Section 2: Borrower Analysis

2.1. Borrower Eligibility (4/4/2012 3:00:17 PM)

The maximum number of borrowers permitted is four. Each borrower must be at least 18 years old.

U.S. Citizens are eligible. Permanent resident aliens may be eligible based upon receipt of a satisfactory Alien Status ID Certification completed by a title/escrow representative at closing, without proof of status termination.

In all cases where a photo ID of the borrower has been provided, it must be removed from the file.

2.1.1. Acceptable Permanent Resident Alien Documents (5/22/2012 3:37:30 PM)

One of the following must be presented at closing in order to complete the Alien Status ID Certification Form:

- Valid alien registration card (INS I-551).
- Conditional alien registration receipt card (INS Form I-551) with a valid INS Form I-751 filing receipt (petition to remove the conditions of residency).
- Valid foreign passport which contains the reading "Processed for I-551, Temporary evidence of lawful admission for permanent residency. Valid from (date), Employment Authorized."

2.1.2. Non-Permanent Resident Aliens (6/8/2012 3:39:58 PM)

Non-permanent resident aliens are ineligible.

2.1.3. Foreign Nationals (5/20/2010 8:55:57 AM)

Foreign nationals who have no lawful residency status in the U.S. are not considered non-permanent resident aliens and are not eligible.

2.1.4. Diplomatic Immunity (7/15/2002 8:00:41 AM)

Due to the inability to compel payment or seek judgment, transactions with individuals not subject to United States jurisdiction are not eligible. This includes embassy personnel with diplomatic immunity.

2.1.5. AKA's/FKA's (5/1/2012 3:27:48 PM)

When a document in the loan file reflects a name(s) more specific than the one input into the automated approval, an AKA statement with that name listed must be provided. These are names that the Borrower has used, other than what is reflected on the Automated Approval/1003.

> **For example:** If the automated approval and 1003 reflect the borrower's name as John Doe and a credit bureau reflects John E. Doe, an AKA statement with the name John E. Doe must be provided.

2.1.6. Multiple Loans to the Same Borrower (5/20/2010 8:57:02 AM)

Regardless of the type of financing the borrower is requesting, the maximum number of loans a borrower may have financed through Provident Funding at one time is four.

2.1.7. Multiple Financed Properties (8/23/2011 9:24:50 AM)

For an owner occupied transaction, there is no limitation to the number of other, non-subject, financed properties that a Borrower may own. For a second home or investment property loan, the Borrower cannot have individual and/or joint ownership of more than four 1-to-4 unit properties that are financed, including the subject property and their primary residence. Ownership of commercial or multifamily (five or more units) real estate is not included in this limitation. The maximum number of financed properties is cumulative for all borrowers when there is more than one application per transaction.

For Super Conforming loans, the Borrower cannot have individual and/or joint ownership of more than four 1-to-4 unit properties that are financed, including the subject property and their primary residence.

2.1.8. Borrower Litigation (5/21/2008 8:23:12 AM)

A Borrower currently engaged in litigation, either as a plaintiff or defendant, is not eligible for mortgage financing due to the uncertainty of the outcome and its affect on the Borrower’s ability to repay. A Borrower engaged in a divorce proceeding is ineligible for financing unless a recorded separation agreement is provided addressing the dissolution of the marital property.

2.1.9. First-Time Homebuyer (8/21/2009 12:01:01 AM)

A First-Time Homebuyer is an individual who meets all of the following requirements:

- Is purchasing the Mortgaged Premises.
- Will reside in the Mortgaged Premises as a Primary Residence.
- Had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the Mortgaged Premises.

The Borrower's housing payment history must be documented in every Super Conforming loan file with a Verification of Rent (VOR).

For Super Conforming loans, first time homebuyers are only permitted for Primary Residences. This restriction only applies if all of the borrowers are First-Time Homebuyers.

2.2. Automated Underwriting (5/20/2010 8:59:38 AM)

An automated underwriting (AU) engine, either Loan Prospector (LP) or Desktop Underwriter (DU), is used to make a loan level underwriting decision based on the information obtained from the loan application and verified in the file. It is essential that the AU Feedback accurately reflects the terms and characteristics of the loan. The AU Feedback must reflect an LP Accept/Eligible finding or DU Approve/Eligible finding with a submission date within 90 days of the funding date to be eligible. The requirements provided by the AU Feedback will be adhered to, except where more restrictive requirements are specified in this guide.

2.2.1. Loan Prospector (5/20/2010 9:01:04 AM)

The AU Feedback returned for a loan submitted to Loan Prospector (LP) must reflect both a Risk Class of "Accept" and Purchase Eligibility of "Freddie Mac Eligible" (but not "Freddie Mac Eligible LP A Minus Offering") in order to be eligible.

If the LP certificate returns a Risk Class of "Caution" or a Purchase Eligibility of "Ineligible" or "Freddie Mac Eligible LP A Minus Offering," then the loan is ineligible.

2.2.2. Desktop Underwriter (5/20/2010 9:01:59 AM)

The AU Feedback returned for a loan submitted to Desktop Underwriter (DU) must reflect a Recommendation of "Approve/Eligible" in order to be eligible.

Loans with any of the following DU certificate Recommendations are ineligible: Approve/Ineligible, Refer/Eligible, Refer/Ineligible, Refer with Caution, Expanded Approval, or Out of Scope.

2.3. Credit Analysis (8/6/2012 4:40:29 PM)

All borrowers on the transaction must have a minimum of two valid credit scores from a traditional credit report. Any borrowers with non-traditional credit reports such as anthem credit reports are ineligible. For Desktop Underwriter, if every borrower on the loan application lacks at least one credit score, the loan will receive an "Out of Scope" message. The decision credit score will be the score of the borrower with the lowest middle score, calculated by the AU engine. A minimum FICO score of 620 is required, except where a higher FICO is specified in this guide.

The credit report submitted to AU must be reconciled with the 1003. The credit report and any additional credit verification documents must be dated within 90 days of the funding date.

The borrower must provide a signed letter explaining any inquires made in the 120 days prior to the credit report date. Documentation must be provided for any new credit liabilities that have or will come out of those credit inquiries. The final 1003 must include all debts that were verified, disclosed or identified during the loan origination process.

2.3.1. Bankruptcies (5/20/2010 9:07:20 AM)

If "yes" is marked in the declaration section of the application and the result from the AU engine is an "Accept" or "Approved," then the AU engine has determined that the credit history is acceptable, subject to any requirements of the AU Feedback.

2.3.2. Foreclosures/Deed in Lieu (5/20/2010 9:08:44 AM)

If "yes" is marked in the declaration section of the application and the result from the AU engine is an "Accept" or "Approved," then the AU engine has determined that the credit history is acceptable, subject to any requirements of the AU Feedback.

2.3.3. Open Collections, Unpaid Charge-Offs, Past Due Accounts (10/3/2012 6:36:39 PM)

It is necessary to pay off all open collections, charge-offs, and/or past due amounts when the “sum” of the combined accounts equals or exceeds $500. It is also necesary to pay off any individual accounts in excess of $250 or any account indicated in the AU Feedback Certificate as required to be paid or satisfied, regardless of the amount. **AU Feedback messages to the contrary are not permitted by Provident Funding.**

An exception may be made, unless required per the AU Feedback, if a collection is medical in nature or in dispute and can be properly documented. Proper documentation includes letters from an attorney handling the case or letters back and forth between the Borrower and the credit agency in which the credit agency is unable to provide the documentation verifying that the Borrower made the charge. It is unacceptable for a Borrower to choose not to pay it due to unsatisfactory service or performance.

2.3.4. Judgments and Liens (6/30/2008 2:55:47 PM)

Judgments, Liens and Lis Pendens must always be paid in full for any loan transaction.

2.3.5. Housing Payment History (4/3/2009 3:02:44 PM)

All loans submitted through a Super Conforming program must have a full 12 month mortgage and/or rental history documented in the loan file. No 30 day late housing payments are permitted within the last 12 months.

2.3.6. Security Freeze (11/5/2008 11:00:57 AM)

If the Borrower has placed a "security freeze" on more than one of the three credit repositories that AU uses, the AU feedback will be returned an "Incomplete" purchase decision. Each blocked credit report will reflect the message "Applicant File Blocked" or "Credit_Error_Message". In order to proceed with the loan, the freeze has to be lifted by the borrower (through the individual credit reporting agency) and then a complete credit report accessed by the automated underwriting engine.

