OPAL JUMBO GUIDELINES

TABLE OF CONTEXT

OPAL JUMBO GUIDELINES

PURCHASE /RATE TERM REFINANCE	1 unit Primary	LTV[4]	**COMING SOON** USBHM 2nd TLTV / HTLTV [1, 4]	Non USBHM 2nd TLTV / HTLTV [1, 4]	Maximum Total Financing[3]
	> Conf. Limit +1 - $900,000	90%	90%	90%	$900,000
	> Conf. Limit+1 - $1,500,000	80%	80%	85%	$1,500,000
	> Conf. Limit+1 - $2,000,000	75%	75%	75%	$2,000,000
	> Conf. Limit +1- $3,000,000	70%	70%	70%	$3,000,000
	2 unit Primary	**LTV[4]**	**USBHM 2nd TLTV / HTLTV [1, 4]**	**Non USBHM 2nd TLTV / HTLTV [1, 4]**	**Maximum Total Financing[3]**
	> Conf. Limit+1 - $900,000	90%	90%	90%	$900,000
	> Conf. Limit+1- $1,000,000	80%	80%	85%	$1,000,000
	> Conf. Limit+1 - $1,500,000	75%	75%	80%	$1,500,000
	1-unit Second Home [2]	**LTV[4]**	**USBHM 2nd TLTV / HTLTV [1, 4]**	**Non USBHM 2nd TLTV / HTLTV [1, 4]**	**Maximum Total Financing[3]**
	> Conf. Limit+1 - $650,000	80%	80%	80%	$650,000
	> Conf. Limit+1 - $1,000,000	75%	75%	75%	$1,000,000
	> Conf. Limit+1- $1,500,000	70%	70%	70%	$1,500,000

PURCHASE /RATE TERM REFINANCE (CONTINUED)	1 unit Investment [2]	LTV[4]	USBHM 2nd TLTV / HTLTV [1, 4]	Non USBHM 2nd TLTV / HTLTV [1, 4]	Maximum Total Financing[3]
	> Conf. Limit+1 - $650,000	65%	65%	65%	$650,000

1. See Subordinate Financing section for rules.
2. For newly constructed homes that are purchase transactions, borrower(s) may not have an affiliation or relationship with the builder, developer or seller of the subject property.
3. No maximum total financing limit when non-US Bank second is used, must still conform to allowable TLTV standards based on first mortgage loan amount.
4. LTV/TLTV/HTLTV > 80%, down payment must include 5% of sale price/value from borrower’s own funds

CASH OUT REFINANCE				
	1-2 Unit Primary	**LTV**	**TLTV/HTLTV[1]**	**Maximum Total Financing[2]**
	> Conf. Limit+1-$750,000	75%	75%	$750,000
	> Conf. Limit+1-$1,000,000	70%	70%	$1,000,000
	> Conf. Limit+1-$1,500,000	65%	65%	$1,500,000
	1-Unit Second Home	**LTV**	**TLTV/HTLTV[1]**	**Maximum Total Financing[2]**
	> Conf. Limit+1-$650,000	70%	70%	$650,000
	> Conf. Limit+1-$1,000,000	65%	65%	$1,000,000
	[1]See Subordinate Financing Section for rules [2]No Maximum Total Financing limit when non-US Bank second is used must still conform to allowable TLTV standards based on first mortgage loan amount.			
	• The borrower must provide written statement regarding the purpose of any cash out.			
	• Borrower must have owned the subject property for at least 6 months prior to the Note date of th3e new cash out refinance mortgage.			
	LTV		**MAXIMUM CASH OUT**	
	> 50%		$300,000	
	≤ 50%		$500,000	

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PRODUCT CODE	• JF30US
PRIOR INVESTOR APPROVAL	• **ALL LOANS REQUIRE PRIOR INVESTOR APPROVAL NO EXCEPTIONS** o All Loans must be manually underwritten and fully documented. o All loans must be submitted to LP or DU (AUS) and a feedback certificate obtained. Data entered into the AUS must follow Provident Bank Mortgage Opal underwriting guidelines and documentation in the file must meet Opal guidelines. o Branch Underwriters must completely underwrite the loan with all material PTCD/PTD conditions signed off. (Income/Assets/Credit/Collateral) o Once underwritten send to Corporate Underwriting to upload to the investor. o Corporate 2nd signature is required regardless of the loan amount or the underwriter's signing authority o All required Appraisal documentation is required to be submitted to the investor at the same time as the credit package. o All investor conditions are to be added to the Conditional Approval Letter by the Corporate Underwriter after receipt of them from the investor. o Once the Branch Processor has received all of the investor conditions they are to be reviewed by the Branch Underwriter prior to being sent to Corporate Underwriting to upload to the investor for clear to close.
AMORTIZATION	• 30 year amortization. o No negative amortization
APPRAISAL REQUIREMENTS	• Fully completed URAR (Form 70) required. No short forms allowed. • If the combined loan amount for the 1st and 2nd mortgage is less than or equal to $1.5MM, only one appraisal will be required. If the combined loan amount for the 1st and 2nd mortgage is greater than $1.5MM, **two** appraisals will be required. • The combined loan amount threshold calculation for appraisal purposes will be only the loans /liens with U.S. Bank that are secured by the subject property. The threshold calculation does not include 2nd mortgages held by another lender and subordinate to U.S. Bank. • Provident Bank Mortgage reserves the right to request an additional appraisal if the original is of marginal quality. The lower value will be used.

ASSUMABILITY	• Not assumable
CONTRIBUTIONS BY INTERESTED PARTIES	**Primary Residence and Second Home:** • 6% of the lesser of the sales price or the appraised value. **Investment Property:** • 2% of the lesser of the sales price of the appraised value. **Please note:** Maximum financing concessions must be based on TLTV if secondary financing is present.
CREDIT/ FICO	• A borrower with a history of moderate to slow payment of obligations must have strong offsetting characteristics to be considered favorably. • The borrower must provide a written explanation for all material adverse credit information. • Minimum required FICO score:

LTV / TLTV	FICO
> 70%	710
> 65 - 70%	700
≤ 65%	680
Loan Amount > $1,000,000	**720**

DESCRIPTION	• Fixed-rate, level payments for life of loan. • For use with jumbo loan amounts – conforming loan amounts are not allowed.
LOAN AMOUNT	• **Conforming loan amounts + 1**
ELIGIBLE BORROWERS	• Each applicant must have reached the legal age of majority in the jurisdiction in which the property is located. • Every application must be considered without regard to the applicant's race, color, ethnicity, religion, national origin, age, gender, sex or gender identity, sexual orientation, marital status, familial status, disability, receipt of public assistance income, or the exercise in good faith of any right under consumer credit protection laws. **Applicants with any of the following characteristics shall be excluded from consideration:** o guardianship estates or conservatorship estates, o proprietorship, o partnership, o corporation, o DBA (Doing Business As), or o Fictitious name. o any borrower living outside of the United States
ELIGIBLE PROPERTIES	• 1-2 Unit Primary Residence • 1 Unit Second Home • 1 Unit Investment Property • Manufactured Housing is not allowed.
ESCROW WAIVERS	Escrows may be waived on LTV ratios of 89.00% or less. The borrower must sign an Agreement for Waiver of Loan Escrow.

FUNDS TO CLOSE/RESERVES	

Loan amount	Minimum required reserves:
≤ $1,000,000	6 months PITI
> $1,000,000 - $2,000,000	12 months PITI
> $2,000,000 - $3,000,000	24 months PITI
If the borrow plans to rent his existing home after closing, loan must comply with Provident Bank Mortgage Opal and Freddie Mac guidelines.	
If LTV/TLTV/HTLTV > 80%, down payment must include 5% of the sale price/value from borrower's own funds.	

GENERAL UNDERWRITING

LP/DU ELIGIBILITY	
	• All loans must be submitted to LP or DU (AUS) and a feedback certificate obtained. Data entered into the AUS must follow Provident Bank Mortgage Opal underwriting guidelines and documentation in the file must meet Opal guidelines. • The submission must be based upon a three bureau merged credit report. • The AUS Feedback will be used in the overall risk assessment however the underwriting decision will be based on these Manual Provident Bank Mortgage Opal guideline requirements. Debt-to-Income ratios outlined in these guidelines apply regardless of AUS approval with higher DTI.

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MORTGAGE INSURANCE	

Primary Residence	30 Yr. Term
85.01% - 90.0% LTV	25%
80.01% - 85.0% LTV	12%

- Refundable and Non-Refundable Single Premium MI is allowed if the full premium is included in the QM and High Costs Points and Fees test AND the policy provides for a refund of unused premium as required by HOPA.
- Split Premium MI is allowed.
- Lender Paid Upfront Single Premium Mortgage Insurance is allowed
- **Custom, Reduced and Financed MI <u>are not</u> allowed.**

- All conventional loans requiring mortgage insurance must close at the insurance coverage percentage levels outlined in the Product Guidelines. Certain LP and DU findings may offer a reduced level of coverage. Provident Bank Mortgage Opal product does not accept mortgage loans with mortgage insurance coverage levels below those outlined in these Guidelines.
- Provident Bank Mortgage will allow our Branches to order their own Mortgage Insurance Certificates prior to submission to Corporate Administration for Prior Investor Approval. We will require that you submit your file documents to your preferred MI provider rather than use your MI Delegation and the MI Certificate must be ordered using your specific Master Policy or Agreement with that MI provider. The MI compliance underwriting decision and Mortgage Insurance Commitment /Certificate must be in the UW package delivered to investor for full review. Investor's Underwriting will determine if coverage is acceptable based on our guidelines.

MORTGAGE INSURANCE (CONTINUED)	• Provident Bank Mortgage has approved the following companies as mortgage insurers for the Opal Product: o Mortgage Guaranty Insurance Company (MGIC) o Radian Guaranty o Arch o Essent Guaranty o United Guaranty (UGIC) o National
PAYING OFF CONSTRUCTION LOANS OR PERMANENT FINANCING BEHIND A CONSTRUCTION LOAN	• This applies to: (i) self-built homes (ii) transactions with separate purchase agreements/contracts for land and building, and (iii) Paying off any existing financing used for construction of the home. • Costs for material and labor must be documented by (i) a construction contract or, (ii) in the case of a self-built home, by invoices, lien waivers, or contracts (signed bids or bills) for services or materials provided by sub-contractors. Any costs paid from the borrower's funds must be documented with canceled checks or paid receipts. • Value is the lesser of appraised value or documented costs. Value of the lot will be as indicated on the appraisal if it was purchased more than 12 months prior to the loan application date. If less than 12 months, value will be the lesser of cost or appraised value. • When documentation of costs is unavailable, the appraised value may be used if (i) the LTV ratio does not exceed 75%, (ii) the transaction is arms-length, and (iii) there is no cash out.
PREPAYMENT PENALTY	• None
PROCESSING OPTIONS	• Full Documentation
QUALIFYING RATE	• Note Rate

QUALIFYING RATIO	• Maximum DTI o 43%
SUBORDINATE FINANCING	• Subordinate financing is subject to FHLMC guidelines and the following additional requirements: • Payments on the subordinate lien may be fixed or adjustable. o Terms of the subordinate lien must be verified at the time of underwriting. o Payment must be included in the borrower's house payment-to-income ratio.
TRAILING CO-BORROWER	• Trailing Co-Borrower income not allowed for qualifying purposes.
UNDERWRITING	
SUMMARY	• **Prior to Investor Approval Required** o **No Exceptions** • Provident Bank Mortgage shall not fund or close any loan considered high cost by any municipality, state, federal statutory or other regulatory or legal authority. Such loans include those described under the Home Owners Equity Protection Act as promulgated in Section 32 of Regulation Z
ABILITY TO REPAY	• Underwriting must consider the following eight underwriting factors, and obtain reasonably reliable third-party records to verify the information used, when making a determination of the consumer's Ability to Repay: o the consumer's current or reasonably expected income or assets (excluding the value of the dwelling and any attached real property); o the consumer's current employment status if Provident Bank Mortgage relies on the consumer's income in determining repayment ability; o the consumer's monthly payment for the mortgage loan;

ABILITY TO REPAY (CONTINUED)	o the consumer's monthly payment on any simultaneous loan [i.e., a Covered Transaction or Home Equity Line of Credit (HELOC) that is being consummated generally at the same or similar time] secured by the same dwelling that Provident Bank Mortgage knows or has reason to know will be made; o the consumer's monthly payment for mortgage-related obligations, including property taxes; o the consumer's current debt obligations, alimony, and child support; o the consumer's monthly debt-to-income ratio or residual income; and o the consumer's credit history.
UNDERWRITING DOCUMENTATION	
ACCEPTABLE EMPLOYMENT VERIFICATION DOCUMENTATION	• The Verbal VOE form is currently on the various origination systems and is to be completed and become part of the retained file. • A third party source such as www.theworknumber.com is acceptable. Use the date the form is completed, not the effective date of the information, to meet requirements. **Note:** That contact information for the employer cannot be obtained from the application and must be obtained from a source independent of the borrower. (i.e. Yellow Pages, 411.com, etc.)
APPRAISAL EXPIRATION POLICY	• An appraisal should not be used if older than six (6) months. The timeframe is measured from the effective date of the appraisal to the final verification of the collateral / value or the closing date, depending upon the Business Line. Applications with appraisals older than six (6) months require a new appraisal of the same type as the original appraisal. If the appraisal is older than four (4) months and < six (6) months, the appraisal must have an Appraisal Update completed as documented with an Appraisal Update on Fannie Mae Form 1004D or Freddie Mac Form 442. If the Appraisal Update indicates the value has declined, a new appraisal of the same type as the original must be ordered

COURT ORDERS AND DIVORCE DECREES	• Use the term “divorce decree” only if loan documentation conveys certainty as to the existence of a decree of marital dissolution. Use the term “court order” in all other cases.
	• Court orders or divorce decrees are required to document:
	  o Income (maintenance, alimony, child support)
	  o Exclusion of maintenance, alimony, child support obligations payments fewer than 10 months
	  o Exclusion of contingent liabilities including debt(s) assigned to another party and award or transfer of property to the borrower or to another party
	• Court orders should not be required in response to AKA statements referencing a historical divorce.
	• A complete copy of the final divorce decree will be required prior to final approval for all transactions for which a pending divorce has been disclosed. The term “pending divorce” refers to the intermediate stage occurring after the divorce papers have been filed and prior to the issuance of the final judgment by the court.
	• A separation agreement provided by an attorney **or** the court needs to identify the division of all assets and liabilities along with the establishment of any maintenance, alimony and child support.
	• Provident Bank Mortgage policy does not specify a time frame for the requirement of court order documentation, and includes no seasoning exclusion based on the length of time which has elapsed since the court order occurred.

E-SIGNATURES	• Provident Bank Mortgage will accept electronic signatures on Third Party Documents in accordance with the E-SIGN Act and the Uniform Electronic Transactions Act (UETA). Third Party Documents are those documents that are originated and signed outside of the control of the Mortgagee, for example a sales contract and amendments etc. An indication of the electronic signature and date should be clearly visible when viewed electronically and in a paper copy of the electronically signed document.

INCOME REVERIFICATION	• To prevent misrepresentation and identify fraudulent income documents prior to funding a loan, Provident Bank Mortgage will use either the IRS Tax Transcripts or The Work Number to re-verify income. The Work Number allows us to access income information received directly from the employer's payroll system. If the employer is part of The Work Number network, it will not be necessary to obtain a separate verification of income through the IRS Tax Transcripts. • Provident Bank Mortgage requires the 4506T form for prefunding and post funding QC purposes. • For loans underwritten by Provident Bank Mortgage, all loan files will require a form 4506-T and documentation from the IRS to validate the income used for qualification. Acceptable documentation includes: o Hourly/salaried borrowers - The most recent available year's IRS W2 Transcript, Tax Transcript 1040 or Record of Account Transcript which is an additional transcript option that provides more detail. (Only one of these is required). o Self-employed borrowers –require the most recent available one year's 1040/Record of Account tax transcripts • The income used to qualify the borrower must be supported by the income reported on tax transcripts from the IRS. The correspondent may provide the IRS Tax Transcripts however in all cases, a 4506-T must still be contained in the loan file. Investor will execute the 4506-T when required.

INCOME REVERIFICATION (CONTINUED)	• In the event that there is an IRS rejection codes "Due to limitations, the IRS is unable to process this request", alternative reverification information may be relied upon. This reject code is being used when there is possible Identity Theft on the tax payer's account. The taxpayer will then be contacted by mail and referred to the Identity Protection Security Unit at 800-829-1040. Only consumers, not third parties will receive the requested information. When the reject type is received and shown in the loan file, the following must be documented in the file submitted for Prior Investor Approval underwriting: 1. For salaried borrowers, when available, utilize The Work Number's instant access database. 2. Request the most recent 1040s from the borrower(s) and proof of filing (cancelled check for tax payment, or bank statement showing deposit of refund. 3. Request the borrower(s) obtain the transcripts from the IRS. 4. Investor Underwriters have the authority to waive the transcript requirement if they feel that it is unlikely that the IRS Tax Transcripts will uncover any discrepancies- i.e. wage earner that has been on the same job for a number of years and paystub and tax returns do not show much change year over year. Final Verbal VOE's will be required for non-self-employed borrowers 10 business days prior to Note Date. (The Note date is the signature date of the Note as the Note is not enforceable if not signed.)

MAXIMUM AGE OF CREDIT DOCUMENTS	• The allowed maximum age of credit documents is 120 calendar days for existing properties and new construction properties. Credit documents include credit reports, employment, income and asset documentation. • Underwriter will calculate the 120-calendar day credit qualifying document expiration date based on the most recent consecutive credit qualifying document rather than the oldest credit-qualifying document. o Example: ▪ Pay Stubs dated April 24 and May 8 (120 calendar days is calculated from May 8) ▪ Bank Statements dated April 1 and May 1 (120 calendar days is calculated from May 1) ▪ Credit report dated May 12 (120 calendar days is calculated from May 12) In this example, the document expiration date for all the above credit document types would be calculated from May 1. o No recent document can exceed 120 calendar days from Note date. Note: This policy applies to Credit Qualifying Documents only and the Appraisal Expiration Policy remains unchanged.
MORTGAGE DEBT PAID BY BUSINESS	• U.S. Bank mortgage loans **must** be included in the borrower's debt ratio when a borrower's business is paying any mortgage debt. When this scenario occurs, the payment made by the business should be credited back to the business income and the mortgage liability included with the borrower's debt. • If the mortgage loans are held by another lender then they can continue to be excluded from the borrower's debt ratio.

RECAP	• Opal Guidelines require that underwriters complete a thorough review of the loan file and document their supporting decision rationale for each of the key items that comprise a comprehensive credit decision (i.e. loan approval or denial). **a. INVESTOR'S SUMMARY DCOUMENTATION REQUIREMENT (RECAP)** ✓ Risk (Overall Assessment) ✓ Employment / Income ✓ Credit / Debt ✓ Assets / Reserves ✓ Property / Appraisal **b. RISK** o Underwriter is to provide summary comments on their overall final Risk Assessment addressing risks and compensating factors of the file including: 1) Debt to Income Ratio compared to product maximum threshold) 2) employment and/or income stability/continuance assessment, 3) Loan–to-value ratio (LTV per product guidelines), 4) Credit / FICO (per product guidelines), 5) Borrower Reserves (per product guidelines), 6) Appraisal/Property evaluation, and 7) AUS Overall Rating and Feedback.

RECAP (CONTINUED)	**c. EMPLOYMENT/INCOME** o Underwriter is to provide summary comments regarding employment/income and include an assessment of (1) current employment status and stability of employment and (2) current and expected income borrower(s) will rely on to repay the loan. **d. CREDIT/DEBT** o Underwriter is to provide summary comments regarding credit/debt and include an assessment of (1) monthly mortgage payment for this loan, (2) monthly mortgage payment for any second mortgage on this property, (3) monthly payment for property taxes, insurance, or other costs related to the property, (4) mortgage debts on other properties (5) borrower(s) current non-mortgage debts, alimony, and child support obligations, and (6) credit history and current FICO score. **e. ASSETS / RESERVES** o Underwriter is to provide summary comments regarding borrower's assets and include an assessment of (1) an analysis of the borrowers assets used for the down payment and closing costs, and (2) additional assets the borrower has available as reserves if needed to repay the loan. **f. PROPERTY / APPRAISAL** Underwriter is to provide summary comments on the Property/Appraisal and include (1) an analysis of the appraisal (using underwriting checklist) and (2) the eligibility of the property for financing purposes (per these guidelines).

