TABLE OF CONTENTS

MATRIX

PURCHASE RATE/TERM SINGLE FAMILY (1 Unit) , CONDOS, PUDS	
Purchase and Rate/Term	
Credit Score	**LTV/CLTV**
760+	90/90
740	90/90
720	90/90
700	85/85
680	85/85
PURCHASE RATE/TERM SECOND HOME (1 Unit), CONDOS, PUDS	
Purchase and Rate/Term	
Credit Score	**LTV/CLTV**
760+	85/85
740	85/85
720	85/85
700	85/85
680	80/80

RETAIL/WHOLESALE

- **ALL LOANS REQUIRE PRIOR INVESTOR APPROVAL NO EXCEPTIONS**
  - Branch Underwriters must completely underwrite the loan with all material PTD conditions signed off. (Income/Assets/Credit/Collateral)
  - Once underwritten send to Corporate Underwriting to upload to the investor.
  - All investor conditions will be added to the LSN by the Branch Underwriter after receipt of them from Corporate Underwriting
  - 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.
  - All required Appraisal documentation is required to be submitted to the investor at the same time as the credit package.
- Second/First Loans must be manually underwritten and fully documented. All loans must be underwritten in compliance with the Ability to Repay standards set forth in 1026.43. For additional topics not specifically or fully addressed by 1026.43 guidance or herein, Fannie Mae underwriting guidelines should be followed
- Investor turns times are posted daily.
- **12 months title seasoning**
- **All price adjustments are to the Rate**

ESCROW WAIVERS

- **For CA loans escrows required on all loans with LTV >=90.00 or CLTV >=80.00 on a 1st/2nd Combo**

PRODUCT CODE 1st AND 2ND COMBO	• **1st TD's** o **JF15GC** o **JF30GC** o **JF30IOGC** • **2nd TD** o **CE2ND20GC**
TERM	• 1ST TD: 15 year (180 months), 30 years (360 months), and 30 year Interest Only • 2ND TD: 20 years (240 months) ONLY
MAXIMUM DEBT RATIO	• 43% ▪ **NO Exceptions**
PROPERTY TYPES	• **SFR & SECOND HOMES** o 1 Unit • PUD • Condo o Warrantable Condos Only
MINIMUM & MAXIMUM 1ST TD LOAN AMOUNT	• **Minimum Loan Amount 1st TD $100,000** • **Maximum Loan Amount 1st TD $1,000,000**
MINIMUM & MAXIMUM 2nd TD LOAN AMOUNT	• **Minimum Loan Amount 2nd TD $50,000.00** • **Maximum Loan Amount 2nd $500,000** • **Maximum combined loan balance = $1,500,000**
MAXIMUM LTV/CLTV	• LTV 90% • CLTV 90% o **See Matrix for specific LTV/CLTV, Credit Score Restrictions**
TRANSACTION TYPES	• Purchase • Rate/Term
MORTGAGE INSURANCE	• Not applicable
OCCUPANCY	• Owner Occupied 1 Unit • Second Home o Investment properties not allowed.
QM/ APPENDIX Q	• **Second Liens are QM only.** o Income Documentation must meet Appendix Q. • **ATR/QM** o 3% included • **Section 35** o Test at 3.5% • **Section 32** o Fee Base at 8.5%

	• **California High Cost**
MANUAL UNDERWRITE FOR ALL LIENS	• Second Loans must be manually underwritten and fully documented. All loans must be underwritten in compliance with the Ability to Repay standards set forth in 1026.43. For additional topics not specifically or fully addressed by 1026.43 guidance or herein, Fannie Mae underwriting guidelines should be followed

ABILITY TO REPAY (ATR), QUALIFIED MORTGAGE, AND NET TANGIBLE BENEFIT REQUIREMENTS	• The Consumer Financial Protection Bureau adopted a rule that implements the Ability to Repay ("ATR") and Qualified Mortgage ("QM") provisions of the Dodd-Frank Act. Benefit to the Borrower In keeping with Commitment to responsible lending, all loans must have measurable benefit to the Borrower. When determining the benefit on a transaction, one of the following items must exist to support the benefit to the Borrower: 1. Purchasing a home 2. Lower principal and interest housing payment 3. Lower total monthly payments 4. Lower interest rate 5. Conversion from an adjustable rate to a fixed rate 6. Pay-off of a balloon payment 7. Conversion from negative amortization to fully amortization 8. Reduction of loan term 9. Reduction of total interest payments 10. Consolidation of debt 11. Resolution of loss mitigation actions 12. Pay-off of a tax lien 13. Proceeds (cash-out) to Borrower in excess of the costs and fees to refinance 14. Pay-off of a Construction loan 15. Pay-off of property taxes 16. Title transfer/Court order 17. Eliminating mortgage insurance 18. Cash-out for medical needs 19. Cash-out for education needs 20. Pay-off of privately held mortgage 21. Other as defined by the Borrower • On a Loan where the only benefit is monthly, savings, closing costs and fees must be taken into account and recouped within state-specified timeframes as applicable. Benefit to Borrower must be calculated based on the qualifying housing payment.
FRAUD DETECTION REQUIRMENTS	• GSA, LDP, and Exclusionary List o The Underwriter must verify that no company or individual who are material parties to the transaction is listed on HUD's "Limited Denial Participation" list, the federal General Services Administration (GSA) Excluded Party list, and Freddie Mac's Exclusionary List. All lists must be checked for all parties to the transaction. o If any names appear on either list, the **Loan is not eligible**. **This applies to all loans.**

ELECTRONIC SIGNATURE AND DISCLOSURE REQUIREMENTS	• Documents Eligible for Electronic Signatures (eSignatures) o Initial application documents associated with the 1003, (i.e. initial disclosures, sales contract) may be signed electronically. ▪ The Underwriter is responsible for determining that the documents have been properly signed by all parties (as with non-electronic documents). ▪ Any transaction involving the use of Power of Attorney will not be permitted to use an "eSignature". o The underwriter will not be permitted to submit any **FINAL** documents with "eSignatures" process must adhere to Uniform Electronic Transactions Act ("UETA"), or the Electronic Signatures in Global and National Commerce Act ("ESIGN).
BORROWER ELIGIBLITY	• **IMMIGRATION AND NATURALIZATION SERVICE (INS) CLASSIFICATIONS:** o The U.S. Department of Immigration and Naturalization Service (INS) as defined specific residency classifications. Provident Bank Mortgage offers programs to individual persons who are citizens and/or legal permanent residents of the United States.

INS Classification	INS Definition	Program Guideline
U.S. Citizen	A Citizen of the United States is a native-born, foreign-born, or naturalized person who owes allegiance to the United States and who is entitled to its protection.	United States citizens are eligible Borrowers
Permanent Resident Alien	A permanent resident alien is a person who is not a U.S. citizen but is legally able to maintain permanent residency in the United States	A permanent resident alien may be an eligible Borrower, if the Borrower is a holder of an alien registration card (green card). The Underwriter is responsible to verify that the Borrower has a valid registration card.

BORROWER ELIGIBLITY (CONTINUED)

Non-Permanent Resident Alien	A non-permanent resident alien is a person who is not a U.S. citizen but resides in the United States under the terms of a Visa.	A non-permanent resident alien may be an eligible if they maintain a current G-1 to G-5, H-1, L-1, or E-1 Visa and they can provide a copy of the Visa with underwriting documentation.
Foreign Nationals	A foreign national is a person who is not a U.S. citizen and who lives and works outside of the United States	Not eligible
Persons with Diplomatic Immunity	A person with diplomatic immunity is allowed to live in the United States to carry out their official diplomatic duties. They are not U.S. citizens, and are exempt from lawsuit or prosecution under the host country's laws.	Not eligible

- **Evidence of Residency**
  Acceptable evidence of permanent residency for Borrowers who are not U.S. citizens must be provided. The Borrower must provide the INS evidence as follows:
  - Alien Registration Receipt Card I-151 (referred to as a green card).
  - Alien Registration Receipt Card I-551 (Resident Alien Card) that does not have an expiration date on the back (also known as a green card).
  - Alien Registration Receipt Card I-551 (Conditional Resident Alien Card) that has an expiration date on the back, and is accompanied by a copy of the filed INS Form I-751 (petition to removed conditions)
  - Non-Expired foreign passport that contains a non-expired stamp (valid for a minimum of three years) reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid unit [mm-dd-yy]. Employment Authorized.
  - The U.S. Citizenship and Immigration Services Web site is : https://egov.immigration.gov/cris/caseStatusSearchDisplay.do
  - Other forms of evidence of residency that are not listed may be acceptable, and

	will be reviewed on a case-by-case basis.
BORROWER TYPES	• The following are types of Borrowers allowed. Provident Bank Mortgage limits the number of Borrowers per Loan to four. o **The primary Borrower** is the individual who earns the most income. Non-occupant Co-Borrowers cannot be the Primary Borrower on the Mortgaged Property. o **Co-Borrower** is an individual other than the Primary Borrower whose credit history, income, or assets are used for qualifying the loan. The Co-Borrower is the Borrower's spouse, domestic partner, or any individual jointly responsible for repayment of the loan with the Borrower. All Co-Borrowers must be on title. o **First-Time Homebuyers (FTHB):** Borrowers are considered First-Time Homebuyers (FTHB) when there is no evidence of owning residential property in the previous three years. First-Time Homebuyers generally must fulfill specific requirements in addition to the conditions stipulated for experienced homebuyers. **A Borrower(s) who has experienced owning a home, but has not owned one in the past three years, will be considered a FTHB.** ▪ In the instance where one Borrower is a FTHB and other Borrower(s) is not, Provident Bank Mortgage will treat the transaction as a non-FTHB transaction for eligibility. ▪ For LTV/CLTV restrictions, reserve requirements and other guidelines specific to FTHBs. o **Non-Borrowing Occupant** is the Borrower's legal spouse, domestic partner, or any person residing in the Mortgaged Property whose, credit, income, and/or assets are not considered in the loan qualifying process. Non-Borrowing Occupants that appear on title will have to execute the documents required by law to create a valid lien on the property. ▪ When a married Borrower purchases a property without involving a spouse, Provident Bank Mortgage requires the spouse to sign the security instrument, and any other applicable documentation under governing state law to confirm relinquishment of their rights to the property. o **Non-Occupant Co-Borrower (co-signer)** is an individual who will not be living in the Mortgaged Property, but whose income and/or assets have been used to qualify for the loan. The co-signer must sign the Note. Although the Non-Occupant Co-Borrower does not reside in the Mortgaged Property, he or she is jointly responsible (with the Primary Borrower) for repaying the loan. The loan is subject to the following conditions: ▪ **Mortgage Loan:** ✓ Owner occupied ✓ The Primary (occupant) Borrower's credit profile will be used, and the Primary Borrower must have a DTI of no more than 60% ▪ **Borrowers own funds** must meet down payment and reserve requirements.

BORROWER TYPES (CONTINUED)	▪ **Non-occupant Co-Borrower:** ✓ Individual cannot be the Primary Borrower, and must be a close family member such as a parent, child, grandparent, or sibling. Credit must meet the minimum credit standards. ✓ Must provide income and asset documentation to be used for qualification. ✓ Must be vested on the Mortgaged Property for a minimum of six months for a Rate/Term Refinance and twelve months for a Cash-Out Refinance transaction. ✓ Up to two Non-Occupant Co-Borrowers allowed
TITLE HELD IN A TRUST OR LLC ON BEHALF OF THE BORROWER	The Borrower must be an individual with the exception of inter-vivos revocable trust limited-liability companies (LLCs) under certain circumstances. Inter vivos revocable trusts are created by individuals, while they are still living, as an estate planning tool. Title must generally be in the Borrower's name as an individual, trust or LLC at time of application for refinance transactions and at the time of closing for all transactions. Title in the name of an LLC at time of application is acceptable provided the Borrower is a member of the LLC and the Loan will be in the Borrower's name as an individual or acceptable trust at closing. Non-individual legal entities such as corporations, general partnerships, limited partnerships, real estate syndications or investment trust are not eligible. The inter vivos revocable trust, also called a family trust, living trust, or revocable living trust, can be used as an alternative form of property ownership. An inter vivos revocable trust ("living trust") is a trust defined as follows: **Eligibility Requirements:** • Created by an individual during his/her lifetime • Becomes effective during its creator's lifetime • Can be changed or canceled by its creator at any time, for any reason, during his or her lifetime • At least one individual establishing the trust must be on the Loan.
TRUST AGREEMENT REQUIREMENTS	• The Underwriter must obtain copies of the entire trust document and include them in the loan file submitted for purchase. The copies must be certified by an attorney or the grantor/trustor/settlor. The title company must also be supplied with copies of the trust. • A review of the trust agreement is required to ensure the agreements meets all the following requirements: o The trust is established by one or more natural persons, solely or jointly. The person establishing the trust is known as the "Settlor", "Trustor", or Grantor", referred to below as "Settlor". o The trust is effective during the Settlor's lifetime o The Settlor is the primary beneficiary of the Trust. If there is more than one Settlor there can be more than one primary beneficiary.