2.3.7. Identity Theft Red Flags (11/5/2008 11:01:05 AM)

The validator is responsible for verifying the identity of the borrowers, based on the information provided in the file, and must be familiar with the Red Flags identified pursuant to FACTA that might suggest use of stolen identity credit data.

The validator must confirm, within a reasonable degree of certainty, that the first and last name, current and previous addresses and social security number on the credit report match the information provided on the loan application. In the event of a discrepancy, PF will verify that the name is spelled correctly, the social security number was input correctly and that no additional social security numbers are reflected that would affect the credit scoring.

In addition to its commitment to recognize and mitigate Identity Theft, it is in the best interests of PF to make all reasonable efforts to avoid fraud in the applications we accept; the same tools used by the Underwriter to facilitate that effort will also help them to identify and respond to Identity Theft Red Flags.

2.3.8. Short Sale/Short Payoff (1/18/2011 11:36:10 AM)

A short sale or short payoff is a transaction where a mortgage lender agrees to accept a lower amount than is owed by the borrower.

Subject Property

A short sale on the subject property is eligible for a purchase transaction. A copy of the short sale agreement from each lien holder on the subject property must be provided, and all requirements of the short sale agreement(s) must be met.

A current or prior short payoff on the subject property is ineligible for a refinance transaction.

The refinance of an existing restructured mortgage on the subject property is ineligible. A restructured mortgage is defined as either the modification or origination of a loan that results in:

- forgiveness of a portion of principal and/or interest on either the first or second mortgage;
- application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness;
- conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage; or
- conversion of any portion of the original mortgage debt from secured to unsecured.

Non-Subject Property

A borrower that is currently undergoing a short sale/short payoff on a non-subject property is ineligible.

A borrower that has had a prior short sale/short payoff on a non-subject property in the 24 months prior to the application date or credit report date, whichever is earlier, is ineligible.

If the borrower has had a prior short sale/short payoff on a non-subject property, the short sale/short payoff completion date must be at least 48 months prior to the application date or credit report date, whichever is earlier, to be eligible. A borrower that has had a prior short sale/short payoff on a non-subject property in the 48 to 24 months prior to the application date or credit report date, whichever is earlier, may still be eligible when all of the following requirements are met:

- The mortgage on which the short sale/short payoff occurred has no history of lates or delinquency; and
- The borrower was not obligated to repay any amount associated with the short sale/payoff, including a deficiency judgment.

The AU engine may not, in all instances, be able to identify a short sale/short payoff on the credit report. An indication that may identify a short sale or short payoff includes the word "settled" noted on a mortgage tradeline of the borrower's credit report.

2.4. Liabilities (6/1/2012 4:10:58 PM)

If the credit report does not show the monthly payment for an installment account, the liability must be documented with a copy of the original contract, payment coupon, monthly account statement, or direct verification obtained from the creditor in order to verify the required monthly payment. It is unacceptable to use an estimated payment of 5% for installment accounts when no payment amount is available on the credit report.

If the credit report does not show the required monthly payment for a revolving or open-ended credit account, an estimated payment of 5% of the outstanding balance or $10, whichever is greater, may be used for qualification purposes in lieu of documenting the required payment amount.

A 30-day charge account requires that the full balance be paid in full for each 30-day billing cycle. One of the following requirements must be met for any 30-day charge accounts reflected on the borrower's credit report:

- The current account balance must be paid in full at closing; or
- A copy of the borrower's current account statement must be provided to verify the minimum monthly payment due if the account has a financing option similar to a revolving or open-ended credit account; or
- The borrower must document sufficient assets to cover the unpaid balance in addition to any funds to close and reserves required for the transaction. In this instance and depending on the AU engine:
    - The liability must be marked as "excluded" when submitted to Loan Prospector or Desktop Underwriter version 8.2 or later.
    - Desktop Underwriter versions prior to 8.2 will automatically exclude open 30-day charge accounts when the payment matches the balance (and therefore the number of months left to pay is 1).

Note: A revolving or open-ended credit tradeline showing the payment equal to the balance must be qualified as a 30-day charge account unless the payment/balance is $25.00 or less.

2.4.1. Pay Off Vs Pay Down (6/1/2012 4:01:09 PM)

Installment accounts may not be "paid down" to 10 months or less to allow the borrower to qualify. The accounts must be paid in full.

When a current balance on a revolving or open-ended credit account is to be paid at closing, the monthly payment on the current balance must still be qualified in the total debt. A revolving or open-ended credit account may only be excluded from the total debt when documented as paid and closed prior to drawing loan documents. Neither a HUD-1 nor a current account statement showing zero balance are sufficient to verify a revolving or open-ended credit account is closed.

When a Home Equity Line of Credit (HELOC) is to be paid off at closing, a written authorization to terminate the account must be executed by the borrower(s) at closing.

2.4.2. Car Leases (11/10/2008 8:08:06 AM)

Installment payments for a car lease must be included in qualifying the Borrower regardless of the number of months remaining. If the payment is being excluded from the ratios, document whether the Borrower is "turning in the car" or "buying the car out of the lease." The Borrower must provide evidence of the car being turned in and released from all liability, as well as documenting satisfactory transportation being available for any Borrowers whose employment was used for qualifying. If the car was bought, they must provide a copy of the title showing owned free and clear. If the Borrower states that the business is paying the car lease, obtain 12 months of current consecutive cancelled checks documenting that the business has made the payment direct to the company that has issued the lease on the car. The credit report must also reflect no late payments in the past 12 months. If the business has not leased the car for a full 12 months, the payment must be included in the Borrower's debt unless the business can document the payment of a prior lease to cover the full 12 months.

2.4.3. 401K Loans (7/16/2007 5:39:00 PM)

The Automated Underwriting Engine does not require the repayment amount included for any loan taken against the Borrower's "own" funds.

2.4.4. Contingent Liabilities (1/17/2011 9:13:29 PM)

A contingent liability exists when an individual is held responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment. If the Borrower is a co-signer/co-obligor on a debt for another party, determine who actually makes the payments on the contingent liability. To exclude the contingent liability in qualifying the Borrower, obtain evidence that timely payments are being made by someone other than the Borrower. Except for mortgage liabilities, a contingent liability can be excluded with both:

- A 12 month history of the account being paid on time. This can be verified with the credit report or a statement from the lender. And,
- Canceled checks for the previous 12 months, verifying the liability is being paid by someone else.

If the liability has not been established for the full 12 months, the contingent liability must be included in the total debt and calculated in the debt-to-income ratio.

A contingent liability may also be excluded and the documentation of the most recent 12 months' payment history is not required, if the obligation to make the payments on a debt of the Borrower includes the following:

- A court order, such as a divorce decree, assigning the contingent liability to another party as well as documentation verifying the transfer of ownership to another party. Or,
- Evidence of release of liability for the Borrower and/or assumption of the liability by another party from the lender when the contingent liability is a mortgage, as well as documentation verifying the transfer of title to another party.

A contingent liability that is mortgage cannot be excluded without evidence of release of liability for the Borrower and/or assumption of the liability by another party and, if applicable, a court order, such as a divorce decree. Transfer of title is not sufficient to exclude a contingent liability that is a mortgage.

The housing expenses for the borrower's primary residence must be qualified regardless of the property being owned and obligated solely by the non-borrowing spouse.

The housing expenses for any non-borrowing spouse's solely owned and obligated second home or investment property must be qualified if such a property is reported on the borrower's individual federal tax returns (i.e. tax returns are filed jointly).

2.4.5. Bridge Loans (7/16/2007 5:39:12 PM)

The Borrower's previous housing payment and the payments on short term financing secured by the Borrower's previous residence may be excluded from the monthly debt payment-to-income ratio when the mortgage file contains one of the following documentation:

- The Borrower's executed non-contingent sales contract for the previous residence, a lender's commitment to the buyer of the previous residence (if the executed sales contract includes a financing contingency) and evidence of reserves of six months' payments covering any liens on the previous residence;

  or

- An executed buyout agreement that is part of an employer relocation plan where the employer/relocation company takes responsibility for the outstanding mortgage(s).