SALES CONTRACT DEFINED

PBM defines a contract as follows:

- A contract for the purchase/sale, exchange, or other conveyance of real estate between parties. The contract must be in writing, contain the full names of the buyer(s) and seller(s), identify the property address or legal description, identify the sales price, and include signatures by the parties. Sales contracts are also known as agreements of sale, purchase agreements, or contracts for sale.
- Provident Bank Mortgage should obtain all Sections of the Sales Contract that are relevant to the approval of the financing of the mortgage loan as deemed necessary based on the experience and judgment of the underwriter for the states and locales where the property is located. The Underwriter will need to describe on RECAP their rationale for excluding any Sections of the Sales Contact in order to alleviate any investor salability and insurability concern as investors will typically look for complete sales contracts during their loan reviews.

Example:

Any checked boxes require review by UW

ADDENDA AND ADDITIONAL TERMS

19. **ADDENDA:** The following additional terms are included in the attached addenda or riders and incorporated into this Contract (**Check if applicable**):

☐ A. Condominium Rider	☐ K. RESERVED	☐ T. Pre-Closing Occupancy
☐ B. Homeowners' Assn.	☐ L. RESERVED	☐ U. Post-Closing Occupancy
☐ C. Seller Financing	☐ M. Defective Drywall	☐ V. Sale of Buyer's Property
☐ D. Mortgage Assumption	☐ N. Coastal Construction Control Line	☐ W. Back-up Contract
☐ E. FHA/VA Financing		☐ X. Kick-out Clause
☐ F. Appraisal Contingency	☐ O. Insulation Disclosure	☐ Y. Seller's Attorney Approval
☐ G. Short Sale	☐ P. Lead Paint Disclosure (Pre-1978)	☐ Z. Buyer's Attorney Approval
☐ H. Homeowners/Flood Ins.	☐ Q. Housing for Older Persons	☐ AA. Licensee Property Interest
☐ I. RESERVED	☐ R. Rezoning	☐ BB. Binding Arbitration
☐ J. Interest-Bearing Acct.	☐ S. Lease Purchase/ Lease Option	☐ Other: ______

SUPPORTING UNDERWRITING DOCUMENTATION	• The application package must contain acceptable documentation to support the underwriting decision. Verification forms must pass directly between lender and creditor without being handled by any third party. Documentation must not contain any alterations, erasures, correction fluid or correction tape. Copies must be stamped, "Certified, True and Exact Copies of the Original." • Documentation provided in electronic format or transmitted using electronic transmission methods must be true and accurate. All such documentation is certified, upon delivery to Provident Bank Mortgage, as representing a direct creation or replication of original information obtained from appropriate sources during the loan process.
ELIGIBLE BORROWERS	• Each applicant must have reached the legal age of majority in the jurisdiction in which the property is located. Every application must be considered without regard to the applicant's race, color, ethnicity, religion, national origin, age, gender, sex or gender identity, sexual orientation, marital status, familial status, disability, receipt of public assistance income, or the exercise in good faith of any right under consumer credit protection laws. • Applicants with any of the following characteristics shall be excluded from consideration: o guardianship estates or conservatorship estates, o proprietorship, o partnership, o corporation, o DBA (Doing Business As), or o Fictitious name. o any borrower living outside of the United States
INVESTMENT PROPERTIES CURRENTLY OR FORMERLY IN THE NAME OF AN LLC	• If a property is currently in the name of the borrower's LLC or has been in the name of the borrower's LLC in the most recent 120 day period, as measured backward from the date of the initial application, it is not eligible for refinancing into the borrower's name. If there is an outstanding lien against the property, it also must be in the borrower's name for a minimum of 120 days in order to be refinanced.

MAXIMUM LOAN EXPOSURE TO BORROWER(S)	• The Borrower's aggregate exposure to U.S. Bank cannot exceed $3,000,000 (including all business loans, mortgage, credit cards, etc.) without CAD approval. Mortgages sold to investors but that U.S. Bank continues to service as of the application date (e.g. FHLMC/FNMA/GNMA) do not have to be included in the total exposure calculation.
NON-OCCUPANT CO-BORROWER/ JOINT CREDIT	• Joint credit involves a credit instrument with more than one individual borrower whereby both borrowers voluntarily accept and share responsibility for repayment of a debt. • Underwriting of a joint application for real estate requires review of each joint applicant's income, liabilities, and Credit Bureau Report(s). An application for joint credit must meet all underwriting criteria based on consideration of aggregate applicant income and liabilities. Only income of applicants signing the credit agreement/promissory note may be considered when underwriting the application. All income is subject to verification (described below). Each applicant whose income was used to qualify for the loan must sign the note. A spouse or other party may be required to sign the security instrument or other documentation as required by state law to perfect Provident Bank Mortgage’s security interest in the property. A non-applicant/borrower spouse may not be required to sign an instrument that transfers that spouse’s ownership rights or interests in the property, such as a quitclaim deed or similar document, as a condition of originating the loan. • In a joint credit situation at least one applicant must be or intend to be an owner of the collateral.

NON-OCCUPANT CO-BORROWER/ JOINT CREDIT (CONTINUED)	• Joint credit is allowed without restriction when both applicants/borrowers occupy the subject property as his or her primary residence or second home. If a joint applicant will not occupy the subject property their income may only be considered if the property is a primary residence, the occupying borrower has their own income but it may be insufficient to qualify according to the Opal Product Residential Real Estate – Employment, Income and Debt Policy, and the non-occupant applicant meets one of the following Related Person criteria: o spouse, child or dependent, o fiancé, o domestic partner, or o Individual related to the applicant by blood relationship (e.g. parent, sibling, child, aunt, uncle), marriage or adoption. • Transactions involving investment properties do not require the applicant(s) to be an owner occupant of the collateral. • Any liabilities of the applicant used for decisioning, which do not appear on the applicant's credit bureau, must be manually entered into the applicable system.
NON U.S. CITIZENS	• **A non-United States citizen,** who is lawfully residing in the United States as a permanent resident alien are eligible for a mortgage on the same terms as a United States citizen. All non-United States citizen borrowers must have current, acceptable documentation from the Department of Homeland Security U.S. Citizenship & Immigration Services (DHS) evidencing the person's legal residency status and authorization to be employed in the U.S. as outlined below. • **Non U.S. citizens for loan purposes are categorized as follows:** a. Permanent Resident Alien b. Non-Permanent Resident Alien c. Non Resident Alien

NON U.S. CITIZENS (CONTINUED)	
	• **Permanent Resident Alien:** A permanent resident alien must hold a Green Card; I-551 Permanent Resident Card. o Often a "green card" is preceded by the individual applying for this status before they enter the US. In these instances, an "immigrant visa" is issued to allow entry into the U.S. Upon entering the US under an "immigrant visa" the individual must claim their "green card" within four months or the visa expires. Provident Bank Mortgage Opal Product will not allow eligibility for financing until a "green card" is issued o Required Documentation: I-551 Permanent Resident Card ("Green Card") issued by the Department of Homeland Security U.S. Citizenship & Immigration Services (DHS); • **Non-Permanent Resident Alien borrowers are not eligible for Opal Jumbo loans.** o Non-Permanent Resident Alien: An individual who seeks temporary entry into the U.S. for a designated purpose. They are issued "nonimmigrant visas" with the type dependent upon their intent to either live in the U.S. or both live and work in the U.S. • **Non Resident Alien:** Sometimes referred to as a Foreign National. An individual that lives and works outside the U.S. Individuals with this classification are considered as only visiting the U.S. temporarily. Provident Bank Mortgage Opal Product does not make loans to Non Resident Aliens. o The following non-U.S. Citizens are not considered eligible borrowers: I. Refugee II. Defector III. Asylee IV. Temporary Protection Status V. Students

OCCUPANCY	• For property intended to be occupied as a primary residence or serve as a second home, at least one of the applicant(s) must be residents of the collateral; therefore, the following shall apply: o one of the applicants must be the owner of the real estate, as documented by a bona fide transaction (e.g., quit claim deed, warranty deed); o residency in the collateral property must be documented to the satisfaction of the final underwriter o occupancy requirement does not apply to investment loan products offered by Home Mortgage; and o if the applicant(s) owns "free and clear" the property to be mortgaged, the following requirements apply: ▪ borrower must have owned and occupied the subject property for at least six (6) months, and ▪ A property report showing the borrower having clear title is required. • One (1) year of current residency, or if less than one (1) year of current residency, at least two (2) years of residency history must be obtained. All efforts should be made to obtain a physical address to verify the credit requests and prevent fraudulent application activity. o The following prior addresses are higher risk and an appropriate amount of diligence should be performed: ▪ post office box address, without a physical address of the dwelling, ▪ Any address outside of the 50 United States and the District of Columbia (DC). ▪ business address, ▪ campgrounds, ▪ correctional institution, ▪ address for a hotel or motel, or ▪ An "in care of" address.

PURCHASE LESS THAN 12 MONTH OCCUPANCY EXISTING HOME	• Mortgage/Deed of Trust documents require a Primary Residence be occupied by the borrower for at least 12 months. • Applicant's retaining their current residence, may have a special circumstances (for example: relocation, change in family size) under which a borrower may decide to purchase another Primary before 12 months have elapsed. Underwriting will allow a new purchase to proceed under documented special circumstances. Documentation must be provided supporting the new mortgage will be occupied as presented during underwriting.
EMPLOYEE LOANS	• Not Eligible
TRUSTS	• If the property is currently in the name of the borrower's trust, the loan may close in the trust as long as the trust meets all Provident Bank Mortgage Opal Product requirements. To close in the borrower's name, the property title must be in the borrower's name prior to final approval. • A living trust is an eligible mortgage borrower if it meets the following requirements as well as all applicable State requirements. The borrower must sign all loan documents. • Irrevocable trusts are not acceptable. • **Required Documentation:** o Certification of Revocable Trusts - Eligible States - o The Certification of Revocable Trust is to be used and the answer "Key" are available in Provident Bank Mortgage Policy and Procedures Manuals=Forms. The key must be reviewed to make sure the questions are answered appropriately. The key is available to assist underwriters in the review of the Certification of Revocable Trust.

TRUSTS (CONTINUED)	o When a Certification of Revocable Trust is utilized, the Underwriter should not request that the complete trust instrument itself provided. Instead, Underwriters may request only limited excerpts from the trust documents to: 1. Verify that the person executing the Certification of Revocable Trust is a current trustee 2. 2Verify that the person executing the Certification of Revocable Trust is authorized to mortgage the property. o Use Investor's Trust form Located in Policy and Procedures Manuals=Forms o **Attorney's Opinion** ▪ Required when the applicant has not provided a Certification of Revocable Trust. ▪ Underwriter must review and rely on the following which must be in the loan file before submission to underwriting and before final approval can be issued: ➢ Attorney's Opinion: A licensed attorney must review the trust and issue a signed opinion on their letterhead. (See attachment for letter to be given to the applicant outlining what needs to be addressed in the opinion.) ➢ Trust Instrument: A complete copy of the trust agreement or an abstract or summary of the trust agreement if and to the extent the laws of the applicable jurisdiction require or permit a third-party dealing with a trustee to rely on such abstract or other summary.

TRUSTS (CONTINUED)	• The attorney's opinion of trust must indicate that the trust meets all of the following requirements and must include the name of the trust, date executed, settlor(s) of the trust, indicate that the trust is revocable, name(s) of all trustees and indicate how vesting is to be held. o The property is only eligible to close in a trust if at least one individual establishing the trust signs all loan documents. o The trust was established by one or more natural persons, solely or jointly. o The trust is a written document that stipulates that the trustee is authorized to borrower money, purchase, construct or encumber real estate. o The Settlor has retained power to revoke or alter the trust. o There is no unusual risk or impairment of lender's rights including the right to have a full title to the property conveyed to the lender should foreclosure proceedings have to be initiated to cure a default or a deed in lieu under the terms of the mortgage. o The beneficiary need not grant written consent for the trust to borrower money, or if such consent is required, it has been granted in writing for the purposes of the mortgage. o The primary beneficiary of the trust must be the individual(s) establishing the trust. If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage. o Confirm that the trust has not been revoked, modified or amended in any manner that would cause the representations to be incorrect. o Verify that a Power of Attorney can execute closing documents on the trust.
VALID SSN REQUIRED	• All borrowers must have valid and verifiable Social Security Numbers. Other forms of taxpayer identification are not allowed.

CREDIT	
AUTHORIZED USERS	• If the borrower is an authorized user, their FICO score can be used if we obtain and retain evidence in the mortgage file of at least one of the following for each authorized user account. o Another Borrower on the Mortgage owns the trade lines in question. o The trade line is owned by the Borrower's spouse, or o The Borrower has been making the payments on the account for the last 12 months. • If unable to document one of the above three requirements for each authorized user account, the FICO score can still be used if it is determined that the authorized user accounts have an insignificant impact on the Borrower's overall credit history and the information on the credit report is representative of the Borrower's own credit reputation. Level of significance of the authorized user accounts on borrower's FICO is determined based on the number of the Borrower's own trade lines, as well as their age, type, size and the payment history, when compared to the authorized user accounts. • Justification for using the FICO score and credit report must be documented on Form 1008/1077 or equivalent document (i.e. RECAP summary) in the mortgage file. • If a FICO score must be disregarded, any products requiring a minimum FICO score cannot be approved. If a minimum FICO score is not required, then a manual underwrite may be performed provided sufficient credit is documented. The Underwriting Manager must approve all manually underwritten loans where the credit report indicates an authorized user.

BANKRUPTCY, CHARGE OFFS AND TAX LIENS	

BANKRUPTCY, CHARGE OFFS AND TAX LIENS

- Bankruptcy is a legal procedure for dealing with from debt problems of individuals, specifically a case filed under one of the chapters of Title 11 of the United States Code (the Code).
- Unless prohibited by law, Provident Bank Mortgage Opal Product shall not extend new/additional credit to any individual who has filed a petition for bankruptcy or who has declared bankruptcy under any chapter in the Code. Previous bankruptcies are considered in a credit decision for up to ten (10) years after the bankruptcy discharge date to application date. If an exception is considered and the bankruptcy:
  - is < five (5) years from discharge to application date, it requires approval from the Investor’s Centralized Exception Department; or
  - is ≥ five (5) to ten (10) years from discharge to application date, re-established credit must be documented and Investor’s dual signatures are required, with the final Investor’s approval being signed Investor’s Manager.
- A request for new/additional credit shall be declined if there is any outstanding U.S. Bancorp loss due to bankruptcy.
- **Charge-offs and Tax Liens**
  - Provident Bank Mortgage Opal Product shall not extend new/additional credit to any individual who has a paid or unpaid charge-off or unpaid tax lien within the most recent 7 years from date of application. If an exception is considered, the following guidelines must be followed.

Type of Charge-off	Guidelines
Unpaid Tax Lien	Tax lien must be paid or resolved prior to granting credit. If not, submit to Investor’s Centralized Exceptions.
Paid or Unpaid aggregate Charge-off(s) with other lender(s)	Submit to Investor’s Centralized Exceptions

<table>
<tr><td>BANKRUPTCY, CHARGE OFFS AND TAX LIENS (CONTINUED)</td><td><table><tr><td>Paid or Unpaid aggregate Charge-off(s) with U.S. Bancorp</td><td>Submit to Investor’s Centralized Exceptions</td></tr><tr><td colspan="2">* Paid Medical charge-offs may be excluded from the dollar amount limit. All other charge-offs (including unpaid medical charge- offs), whether paid or unpaid, <u>must</u> be included.</td></tr></table></td></tr>
<tr><td>CREDIT BUREAU REPORT</td><td>A current Credit Bureau Report from a major credit bureau reporting company is required on every applicant for credit.
Information contained in the applicant's credit report is confidential and may not be released to the applicant or anyone else. Applicant desiring information contained in the Credit Bureau Report must contact the credit bureau reporting company.
At least one borrower whose income or assets are used for qualification must have a minimum number of payment references comprised of:
at least three (3) tradelines, whether or not on the credit report;
if a borrower does not have three (3) tradelines, at least four (4) non-credit payment references or a total combination of four (4) tradelines and non-credit payment references; or
to be used to establish a minimum payment history, a noncredit payment reference must have existed for at least 12 months.</td></tr>
</table>

CREDIT DISPUTES	• If a consumer believes information reported in their credit report to be inaccurate regarding their payment history, etc., they can file a dispute with the credit repository and the credit repository must then contact the source of the information to re-verify its accuracy which can take up to 45 days to resolve. Underwriting will use the current FICO score, income, asset, and collateral information in the file to arrive at a decision. Disputed accounts are not included as a qualified trade line to meet the requirements on a manual underwrite. Also, these loans will require that 4506T income verification be executed to verify that the borrower income used is accurate and well supported. • After application, Investor allows additional credit reports (often referred to as Rapid Rescore) to be pulled only in those cases of documented erroneous/disputed or inaccurate information or if the credit report obtained at application has expired.
DEFERMENT OR FORBEARANCE OF MORTGAGE PAYMENT REMINDER	• PBM does not allow for the refinance of a loan that is currently in deferment or forbearance of their mortgage payment. The loan needs to have been out of deferment and have made 12 timely payments per their respective mortgage payment history requirements. • PBM will not purchase or originate any loan that is currently in deferment or forbearance of their mortgage payment.

DEROGATORY CREDIT	• Applicant(s) having a significant derogatory credit event reporting in their credit file must have re- established credit over the past 12 months and satisfy the following elapsed time periods since the incident in order to be considered for credit approval:
	  o Foreclosure - seven (7) years from the foreclosure date to application date.
	  o Short Sale or Deed in Lieu - five (5) years from the short sale or deed in lieu date to application date.
	• Borrowers who worked with creditors to modify loan terms in order to remain in their homes are not subject to additional credit qualification requirements.

DELINQUENT CREDIT / MATERIAL ADVERSE CREDIT	• Provident Bank Mortgage requires any delinquent credit to be paid off at or prior to closing, this includes taxes, judgments, and collections, mechanics' liens, and liens that have the potential to affect our lien position or diminish the borrower's equity. • Documentation of the satisfaction of these liabilities, along with verification that there were funds sufficient to satisfy these obligations, must be included in the underwriting file. • Explanation would be required for any payment that is 1x60 or later or 2x30 in the last 12 months at time of underwriting. • The following exceptions may be granted by an Underwriter at their discretion based on the overall strength of the underwriting file using the following guidance: o All collection accounts (including medical collections) may not have to be paid off at or prior to closing if the total balance of all accounts combined is $1,000 or less. No minimum monthly payment has to be included in monthly debt unless one has been set up and the borrower has been paying a set amount. o Collection accounts that exceed the above limits may not have to be paid off at or prior to closing, provided all of the following are documented: 1. A strong credit profile 2. Meaningful financial reserves 3. Evidence that the accounts pose no threat to the first mortgage lien. • Credit obligations exhibiting past due amounts (>30 days) of $1000 or more must be brought current prior to closing. AUS conditions and feedback often do not specifically address currently outstanding delinquent amounts. • Underwriter discretion may be used to exclude the requirement to bring the account current when the aggregate past due amounts on reported credit accounts is less than $1,000. Appropriate RECAP and/or Transmittal comments must address the underwriter's action.

DELINQUENT CREDIT / MATERIAL ADVERSE CREDIT (CONTINUED)	• Before waiving the payment requirement, the following must be considered: o The borrower's FICO, down payment/equity, number of trade lines, number of times past due and number of days past due should be considered before waiving payment requirement. o Borrower's verified assets must be sufficient to cover the delinquent sums in addition to the required PITIA reserves per program criteria if the underwriter elects to waive bringing delinquent accounts current.
FROZEN CREDIT	• For various reasons Consumers are "freezing" their information with one or more of the three credit repositories (Trans Union, Equifax, and Experian) which precludes a three-bureau report from being obtained. In order to proceed with an application the customer needs to "unfreeze" their information so that a **two bureau report is obtained showing no frozen accounts.** • You can see when an account is "frozen" by referencing a section on the Credit Report entitled "Repository Messages". Here is an example from MDA credit bureau. Date | Reported On | Comment 06/03/2009 | TUC-A1 | Frozen by consumer as allowed by state law. • When a person freezes their records they are given either a PIN or a password. They can unfreeze it by contacting the repository and following their repositories and their states instructions using the PIN/password assigned by the repository when the account was frozen.

