employer must confirm the position and rate of pay.
- A second type of worker's compensation is paid for **permanent disability** (which affects ability to perform a previous job, but does not prevent the individual from working) until such time as the borrower can be trained for a new occupation. This type of benefit usually continues for five to eight years from the date of injury as a supplement to income and can only be used as qualifying income if it will continue for three years after closing.
 - Lifetime worker's compensation benefits are paid for a catastrophic injury such as loss of sight, hearing or limb.
 - Death benefits are also available for the surviving spouse and minor children. The duration of this income is determined by state law and may be considered as qualifying income if three years' continuance is established.
 - Lump sum benefits are also paid to workers in lieu of temporary or permanent disability payments and are considered as savings.
- Worker's compensation is nontaxable income that may be grossed-up for qualifying.

INTERESTED PARTY CONTRIBUTION:

The maximum contribution is limited to lesser of the actual closing costs and pre-paids or the % indicated below.

<u>LTV:</u>	<u>% contribution</u>
> 90%	3%
75.01-90%	6%
<=75%	9%
All N/O/O	2%

Seller contributions for HOA dues must be paid directly to the Association

INVESTMENT PROPERTIES:

An investment property is a 1-to-4 family property that the borrower does not occupy (whether or not the property produces income).

General Guidelines:

- 1-4 unit properties allowed
- If the subject property is currently rented a copy of the rental agreement is always required to verify there are no provisions that could affect PCM's first lien position.
- Evidence of Rent Loss Insurance to cover 6 months rent is required when using rental income to help qualify.
- Refer to Assets section regarding reserve requirements
- Borrower may not be affiliated with the builder, developer, or seller of the subject property.
- 216/1007 Requirements
 - Single Family Comparable Rent Schedule (1007) and/or Operating income statement (216) are ALWAYS required REGARDLESS if income from the subject property is used to qualify the borrower. This includes 1-4 unit properties in which the applicant will occupy one unit as a principal residence regardless if using rental income.
 - The subject's monthly rental amount should be disclosed in the REO section of the 1003 or listed in the 1008 comment section.
 - If the monthly rental amount for each non-owner occupied unit is not included in the file PCM will suspend the loan for a 216/1007.

- Fannie Mae Form 1007 pertains to Single Family Residence properties and must be analyzed by the underwriter.
- Fannie Mae Form 216 pertains to One to Four Family Investment Properties and Two to Four Family Owner-Occupied Property and must be analyzed and signed and dated by PCM underwriter.
- Rental Income Calculations
 - Use the **LOWER** of:
 - Net cash flow for the Subject Property must be calculated using the Operating Income Statement (216) as prepared by the appraiser
 - OR**
 - Compare the income or loss reported on the borrower's 1040s/Schedule E (when applicable)

1031 Tax Deferred Exchange:

- Funds from exchange are only acceptable when both the property that was sold and the subject property being purchased are investment properties.
- The sales contract from both the sale of the previous property and the subject property must state that a 1031 Deferred Tax Exchange is being utilized.
- The 1031 Exchange must be handled by a qualified intermediary. The intermediary must be an independent third party and not a real estate agent, broker, attorney, banker or investment advisor.
- The following documentation is required:
 - Copy of the sales contract from the sale of the previous property and the purchase of the subject property
 - 1031 Exchange agreement.
 - Final HUD-1 from the sale of the previous property.
 - Verification of receipt of funds from the intermediary.
- Equity from exchange can be used for all or part of the down payment

Property Management History :

- If rental income is being used to qualify, the borrower must have a two-year history of managing rental properties AND Rent Loss Insurance for Conforming Loan Transactions. Verification must be provided through the most current two years of tax returns.

Rental Income History:

- Refer to Income and Employment section.

Unacceptable Transactions:

- Gifts
- Non-arm's Length transactions with non-family members

INSURANCE REQUIREMENTS

Condo Insurance Requirements

- Insurance Policy should be reviewed by the Underwriter as part of the project review. Refer to Condo-PUD Guidelines Matrix for additional information.
- **HO-6 "Walls-In" Condominium Insurance:** "Walls-In" insurance coverage is required on all condominium loans (Conventional & FHA), where the master or Blanket HOA policy does not provide replacement coverage for any affixed improvements that the borrower makes to the unit (cabinets, flooring, countertops, plumbing fixtures, etc).
 - **HO-6 "Walls-In" Insurance Requirements:**
 - All Conforming condominium loans must include an HO-6 insurance policy if the master HOA policy does not provide coverage for the interior of the unit.
 - HO-6 insurance must be impounded on all Conforming condominium loans (per standard LTV insurance impound requirements of 80% or 90%, depending on state) with applications taken on or after August 9, 2010.
 - An acceptable Individual Contents and Liability Policy with HO-6 "Walls-In" coverage in an amount that is no less than 20% of the condominium unit's appraised value and a maximum 5% insurance policy deductible.
 - HO-6 insurance requirements apply to the following Conforming loan programs: Standard Conforming, Conforming High Balance, DU Refi Plus, HomePath and My Community.
 - **HO-6 Insurance to be included in Monthly Housing Payment Calculation**
 - Whether the HO-6 insurance is impounded or not, the payment **must be** included in the monthly housing payment calculation, and subsequently the debt to income ratios.