TRUST AGREEMENT REQUIREMENTS (CONTINUED)	o The Settlor is the trustee or one of the co-trustees o The trustee has the power to mortgage the Subject Property for the purpose of securing a loan to the party (or parties) who are the borrowers on the Note. o The trustee is not required to obtain written consent from the beneficiaries to mortgage the subject property if written consent has been provided. o There is no unusual risk or impairment of Provident Bank Mortgage's rights, such as distributions required to be made in specified amounts other than net income o The trust is valid under federal, state, and local law o If the trust agreement requires more than one trustee to borrow money or purchase, construct, or encumber realty, the Underwriter must confirm that the requisite number of trustees have signed the loan documents.
CERTIFICATION OF TRUST	• A certification of trust or a summary of trust is acceptable if required by state law. In states that require a Underwriter to rely on an abstract, summary or certification of the trust agreement instead of the trust agreement, a copy of the abstract, summary or certification is acceptable. o California (CA) law provides for the use of a Certification of Trust that states the various facts about the trust in lieu of obtaining copies of the trust. Underwriter can rely upon this certification so long as it is signed by all of the trustees (Powers of Attorney are not allowed). Underwriters must review the certification to verify the above requirements are met. o The title insurance policy must ensure full title protection, and must indicate that title to the subject property is vested in the name of the trustees. The policy may not list any exceptions with regard to the trust or the trustees. ▪ Additional documentation: ✓ Inter Vivos Revocable Trust Rider to the Deed of Trust/Mortgage ✓ Inter Vivos Trust as Borrower Acknowledgment ✓ Verbiage on this Acknowledgement may be incorporated into the Inter Vivos Revocable Trust Rider to the Deed of Trust/Mortgage. If the verbiage is included in the Rider, then the Acknowledgement is not required
MAXIMUM LOANS TO ONE BORROWER	• In order to reduce the level of risk and ensure lien security, the Investor limits the potential Borrower's open loans, total number of properties owned, and number of mortgaged properties owned in one area. • The occupancy of the property being financed will determine the limitations on how many other financed 1-4 family properties the Borrower may own and/or be obligated on. These limitations apply to each Borrower, individually and all Borrowers collectively that own and/or are obligated on a note secured by a mortgage. The Borrower(s) obligation on a mortgage is important when evaluating capacity. Therefore, even if the Borrower is not an owner of record, but is obligated on a note of a financed property, it must be included in the maximum number of financed properties.

MAXIMUM LOANS TO ONE BORROWER (CONTINUED)	• The following are excluded from these limitations: o Properties owned free and clear o Joint or total ownership in property this is held in the name of a corporation, even if the Borrower is the owner of the corporation. However, if the Borrower is individually obligated on the note, it must be included o Ownership in a multi-family property (5+ units) o Ownership in commercial property o Ownership in timeshares o Ownership in unimproved land • For all loans, the Borrower's primary residence, the subject property and any properties owned separately by a Co-Borrower must be included in the total number of properties owned. • **Maximum Dollar Amount Sold to Investor** o The aggregate dollar amount of all loans made to one Borrower sold or serviced by Investor may not exceed $4M. • **Maximum Loans to One Borrower Sold to Investor** o There is no limit to the number of loans that can be submitted for the same Borrower to be sold to Investor. Rather, the maximum number of loans to one Borrower is limited by the aggregate dollar amount of the total loans sold or serviced by Investor. The aggregate dollar amount of all loans sold or serviced by Investor may not exceed $4M • **Maximum Properties One Borrower May Own** o A Borrower may finance or own multiple properties. Investor offers two options for Borrowers that own multiple properties. ▪ They include: 1. If the Loan being sold to the Investor is secured by the Borrower’s principal residence, there are no limitations to the number of properties that the Borrower can own or are currently financing. 2. If the Loan being sold to the investors is secured by the Borrower’s second home property: a. The Borrower may have up to nine financed properties (including their principal residence) OR o More stringent lending practices should be implemented in cases where the Borrower’s loan documents exhibit escalation of late payments and multiple refinances. New investors that have made multiple real estate acquisitions (more than 50% of the properties purchased) in the past 12 months may require additional review, documentation, or be ineligible for purchase. o In all cases the Borrower must have sufficient assets to close and meet reserve requirements.

LOAN APPLICATION ANALYSIS	• **Maximum Loans in One Market Area Sold to Investor** o The number of loans to one Borrower in any single market area is limited to two. The term “single market area” refers to the physical location of the property—meaning two or more homes owned by the same Borrower within a several block radius, defined neighborhood, or lending area. • The Loan File assists in determining the Borrower’s eligibility for the loan. During the completion and review of the application, the Underwriter should analyze the application in the following manner: o Verify and substantiate the quantity, quality, and durability of the Borrower’s income. o Verify and analyze the Borrower’s assets to determine if adequate funds are available to meet the equity and reserve requirements of the transaction. o Verify and substantiate the Borrower’s liabilities and credit history in relation to the Borrower’s assets and income. o Evaluate the Borrower’s net worth in relation to his or her ability to manage financial affairs and accumulate assets/wealth. o Verify that the declarations are consistent with program eligibility. • The Loan File must contain a complete, fully executed Loan application (1003). Both the initial and final 1003’s must be provided. The following applies: o Must be signed and dated by the Borrower o All HMDA data must be completed. o Seller is determined by auditing the interviewers section o Seller Contact information is included • **Potential “Buy and Bail” Loan Scenarios** o Loans that exhibit the following characteristics, sometimes referred to “Buy and Bail Characteristics”, may be deemed ineligible for sale to Investor: ▪ The borrower defaults on the original mortgage shortly after purchasing a second property ▪ The borrower will be a first time landlord (renting out the original property) ▪ The borrower has minimal or no equity in the original property ▪ Inability to validate lease terms with the purported tenant ▪ Purported tenant has a pre-existing relationship with the homeowner
CREDIT	• Credit is defined as the Borrower’s history of credit payments and financial obligations. An assessment of the Borrower’s capacity and willingness to pay financial obligations is a major factor used in determining a Borrower’s creditworthiness. • A Borrower(s) who has consistently met financial obligations in the past may indicate reasonable justification that he or she is likely to continue to do so in the future. A Borrower’s credit history provides a strong measure of their intent to repay. • Credit history is measured on credit depth, number of obligations, delinquency patterns, and demonstrated intent to repay. In a subjective evaluation of credit, many factors are considered when evaluating a Borrower’s credit history.

CREDIT (CONTINUED)	

CREDIT (CONTINUED)

- The factors include:
  - Credit repayment history
  - Line utilization
  - Proportion of balances versus limits on revolving accounts
  - Patterns of debt pyramiding
  - Recent inquiries and newly opened accounts
  - Recent changes in the number of open accounts or overall amount of credit outstanding
  - The number of open accounts and length of credit history
  - Public record information

- **Number of Open Accounts**
  - It is generally not one credit usage factor, but the combination of factors that establish whether or not the overall pattern of credit use is acceptable.
  - In general, the greater the number of credit accounts, the higher the credit risks. However, it is important to analyze the number of accounts within specific types of credit (i.e., retail, installment, revolving and mortgage). The higher risk group includes Borrowers with a large number of bank revolving accounts, and/or accounts with outstanding balances. On the other hand, if there is no bank revolving accounts, this could indicate an inability of the Borrower to obtain credit.
  - The lack of acceptable credit cannot be compensated for by either capacity or collateral strengths. When determining investment quality, the likelihood of timely repayment, as demonstrated by responsible credit, must always be present. Once credit is established, however, collateral and capacity can be used to strengthen the loan's overall investment quality.
- **Recent Inquiry Risk Factors and Undisclosed Liabilities**
  - Recent inquiries indicate that the consumer has actively been seeking credit. A Borrower with minimal credit experience and a number of recent inquiries should be more closely scrutinized than a Borrower with the same number of inquiries and a very long and stable credit history.
  - Multiple inquiries within the most recent 12 months generally increase risk and, when combined with high balances-to-limits on revolving accounts may indicate that the Borrower is in danger of becoming overextended. In addition, several recent inquiries combined with a credit history of short duration may make even mild derogatory credit information significant.
  - The following factors should be considered:
    - Borrower's payment experience
    - Type of credit being sought
    - Total amount of credit outstanding
    - Credit utilization reflected on the report

CREDIT (CONTINUED)	• If the credit report indicated that a creditor has made multiple inquiries within the previous 90-day period, the underwriter must determine whether additional credit was granted as a result of the Borrower's request. A review and evaluation of the inquiries section of the Borrower's credit report is required to determine if the Borrower has received additional credit that is not reflected in the credit report or disclosed in the Loan File. A detailed explanation letter that specifically addresses both the purpose and outcome of each inquiry is required from the Borrower(s). An overall generic credit explanation letter is not acceptable.
	• As a result of the credit inquiries, the loan may be subject to additional requirements. If additional credit was obtained, a verification of that debt must be provided and the Borrower must be qualified with the monthly payment. The verification can be achieved through a direct verification with the creditor or use of a credit supplement.
	• Underwriters are expected to proactively identify any and all undisclosed liabilities that may affect the loan approval in relation to underwriting guidelines, eligibility parameters, or pricing. It is the Underwriter's responsibility to develop and implement its own business processes to support compliance with Fannie Mae's requirements for undisclosed liabilities.
	• Although Provident Bank Mortgage may already have such processes in place, some best practices that may be incorporated include:
	  o A Soft Pull credit report prior to closing to uncover additional debt or credit inquiries
	  o Adopting new services from credit vendors that provide Borrower credit report monitoring services between the time of loan application and closing
	  o Investigating credit inquiries listed on the credit report to determine whether the Borrower did in fact, open additional debt resulting in repayment obligations. In some cases, it is possible to obtain a direct verification with the creditor associated with the inquiry
	• It is also highly recommended that a Mortgage Electronic Registration System (MERS) report be run, prior to closing, to determine if the Borrower has undisclosed liens and/or if another mortgage is being originated. If new debt has been obtained, the Loan File must be re-evaluated to ensure compliance with debt-to-income and Borrower eligibility requirements.
	• **Recently Opened Accounts**
	  o Like inquiries, several recently opened accounts may be a warning that the Borrower(s) may be getting overextended. In addition, a credit history with all accounts recently opened may signal that the Borrower(s) do not have sufficient experience managing financial obligations.

CREDIT (CONTINUED)	

CREDIT (CONTINUED)

- The following factors should be considered:
  - Borrower's payment experience
  - Utilization of revolving credit lines
  - Total amount of credit outstanding
  - Recent inquiries
- **Outstanding Debt/Line Utilization**
  - Two very important indicators of repayment ability are the number of accounts with sizable outstanding balances and high credit line utilization. The number of trade lines with balances reported in the last three years should be considered and reviewed in relationship to the number and activity in the last 12 months.
  - Analyze the current balance for each open account to the high credit limit to determine whether there is a pattern of accounts with balances at or near their limits. Generally, if a Borrower has credit balances that represent at or near 70% of their open and active credit limit, this may require additional review and/or compensating factors. The more accounts with high balances-to-limits and the higher the percentage used, the higher the risk.
  - High balances-to-limits may also indicate the Borrower is making minimum payments on revolving accounts rather than reducing the debt and may be at or near payment capacity. Any derogatory information in a credit history within the most recent two years combined with several revolving accounts at or near their limits should be considered derogatory information when evaluating the credit profile of the Borrower. Generally, the higher the Borrower's overall utilization of revolving credit, the higher the amount of risk. Compensating factors or additional documentation may be required to offset this risk.
- **Reason/Score Codes**
  - Along with the credit scores, credit repositories return up to four reason codes with each credit score provided. These codes are sometimes referred to as score factor codes. These reason codes provide an explanation as to why the Borrower(s) did not receive a higher score.
    - This is taken into consideration when evaluating borrower's credit.
- **HAWK Alerts**
  - All three national credit repositories have developed automated messages to help messages to help identify possible fraudulent activity on a credit report. These alerts are commonly known as HAWK Alerts. All HAWK Alert messages shown on a credit report, especially those in the Fraud Verification Information section must be addressed and resolved.