FROZEN CREDIT (CONTINUED)	• Each state has specific fees and rules. State information can be found at: http://www.experian.com/consumer/security_freeze.html#state • The following web sites for the repositories are: 1. TransUnion www.transunion.com https://annualcreditreport.transunion.com/fa/securityFreeze/landing 2. Equifax www.equifax.com 3. Experian www.experian.com
MORTGAGE AND RENTAL PAYMENT HISTORY	• The borrower's most recent mortgage payment or rental payment history must be reviewed. • When the borrower has current mortgage payment history, one of the following direct verifications of mortgage history must be obtained: o the Credit Bureau Report covering at least the most recent 12 months of payment history; o the borrower's canceled checks for the most 12 months; o a standard Verification of Mortgage (VOM) or loan payment history from the mortgage servicer; or o the borrower's year-end mortgage account statement (provided it includes a payment receipt history), supplemented by the borrower's canceled checks for the months that have elapsed since the statement was issued; • When the borrower has no current mortgage history, but does have a current rental payment history: o Verification of Rent (VOR) from a management company that indicates a payment history covering at least the most recent 12 months must be obtained; or o the borrower's canceled checks for the most recent 12 months. o If the borrower owns "free and clear" the property to be mortgaged, the borrower must have owned the subject property for at least six (6) months.

<table>
<tr>
<td>MORTGAGE AND RENTAL PAYMENT HISTORY (CONTINUED)</td>
<td>
When there is no previous mortgage or rental payment history it does not prohibit the borrower from obtaining credit.
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<tr>
<td>RECOVERY TIME PERIODS FOR REESTABLISHEMENT OF CREDIT AFTER BANKRUPTCY, FORECLOSURE, SHORT SALE</td>
<td>

All time frames are from the finalization and/or transfer to the application date unless otherwise stated.
Adverse credit must be reflected on the Credit Report.

<table>
<tr><td>Foreclosure</td><td>7 years from the completion date of the foreclosure (title transfer)</td></tr>
<tr><td>Deed-in-lieu of foreclosure</td><td>5 years from the execution date</td></tr>
<tr><td>Short sale</td><td>5 years from the completion date (title transfer)</td></tr>
<tr><td>Bankruptcy (other than a Chapter 13 bankruptcy)</td><td>is < five (5) years from discharge, it requires approval from the Investor’s Centralized Exception Department; or
is ≥ five (5) years from discharge, re-established credit must be documented and dual signatures are required, with the final investor’s approval signed by an investor’s manager.</td></tr>
<tr><td>Chapter 13 bankruptcy</td><td>is < five (5) years from discharge, it requires approval from the Investor’s Centralized Exception Department;
is ≥ five (5) years from discharge, re-established credit must be documented and dual signatures are required, with the final investor’s approval signed by an investor’s manager.</td></tr>
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ASSETS	
BORROWER-PAID SHORT SALE FEES	• In an increasing number of purchase transactions, we are seeing property sellers engaging the services of short sale "negotiators" who will then approach the underlying lien holders and negotiate payoff figures less than the outstanding balances owed. The short sale negotiator expects a fee for providing this service and those fees are paid by the seller and/or the buyer as part of the new purchase transaction. • Property buyers are agreeing to pay fees in connection with the purchase that have traditionally been considered the responsibility of the seller. Some examples include and are not limited to: o Short sale processing fees (also negotiation fees, buyer discount fees, buyer short sale fees); o Payment(s) to subordinate lien holder(s); and o Payment of delinquent taxes or HOA dues **Note:** These expenses do not represent a common and customary charge and therefore must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction. • If a buyer agrees to pay any fees or sums due of this nature and is further reimbursed by the seller or any other interested party to the transaction, the Provident Bank Mortgage will consider the amount being reimbursed as a sales concession. The amount reimbursed will not be considered an allowable financing concession and will not be included in acceptable seller-paid closing costs. • The amount of determined sales concession will reduce the sales price or value of the property from an underwriting standpoint and a reduction in the requested loan amount may be necessary. Further, for any fees reimbursed to the buyer by an interested party to the transaction, the buyer's payment of short sale fees and amounts traditionally associated with the seller may not be included as part of the buyer's acquisition cost.

BUSINESS ASSETS USED FOR DOWN PAYMENT/CLOSING COSTS/RESERVES	• When a self-employed Borrower intends to use business assets for either down payment, closing costs or reserves, the impact on the business from the withdrawal of funds must be evaluated to determine the continued viability of the business and/or the need for paying back those funds from the borrower. Provident Bank Mortgage will require a letter from a CPA or Business Banker certifying that the impact of the withdrawal of funds (amount specifically stated) will not negatively impact the ongoing viability of the business. Along with the letter, we will require the CPA or Business Banker to provide a cash flow analysis to document and support that removal of the funds does not have a negative effect on the business. • An alternative to obtaining a CPA / Business Banker letter (and cash flow analysis) is the "Business Liquidity Analysis Worksheet" and has the following requirements: o This option is only available when the proposed borrower is the majority owner with at least a full year of filed tax returns reflecting the business activity. If applicable, written authorization from the minority owner(s) must be provided to allow unlimited access to the business assets. o The worksheet will require documenting a minimum of 3 months of the borrower's business account statements preceding the application date. o If the business has more than one depository account, there are advantages in documenting all accounts even though the withdrawal of assets will not involve all accounts. o Remaining liquidity equal to or greater than 6 months business operating expenses is acceptable for approval by the investor's underwriter. Liquidity of less than six months must be reviewed and approved by the Investor's Underwriting Manager. If business liquidity is less than two months of the operating expenses then the business assets are ineligible for use as down payment and closing costs. Other eligible sources must be identified for the transaction to proceed. • The Business Liquidity Analysis Worksheet (located in Policy and Procedures=Forms) is designed to be evaluated by the underwriter and can be utilized by production or processing personnel to preview for their own information. The total available cash is determined through calculations imbedded in the worksheet. Cash withdrawal needs from the business accounts are determined after evaluating the borrower's personal accounts.

CRYPTOCURRENCY IN MORTGAGE FINANCE TRANSACTIONS	• Cryptocurrency, digital currencies or altcoins (i.e. Bitcoins, Litecoin, Ethereum, etc.) may not be included as financial assets for mortgage qualification purposes and is an ineligible source of funds for down payment, closing costs or reserves unless being converted into US Currency. • To be used as a source of funds for down payment, closing costs, or reserves, cryptocurrency, digital currencies or altcoins must be converted into US Currency and be held within a US Financial Institution and verified prior to underwriting final approval. In addition to the verification of US Currency, the borrower(s) must be able to provide acceptable documentation for the source of funds used to initially acquire the cryptocurrency prior to the conversion.
DOWN PAYMENT REQUIREMENT	• At least a minimum five percent (5%) contribution from the borrower's own funds is required on a purchase transaction if the LTV/TLTV/HTLTV is greater than 80%.
FOREIGN ASSETS (OVERLAY TO AML POLICY)	• Cannot be from a High Risk Country (primary); Secondary High-Risk Country must be underwritten by U.S. Bank. • All foreign information must be translated/converted to English by a disinterested third party • Statement or VOD for down payment/reserves from a United States financial institution.
FUNDS FOR CLOSING	• Provident Bank Mortgage has the following specific requirements: • Cash saved at home: Not allowed unless specifically provided for in the Product Guidelines. When allowed, the money must be verified by documenting a deposit in a financial institution or proof of funds deposited with escrow/title Company. The borrower must provide satisfactory evidence of the ability to accumulate such savings. • Sweat Equity: This is NOT an acceptable source of funds. • Rent Credits: Rent credit towards down payment will be accepted only for the portion of rent paid over and above established market rents per the appraiser by a market rent analysis. The appraiser must determine the fair market rent on Form 1007 Single-Family Residence or Form 216 Multi-Family Residence. Any rents in excess of “fair market rent” may be applied to the down payment.

FUNDS FOR CLOSING (CONTINUED)	
	• Business assets used for down payment/closing costs: When a self-employed Borrower intends to use business assets for either down payment or closing costs, the impact on the business from the withdrawal of funds must be evaluated to determine the continued viability of the business and/or the need for paying back those funds from the borrower. Provident Bank Mortgage will require a letter from a CPA or Business Banker certifying that the impact of the withdrawal of funds (amount specifically stated) will not negatively impact the ongoing viability of the business. Along with the letter, we will require the CPA or Business Banker to provide a cash flow analysis to document and support that removal of the funds does not have a negative effect on the business. • **Large Deposit defined:** o Provident Bank Mortgage Opal Product will follow Freddie Mac Guidelines and must evaluate large deposits, which are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. Regular and consistent deposits for example payroll, Social Security, retirement or other documented ongoing deposits are not considered large deposits. o Requirements for evaluating large deposits vary based on the transaction type, as shown in the table below.

Transaction Type	Evaluation Requirements
Refinance transactions	Documentation or explanation for large deposits is not required; however, Provident Bank Mortgage remains responsible for ensuring that any borrowed funds, including any related liability, are considered.
Purchase transactions	If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs, or financial reserves), Provident Bank Mortgage must document that those funds are from an acceptable source. Examples of acceptable documentation include proof of ownership of an asset that was sold, or a copy of a wedding invitation to support receipt of gift funds. The Underwriter must place in the loan file written documentation of the rationale for using the funds.

FUNDS FOR CLOSING (CONTINUED)	**Purchase transactions (Continued)**	Verified funds must be reduced by the amount (or portion) of the undocumented large deposit (as defined above), and Provident Bank Mortgage must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves. When Provident Bank Mortgage uses a reduced asset amount, net of the unsourced amount of a large deposit that reduced amount must be used for underwriting purposes. **Note:** When a deposit has both sourced and unsourced portions, only the unsourced portion must be used to calculate whether or not it must be considered a large deposit. **Examples** **Scenario 1:** Borrower has monthly income of $4,000 and an account at ABC Bank with a balance of $20,000. A deposit of $3,000 is identified, but $2,500 of that deposit is documented as coming from the borrower's federal income tax refund. Only the unsourced $500 [the deposit of $3,000 minus the documented $2,500] must be considered in calculating whether it meets the large deposit definition. The unsourced $500 is 12.5% of the borrower's $4,000 monthly income, falling short of the 50% definition of a large deposit. Therefore, it is not considered a large deposit and the entire $20,000 balance in the ABC Bank account can be used for underwriting purposes. **Scenario 2:** Using the same borrower example, a deposit of $3,000 is identified, but only $500 is documented as coming from the borrower's federal income tax refund, leaving $2,500 unsourced. In this instance, the unsourced $2,500 is 63% of the borrower's $4,000 monthly income, which does meet the definition of a large deposit. Therefore, the unsourced $2,500 must be subtracted from the account balance of $20,000 and only the remaining $17,500 may be used for underwriting purposes.

FUNDS FOR CLOSING (CONTINUED)	**NOTE:** Provident Bank Mortgage remains responsible for ensuring that any liabilities resulting from any borrowed funds are considered in qualifying the Borrower and that all Borrower Funds and reserves used in the evaluation of the Mortgage are from eligible sources. • Discussions should be held with the borrowers to determine if there is any undisclosed debt and all inquiries within the last 120 days listed on the credit report must be addressed. **See Freddie Mac 5201.1 for full requirements on inquiries made in the last 120 days.**
LIKE KIND (1031) EXCHANGE	• 1031 Exchange allows a borrower to place proceeds from the sale of an investment property into an escrow account with an Intermediary or Exchange Company until the borrower is ready to purchase another property with the same proceeds held in the escrow account. The fund from the sale of the investment property must be made to the Intermediary or Exchange Company in order for the borrower to obtain the benefit of the 1031 exchange. This is only allowed for the purchase of investment property. Purchase of primary residence or Second home is ineligible for 1031 Exchange. • Per IRS requirements, the transaction must be in compliance with the IRS Code Section 1031. • A statement from the Intermediary or Exchange Company verifying available funds in escrow is required. • At closing on the purchase of the exchange investment property, the proceeds from the escrow account will be paid directly from the Intermediary or Exchange Company.
RESERVE/CASH RESERVE/SECURED FUNDS FOR DOWN PAYMENT AND CLOSING COSTS	• Cash Reserve is defined as cash or an asset (stocks, bonds, mutual funds, securities) that is liquid or readily convertible to cash and can be done so absent retirement or job termination (may be included up to 100% of the vested amount). Reserves are measured by the number of months of monthly housing expense [Principal, Interest, Taxes, Insurance and Association Fee (PITIA)], inclusive of both first and second lien loans and lines of credit, that a borrower could pay using his or her financial assets. **The monthly housing expense payment is the actual payment, not the qualifying payment calculated for underwriting purposes.**

RESERVE/CASH RESERVE/SECURED FUNDS FOR DOWN PAYMENT AND CLOSING COSTS (CONTINUED)	• Assets such as an Individual Retirement Account (IRA), 401(k), 403(b), etc., may be included up to 70% of the vested amount unless the borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and any withdrawal penalties. Assets such as stock issued by a privately held company, collectibles, coins, stamps, and artwork that would require appraisal and/or liquidation may not be included. • Applicants using borrowed funds secured by pledged personal financial assets such as stock, Certificates of Deposits, etc. for down payment and closing costs may only be considered when documentation (a pledge agreement, note or letter from USB) verifying all of the following requirements: o assets are under USB management; o value of the asset; o borrower's ownership of the asset; o terms of the loan; and o evidence that the asset is pledged to the note. • The amount that can be used as reserves is calculated as the amount of pledged personal financial assets less the amount drawn on the credit line of the pledged asset. In situations where pledged assets are used for Asset Dissipation, the amount available for use in Reserve/Cash Reserve is reduced by the amount used for Asset Dissipation.
SALES CONCESSIONS	• Seller concessions are allowed for real estate loans up to a maximum of 6% for owner occupied, primary or second/vacation homes and a maximum of 2% for investment properties.
VERIFICATION OF FUNDS TO CLOSE	• Verification of funds to close varies according to lending channel. Closing funds may come from the following sources and should be verified accordingly: o Deposit Accounts - Two (2) months' most recent consecutive bank statements. o Other Equity - Examples include land equity from subject property, trade equity, and rent with option to purchase

<table>
<tr><td>VERIFICATION OF FUNDS TO CLOSE
(CONTINUED)</td><td>

Gifts from Related Persons - Related Persons may include:

borrower's spouse, child or dependent,
borrower's fiancé,
borrower's domestic partner,
individual related to the borrower by blood, marriage or adoption,
a guardian of the borrower, or
a person for whom the borrower is a guardian.

Verification of receipt of funds is required by borrower. Gifts must be evidenced by a signed and dated letter by the donor and include:

statement indicating that no repayment is required,
specify the dollar amount of the gift,
specify the date the funds were transferred, and
indicate the donor's name, address, telephone number and relationship to the borrower.

Other Sources of Funds - Other sources of funds are allowable at the discretion of underwriting, if properly verified.
</td></tr>
<tr><td>TAX PRORATION CREDIT</td><td>The tax proration credit is used as a reduction to the borrower’s overall cash to close. Tax proration credit can be applied to closing costs/prepaids and not to the borrower’s required investment.</td></tr>
<tr><td colspan="2">SECONDARY FINANCING</td></tr>
<tr><td>PACE FUNDING</td><td>Clean Energy Improvement Programs are often referred to as PACE loans. (PACE stands for Property Assessed Clean Energy) These clean energy improvement loan programs that are offered by some municipalities (HERO, Empower, PACE Funding, EVest, etc.) and allow homeowners to structure loan repayment through tax assessment which are then paid as part of property tax bill. In a default situation, the loans may take precedence over the other liens such as a first mortgage lien which results in to what is referred to as a “super lien”.
To mitigate the collateral risk, Provident Bank Mortgage prohibits any loans with PACE funding.</td></tr>
</table>

PACE FUNDING (CONTINUE)	• Purchase transactions with an outstanding PACE loan on the property, the PACE loan cannot be assumed by our borrower even when assessed to the tax bill. The PACE funding must be paid in full prior to or at the closing of our mortgage. Subordination is not allowed. • Refinance transactions with outstanding PACE loans on the property must be paid in full. Subordination is not allowed. • **Refinance transactions paying off PACE funding can be classified as a no-cash-out refinance.**
SUBORDINATE FINANCING	• For 1st lien real estate loans and lines of credit, if there is an existing priority lien, then that lien must be: o satisfied prior to closing (with documentation provided at or prior to closing); o paid through the closing; or o subordinated. o A copy of the existing priority note must be provided for any subordinate financing. The payment on the existing priority obligation (PITIA) must be included in the Debt-to-Income (DTI) ratio. • Subordinate financing provided by the property seller may be acceptable provided it meets the following requirements. Seller provided subordinate financing is limited to a Maximum TLTV of 90%, regardless of higher TLTV limits that may be allowed by the product guidelines. o **Maturity date** ▪ The maturity date or amortization basis of the junior lien must not be less than five years after the Note Date of the First Lien Mortgage and must be fully amortizing. o **Scheduled payments** ▪ The terms of the secondary financing must provide for regular monthly payments sufficient to meet the interest due; interest may not accrue.

TRANSACATION DOCUMENATION	

PERSONAL PROPERTY IN PURCHASE AGREEMENTS	• Purchase agreements often include personal property items that are not a part of the appraisal such as: Furniture (indoor and outdoor), TV's (mounted or not), lawn mowers, tractors, pool tables, bar stools, boats, boat lifts, cars, etc.
	• These items will be allowed when the seller indicates in the purchase agreement that the items have no monetary value and are left as a convenience to the seller.
	• If there is a value associated with these items, then they are considered a sales concession as defined in Freddie Mac 5501.5 Interested Party Contributions.
	  o The value with the non-standard items must be deducted from the purchase price and the LTV ratio is then calculated using the lower of the reduced purchase price or the appraised value; or
	  o The purchase contract can be amended to remove the personal property items and the appraisal updated.

SALES CONTRACT	• A written sales contract shall be required for all purchase transactions and must be signed by all buyers and sellers. Expired sales contracts must be extended prior to or at closing. Provident Bank Mortgage will allow the buyer and seller to extend existing sales contract by adding new closing date, initial the change or providing a fully executed purchase contract or amendment extending closing date. • **Note:** Any other changes to the purchase contract must be submitted to Underwriting.

PROPERTY	
ACCEPTABLE PROPERTY TYPES	• **Real estate securing the mortgage or line of credit is limited to the following types of property:** o **Single Family Dwelling** - The following types of specifically defined housing shall qualify as a single-family dwelling: o S**ite Built Home –** home that is constructed primarily on its final site. Although some components may be prefabricated off-site, the home is erected, framed, and finished by workers on location using stock materials. Site/detached condominiums are considered site built homes. o **Planned Unit Development (PUD)** - a real estate project in which each owner holds title to a lot and the improvements on the lot; and the homeowners association holds title to the common elements. The unit owners have a right to the use of the common elements and pay a fee to the homeowners association to maintain the common elements for their benefit. This may include detached dwellings or attached (townhome architecture) dwellings. o **Modular Home –** home built in sections inside a factory and then delivered to a building site where it is constructed by a local builder and is subject to the same local building and zoning codes as site-built homes. Most modular units are made in complete, box like sections and are 95% complete when they leave the factory. o **Townhome/Townhouse –** style of single family dwelling (commonly a PUD) having fee simple ownership and typically consisting of housing units that share a common wall(s). Property type is differentiated from a condominium in that the owner owns the land and possibly setbacks of the property unit. o **Two-Unit Duplex –** Property that consists of a structure that provides living space (dwelling units) for two families, although ownership of the structure is evidenced by a single deed. o **Condominium –** Type of ownership in real property where all of the owners own the property, common areas, and buildings together, with the exception of the interior unit to which they have title. Site/detached condominiums are considered single-family site built homes.