Purchase

- Policy must be paid in full for 12 months

Refinance

- Initial policy must have been paid in full
- The amount of the initial premium should be listed on the GFE and marked "POC"
- Policy must have at least 3 months remaining at the time of closing

LIABILITIES & QUALIFYING RATIOS:

General Guidelines

- Qualifying ratios are determined by the AUS certificate.
 - Loans with non-occupant co-borrowers: The owner-occupant must qualify at 35%/43% maximum ratios, regardless of AUS findings
- Accounts may not be "paid down" to 10 months or less to allow the borrower to qualify. All installment debt must be considered part of the borrower's recurring monthly debt obligations if there are more than ten monthly payments remaining. However, an installment debt with fewer monthly payments remaining also should be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet his or her credit obligations.
- > 80% LTV max ratios regardless of DU/LP response is as determined by the MI company guidelines.
- Loans secured by 401K accounts are not required to be included in the debt ratio. But the borrower should indicate plans for repayment and the Underwriter should consider the impact of the payment on the cash flow.
- Lease payments must be included in the ratio calculation regardless of the remaining term.
- If a debt appearing on the credit report does not reflect a monthly payment, that monthly payment must be verified. For the following account types in lieu of providing proof the payment will be calculated as follows:

Revolving: 5% of current balance

Contingent Liabilities

- A Contingent Liability is a debt the borrower is not currently required to pay. To exclude the payment from debt ratio 12 months canceled checks or bank statements are requirements as evidence of timely payment by someone other than the borrower.
- If the obligation to make payments on a debt has been assigned to another person by court order, such as divorce decree, the payment may be excluded from debt ratio.
 - Required Documentation: Copy of the court order or divorce decree.
 - If a mortgage debt, a copy of the document transferring ownership of the property.
 - Mortgage debt as reflected on the credit report must match the property on the court order.

Paying off debt to Qualify

- If any portion of the loan proceeds is being used to pay off debt for qualification purposes, the debt payoff must be thoroughly documented in the loan file.
- If any portion of the loan proceeds is being used to pay off debts for qualification purposes, the underwriter must count **a minimum \$10 per month payment for revolving debts and include these debts in the total debt ratio.** Installment debts being paid off do not need to be included in the total debt ratio. Verification that the debt has been paid must be provided by one of the following:
 - A copy of the HUD-1
 - A supplemental credit report
 - Verification from the creditor

LOAN AMOUNTS:

Maximum Conforming Loan Amounts:

Units	Contiguous States	Hawaii
1	\$417,000	\$625,500
2	\$533,850	\$800,775
3	\$645,300	\$967,950
4	\$801,950	\$1,202,925

Minimum Loan Amount:

\$75,000

All loans must be submitted in whole dollar amounts.

LOAN TERMS:

ARM LOANS:

Fixed Period:

- 3 years (3/1), 5 years (5/1), 7 years (7/1), or 10 years (10/1)

Interest Only Period (if applicable):

- 10 year interest only period. Payment then amortizes over a 20 year term.

FIXED RATE:

- 15, 20, and 30 years

INTEREST ONLY FIXED

- 30 year loan with 10 year interest only period. Payment then amortizes over a 20 year term.

MORTGAGE INSURANCE:

All loans must meet MI company guidelines (including Credit Score requirements)

General Guidelines:

- Eligible providers are RMIC, Radian, MGIC and Genworth. Refer to individual websites for guidelines and rates.
RMIC <http://www.rmhc.com/ratesguides/Pages/default.aspx>
RADIAN <http://www.radian.biz/mortgage/rates.aspx>
**Note: PCM will allow up to 95% with a 680 credit score (minimum 720 credit score for loans in AZ, CA and NV)*
MGIC <http://www.mgic.com/index.html>
**Note: PCM will allow up to 95% with a 680 credit score (MGIC-designated "Tier 1" markets only)*
GENWORTH* <http://www.mortgageinsurance.genworth.com/MIPProducts/Default.aspx>
- LPMI (Lender Paid MI) & Single Premium is available, refer to MI Company Rates and Guidelines
LPMI: Single Premium only. Monthly LPMI not allowed.
- Split-Premium MI is available, refer to MI Company Rates and Guidelines
- Reduced Mortgage Insurance is not allowed.
- Financed MI is not allowed
- MI is not available on Second Home/Non Owner **Interest Only** products