CREDIT (CONTINUED)	
CREDIT (CONTINUED)	• **Military Active Duty Alert** o Military personnel are particularly susceptible to identity theft because many of their records, orders, and identification documents display their social security number. An active duty alert is a type of fraud alert established under the Fair and Accurate Credit Transactions Act (FACTA) that provides credit identity theft protection for U.S. military service personnel. o The Mortgagee must contact the Borrower directly to verify identity whenever an active duty alert appears on the Borrower's credit report. • **Customer Identification and OFAC Alert Screening** o The mortgagee must comply with Section 326 of the USA Patriot Act and OFAC, including: ▪ Provide each Borrower with a customer identification notice ▪ Obtain at least four items verifying the Borrower's identity through documentary or non-documentary methods ▪ OFAC alert screening ▪ Determine if the Borrower is questionable or suspicious ▪ Monitor questionable instance which may require internal and external reporting of suspected individuals ▪ Ensure Provident Bank Mortgage's employees are trained and informed of suspicious activities related to anti-money laundering or terrorist activities • **Weighing Risk Factors** o When evaluating Borrower(s) with adverse credit information, more weight should be given to derogatory credit information or late payments occurring within the past two years. ▪ The following factors should still be considered: ✓ The number, timing and extent of the delinquency ✓ Eventual repayment of delinquent obligations ✓ Any previous bankruptcy, mortgage foreclosures, or deed-in-lieu of foreclosure within the past seven years ✓ Whether other characteristics of the Borrower's credit profile, such as age of credit, use of outstanding credit, and inquiries, make any significant difference in the derogatory credit • **Delinquency and Derogatory Credit** o There are a number of factors to consider in the analysis of delinquency or derogatory credit: ▪ The type of accounts on which the delinquency occurred ▪ The reason for delinquency ▪ The severity of the delinquency ▪ The frequency of delinquent accounts, AND ▪ How recently the delinquency occurred

CREDIT (CONTINUED)	o More weight is placed on installment loan delinquency than on revolving debt delinquency. The most weight is placed on mortgage payment history. The most serious types of delinquency include foreclosures, bankruptcy, judgments, collection accounts and tax liens. Explanations and supporting documentation should be in the file to show these events were an isolated occurrence and are unlikely to happen again. o Accounts which are currently delinquent are closely scrutinized. All accounts past due must be brought current or otherwise resolved prior to closing according to the program guidelines.
CREDIT REPORT REQUIREMENTS	• For each Borrower whose income or assets are required to qualify for the loan, the Loan File must contain one of the following: ▪ full Residential Mortgage Credit Report (RMCR) ▪ An in-file merged credit report that accesses the three national credit repositories ▪ Joint merged credit reports are allowed without regard to marital status • **General Requirements** o The following outlines the general requirements for credit reports. The credit report must contain merged credit information provided by all three national repositories. o **Residential Mortgage Credit Reports:** ▪ Credit Report must not be dated more than 90 days from the Note Date. In the event that the Disbursement Date causes the Borrower's credit report and/or credit file to be greater than 90 days old, the Investor reserves the right to request updated credit, asset, and/or income documentation. Disbursement Date is the day on which the loan closes. ▪ Must contain all discovered credit and legal information that is not considered obsolete under the Fair Credit Reporting Act ▪ Be issued by an independent consumer reporting agency that obtains or verifies all information from sources other than the Borrower. ▪ Identify the full name, address, and phone number of the consumer reporting agency ▪ Identify the names of the national credit repositories from which the information was obtained. The consumer reporting agency must contact at least two national credit repositories for each area in which the Borrower has resided during the most recent two-year period. ▪ Indicate the dates the accounts were last updated with creditors. Each account should have been updated within 90 days of the credit report. ▪ Include a certification stating that it meets the standards that Fannie Mae, Freddie Mac, the FHA, and VA prescribe for an RMCR. Separate credit repository inquiries are necessary when Co-Borrowers have maintained credit individually.

<table>
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<td>CREDIT REPORT REQUIREMENTS (CONTINUED)</td>
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List all credit inquiries received within the previous 90 days.
Evidence the consumer reporting agency verified the Borrower's current employment and, if obtainable, income. The report must show the date of verification. Verification may be made by telephone. If there has been a change in employment in the past two years, the report must also describe the Borrower's previous employment and income. In cases in which employment was not verified, the report must indicate why it was not.
Show responsive statements concerning items on the report. For example, the consumer reporting agency must report unable to verify or employer refused to verify. The same responsive reporting applies to trade and credit history.
Must contain specific information regarding legal items found in public records, including judgments, foreclosures, tax liens, bankruptcies, etc.

Tri-Merged Credit Reports:

Must contain all the information from the three in-file credit reports.
If the information is not exactly the same on each report, then the merged report must repeat the information as stated on each report or include the most derogatory of the duplicate information that pertains to the payment history and/or current payment status.
Identify the repositories that were used for the in-file credit reports.
Must provide a credit bureau score, accompanied by reason codes, for each Borrower.
The report must include all of the information verified by the three repositories.
Any social security number discrepancy must be disclosed by the repositories.
Each individual trade line must identify the primary repository that provided the account information.

No Borrower in a transaction may have frozen credit. Frozen credit is where the Borrower’s credit has been involuntarily frozen by a court order, government entity or similar mandate. If a Borrower has frozen credit and unfreezes their credit after the original credit report was ordered, a new credit report must be obtained to reflect current updated information for evaluation.
Each credit report must contain a Fair Isaac credit score (“Empirica” on TransUnion, “Beacon” on Equifax, and “FICO” on Experian) for all Borrowers whose income and/or assets are used to qualify for the loan. The Underwriter must provide at least two qualifying credit scores for each Borrower. A Co-Borrower with no valid credit score will be allowed in cases where income and/or assets are not required for qualification purposes.

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CREDIT REPORT REQUIREMENTS (CONTINUED)	• **SELECTING THE CREDIT SCORE** o Underwriter will select the Borrower's credit score using one of the following methods: ▪ If all three scores are available, the middle score will be used. ▪ If only two scores are available, the lower score will be used.\ o Once the score is selected for each Borrower, it is used for loan qualification as follows: ▪ the Primary Borrower's selected score is used. ▪ If in the case where both Borrowers earn equal income, the Borrower with the lower score will be used for qualifying. o To ensure credit score validity, the Originator should review the scores, the score codes and the Borrower's credit history, Score codes must be consistent with tradeline information and use. Scores that do not appear to represent an accurate assessment of the Borrower's credit risk will not be considered usable and valid. • **LIMITED, NO CREDIT HISTORY OR ALTERNATIVE CREDIT HISTORY** o Borrowers with limited, no credit history, or that do not meet Product specific minimum credit requirements are not eligible. Each Borrower must have at least two valid and usable credit scores as defined by the guidelines. A Borrower not using income to qualify and showing $0 earned or is not employed does not need to meet the minimum trade line requirements. • **MINIMUM CREDIT REQUIREMENTS/TRADELINES** o A Borrower(s) without an established credit history is ineligible. A valid and usable score is one that is generated based upon credit history and credit patterns that accurately reflect the Borrower's history. It should contain at least: ▪ Three established open and active trade lines that reported for a minimum of 24 months ▪ At least one of the three established trade lines must have a minimum $2,500 high credit limit ▪ At least one open mortgage trade line in the last 36 months o If the Borrower is a First-Time Homebuyer, the Borrower's rental housing payment history for the previous 12 months is required. Payments must be documented via an institutional VOR or cancelled checks/bank statements. o For Borrowers that currently own or have owned a property free and clear, a copy of the title or credit report must document the free and clear status. o If the Borrower is in college, is a recent college graduate or living with family members and is not paying rent, he or she must meet the minimum credit requirements. • Borrower's failing to meet the 3 trade lines criteria but have a minimum of 1 open trade line with 12 months or more reporting history can be considered without exception if the following requirements are met: o 8 or more trade lines reported with at least one being a mortgage trade line o Minimum 7 years of established credit history

CREDIT REPORT REQUIREMENTS (CONTINUED)	o If the mortgage history is not reported on the credit report, it may be verified through cancelled checks, or verification of mortgage (VOM). **<u>OR</u>** o 6 months additional reserves and meets one of the following requirements: DTI < 35%, LTV < 70, or the matrix maximum, whichever is less. • **Unacceptable Trade lines** o The following cannot be used to meet the minimum trade line requirement: ▪ Collections ▪ Charge-offs ▪ Public records and derogatory credit, included in or prior to a bankruptcy ▪ Accounts currently over 90 days delinquent ▪ Student loans not currently in repayment ▪ "Authorized User" account • **ADVERSE CREDIT** o **Collection accounts, charge-off accounts, judgments, liens,** delinquent property taxes, repossessions, and garnishments are considered to be adverse credit. All delinquent credit that will impact title must be paid off prior to or at closing. Title must insure First lien position without exception. ▪ All delinquent credit that will impact title including delinquent taxes, judgements, charge off accounts, tax liens and mechanic's lines must be paid off prior to or at closing. o However, Charge-Offs or collection accounts that do not impact title are not required to be paid off. • **Derogatory Credit** Any derogatory information requires a full investigation including: o A written explanation from the Borrower that outlines the cause of the major derogatory credit event and the likelihood of re-occurrence. o Explanations must make sense and cannot conflict with other verified information or documentation in the Loan File. When a Borrower indicates unusual circumstances have contributed to serious delinquencies or derogatory credit, documentation to support those circumstances should be obtained to justify a decision to approve a loan with recent credit problems. o Proper consideration must be given in evaluating the Borrower's creditworthiness o Proof that the incident has been resolved and documentation supporting the resolution and conclusion of the matter. If a derogatory item is being paid through this transaction, the file should note it in the closing statement. o A Borrower may provide medical information to explain a pattern of late payments. Medical information must never be specifically requested. However, explanation for a pattern of late payments or derogatory information on the credit report should be requested. The underwriting decision to grant credit should not be based on a Borrower's physical, mental or behavioral health condition.

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<tr><td>CREDIT REPORT REQUIREMENTS (CONTINUED)</td><td>

Divorce Debt

Delinquent credit which belongs to an ex-spouse may be excluded from the credit evaluation when all of the following apply:

Loan File contains a copy of the filed/recorded divorce decree or recorded separation agreement which shows the derogatory accounts belong solely to the ex-spouse;
Late payments that have occurred after the date of the divorce or separation; and
If debt in question is a mortgage, evidence of title transfer prior to any delinquent debt must be provided and evidence of “buyout” as part of court proceedings.

Co-Signed Debt

Delinquent credit that belongs to a co-signer must be considered in determining the Borrower’s credit acceptance.
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<tr><td>BANKRUPTCY</td><td>

Bankruptcy is defined as court proceedings to relieve the debts of an individual or business unable to pay creditors. Bankruptcy may be declared under one of the Chapters of the Federal Bankruptcy Code.

Chapter 7. Covers liquidation of individual or business assets.
Chapter 11. Covers reorganization of bankrupt businesses.
Chapter 13. Covers contractual repayment by individuals.

Requirements and Guidelines

The following requirements and guidelines apply to bankruptcies:

Loans to Borrowers with multiple bankruptcies are ineligible for purchase by the Investor. For example, a Borrower who filed for bankruptcy in 2009 and later in 2012 is ineligible under these guidelines regardless of whether the bankruptcy was discharged or dismissed. The Investor does not consider the following scenarios as multiple bankruptcies:
– When a Chapter 13 rolls into a Chapter 7 bankruptcy
– When individual Borrowers each have filed separate bankruptcies.
Bankruptcy dismissal dates are treated the same as discharge dates.
If a discharge/dismissal date cannot be established, documentation validating the dates must be provided.
If a Foreclosure is included in the Bankruptcy, each event is treated separately. The Underwriter must determine the seasoning for each event. Credit depth requirements must be met post-bankruptcy. Credit prior to bankruptcy will not be considered for meeting the tradeline requirements.

Chapter 7 Bankruptcy

<u>Seasoning requirement 4 Years from discharge date</u>
Chapter 7, also called liquidation, is the most common type of bankruptcy. It provides for the absolute and complete elimination of most types of debt, thereby giving the debtor a fresh start. The goal of a Chapter 7 bankruptcy is to obtain a court order discharging one’s debts.

The aging of the Chapter 7 bankruptcy is measured from the discharge date.