ACCEPTABLE PROPERTY TYPES (CONTINUED)	
	• **<u>Meet the definition of an Established Condominium Project as defined by:</u>** ▪ The Condominium Project (all Condominium Units, Common Elements and Amenities) and related facilities owned by any Master Association are complete and not subject to any additional phasing ▪ 100% of the total units in the project have been conveyed to the unit purchasers other than the developer ▪ The unit owners control the Homeowners Association (HOA) o the complex must have a minimum of ten units; o the complex must be 60% owner occupied o the appraisal or lender questionnaire must identify that the “Project Primary Occupancy” is Primary Residences; No “Project Primary Occupancy” as Second Home/Recreational and Tenant is allowed; o no one individual, Limited Liability Corporation (LLC), or corporation can own more than 10% of the total units; o blanket fire and flood insurance (where applicable) must be verified; o landominiums (type of residential property in which the owner owns both the home and land on which the home is built) are considered a condominium; o retail or commercial space is acceptable as long as it does not occupy more than 15% of the project; o all delinquent association dues and assessments for the unit being financed must be paid at or prior to close; and, o no more than 10% of the total number of units in a project can be 60 or more days past due on the payment of their association dues and assessments. • **Unacceptable Condominium Collateral includes:** o Condotels or “Kiddie” Condos (projects that have rental or registration desks and offer short-term occupancy, which are typically operated as a commercial hotel even though the units are individually owned); o Condominiums not in an association or non-warrantable; and o Condominium projects or condominium units in litigation

ACCEPTABLE PROPERTY TYPES (CONTINUED)	• **Personal Use Vacation/Secondary Home -** A one-unit property owned by an individual, occupied by the borrower for some portion of the year (suitable for year round living and not subject to any timesharing ownership arrangement). The property must also be in a location where it can function reasonably as a second home. • **Hobby Farm -** Residences permanently located on land associated with the production of any of the following that are raised, grown, or produced for commercial purposes either by the property owner or by a person who leases the land from the property owner: food, feed, and fiber commodities; livestock and poultry; bees, fruits and vegetables; sod; and ornamental, nursery, and horticultural crops. **The production cannot account for more than 25% of the borrower's income and must be verified with two (2) years Tax Returns. The maximum property acreage is ten (10).**
ANTI-FLIPPING POLICY	• If Seller acquired property 90 or fewer days prior to the date of the Sales Contract and the current sales price exceeds 10% of the seller's acquisition a 2nd review of the appraisal must be completed by the Investor's Mortgage Collateral Review Department. Corporate Administrators must send a 1st generation PDF of the appraisal, along with specific instructions that the appraisal review is required because the Seller acquired property 90 or fewer days prior to Sales Contract and sales price exceeds 10% of seller's acquisition. Appraisal and instructions can be submitted to: Provident Bank Mortgage Corporate Administrator. • If Seller acquired property more than 90 days but fewer than 180 days prior to the date of the Sales Contract and the current sales price exceeds 20% of the seller's acquisition an Investor's 2nd review of the appraisal must be completed. • Evidence of required seasoning must be submitted in the Underwriting file. Branch underwriters, must verify the property seller on the Purchase Contract is "In Title" and Owner. Appropriate documentation must be submitted and cleared prior to closing. Documentation may include, but is not limited to, a property sales history report, a copy of the deed of conveyance, a copy of a property tax bill, a computer generated print-out from the assessor's website or the title commitment or binder indicating the legal ownership of the property. • Appraisals must indicate required sales history information as required by regulation in addition to the title work provided

ANTI-FLIPPING POLICY (CONTINUED)	• Property Sales involving any of the following entities as property seller are exempt from these seasoning requirements: o U.S. Bank or affiliate o HUD o A builder of a newly built home that is the subject property o An employer or relocation agency o A State or local government agency o A State and/or federally chartered financial institution o VA o USDA o Fannie Mae o Freddie Mac o Any approved Delegated Correspondent for their own loan o Owners as a result of inheritance, to include divorce
BLANKET MORTGAGES	• Loans secured by more than one parcel of land are generally not permitted. Exceptions may be made when only one additional parcel is involved which is attached to the parcel on which the dwelling is located and otherwise meets Freddie Mac guidelines for Blanket Mortgages. See Freddie Mac Chapter 4201.2 and Chapter 5601.12.

COLLATERAL ON INDIAN COUNTRY OR NATIVE AMERICAN LANDS FEE SIMPLE ONLY	• Appraisal and Property – We will follow current FHLMC Guidelines outlined in AllRegs regarding the review and approval of the appraisal per Chapter 5601: Property Eligibility and Appraisal Requirements. • Condominium properties are allowed if approved by the Project Approval Department. • Indian Country or Native American Lands where the word "Fee" appears in title. o Eligible collateral (dwelling and the land) must be held as Fee Simple. o Fee Simple means the collateral is held absolutely by the owner, clear of any condition or restriction, and where the applicant(s)/owner(s) has the unconditional power to dispose of the collateral; the land or dwelling must not be owned by a tribe or subject to federal restriction. o Purchase money requests are only eligible for financing through Provident Bank Mortgage. • Any exception on title work referencing Indian Country or Native American Lands must be researched with the Title Company to determine if the exception can be removed or if affirmative coverage can be provided. • Loans on Indian Country or Native American Lands can require special handling, documents, and processing. Always work with a local BIA office, Tribe, and title company experienced in Indian Country or Native American Lands for questions regarding ownership or title. • Provident Bank Mortgage will not in any way discourage any applicants or impose unnecessary or unduly burdensome requirements on applicants with collateral on Indian Country or Native American Lands. This prohibition includes but is not limited to the adoption, performance, or implementation of any policy, practice or act that requires an applicant with eligible collateral on Indian Country or Native American Lands to provide additional information or documentation other than documents required in connection with sovereign law requirements.

HEALTH AND SAFETY	• When an appraisal is completed "subject to", Provident Bank Mortgage current policy requires that a re-inspection be performed. However, if the "subject to" is due to concerns regarding a health or safety item in the appraisal report, the Underwriter may request the issue be remedied through a site inspection, an inspector's certification, or by the following guidance: • An Investor's Underwriting Manager may consider waiving the re-inspection if the borrower, borrower's agent or licensed contractor provides documentation of completion of the Health or Safety item. Examples of documentation may include a written contract for installation and/or a written acknowledgement of installation by the seller or borrower. If documentation is not sufficient, the Investor's Underwriting Manager will require a re-inspection to confirm installation. • When the appraisal is completed "As Is" the absence of a comment from the appraiser with regard to a new or existing health and safety requirement reflects that the property meets the requirements. Provident Bank Mortgage will not require a confirmation from the appraiser that a specific health or safety requirement has been met.
INVESTMENT PROPERTY	• The financing of a 1-4 family investment property where the borrower(s) derive 50% or more of their income from 1-4 family investment residential properties is prohibited. • Borrower(s) meeting approved income requirements for investment loans are eligible to finance 1-4 family investment property with the following restrictions: o Including the new subject investment property, the borrower may not own more than three (3) 1-4 family investment properties. For purposes of this Policy, borrowers who own more than three (3) 1-4 family investment properties are considered real estate investors and do not qualify for traditional retail mortgage and home equity investment loan programs. Investment properties held in a trust, partnership, S-Corporation or Limited Liability Company (LLC) must be included in the (3) 1-4 family investment property limitation.

INVESTMENT PROPERTY (CONTINUED)	o A comprehensive cash flow analysis of the borrower is required to determine if they have the requisite capacity to repay the loan and if their leverage position is acceptable. If no rental income from any investment property is used to qualify the borrower, then a comprehensive cash flow analysis is not required. o Home Equity Lines of Credit (HELOC) are prohibited. • No exceptions are allowed; Financing for primary and second homes is allowed regardless of the number of investment properties owned. • In addition to the requirements above, the following special underwriting requirements apply for investment property: o for new construction purchase transactions, the borrower may not be affiliated with or related to the builder, developer or property seller; o include current primary residence expenses in Debt-to-Income (DTI). o six (6) months monthly housing expense [Principal, Interest, Taxes, Insurance and Association Fee (PITIA)] reserves for mortgaged premises, two months reserves for each other financed second home and 1-4 unit investment property in which the borrower has an ownership interest or on which the borrower is obligated; and o whenever rental income is used in qualifying, rent loss insurance is required on the investment property for at least six (6) months gross monthly rent.

LAND CONTRACT/CONTRACT FOR DEED	• (Mortgage in which the proceeds are used to pay the outstanding balance under a land contract or contract for deed)
	• Transactions for applicants with less than twelve (12) months of established payment history on the subject property are considered purchase transactions.
	• A Land Contract/Contract for Deed is subject to the following:
	  o the home Seller must be the current owner of the property as reflected on the preliminary Title Report/Commitment;
	  o a copy of the recorded Land Contract/Contract for Deed is required;
	  o canceled checks (front and back) or bank statements are required to evidence the down payment; and
	  o copies of canceled checks (front and back) to evidence the monthly payments covering all months of residency for the past 12 months are required.
	• Some states do not recognize the borrower as having an equitable position in the property until they have made their last payment under the Contract for Deed. In this case, the state would consider the transaction to be a purchase. However, pursuant to these underwriting guidelines, all loans that pay off a Contract for Deed will be considered as a refinance if the Contract for Deed is 12 months or older.

LEASED SOLAR PANELS	• **Property Requirements:**
	  o Properties with solar panels that are leased from or owned by a third party under a power purchase agreement or other similar arrangement, will have the following requirements apply (whether the original agreement or as subsequently amended).
	  o The solar panels may not be included in the appraised value of the property.
	  o The property must maintain access to an alternate source of electric power that meets community standards.

LEASED SOLAR PANELS (CONTINUED)	• **DTI Requirements:** o The monthly lease payment must be included in the debt-to-income (DTI) ratio calculation unless the lease is structured to ▪ provide delivery of a specific amount of energy at a fixed payment during a given period and ▪ have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for the lease period. o Payments under power purchase agreements, where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio. • **Lease or Purchase Agreement Requirements:** o any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels, is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition. Example: sound and watertight conditions that are architecturally consistent with the home); and o the owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure the panels are attached to; and o in the event of foreclosure, Provident Bank Mortgage or assignee has the discretion to ▪ terminate the lease/agreement and require the third-party owner to remove the equipment; ▪ become the beneficiary of the borrower's lease/agreement with the third party , without payment of any transfer or similar fee,; or ▪ enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner. • Any liens for Solar Panels must be subordinated to Provident Bank Mortgage’s lien.

LEASEHOLD ESTATE	• (Estate or interest in real property held by virtue of a lease) • A Leasehold Estate refers to land that is leased to the individual who owns the structure thereon. • For a loan on a mortgaged property in a Leasehold Estate, the following requirements must be followed: o need copy of the leasehold; o the leasehold term cannot expire until five (5) years after the completion of the Bank's loan term; o must be stick built home, cannot be manufactured home; o loan must be fully amortized (no balloons); and o in addition to meeting leasehold loan eligibility requirements, at least one (1) comparable property on the appraisal must be leasehold. • **The lease or sublease mus**t: o permit the mortgaging of the Leasehold Estate; o permit assignment without the lessor's consent; and o grant to the Leasehold Estate mortgagee the right to acquire in its own name (or in the name of its nominee) the rights of the lessee upon foreclosure or assignment in lieu of foreclosure. **NOTE:** For Indian Country or Native American Lands, see Collateral on Indian Country or Native American Lands • **Condominiums:** Approval of the leasehold interest by Investor's Underwriting does not mean the condominium project is approved. Similarly approval of a project does not mean that the leasehold is approved. The Condominium approval process and the leasehold approval process are separate processes and both must be followed.

MIXED USE PROPERTY	• Mixed-use properties are primarily used as a residence, but can also be used for a small commercial purpose when the structure of the residence has not been altered. (Such as a property with space set aside for a day care facility, a beauty or barber shop, a doctor's office, a small neighborhood grocery or specialty store, etc.) • The appraiser must provide the following when appraising a mixed-use property: o An appraisal with an interior and exterior inspection o A detailed description of any accommodations made for the commercial use of the subject property o A discussion of any adverse impacts of the commercial use o A statement describing any market resistance to the commercial use, and adjustments for any commercial features made to the comparable sales o An opinion of market value based on the property's residential nature o Each residential property with mixed-use must meet all of the following requirements: o The property must be located in a residential neighborhood, be primarily residential, and must be typical for the properties in the market o The use must represent a legal, permissible use of the property under the local zoning requirements o The property must be a 1-unit Primary Residence o If the property has a commercial use, the Borrower must be the owner and the operator of the business o The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residence o The commercial use must not have an adverse effect on the habitability and safety of the property or
PROPERTY CONVERSION	• Opal Product residential real estate loans and lines of credit must be secured by residential real property which is either the primary residence, personal use second home of the applicant(s) or a qualifying investment property. • Opal Product residential real estate loans and lines of credit are not assumable or transferable.

PROPERTY USAGE	• All borrowers pledging residential real property to secure a lien must sign an Occupancy and Use Statement at closing. This statement specifically identifies the type of property described below: o **Primary Residence** is defined as real property which: ▪ possesses all of the physical attributes of a home (sleeping, cooking, living areas) and those attributes are within the conventions of the immediate neighborhood; ▪ served by a public electric utility; ▪ has municipality approved water and sewer connection; ▪ is carried on the tax assessor's records in the name(s) of the owner(s); ▪ is identified as residential real property (i.e., not business or commercial real property); ▪ is identified by the owner(s) as the dwelling where the owner(s) lives for the major portion of each year; and ▪ is the address of record for such activities as federal income tax reporting, voter registration, occupational licensing, and similar functions for the owner(s)? o **Second Home** is defined as: ▪ single family real property which is approved for occupancy on at least a partial year basis; ▪ available exclusively for the use and enjoyment of the owner(s); ▪ not subject to any agreement which requires the owner(s) to rent or assign management control of the dwelling; and ▪ in a location which is remote in terms of distance and time of travel from the primary residence of the owner(s). o **Investment Property** is defined as: ▪ property owned but not occupied by the borrower; ▪ 1-4 family real property which is approved for year-round occupancy; ▪ is identified as residential real property (i.e., not business or commercial real property); ▪ is carried on the tax assessor's records in the name(s) of the owner(s); and ▪ is identified by the owner(s) as a dwelling that generates income or is otherwise intended for investment purposes rather than as a primary residence or second home.

REO PROPERTIES (UTILITIES)	• The following policy applies to REO properties when the utilities are not currently connected. Provident Bank Mortgage requires a property inspection be completed meeting the following requirements for all loan types and programs: o Must be a licensed inspector or appraiser o All utilities must be turned on and in working order o A current inspection completed no more than 60 days prior to final loan approval
SEASONING ON RECENTLY LISTED PROPERTIES	• Refinance loans of all types on subject properties which have been listed for sale by the current owner within 90 days of loan application are not eligible for cash out refinance to Provident Bank Mortgage. When properties have been recently listed a copy of the canceled listing agreement must be provided in the Underwriting file to document the cancellation date.
UNACCEPTABLE PROPERTY TYPES	• Includes: o non owner-occupied dwellings (except of applicable investment property programs); o owner-occupied dwellings over four (4) units; o rental properties - (except of applicable investment property programs); o modular homes or manufactured homes where borrower does not currently own the land or it is not deeded as real estate; o agricultural or “working-farm” properties; o commercial properties; o properties with excessive deferred maintenance (> 5% of the “as-is” Fair Market Value); o raw or vacant land (not improved); o inherited property unless probate has been completed and the estate is settled; o condo unit with the option to be available as a hotel room when not occupied by the borrower (condotel); o log cabins or log homes;

UNACCEPTABLE PROPERTY TYPES (CONTINUED)	o earth homes; o floating homes; o Housing Cooperative (a legal entity consisting of one or more residential buildings that is owned by a cooperative corporation) or o U.S. Bank –owned REO properties
ZONING & ACREAGE	• The property being taken, as collateral must meet the following criteria: o the property cannot be zoned commercial, and o the property should be no more than 10 acres. • If the property is more than 10 acres, the following requirements/restrictions apply: o a full appraisal is required, o the property should be described as typical for the neighborhood/area, and o the property value and marketability should be as improved and be the present use. • Properties that do not meet the above criteria are unacceptable collateral.
APPRAISALS	
ADDITIONS OR CONVERSIONS WITHOUT PERMITS	• The appraiser has referenced in the appraisal that improvement were done without permits. Appraisals will either be made "As Is" or "Subject To", both being acceptable under the following guidance: o The appraiser has referenced in the appraisal that improvement were done without permits. Appraisals will either be made "As Is" or "Subject To", both being acceptable under the following guidance: ▪ The appraiser states the addition/conversion was completed in a workman like manner And ▪ The appraisal is supported by comparables with similar addition/conversion that will not have a negative effect on marketability. I.e. a property with a garage converted to a 3rd bedroom was not comparable to property that was built as a 3 bedroom with or without a garage.

ADDITIONS OR CONVERSIONS WITHOUT PERMITS (CONTINUED)	• Appraisal made "Subject To Permits"
	  o Permits must be obtained Or
	  o A letter from a licensed General Contractor to ensure no health and safety issues exist and that the addition or conversation was done to code.
	• Provident Bank Mortgage does not allow an appraiser to change the final reconciliation. (as is or subject to)

AMENDMENTS TO SALES CONTRACTS	• If the sales contract is amended after the effective date of the appraisal and the sales price is reduced after the appraiser's review of the original contract terms, it is not required to have a completed appraisal updated to reflect the changes. These changes to the sales contract do not impact the subject's market value. • If the sales contract was amended after the effective date of the appraisal and the sales price reflects an increase, the amended sales contract must be forwarded to the appraiser for analysis and comment within the appraisal report

APPRAISAL ENGAGEMENT LETTER	• All submitted Provident Bank Mortgage appraisals will be required to be in the name of Provident Bank Mortgage the lender along with an Engagement Letter (or the appraisal order form) that identifies the following information:
	  o the company doing the appraisal, the date ordered, the borrower(s) name(s), the subject property address, who ordered the appraisal and for what company that person works for.
	    ▪ Contact Provident Bank Mortgage Appraisal Administration for required information.

APPRAISER EXCLUSIONARY REPORT AND WATCH LIST	• Appraisers may be placed on an Exclusionary Report and Watch list for reasons including, but not limited to fraud, negligence, misleading appraisals, incompetence, poor performance, or inferior quality. Any appraiser on the Exclusionary Report and Watch list for reasons of fraud shall no longer be eligible to perform appraisals for Provident Bank Mortgage.

DISASTER AREAS	• Investor's Red Sky Risk Services may determine that a property is located in a Federal Disaster Region based on information from the Federal Emergency Management Agency (FEMA) or other sources. Red Sky Risk Services is responsible for the maintenance and administration of the list of current disaster regions that will require a Full Appraisal. If a property is in an area that Red Sky Risk Services has identified as a Federal Disaster Region, a Full Appraisal is required. The Full Appraisal is to be completed after the disaster and prior to loan close. The Full Appraisal shall be completed in accordance with Full Appraisal procedures. If the Full Appraisal was completed before the disaster, a physical property inspection is required prior to the loan close.
ESCALATED REVIEW TO INVESTOR'S RED SKY APPRAISAL SERVICES	• The following situations require the appraisal be submitted to Red Sky Risk Services for additional review: o High Risk Report Notification – Loans are determined high risk using an Enhanced Collateral Protection Review process, which utilizes sophisticated fraud detection tools to identify high risk loans that should receive additional review prior to purchase. o Seller acquired: 90 days or less. Price exceeds 10% of sellers acquisition (See Anti-Flipping Policy) o Seller acquired: 90 days or more but less than 180 days. Price exceeds 20% (See Anti-Flipping Policy) o Technical Review/Reason o Transactions meeting the following requirements: ▪ Cash Out Refinance and ▪ LTV, TLTV, HTLTV > 70% and ▪ Loans with LP HVE Message Y6 or DU Findings with messages indicating "excessive value" or "an excessive rate of appreciation" (based on DU collateral assessment model) • **All Opal Jumbo loans**
MULTIPLE APPRAISALS	• When more than one appraisal is required, the lower of the two values is to be used unless a reconciliation of the appraisals is completed by Red Sky Risk Services. In the event a reconciliation is completed Red Sky Risk Services will complete a reconciliation review form which is retained in the loan file. The final value that Red Sky Risk Services concludes as the most credible value must be used.

NATURAL DISASTER PROCEDURES	• Geographic Areas identified as "Presidentially Declared Disasters" on the following FEMA website https://www.fema.gov/disasters and having Individual Assistance must be handled as follows: • For any loan secured by property located within a Federally Declared Disaster Area, a re-inspection/certification must be obtained prior to the closing of the loan. Loans with appraisals completed after the dates of the Natural Disaster Incidence (FEMA Declaration dates) are not subject to this requirement unless specifically requested by an Underwriter. • A re-inspection/certification must clearly show the property is habitable and contains no evidence of damage. • A re-inspection/certification may be performed by any of the following parties: o Insurance Company stating that a property is unaffected and remains insurable under their policy o Original appraiser o Staff Appraiser employed by Investor or Provident Bank Mortgage the Lender o Company specializing in property inspections
OTHER APPRAISAL CONSIDERATIONS	• **Appraisal Timing** o An appraisal must be dated after the date title was transferred to the current owner for refinance transactions. If title to the property will be transferred after the date of the appraisal (purchase transaction), Investor will determine property value by using the lesser of the appraised value or the sale price of the property. • **Appraisal Expiration** o **Full Appraisal -** an appraisal should not be used if older than six (6) months. The timeframe is measured from the effective date of the appraisal to the final verification of the collateral / value or the closing date, depending upon the Business Line. o Applications with appraisals older than six (6) months require a new appraisal of the same type as the original appraisal.