2.4.6. Installment Loans in Deferment or Forbearance (5/31/2012 5:02:03 PM)

Any installment loan that is reflected on the credit report as being in deferment or forbearance must be included in calculating the Borrower's debt ratio. If a payment amount is not reflected on the credit report, a direct verification will be required from the creditor, or a copy of the installment loan agreement obtained from the borrower. This will include debts on furniture, household items and automobiles on which the initial payment is delayed for a period of time as part of a promotional campaign, as well as student loans. It is unacceptable to use an estimated payment (such as 5% of the balance) for any deferred installment accounts when no payment amount is available on credit.

2.4.7. Free and Clear Properties (5/1/2012 4:07:26 PM)

A property profile is required for each property and/or parcel of land declared free and clear by the borrower in the REO section of the 1003. Alternative documentation can be obtained in lieu of a property profile to evidence that a non-subject property is owned free and clear. Acceptable alternative documentation includes a copy of the borrower's credit report, evidencing no outstanding, unassigned mortgages and either of the following:

- The borrower's most recent tax return, evidencing the borrower did not claim mortgage interest for the property.

  OR

- The borrower's current hazard insurance policy for the property in question, evidencing no mortgagee.

Provided the credit report and either of the other two documents do not evidence a mortgage, the requirement for a property profile can be waived.

2.4.8. Mortgage Payment History (12/14/2011 5:27:39 PM)

A payment history is required for any outstanding mortgage not reflected on the borrower’s credit report (subject and non-subject properties). The payment history must not reflect any late payments (30 days or more) in the most recent 12 months or since the original Note date, whichever is less. The payment history must be documented with one of the following:

- Verification of Mortgage
- Account transaction history
- Copies of cancelled checks

The borrower is ineligible for financing when the payment history for the previous 12 months reflects a late payment of 30 days or more when not reflected on the credit report and therefore not considered in the AU decision.

2.5. Income/Employment (9/8/2010 8:47:36 AM)

The employment section of the application (1003) must be completed with a two-year work history for all borrowers, regardless of whether or not income from the borrower is used to qualify. A two-year history of receipt of income used to qualify the borrower is required in most instances. For a borrower who is unemployed or a homemaker, the employment section of the application (1003) must still be completed with that information.

Stable monthly income is the borrower's verified gross monthly income from all acceptable and verifiable sources that can reasonably be expected to continue for at least the next three years. For each income source used to qualify the borrower, both the source and the amount of the income must be determined to be stable. A borrower who has had different types of employment in the past may be considered to have stable income if the income amount has remained at a consistent level. When evaluating a borrower who has changed jobs frequently, any affect on the borrower's ability to pay the borrower's obligations due to the changes must be considered. In most instances, a two-year history of receiving income is required in order for the income to be considered stable and used for qualifying.

The determination that the income can reasonably be expected to continue must be based on the documentation requirements, and should focus on the borrower's occupation, tenure, past employment history and probability of consistent receipt. Income may not be considered for qualifying with knowledge or documentation that indicates that the income will terminate within the next three years.

Significant increases or decreases in income level

When the borrower has experienced a significant decrease in income, the borrower's income cannot be averaged using a previous higher level unless there is documentation of a one-time occurrence (e.g., injury) that prevented the borrower from working or earning full income for a period of time and proof that the borrower is back to the income amount that they previously earned. The analysis will be focused on the most recent earnings to determine the income that is most likely to be received at the level for the next three years and used for qualifying.

When the borrower has experienced a significant increase in income, sufficient documentation must be provided to determine that the increase is stable and likely to continue at the level used for qualifying (e.g. that the income is not a one time incentive payment).

Full Income Documentation
Provident Funding will adhere to the requirements of the AU Feedback for documenting income, unless it permits documentation that does not verify the amount of income earned by the borrower. In the instance that the requirements of the AU Feedback differ from the requirements set forth below, the more restrictive requirements apply.

When a current or most recent income statement is required, it must be dated within 90 days of the funding date and no earlier than 30 days prior to the initial application interview date.

Non-Taxable Income
Non-taxable income will be given special consideration if it is determined that such income will continue for three years and that it will remain untaxed. All tax-exempt income may be grossed up once it has been established that such income is likely to continue (and remain untaxed) into the foreseeable future. To gross up the tax-exempt income, use either 25% or the current federal and state income tax withholding tables to determine an amount which can be prudently employed. In this manner, the borrower who has nontaxable income can be evaluated in the same manner as a borrower who has higher gross income, but similar after-tax income.

2.5.1. Employed Income (7/5/2012 7:51:54 AM)

May be income from base earnings plus recognizable secondary income, such as bonuses, commissions, overtime or additional part-time employment, which must be submitted to the Automated Underwriting Engine separately from base earnings in the appropriate fields. Required documentation should be used to determine the amount and breakdown of income amounts. A Borrower who has changed jobs frequently is not necessarily a greater risk. Some Borrowers may change jobs frequently as opportunities change. When evaluating the Borrower, focus on whether the changes affect the Borrower's ability to pay his/her obligations.

Newly Employed
For a Borrower that has less than a two-year employment and income history, the Borrower's income may be qualifying income if the Mortgage file contains documentation to support that the Borrower was either attending school or in a training program immediately prior to their current employment history.

Re-entering the Workforce
For Borrowers that are re-entering the workforce, the Borrower's income may be qualifying income if the Borrower has been at the current employer for a minimum of six months and there is evidence of a previous employment history. A Borrower with a gap in employment of more than 6 months is considered to be re-entering the workforce.

Acceptable Documentation

- Paystubs must reflect at least 30 days of YTD earnings. When paystubs do not reflect YTD earnings, additional consecutive paystubs are required to document earnings for the most recent 30 days and a written Verification of Employment (VOE) must be obtained by the loan originator directly from the employer.
- Paystubs and W-2 forms must be computer generated and cannot be handwritten or appear to be altered in any way.
- Internet pay stubs are acceptable provided they are complete and contain all of the required information for the qualifying Borrower: Borrower name, employer, pay period, earnings, deductions, etc.
- Written Verifications of Employment (VOE) must be supported by paystubs and W-2s.
- Individual federal income tax returns are required for an employed Borrower who receives commission income or is employed by the property seller, real estate broker, or a closely held family business. Refer to section 2.5.2. Self-Employed Income for further details regarding borrowers employed by a closely held family business.

A Borrower may receive additional income from primary employment such as commission, bonuses, overtime, military pay, tips, second job and seasonal employment income.

Commission
In addition to the Borrower's regular paystubs and W-2 forms, a written verification (WVOE) form is required to separate the regular and other income types earned year-to-date and over the previous 2 years. The Borrower must have a two-year consecutive history of receiving commission income and the commission income must be likely to continue for the next three years in order to consider the income for qualifying. Borrowers who receive commission income must provide federal tax returns for the previous two-year period. Employee paid business expenses reflected on the Borrower's tax returns must be deducted from the Borrower's gross commission income when calculating income.

Bonus
In addition to the Borrower's regular paystubs and W-2 forms, a written verification (WVOE) form is required to separate the regular and other income types earned year-to-date and over the previous 2 years. The WVOE must also indicate that the income is likely to continue. The Borrower must have a two-year consecutive history of receiving bonus income and the bonus income must be likely to continue for the next three years in order to consider the income for qualifying. When calculating the monthly bonus income, the frequency of pay must be determined.

Overtime
In addition to the Borrower's regular paystubs and W-2 forms, a written verification (WVOE) form is required to separate the regular and other income types earned year-to-date and over the previous 2 years. The WVOE must also indicate that the income is likely to continue. The Borrower must have a two-year consecutive history of receiving overtime income and the overtime income must be likely to continue for the next three years in order to consider the income for qualifying. The income trend must be considered by considering the hourly rate, the number of hours worked, and use the amount that is most likely to continue for the next three years.

Military Pay
A Borrower who is a member of the United States Armed Forces may receive pay entitlements such as flight or hazard duty, rations, clothing allowance or quarters allowance in addition to base pay. These entitlements may be considered qualifying

income if documented and likely to continue for the next three years. If the Borrower is a member of a reserve component of the United States Armed Forces, the reserve duty income may be considered for qualifying.

Tip Income
In addition to the Borrower's regular paystubs and W-2 forms, a written verification (WVOE) form is required to separate the regular and other income types earned year-to-date and over the previous 2 years. The Borrower must have a two-year consecutive history of receiving income from tips in order to consider the income for qualifying. For tip income that fluctuates, the income trend must be evaluated and the amount that is most likely to continue for the next three years may be used as qualifying income.