Common MI Company Guidelines

- 5% of borrower's own funds are required for purchase transactions
- Max DTI is 41%
- Generally a minimum of 2 months reserves (must be borrower's own funds) must be verified, regardless of AUS
- Full 1004 appraisal is required
- Third party transactions - no attached PUDs or Condos.
- No mixed use properties

Standard MI Coverage:		
<u>LTV</u>	<u>10-20 year</u>	<u>25-30 year</u>
90.01-95	25%	30%
85.01-90	12%	25%
80.01-85	6%	12%

General steps for determining eligibility and obtaining Mortgage Insurance:

- 1 Determine MI type (monthly, LPMI, split, etc.)
- 2 Price MI
- 3 Review MI Guidelines to determine if loan meets requirements
- 4 PCM Underwriter to order MI Certificate

NUMBER OF LOANS/PROPERTIES:

Number of Financed Properties per Borrower

- **Primary Residence:**
 - For a primary residence there is no limit on the number of properties owned and/or financed by the borrower
 - PCM will only make 1 primary residence loan to a borrower within a 12 month period
- **Second Homes and Investment Properties:**
 - Unlimited number of properties may be owned but only 4, including their primary residence, may be financed (regardless of AUS findings)
 - Partial or joint ownership is considered the same as total ownership in a property
 - This does not include commercial properties and structures with more than 5 units.
- **General Guidelines:**
 - Borrowers are limited to a total of 4 financed properties serviced by any one investor/lender.
 - Properties and lots owned free and clear are not included in the limitations listed above
 - Refer to the assets section for reserve requirements when multiple loans are closing concurrently
 - A borrower who holds a Limited Partnership interest that has been formed for the purpose of real estate investment or development or a General Partner who has personal liability and whose **primary income** is derived through the partnership's long-term investments **MUST** include all properties owned and financed by that partnership.

OCCUPANCY:

All borrowers must certify via an Occupancy Certification the intended use of the property (owner, second home, non-owner).

- The Loan Documents must provide that the Loan may be declared in default if the Borrower makes misrepresentations for any provision of the application, including occupancy.
- In addition, all documentation in the loan file should be consistent; all addresses on pay stubs, W-2 forms, individual tax returns, etc. Any discrepancies must be satisfactorily explained and documented to support the discrepancy.

Number of Financed Properties

Refer to the "Number of Loans/Properties" section

Primary Residence

A primary residence is property that is physically occupied by the Borrower as his or her principal residence.

Residency is defined by the following criteria:

- Borrower occupies the property as his or her principal residence
- Borrower occupies the property for the major part of the year
- Property location is convenient to the Borrower's principal place of employment
- Property address is of record for one or more of the following: federal income tax reporting, voter registration, driver's license, occupational licensing, etc.

The following restrictions apply to primary residence purchase transactions:

- Multiple primary residence purchases within the past 12 months will be considered on a case-by-case basis when the Borrower has satisfactorily explained and documented the following:
 - The reason the current home is no longer owner occupied
 - The motivation to occupy the Mortgaged Premises
 - The elapsed time between transactions was reasonable
- Primary residence refinance transactions will not be considered unless the Borrower resides in and holds title to the Mortgaged Premises at the time of application.

Timeframe for borrowers to occupy the subject property

The borrowers must occupy the subject property within 60 days of the close of escrow.

If there is a rent or lease back agreement between property seller and buyer indicated on purchase contract, the time period is limited to 30 days with a PCM Second Signature approval.

Occupancy Verification Requirements

- Purchase of an Owner-Occupied 2-unit property:
 - Borrowers may not own any other residential property of equal or greater value in the same area in which the units are located. The mailing address and property address must be verified at the same. If this verification cannot be made, the property must be treated as an investment property.
- Purchase of an Owner-Occupied 3-4 unit property:
 - The loan documentation (credit report, income, asset verification) must show the borrower's current primary residence as the borrower's address.
 - The Homeowner's insurance policy must show that the mailing address and subject property address are the same.
 - **Note:** If the borrower uses a P. O. box, and occupancy cannot be verified, a pre-funding inspection is required.
 - The appraisal must indicate the unit the borrower intends to occupy and confirm availability of that unit. Information indicating the unit to be owner-occupied must be consistent with other documentation in the file. If the borrower currently owns other properties (not being sold as part of the subject transaction), the underwriter must review to determine that the borrower's intent to occupy is reasonable. The loan file must contain supporting documentation.
 - The purchase agreement must show the borrower's intent to occupy.