OTHER APPRAISAL CONSIDERATIONS (CONTINUED)	o If the appraisal is older than four (4) months and < six (6) months, the appraisal must have an Appraisal Update completed as documented with an Appraisal Update on Fannie Mae Form 1004D or Freddie Mac Form 442. If the Appraisal Update indicates the value has declined, a new appraisal of the same type as the original must be ordered. o **Drive-by or Desktop Appraisal -** A Drive-by or Desktop Appraisal should not be used if older than four (4) months. The timeframe is measured from the effective date of the appraisal to the final verification of the collateral / value or the closing date, depending upon the Business Line. • For a Construction Loan Program an Appraisal Update and/or Completion Report on Fannie Mae Form 1004D or Freddie Mac Form 442 must be obtained at the time of construction completion. • **Property Condition/Completeness (with Plans/Permit)** o Appraisals prepared and presented with the value consideration of as is: ▪ for proposed construction, the appraisal may be based on plans and specifications with a subsequent certification of completion (clear final inspection) provided by the appraiser; ▪ for existing construction, all improvements must be completed prior to loan closing. The appraisal may be based on the as is condition of the property if minor cosmetic conditions exist that do not affect the livability of the property exist and the appraiser's estimate of value reflects the existence of these conditions. o Appraisals prepared and presented with the value consideration of subject to: ▪ Minor work must be completed prior to loan closing, an underwriting manager may consider waiving the re-inspection if documentation is provided that the work has been completed;

PROPERTY INSPECTIONS	• **Termite Inspections** are only required in geographic markets where termite infestation is a known phenomenon, and if: o Purchase Agreement requires, or o Appraiser requires as a condition of the appraisal, or o Underwriter discretion if documentation in the file indicates there may be a potential problem. • **Home Inspections** which are required as part of the purchase agreement must be submitted for underwriting review under the following circumstances: o If the appraisal indicates the presence of potential safety or structural issues with the property.
SEPTIC CERTIFICATIONS/SYSTEM REPORTS	• A satisfactory septic certification indicating compliance with acceptable local standards will be required if: o The appraiser recommends or requires a test, or o The purchase Agreement requires a test, or o The Mortgage Product Guidelines require a test, or o Underwriter discretion if documentation in the file indicates there may be a potential problem.
SHARED ROADS, WELLS AND SEPTIC SYSTEMS	• Wells and septic systems that are not publicly governed and maintained must have a recorded maintenance agreement or easement that runs with the land (i.e., is expressly stated to belong to the successors or assigns of the owner), assures the mortgagor or owner and future owners of subject property the right to access and use of the road, well and/or septic system as long as the mortgagor or owner and future owners fulfill reasonable conditions. This agreement must provide for mutual upkeep of the road, well or septic system. o **Shared Roads** ▪ Roads/streets for the subject property that are not publicly governed and maintained must have a legally appropriate and recorded ingress/egress agreement, which assures the mortgagor or owner and future owners of said property the right to access and use of the road. The streets serving the subject property must be maintained in a manner that generally meets community standards as outlined in a recorded ingress/egress agreement or applicable city/county/state civil codes.

SHARED ROADS, WELLS AND SEPTIC SYSTEMS (CONTINUED)	▪ If the agreements and/or civil codes do not address maintenance of the subject property road, then a recorded road maintenance agreement will be required. ▪ In addition, the comparable sales should have street maintenance similar to the subject property. When differences exist between the ownership or maintenance of the subject property's streets and the comparable sale's streets, adjustments or lack of adjustments made to the comparable sales for the differences or lack of comparable sales must be explained in the comments area or on an attached addendum. In addition, the appraisal must evaluate the effect these differences have on the subject property's value or marketability.
WATER TESTS/WELL CERTIFICATIONS	• A satisfactory water test/well certification indicating compliance with acceptable local standards will be required if: o The appraiser recommends or requires a test, or o The Purchase Agreement requires a test, or o Opal Product Guidelines require a test, or o Underwriter discretion if documentation in the file indicates there may be a potential problem.

TAXES AND ESCROW	
ESCROW ACCOUNT	• Deposit account maintained by the mortgage lender and funded by the borrower, from which the lender makes real estate tax and hazard insurance payments. Escrow accounts are encouraged but not mandatory, except where required by California law.
FLOOD ZONE CERTIFICATION AND INSURANCE	• A Flood Hazard Determination shall be required for all real estate secured loans and lines of credit. • If it is determined that the structure is located in a Special Flood Hazard Area, designated “A” or “V” flood zone, by the Federal Emergency Management Agency (FEMA): o a Notice to Borrower of Special Flood Hazard must be provided to the consumer, and o flood insurance shall be required as stipulated in the Flood Disaster Protection Act of 1973. • Flood insurance may not be waived and must be maintained for the life of the loan. • If a non-National Flood Insurance Program (NFIP) (private market) flood insurance policy is obtained the insurer must comply with all requirements as outlined in the Insurance Company Requirements section above • The maximum allowable deductible for a National Flood Insurance Program (NFIP) flood insurance policy is $10,000, exceptions are not allowed. The maximum allowable deductible for a non-National Flood Insurance Program (NFIP) (private market) flood insurance policy is the greater of $10,000 or 5% of the face value of the policy. For a condominium association flood insurance policy the maximum allowed deductible is $25,000.

FLOOD ZONE CERTIFICATION AND INSURANCE (CONTINUED)	• Provident Bank Mortgage does not require flood insurance on certain structures located in a Special Flood Hazard Area (SFHA) unless it is required by the investor. This exemption is specific to details provided in, and accordance with, Section 13 of the Homeowners Flood Insurance Affordability Act (HFIAA), the Flood Disaster Protection Act (FDPA). Specifically, flood insurance is not required on certain structures located in a Special Flood Hazard Area (SFHA) when the structure: o is located on a 1-4 family residential property; o is detached from the primary residential structure; and o generally does not serve, or is not designed to serve, as a residence (structure does not generally contain sleeping, bathroom or kitchen facilities) or o the primary use of the structure is not used for agricultural, commercial, industrial or other business purpose.
HOMEOWNER'S HAZARD INSURANCE	• The insurer must comply with all requirements as outlined in the Insurance Company Requirements section above. Homeowner's hazard insurance policy with a loss payee clause in favor of Provident Bank Mortgage (and a binder with paid receipt) shall be required. Said policy must be: o an all risk, or o named perils with extended coverage. • A condominium master policy with coverage for hazard, liability, and fidelity losses is required for condominium collateral and is typically purchased by the condominium association. When walls-in aka betterment and improvements (e.g. flooring, wall coverings, plumbing fixtures, cabinets, any built-in appliances, lighting fixtures) are not covered by the master policy an individual homeowner's policy is required (HO-6 Policy). Coverage must be 100% of the insurable replacement cost of the subject improvements (walls in) not covered by the master policy or 20% of the appraised value. • Some hazards (e.g., wind and hail) may be excluded from standard policy coverage in certain states. In such cases, coverage must be obtained for those excluded hazards.

HOMEOWNER'S HAZARD INSURANCE (CONTINUED)	• Coverage must be at least the lesser of: o the total of the Provident Bank Mortgage real estate lien plus any existing superior liens, o 100% of the insurable value of the improvements, as determined by the property insurer, or o 100% of the insurable replacement cost of the project improvements, including the individual units in a condominium project. • The coverage must provide for claims to be settled on a replacement cost basis. • The maximum acceptable deductible for insurance covering a property is 5% of the face value of the homeowner's policy (dwelling coverage amount) or condominium master policy (building coverage amount). • In states where some hazards (e.g., wind and hail) are excluded from the homeowner's standard policy coverage, the maximum acceptable deductible shall be set by the state designated minimum deductible level.
INSURANCE COMPANY REQUIREMENTS	• All insurance companies (insurers), and insurance companies which guarantee coverages provided by other insurance companies (reinsurers), must be licensed, or otherwise authorized by law, to conduct business in the jurisdictions where the subject property is located.
REAL ESTATE TAX REQUIREMENTS	• Existing Property: Real Estate taxes listed on the Title Commitment or Title Certification must be used to determine the subject property's annual tax unless State or local requirements provide for a different amount. If there is a change in the tax amount, a statement must be provided by the title company indicating same. o Existing Property Purchase transactions (including lot loans) of California Properties: California law reassesses tax at time of sale; therefore, current tax rate 1.25% must be applied to the Sales Price of the property. If the property is subject to a Mello Roos or other levy use the tax rate of 1.25% plus the amount of the levy showing on the Preliminary Title. Do not use tax amounts based upon prior assessed values. • New Construction: Title Commitments or Title Certifications may only reflect the Real Estate taxes on the unimproved lot value. The tax figure used for qualifying must be based on the “as completed” value.

REAL ESTATE TAX REQUIREMENTS (CONTINUED)	o **California Properties** ▪ California law reassesses tax at time of sale; therefore, use a tax rate of 1.25% to be applied to the Sales Price of the property. If the property is subject to a Mello Roos or other levy, use the tax rate of 1.25% plus the amount of the levy showing on the Preliminary Title. Do not use tax amounts based upon prior assessed values. o The "as completed" value and resulting tax amount issued for qualifying only and will not be reflected on the final Closing Document; closing will use the actual lot tax amount. ▪ Calculating the amount of taxes is determined by taxing authorities using what is known as millage (mill) rates. * The millage rate can be determined from the Title Company or County. A "mill" represents $1 of tax assessment per $1000 of assessed property value. An example being: a) A tax district levies property tax at 5 mills and a homeowner's property has been valued as completed at $250,000. b) 5 X 1/1000 = .005 c) 005 X $250,000. = $1,250.00 Annual Property Tax • Option for New Construction Only Including California: Annual tax amounts for similar properties in the immediate neighborhood of the subject property (in lieu of millage rates if not readily available) may be used to determine tax amounts for qualification purposes. Tax amounts from similar properties must be documented as provided by independent third party on a fully assessed lot and improvements for homes of similar value. Underwriting has the final say regarding the acceptability of this option and will base same upon information applicable to each region
TAXES & ASSESSMENTS	• Real estate taxes, sewer/water assessments, etc. must be current or paid at closing.

EXCEPTIONS	
OPAL JUMBO PRODUCT EXCEPTIONS ONLY	• All loans must meet Opal guidelines. • Product guideline and underwriting exceptions (with documented compensating factors) are generally limited to: I. <= 5 point FICO exception range II. < = 1+ months in required reserves exception range III. Property/acreage with acceptable comps IV. Loan amount exceptions (must be prior approved by Secondary) DTI exceptions are not permitted. Must follow non-QM product guides when DTI >= 43% • Loan Requests with USB Aggregate exposure greater than $3MM ($4MM in CA) must receive Investor's Corporate Credit Administration Approval.
RESIDUAL INCOME MATRIX	
CALIFORNIA	• Minimum Gross Monthly Residual Income o $1,650.00
NON-PERMANENT RESIDENT ALIEN PORTFOLIO LOAN EXCEPTION CRITERIA	
PERMANENT RESIDENT ALIENS	• Borrowers with Green Cards are Permanent Resident Aliens and are eligible for all Opal Jumbo Product loans and exceptions are not required. All borrowers on loan must have a Green Card to be eligible. Borrowers must have a Green Card, no other documentation allowed i.e. I 485, letter from USCIS, etc.

NON-PERMANENT RESIDENT ALIENS	• Loans to Non-Permanent Resident Aliens are not permitted for Opal Product loans. Investor may consider granting single loan exceptions under the circumstances below. Underwriters should consider these circumstances as criteria for single loan exception requests and not alternative guidelines as loan exception capacity is limited. All exception requests are required to be submitted to Provident Bank Mortgage Corporate Administrators. NPRA exception requests must meet all the documentation requirements for a Provident Bank Mortgage Conventional Agency NPRA Loan plus meet the following Provident Bank Mortgage Opal Product single loan exception consideration criteria: 1. The Borrower is close to receiving their Green Card as indicated by the following: o an unexpired Visa recognized by Investor and o an approved I-140 as indicated on the I-797 Notice of Action form or o has applied for a Green Card utilizing form I-485 and received a receipt of the application or a letter from USCIS stating approval of the green card. o Additional criteria to product guide ▪ $900K Maximum Loan Amount ▪ Single Family, Primary Residences purchase, rate and term only ▪ 70 percent TLTV maximum ▪ 740 minimum FICO score and no derogatory credit history ▪ Max DTI 43.00% ▪ No exception to Employment Income or Debt Policy ▪ No Investor’s 2nd loans or HELOCS ▪ Minimum two-year credit history in the United States (at least three tradelines with a 24-month history). ▪ All cash to close must come from the borrower’s assets (no gifts) through a financial institution located within the United States and be seasoned with that institution for 30 or more days. (The source of funds must meet current Provident Bank Mortgage Opal Guidelines.)

NON-PERMANENT RESIDENT ALIENS (CONTINUED)	▪ Non-Permanent Resident Alien borrowers for loan exceptions can have no other residential properties. Non-Permanent Resident Aliens Exceptions must be for a primary home and if they have an existing home, it must be under contract for sale and sold prior to closing. Documentation of sale is required. Departure residences cannot be retained as an investment property. 2. Primary borrower is a US Citizen or is a Permanent Resident Alien (Green card) and Co-Borrower is a documented NPRA having a Visa recognized by Provident Bank Mortgage. • Additional criteria to product guide o $900K Maximum Loan Amount o Single Family, Primary Residences purchase, rate and term only o 70 percent TLTV maximum o 740 minimum FICO score and no derogatory credit history o Max DTI 43.00% o No exception to Employment Income or Debt Policy o No Investor 2nd loans or HELOCS o Minimum two-year credit history in the United States (at least three tradelines with a 24-month history). o All cash to close must come from the borrower's assets (no gifts) through a financial institution located within the United States and be seasoned with that institution for 30 or more days. (The source of funds must meet current Provident Bank Mortgage Opal Guidelines.) Non-Permanent Resident Alien borrowers for portfolio loan exceptions can have no other residential properties. Non-Permanent Resident Aliens Exceptions must be for a primary home and if they have an existing home, it must be under contract for sale and sold prior to closing. Documentation of sale is required. Departure residences cannot be retained as an investment property.

REFINANCE LOANS	

CASH/EQUITY OUT	• A non-purchase transaction is deemed *Cash/Equity Out* when:
	  o There is cash to the borrower (cash in hand) in an amount more that exceeds the lesser of 2% of the balance of the new refinance mortgage or $2,000; and
	    ▪ There are any funds used to payoff revolving and installment debt, or other funds paid to a disinterested third party shall be considered Cash Out.
	      ➢ There are any funds used to payoff revolving and installment debt, or other funds paid to a disinterested third party shall be considered Cash Out.
	• A transaction is a Cash/Equity Out transaction when at least one borrower has been on the title to the subject property for at least 180 days prior to the note date. Exceptions to the 180 day requirement are allowed as specified below aka Delayed Financing:
	  o the executed Closing Document from the purchase transaction must reflect that no financing secured by the subject property was used to purchase the subject property;
	  o the preliminary title report for the refinance transaction must reflect the borrower as the owner of the subject property and must reflect that there are no liens on the property;
	  o the source of funds used to purchase the subject property must be fully documented;
	  o if funds were borrowed to purchase the subject property, those funds must be repaid and reflected on the Closing Document for the refinance transaction;
	  o the amount of the Cash/Equity Out refinance must not exceed the sum of 80% of the original purchase price and 100% of related closing costs, financing costs and prepaids/escrows as documented by the Closing Document for the purchase transaction; and
	  o there must have been no affiliation or relationship between the buyer and seller of the purchase transaction.
	• A simultaneous or subsequent transaction second lien Loan or Line of Credit is exempt from the 180 day requirement.

RATE/TERM REFINANCE	
	• A non-purchase transaction is deemed a Rate/Term Refinance when there is a: o payoff of the outstanding principal balance of an existing first mortgage; o payoff of the outstanding principal balance of any existing second lien that was used in whole to acquire the subject property; o payoff of a second lien that was used in total for home improvement, where documentation of the costs of the home improvement is obtained (no Seasoning of the second lien loan is required); o payoff of a second lien that has been open at least 12 months; o payoff of the outstanding balance of a Home Equity Line of Credit (HELOC) that has been open at least 12 months and draws within the most recent 12 months do not exceed 2% of the new mortgage amount; or o financing of closing costs (including prepaid expenses) where cash to the borrower is an amount not to exceed the lesser of 2% of the balance of the new refinance mortgage or $2,000. • If the mortgage being refinanced has been open less than 12 months and if the underwriter has knowledge the loan was a Cash/Equity Out refinance transaction, then the following applies: o if the mortgage being refinanced was originated by U.S. Bank, the new loan is not eligible for a Rate/Term Refinance designation; and, o if the mortgage being refinanced was originated by another financial institution, the new loan is not eligible for a Rate/Term Refinance designation unless the Loan-to-Value (LTV) / Combined Loan-to-Value (CLTV) is 80% or less. • If the mortgage being refinanced was a purchase money transaction, the mortgage being refinanced must be Seasoned for at least 120 days. The 120 days is measured as of the note date of the mortgage being refinanced to the note date of the Rate/Term Refinance mortgage.

RATE/TERM REFINANCE (CONTINUED)	
	• A transaction is deemed a Special Purpose Refinance when the owner of a property uses the proceeds of the transaction to buy out the equity of a co-owner and is considered a Rate/Term Refinance. The loan amount of a Special Purpose Refinance is limited to amounts used to buy out the equity of the co-owner, which may include: o paying off the first mortgage, regardless of age; o paying off a second lien secured by the subject property; or o paying related closing costs. • To qualify as a Special Purpose Refinance when paying off the mortgages/liens or related closing costs, the following shall apply: o the borrower and the co-owner receiving the buy-out proceeds must have jointly owned the property for a minimum of 12 months prior to the initial loan application (parties who inherited an interest in the property are exempt from this requirement); o the borrower and the co-owner receiving the buy-out proceeds must provide evidence that they occupied the subject property as their primary residence (parties who inherited an interest in the property are exempt from this requirement); o the borrower and the co-owner receiving the buy-out proceeds must provide a written agreement, signed by all parties, stating the terms of the property transfer and the disposition of the proceeds from the refinancing transaction; and o the borrower who retains sole ownership of the property may not receive any of the proceeds from the refinance transaction.

REFINANCE PAYOFF DOCUMENTATION	• All refinances submitted to Underwriting for Final Approval require, a payoff statement which must be obtained for the following reasons: 1. When Provident Bank Mortgage is refinancing a mortgage that is currently serviced by U.S. Bank, the payoff statement is to determine the existence of a pre-payment penalty on a first or closed end second or an early termination fee on a HELOC if it is required to be closed. If a penalty or fee exists it must be included in the points and fees test. 2. Provident Bank Mortgage requires a payoff statement on all refinances regardless of servicer, on all products to avoid exceeding Provident Bank Mortgage's principal curtailment limit of $2,000.00 for Conventional loans along with compliance issues with regards to curtailments. 3. A payoff dated on or after the application date is required at the time a refinance is submitted to Underwriting for final approval. Any subsequent resubmission will not require an additional updated payoff unless the payoff has expired or the borrower has made an additional payment.
EMPLOYMENT AND INCOME	
ANALYZING A BORROWER'S EMPLOYMENT RECORD	• When analyzing a borrower's employment, underwriting must examine: o the borrower's past employment record; and o the employer's confirmation of current, ongoing employment status. • Self-employed applicants must have two (2) years of self-employment history in the same business. (A self-employed applicant is any individual that has a 25% or more ownership interest in a business.) • Underwriters may assume that employment is ongoing if a borrower's employer verifies current employment and does not indicate that employment has been, or is set to be terminated. Underwriters should not rely upon a verification of current employment that includes an affirmative statement that the employment is likely to cease, such as a statement that indicates the employee has given (or been given) notice of employment suspension or termination.

ANALYZING A BORROWER'S EMPLOYMENT RECORD (CONTINUED)	• Underwriters may favorably consider the stability of a borrower's income if he/she changes jobs frequently within the same line of work, but continues to advance in income or benefits. In this analysis, income stability takes precedence over job stability. • For applicants going on, or on pregnancy, maternity, paternity, parental (including adoption), or other temporary short-term disability or medical leave, Provident Bank Mortgage will not discriminate in the underwriting of loans including: o subjecting applicants to different terms and conditions compared to applicants not on short-term leave; o requiring applicants to return to work or be employed full-time in order to be considered eligible for a loan; or o unreasonably delaying the application because of the short-term leave status. • During a temporary leave, a borrower's income may be reduced and /or completely interrupted. It must be determined that before, during and after the temporary leave the borrower has capacity to repay the loan and all other monthly obligations based on required documentation, Provident Bank Mortgage/Broker knowledge and available information, including both regular employment income, temporary leave income, and other supplemental income or liquid reserves available to borrower. A temporary leave should not prevent an applicant from obtaining a loan if the applicant can continue to meet the income requirements to qualify for the loan.
BORROWERS RETURNING TO WORK AFTER AN EXTENDED ABSENCE	• A borrower's income may be considered effective and stable when recently returning to the work force after an extended absence, defined as a six month or more leave, if the borrower: o is employed in the current job for six months or longer; and o can document a two year work history prior to an absence from employment using: ▪ traditional employment verifications; and/or ▪ copies of IRS Form W-2s or pay stubs. • Situations not meeting the criteria listed above may not be used in qualifying. • An acceptable employment situation includes individuals who took several years off from employment to raise children, then returned to the workforce.