Second Job
The Borrower must have a two-year consecutive history of receiving income from a second or additional job and income from the second or additional job must be likely to continue for the next three years in order to consider the income for qualifying. The income trend must be evaluated, and the amount that is most likely to continue for the next three years may be used.

Seasonal Employment and Unemployment Compensation
The Borrower must have a two-year consecutive history of receiving income from seasonal employment and the seasonal employment income must be likely to continue for the next three years in order to consider the income for qualifying. Unemployment compensation associated with seasonal employment may be considered qualifying income if the Borrower has a two-year history of receipt and the unemployment compensation is likely to continue for the next three years. Seasonal employment income or unemployment compensation may not be used to qualify the Borrower unless the income is reported on the Borrower's individual federal income tax returns for the most recent two-year period.

2.5.2. Self-Employed Income (10/9/2012 10:41:12 AM)

A self-employed Borrower introduces an additional layer of risk to a mortgage request due to the uncertain nature of future income. A Borrower must be submitted to the Automated Underwriting engine as self-employed when:

- A Borrower has an ownership interest of 25% or more in a business. The business may be a sole proprietorship, partnership or corporation.
- A Borrower paid on a per-job basis or contract basis, and therefore filing 1040 Schedule C, even if the Borrower holds no ownership interest in the company paying the income (typically 1099 income).
- A Borrower employed in a closely held family business.

When self-employed income is used to qualify, the following documentation is required:

- Most recent 2 years individual federal tax returns (Form 1040) along with all corresponding W-2's.
- All Schedule K-1's for partnerships, corporations or S-corporations reflected on Schedule E of the Borrower's individual federal tax returns.
- Most recent 2 years business tax returns (Form 1120, 1120S or 1065) for any partnership, corporation or S-corporation in which the Borrower has ownership interest of 25% or more, as reflected in the Borrower's K-1's. A cash-flow analysis must be performed to verify that the business is clearly capable of generating the income. Any loss resulting from this analysis must be deducted from any income used to qualify even if the income used to qualify is not from a partnership, corporation or S-corporation.
- Verification of the existence of the business with one of the following:
  - Letter from the business' CPA, regulatory agency or professional association
  - Business listing or yellow page ad for the business
  - Business license
  - Internet website printout (acceptable sources include Borrower's business website, government, union or professional association website)

If self-employed income is not used to qualify or the Borrower is qualified with a self-employed loss, the follow documentation is required:

- Most recent 1 year individual federal tax returns (Form 1040) along with all corresponding W-2's.
- All Schedule K-1's for partnerships, corporations or S-corporations reflected on Schedule E of the Borrower's individual federal tax returns.
- Most recent 1 year business tax returns (Form 1120, 1120S or 1065) for any partnership, corporation or S-corporation in which the Borrower has ownership interest of 25% or more, as reflected in the Borrower's K-1's. A cash-flow analysis must be performed regardless of whether the income is used to qualify. Any loss resulting from this analysis must be deducted from any income used to qualify even if the income used to qualify is not from a partnership, corporation or S-corporation.

In order to consider self-employed income when the Borrower has been self-employed for less than two years, the Borrower must document a two-year history of receipt of income with 2 years tax returns at the same or greater level in the same or similar occupation in order to consider the income for qualifying. In addition, the Borrower's experience in the business must be considered before considering the income for qualifying purposes. The Borrower's individual federal tax returns must reflect at least one year of self-employment income. If the Borrower has been self-employed for less than two years or is relocating to a different geographic area, the acceptance of the company's service or products in the marketplace must be considered before considering the income for qualifying purposes. The Borrower must document and explain how the income will continue at the same level in the new location.

A self-employed Borrower's average monthly income must be based on a review of the Borrower's complete individual federal tax returns (Form 1040) including W-2's and K-1's (if applicable), as well as the complete business tax returns (Forms 1120, 1120S and 1065) when a Borrower has an ownership interest of 25% or more in a business. Non-cash items such as depreciation, depletion and amortization may be added back to adjusted gross income for the purpose of determining qualifying income. Documented non-recurring losses, such as casualty losses, can also be added back to the adjusted gross income, as well as loss carry-overs from previous tax years. Loss carry-overs may not be added back to the adjusted gross income unless they are documented as non-recurring.

As part of the analysis, whether the Borrower's self-employed income has increased or decreased over the previous two years must be considered. It may be necessary to obtain additional years' tax returns when the Borrower's self-employment income fluctuates in order to determine the stability of the income. If the Borrower is self-employed and the self-employment income is not used to qualify, the Borrower's individual federal tax returns are still required to determine if there is a business loss that may have an impact on the stable monthly income used for qualifying.

2.5.3. Rental Income (10/5/2012 9:11:21 AM)

Rental income may be used to qualify the Borrower, provided it is generated from:

- A subject 2-4 unit Primary Residence (only those units not occupied by the Borrower).
- A subject Investment Property.
- Non-subject Investment Properties.

Rental income generated from the Borrower’s second home or 1-unit Primary Residence is not considered stable monthly income and may not be used to qualify the Borrower.

If rental income from either subject or non-subject property is used to qualify, the Borrower must document at least a 2 year history of managing 1-4 unit Investment Properties by providing the most recent 2 years individual federal tax returns evidencing Schedule E rental income.

- If the Borrower has a history of receiving rental income from the property, then any rental income used to qualify must be substantiated using a cash flow analysis of the Borrower’s prior 2 years individual federal tax returns and considering the full housing expense (PITI).
- If the Borrower does not have a history of receiving rental income from the property, then any rental income used to qualify must be substantiated with copies of the current lease agreements and cancelled checks. Gross rental income must be reduced by 25% to compensate for vacancies, maintenance and operating expenses.

Even if rental income is not used to qualify, if the Borrower owned a rental property during the previous tax year, the Borrower's most recent 1 year individual federal income tax returns is still required. A cash-flow analysis must be performed, and the Borrower must qualify with the aggregate losses from all housing (PITI), maintenance and operating expenses. Sale of a previously owned property must be documented with a HUD-1 from the sale.

In addition, the following are subject to certain considerations:

<u>Subject 2-4 Unit Primary Residence or Subject Investment Property</u>

- The Form 998/216 Operating Income Statement is required even if rental income from the subject property is not considered in qualifying the Borrower.
- Six (6) months of rent loss insurance coverage when rental income from the subject property is used in qualifying the Borrower.
- For subject investment property transactions, if the Borrower owns more than one financed Investment Property, the Borrower must meet the following requirements:
    - The Borrower cannot have individual and/or joint ownership of more than 4, 1- to 4-unit properties that are financed including the subject property.
    - subject Investment Property Mortgage is on a fixed-rate, level-payment mortgage or 7/1 ARM.

<u>Non-Subject Investment Property Requirements</u>

- If a property was owned during the previous tax year but rental income was not reported due to having been occupied as the Borrower's primary residence during the previous tax year, the requirements under section 3.4. Conversion of a Primary Residence shall apply.

2.5.4. Other/Unearned Income (1/24/2012 8:06:55 PM)

If a borrower chooses to disclose other income (i.e. alimony, child support, public assistance payments, Social Security or retirement benefits, trust, and investment), it must be considered stable income. This means the income is likely to be consistently made by the payor and can reasonably be expected to continue for at least the next three years. Factors that should be considered in determining the likelihood of consistent payments include, but are not limited to, the following:

- Payments are received pursuant to a written agreement, court decree or law.
- The length of time the payments have been received.
- The regularity of receipt.
- The availability of procedures to compel payment.
- The age of each child for which child support payments are made (if applicable).
- Eligibility criteria governing the continued receipt of the income, such as age of dependents or accumulation of assets.

Examples of Other/Unearned Income (Non-Employed/Not Self-Employed)

Alimony, Child Support or Separate Maintenance
Income from alimony, child support or separate maintenance payments may be considered qualifying income with a copy of the court order and evidence of receipt, depending on the length of full, regular, and timely payments that can be documented:

- 12 months or longer for the full amount to be considered stable.
- Between 6 and 12 months, the full amount may be considered stable if the income does not represent more than 30% of the total gross income used to qualify the Borrower.
- Less than 6 months, the income may not be used to qualify.