Refinance of Owner-Occupied 1 – 4 Unit Properties

- The loan documentation (credit report, income, asset verification) must show the subject property as the borrower's address.
- The Homeowner's insurance policy must show that the mailing address and subject property address are the same.
 - **Note:** If the borrower uses a P. O. box, and occupancy cannot be verified, a pre-funding inspection is required.
- The appraisal must indicate that the borrower occupies the property.
- The title policy should show a homeowner's exemption.

Second Home

- A second home is a single family property that the borrower occupies in addition to the borrower's primary residence. Rental income may not be used to qualify the borrower. The property must be located in an area that can reasonably function as a second home and must be suitable for year-round occupancy.
- Second homes not suitable for year-round occupancy are allowed subject to:
 - Conforming fixed-rate loans only.
 - Purchase and rate-and-term refinance transactions only.
 - Location in an area where second homes are common, but not commonly suitable for year-round occupancy.
 - The appraisal that indicates the inability to use the property year-round is not detrimental to subject property's marketability.
- Typically, a second home is used as a vacation home. The property must be remote from the borrower's primary residence in either distance or time of travel, and should be located in a resort or vacation area (such as mountains, oceanfront, or desert). Second homes may also be located in a major metropolitan area that the borrower visits on a regular basis.
 - In such cases, obtain a letter of explanation from the borrower stating the reason that the second home is located in a non-resort/vacation area.
 - The borrower may not own another second home or investment property in the same area or locale.
 - The hazard insurance policy may not contain any coverage for loss of rent insurance.
 - The borrower must also meet guidelines for maximum number of financed properties.
 - The property should not be rented on an on-going basis. Incidental income not to be in excess of 14 days for the entire year with no significant amount shown on Schedule E of the property. Second homes must be available for the borrower's exclusive use and enjoyment and must not be subject to any timesharing arrangement or subject to any rental pools or agreements that require the borrower to rent the property or give a management firm control over the occupancy.
 - Any rental income should offset only a minor portion of the property expense and support the fact the property is primarily occupied for the borrower's personal use. Two-to-four unit properties are not eligible as second homes and, if not occupied as the borrower's principal residence, are considered investment properties.

Investment Property

- An investment property is a 1-to-4 family property that the borrower does not occupy. This definition is used whether or not the property produces income.
- When financing an investment property, the borrower must also meet guidelines for the maximum number of financed properties.

PROPERTY ELIGIBILITY:

Additional Dwellings (Manufactured home on property)

- If a manufactured home is located on the subject property it must be removed prior to closing.
- If the DU findings include a red flag that there is a MFH located on the subject, the appraiser must explicitly confirm that no MFH is located on the subject.

Flipping and Rapid Appreciation Policy

- **Property Flipping:**
 - **Definition:** The practice whereby a property is purchased and resold quickly, usually for a significant profit. Property flipping becomes unacceptable when a home is purchased and resold within a short time frame at an artificially inflated value for a profit.
 - **Red Flags:**
 - Ownership/Title:
 - Property ownership changes two or more times in a brief period
 - The property seller recently acquired the property for a significantly lower price
 - The property seller is not on the title policy, appraisal or purchase contract
 - Reference to "double escrow" or another Settlement Statement (HUD-1) form
 - Non-recorded property transfers or liens
 - Borrower is purchasing more than one property in the area and lives out of the area

- Purchase Contract:
 - The Selling Price exceeds the List Price and Appraised Value
 - Parties to the transaction are “non-arm’s length” or “at-interest” (*meaning persons who are not closely tied or related but may have a greater vested interest in the transaction (such as a party who plays more than one role in the same transaction). Examples would include a selling/listing agent and mortgage broker, a Builder also acting as Realtor/broker, Realtor/Broker selling their own property, Realtor/broker acting as listing/selling agent and as the mortgage broker.*)
 - A property sale that does not involve a Realtor
 - Assignment of purchase contract of sale
 - Renegotiation of the purchase contract after the initial appraisal is completed.
- Appraisal:
 - Two or more closings occur at nearly the same time for significantly different values.
 - Appreciation of the subject property exceeds that in the normal marketplace.
 - Subject is a recent foreclosure in a location with high foreclosure activity
 - Comparable used to establish value was a foreclosure in the past 12 months and /or resale at considerably higher value
 - The appraisal may detail major renovation not supported by photos
 - Renovations noted on the appraisal could not have been completed in the time between the purchase and refinance
 - Appraiser justifies the value appreciation because the previous transfer was a foreclosure or bank-owned property, below market sale, distress sale, etc
 - Neighborhood activity shows multiple bank-owned properties, ownership as LLCs, individuals or entities owning multiple properties.
 - Property seller’s name does not match the name on the preliminary title report or purchase agreement
 - Appraisal was ordered before the sales contract was written
 - Comparables used are “shadow inventory” (*properties that are REOs, pending foreclosures and seriously delinquent loans (90 plus days) that may be in the modification process. Shadow inventory may also refer to situations where a borrower is or waiting for better market conditions to sell.*)