VERIFYING EMPLOYMENT HISTORY	
	• Underwriting must verify the borrower's employment for the most recent two (2) full years with the following documentation: o Year-to-date (YTD) paystub or salary voucher documenting at least 28 days of income, o IRS W-2 forms for the most recent two tax years, or o a fully executed Written Verification of Employment (VOE) [e.g., Fannie Mae Form 1005, Written Verification of Employment (WVOE), or similar]. • A verbal Verification of Employment (VOE) must be obtained no more than 10 Business Days prior to the final approval (final verification/clear to close), or note date. o In addition, the borrower is required to: ▪ explain any gaps in employment that span one or more months, gaps due to school, and ▪ indicate if the borrower was in school or the military for the recent two (2) full years, providing evidence supporting this claim, such as college transcripts, or discharge papers or IRS Form W2 for military history. o Any gap of employment due to school of one or more months requires supporting documents such as college transcripts o Allowances can be made for seasonal employment, typical for (but not limited to) the building trades and agriculture, if supported by adequate documentation.

INCOME	

BORROWERS EMPLOYED BY A FAMILY OWNED BUSINESS	• Income Documentation Requirement
	  o Effective and stable income from a family business will only be considered with a minimum of one year Income Tax Return reflecting the income from the family business. In addition to normal employment verification, a borrower employed by a family owned business is required to provide evidence that he/she is not an owner of the business, which includes:
	    ▪ Copies of signed personal tax returns, or
	    ▪ A signed copy of the corporate tax return showing ownership percentage.
	  o A tax transcript obtained directly from the Internal Revenue Service (IRS) may be used in lieu of signed Income Tax Returns.
	  o For circumstances with a substantial increase of income year to year, the income should be analyzed using an average of pay unless it can be justified to use the higher amount.

FRAUD - PRE-FUNDING INCOME VERIFICATION	• To help verify the accuracy of large increases in income, all borrowers (both W2 and Self-employed) who have had a 50% (or greater) increase in current year (YTD) income compared to the prior year income, the borrower's income documentation must be sent to the Investor's Fraud Prevention Department for review prior to final approval. Loans where the borrower could have been approved using their previous (lower) income level do not require the Investor's prefunding income re-verification. • This review will be initiated by the Investor's business line as soon as the loan is identified as meeting the 50% income increase (by Investor's underwriting). The Investor's Fraud Prevention Department will conduct the review and respond back to the person who referred the loan to the Investor's Fraud Prevention Department once the review is completed. If fraud is suspected, the loan will be denied and an IRF will be filed with Investor's Enterprise Security.

GENERAL INFORMATION ON SELF-EMPLOYED BORROWERS AND INCOME ANALYSIS	• Definition: Self Employed Borrower o A borrower with a 25 percent or greater ownership interest in a business is considered self-employed and will be evaluated as a self-employed borrower for underwriting purposes. For borrowers with < 25% ownership and who receive wages, they will be treated as a wage earner. If they receive income from the business through an IRS Form K-1, current receipt of income must be documented. It will be considered a variable source of income and a two (2) year average should be used • Types of Business Structures o There are four basic types of business structures. They include: ▪ Sole proprietorships; ▪ Corporations; ▪ Limited liability or “S” corporations; and ▪ Partnerships. • Minimum Length of Self Employment o Income from self-employment is considered stable, and effective, if the borrower has been self-employed for two (2) or more years from the date of application. o Due to the high probability of failure during the first few years of a business, the requirements described in the table below are necessary for borrowers who have been self-employed for less than two (2) years.

GENERAL INFORMATION ON SELF-EMPLOYED BORROWERS AND INCOME ANALYSIS (CONTINUED)	
	Periods of Self-Employment / **Eligibility Requirement** >1 Year & < 2 Years: • To be eligible for a loan, the individual must have at least two years of documented previous successful employment in the line of work in which the individual is self-employed, or in a related occupation. • A combination of one year of employment and formal education or training in the line of work in which the individual is self-employed or in a related occupation is also acceptable. < 1 Year: • The income from the borrower may not be considered effective income

Periods of Self-Employment	Eligibility Requirement
>1 Year & < 2 Years	• To be eligible for a loan, the individual must have at least two years of documented previous successful employment in the line of work in which the individual is self-employed, or in a related occupation. • A combination of one year of employment and formal education or training in the line of work in which the individual is self-employed or in a related occupation is also acceptable.
< 1 Year	• The income from the borrower may not be considered effective income

- **General Documentation Requirements for Self Employed Borrowers**
  - Self-employed borrowers must provide the following documentation:
    - Signed, dated individual Income Tax Returns, with all applicable tax schedules for the most recent two (2) years;
    - For a corporation, “S” corporation, or partnership, signed copies of Federal business income tax returns for the last two (2) years, with all applicable tax schedules; and
    - Year to date profit and loss (P&L) statement and balance sheet signed by the preparer. Year to date Profit and Loss (P&L) statement and balance sheet requirement is when the borrower has 25% or greater ownership interest in a business and the income source is relied upon for income calculation purposes.
  - A current prepared and signed profit and loss statement, following Generally Accepted Accounting Principles, from the most recent quarter. Investor’s Underwriter discretion to ask for additional documentation based upon type and availability of information provided.

GENERAL INFORMATION ON SELF-EMPLOYED BORROWERS AND INCOME ANALYSIS (CONTINUED)	o The underwriter must verify the existence of the borrowers business from a third party source, no more than 30 days prior to the Note Date (or final verification or clear to close). Acceptable third party sources include, but are not limited to, a regulatory agency, the phone directory, the Internet, directory assistance or the applicable licensing bureau. • **General Documentation Requirements for Other Types of Income** o If the borrower does not meet the definition of self-employed, the underwriter must obtain the borrower's individual Federal Income Tax Returns for certain other types of income. The two (2) most recent years Federal Income Tax Returns are required, if the income used to qualify the borrower include, but are not limited to: ▪ Commission income ▪ Income reported on a 1099 ▪ Income from independent contracting ▪ Income from employment by a family member, property seller, or broker ▪ Income from employment on a contract basis o A current prepared and signed profit and loss statement, following Generally Accepted Accounting Principles, from the most recent quarter. Underwriter's discretion to ask for additional documentation based upon type and availability of information provided. • **Establishing a Borrower's Earnings Trend** o When qualifying income, the underwriter must establish the borrower's earnings trend from the previous two (2) years using the borrower's income tax returns. o If a borrower: ▪ Provides quarterly Income Tax Returns, the income analysis may include income through the period covered by the tax filings, or ▪ Is not subject to quarterly Income Tax Returns, or does not file them, then the income shown on the P&L statement may be included in the analysis, provided the income stream based on the P&L is consistent with the previous years' earnings.

GENERAL INFORMATION ON SELF-EMPLOYED BORROWERS AND INCOME ANALYSIS (CONTINUED)	- If the Profit and Loss (P&L) statements submitted for the current year show an income stream considerably greater than what is supported by the previous year's Income Tax Returns, the underwriter must base the income analysis solely on the income verified through the tax returns. - If the borrower's earnings trend for the previous two (2) years is downward and the most recent Income Tax Return or P&L is less than the prior year's Income Tax Return, the borrower's most recent year's Income Tax Return or Profit and Loss (P&L) must be used to calculate his/her income. **Analyzing the Business's Financial Strength** - The underwriter must consider the business's financial strength by examining annual earnings. Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline (i.e. 25% or greater decline year over year during the most recent two (2) year period) in income over the analysis period are not acceptable. **Utilization of Amended Tax Returns** - Tax returns that are amended and filed with the IRS a minimum of ninety days prior to the loan application date are acceptable. Both the original return(s) and the amended return(s) must be obtained. - Tax returns that are amended and filed with the IRS less than ninety days prior to the loan application date are acceptable only in conjunction with an underwriter approved exception. - Tax returns amended and filed after the loan application date are not acceptable. - If an underwriter exception cannot be obtained, any income sources dependent upon tax return documentation cannot be utilized for loan qualification.

<table>
<tr><td>INCOME ANALYSIS: INDIVIDUAL TAX RETURNS (IRS FORM 1040)</td><td>

General Policy on Adjusting Income Based on a Review of IRS Form 1040
The amount shown on a borrower’s IRS Form 1040 as adjusted gross income must either be increased or decreased based on the underwriter’s analysis of the individual tax return and any related tax schedules. The most recent two (2) years Federal Income Tax Returns may be required for evaluation.
Guidelines for Analyzing IRS Form 1040
The table below contains guidelines for analyzing IRS Form 1040:

<table>
<tr><th>IRS Form 1040</th><th>Description</th></tr>
<tr><td>Wages, Salaries and Tips</td><td>An amount shown under this heading may indicate that the individual:
Is a salaried employee of a corporation, or
Has other sources of income.
This section may also indicate that the spouse is employed, in which case the spouse’s income must be subtracted from the borrower’s adjusted gross income.</td></tr>
<tr><td>Business Income and Loss (from Schedule C)</td><td>Sole proprietorship income calculated on Schedule C is business income. Depreciation or depletion may be added back to the adjusted gross income.</td></tr>
<tr><td>Rents, Royalties, Partnerships (from Schedule E)</td><td>Any income received from rental properties use the income calculation worksheet. Royalties may be used as income, after adding back any depreciation shown on Schedule E, with a two (2) year history and likelihood of three (3) year continuance.</td></tr>
</table>
</td></tr>
</table>

INCOME ANALYSIS: INDIVIDUAL TAX RETURNS (IRS FORM 1040) (CONTINUED)	Capital Gain and Losses (from Schedule D)	• Capital gains or losses generally occur only one time, and should not be considered when determining effective income.
		• However, if the individual has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income. Three (3) years' Income Tax Returns are required to evaluate an earnings trend. If the trend:
		  o Results in a gain, it may be added as effective income, or
		  o Consistently shows a loss, it must be deducted from the total income.
		• Anticipated continuation of income through verified assets. Example: Consideration may be the capital gains for an individual who purchases old houses, remodels them, and sells them for profit.

	Interest and Dividend Income (from Schedule B)	• This taxable/tax-exempt income may be added back to the adjusted gross income only if it:
		  o Has been received for the past two years; and
		  o Is expected to continue.
		• If the interest-bearing asset will be liquidated as a source of the cash investment, the amount must be appropriately adjusted.

	Farm Income or Loss (from Schedule F)	• Any depreciation shown on Schedule F may be added back to the adjusted gross income.
	Individual Retirement Account (IRA) Distributions, Pensions, Annuities, and Social Security Benefits	• The non-taxable portion of these items may be added back to the adjusted gross income, if the income is expected to continue for the first three years of the loan.

<table>
<tr><td rowspan="2">INCOME ANALYSIS: INDIVIDUAL TAX RETURNS (IRS FORM 1040) (CONTINUED)</td><td>Adjustments to Income</td><td>• Adjustments to income may be added back to the adjusted gross income if they are:
o Individual Retirement Account (IRA) and Keogh retirement deductions;
o Penalties on early withdrawal of savings;
o Health insurance deductions; and
o Alimony payments.</td></tr>
<tr><td>Employee Business Expenses</td><td>• Employee business expenses are actual cash expenses that must be deducted from the adjusted gross income.</td></tr>
<tr><td>INCOME ANALYSIS: CORPORATE TAX RETURNS (IRS FORM 1120)</td><td colspan="2">• A corporation is a State-chartered business owned by its stockholders.
o Need To Obtain Borrower Percentage of Ownership Information
• Corporate compensation to the officers, generally in proportion to the percentage of ownership, is shown on the:
o Corporate tax return IRS Form 1120; and
o Individual tax returns.
• When a borrower’s percentage of ownership does not appear on the tax returns, the underwriter must obtain the information from the corporation’s accountant, along with evidence that the borrower has the right to any compensation.
• Analyzing Corporate Tax Returns
o In order to determine a borrower’s self-employed income from a corporation the adjusted business income must:
▪ Be determined; and
▪ Multiplied by the borrower’s percentage of ownership in the business.</td></tr>
</table>

<table>
<tr><td>INCOME ANALYSIS: CORPORATE TAX RETURNS (IRS FORM 1120) (CONTINUED)</td><td>

- The table below describes the items found on IRS Form 1120 for which an adjustment must be made in order to determine adjusted business income.

<table>
<tr><th>Adjustment Item</th><th>Description of adjustment</th></tr>
<tr><td>Depreciation and Depletion</td><td>Add the corporation's depreciation and depletion back to the after-tax income.</td></tr>
<tr><td>Taxable Income</td><td>Taxable income is the corporation's net income before Federal income taxes. Reduce taxable income by the tax liability.</td></tr>
<tr><td>Fiscal Year vs. Calendar Year</td><td>If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made to relate corporate income to the individual return.</td></tr>
<tr><td>Cash Withdrawals</td><td>The borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating.</td></tr>
</table>
</td></tr>
<tr><td>INCOME ANALYSIS: "S" CORPORATION TAX RETURNS (IRS FORM 1120S)</td><td>

- An "S" corporation is generally a small, start-up business, with gains and losses passed to stockholders in proportion to each stockholder's percentage of business ownership.
- Income for owners of "S" corporations comes from IRS Form W-2 wages, and is taxed at the individual rate. The IRS Form 1120S, Compensation of Officers line item is transferred to the borrower's individual IRS Form 1040.
</td></tr>
<tr><td>INCOME ANALYSIS: PARTNERSHIP TAX RETURNS (IRS FORM 1065)</td><td>

- A partnership is formed when two (2) or more individuals form a business, and share in profits, losses, and responsibility for running the company.
- Each partner pays taxes on his/her proportionate share of the partnership's net income.
</td></tr>
</table>

ANALYZING "S" CORPORATION AND PARTNERSHIP TAX RETURNS	• The calculation of a self-employed borrower's average monthly income must be based on a review of the borrower's complete individual Federal Income Tax Returns (Form 1040) including W-2's and K-1's (if applicable) as well as the borrower's complete business tax returns (Forms 1120, 1120S and 1065), when applicable. Non-cash items such as depreciation, depletion, and amortization may be added back to adjusted gross income for determining qualifying income. Documented nonrecurring 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. • As part of the analysis, consideration whether the borrower's self-employed income has increased or decreased over the previous two (2) years. If the analysis reflects that the borrower's income has significantly increased or decreased, there must be sufficient documentation and justification provided to support the determination that the income used to qualify the borrower is stable and likely to continue for the next three (3) years. 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 Income Tax Returns must be obtained to determine if there is a business loss that may have an impact on the stable monthly income used for qualifying. If a business loss is reported on the borrower's individual Federal Income Tax Returns, additional documentation may need to be obtained in order to fully evaluate the impact of a business loss on the income used for qualifying. • Caution must be used when including additional income that the borrower draws from the borrower's corporation, partnership, or S-corporation as qualifying income. Documentation must verify that the borrower has a legal right to the additional income by obtaining a corporate resolution or other comparable document that establishes that right. The underwriter must also verify the borrower's percentage of ownership of the business entity from a review of the business Income Tax Returns, letter from the account for the business or similar documents. The analysis of the business must support that the business is clearly capable of providing the borrower with the additional income used to qualify. • Underwriting must obtain written documentation that withdrawal of cash to complete this transaction from the business does not have a negative impact on its ability to continue operating

SALARY, WAGE, AND OTHER FORMS OF INCOME	**Asset Dissipation for Non-Retirement Assets**	Not Allowed
	Automobile Allowances and Expense Account Payments	• Only the amount by which the borrower's automobile allowance or expense account payments exceed actual expenditures may be considered income. • If the employer pays the automobile expense directly to the creditor or the borrower thru wages, then the allowance will be considered income and the debt will remain a liability. The Underwriter must evaluate the Income Tax Return to determine that the borrower is not also including this as an IRS Form 2106 expense. • When evaluation of income is from the IRS Form 2106 portion of the Income Tax Return, only the amount by which the borrower's automobile allowance or expense account payments exceed actual expenditures may be considered income. • To establish the amount to add to gross income, the borrower must provide the following: o IRS Form 2106, Employee Business Expenses, for the previous two (2) years; and o Employer verification that the payments will continue. • If the borrower uses the standard per-mile rate in calculating automobile expenses, as opposed to the actual cost method, the portion that the Internal Revenue Service (IRS) considers depreciation may be added back to income. • Expenses that must be treated as recurring debt include: o The borrower's monthly car payment; and o Any loss resulting from the calculation of the difference between the actual expenditures and the expense account allowance

SALARY, WAGE, AND OTHER FORMS OF INCOME (CONTINUED)		
	Commission Income	• Commission income must be averaged over the previous two (2) years. To qualify commission income, the borrower must provide: o Copies of signed tax returns for the last two (2) years; and o The most recent pay stub. • For circumstances where income has declined by more than 20%, year to date plus the previous two (2) years may be considered. • Borrowers whose Commission Income was received for more than one (1) year, but less than two (2) years may be considered favorably if the underwriter can: o Document the likelihood that the income will continue, and o Rationalize accepting the commission income. • The following also applies to Commission income: o Unreimbursed business expenses must be subtracted from gross income. o A commissioned borrower is one who receives more than 25 percent of his/her annual income from commissions; and o If the borrower cannot provide a signed copy of their tax returns, a tax transcript received directly from the Internal Revenue Service (IRS) is acceptable.
	Qualifying Commission Income Earned for Less Than One Year	• Commission income earned for less than one (1) year is not considered effective income. Considerations may be made for situations in which the borrower's compensation was changed from salary to commission within a similar position with the same employer. • A borrower may also qualify when the portion of earnings not attributed to commissions would be sufficient to qualify the borrower for the loan.

SALARY, WAGE, AND OTHER FORMS OF INCOME (CONTINUED)	**Employer Differential Payments**	• If the employer subsidizes a borrower's mortgage loan payment through direct payments: o The employer must not be an interested party to the transaction and the payment must be likely to continue for the next three (3) years. A history of receipt is not required for the income to be considered stable. o Documentation is required to show the payments are pursuant to an established, ongoing and documented employer program. o The amount of the payments is considered gross income and cannot be used to offset the loan payment directly.
	Establishing an Overtime and Bonus Income Earning Trend	• Underwriting must establish and document an earnings trend for overtime and bonus income. If either type of income shows a continual decline, underwriting must document a sound rationalization for including the income when qualifying the borrower. • A period of more than two (2) years must be used in calculating the average overtime and bonus income if the income varies significantly. Significantly is defined as a variance of 20% or more from year to year. For these circumstances, the year with the decline should be used. The Underwriter may consider using a period of two (2) years plus year to date if it can be justified that the decline in income is not a reoccurring circumstance. • If the borrower has changed employers and bonus and/or overtime has declined by more than 20%, base the income average on income from the current employer.

SALARY, WAGE, AND OTHER FORMS OF INCOME (CONTINUED)	**Foreign Income**	• Income earned by a borrower who is employed by a foreign corporation or government and is paid in foreign currency. Foreign income may be used to qualify if all of the following requirements are met: o most recent two (2) years of Federal Tax Returns and associated schedules documenting income used; o verification of employment and income from employer (with 10 day prior to close verbal re-verification); and o standard full documentation required. • All foreign information must be translated / converted to English by a disinterested third party. Income from countries (primary) identified as Primary High-Risk on the Investor's High Risk Countries List is not allowed; this is an overlay to AML Policy.
	General Policy on Borrower Income Analysis	• The income of each borrower who will be obligated for the loan debt and whose income is being relied upon in determining ability to repay must be analyzed to determine whether his/her income level can be reasonably expected to continue. • In most cases, a borrower's income is limited to salaries or wages. Income from other sources can be considered as effective, when properly verified and documented. • Additional income sources do not need to be relied upon for income calculation purposes if the borrower qualifies for the product and terms requested without consideration of additional income sources.

SALARY, WAGE, AND OTHER FORMS OF INCOME (CONTINUED)	**General Policy on Borrower Income Analysis (Continued)**	• Effective income for borrowers planning to retire during the first three (3) year period must include the amount of: o Documented retirement benefits; o Social Security payments; or o Other payments expected to be received in retirement. • Underwriting must not ask the borrower about possible, future maternity leave. • Underwriting may assume that salary or wage income from employment verified in accordance with this policy can be reasonably expected to continue if a borrower's employer verifies current employment and income and does not indicate that employment has been, or is set to be terminated. • Regardless of income type, tax returns reflecting 2106 unreimbursed employee expenses must be deducted from income.
	Income from Seasonal Employment	• The borrower must have a two (2)- year consecutive history of receiving income from seasonal employment and expects to be hired next season. Unemployment compensation associated with seasonal employment may be considered qualifying income if the borrower has a two (2) year history of receipt and there must be reasonable assurance that this income will continue. Seasonal employment income to qualify the borrower cannot be used unless the income is reported on the borrower's individual federal income tax returns for the most recent two (2) year period. o Tax returns are required on all borrowers, o Seasonal or variable income must also have two (2) years W-2's.