Social Security, Retirement, Annuity and Pension
Social Security, retirement, annuity and pension income may be considered qualifying income if the Mortgage file contains both of the following:

- A copy of the award letter, 1099 or other equivalent documentation showing income type, source, amount, AND
- Most recent two months statements or equivalent documentation evidencing current receipt.

Notes:

- When an award letter or retirement statement is provided, there should be no evidence indicating it will be terminated within the next three years.
- When retirement income is received in the form of a monthly annuity or distribution from a 401k, IRA or Keogh account, sufficient assets must be documented in the file reflected that the income is likely to continue for three or more years.
- Certain types of Social Security benefits have limited terms. If the Social Security benefits have a defined expiration date, the remaining term must be at least three years. For example, Social Security benefits received for a child beneficiary who will reach 18 years of age within the next three years may not be used.

Notes Receivable
Income from Notes Receivable may be considered qualifying income if the Mortgage file contains a copy of the note and evidence that the borrower has received payments on a regular monthly basis for the most recent two years. Notes Receivable income must be likely to continue for the next three years.

Dividends and Interest
Dividend and interest income may be considered qualifying income if the Mortgage file contains evidence that the income has been received for the most recent two years. The Mortgage file must contain documentation of sufficient assets remaining after closing to support continuance of the dividend and interest income at the level used for qualifying for at least the next three years.

Trust Income
Trust income may be considered qualifying income if the Mortgage file contains evidence of the amount, frequency and duration of payments, and evidence the borrower has received payments on a regular basis for the most recent two years. Trust income must be likely to continue for the next three years.

Capital Gains
Capital gains may be considered qualifying income if the borrower's most recent two years' individual federal tax returns (including Capital Gains and Losses, Schedule D), show that the borrower has realized capital gains. Sufficient assets remaining after closing must be documented to support continuance of the capital gain income, at the level used for qualifying, for at least the next three years.

Royalty Payments
Income received from royalty payments may be considered qualifying income if the Mortgage file contains evidence that the

borrower has received payments on a regular basis for the most recent two years and the royalty payments are likely to continue for the next three years. The most recent two years individual federal tax returns including Supplemental Income and Loss, Schedule E, are required.

Public Assistance
Income from public assistance may be considered qualifying income if the Mortgage file contains evidence that the income has been received for the most recent two years. Documentation from the applicable agency must indicate the amount, frequency and the length of time the benefit payments will be received. Public assistance income must be likely to continue at the income level used to qualify for the next three years.

Foster-Care
Foster-care income may be considered qualifying income if the income is received from a state- or county-sponsored organization, the borrower has a two-year history of providing foster-care services, and the borrower is likely to continue to receive the income at the level used to qualify.

Housing or Parsonage Allowance
A non-military housing or parsonage allowance may be considered qualifying income if the documentation shows that the income has been received for the most recent two years and the allowance is likely to continue for the next three years. The housing allowance may not be used to offset the monthly housing payment.

Disability Income
Disability income may be considered qualifying income if the Mortgage file contains verification of the amount of disability income and that the disability income will continue for the next three years with a letter from the organization providing the income or a copy of the retirement letter.

Notes:
- The Borrower's total income must be stable and level.
- In no event, should any medical documentation be required or should any inquiry regarding the nature of the disability be made.
- For a Borrower currently receiving short-term disability benefits, see section 2.5.7 Borrowers on Temporary Leave.

2.5.6. Trailing Co-Borrower Income (12/11/2009 4:28:55 PM)

When the mortgage is made to a relocating employee, Trailing Co-Borrower income may not be considered as stable monthly income.

2.5.7. Borrowers on Temporary Leave (1/24/2012 8:07:23 PM)

Temporary leave from an employer may encompass various circumstances (e.g. family and medical, short-term disability, maternity, other temporary leaves with or without pay). In no event, should any medical documentation be required or should any inquiry regarding the nature of the disability be made.

Temporary leave may vary in duration. The period of time that a Borrower is on temporary leave may be determined by various factors such as applicable law, employer policies, and short-term insurance policy and/or benefit terms. Leave ceases being considered temporary when the Borrower does not intend to return to the current employer or does not have a commitment from the current employer to return to employment.

The income that may be used to qualify depends upon whether the Borrower will return to the current employer before or after the first payment due date. The following documentation is required for all Borrowers whose income is used to qualify while on temporary leave:

- Full documentation of the Borrower's pre-leave income and employment.
- Documentation evidencing amount, duration and consistency of all temporary leave income sources (e.g. short-term disability benefits or insurance, sick leave benefits, temporarily reduced income from employer) that are being received during the temporary leave.
- Documentation from the current employer confirming the Borrower's statutory right to return to work (or the employer's commitment to permit the Borrower to return to work), the confirmed date of return, and the Borrower's post-leave employment and income.
- A written statement signed by the Borrower confirming that the Borrower will return to the current employer and stating the confirmed date of return that has been agreed upon between the Borrower and the employer.

For Borrowers returning to the current employer by the first payment due date, the Borrower's gross monthly income amount that will be received upon the Borrower's return to the current employer may be used to qualify.

For Borrowers returning to the current employer after the first payment due date, the gross monthly income amount being received for the duration of the temporary leave may be used to qualify. In the event that the temporary leave income has been reduced or interrupted, available liquid assets may be used as a partial or complete income supplement up to the amount of the income reduction, subject to the following requirements:

- All available liquid assets used to supplement the reduced income for the duration of the temporary leave must be documented.
- The total qualifying income must not exceed the gross monthly income that will be received upon the Borrower's return to the current employer.
- Assets that are required for the transaction (e.g. down payment, closing costs, financing costs, prepaids, escrows and reserves) may not be considered as available assets.

2.5.8. Non-U.S. Based Income (3/19/2012 9:05:00 PM)

All of the following guidelines must be met to use Non-U.S. based income for qualifying:

- Borrower must be a U.S. Citizen or Permanent Resident Alien.
- Subject property must be a primary residence or second home.
- Must possess a 2-year U.S. credit history and a 2-year U.S. residence history.
- Must file U.S. income tax returns. The tax returns for the previous two years must include foreign income. In most cases, income is not taxable and is reported on a separate schedule and is not reflected on the first page of the returns. Two-year employment history must be fully documented.
- Year-to-date income must be verified and converted to U.S. Dollars.
- **Loan is Full Documentation.**

2.5.9. Validation of Tax Returns (8/1/2012 5:48:58 PM)

A complete and signed IRS Form 4506-T is required for every borrower on the loan application. The underwriter is responsible for validating the 4506-T with the IRS and verifying that the transcript matches the borrower's individual federal tax return for each year documented in the file. The tax return does not need to be signed and dated by the borrower when verified to match the tax transcript.

If the transcript of the return cannot be obtained due to the recent filing of the return by the borrower, the underwriter must determine who prepared the return.

- Self-Prepared: The return cannot be used and the return from the previous year must be obtained and used for the income calculation.
- Professionally Prepared: A letter from the paid preparer must be provided to evidence that the return provided for the mortgage transaction match that which was filed with the IRS. With that letter, the transcript is not required and the borrower's signed and dated tax return can be used to document the borrower's income.

If the borrower has not filed their return for the most recent year, then a copy of Form 4868, Application for Automatic Extension, is required in order to use the return for the previous year. Extensions will be accepted until October 15th. After that date, additional extensions are not accepted and the return from the previous year can no longer be used.

2.6. Asset Analysis (5/2/2012 10:55:05 AM)

The source of all funds to close, down payments, and reserves required for the loan transaction must be documented with the most recent bank statement(s) containing all pages. All asset documentation must be dated within 90 days of the funding date. In addition, monthly (but not quarterly) bank statements must be dated no earlier than 45 days prior to the initial application interview date.

Bank statements printed off of the internet are only acceptable when they provide the required information and are complete. They must reflect the name of the institution, Borrower's name, address and account number, deposits, withdrawals and checks cleared as on a normal bank statement.

A written Verification of Deposit (VOD) providing the current balance and a 2 month average balance for the Borrower's asset accounts is acceptable ONLY when accompanied by the most recent bank statement(s) supporting the VOD.

The source of funds for an account opened within 90 days of verification or a large increase in an existing account must be explained and verified regardless of whether they are being used for the funds to close, down payment or reserves. Documentation must support the fact that the Borrowers did not borrow the funds.