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BANKRUPTCY (CONTINUED)	• **Chapter 11 Bankruptcy** o Chapter 11 bankruptcies allow businesses the opportunity to reorganize business debt without having to liquidate all assets. The debtor presents a plan to creditors that allows the debtor to reorganize financial obligations in order to improve the financial stability of the business. ▪ The aging of the Chapter 11 bankruptcy is measured from the discharge date. • **Chapter 13 Bankruptcy** o *Seasoning requirement 4 years from the discharge date* o Chapter 13 bankruptcies provide individuals who have a regular income, but are overcome with debt, the opportunity to repay within a reasonable period of time. Chapter 13 bankruptcies permit the debtor to file a plan to pay a certain percentage of future income to the bankruptcy court for payment to creditors. If the court approves the plan, the debtor will be under the court's protection while repaying stated debts. ▪ The aging of a Chapter 13 bankruptcy is measured from the discharge date. ▪ If Borrower enters into Bankruptcy and cancels, the seasoning is measured from the Cancellation Date.
CONSUMER CREDIT COUNSELING SERVICES (CCCS)	• Consumer Credit Counseling Services (CCCS) assist Borrowers with financial management of debts in an attempt to avoid further delinquencies or possible bankruptcy. • Generally, creditors agree to a reduced repayment under a consumer credit counseling plan. • In all cases, the CCCS plan must have been paid in full. A payment history is required in this situation and if delinquent in the most recent 12 months, the CCCS will be treated as an open Chapter 13 and is ineligible. • The date the CCCS was paid off will be considered the discharge date. • If Borrower enters into CCCS and subsequently cancels, the seasoning is measured from the cancellation date.
FORECLOSURES	• *Seasoning requirement 7 years* • A foreclosure is a proceeding that enables the creditor, in accordance with the terms of the security instrument, to take legal action that could ultimately result in the forced sale of the collateral property for full or partial satisfaction of the debt. Such action typically extinguishes the property owner's rights, title, and interest. In the instance where a Borrower has been or is currently delinquent 120 days or longer and Provident Bank Mortgage has not initiated formal actions, the 120 day plus delinquency will be treated as a foreclosure. • Documentation should be provided to show the individual Borrower's circumstance.

FORECLOSURES (CONTINUED)	• Foreclosure is substantiated by real estate loans that are delinquent 120 days or longer, as mentioned above or the existence of any of the following: o Breach o Lis Pendens o Notice of Sale o Service o Sheriff's Sale o Short Payoff o Bankruptcy Notice • **Requirements and Guidelines** o The following requirements and guidelines apply to foreclosures: ▪ The length of time elapsed since the occurrence or completion of the foreclosure is considered. ▪ Applicants who have undergone foreclosure procedures must provide a mortgage/housing history in accordance with Guidelines. ▪ A Borrower with a history of more than one foreclosure is ineligible. For example, a Borrower who had a foreclosure in 2009 and then loses a home through bankruptcy in 2012 is ineligible. ▪ Any repossession or 120-day delinquency on a mobile home, manufactured home or timeshare, even if shown as an installment debt, will be considered a foreclosure. ▪ If a Foreclosure is included in the Bankruptcy, each event is treated separately. The Underwriter must determine the seasoning for each event.
LOSS MITIGATION HISTORY - MODIFICATIONS, FORBEARANCES, REARRANGEMENTS, EXTENSIONS, OR WORKOUTS	• *Seasoning 4 years prior to the application date.* • Loss mitigation history includes the following: o Deed-in-Lieu o Short Sale o NOD o Short Refinance o Pre-Foreclosure Sale o Loan Extensions o Loan Modification • Agreements to forbear, workout, extend, or rearrange the terms of the original loan does not change the fact that the loan was not paid in accordance with its original terms. This applies even if the extension or modification was initiated by the Borrower, and the debt was subsequently paid in accordance with the rearranged terms. Any forbearance on a mortgage including deed-in-lieu, NOD, pre-foreclosure sale, short sale, short refinance, modification or non-foreclosure action will be considered a loss mitigation action.

LOSS MITIGATION HISTORY - MODIFICATIONS, FORBEARANCES, REARRANGEMENTS, EXTENSIONS, OR WORKOUTS (CONTINUED)	• **Lawsuits and Pending Litigation** o If the application, title, or credit documents indicate that the Borrower is involved in a lawsuit or litigation additional documentation, such as an attorney's explanation, copy of the complaint and answer, etc. is required. The title company closing the loan must provide a letter stating affirmative coverage of subject lien position. o Generally, lawsuit and pending litigation is not eligible under this program. Situations in which the lawsuit or pending litigation does not have a meaningful impact on the borrower's ability to repay the mortgage may be permitted.
MORTGAGE/HOUSING HISTORY	• **MORTGAGE/HOUSING HISTORY** o <u>*0X30 in the past 24 months*</u> o Each loan must include a mortgage/housing history for the Borrower's primary residence and any other properties the Borrower owns. On non-owner occupied transactions, a mortgage/housing history is required on the Mortgaged Property as well as the primary residence. o **Requirements and Guidelines** ▪ The requirements and guidelines for mortgage/housing payments are: ✓ Mortgage/housing payment history on any property, regardless of the occupancy or lien status, is considered mortgage/housing history. ✓ If the Borrower does not own a property, a housing/rental payment history must be provided ✓ Any payments on a manufactured home or timeshare are considered to be mortgage debt, even if reported as an installment loan. They will be treated as installment debt rather than real estate owned. ✓ The existing mortgage on the Mortgaged Property can be no greater than the max delinquency contractually allowed. ✓ Each contractual delinquency must be considered separately. (i.e. a first and second lien) ✓ Any delinquency must be explained and documented in a letter of explanation. • **Mortgage / Housing History Requirements** o If the Borrower is a First-Time Homebuyer, the Borrower's rental housing payment history is required. Payments must be documented via an institutional VOR or cancelled checks/bank statements. o If the Borrower is in college, is a recent college graduate, living with family members, is not paying rent, or is otherwise unable to verify housing history, he or she must meet the minimum credit requirements o For Borrowers that currently own or have owned a property free and clear, this requirement will be waived for any period where there was free and clear ownership. A copy of the title or credit report must document the free and clear status.

MORTGAGE/HOUSING HISTORY (CONTINUED)	
	o **Verification of Mortgage (VOM)** ▪ The following are acceptable for verifying mortgage payments: ✓ An institutional verification of mortgage (VOM) ✓ Copies of canceled checks (front and back) ✓ Bank statements ✓ A current credit bureau report o Third-party verification or copies of canceled checks (front and back) are always required for non-arm's length verifications of mortgage (private mortgage, Land Contract/Contract-for-Deed, or Lease Option to purchase). • **Verification of Rent (VOR)** o Any of the following documents are acceptable for verifying rent payments: ✓ An institutional Verification of Rent form ✓ A letter and rating from a property management company ✓ Copies of canceled checks (front and back) ✓ A credit supplement for a rental rating o Third-party verification or copies of canceled checks (front and back) are always required for non-arm's length or private party verifications of rent (related landlords, seller landlords, employers or any interested party to the transaction). o To use rental history as a tradeline, the Borrower must verify rent using copies of canceled checks (front and back). o If the Borrower does not have a checking account, money orders may be accepted if they are valid and legible, are purchased from a legitimate vendor, and can be validated by conducting a telephone audit with the vendor. • **ANALYZING DELINQUENT MORTGAGE/HOUSING PAYMENTS** o Mortgage/housing payment history is determined as follows: ▪ **Rolling Lates.** Consecutive, identical delinquencies. There is no limit to the number of rolling delinquencies that can occur to be counted as one event. ▪ **Intermittent Lates** A pattern of late payments that is not consecutive, but is broken into intervals. ▪ **Progressive Lates** Delinquencies that increase in severity. The most severe delinquency reached is considered one event. o When evaluating the mortgage/housing history, all delinquencies must be added. For example, if the Borrower has a First and Second Mortgage on his or her property and each one had one late payment (1x30) in the last 12 months, the Borrower's mortgage/housing history is equal to two late payments (2x30).

MORTGAGE/HOUSING HISTORY (CONTINUED)

- Mortgage/housing delinquencies must be calculated as follows (with the mortgage history beginning in January and read from right to left):

Example 1:

Dec	Nov	Oct	Sep	Aug	Jul	June	May	Apr	Mar	Feb	Jan
1	1	C	1	1	1	1	1	1	2	2	2
30	30		30	30	30	30	30	30	60	60	60

This account would be counted as 1x60 rolling and 2x30 rolling for determining the mortgage/housing component. The eight 30-day and the three 60-day delinquent payments are counted as two 30-day rolling delinquencies and one 60-day rolling delinquency because there is no limit to the number of rolling lates that are considered one event.

Example 2

Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan
C	C	C	C	1	1	1	1	1	3	2	2
				30	30	30	30	30	90	60	60

This account would be counted as 1x90 non-rolling and 1x30 rolling for determining the mortgage/housing component. The two 60-day and the one 90-day delinquency are considered a progressive delinquency and one event. The five 30-day delinquencies are rolling and considered one event because there is no limit to the number of rolling lates that are considered one event.

QUALIFYING RATIOS

- Qualifying ratios are ratios used to calculate the Borrower's debt versus collateral and debt versus income in order to qualify the Borrower.
- **LOAN-TO-VALUE (LTV) AND COMBINED LOAN-TO-VALUE (CLTV) RATIOS**
  - The loan-to-value (LTV) ratio is the loan amount divided by the value of the Mortgaged Property. The combined loan-to-value (CLTV) ratio is the sum of all liens on the Mortgaged Property divided by the value of the property. Note that this Program limits the maximum LTV ratio allowed and may have seasoning requirements when underwriting the loan. Value is determined as follows:
    - **Determining the Value for LTV/CLTV**
      - ❖ **Purchase Transactions:**
        - ✓ Purchase Transactions. Loans must use the lesser of the purchase price or the Appraised Value as the value amount for calculating the LTV/CLTV ratios. The purchase price can be documented using the original, fully executed purchase agreement or the closing statement (HUD-1).
      - ❖ **Refinance Transactions:**
        - ✓ Cash-Out Refinance Loans on properties owned more than 12 months may use the Appraised Value as the value amount for calculating the LTV/CLTV ratios. The purchase price can be documented using the closing statement (HUD-1) from the original financing. The value of the improvements must be documented for each improvement.

QUALIFYING RATIOS (CONTINUED)	✓ Rate/Term Refinance. The Appraised Value can be used as the value amount for calculating the LTV/CLTV ratios ❖ Lease Option to Purchase: ✓ Lease Options must be treated as purchases for disclosure/documentation purposes. A rescission notice is not required. ➢ Less than 12 Months' Seasoning. A documented lease with a lease option-to-purchase will be treated as a purchase transaction when there is less than 12 months of seasoning. The lesser of the Lease Option price or the Appraised Value will be used to determine the LTV/CLTV. ➢ At Least 12 Months' Seasoning. The Lease Option will be treated as a refinance transaction if there is at least 12 months of seasoning. The Appraised Value will be used to determine the LTV/CLTV. ❖ **Construction-to-Permanent Refinances:** ✓ A Construction-to-Permanent transaction may be closed as a purchase, limited Cash-Out Refinance or a Cash-Out Refinance. When a refinance is used, the Borrower must have held legal title to the lot before he applied for the construction financing and must be named as the Borrower for the Construction Loan. ➢ **Cash Recapture.** When the Borrower wishes to recapture monies paid out-of-pocket and to pay off an existing Construction Loan, the loan will be considered a purchase transaction. Evidence of the acquisition cost of the property will be required. The lower of the total acquisition cost (lot plus improvements) or the Appraised Value will be used to determine the LTV/CLTV ratios: *Owned Less Than 12 Months. If the lot was purchased less than 12 months prior to the date of application, the value of the lot will be based on the lower of the purchase price or land value as indicated on the appraisal. *Owned at Least 12 Months. If the lot has been owned for more than 12 months, the value will be determined by the appraisal. ➢ **Construction Loan Payoff.** When the Borrower does not require cash recapture and the proceeds from the loan are being used to pay off the construction financing and closing costs, the loan will be considered a Rate/Term Refinance transaction. The Appraised Value will be used to determine the LTV/CLTV ratios.

QUALIFYING RATIOS (CONTINUED)	➢ **Equity Withdrawal.** When the Borrower wishes to withdraw equity, the loan will be considered a Cash-Out Refinance transaction. Guidelines for allowable cash-out limits must be met. The LTV/CLTV is determined by one of the following: * Owned Less Than 12 Months. If the lot was purchased less than 12 months prior to the date of application, the lesser of the Appraised Value or acquisition cost of the lot plus the documented cost of property improvements will be used. * Owned at Least 12 Months. If the lot has been owned for more than 12 months, the LTV/CLTV will be determined by the current Appraised Value. ➢ Borrower/Builder Transactions are considered non-arm's length transactions and are ineligible. ❖ **Land Contracts, Installment Land Contract, Contract for Deed Refinance (applies to both recorded and unrecorded transactions):** ✓ Land Contracts must be treated as refinances for documentation purposes. The Borrower must be given the right to rescind the transaction. ✓ Executed Less Than 12 Months. If the Land Contract/Contract for Deed has been executed for less than 12 months, then the LTV will be based on the current Appraised Value or the purchase/contract price, whichever is less. ✓ Executed at Least 12 Months. If the Land Contract/Contract for Deed has been executed for at least 12 months, the LTV will be based on the current Appraised Value. ❖ **Inherited Property:** ✓ If the subject property was inherited less than 12 months prior to application, the transaction is deemed a Special Purpose Cash-Out Refinance and is subject to the following: ➢ Proceeds are used to buy-out the documented equity interest of others. Equity owners must be paid through settlement ➢ The Mortgaged Property has cleared probate and property is vested in the Borrower's name, **AND** ➢ Current Appraised Value is used for LTV/CLTV determination.