SALARY, WAGE, AND OTHER FORMS OF INCOME (CONTINUED)	**Income from Seasonal Employment (Continued)**	• Seasonal employment examples include, but are not limited to: o Umpiring baseball games in the summer; or o Working at a department store during the holiday shopping season.
	Income from U.S. Territories	• Provident Bank Mortgage will consider income reported to official income taxation departments of U.S. Territories (Puerto Rico, Guam, Northern Mariana Islands, U.S. Virgin Islands, and American Samoa). It must be established that such income is not already reported through the filing of an IRS tax return. Copies of the applicable U.S. Territory tax returns must be provided for evaluation. If the territory returns are not in English, English versions of the filed forms (or translated returns) must be obtained to facilitate the evaluation of the sources of income and to determine eligible qualifying income. No currency conversions are required as the U.S. Dollar is the standard currency of U.S. Territories. Validation of the income must be performed, typically through tax transcript validation. Applicable transcript request forms for borrowers filing tax returns in U.S. Territories must be completed and processed when required. Prior to pursuing validation of income not reported on IRS Tax Returns, an underwriting assessment must be made that the source(s) of income will be ongoing and the income meets eligibility criteria as applicable.

SALARY, WAGE, AND OTHER FORMS OF INCOME (CONTINUED)	**Overtime and Bonus Income**	• Overtime and bonus income can be used to qualify the borrower if the borrower has received this income for the past two years, and documentation submitted for the loan does not indicate this income will likely cease. If, for example, the employment verification states that the overtime and bonus income is unlikely to continue, it may not be used in qualifying. • Underwriting must use an average of bonus or overtime income for the past two years. Periods of overtime and bonus income less than two years may be acceptable, provided underwriting can justify and document the reason for using the income for qualifying purposes.
	Pension Income	• Pension income must be evidenced by the awards letter from the borrower(s) employer. o documentation is required to show the applicant(s) is entitled to the income; o award letters or other equivalent documentation will confirm three (3) years' continuance; o proof of recent distribution; or, o borrowers who are not currently receiving pension income but are scheduled to receive the income beginning no later than 60 calendar days from loan closing will be considered effective income with a copy of the award letter; proof of recent distribution is not required.

SALARY, WAGE, AND OTHER FORMS OF INCOME (CONTINUED)	**Primary Employment Less Than 40 Hour Work Week**	• When a borrower's primary employment is less than a typical 40-hour work week, underwriting should consider and evaluate the stability of that income as regular, on-going primary employment. For variable hours, a two (2) year average of income should be considered for qualifying purposes. When hours are consistent, the current rate of pay may be considered for qualifying purposes given the level of income can reasonably be expected to continue. o Example: A registered nurse may have worked 24 hours per week for the last year. Although this job is less than the 40-hour work week, it is the borrower's primary employment, and should be considered effective income.
	Qualifying Part-Time Income	• Part-time and seasonal income can be used to qualify the borrower if underwriting can document that the borrower has worked the part-time job uninterrupted for the past two (2) years, and plans to continue. Many low and moderate income families rely on part-time and seasonal income for day to day needs, and consideration of such income should not be restricted when qualifying these borrowers. • Part-time income received for less than two (2) years may be included as effective income, provided that underwriting justifies and documents that the income is likely to continue. • For qualifying purposes, "part-time" income refers to employment taken to supplement the borrower's income from regular employment; part-time employment is not a primary job and it is worked less than 40 hours.

SALARY, WAGE, AND OTHER FORMS OF INCOME (CONTINUED)	**Retirement Income**	• Retirement income may be considered qualifying income if the borrower can evidence the type of retirement income (e.g., Social Security, pension, annuity), source, amount, and consistent receipt. If any retirement income, such as employer pensions or 401(k)'s, will cease within the first full three (3) years of the mortgage loan, such income may not be used in qualifying. The following shall apply when analyzing retirement income: o Income may be verified from a copy of the benefit payment or award letter and recent distribution; o Review balance to verify the amount will be available for distribution over the next three (3) years. o If amount verified is not consistent , an average from the most recent 12 months will be used; and o Any annual distribution with a 2 year history will be averaged monthly. • Retirement Income Requirements o Effective income for borrowers planning to retire during the first three (3) year period must include the amount of: ▪ Documented retirement benefits; ▪ Social Security payments; or ▪ Other payments expected to be received in retirement

SALARY, WAGE, AND OTHER FORMS OF INCOME (CONTINUED)	**Retirement Income (Continued)**	• Retirement Asset eligibility (available to borrower but not yet receiving)
		  o The following assets may be used to qualify the borrower, if the borrower meets the following requirements:
		    ▪ The retirement assets must be in a retirement account recognized by the Internal Revenue Service (IRS) (e.g., 401(k), Individual Retirement Accounts (IRA),
		    ▪ Borrower(s) must be the sole owner,
		    ▪ The account must be immediately accessible in its entirety,
		    ▪ Account funds must not be subject to a penalty, and
		    ▪ The borrower's rights to the funds in the account must be fully vested
		• Income Calculation for Loan Qualification Using Retirement Assets
		  o Underwriting may use 70% of the balance of the eligible retirement asset less any funds required to complete the transaction (e.g., down payment, closing costs, financing costs, prepaids / escrows), divided by term of the loan to qualify the borrower for the loan.
		• Lump-Sum Distributions
		  o Lump-sum distribution funds not deposited to an eligible retirement asset:
		    ▪ If the lump-sum distribution funds have been deposited to an eligible retirement asset, follow the requirements for retirement assets described above.

SALARY, WAGE, AND OTHER FORMS OF INCOME (CONTINUED)	**Retirement Income (Continued)**	▪ Lump-sum distribution funds must be derived from a retirement account recognized by the Internal Revenue Service (IRS) (e.g., 401(k), Individual Retirement Accounts (IRA) and must be deposited to a non-retirement brokerage or depository account ▪ A borrower must have been the recipient of the lump-sum distribution funds ▪ Parties not obligated on the loan may not have an ownership interest in the account that holds the funds from the lump-sum distribution ▪ The proceeds from the lump-sum distribution must be immediately accessible in their entirety; and ▪ The proceeds from the lump-sum distribution must not have been or currently be subject to a penalty
	Social Security Income	• Social Security income must be verified by the Social Security Administration benefit verification letter (sometimes called a “proof of income letter,” “budget letter,” or “proof of award letter”). If any benefits expire within the first full three (3) years of the loan, the income source may not be used in qualifying. The following shall apply when analyzing Social Security Income: o Documentation is required to show the applicant(s) is entitled to the income. o Award letters or other equivalent documentation (Social Security, disability, etc.) will confirm three (3) years’ continuance. o proof of recent distribution; or

SALARY, WAGE, AND OTHER FORMS OF INCOME (CONTINUED)	**Social Security Income (Continued)**	o Borrowers who are not currently receiving social security retirement but are scheduled to receive the retirement income beginning no later than 60 calendar days from loan closing will be considered effective income with a copy of the award letter; proof of recent distribution is not required. • If the Social Security Administration benefit verification letter does not indicate a defined expiration date within three (3) years of loan origination, the underwriter shall consider the income effective and likely to continue. Pending or current re-evaluation of medical eligibility for benefit payments is not considered an indication that the benefit payments are not likely to continue. • Some portion of Social Security income may be "grossed up" if deemed nontaxable by the Internal Revenue Service (IRS). If the Underwriter has verified the income with the awards statement and proof of receipt, and the income is not sufficient to qualify the borrower, the Underwriter may gross up all tax-exempt income once it has been established and documented that such income is likely to continue (and remain untaxed) into the foreseeable future. The borrower must provide documentation, such as but not limited to income tax returns, to verify that the income is not taxable in order to "gross up" the tax-exempt income for qualifying. If the borrower is not able to provide documentation to evidence that the income is not taxable, underwriting cannot "gross up" the tax-exempt income. To gross up tax-exempt income, the Underwriter may use the same provisions as non-taxable income sources, refer to Adding Non Taxable Income to a Borrower's Gross Income within this Policy.

<table>
<tr><td>STABILITY OF INCOME</td><td colspan="2">Income may not be used in calculating the borrower’s debt-to-income ratio if it comes from any source that cannot be verified, is not stable, or will not continue. An underwriter may favorably consider the stability of a borrower’s income if the borrower(s) change(s) jobs frequently within the same line of work, but continues to advance in income or benefits. In this scenario, income stability takes precedence over job stability.</td></tr>
<tr><td>NON EMPLOYMENT RELATED BORROWER INCOME</td><td>Alimony, Child Support, and Maintenance Income Criteria</td><td>Alimony, child support or maintenance income may be considered effective, if:
Payments are likely to be received consistently for the first three (3) years of the loan;
The borrower provides the required documentation, which includes a copy of the:
Final divorce decree;
Legal separation agreement;
Court order; or
Voluntary payment agreement; and
The borrower can provide acceptable evidence that payments have been received during the last 12 months, such as:
Cancelled checks;
Deposit slips;
Income Tax returns; or
Court records.
Periods less than 12 months may be acceptable, provided the underwriter can adequately document the payor’s ability and willingness to make timely payments.
If there is less than 12 months history for alimony, child support, maintenance payments, the underwriter must document the situation and provide evidence that all payments made to date are consecutive and in full as outlined.</td></tr>
</table>

NON EMPLOYMENT RELATED BORROWER INCOME (CONTINUED)	**Alimony, Child Support, and Maintenance Income Criteria (Continued)**	◦ If payments made to date are not consistent, consecutive and in full, no income may be used. Any inconsistencies require signed documentation by both parties explaining the inconsistencies in amount • If child support is allowed as effective income, and the income is not sufficient to qualify the borrower, the Underwriter may gross up child support. To gross up tax-exempt income refer to Adding Non Taxable Income to a Borrower's Gross Income within this policy.

NON EMPLOYMENT RELATED BORROWER INCOME (CONTINUED)		**Investment and Trust Income**	• **Analyzing Interest and Dividends** o Dividend and interest income may be considered qualifying income if the borrower can provide evidence that the income has been received for the most recent two (2) years. This income must be averaged over the two (2) years. o Subtract any funds that are derived from these sources, and are required for the cash investment, before calculating the projected interest or dividend income. o Documentation of sufficient assets after closing is required to support the continuance of the dividend and interest income at the level used for qualifying for at least the next three (3) years. • **Trust Income** o Income from trusts may be used if constant payments will continue for at least the first three (3) years of the loan term as evidenced by trust income documentation. o Required trust income documentation includes a copy of the Trust Agreement or other trustee statement, confirming the: ▪ Amount of the trust; ▪ Frequency of distribution; and ▪ Duration of payments. o Trust account funds may be used for the required cash investment if the borrower provides adequate documentation that the withdrawal of funds will not negatively affect income. The borrower may use funds from the trust account for the required cash investment, but the trust income used to determine repayment ability could not be affected negatively by its use.

NON EMPLOYMENT RELATED BORROWER INCOME (CONTINUED)		**Investment and Trust Income (Continue)**	• **Notes Receivable Income** o In order to include notes receivable income, the borrower must provide: ▪ A copy of the note to establish the amount and length of payment, and ▪ Evidence that these payments have been consistently received for the last 12 months through deposit slips, cancelled checks, bank or other account statements, or tax returns. ▪ Payments are likely to be received for the first three (3) years of the loan. o If the borrower is not the original payee on the note, the underwriter must establish that the borrower is able to enforce the note. • **Eligible Income from Investment Properties** o If the subject property is an eligible investment property, the following requirements must be met in order to include the property's rental income or loss. ▪ Borrower must have a minimum of 12 months recent landlord experience. ▪ IRS Form 1040 Schedule E using income calculation worksheet. o If the subject property being purchased is an investment property the following underwriting requirements must be met: ▪ for newly constructed homes that are purchase transactions, the borrower may not be affiliated with or related to the builder, developer or property seller;

NON EMPLOYMENT RELATED BORROWER INCOME (CONTINUED)	**Investment and Trust Income (Continued)**	▪ the monthly housing expense related to the borrower's current primary residence must be used in calculating the borrower's monthly housing expense-to-income ratio; ▪ regardless of whether rental income from the mortgaged premises is used in qualifying, six (6) months of reserves [Principal, Interest, Taxes, Insurance and Association Fee (PITIA)] on the subject property is required; ▪ borrower funds must not include gifts; ▪ whenever rental income is to be used in qualifying, the borrower must have rent loss insurance on the investment property for at least six (6) months of gross monthly rent; ▪ if rental income is not used for qualifying, the monthly payment amount for the mortgaged premises plus operating expenses must be used in calculating the monthly debt payment-to-income ratio; and ▪ rental income may be used with a copy of a fully executed lease and proof of receipt of deposit providing: ➢ borrower has a two (2) year history owning and managing other rental property, and ➢ no more than 75% of the gross lease amount is used.

NON EMPLOYMENT RELATED BORROWER INCOME (CONTINUED)		**Military, Government Agency, and Assistance Program Income**	• **Military Income** o Military personnel not only receive base pay, but often times are entitled to additional forms of pay, such as: ▪ Income from variable housing allowances; ▪ Clothing allowances; ▪ Flight or hazard pay; ▪ Rations; and ▪ Proficiency pay o These types of additional pay are acceptable when analyzing a borrower's income as long as the probability of such pay to continue is verified in writing. o The tax-exempt nature of some of the above payments should also be considered. • **VA Benefits** o Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is acceptable, provided the underwriter receives documentation from the Department of Veterans Affairs (VA). o Education benefits used to offset education expenses are not acceptable. o • **Government Assistance Programs** o Income received from government assistance programs is acceptable as long as the paying agency provides documentation indicating that the income is expected to continue for at least three (3) years.

NON EMPLOYMENT RELATED BORROWER INCOME (CONTINUED)	**Military, Government Agency, and Assistance Program Income (Continued)**	o If the income from government assistance programs will not be received for at least three (3) years, it may not be used in qualifying. o Unemployment income must be documented for two (2) years, and there must be reasonable assurance that this income will continue. This requirement may apply to seasonal employment. • **Long Term Disability** o Long-term disability income (e.g., Social Security disability benefits, VA disability compensation, worker's compensation, private disability insurance) may be considered qualifying income that has a reasonable expectation of continuance unless there is a pre-determined insurance and/or benefit expiration date that is less than three (3) years (e.g., stated termination of a private disability insurance policy). o Pending or current re-evaluation of medical eligibility for insurance and/or benefit payments is not considered an indication that the insurance and/or benefit payment will not continue. Evidence of the source, amount, insurance and/or benefit type must be obtained.

NON EMPLOYMENT RELATED BORROWER INCOME (CONTINUED)	**Military, Government Agency, and Assistance Program Income (Continued)**	o For applicants with disability income, U.S. Bancorp will not impose unnecessary or unduly burdensome requirements, or impose different terms and conditions, on applicants using disability related income. This prohibition includes but is not limited to the adoption, performance, or implementation of any policy, practice or act that requires an applicant who relies on disability income to provide additional information or documentation from a doctor or medical professional addressing the duration, nature, or severity of a disability. • **Mortgage/Loan Credit Certificates** o If a government entity subsidizes the mortgage/loan payments either through direct payments or tax rebates, these payments may be considered as qualifying income with the following requirements. ▪ The amount used as qualifying income must be calculated as follows: (Mortgage/Loan amount) x (Note Rate) x (Mortgage/Loan Credit Certificate rate %) divided by 12 ▪ The amount used as qualifying income cannot exceed the maximum mortgage interest credit permitted by the Internal Revenue Service (IRS); ▪ The file must contain a copy of the Mortgage Credit Certificate (MCC) Underwriter's calculation of the amount used as qualifying income. A history of receipt of Mortgage Credit Certificate (MCC) tax credits is not required.

NON EMPLOYMENT RELATED BORROWER INCOME (CONTINUED)		**Military, Government Agency, and Assistance Program Income (Continued)**	• **Homeownership/Home Payment Subsidies** o A monthly subsidy must be treated as income, if a borrower is receiving subsidies under the housing choice voucher home ownership option from a Public Housing Agency (PHA). Although continuation of the homeownership voucher subsidy beyond the first year is subject to Congressional appropriation, for the purposes of underwriting, the subsidy will be assumed to continue for at least three (3) years. o The amount received may also be treated as nontaxable income and be grossed up. If the Underwriter has verified the income and the income is not sufficient to qualify the borrower, the Underwriter may gross up all tax-exempt income once it has been established and documented that such income is likely to continue (and remain untaxed) into the foreseeable future. If the borrower is not able to provide documentation to evidence that the income is not taxable, underwriting cannot gross up the income. To gross up tax-exempt income refer to Adding Non Taxable Income to a Borrower's Gross Income within this Policy.
		Non Taxable and Projected Income	• **Types of Non Taxable Income** o Certain types of regular income may not be subject to Federal income tax. Such types of nontaxable income include: ▪ Some portion of Social Security, some Federal government employee retirement income, Railroad Retirement Benefits, and some State government retirement income: ▪ Certain types of disability and public assistance payments;

NON EMPLOYMENT RELATED BORROWER INCOME (CONTINUED)		**Non Taxable and Projected Income (Continued)**	▪ Child support; ▪ Military allowances; and ▪ Other income that is documented as being exempt from Federal income taxes. • **Adding Non Taxable Income to a Borrower's Gross Income** o The amount of continuing tax savings attributed to regular income not subject to Federal income taxes may be added to the borrower's gross income. o The percentage of non-taxable income that may be added cannot exceed the appropriate tax rate for the income amount. Additional allowances for dependents are not acceptable. o The underwriter: ▪ Must document and support the amount of income grossed up for any non-taxable income source, and ▪ Should use the tax rate used to calculate the borrower's last year's income tax.

NON EMPLOYMENT RELATED BORROWER INCOME (CONTINUED)		**Non Taxable and Projected Income (Continued)**	o The tax rate and grossed up portion of income to be used is calculated as follows: ▪ the most recent IRS Form 1040 should be used, the rate is calculated by dividing the Taxable Income (line 43 on the 2013 form) by the Total Tax (line 47 on the 2015 form) by the Taxable Income (line 43 on the 2015 form) to derive the borrower's current tax rate; ▪ the grossed up portion of the monthly income amount to be used is calculated by multiplying the non-taxable income amount by the derived current tax rate; and ▪ the grossed up portion is added to the non-taxable portion for total usable income. o When the Income Tax Returns show all income is non-taxable, the underwriter may use IRS Tax Tables to determine the rate to gross up the tax exempt income. o If the borrower is not required to file a Federal income tax return, the tax rate of 25 percent should be used • **Analyzing Projected Income** o Projected or hypothetical income is not acceptable for qualifying purposes. However, considerations are permitted for income from the following sources: ▪ Cost-of-living adjustments; ▪ Performance raises; and ▪ Bonuses.

NON EMPLOYMENT RELATED BORROWER INCOME (CONTINUED)		**Non Taxable and Projected Income (Continued)**	o For the above considerations to apply, the income must be: ▪ Verified in writing by the employer; ▪ Scheduled to begin within 60 days of loan closing; and ▪ Evidenced that there is a two (2) year history of being received by the borrower. • **Projected Income for New Job** o Projected income is acceptable for qualifying purposes for a borrower scheduled to start a new job within 60 days of loan closing if there is a guaranteed, non-revocable contract for employment. o The underwriter must verify that the borrower will have sufficient income or cash reserves (3 months on all monthly obligations, including Principal, Interest, Taxes, Insurance and Association Fee (PITIA) to support the loan payment and any other obligations between loan closing and the start of employment. Examples of this type of scenario are teachers whose contracts begin with the new school year, or a physician beginning a residency after the loan closes.
		Rental Income	• **Analyzing the Stability of Rental Income** o Rent received for properties owned by the borrower is acceptable as long as the underwriter can document the stability of the rental income through: ▪ current lease, ▪ An agreement to lease, or ▪ A rental history over the previous two (2) years that is free of unexplained gaps greater than three (3) months (such gaps could be explained by student, seasonal, or military renters, or property rehabilitation).