The following are unacceptable sources of funds:

- Gift that must be repaid in full or in part.
- Sweat equity.
- Funds donated in any form such as cash, bonds or personal items of value donated by the seller, builder, real estate

agent or any other party directly associated with the subject transaction.
- Non-marketable and restricted securities.
- Custodial accounts for children or others.
- Proceeds of a personal or unsecured loan.
- Cash advance on a revolving charge account or unsecured line of credit.
- Cash for which the source cannot be verified (cash on hand).

2.6.1. Asset Requirements (11/9/2012 2:31:14 PM)

Acceptable assets are considered to be any of the following:

- Funds on deposit in the Borrower's checking, savings, money market or certificate of deposit account or other depository account.
- A gift that is from a Related Person of the Borrower, that does not have to be repaid.
- Proceeds of a loan fully secured by the Borrower's owned assets. (Bridge/Swing Loan).
- Proceeds from the sale of the Borrower's assets: real estate, stocks, bonds, mutual funds, or any part of a retirement account or other non-depository account. Proof of liquidation of the Borrower's assets is required.
- A cash deposit toward the purchase, the source of which is verifiable.
- Funds disbursed from a trust if properly documented.

In addition, the following assets may be used subject to certain considerations:

Cash Deposit held by Escrow

All earnest money deposits must be verified with a cancelled check or a receipt from the holder of the deposit. AU does not consider a cash deposit held by escrow (earnest money) as liquid. In order to give the borrower credit for earnest money, regardless of the percentage amount of the sales price, AU must be submitted in one of the following ways:

- If the earnest money check has not cleared the borrower's bank account, the amount can be included in a depository account such as a checking or savings account; or
- If the earnest money check has cleared the borrower's bank account, the amount can be entered as "Earnest Money" on the 1003 Details of Transaction line l. Other Credits, where it is assumed to be verified with a copy of the cancelled check or escrow receipt AND bank statement showing the source of funds at the time the earnest money check was written or cleared. A large increase in the account must be explained and verified regardless of age.

Depository Accounts

PF will use 100% of funds held in a depository account such as checking, savings, money market funds and certificates of deposit. However, if the most recent monthly statement for a certificate of deposit has less than 30 days of activity due to a recent account opening or renewal, then the initial principal contribution amount must be used instead of the current balance to account for early withdrawal penalties.

Brokerage Accounts

When used for funds to close or down payment, proof of liquidation is required for funds held in a brokerage account with stocks, mutual funds, and other securities that are traded on an exchange or marketplace generally available to the public (i.e. NYSE and NASDAQ) provided that the value of the funds or securities with readily verified prices through financial publications. When used for reserves, 60% of the vested balance (net of any margin accounts) must be used. Stocks issued by a privately held company are not eligible assets.

Savings Bonds

Savings Bonds may be counted at 100% of redemption value if mature or at their original purchase price if not yet mature unless the current redemption value can be documented. When used for reserves, 60% of the value of the bonds must be used.

Retirement Funds

The value entered for the retirement account should be 60% (liquid amount) of the vested balance. However, funds that have not been vested or that cannot be withdrawn under circumstances other than the account owner's retirement, death, or employment termination (e.g. pension fund) may not be used. Although AU does not consider retirement funds as liquid, retirement accounts from Traditional IRA, ROTH IRA, SEP IRA, 401(k), KEOGH, and 403 (b) may still be used for funds needed to close with the most recent statement and proof of actual receipt of funds by the Borrower in one of the following ways:

- Documentation verifying the specific terms of the loan against retirement account and net proceeds, or
- Payout statement with the net early withdrawal amount after penalties and taxes are withheld.

Sales Proceeds

Proceeds from the sale of real property must be verified by one of the following:

- A HUD-1 form or other equivalent closing statement.
- Executed buy-out agreement accompanying a settlement statement that is part of an employer relocation plan where the Employer/relocation Company takes responsibility for the outstanding mortgage(s).
- Transactions involving a 1031 tax deferred exchange require a HUD-1 on the sale of the investment property being "exchanged," exchange agreement and verification of funds transferred to escrow/title from the exchange holder. A 1031 exchange is permitted only on investment property purchase transactions in which all proceeds from the sale of the relinquished property are applied toward the purchase of a replacement property of equal or greater value.

Gift Funds

For Primary Residence Purchase transactions only, the use of gift funds is acceptable provided the borrower contributes, from their own funds, a minimum of 5% of the value of the property towards the down payment. However on Standard Conforming loans with an LTV of 80% or less, the entire down payment may be gifted. Gift funds must come from an immediate family member and be documented as follows:

- Gift letter signed by the Donor including the Donor's name, address, telephone number, relationship to Borrower, amount, date of funds transfer, and state that the gift is for the purchase of the subject property and that no repayment is required.
- Immediate family is defined as parents, siblings, children, spouse, civil union/domestic partner, grandparents, aunts and uncles.
- Verification of the transfer and receipt of gift funds.

Notes:

- Do not include the amount of gift funds in another asset account.
- Gift funds are not permitted on second homes and non-owner occupied loans. Gift funds are also not permitted on refinance transactions.

Bridge Loan

This type of financing is acceptable if the bridge loan is not cross-collateralized with the new property. Refer to Section 2.4.5. for qualifying the bridge loan liability.

Life Insurance

The net proceeds from a loan against the cash value or from the surrender of a life insurance policy may be used as a source of funds needed to close and reserves. AU does not consider life insurance as liquid. In order to give the borrower credit for net loan proceeds or surrender, these assets must be submitted to AU as an "Other Liquid Asset" and proof of actual receipt by the borrower with one of the following:

- Documentation verifying the specific terms of the loan against the life insurance policy and net proceeds, or
- Payout statement with the net surrender amount.

Trust Funds

Funds received from a Trust to which the borrower is the beneficiary but not the original Trustor must include a typed copy of the trust agreement or a signed statement on letterhead from the trustee that details the information required below:

- Identify the trustee including name, address, telephone number and an individual contract where the trustee is 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 a certain specific amount of the funds.
- Show that the trust has the assets to disburse funds to the Borrower.

Other Non-Liquid Assets

Proceeds from the sale of an asset other than real property or exchange-traded securities not held in a brokerage account require:

- A bill of sale and proof of receipt computer generated or typed that identifies the Borrower as the seller of the property and property sold. The bill of sale must also show the disposition of all liens if applicable, and the proceeds paid to the borrower. The buyer and seller or their authorized agents must sign it.
- Or all of the following:
  - Documentation of the existence and Borrower ownership of the assets (e.g. car title, stock certificate, U.S. savings bond).
  - Documentation of the value of the asset by a third party (e.g. blue book or appraisal).
  - Documentation that a buyer exists at the specified price (e.g. letter of intent or contract).

Business Assets

Assets from the Borrower's business may be used to qualify with a CPA letter confirming the Borrower has access to the funds for withdrawal and that withdrawal of the funds will not have a detrimental effect on the business when business assets are used for the transaction. The CPA cannot be an interested party to the transaction and cannot be related to the Borrower. Use of a Borrower's business assets requires a minimum of six months' reserves.

In addition, the following requirements must be met when using business assets for funds to close or reserves:

- The Borrower(s) must own the business 100%.
- A cash flow analysis of the business tax returns and a review of the detailed transaction history in the monthly bank statement(s) must support that use of business assets will not negatively impact the business. In particular:
    - The amount of business assets to be withdrawn and/or used for reserves must be less than the average annual cash flow.
    - For a Partnership, S-Corporation or Corporation, cash on company year-end balance sheet for each of the previous three years is greater than the amount to be withdrawn/reserves. This information is found on line 1 of the Schedule L. A three-year history of a balance greater than or equal to the amount being considered for reserves or down payment is required. Two years of the Schedule L will show three years of cash on hand for the company.

Payments on a loan secured by a borrower's cash assets (e.g. retirement account, life insurance policy) do not have to be considered as long-term debt when qualifying the borrower. However, any loan balances must be subtracted from the account balances so that the borrowed funds are not counted as financial reserves.

2.6.2. Down Payments (5/17/2012 11:12:53 AM)

The Borrower must have a minimum down payment of 5% of the lesser of the sales price or appraised value, derived from his/her funds. However, if the LTV is 80% or less on a primary residence, the minimum down payment required is waived for standard conforming loans and the entire down payment may come from a gift (see Gift Funds Section). For Super Conforming loans, the Borrower must contribute a minimum of 5% of their own funds into the transaction, regardless of LTV. Cash on hand is not an acceptable source of funds.