HOUSING AND DEBT-TO-INCOME RATIOS	• The debt-to-income (DTI) ratio is the sum of all the Borrower's applicable monthly debt obligations divided by the Borrower's gross monthly income. The Underwriter must verify all of the Borrower's outstanding liabilities. o The following debts must be included in the Borrower's DTI ratio: ▪ Qualifying rate for monthly housing expense calculation: ✓ Fixed Rate Loans qualified using the fully amortized payment calculated at the note rate ✓ **Interest Only Loans** qualified at the note rate based on the fully amortizing Principal & Interest payment during the principal repayment period. Borrowers **will not** be qualified on the interest only payment amount**.** ✓ **Interest Only period for 10 years, then full amortizing for 20 years** ▪ Monthly housing expense includes the following charges divided by the Borrower's stable monthly income: ✓ Monthly principal and interest payment (as per the qualifying rate) ✓ 1/12th of the annual hazard insurance premium ✓ 1/12th of the annual real estate taxes and assessments ✓ 1/12th of the annual flood insurance premium, when applicable ✓ 1/12th of the annual private mortgage insurance premium (when applicable) ✓ Monthly leasehold payments (when applicable) ✓ Monthly HOA dues, condominium maintenance fees, monthly assessments (when applicable) ✓ Monthly payment for other secured financing (when applicable). ▪ For equity lines of credit (as applicable), the monthly payment used for qualification should be based on the greater of: ✓ The payment noted on the credit, OR ✓ 1% of the maximum current available draw ▪ The DTI ratio includes the monthly housing expenses plus the following charges: ✓ Revolving charges (if no payment is showing on the credit report, use 5% of the outstanding balance) ✓ Installment debt with 10 or more remaining payments if the inclusion of this installment debt would cause the Borrower's DTI to be > 5% over the matrix allowance, up to a max DTI of 43% (or per matrix requirements), additional compensating factors and/or documentation would be required to offset the risk ✓ Real estate loans ✓ Real estate net rental losses from all investment properties owned ✓ Automobile loans ✓ Automobile leases (must be included in the DTI even if fewer than 10 payments remain)

HOUSING AND DEBT-TO-INCOME RATIOS (CONTINUED)	✓ Net rental losses from real estate owned ✓ Alimony, child support, or maintenance payments with 10 or more remaining payments ✓ Joint obligations, if applicable, for divorced or separated Borrowers ✓ Student loans, whether deferred, in forbearance, or in repayment (not deferred) , 1% of the unpaid balance or the actual documented payment ✓ Monthly paid charge accounts, such as an Amex account, payment will not be included but outstanding balance amount will be netted out of available assets
PAYMENT SHOCK	• Payment shock is the percentage that a Borrower's mortgage/housing payment increases with the new loan. One of the strongest indicators of a Borrower's ability to repay is his/her past record of handling housing payments. • The percentage of payment shock, even when not limited expressly by the guidelines will be analyzed to determine the likelihood of the Borrower to pay promptly. • Generally, payment shock >150%, may require further review and additional compensating factors and/or documentation may be required.
SALES AND FINANCING CONCESSIONS	• For purposes of determining the impact of costs paid by the Seller or an interested third-party, distinctions are made between financing concessions and sales concessions. • Financing concessions are considered to be funds originating from an interested party to pay closing costs on a purchase transaction. These are sometimes referred to as seller-paid closing costs. Allowable financing concessions include: o Payments in any form that are related to the financing; for example, discount points, Commitment fees, appraisal fees, and origination fees o Contributions related to the mortgage financing charges which traditionally would be paid by the Borrower, including but not limited to the payment of discount points, loan fees, Commitment fees and/or origination fees, property taxes, and insurance escrows o Cost of other items traditionally paid by the Borrower such as application fees, appraisal fees, transfer taxes, tax stamps, attorney fees, surveys, non-recurring closing costs and title insurance, AND o HOA dues are not allowed to be included in an interested party contribution • Concessions not addressed above or in excess of the allowed percentage of the purchase price are considered to be a sales concession. • The Mortgaged Property sales price must be reduced to reflect the amount of any sales concession that exceeds the limits below. The LTV ratio is calculated using the lesser of the reduced purchase price or Appraised Value.

SALES AND FINANCING CONCESSIONS (CONTINUED)	• Financing concessions for primary residences are limited to the following percentages: o 6% of the value for Loans with LTV/CLTV ratios less than or equal to 90% o 3% of the value for Loans with LTV/CLTV ratios greater than 90% • The appraisal must reflect subsidies, contributions, or sales concessions that have an effect on the market value of the property.
LIABILITIES	• The Borrower's liabilities and debts include all installment loans, revolving charge accounts, contingent liabilities (co-signed debts), lines of credit, mortgage loans, alimony/child support, student loans, auto leases, and all other ongoing debts. Underwriter must verify payments on all simultaneous loans, such as HELOCs. Auto lease payments are included in the debt-to-income (DTI) ratio regardless of the remaining months indicated on the credit report. • DEBT TO INCOME CALCULATIONS o In addition to the subject mortgage payment, the following debts should be included in the calculation of the debt-to-income ratio (DTI): ▪ Monthly payment reflected on credit report can be used to calculate the DTI. If no monthly payment is stated on the credit report or other form of verification, 5% of the outstanding balance on the account must be used. ▪ Outstanding installment debts with 10 months or less remaining and debts to be paid off at closing do not have to be calculated in the DTI. ▪ Auto leases must always be included in the DTI, regardless of the number of payments remaining. • Co-signed debts will not be included in the DTI if sufficient proof is provided that the primary debtor makes the payments. Sufficient proof consists of at least six months canceled checks from the primary debtor evidencing the proper payment amount and payable to the proper creditor. • INSTALLMENT DEBT o Installment debt is the monthly obligation on accounts with fixed payments and terms. Installment debts include car loans, student loans, etc. The monthly payment may be excluded from the DTI calculation if there are less than 10 monthly payments remaining to pay the debt in full and the payment is not substantial. If there are less than 10 payments remaining and the payment is substantial (exceeds 5% of the Borrower's qualifying income), the debt must be included in the Borrower's DTI calculation. o A payment is defined as substantial when it equals or exceeds 5% of the Borrower's qualifying income. These payments must be included in the Borrower's DTI calculation. Installment debts showing the term of the debt to be 10 months or less at closing will not be considered in the debt-to-income (DTI) ratio. Paying down of installment debts to 10 payments or less to qualify is not allowed. The installment debt must be paid off if the payment is excluded from the Borrower's DTI calculation.

LIABILITIES (CONTINUED)	o Installment debt that is paid in full prior to or at closing may be excluded from the DTI provided the HUD-1 reflects the payoff. o If an installment debt payment does not show on a credit report, a credit supplement or loan statement is required. • **REVOLVING DEBT** o Revolving debt is open-ended debt of which the principal balance on an account may vary from month to month. The minimum required payment as stated on the credit report or current statement should be used in calculating the DTI unless as noted below. Revolving debt may not be paid down for qualification purposes but may be paid off and closed. o The following debts must be considered as a recurring monthly debt obligation: ▪ The credit report balances suggest that more than 10 payments remain to be paid regardless of whether the loan application indicates the debts will be paid off at or prior to closing ▪ The credit report does not show a required minimum payment amount and there is no supplemental documentation to support a payment of less than 5%. In this situation, an amount equal to a minimum of $10.00 or 5% of the outstanding balance must be used as the Borrower's recurring monthly debt obligation. ▪ If a revolving or open account is to be paid off or paid down but not closed, a monthly payment on the current outstanding balance should be considered as a long-term debt. • **ALIMONY/CHILD SUPPORT/SEPARATE MAINTENANCE OBLIGATIONS** o Monthly alimony, child support or separate maintenance fees with 10 or more payments remaining must be included in the DTI. o **Divorce Debt** ▪ Debts opened jointly with a former spouse will be considered an obligation of the Borrower unless a legal separation agreement or divorce decree is provided to prove the former spouse is responsible for the debt, otherwise it will be counted as **Adverse Credit.** • **NEGATIVE CASH FLOW FROM RENTAL PROPERTY/OTHER REAL ESTATE OWNED** o The tax and insurance expense for all properties owned by the Borrower must be documented and accounted for in Borrower's Debt-to-Income ratio. For properties that are rented, the expense may be deducted from rental income. For properties that do not receive rental income, the tax and insurance expense must be part of the Borrower's liabilities. o **Real estate net rental losses from all investment properties owned must be included in the DTI.**

LIABILITIES (CONTINUED)	• **CURRENT PRINCIPAL RESIDENCE – PENDING SALE** o If the Borrower's current principal residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction, and the Borrower is purchasing a new primary residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new mortgage loan. o However, Investor will not require the current principal residence's PITIA to be used in qualifying the Borrower as long as the following documentation is provided: ▪ The executed sales contract for the current residence, and ▪ Confirmation that any financing contingencies have been cleared • **BUSINESS DEBTS** o Business debts for which the Borrower is personally liable must be included in the debt calculation. This includes business paid personal debt, unless proof of payment by the business is established. If the account is new, it must be included in the DTI calculations. These debts may be excluded if a minimum of 12 months of consecutive canceled checks from the business are provided. o Business debts for which the Borrower is not personally liable will not be considered in the Borrower's total monthly debt if canceled checks drawn on the business account indicate they have been paid on a regular basis for a minimum of six months. • **UN-REIMBURSED BUSINESS EXPENSES** o When evaluating the Borrower's income, the Underwriter must consider certain tax deductions reported on IRS Form 2106 (Employee Business Expenses): ▪ Out-of-pocket, unreimbursed business expenses: These expenses must be deducted from the borrower's income. ▪ Actual expenses for a leased automobile, rather than the standard mileage rate. The Underwriter must analyze the "Actual Expenses" section of IRS Form 2106 to determine the amount of the lease payments, and make sure the lease expense is counted only once in its cash flow analysis, either as an expense on IRS Form 2106 or as a monthly obligation. • **AUTOMOBILE DPRECIATION** o If a borrower claims a "standard mileage" deduction, the business miles driven should be multiplied by the depreciation factor for the appropriate year, and the calculated amount added to the borrower's cash flow. o If a borrower claims an "actual depreciation expense" deduction, the amount the borrower claimed should be added to the borrower's cash flow. • **DEBT PAYOFF** o If the Borrower indicates debt will be paid at the closing of the new mortgage, Investor will not include the payment in the DTI ratio. The paid statement(s), canceled check(s), or a settlement statement (HUD-1) evidencing payment must be submitted in the Loan File. **Paying down of installment debts to less than 10 payments to qualify is not allowed.**

LIABILITIES (CONTINUED)	
	• **CO-SIGNED DEBT / CONTINGENT LIABILITIES** o If the Borrower is a co-signer or guarantor on any loans, those liabilities must be indicated on the application. Debts that have been co-signed by the Borrower may be excluded from the Borrower's DTI under the following scenarios. o In every situation, the debt must be paid current and as agreed for at least the previous 12 months. ▪ Satisfactory documentation is provided to prove that the primary debtor has been making the payments on a regular basis. At least 12 consecutive months of canceled checks from the primary debtor are required ▪ Property resultant from buyout of former co-owner (i.e., divorce). The Loan File must include evidence of transfer of ownership ▪ Mortgage assumed by third-party without a release of liability. A copy of the formal assumption agreement and evidence of transfer of ownership should be in the Loan File. Do not include payment history and assumption does not need to release the Borrower from liability ▪ Court ordered debts - a copy of the court order assigning the debt to another party is required ▪ Co-signed accounts paid by a third-party, with 12 months of cancelled checks evidencing payment by the third-party o If these requirements cannot be satisfied, then the liability must be indicated on the application and considered as a monthly debt payment for mortgage eligibility purposes. Co-signed debts must be paid satisfactorily (0x30), or they will be counted as Adverse Credit. • **RETIREMENT / SAVINGS PLAN LOANS** o Repayment for loans against a financial asset such as retirement, savings plan, or insurance policy may be excluded from the DTI provided the Borrower can repay the debt by liquidating the asset. The value of the asset must be reduced by the amount of the debt when calculating total assets and/or reserves. • **STUDENT LOANS** o Deferred student loans are included in the DTI as a long-term obligation. Student loans can be counted in credit depth as long as they are in repayment and not being deferred. Student loans listed as delinquent must be brought current. o If no payment is shown on the credit report for a student loan payment, then proof of payment should be provided by student loan lender. **If payment is unable to be determined, use 2% of the original loan amount.** o If a student loan is charged off or in collection, the following must be provided: ▪ A copy of repayment agreement and six months cancelled checks **OR** o If not in repayment evidence it won't affect title