- **Rapid Appreciation**

- **Definition:** Appreciation of the subject property exceeds that in the normal marketplace. Properties with rapid appreciation are common in unstable markets with significant foreclosure activity and /or subsequent refinance of properties with loan to values based on any increase in value.
- **Red Flags:**
 - The neighborhood reflects: High foreclosure activity (as evidenced on the 1004MC and/or AVM), multiple REO properties, ownership as LLCs or individuals/entities owning multiple properties.
 - Any increase in value from prior purchase within the past 12 months
 - Subject is a recent foreclosure
 - Two or more comparables are recent foreclosures
 - Minimal Property improvements or no improvements at all since prior sale of subject property
 - Type of materials used to upgrade the property are of low quality and do not support the increase in value.
 - Home is newer, but is listed as having numerous improvements since prior purchase
 - Renovations noted on the appraisal could not have been completed in the time between the prior acquisition and current refinance of current purchase
 - Appraiser doesn’t reference who completed the upgrades
 - Desk Review/LARA comes back with verbiage such as “high or upper end of value”
 - Subject was purchased at an auction or steps of the county courthouse
 - Appraiser justifies the value appreciation because the previous transfer was a foreclosure or bank-owned property, below market value, distress sale, etc.
 - Seller financing was used

- **Property Flipping & Rapid Appreciation Requirements:**

- When potential flip **and/or** rapid appreciation Red Flags are detected in a loan file, PCM requires further investigation to determine the legitimacy of the transaction and the true value of the collateral. If any Property Flipping and/or Rapid Appreciation Red Flags are present, each Red Flag must be neutralized via the Underwriter's written analysis **and** per the following guidelines and documentation requirements:

- Provide documentation to support any increases in value for the subject property from prior acquisition date to current transaction
- Verify that the property seller and owner of record are one and the same (purchase transactions)
- Verify that the borrower and owner of record are one and the same (refinance transactions)
- Verify that there is no apparent relationship (non arms-length and/or at-interest) between the parties to the transaction, either on the current sale or previous sale.
- Thoroughly review all Investor property transactions for the reasonability of the estimate market rent and the probability of vacancy.
- Apply the value calculations below for Refinances on properties acquired within the past 6 months:
 - **Owner Occupied:**
 - **Properties with improvements made within the previous 6 months:** PCM may give value to the improvements made with satisfactory documentation to support value increase.
 - **Properties purchased within the past 6 months and no improvements have been made:** PCM will not give any additional value beyond the acquisition cost – even if the property was purchased below market value.
 - **Second Home and Investment Property:**
 - Regardless of improvements made, PCM will not give any additional value than the acquisition cost – even if the property was purchased at below market value.

- **Additional Notes:**

- Second home and investment properties are ineligible if the transaction includes non-arm's length and or at-interest characteristics.
- PCM may require additional substantiation of the appraisal value through a field review performed by an approved review appraisal company.

Auction Properties

Not Allowed

Building Permits

Building Permits are required under the following conditions:

- Whenever the Purchase Agreement or Sales Contract requires it.
- If indicated in the appraisal report that there is an addition to the original structure, extensive remodeling, or conversions of an existing structure.
- Whenever a second story, kitchen, bath, multiple rooms, or detached unit has been added to the original structure.

Condo Project Approvals

- Refer to the Condo-PUD Guideline Matrix for additional requirements

Eligible Property Types:

- 1-4 unit primary residence and investment properties
- 1 unit second homes
- Single family residences attached and detached.
- Condo projects meeting FNMA Type Q, P and S requirements.
- PUD projects meeting type E and F requirements
- Modular, panelized and prefabricated homes

Garage Conversions

All of the following conditions are required to allow a garage conversion without permits:

- If a garage was converted without a permit, the appraiser must show the value as a garage, not as a converted room. The appraiser must also estimate the cost to cure for re-conversion back to a garage.
- If the garage is converted to living space with no extra plumbing or electrical work, no permit is required if the appraiser indicates it was completed in a workmanlike manner, the comparables support the value, and the lack of car storage is not prohibited by local ordinances.
- If the appraiser can obtain comparables that are the same as the non-permitted living space, no adjustment to the property value is necessary. If the comparables do not have a similar living space the room must be valued based on its original use. This requirement applies to family rooms and patio enclosures as well.