NON EMPLOYMENT RELATED BORROWER INCOME (CONTINUED)		**Rental Income (Continued)**	• A separate schedule of real estate is not required for rental properties as long as all properties are documented on the Uniform Residential Loan Application (URLA).
			• The underwriting analysis may not consider rental income from any property being vacated by the borrower, except under the circumstances described below.
			• **Rental Income from Borrower Occupied Property**
			  o The rent for a multiple unit property where the borrower resides in one or more units and charges rent to tenants of other units may be used for qualifying purposes.
			  o Projected rent for the tenant-occupied units only may:
			    ▪ Be considered gross income, only after deducting vacancy and maintenance factors, and
			    ▪ Not be used as a direct offset to the loan payment.
			  o Rental income from the tenant-occupied unit on a refinance transaction requires the following documentation:
			    ▪ copy of current lease or agreement to lease, and
			    ▪ proof of security deposit.
			• Rental income may be considered only after deducting vacancy and maintenance factor (25%). Rental income **should be utilized as income and not as an offset to the housing payment.**
			• **Income from Roommates or Boarders in a Single Family Property**
			  o Rental income from roommates or boarders in a single-family property occupied as the borrower’s primary residence is acceptable.

NON EMPLOYMENT RELATED BORROWER INCOME (CONTINUED)		**Rental Income (Continued)**	o The rental income may be considered effective, if shown on the borrower's income tax return. If not on the income tax return, rental income paid by the roommate or boarder may not be used in qualifying. • **Documentation Required To Verify Rental Income** o Analysis of the following required documentation is necessary to verify all borrower rental income: ▪ IRS Form 1040 Schedule E; **and** ▪ Current leases/rental agreements • **Analyzing IRS Form 1040 Schedule E** o The IRS Form 1040 Schedule E is required to verify all rental income. Depreciation shown on IRS Form 1040 Schedule E may be added back to the net income or loss. o Positive rental income is considered gross income for qualifying purposes, while negative income must be treated as a recurring liability. o The underwriter must confirm that the borrower still owns each property listed, by comparing Schedule E with the real estate owned section of the URLA. • **Using Current Leases to Analyze Rental Income** o The borrower can provide a current signed lease or other rental agreement for a property that was acquired since the last income tax filing, and is not shown on IRS Form 1040 Schedule E. o In order to calculate the rental income: ▪ Reduce the gross rental amount by 25 percent for vacancies and maintenance; ▪ Subtract Principal, Interest, Taxes, Insurance and Association Fee (PITIA); and

NON EMPLOYMENT RELATED BORROWER INCOME (CONTINUED)		**Rental Income (Continued)**	▪ **Apply the resulting amount to income, if positive, or recurring debts, if negative.** o In order to use rental income from a property not reflected from the last income tax filing, the following is required: ▪ Reserves equal to 6 months Principal, Interest, Taxes, Insurance and Association Fee (PITIA); for each property, ▪ No more than 25% of the borrower(s) income can be derived from these rental properties, and ▪ Two (2) years recent landlord experience verified through two (2) years of income tax returns and IRS Form 1040 Schedule E. • **Exclusion of Rental Income from Property Being Vacated by the Borrower** o Underwriters may not consider any rental income from a borrower's principal residence that is being vacated in favor of another principal residence, except under the conditions described below: ▪ This policy assures that a borrower either has sufficient income to make both loan payments without any rental income, or has an equity position not likely to result in defaulting on the loan on the property being vacated; and ▪ This applies solely to a principal residence being vacated in favor of another principal residence. It does not apply to existing rental properties disclosed on the loan application and confirmed by Income Tax Returns (Schedule E of form IRS 1040).

NON EMPLOYMENT RELATED BORROWER INCOME (CONTINUED)	**Rental Income (Continued)**	When a borrower vacates a principal residence in favor of another principal residence, the rental income, reduced by a 25% vacancy factor, may be considered in the underwriting analysis if supported by a copy of a lease and proof of security deposit; the lease must be in effect no later than 60 calendar days from the note date. The net rental income should be utilized as income/debt, as applicable, under the circumstances listed in the table below.

Exception	**Description**
Relocations	• The borrower is relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally-recognized commuting distance. • A properly executed lease agreement (that is, a lease signed by the borrower and lessee) must be in effect no more than 60 calendar days from the note date, must be of at least one year's duration after the loan is closed, , and must have proof of security deposit. The borrower must also document six (6) months Principal, Interest, Taxes, Insurance and Association Fee (PITIA) reserves for the property being vacated to qualify.

NON EMPLOYMENT RELATED BORROWER INCOME (CONTINUED)		**Rental Income (Continued)**	Relocations (Continued)	• Underwriters should also obtain evidence of the security deposit and/or evidence the first month's rent was paid to the homeowner.
			Sufficient Equity in Vacated Property	• The borrower has a loan-to-value ratio of 75 percent or less, as determined by a current (no more than six months old) residential appraisal. • The borrower must also document two (2) months Principal, Interest, Taxes, Insurance and Association Fee (PITIA) reserves for a property being vacated when rents are used to qualify. • The appraisal, in addition to using forms Fannie Mae 1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae 1075/Freddie Mac 466.

NON EMPLOYMENT RELATED BORROWER INCOME (CONTINUED)		
	Restricted Stock Units	• Restricted stock units may be used as income to qualify the borrower if the income has been verified with a 2 year history of receipt and likelihood of continuance for a minimum of 3 years, based on the vesting/payout schedule. The following documentation is required for use of RSU income and to be calculated using the income calculation worksheet. o Employer must be a publically traded entity (i.e., Fortune 500 Company). Cannot be a privately held company. o Issuance agreement or equivalent documentation o Schedule of distribution of shares/units o Vesting schedule o Evidence company is publically traded o Evidence payout of RSU with pay stubs and 2 years W2's ▪ W2 box 12cV (stock options distributions) will confirm eligible income figure

DEBT BORROWER LIABILITIES- RECURRING OBLIGATIONS	
DEBT TO INCOME RATION COMPUTATION FOR RECURRING OBLIGATIONS	• The following must be included when computing the Debt-to-Income (DTI) ratios for recurring obligations: o monthly primary housing expense, o monthly second home housing expense, o monthly investment property housing expense, o monthly timeshare expense, and o commercial debt, o all revolving or open ended accounts regardless of the balance, and o additional recurring charges extending ten months or more, such as payments on installment accounts, child support or separate maintenance payments. • If the business is making the payment(s) based upon analysis of the IRS Forms 1120S, 1065 or 1120 Schedules, then the payment(s) does not need to be included. If underwriting cannot determine and document that the payment(s) is being made by the business, the monthly expense must be considered the borrowers debt. • Debts lasting less than ten months must be included if the amount of the debt will affect the borrower's ability to pay the mortgage during the months immediately after loan closing, especially if the borrower will have limited or no cash assets after closing. Recurring installment, child support or separate maintenance payments may be excluded if the borrower has sufficient cash reserves to pay off the balance. Monthly payments on revolving or open-ended accounts, regardless of their balances, are counted as liabilities for qualifying purposes even if the accounts appear likely to be paid off within ten months or less: • For business debt in the borrower(s) name, the obligation does not need to be included if: o the account does not have a history of delinquency; and, o the business provides acceptable evidence that the obligation was paid out of the company funds for the previous 12 months, or evidence that the obligation is factored into the business expenses [such as evaluation of the IRS Form 1120S, IRS Form 1065, Schedule C, Profit and Loss (P&L) statement, etc.].

DEBT TO INCOME RATION COMPUTATION FOR RECURRING OBLIGATIONS (CONTINUED)	• If underwriting cannot determine and document that the payment(s) is being made by the business, the monthly expense must be considered in the borrower's debt.
MONTHLY HOUSING EXPENSE	• The monthly housing expense [referred to as Principal, Interest, Taxes, Insurance and Association Fee (PITIA) within this document] is the sum of the following monthly charges: o Principal and interest payments on the mortgage o Principal and interest on any secondary financing whether subordinate or simultaneous loans or Lines-of-Credit, o Property hazard insurance premiums o Real estate taxes o when applicable, mortgage insurance premiums, other insurance (i.e. flood, earthquake), leasehold payments, and homeowners association dues (excluding unit utility charges). • Examples documentation Provident Bank Mortgage will accept to evidence PITIA may include: o a payment statement o a current escrow analysis statement o tax returns o hazard/homeowner's insurance declarations page o county assessor on-line records search for taxes. • Examples of documentation Provident Bank Mortgage will accept to demonstrate that there are no liens against the property may include: o Evidence of loss payee clause either by the Declarations page or the hazard/homeowner's policy o Title search o County website search for liens/deeds against property o Other third party documentation as reviewed and approved by investor's underwriting

MONTHLY HOUSING EXPENSE ON A PENDING SALE	• If borrower's current primary residence is pending sale and the sale will not close before the subject property mortgage note date, both housing payments must be included in the monthly Debt-to-Income (DTI) ratio. The borrower must have reserves equal to six (6) monthly payments of [Principal, Interest, Taxes, Insurance and Association Fee (PITIA)] for both residences. • The Principal, Interest, Taxes, Insurance and Association Fee (PITIA) payment for the current principal residence may be removed from the qualifying ratios if the following requirements are met: o reserves equal to six (6) months Principal, Interest, Taxes, Insurance and Association Fee (PITIA) payment for both properties, and o receipt of the executed sales contract for the current residence, and o confirmation that any financing contingencies have been cleared.
MONTHLY HOUSING EXPENSE ON A PROPERTY CONVERSION	• If the borrower is converting their primary residence to a second home or a rental property (Investement) and purchasing a new primary residence, the following requirements must be met: o both housing payments must be included in the monthly Debt-to-Income (DTI) ratio; and o borrower must have reserves equal to six (6) monthly payments of Principal, Interest, Taxes, Insurance and Association Fee (PITIA) for both residences. The reserves may be reduced to two (2) months for both residences with 25% equity in the home being retained
MONTHLY HOUSING EXPENSE ON A HOME BUYOUT CONTRACT	• If the borrower is relocating for a new job and the existing residence is subject to a home buyout, the payment may be excluded from the Debt-to-Income (DTI) ratio if the following requirements are met: o reserves covering the Principal, Interest, Taxes, Insurance and Association Fee (PITIA) payment for both properties for a duration equal to the guaranteed buyout timeframe; and o receipt of the relocation agreement confirming the guaranteed buyout.

MONTHLY PAYMENTS NOT ON THE CREDIT BUREAU	

MONTHLY PAYMENTS NOT ON THE CREDIT BUREAU

- The payment amount reported on the Credit Bureau Report shall be used when calculating the monthly obligation. In addition, on real estate secured loans and lines of credit, real estate taxes, homeowners hazard insurance, flood insurance, assessments and homeowner's association dues must be included, as applicable.
- If a debt obligation is not reported on the Credit Bureau Report, the following alternative sources may be used to determine the most likely monthly payment amount:
  - copy of note(s),
  - coupon book(s),
  - paycheck stubs/vouchers, or
  - monthly statement(s).
- When a debt balance (amount) is reported on the Credit Bureau Report and a corresponding payment amount is not reported, an alternative source may be used to determine the most likely monthly payment amount, otherwise the criteria for determine the proper payment amount(s) shall vary depending on the loan type. Required minimum payments should be calculated as follows:

Type of Debt	Requirement
Installment Loan Lease	Use 2% of the original loan amount.
Revolving Account, Revolving Line of Credit, or Open Ended Debt	Use the greater of 5% of the balance or $10.
Student Loan	Use 2% of original loan amount. If not deferred or in forbearance then use direct verification from the Seller/Broker or documentation provided by the borrower confirming the actual payment, even if no payment is required.
Home Equity Line of Credit	Use 1% of the commitment amount. The maximum period over which a mortgage product may be amortized is 30 years.

<table>
<tr><td>MONTHLY PAYMENTS NOT ON THE CREDIT BUREAU (CONTINUED)</td><td>
<table>
<tr><td>Mortgage Loan</td><td>Calculate payment based on information available. The maximum period over which a mortgage product may be amortized is 30 years.</td></tr>
<tr><td>Co-signed Debts</td><td>Calculate payment based on information available.</td></tr>
<tr><td>Other Debt
An account type reported on the Credit Bureau Report will be listed as Other Debt if the system cannot determine the classification as Revolving, Installment, Home Equity or Mortgage.</td><td>Use 3% of the advanced balance.</td></tr>
</table>
</td></tr>
<tr><td>RATE AND AMORTIZATION PERIOD FOR QUALIFICATION RATIO CALCULATION</td><td>

For qualification purposes, the maximum period over which any mortgage product may be amortized is 30 years.

Fixed Rate

All fixed rate products shall be qualified using the fully amortizing payment based on the note rate and loan term.
Interest Only loan products are to be qualified using an amortization period equal to the term of the loan remaining after the Interest Only period expires.

Adjustable Rate

All Adjustable Rate Mortgage (ARM) products, including the Interest Only product, shall be qualified using a fully amortizing payment based on a rate determined by the ARM product type as follows:

An Adjustable Rate Mortgage (ARM) with a first rate reset(s) up to and including the fifth year (these are 1-5 Year ARMs) is to be qualified at the maximum rate the borrower could experience within the first 5 years after the first payment date.

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RATE AND AMORTIZATION PERIOD FOR QUALIFICATION RATIO CALCULATION (CONTINUED)	➢ Adjustable Rate Mortgage (ARMs) with the first rate reset beyond the fifth year [these are Adjustable Rate Mortgage (ARMs) that are > 5 years]) are to be qualified at the greater of the fully indexed accrual rate (FIAR) or the applicable start rate. • The fully indexed rate defined as the interest rate calculated by adding the margin as determined at the time of rate lock, to an index level. The index level varies according to market conditions, but the margin is usually a constant value. • Proposed or existing Adjustable Rate Mortgages (ARMs) with another lender are to be qualified as outlined above. • Interest Only loan products (both variable rate and fixed rate) are to be qualified using an amortization period equal to the term of the loan remaining after the Interest Only period expires. • **Line of Credit** o All new extensions of Home Equity Lines of Credit (HELOCs) shall be qualified using the greater of the minimum contractual payment or a payment that represents repayment of a fully drawn line amortized over the repayment period at an interest rate that includes consideration of future interest rate levels. Balloon repayment Home Equity Lines of Credit (HELOCs) are not acceptable. o U.S. Bank Home Equity Line of Credit (HELOC) products structured as a 120-month draw period followed by a 240- month amortization shall be qualified based on the HELOC Qualification Payment Worksheet. o Non-U.S. Bank new money Home Equity Lines of Credit (HELOCs) associated with a simultaneous U.S. Bank new money extension of credit shall be qualified using the greater of the minimum contractual payment or a payment that represents repayment of a fully drawn line amortized over the repayment period at an interest rate that includes consideration of future interest rate levels as indicated in the HELOC Qualification Payment Worksheet. Balloon repayment Home Equity Lines of Credit (HELOCs) are not acceptable. o For an existing Home Equity Line of Credit (HELOC) the payment amount reported on the Credit Bureau Report shall be used.

REDUCTION OF ALIMONY PAYMENT FOR QUALIFYING RATIO CALCULATION	• Since there are tax consequences of alimony payments, the underwriter should treat the monthly alimony obligation as a reduction from the borrower's gross income when calculating qualifying ratios, rather than treating it as a monthly obligation.
TYPES OF RECURRING OBLIGATION	• Recurring obligations include: o All installment loans; o Revolving charge accounts; o Real estate loans; o Child support; and o Other continuing obligations.
UNDISCLOSED DEBT	• The credit report and 1003 are the primary source of credit and debt information. All documentation in the file (such as paystubs, asset statements, divorce decrees, etc.) should be reviewed to determine if there is undisclosed debt. **<u>If undisclosed debt is found, it must be considered in qualifying.</u>** • **Paystubs:** o Deductions to be included are obligatory in nature such as but not limited to garnishments, child support payments, etc. o Deductions to be excluded that are voluntary in nature such as but not limited to insurance premiums, retirement savings and charities, etc. • **Assets Statements:** o When reviewing the borrower(s)' asset statements, check to see if there are any material debts such as payments to financial institutions, individuals, rental/leasing companies or the IRS, etc. Traditional purchases or living expenses (i.e. utility payments, car or health insurance premiums, debit card purchases, etc.) should not be included even if shown on an asset statement more than once. o It may be difficult to differentiate a living expense versus a true recurring debt. The UW should try alternative methods to identify the debt such as an internet search or a letter of explanation from the borrower.

UNDISCLOSED DEBT (CONTINUED)	o If it is determined there is an undisclosed debt, these debts would need to be added to the loan application and included in the DTI. If the borrower still qualifies with the additional debt included the UW should indicate that via a comment in their RECAP. o This is an additional review process required along with the review of the credit report and following up on inquiries and is a means to alleviate the undisclosed debt concern for qualifying.
DEBT Borrower Liabilities-Contingent Liabilities	
DEFINITION: CONTINGENT LIABILITY	• 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.
APPLICATION OF CONTINGENT LIABILITY POLICIES	• The contingent liability policies described in this topic apply unless the borrower can provide conclusive evidence from the debt holder that there is no possibility that the debt holder will pursue debt collection against him/her should the other party default.
CONTINGENT LIABILITY ON MORTGAGE ASSUMPTIONS	• Contingent liability must be considered when the borrower remains obligated on an outstanding FHA-insured, VA-guaranteed, or conventional mortgage secured by property that: o **Has been sold or traded within the last 12 months without a release of liability, or** o **Is to be sold on assumption without a release of liability being obtained.**
EXEMPTION FROM CONTINGENT LIABILITY POLICY ON MORTGAGE ASSUMPTIONS	• **When a mortgage is assumed, contingent liabilities need not be considered if the:** o Underwriter of the loan obtains from the servicer of the assumed loan, a payment history showing that the loan has been current during the previous 12 months, or o Value of the property, as established by an appraisal or the sales price on the Closing Document from the sale of the property, results in a loan-to-value (LTV) ratio of 75 percent or less.

CONTINGENT LIABILITY ON COSIGNED OBLIGATIONS	• **Contingent liability applies, and the debt must be included in the underwriting analysis, if an individual applying for a loan is a cosigner/co-obligor on:** o A car loan; o A student loan; o A real estate secured loan; or o Any other obligation. • **If the underwriter obtains documented proof that the primary obligor has been making regular payments during the previous 12 months, and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the borrower's monthly obligations.** • **For self-employed borrowers, if the underwriter obtains documented proof that the business has been making regular payments during the previous 12 months, and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the borrower's monthly obligations.**
CONTINGENT LIABILITY FOR DIVORCE DEBT	• If the credit report indicates a debt, which has been paid as agreed, has been assumed or has been transferred because of divorce, the debt need not be included in the qualifying ratios. • Obtain the following: o a copy of the divorce decree ordering the spouse to make payments, or o the assumption agreement and deed showing transfer of title out of the borrower's name. • A 12 month history is not required.

DEBT Borrower Liabilities-Projected Obligations and Obligations not Considered Debt	
DEBT CONSOLIDATION	• Revolving accounts that are documented to be paid and closed either during the underwriting of the transaction or at loan closing may be excluded from the Debt-to-Income (DTI) calculation • Debt account balances that are being consolidated may be excluded from the Debt-to-Income (DTI) calculation with the following requirements: o For a new secured mortgage loan the debts to be paid are indicated on the Closing Document. o **For a new Line-of-Credit the debts to be paid are indicated by the underwriter and cannot be removed after final loan approval without re-approval by the underwriter.**
OBLIGATIONS NOT CONSIDERED DEBT	• Obligations not considered debt, and therefore not subtracted from gross income, include: o Federal, State, and local taxes; o Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt secured by these funds): o Commuting costs; o Union dues; o Open accounts with zero balances; o Automatic deductions to savings accounts; o Child care; and o Voluntary deductions; o Open accounts with zero balances; o Open accounts with a balance paid to $0/zero prior to loan closing that meet the following requirements: ▪ must be from the borrower(s) own funds, and ▪ documentation of zero balance and source of funds must be provided in the form of a recent account statement and source of funds (e.g. cancelled check, bank account statement, etc.); and

OBLIGATIONS NOT CONSIDERED DEBT (CONTINUED)	o Open accounts with a balance paid to $0/zero at loan closing that meet the following requirements: ▪ must be from the borrower(s) own funds, ▪ source of funds must be provided in the form of a recent account statement and source of funds (e.g. cancelled check, bank account statement, etc.), and ▪ must be reflected on the Closing Document or as indicated by the underwriter.
PROJECTED OBLIGATIONS	• Debt payments, such as a student loan or balloon-payment note scheduled to begin or come due within 12 months of the loan closing, must be included as anticipated monthly obligations during the underwriting analysis. • Student Loan payments must be included even if in deferment period. The underwriter should calculate a fully amortizing payment based on information available. If documentation indicating the payment is not obtained or available, use 2% of original loan amount as the payment. • Balloon-payment notes that come due within one year of loan closing must be considered in the underwriting analysis. The underwriter must take into consideration and determine if the borrower has adequate reserves to pay the balloon in full.