INCOME	• This section describes Borrower income. Income analysis is a key element of the underwriting process and is used to determine whether the Borrower's ability to repay is reasonable.
	• Income documentation provided by the Borrower must be reviewed and adequately verified. Additionally, the income must be considered stable, likely to continue, and sufficient to enable the Borrower to repay the debt in a timely manner. Material inconsistencies must be investigated.
	• **Full Documentation**
	  o Investor will accept these types of Full Documentation (Full Doc) with a verified two-year history of receipt.
	  o **Salary/Wage Earner Full Documentation Requirements**
	    ▪ One of two methods must be used to provide full income documentation:
	      1. Pay stubs for the most recent 30-day period showing year-to-date income and two years' W-2 forms as follows:
	      *If the Borrower has had different employers over the past two years, W-2 forms for the past two years are required.
	      *If the bonus or commission income represents 25% or more of
	      *the Borrower's income, two years of personal tax returns may be required
	      2. Personal tax returns for the past two years, including all schedules.
	      3. Signed and executed 4506-T
	    ▪ Verbal Verification of Employment is required within 5 days of funding.
	  o **Self-Employed Full Documentation Requirements**
	    ▪ Documentation includes the following:
	      1. Two years of personal tax returns, with all schedules
	      2. If the borrower has 25% or more ownership interest in a Partnership, S-Corp, or Corporation, business tax returns for the past two years including all schedules must be provided.
	      3. For all self-employed borrowers, if more than 120 days has lapsed since filing the latest Schedule C or Business tax return, a dated year-to-date profit and loss (P & L) statement and Balance Sheet is required
	      4. A Certified Public Accountant (CPA) letter
	      5. A signed and executed 4506T
	    ▪ Verbal Verification of Employment is required within 5 days of funding.
	• **INCOME VERIFICATION REQUIREMENTS**
	  o The Borrower must provide evidence of two years stable income derived from employment or other acceptable and verifiable sources. A complete 2 year history of employment and/or source of income must be stated on the 1003 application. There must also be a reasonable expectation that the income will continue in the foreseeable future and that such income must be sufficient for repaying the proposed monthly debts. Employment across different jobs in the same or related line of work is acceptable. Borrowers who have made job changes for advancement and maintained a stable earning capacity, as well as Borrowers with demonstrated job stability will receive favorable consideration.

INCOME (CONTINUED)	
	▪ Employment gaps that extend beyond 30 days require an explanation letter from the Borrower. ▪ Paystubs and salary vouchers must be computer-generated or typed, not handwritten. In addition, the documents must clearly identify the employer, the Borrower as an employee, show the time period covered, and provide year-to-date earnings. ▪ Income derived from a family-owned business must be documented by the Borrower's federal tax returns for the prior two years, in addition to a verification of employment. ▪ A Borrower who finished school or military service and who does not meet the length of employment required must provide a copy of his/her diploma or discharge papers. The potential for future income based on job opportunities afforded such individuals, due to their extensive training, may be considered favorable for qualification purposes. • **Significant Increases/Decreases in Income (Trending)** o If the Borrower's monthly income is stable or increasing, the amount of income should be averaged based on the required number of years of documentation required. A "significant" increase or decrease is generally considered to be anything greater than 25%. o **Increase in Income:** When the Borrower has experienced a significant increase in income, the higher income may not be used to qualify the Borrower, unless there is sufficient documentation to determine that the increase is stable and likely to continue at the level used for qualifying (e.g., that the income is not a one-time incentive payment). ▪ When the Borrower's current income decreased from the prior year, the lower income amount should be used for qualifying purposes instead of the averaged income. o **Decrease in Income:** When the Borrower has experienced a significant decrease in income, the income cannot be averaged using a previous higher level unless there is documentation of a one-time occurrence (e.g., injury) that prevented the Borrower from working or earning full income for a period of time and proof that the Borrower is back to the income amount that they previously earned. • **Disposable/Residual Income** o Borrowers must have residual income to maintain housing/living expenses. To calculate the Borrower's residual income, subtract the total monthly expenses from the total monthly income. o DTI 43% require household residual income $\geq$ \$3500 ▪ PBM will entertain DTI up to 46% on an exception basis only, which may cost an additional pricing hit. o DTI $\leq$ 43% require residual income of \$800 for the primary borrower/ \$200 each additional family member.

INCOME (CONTINUED)	
	• **Verbal Verification of Employment (VVOE)** o A Verbal Verification of Employment (VVOE) must be performed for each Loan prior to funding. Written evidence of phone contact with the Borrower's employers, completed within 10 calendar days prior to the Note Date, The verification must identify the name of the person who made the contact, identify the employer and the name and title of the person contacted, show the date of contact, the source of the phone number and confirm that no change in employment status has occurred, regardless of documentation and that the Borrower is currently employed. • **Verbal Verification of Employment for Salaried, Hourly and Commission Income:** o A verbal verification must be performed within 10 business days prior to the Note Date. o The phone number of the employer should be obtained independently and not taken from the application o Employer should confirm the Borrower's current employment status and title. o Third-party verification sources may be used o The written VVOE Form should include: ▪ Date of verification ▪ Source used to obtain the phone number (i.e. internet). ▪ Name and Title of the person at the employer's office who confirmed the employment ▪ Name and title of the person who completed the VVOE. • **Verbal Verification of Employment for Self-Employed:** o Verbal Verification of Employment (VVOE) for Self-Employed Borrowers must verify the existence of the Borrower's business within 30 calendar days prior to the Note Date or for escrow states, the Loan funding date. o This verification can be made with a third party, such as a CPA, regulatory agency or applicable licensing bureau, or by verifying the phone listing and address for the business using the internet or directory assistance. It is also necessary to verify the phone listing and address for the business. o The written VVOE Form should include: ▪ Date of the verification ▪ Source of the verification of the phone listing and the address of the business (i.e. internet) ▪ Name and title of the CPA or details of other source used to verify the business; and ▪ Name and title of the person who completed the VVOE

INCOME TYPES	• The Borrower must be employed as a salary/wage earner, be self-employed, or have a source of verifiable non-employment income. All income sources must be shown on the application and verified for each applicant.
	• **Salary/Wage Earner Income**
	  o A salary/wage earner derives income through employment at a business where he or she has little or no ownership interest. A two-year employment history must be established for each Borrower. Compensation may be based on an hourly, weekly, bi-weekly, semi-monthly or monthly basis.
	  o Bonus, commission, overtime, and gratuity income is compensation in addition to the Borrower's straight salary or hourly wage. Investor will accept stable bonus, commission, overtime, or gratuity income that has been received for two years and verified. Borrowers must have a two year history of earning bonus, commission, overtime or gratuity income in order for the income to be included for qualification purposes.
	• **Self-Employed Income**
	  o Self-Employed Borrowers must be carefully evaluated because their financial ability to repay debts is directly related to the success of the company and to the stable income and expenses of the business.
	  o Self-Employed Borrowers are identified as follows:
	    ▪ Borrowers who derive 25% or more of their primary income from a business in which they hold a controlling interest.
	    ▪ Borrowers who do not own a business but who derive their primary income from commissions, consultation fees, interest, capital gains, gratuities, or real estate rents.
	    ▪ Borrowers who rely on investments for income such as interest, dividends, capital gains, or real estate.
	• At least two consecutive years of self-employment and evidence of ongoing stable income are required. Business income must be reported as a sole proprietorship, partnership, or corporation.
	    ▪ **Evidence of Self-Employment**
	      ✓ Documentation to support the Borrower's self-employment in a legitimate and active business covering the most recent two years must be obtained.
	      ✓ One of the following may be used for verification of the business:
	        ➢ A copy of the business license covering the most recent two years.
	        ➢ A copy of the business license for the current business year and a verbal verification through the issuing municipality confirming the business is current and active and has been in existence for two full years.

INCOME TYPES (CONTINUED)	
	➢ Alternative documentation may be used only if a license is not required for the particular type of business. They include: ❖ Dunn and Bradstreet report ❖ Articles of incorporation ❖ Fictitious business name filing ❖ Title registration ❖ Liability insurance or surety bond ❖ Letter from a certified public accountant (CPA) ❖ Letters of reference (acceptable for small businesses only) • **Self-Employed Income Calculation** o Income documentation should be reviewed for increasing or decreasing trends by comparing the current income and the income from the prior year. When calculating the Borrower's self-employed income, use the Fannie Mae Self-Employed Income Analysis Form 1084A or 1084B. • **Sole Proprietorship Income** o Self-employed income will be determined by averaging the income from the tax returns, including all schedules and attachments (Schedule C). Income from the year-to-date Profit and Loss Statement (P&L) may be included in the income calculation if consistent with earnings from previous years. o Deductible expenses for the business that are attributable to non-cash expenses are depreciation, depletion, amortization, or non-operating losses (NOL) that have been carried forward (loss taken in previous years that is taken as a deduction to taxes). These non-cash expenses may be added back to the net income/loss for qualifying purposes and are defined as follows: ▪ Depreciation is a deduction for the decline in value of an asset such as real or personal property and is not an out-of-pocket expense. ▪ Depletion is a deduction for the useful life of a natural resource and is not an out-of-pocket expense. ▪ Amortization of an asset spreads the asset's cost over the asset's useful life. It may include start-up costs. Examples are a copyright or a patent. Amortization is not an out-of-pocket expense. ✓ **Non-operating loss (NOL)** is a business loss that occurred prior to the current tax year. The full loss is not recognized in the year it occurred, but is spread over future years and is not an out-of-pocket expense after the year it occurred.

INCOME TYPES (CONTINUED)	- A partnership is formed when two or more individuals form a business and share profits, losses, and responsibility for running the business. The partnership does not pay the taxes. The income/loss is passed through to the partners based on the percentage of capital ownership and is reported on a K-1 - Partnership cash flow is determined by analyzing the 1065 tax return and giving credit for ordinary income, depreciation, and depletion. Amortization or casualty loss deductions listed under other deductions may be added to the total. Discretionary losses will be excluded from the cash flow analysis if the business is a limited partnership and the Borrower provides a copy of the partnership agreement stating that all subsequent contributions are voluntary. **Corporate Income** - A corporation is a state-chartered business that is owned by stockholders. Stockholders are not personally liable for the debts of the corporation. Although legal control of the corporation rests with its stockholders, they are not responsible for the day-to-day operations of the business, as they delegate that responsibility to a board of directors and officers of the company. - Corporations must file corporate tax returns (Form 1120) to report income and losses. Officers who are principals of the corporation generally report their income on a W-2. Income may be determined by using an average of the Borrower's earnings for the past two years. Additionally, business tax returns must be analyzed to assess the likelihood of continued personal income to the Borrower. **Corporate Income Analysis** - To calculate corporate income, total tax must be deducted from taxable income, and factors such as depreciation, depletion, or net operating loss (NOL) deductions listed on the return are added back. Other deductions, including amortization and casualty losses, may also be added back. - Retained earnings in the business are not recognized as cash flow to the Borrower or to the company. - Income from the corporation is recognized as income to the Borrower if he or she is the sole and full owner, and if the withdrawal of funds will have no effect on the corporation's continued growth. **S-Corporation** - An S-corporation operates like a standard corporation; however, any profit or loss from the company is passed to the owners through Schedule E of the 1040s. Stockholders are taxed at individual tax rates for each proportionate share of ownership. Income for an owner that comes from wages is declared on the individual's tax return. - S-corporation K-1 income is determined by giving credit for any guaranteed payments or salary and property distributions (including cash) made to the Borrower.

INCOME TYPES (CONTINUED)

- When analyzing Form 1120S, only the Borrower's share of income or loss adjustment should be used to calculate income. The Borrower's share is based on his or her percentage of stock ownership as reported on the Schedule K-1. Depreciation, depletion, and amortization or casualty loss may be added back to income. Other non-recurring income/loss should be subtracted/added back.
- Retained earnings in the business are not recognized as personal cash flow to the Borrower or to the company.

- **Allowable Age of Federal Income Tax Returns**
  - The "most recent year's" tax return is defined as the last return scheduled to have filed with the IRS.

If Today's Date is:	**Then the Most Recent Year's Tax Return would be:**
February 15, 2017	2015
April 15, 2017	2016
December 15, 2017	2016

  - For business tax returns, if the Borrower's business uses a fiscal year (a year ending on the last day of any month except December), the Underwriter may adjust the dates in the above chart to determine what year(s) of business tax returns are required.
  - In all cases, the tax returns for the current year are required as of June 30, rather than October 15th. If the Borrower has filed an extension and does not file by June 30th, the Loan is ineligible

Application Date	**Disbursement Date**	**Documentation Required**
October 15th (current year minus 1) to April 14th, current year	October 15th (current year minus 1) to April 14th, current year	The most recent year's tax return is required. The use of Tax Extension (IRS Form 4868) is not permitted.
	April 15, current year to June 30, current year	• The previous year's tax return (the return date is April of the current year) • If the Borrower has files their tax return for the previous year, the Underwriter must obtain copies of that return.

