

PCM'S ANTI-FLIPPING POLICY

*****PCM's Flipping and Rapid Appreciation Policy has been updated. Please refer to the PCM Underwriting guidelines for the most updated information.*****

Property flipping occurs when ownership of one property changes several times in a brief period of time. Flips artificially inflate the value of a property in order to obtain larger loans than what might otherwise be possible, and to "skim" the newly created equity from the property. Flips also are used to conceal the identity of the true Buyer or Client of the property. It is important to note that PCM will not close any Conventional loans that do not adhere to the following Anti-Flipping Policy and Processes.

POTENTIAL INDICATORS OF PROPERTY FLIPPING:

- Property ownership changes two or more times in a brief period of time (generally – but not limited to – the last 12 months).
- The Selling Price exceeds the List Price
- Two or more closings occur at nearly the same time for significantly different values, resulting in artificial inflation of the property's value
- The property is owned by the property seller for a short period of time
- The property seller is not on the title policy, appraisal or purchase contract
- Reference to "double escrow" or another Settlement Statement (HUD-1) form
- Parties to the transaction are "non-arm's length," meaning that parties are related (such as family member, employer/employee or principal agent). Examples would include family sales, property in an estate, employer/employee sales and flip transactions.
- Parties to the transaction are "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.

SECOND HOMES & INVESTMENT PROPERTIES: ADDITIONAL POTENTIAL INDICATORS OF PROPERTY FLIPPING:

- Subject is recent foreclosure in a location with high foreclosure activity
- Comparables used to establish value was a foreclosure in the past 12 months and /or resale at considerably higher value
- Appreciation between acquisition cost and appraised value is significant and /or 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



**SECOND HOMES & INVESTMENT PROPERTIES: ADDITIONAL POTENTIAL INDICATORS OF PROPERTY FLIPPING,
(continued).**

- Non-recorded property transfers or liens
- Multiple chain of title transfers on subject and /or comparables
- Appraiser justifies the value appreciation because the previous transfer was a foreclosure or bank-owned property, below market sale, distress sale, etc
- Borrower is purchase more than one property in the area
- Neighborhood activity shows multiple bank-owned properties, ownership as LLC's, individuals or entities owning multiple properties.

ADDITIONAL RISK ISSUES FOR SECOND HOMES AND INVESTMENT PROPERTIES

PCM is concerned with speculative investment in neighborhoods with significant foreclosure activity and /or subsequent refinance of properties with loan to values based on any increase in value. Often, value is supported by an AVM, LARA or another review product, but this value may be artificially supported or unsustainable due to unstable market conditions. Continuing foreclosure activity and a disproportionate percentage of investors to investor sales are some examples of unstable markets. PCM will not approve loans where such circumstances are evident due to the higher risk these loans may present.

PCM must thoroughly review all Investor property transactions for the reasonability of the estimate market rent and the probability of vacancy. Some areas may have an oversupply of rental properties for the number of tenants available, even when feasible market rent can be established. Vacant properties are high-risk on any transaction. Additionally, PCM will not approve loans for second home or investment property if the transaction includes non-arm's length and or at-interest characteristics.

REFINANCE PROPERTY VALUE CALCULATION WHEN PROPERTY WAS ACQUIRED WITHIN THE PAST 6 MONTHS

Owner Occupied property acquired within the past 6 months: If a property has had improvements made within the previous 6 months, PCM will not give any additional value beyond the improvements made – even if the property was purchased at below market value.

Likewise, if a property was 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.



(REFINANCE PROPERTY VALUE CALCULATION WHEN PROPERTY WAS ACQUIRED WITHIN THE PAST 6 MONTHS, continued).

*****Note:** Exceptions to the guideline “Owner Occupied property acquired within the past 6 months” *may* be considered if the following three requirements are met:

- ✓ Satisfactory documentation has been provided to support value increase.
- ✓ A Pinnacle Capital Mortgage manager reviews the file and signs off with a second signature.
- ✓ Exception pricing is applied (contact the lock desk for pricing details).

Second Home and Investment Property acquired within the past 6 months: 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.

*****Note:** There are no exceptions to the guideline “Second Home and Investment Property acquired within the past 6 months.”***

PCM DOCUMENTATION PROCESSES:

When potential flip indicators are detected in a loan file, PCM requires further investigation to determine the legitimacy of the transaction and the true value of the collateral. It is important to note that value can often be supported by an AVM, LARA or another review product. Value may be artificially supported or unsustainable due to unstable market condition.

This investigation and documentation must include but is not limited to the following processes:

- Documentation to support any increases in value for the subject property during the three years preceding the appraisal date and the comparables during the 12 months preceding the appraisal date.
- For purchase transactions: verification that the property seller and owner of record are one and the same.
- For refinance transactions: validation that the borrower and owner of record are one and the same.
- Verification 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.
- PCM may require additional substantiation of the appraisal value through a field review performed by an approved review appraisal company prior to the loan's purchase.
- Follow PCM's Appraisal Review processes (within PCM guidelines) when a potential flip is identified. Please note that PCM's Flipping Policy supersedes the criteria as listed in the guidelines for when a review is required.



Review, investigate and document the Appraisal for the following Red Flags:

- Ordered by a party to the transaction other than the loan originator (such as the realtor, seller, borrower)
- Property seller's name does not match the name on the preliminary title report or purchase agreement
- Ordered before the sales contract was written
- Photos of the property were taken from odd angles
- Comparables sales not verified as recorded (data source MLS, Sales Office)
- Comparables have prior sales within the last 12 months with substantially different values
- Comparables used are "shadow inventory" *
- Tenant is shown as the occupant on a owner occupied loan
- The property's history shows recent sales within the year for a lower price
- Out of area or non-local appraiser

** Shadow Inventory speaks to properties that are REO's, 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.*

Please contact your Account Executive with any questions.