Geographic Restrictions

- Properties located in possible earth slippage, landslide and potential environmental hazard areas are not eligible.

Log Homes:

- Comparable sales must be similar log style homes.
- The property needs to be common/ typical for the area, the highest/ best use needs to be residential and the property needs to demonstrate market acceptance

Mixed Use:

Mixed use properties are eligible if it can be determined that the nature, intent and primary purpose of the property is residential in use. The following should be considered in making that determination:

- The mixed use must be allowed by zoning and subject must conform to zoning.
- In general, the mixed use should not exceed 20% of gross living area or acreage.
- Income may not be generated on the property for agricultural purposes.
- Mixed use should not result in significant alteration to the property. The use should generate minimal amount of traffic noise.
- The subject must be a single family primary residence.
- The room layout must be reasonable for a residential home.
- The property must be appraised as residential real estate, with commercial/agricultural value not include.
- The appraiser must comment on any affect the mixed use has on marketability and compatibility with the subject's neighborhood.
- Industrial or manufacturing use not allowed.
- No hazardous materials used or stored at the mortgage premises
- Borrower must be both the owner and operator of the business.

Multiple Tax Parcels:

- Typically properties are required to have only one lot and one tax parcel number.
- Multiple lots/parcels are eligible subject to the following restrictions:
 - The lots/parcels must be adjoining.
 - The lots/parcels must be zoned Legal residential
 - Only one lot/parcel may have a dwelling unit
 - Adjoining lots/parcel may have either no improvements or limited, nonresidential improvements such as a garage
 - The mortgage must be a first lien on each lot/parcel

Properties Listed in the past 6 months:

- Rate-Term Refinances (all occupancies):
 - Permitted as long as Listing Agreement was cancelled at least one day prior to Application Date. The following documentation must be provided:
 - A copy of the expired or cancelled listing
 - A copy of the Current MLS Search is required (to verify that the property is not currently listed by a different agency)
 - A letter of Intent to Occupy from the borrower is required (if Primary Residence)
 - Cash -Out Refinance (all occupancies):
 - LTV/CLTV > 70%: The Listing Agreement must have been cancelled 6 months prior to the application date.
 - LTV/CLTV < =70*: Permitted as long as the Listing Agreement was cancelled at least one day prior to Application Date. The following documentation must be provided:
 - A copy of the expired or cancelled listing
 - A copy of the Current MLS Search is required (to verify that the property is not currently listed by a different agency)
 - A letter of Intent to Occupy from the borrower is required (if Primary Residence)
- * The maximum LTV/CLTV is the lower of 70% or the maximum for product/occupancy/property type.

Restructured Loans:

- A restructured loan is a mortgage in which the terms of the original transaction have been changed, resulting in either the absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan.
- The payoff of restructured loans is **not eligible**

Road Maintenance Agreement

A recorded, private road maintenance agreement is required for properties located on a privately owned and maintained street, regardless of LTV.

Rapid Appreciation

Refer to the "Flipping and Rapid Appreciation Policy."

Rural Properties:

PCM will lend on properties in rural areas that are residential in nature. The primary dwelling for properties in rural areas should represent 70% or more of the total appraised value of the property. A rural property that meets the requirements of this section is eligible with no specific restriction on lot size. However, the property size must be typical for the area as determined by the appraisal sales comparables.

- PCM will close loans on properties that have an agricultural prefix in the zoning where the allowable and primary use is residential
- PCM will not allow agricultural-type properties such as farms, orchards or ranches.

Unacceptable Properties:

- Condo projects with pending litigation
- Condotels
- Cooperatives
- Dome or Geothermal homes

• Houseboats

- Lava Zones 1 & 2 (Hawaii)
- Leasehold condos
- Manufactured housing

• Mobile homes

- Multi-Dwelling (2 units or more) Condos or PUDs

• Multi-family dwelling with more than 4 units

- New or Proposed PUD projects created by conversion
- Properties in less than average condition
- Properties with agricultural use. No working farms, no hobby farms, ranches, orchards and/or commercial operations. No Schedule F income or loss for subject property.
- Properties with deed restrictions that limit transferability of title, or contain a "first right of refusal" provision
- Properties with items that affect basic habitability and/or health and safety issues.