All earnest money deposits (EMD) must be verified with a copy of a cancelled check or a receipt from the holder of the deposit. The source of the earnest money deposit must be documented to support the Borrower used acceptable funds. If the earnest money deposit cleared before the period reflected in the bank statement(s) provided, then the bank statement showing the earnest money transaction must also be provided. If the earnest money deposit has not yet cleared or was made after the most recent bank statement provided, then the most recent bank statement is sufficient as long as the ending balance reflected sufficient funds to cover the earnest money transaction. Otherwise, the complete transaction history subsequent to the most recent bank statement through the earnest money transaction is required.

2.6.3. Contributions/Concessions (9/1/2012 12:04:51 PM)

Borrower closing costs paid by the property seller or by any other interested party to the transaction (i.e. builder, developer, real estate agent, lender or any of their affiliates) are considered contributions. Items paid by the property seller that are the responsibility of the seller are not contributions (i.e. real estate sales commissions, charges for pest inspections or costs that the property seller is required to pay under state or local law). Funds the purchaser receives from a non-participant to the sales transaction are not considered contributions, even when they are used to pay closing or settlement costs (i.e. the property purchaser's employer or a family member).

Standard Conforming

- Primary residence/second home > 90% LTV = 3% of value.
- Primary residence/second home > 75-90% LTV = 6% of value.
- Primary residence/second home ≤ 75% LTV = 9% of value.
- Non-owner occupied properties = 2% of value.

Super Conforming

- Primary residence/second home = 3% of value.
- Non-owner occupied properties = 2% of value.

The amount of any contributions in excess of the limitations set forth above will be considered a sales concession. Any amount contributed by an interested party that exceeds the costs to close the loan, must be considered a concession and subtracted from the purchase price.

Additional examples of contributions granted by any interested party to the transaction that are considered to be sales concessions (regardless of the of the limits above) are:

- Vacations.
- Furniture or decorator allowances.
- Personal property items being left in the property.
- Automobiles.
- Moving costs or other "giveaways.".

For purposes of determining the LTV and CLTV, the dollar amount of any sales concessions or contributions that exceed the maximum allowed must always be deducted from the purchase price. The LTV and CLTV are then calculated using the lower of the reduced purchase price or the appraised value. The appraisal must reflect the effect that any subsidies, contributions or sales concessions have on the market value for the property. The AU Feedback must accurately reflect the LTV and CLTV adjusted for any financing or sales concessions in the transaction.

2.6.4. Reserves (10/3/2012 6:43:30 PM)

The following loan transactions require the borrower to have asset reserves remaining after closing:

Standard Conforming

- 2 months reserves for a subject second home plus an additional 2 months reserves on every other financed second home and 1-4 unit investment property.
- 6 months reserves for a subject investment property plus an additional 2 months reserves on every other financed second home and 1-4 unit investment property.
- 6 months reserves for a subject 2-4 unit primary residence.
- 2 months reserves when the LTV is greater than 80%.
- 24 months reserves for Interest Only loans.

Super Conforming

- 2 months reserves for a subject 1-unit primary residence.
- 6 months reserves for a subject 2-4 unit primary residence.
- 6 months reserves for subject second home and investment properties plus an additional 2 months reserves on every other financed second home and 1-4 unit investment property.
- 6 months reserves for each property owned including the subject property when the LTV is greater than 80%.

In addition to the above, the following instances require additional reserves:

- When excluding the borrower's housing payments on a previous primary residence with an executed non-contingent sales contract and a lender's commitment to the buyer (if there executed sales contract includes a financing contingency), an additional 6 months reserves covering the PITI of the previous residence are required. Refer to Section 2.4.5. for qualifying the bridge loan liability.
- When qualifying with assets from the borrower's business, an additional 6 months reserves are required.
- Conversion of a borrower's previous primary residence to a second home requires 6 months reserves for both the previous and current residence. The reserve requirement may be reduced to 2 months for both properties if there is documented equity of at least 30% in the existing property, based on a full appraisal dated no more than 60 days from the funding date minus any outstanding liens. Note: Satisfying this reserve requirement also satisfies the Super Conforming 2 month reserve requirement for primary residences.
- Conversion of a borrower's previous primary residence to an investment property requires 6 months reserves for both the previous and current residence. A property that is pending sale but will not close prior to the date of purchasing a new primary residence will be treated as an investment property for qualification purposes. Note: Satisfying this reserve requirement also satisfies the Super Conforming 2 month reserve requirement for subject 1-unit primary residences and 6 month reserve requiremnet for subject 2-4 unit primary residences.

All reserves entered into AU must be verified. Please refer to the Automated Engine Feedback Certificate for details.

2.6.5. Pooled Funds (10/3/2012 11:51:57 PM)

Purchase Transactions
Acceptable pooled funds for a purchase transaction are funds on deposit provided by the Borrower and a non-borrowing Related Person who:

- Have resided together for at least one year, and
- Will continue residing together in the new residence, and

- Are "pooling" their funds to buy a home

Funds provided by Related Persons who do not reside with the Borrower are subject to the requirements for gifts with the following letter replacing the gift letter described in the gift funds section:

- A letter from the non-borrowing co-depositor(s) stating the relationship with the borrower, that the borrower has full access and use of all the funds for this transaction and for required reserves, and is not required to replenish the account.

Pooled funds must be verified and documented in accordance with the Asset Requirements section of this guide. In addition, the Borrower must provide a signed letter of explanation attesting to the:

- Source of pooled funds
- Fact that the pooled funds are not borrowed
- Relationship between the contributing Related Person and the Borrower

The Borrower must also attest that the Related Person:

- Has resided with the Borrower for the past year
- Intends to continue residing with the Borrower in the new residence for the foreseeable future

Refinance Transactions
Acceptable pooled funds for a refinance transaction are funds on deposit provided by the Borrower and a non-borrowing Related Person.

Pooled funds must be verified and documented in accordance with the Asset Requirements section of this guide. In addition, 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 required reserves.

2.7. Occupancy (5/20/2010 9:25:38 AM)

The Borrower(s) signed Deed of Trust addresses the intent of occupancy. It states "Borrower shall occupy, establish, and use the Property as Borrower's principal residence within sixty days after the execution of this Security Instrument and shall continue to occupy the Property as Borrower's principal residence for at least one year after the date of occupancy…"

The following exemplify unacceptable primary residence transactions:

- The borrower has purchased a home in the past six months, and is now attempting to obtain financing for another owner occupant loan, while retaining their recently purchased property as an investment.
- The borrower currently owns a home that is valued at $200,000 and states they plan to move into the new property that is located in the same city that is valued at $150,000. Unless provided with an acceptable letter of explanation, the loan is treated as an investment property.
- The borrower currently lives in a SFR and wants to claim occupancy in a planned duplex purchase.
- The borrower is purchasing a property as owner occupied, but the seller intends to rent it back from the Borrower's for a timeframe that exceeds the maximum of 60 days.
- A refinance transaction with a non-occupant co-borrower who previously was the sole owner of the subject property, and an occupant borrower is being added but does not currently hold title (even if the occupying individual has been paying the existing mortgage).

2.8. Non-Occupant Co-Borrowers (4/3/2009 3:07:51 PM)

A Non-Occupant Co-Borrower is an individual applying with additional Borrower(s) for a mortgage loan secured by a Primary Residence without the intention of occupying the subject property.

When a Non-occupant Co-Borrower is permitted, a down payment of 5% of the purchase price must be derived from the Owner Occupant's own funds, unless 20% of the purchase price is provided from a gift.

Non-Occupant Co-Borrowers are not permitted under the Super Conforming program.

2.8.1. Loan Prospector Approved Loans (11/2/2007 11:13:51 AM)

The Loan Prospector Automated Underwriting Engine permits Non-Occupant Co-Borrowers and blends the ratios of both the occupying and non-occupying Borrowers.

2.8.2. Desktop Underwriter Approved Loans (12/9/2010 10:08:53 AM)

The Desktop Underwriter Automated Underwriting Engine permits Non-Occupant Co-Borrowers for loans where the LTV does not exceed 90%. When a non-occupant Co-Borrower's is permitted, the DU engine requires that the owner-occupant borrower to be able to qualify for the mortgage based on his or her own financial capacity. DU will not include the Non-Occupant Co-Borrower's income in the qualification of the loan.