INCOME TYPES (CONTINUED)				• If the Borrower has not filed their tax returns, the Underwriter must obtain copies of the tax returns for the prior two years. • Tax transcripts are required on all Borrowers for the number of years required to verify income.	
		April 15, current year to June 30, current year	July 1 current year to December 31, current year	• The Underwriter must obtain: • The most recent year's tax return, OR all of the following: • A copy of IRS Form 4868 (Application for automatic Extension of Time to file U.S Individual Income Tax Return) filed with the IRS • The Underwriter must review the total tax liability reported on IRS Form 4868 and compare it with the Borrower's tax liability from the previous two years as a measure of income source stability and continuance.	

INCOME TYPES (CONTINUED)			
			• An estimated tax liability that is inconsistent with previous years may make it necessary to require the current returns in order to proceed. • IRS Form 4506-T transcripts confirming "No Transcripts Available" for the applicable tax year, AND • Tax Returns for the prior two years.
		January 1, (current year plus 1) to April 14th, (current year plus 1)	The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.

- Examples: If the 2015 self-employed income has increased from 2014, is being used for qualifying purposes and the Borrower has filed an extension for the 2015 tax returns:
  - The Underwriter must obtain the 2014 and 2013 tax returns and a year-to-date Profit and Loss Statement (audited)
- If the 2015 self-employed income has decreased from 2014, is being used for qualifying purposes and the Borrower has filed an extension for the 2015 tax returns:
  - The Underwriter must obtain the 2014 and 2013 tax returns and a year-to-date Profit and Loss Statement (Unaudited)
- **Borrowers Not Required to File Tax Returns with the IRS**
- There are some instances where a Borrower was not required to file a tax return for the prior year. Acceptable examples may include:
  - Newly employed Borrower who was a full-time student the most recent tax year
    - ✓ School transcripts are required for documentation
  - Borrower whose income level was below the minimum reporting standards as required by the IRS
    - ✓ Examples include Borrowers who receive disability, Social Security, or pension income and indicate that they are not required to file tax returns

INCOME TYPES (CONTINUED)	
	▪ Active duty military that meet all the requirements to be granted an extension by IRS in accordance with IRS Publication 3-Armed Forces' Tax Guide. o In addition to the specific requirements noted above, the Loan must be satisfactorily documented to: ▪ Support the income used for qualifying ▪ Document the reason a tax transcript is not available ▪ Include a tax transcript indication "No Record Found" or IRS Verification of Non-Filing Form o **Amended Tax Returns** ▪ **Tax Returns that are amended and filed by the Borrower with the IRS are acceptable in the following circumstances:** ✓ Tax returns filed prior to application are acceptable. The original filed return, the amended return and a letter of explanation from the Borrower (or Borrower's accountant) are required. ✓ If the file was amended 60 days or less prior to the application, evidence of payment must also be provided. ▪ **Tax Return Amendment filed after the Loan application date** ✓ A letter of explanation regarding the reason for the re-file ✓ Evidence of filing ✓ Evidence of payment or the evidence of the ability to pay the tax ✓ Borrower does not require use of amended income (if increased) for qualification ▪ Under no circumstances are amended returns acceptable if the Loan has already been reviewed and/or deemed ineligible for purchase by the Investor. • **Fixed Income** o Investor defines fixed income as income derived from sources such as social security and supplemental (dependent's) social security, temporary or permanent disability, VA disability, retirement/pension, or alimony/child support. If a type of fixed income is used to qualify the Borrower, proof of income and probability of continuance for at least three years must be provided. Some forms of fixed income can be non-taxable. Verified non-taxable income will be given special consideration if it is determined that such income will continue for three years and that it will remain untaxed. o **Acceptable forms of non-taxable income include:** ▪ Certain military allowances ▪ Disability retirement payments ▪ Child support payments ▪ Social security distributions ▪ Non-taxable public assistance payments ▪ Worker's compensation benefits

INCOME TYPES (CONTINUED)	
	o **Non-taxable income that is not allowed to be grossed up includes:** ▪ Foreign earned income ▪ Foster care income ▪ Housing allowance o **Fixed Income Calculation** ▪ In order to evaluate a Borrower with non-taxable income in the same manner as a Borrower who has a higher taxable income, the non-taxable income may be adjusted or grossed-up by 125%, provided that: 1. Only the net income will be used for determining disposable/residual income; Medicare and insurance payments are to be omitted. 2. The Borrower clearly benefits as a result of income being grossed-up to qualify. 3. The Borrower’s net income (before gross-up) is sufficient to pay all debts. • **Rental Income** o **Rental income may be used in qualifying a Borrower for a loan.** All owner occupied two-to-four unit properties require a rental income analysis to determine positive or negative cash flow. Rental income on a second home is not allowed. One of the following is required to support leases or rental income on the application: ▪ Rent Survey Form 1007 and Operating Income Statement (FNMA Form 216) ▪ Personal 1040s with Schedule E o **Rental Income Calculation** ▪ Income received from rental properties will be calculated using one of the following methods: ✓ Owned at Least One Year. For properties owned for one or more tax years, cash flow can be calculated in one of the following manners: -75% of actual rents, established by copies of signed leases, **OR** -Net income from 1040 tax return Schedule E, plus depreciation ▪ Owned Less Than One Year. For properties owned less than one tax year, cash flow must be based on 75% of the lesser of actual or market rents o Actual rents must be documented with copies of the signed leases. Net cash flow for properties, other than the subject property, will be calculated using Schedule E from the Borrower’s tax returns for the past two years. o A positive cash flow will be added to gross income; negative cash flow will be added to total liabilities and used to qualify the Borrower. 1. All Negative Cash Flow (loss) should be taken out of (Schedule of Real Estate Owned) Section (VI) of the 1003 and added to the (Liabilities) Section (VI) of the 1003 to calculate the correct Debt To Income Ratio (DTI) o Room rents are an ineligible source of income. If any of the units in a property are receiving room rents than none of the rental income received for the property may be used as qualifying income.

INCOME TYPES (CONTINUED)	
	o Rental income received from a family member may not be used as income without copies of a minimum of six months' cancelled rent checks provided by the tenant family member. o **Rental Income from Departing Residence:** ▪ If the Borrower's current principal residence is going to be rented, the following documentation must be provided or the entire PITIA will be included in the Borrower's qualifying ratios. The rental amount must be documented with either of the following: ✓ If a fully executed lease is not available: – Rent Survey from the appraiser – 75% of the rental amount will be used ✓ If an executed lease is available: – Fully executed lease (must be non-arm's length) – Copy of cancelled check for the first month's rent – Copy of cancelled check for the security deposit • **Interest and Dividend Income** o Interest and dividend income may be used if verified through tax returns as stable for two years and if additional verification is obtained as proof that the funds are still on deposit in the financial institution or investment portfolio account. o Income must be proportionately reduced if funds are used to close in a purchase money transaction. • **Capital Gain Income** o Capital gain or loss that is a one-time transaction will not be considered as a gain or loss in determining the income available to the Borrower. However, if the Borrower's business has a constant turnover of assets that produce recurring gains or losses, the capital gain or loss may be considered in line with the following: ▪ An average of the gains or losses for the last two years as disclosed on the Borrower's Form 1040 (Schedule D) will to be used to calculate the income. ▪ When the income from this source represents a substantial portion of the Borrower's income, the Borrower's tax returns for the past two years must be reviewed (regardless of documentation type) to determine a more accurate estimate of average earnings. For example, an asset sold during the year might be an income-producing asset, which could result in a reduction in future income. ▪ Borrowers must document an asset base in order to use capital gain or loss on an on-going basis. • **Farm Income** o Net farm income reported on the Borrower's income tax return (Schedule F) is eligible with the addition of depreciation, pension, amortization, and depletion.

INCOME TYPES (CONTINUED)	
	• **Military Income** o Income verified for clothing allowance, quarters allowance, hardship or hazard pay may be included as stable income if there is a likelihood of continuance. BAH and BAS allowances may be grossed up due to the nontaxable status. Other allowances may be grossed up if documentation is provided evidencing it is nontaxable. • **Employed by a Relative** o Income derived from a family-owned business or from a relative must be Full or Alt documentation. Reduced income documentation types are not eligible. • **Trust Income** o Trust income may only be derived from an irrevocable trust or a revocable trust where a Borrower who is the beneficiary has also established the trust. In order to verify trust income, a copy must be provided of the original Trust Agreement showing the length of time and amount of income that will be received. The income must continue for at least three (3) years after closing. A Borrower's trust income may be taxed at a lower rate or it may be part of a partnership that writes off losses resulting in no tax liability. o A complete copy of trust agreement or certification letter from bank trust administrator outlining total income paid to the Borrower, method of payment, duration of trust and any non-taxable portion is required. Additionally, personal tax returns with all schedules, K-1s, or 1041s or other documentation per guidelines are required. o Lump sum distributions made before loan closing may be used for down payment or closing costs if they are verified by a copy of the check or the Trustee's letter that shows the distribution amount. If a distribution was made that reduces the Trust income, the reduction must be taken into consideration in computing the income. • **Annuity Income** o Income from a retirement annuity may be used for qualification with proper documentation. A statement from the financial institution managing the annuity is required to verify the balance in the annuity, the monthly payments and the term of the payments to be distributed. Payments to the borrower must continue for a minimum of three years. • **Note Income** o Ongoing note income is eligible for loan qualification. A copy of the note outlining the amount and terms of repayment must be provided. The repayment period must extend at least three years from the date of the new loan. o The Underwriter must document the regular receipt to the income for the most recent twelve months. Payments on a note executed within the past twelve months, regardless of the duration, may not be used as stable income.

INCOME TYPES (CONTINUED)	• **Inherited and Guaranteed Income** o Ongoing income received from inheritance, prize earnings, or lottery winnings are eligible for loan qualification. Documentation must verify that the income will continue for at least three years. • **Other Income** o The following income types will be considered provided that all of the specific stipulations outlined below are met, and the income is fully documented. Furthermore, probability of income continuance for at least three years must be verified. ▪ Second Job Income. Second job income will be considered if income is based on a two-year average. ▪ Seasonal Employment Income: Seasonal employment income, such as farm labor or construction labor, will be considered if it is properly documented and consistent for a minimum of two years. Seasonal employment income and unemployment income must be combined in order to calculate the average annual income. ▪ Unemployment Income: Unemployment Income may also be used if documentation shows that it has been received for a specified length of time (usually a six month period) during the previous two years. ▪ Housing Allowance: Housing allowance may be used as income for members of the military or clergy only, provided that the income will continue for a minimum of two years, and the Borrower has a history of receiving the income. ▪ Trailing or Relocating Co-Borrower's Income: A trailing or relocating Co-Borrower is one who trails behind the primary Borrower during relocation. A trailing or relocating Co-Borrower's income is the amount of income previously received by the trailing or relocating Co-Borrower from employment at the previous location. The use of a trailing or relocating Co-Borrower's income for loan qualification will be done on a case-by-case basis, and the following apply: – The transaction must be a full documentation purchase that is secure by an owner occupied primary residence. – The Primary Borrower must be relocating with the same employer. – The trailing or relocating Co-Borrower must be a spouse, domestic partner or future spouse of the Primary Borrower. – The Primary Borrower and the trailing or relocating Co-Borrower must have verified cash reserves (or other verified assets that are easily converted to cash) equal to six months of payments for the mortgage and all other recurring debt obligations. – The trailing or relocating Co-Borrower must have been employed as a salaried employee in the same profession for the last two years and must provide documentation.

INCOME TYPES (CONTINUED)	– As long as it can be determined and documented that a reasonable employment market exists for positions that are the same as, or similar to, the trailing or relocating Co-Borrower's previous position, Investor may consider 70% of the trailing or relocating Co-Borrower's documented income from his or her previous employment as "anticipated" income for future employment. This income may be used for loan qualification. • **Ineligible Income:** o The following income types are ineligible ▪ Foreign Income ▪ Contributions or support from family members (other than alimony/child support) ▪ Deferred income not presently available ▪ Educational benefits ▪ Illegal income ▪ One-time capital gains (continuing capital gains is an acceptable source of income) ▪ Projected income ▪ Refund of federal or state income tax ▪ Rental income on a second home or an ineligible second unit ▪ Reimbursable income ▪ Gambling winnings ▪ Automobile allowances – this is used to offset the auto payment only ▪ Per diem income ▪ Unverified sources
ASSETS	• The Underwriter must determine and provide evidence that the Borrower has sufficient cash to pay the down payment, prepaid items, financing cost, and closing costs, along with adequate cash reserves as the documentation type or program requires. When the Borrower will be paying off debts, adequate funds should be documented to complete the debt payoff, in addition to the funds required to close the transaction and any required cash reserves. • The financial strength of the Borrower, including accumulation of verifiable assets, is a strong indication of creditworthiness. An established pattern of savings demonstrates skill in financial management. Evidence that the savings are liquid also strengthens the loan transaction as these funds are readily available to repay debt obligations, pay unexpected expenses and provide protection against short-term interruption of income. • Investor encourages the Underwriter to verify sources of liquid assets beyond the amount needed to meet the requirement of the transaction so that, if necessary, these assets may be considered as a compensating factor when the loan is reviewed.