Security bars: there must be an emergency release latch for at least one window in each room where the security bars are located

• Properties without a full kitchen (working sink, working stove & cabinets) or full bath facilities are not eligible.

- Properties without a permanent heating source

• Hawaii properties without a heating source:

A lack of heat source must be common to the area, the appraiser must provide three comparable sales without a permanent heating source with same elevation, the subject property must be suitable for year-round occupancy.

• Properties without full utilities installed to meet all local health and safety standards

- Unimproved land
- Unique properties for which marketability can not be determined

Unpermitted Additions

- Not allowed.

QUALIFYING PAYMENT:

Fixed Interest Only

- Loan must be qualified using the fully amortized payment.
- AUS findings must indicate the Interest Only feature

Conforming ARMs

- 3/1 AND 5/1 ARMs: Qualify at the greater of the fully indexed rate or note rate + 2%
- 7/1 and 10/1 ARMs: Qualify at the note rate

Conforming ARMs Interest Only

- Loan must be qualified using the fully amortized payment based on the greater of the note rate or fully indexed rate.
- AUS findings must indicate the Interest Only feature

REFINANCES:

Cash-out:

- There is no limit of cash out amount for cash-out refinance, however the underwriter may request an explanation of the purpose of cash-out.
- The borrower must have owned the subject property for a minimum of 6 months prior to the application date.

- Conforming ARM Loans:
 - The following situations will be considered a Cash-Out loan transaction:
 - Any consumer debt being paid off at closing, even from the borrower's own pocket.
 - If a borrower comes in with cash to pay off a non-purchase money second. Non-purchase money second liens, including reconveyance & similar fees, must be paid off prior to close for a transaction to be considered rate/term. If these liens are not paid prior to close, the transaction will be considered cash-out, even if the funds are provided by the borrower at closing.

Continuity of Obligation:

- Continuity of obligation must be established for all refinance transactions. An acceptable continuity of obligation exists with any of the following situations:
 - At least one borrower is obligated on the new loan who was also a borrower obligated on the existing loan being refinanced.
 - The borrower must have been on title and residing in the subject property for at least 12 months and has either paid the mortgage for the last 12 months or can demonstrate a relationship (for example, immediate relative or domestic partner) with the current obligor. Canceled checks are required for payment verification.
 - The existing loan being refinanced and the title have been held in the name of a natural person or LLC, as long as the borrower was a member of the LLC prior to transfer.
 - Transfer of ownership from a corporation to a borrower does not meet the continuity of obligation requirements.
 - LLCs are not acceptable forms of title for the new loan transaction.
 - The borrower recently inherited or was legally awarded the property (for example, divorce or separation). Documentation of inheritance required.
 - Inherited Properties: 6 month seasoning requirement of previous
 - Rate/Term Refinance: No Seasoning Requirement
 - Cash-Out Refinance: 6 month seasoning requirement. For an inheritance from a deceased individual, seasoning can be met through 6 month ownership history of deceased individual.
- If the borrower is currently on title but is unable to demonstrate an acceptable continuity of obligation, or there is no outstanding lien against the property, the loan must be underwritten and priced as a cash-out refinance transaction. The following restrictions also apply:
 - LTV Calculation for loans with no outstanding liens:
 - Use the lesser of the original sales price/acquisition cost (documented by the HUD-1 Settlement Statement) or the current appraised value for properties purchased within 6 to 12 months prior to the application date for the new loan transaction.
 - Use the current appraised value for properties purchased more than 12 months prior to the application date for the new loan transaction.
 - Loans with outstanding liens but with no continuity of obligation:
 - At least one borrower must have been on title for at least six months AND The maximum loan-to-value (based on the current appraised value) is 50%
 - Adding borrowers to a refinance (if currently not on title) to help qualify :
 - Non-occupying co-borrowers being added to a rate/term refinance to help qualify: may be allowed.
 - Non-occupying co-borrowers being added to a cash-out refinance to help qualify: not allowed.
 - Occupying borrowers being added to help qualify are allowed if they have a history of residing in the property.

Paying off debt to qualify

Refer to the "Liabilities and Qualifying Ratios" section.

Paying off a construction lien

If paying off a construction lien, the loan must meet the guidelines in the "Construction to Permanent" section.

Payoff of Land Contract/Contract for Deed Transactions:

- The contract must be seasoned for 12 months to be eligible for a refinance as documented by 12 month canceled checks, otherwise it will be treated as a purchase.
- A copy of the notarized contract is required, the contract does not need to be recorded.
- Proceeds from the refinance may include the sum of the outstanding balance of the installment sales contract.
- Primary residence only.
- Cash-out refinance is not allowed.