2.9. Title Vesting Requirements (10/15/2012 5:04:31 PM)

All Borrowers must take title as individuals and are not permitted to take title in the name of a trust. If the property is currently vested in a trust, the Borrowers must Grant Deed from the trust to him/herself as an individual.

Vesting on title must match the 1003 and the face of the Mortgage exactly. Non-borrowers are not permitted to be vested on title, except in those states where a non-borrowing spouse or civil union/domestic partner is permitted to sign the Security Instrument, Truth-in-Lending Disclosure, Document Correction Compliance Agreement, Flood Hazard Notice and, if applicable, the Notice of Right to Cancel.

2.9.1. Title Vested in Trust (10/24/2012 3:23:09 AM)

Provident Funding does not permit loans to close vested in a trust.

2.10. Title Insurance Policy Requirements (6/15/2011 10:16:38 PM)

Each title insurance policy must meet the following minimum requirements:

- Be written by a title insurer legally able to do business in the jurisdiction where the mortgaged premises are located. The policy must be fully enforceable and protective of the mortgagee's rights.
- Protect the mortgagee up to at least the current principal balance of the mortgage.
- Must be written on the 2006 American Land Title Association (ALTA) policy long or short form. Provident will continue to accept the 1992 ALTA policy form until January 1st, 2008 or if the state commissioner approval is required and still pending. The title policy must include an ALTA Form 8.1, Environmental Protection Lien Endorsement, included. Part (b) of ALTA Form 8.1 may make an exception only for specific state statutes that provide for possible subsequent "super liens" that could take priority over the mortgage.
- For all Condominium Unit mortgages, an ALTA 4 endorsement or equivalent must be attached.
- For all PUD Unit mortgages, an ALTA 5 endorsement or equivalent must be attached.

The following exception to the title insurance policy, or to the attorney's opinion of title, are acceptable:

- Subsurface public utility easements for local residential distribution, such as lines for gas and water, and cable for electric, telephone or television utilities, provided that the location of the easements is ascertainable and fixed. The exercise of the rights thereunder must not interfere with the use and enjoyment of any present improvements on the mortgaged premises or proposed improvements on which the appraisal or mortgage is based. If the easement is unlocated, condition for the appropriate endorsement for your state.
- Exceptions for encroachments on easements for public utilities by a garage, tool shed or similar structure that is not attached to, or a portion of, the dwelling structure are acceptable. The exceptions are acceptable provided that the encroachments do not interfere with the use and enjoyment of the easements or the exercise of rights of repair and maintenance in connection therewith.
- Exceptions for mutual easement agreements of record that establish a joint driveway or a party wall are acceptable if such improvements are constructed partly on the mortgaged premises and partly on adjoining property, wholly on the mortgaged premises or wholly on the adjoining property. The easement agreement must allow all present and future owners and their heirs, successors and assigns forever, unlimited use and enjoyment of the driveway or party wall without any restriction other than restriction by reason of the mutual easement owners' rights in common and duties for joint maintenance.
- Exceptions for fence misplacements on either side of the property line of the mortgaged premises are acceptable provided that neither the misplacement, nor a future correction thereof, will interfere with the use and enjoyment of any improvements on the mortgaged premises or with the use and enjoyment of any improvements. The definition of fence in this section shall not include retaining walls or other permanent structures.
- Exceptions for encroachments on the mortgaged premises by improvements on adjoining property are acceptable provided that the encroachment does not touch any improvements on the mortgaged premises. Also, the encroachment must not interfere with the use and enjoyment of any improvements on the mortgaged premises or with the use and enjoyment of the mortgaged premises not occupied by improvements.
- Exceptions for encroachments on adjoining property by eaves or other projections attached to improvements on the mortgaged premises, or by structures such as tool sheds or by a driveway appurtenant to the mortgaged premises are acceptable. This is provided that there is an endorsement to the title insurance policy whereby the policy affirmatively insures against loss suffered by reason of the entry of a decree or court order requiring the removal of the encroachment.
- Exceptions for outstanding oil, gas, water or mineral rights are acceptable if commonly granted by private institutional

mortgage investors in the area where the mortgaged premises are located. The endorsement must also state that the exercise of such rights will not result in damage to the mortgaged premises or impairment of the use or marketability of the mortgaged premises for residential purposes and there is no right of surface or subsurface entry within 200 feet of the residential structure. Otherwise, it must comprehensively endorse the title insurance policy to affirmatively insure the lender against damage or loss due to the exercise of such rights.

Provident Funding requires that any defaulted taxes, liens (other than junior liens being subordinated), judgments, and lis pendens reflected on title are satisfactorily released and will not appear on the final loan policy. Any items satisfied prior to the close of escrow must be documented with an updated title report or title supplement showing that the items have been removed. Or, any exceptions to title that will be satisfied through closing must be marked "OUT" on the lender instructions to the escrow/closing agent. In addition, the following must be met:

- If any outstanding defaulted taxes, liens, and/or judgments are requested to be paid at closing, then they must be reflected on the HUD-1 and the escrow/closing agent must provide a payoff statement showing current balance, fees, interest and penalties to fully satisfy the debt(s). If the transaction is a short sale purchase where the sales proceeds are insufficient to satisfy the owner's outstanding lien(s), a short sale agreement is required from the lender(s).
- A lis pendens filed by a lender must be released from title to ensure that the property will not be foreclosed upon. However, the lender may be unwilling to release the lis pendens until their lien is satisfied. In this case, a letter is required from the entity that filed the lis pendens acknowledging the transaction and stating that the lis pendens will be released upon satisfaction of their lien.

It is not acceptable for the title company to insure "over" any old liens that may have already been paid in full but were not properly released. In that instance, evidence of satisfactory release (such as a copy of the recorded reconveyance or a letter of intent to record a reconveyance from the creditor) must also be provided in addition to an updated title report or supplement showing that the item has been removed.

Provident Funding also requires that the title insurer provide documentation evidencing a 6 month history of ownership for purchase transactions. Purchase transactions where the seller has owned the property for less than 6 months are considered flip transactions and are ineligible (see section 3.5.3. Flip Transactions).

2.10.1. Closing Protection Letter (5/2/2012 3:58:59 PM)

Transactions in which the wire is sent to an attorney or escrow company conducting the closing in place of the title insurer, as is the customary practice in certain wet states, Provident Funding requires that a closing protection letter (CPL) be issued by the title insurer. The CPL must be issued by the title insurance company that is issuing the title insurance policy as shown on the title preliminary report or commitment. The CPL must specifically name the attorney or escrow company conducting the settlement and must be specific to the loan transaction. The CPL must reference Provident Funding as insured, including loss payee clause or local Provident Funding Branch address. The letter must also reference the borrower name and either the loan number or property address. The Closer must obtain the closing protection letter and ensure that it is in the loan file prior to funding.

2.11. Power of Attorney (5/2/2012 4:00:32 PM)

A Power of Attorney (POA) is only acceptable if the following criteria are met:

- The POA must be a "Specific" or "Special" Power of Attorney that grants authority to the Attorney-in-Fact to enter into a real estate transaction on behalf of the borrower and mortgage the subject property. The POA does not need to specify the lender name, but it cannot be a "Durable" or "General" POA, except in states that require a statutory form or that prohibit the refusal of a Durable or General POA, as long as the POA is not illegal or unenforceable.
- The POA must be signed and dated by the borrower prior to the signing of the loan documents.
- The POA must indicate clearly that the mortgagor is appointing an Attorney-in-Fact and specifically identify the person appointed.
- The POA must be notarized.
- The POA must be recorded prior to, or concurrent with, the security instrument.
- All loan documents must be executed by the Attorney-in-Fact and signed as such.
- The POA must be acceptable and insurable by the title company issuing the title policy.
- Provident Funding must approve the POA prior to the signing of loan documents. In the instance that the executed POA was not approved by Provident Funding prior to loan documents being generated, a redraw will be required to include the Attorney-in-Fact's name under the borrower signature lines.

Note: Documents that require initials instead of full signatures should be initialed in the same format as in the Power of Attorney signature examples below, replacing full names with initials.

2.11.1. Power of Attorney Signatures (3/30/2009 6:18:33 PM)

Loan documents executed by Power of Attorney must be signed as follows:

Jane Doe by John Doe, Attorney-in-Fact

Jane Doe by John Doe, Attorney-in-Fact