Rate-Term Refinances:

- Rate-term refinance cash out is limited to the lesser of \$2000 or 2% of the loan amount.
- Delinquent property taxes or HOA dues cannot be included in the loan amount on a rate-and-term refinance.
- The following items may be included
 - Principal balance of existing first lien
 - 2nd lien used for original purchase of the home (documentation to verify this must be included in the file)
 - Closing costs, discount points, prepayment penalties
 - Prepaid items such as hazard insurance and property taxes for the current year
 - Past due amounts or late fees cannot be included in payoff
- Conforming ARM Loans:
 - The following situations will be considered a Cash-Out loan transaction:
 - Any consumer debt being paid off at closing, even from the borrower's own pocket.
 - If a borrower comes in with cash to pay off a non-purchase money second. Non-purchase money second liens, including reconveyance & similar fees, must be paid off prior to close for a transaction to be considered rate/term. If these liens are not paid prior to close, the transaction will be considered cash-out, even if the funds are provided by the borrower at closing.

Short Payoffs:

Refinances where the current lender accepts less than the current balance on the transaction, otherwise called "Write down" or "Short Pay Off" are ineligible.

Title Seasoning Requirements:

Cash-out Transactions:

- The borrower must have owned the subject property for a minimum of 6 months prior to the application date.
- Refer to the "Continuity of Obligation" topic within this section for further information
- Refer to "Flipping and Rapid Appreciation Policy" in the Property Eligibility section of the guidelines

Value Seasoning Requirements:

- If borrower(s) have held title for less than 6 months:
 - Refer to the "Flipping and Rapid Appreciation Policy" in the Property Eligibility section of the guidelines
- If borrower(s) have held title for 6-12 months:
 - Rate/Term & Cash-Out Refinance:
 - Use current appraised value
 - Any property purchased in the past 12 months must document reasonable increase in value based on market data for the area and documented improvements to the subject property.
 - Cash-Out Refinance with no existing lien:
 - Use the lesser of the original sales price/acquisition cost (documented by the HUD-1 Settlement Statement) or the current appraised value. See "Continuity of Obligation" section for more information.
- If borrower(s) have held title for greater than 12 months:
 - Use current appraised value if borrower has held title for at least 12 months.

STATE ELIGIBILITY:

- PCM is licensed to lend in Arizona, California, Colorado, Hawaii*, Idaho, New Mexico, Oregon, Utah, Washington.
- Third Party Originated Loans are also eligible in Nevada.

***Hawaii Loans: If transaction is not Third Party Originated, borrowers must be non-Hawaii residents (restricted to second homes and investment properties)**

SUBORDINATE FINANCING

Allowed subject to the following guidelines:

- Must meet all FNMA/FHLMC guidelines.
- Lien must be recorded and clearly subordinate to the first mortgage lien.
- A copy of the subordinate financing Deed of Trust and Note must be obtained.
- Documentation to verify the current rate must be provided.
- The repayment terms must provide for regular payments that cover interest due so negative amortization does not occur.
- The interest rate should be at market rate.
- The loan term of the subordinate financing must be for at least 5 years, unless loan will fully amortize prior to that.
- The payment for the subordinate financing must be included in the borrower's qualifying debt ratio.
- If the first mortgage has an interest rate buydown, the payment for subordinate financing must be fixed.
- Variable payments are only acceptable if the secondary financing is a HELOC.

HELOC Subordinate Financing (Additional Requirements) :

- The payment should be calculated using 1% of the maximum line amount
- The full potential line amount must be reflected in the CLTV, regardless of the draw or balance at the time of closing.
- When modifying an existing HELOC to re-subordinate behind a PCM first mortgage, a recordable copy of the Modification Agreement and the Subordination Agreement is required. Both documents must be recorded at closing.

Unacceptable types of Secondary Financing:

- Seller carried
- Community or Soft Seconds
- Secondary financing that imposes a prepayment penalty at any time
- Secondary financing that has wraparound terms, combining the indebtedness of the first mortgage with the subordinate lien
- Subordinate financing subject to interest rate buydown plan or negative amortization

TEMPORARY BUYDOWNS:

General Guidelines:

- 3-2-1 or 2-1 buydown
- Fully Amortized Fixed-Rate Mortgages only
- Primary Residence and Second Homes
- Purchase and Rate/Term
 - Unacceptable: Refinance transactions when over-par pricing is used to fund the buydown
- Qualifying ratios as determined by DU/LP
- Self employed borrowers require minimum 680 credit score

ALL PRODUCTS:

- Qualify at the greater of the note rate or fully indexed rate