ASSETS (CONTINUED)	

ASSETS (CONTINUED)

- **REQUIREMENTS AND GUIDELINES**
  - Assets and reserves must be sourced and seasoned for at least 60 days
  - All assets need to be deposited in U.S. financial institutions
  - If Borrower is not of retirement age, the Borrower must document that they have unrestricted access to all retirement-based funds, including funds used for closing costs, down payments and reserves
  - Large disparities between the current balance and the opening balances may require additional verification or documentation
  - Large or irregular deposits must be explained and may require further documentation.
    - A large deposit is considered any amount that exceeds 50% of the Borrower's gross monthly income.
    - A signed letter of explanation from the Borrower is required and must sufficiently explain and source the funds
    - Documentation supporting the source of the funds may be required
  - Proceeds from a Cash-out Refinance or Mortgaged Property may not be used to meet the reserve requirements.
- **ASSET DOCUMENATION**
  - The Loan File must disclose all sources of funds to close, unless it is not required by the income documentation. Assets must be sourced and seasoned for 60 days and may be verified with the following documentation:
    - Direct, written verification of deposit (VOD), completed by the depository. In cases where the Borrower has a joint account with someone other than the Co-Borrower(s), the VOD must clearly show the Borrower has authorized access to all the funds. The VOD must cover a minimum of 60 consecutive days.
    - Two months' current and consecutive account statements from each bank, brokerage, mutual fund account, or investment portfolio covering a minimum of 60 consecutive days.
    - Account statements must include the following information:
      1. Borrower as the account holder
      2. Account number
      3. Time period covered
      4. Current balance
      5. Statement date
      6. Name of the depository or investment institution
    - The Borrower must explain any recent large deposits, newly opened accounts (within the last 90 days), or account balances that are considerably greater than the average balance over the previous few months. Any indications of borrowed funds must be investigated.
      1. A written explanation of the source of funds from the Borrower must be obtained and the source of funds verified.

ASSETS (CONTINUED)	
	• **MINIMUM DOWN PAYMENT** o Investor requires the Borrower to make a minimum down payment of 5% from his or her own funds. The balance must be paid from cash from the Borrower's own funds. • **EARNES MONEY DEPOSITS** o Earnest money deposits are considered part of the down payment. The source of the earnest money deposit(s) must be verified using the following: ▪ Copy of the Borrower's cancelled check and two months' bank statements, up to and including the date the check cleared, to evidence a sufficient average balance to support the amount of the earnest money deposit. ▪ Any large deposit to the account must be addressed in writing with supporting documentation. ▪ Verification that there are sufficient funds on deposit to cover the earnest money deposit and any other required funds to close. ▪ The canceled check or bank statement and the deposit receipt must agree with the Purchase Agreement. ▪ If additional earnest money deposits are made, an amendment to the original Purchase Agreement must be provided • **AGE OF ASSET DOCUMENTATION** o The verification of assets, including the source of funds, may not be greater than 90 days old at the time of closing. If the funds are required for closing, then the most recent account statement(s) at the time of the validation will be required. In the event that the Disbursement Date causes the Borrower's verification of assets to be greater than 90 days old, Investor reserves the right to request updated credit, asset, and/or income documentation. Disbursement Date is the day on which the loan closes. • **RESERVE REQUIREMENTS** o When reserves are required and documentation type, the number of months required will be indicated in the guidelines as reserves requirements. To calculate the dollar amount of the required reserves, multiply the Borrower's new PITIA payment by the number of months indicated. Reserves are defined as assets remaining, from down payment and closing costs, exclusive of cash-out received from the transaction. Reserves must be verified, sourced, and seasoned for 60 days. o All Reserves requirements are calculated by determining the Subject Property ▪ 6 Months PITIA Reserves ▪ 9 Months PITIA reserves required for LTV/CLTV >80%, loan amounts >$1,000,000, Second Home and First-Time Homebuyers. ▪ 6 months PITIA reserves required for each additional financed property (Up to a maximum of 36 months) o ***Borrower's own funds must meet down payment and reserve requirements.***

ASSETS (CONTINUED)	
	o PITIA is defined as: ▪ Principal and interest ▪ Hazard, flood, mortgage insurance premiums (as applicable) ▪ Real estate taxes ▪ Ground rent ▪ Special assessments ▪ Association dues ▪ Any subordinate financing payments on mortgages secured by the Mortgaged Property • **INELIGIBLE ASSETS AND SOURCES OF FUNDS** o The following are ineligible assets and sources of funds: ▪ Stocks held by privately held corporations ▪ Stock options ▪ Non-vested restricted stock ▪ Windfall assets (i.e., inherited funds, proceeds from a lawsuit, lottery winnings) ▪ Cash-Out Refinance proceeds ▪ Non-financial assets (collectibles, stamps, coins, artwork, etc.) unless liquidated ▪ Assets titled in an irrevocable trust ▪ Custodial accounts ▪ Escrow accounts ▪ 529 Accounts ▪ Accounts pledged as collateral on another loan ▪ Below investment grade corporate and municipal bonds ▪ Cash value of life insurance ▪ Foreign assets. • **ACCEPTABLE ASSETS AND SOURCES OF FUNDS** o **Checking/Savings/Deposit Accounts** ▪ Funds held in checking, savings, certificates of deposit, money market and other deposit accounts are acceptable sources of funds provided verification of deposit (VOD) or acceptable alternative documentation is used to verify these accounts. ▪ The source of funds for a recently opened account or for a large increase must be explained and verified. Copies of the Borrower's bank statements must reliably document that the funds were not recently borrowed. The statements should show that the funds were accumulated prior to funding.

ASSETS (CONTINUED)	
	o **Business Funds** ▪ The use of business funds for down payment, closing costs and reserves is allowed for sole proprietors, partnerships and corporations, including S-corporations. When using these funds, each transaction must be analyzed in order to determine the Borrower's percentage of ownership in the business, validate the Borrower's ability to access business funds without any detrimental effect to the business and to ensure there is strength and stability within the business. ▪ **Ownership Verification:** Borrower's ownership interest in the business must be confirmed by documentation such as a business license or corporate or partnership tax returns. ➢ **Verification of the Availability of Funds:** 1. **Sole Proprietor:** Verification that the Borrower has 100% ownership of the business, for example using the tax returns provided or a copy of the business license. 2. **Partnership:** Borrower must be a general partner and verification of the percent of ownership is required. Verification of the ability to withdraw funds to the extent of the percentage of ownership and approval of the other general partners is required. The percentage of ownership can be validated using the U.S. Partnership Return of Income (IRS Form 1065) and the Partner's Share of Income, Credits, Deductions, etc. (IRS Schedule K-1) for filing income tax returns for the partnership. 3. **Corporation:** Verification that the Borrower is 100% owner of the corporation or if the Borrower is not a 100% stockholder verification of the percent of ownership. In addition, verification of the ability to withdraw funds to the extent of the percentage of ownership is required, along with approval of the stockholders with a corporate resolution. The Borrower's percentage of ownership can usually be determined from the Compensation of Officers section of the corporate tax return. o **Self-Employed Borrowers:** The following requirements are applicable for Self-Employed Borrowers using business funds: 1. All funds must be seasoned with the source of funds for any large deposits fully documented and explained. 2. Business assets must be verified using standard documentation requirements. 3. A cash flow analysis on the business is required. The cash flow analysis can be performed by the accountant or CPA. The file must contain evidence the Borrower has full use of business funds and there is no required repayment. 4. The Loan File must contain evidence that the funds are not advancement against future earnings or future cash distributions. The Loan File documentation must include a review of any potential tax implications on funds received.

ASSETS (CONTINUED)

- **Credit Card Financing:** Certain loan cost may be paid outside of closing by the Borrower's use of a credit card. The following cost can be financed:
  1. Appraisal
  2. Lock-in fees
  3. Credit report
  - The aggregate total may not exceed $1,000. Sufficient funds to pay off the charged amounts must be verified. The Borrower does not need to pay off the charged amounts. The minimum monthly payment will be added to the debt ratios.

- **Retirement Accounts**
  - Vested funds from individual retirement accounts (IRA/Keogh accounts) and tax-favored retirement savings accounts (401(k) are acceptable sources of funds for down payment, closing costs and reserves.
  - Underwriter must verify the ownership of the accounts and the Borrower's actual receipt of the funds from the liquidation of the assets, if needed to complete the transaction.
  - When funds from retirement accounts are used for reserves, it is not necessary to withdraw the funds from the account. It is necessary, however, to exercise caution when considering retirement accounts as reserves since these accounts often feature significant penalties for early withdrawal or have limited access and have vesting requirements.
  - When using the funds as reserves, the Underwriter may use the following percentage of the vested amount:

Retirement Accounts (401 (K) IRA, SEP, KEOUGH):	
• If the Borrower is <**59.5 years** old)	• 55%
• If the Borrower is ≥**59.5 years** old)	• 65%

  - If the retirement account only allows withdrawals in connection with Borrower's termination of employment, retirement or death, the Underwriter may not consider the vested funds for reserves.

- **Stocks, Bonds, and Other Securities**
  - If the source of funds to close is proceeds from the sale of stocks, bonds, or other securities, then the Loan File must document their value and must contain proof that the Borrower owned such commodities. Acceptable evidence of ownership and value include:
    - A statement from the brokerage company indicating ownership of the securities and verifying the sale.
    - Verification from the bank where the securities were sold or redeemed.
    - Copies of sale documents.
  - A copy of the bond redemption tables (for value verification), and proof of liquidation, is required for government bond proceeds.

ASSETS (CONTINUED)	• **Other Accounts** o Accounts such as annuities, trust funds and hedge funds may be utilized. Documentation must be provided to show that the funds are available to the Borrower and under what conditions the funds may be withdrawn. If being used for reserves, annuities are treated the same as retirement accounts. • **Borrowed Funds Secured by Assets** o Proceeds from a loan that was fully secured by the Borrower's assets qualify as a source of funds to close, subject to the following requirements and guidelines: ▪ The loan must be secured by an asset owned by the Borrower, such as a certificate of deposit, stock, bond, real estate (other than the Mortgaged Property), life insurance policy, savings account, or a bridge loan. ▪ The loan must be from an institutional lender. ▪ The DTI ratio calculation must show that the Borrower is qualified to pay the additional debt. ▪ A copy of the executed note reflecting the terms and proof of the receipt of the funds must be provided. • **Sale of Real Property** o If the source of funds to close is proceeds from the sale of real estate owned by the Borrower, the amount of net proceeds must be documented with a copy of the final HUD-1 along with the receipt of the proceeds by the borrower. • **Gift of Equity** o Gift of equity is defined as equity in a property given by the owner to the Borrower when the Borrower purchases a home from an immediate family member, defined as parents, grandparents, siblings, spouse, children, aunts, and uncles. Gift of equity is acceptable from immediate family members and no repayment is expected. Property must be owner occupied. Verification of a gift of equity must be reflected on the purchase agreement or HUD-1. Gift of equity transactions must also comply with Interfamily Transfer requirements in this chapter. Gift of equity transactions should be supported by an appraisal at fair market value. Generally, sales prices less than or greater than 10% of fair market value established by the appraiser are subject to further review and documentation.
GIFT FUNDS	• **Not Allowed**

OCCUPANCY	• The following outline the occupancy and the requirements and guidelines associated with them. Occupancy types are: o **OWNER OCCUPIED PRIMARY RESIDENCE** An owner occupied primary residence is a 1 unit dwelling that is occupied by the Borrower as his or her principal residence. A property will not be considered a primary residence unless at least one of the Borrowers occupies all or part of the Mortgaged Property as a primary residence within 30 days of the note date. The following define primary residence: ▪ The Borrower occupies the property for a major part of the year. ▪ The property location is convenient to the Borrower's place of employment. ▪ The property must possess the physical characteristics to accommodate the Borrower's immediate dependent family. Physical characteristics are considered those typical to both the owner and the neighborhood. ▪ The property's address is on record for federal income tax reporting, voter registration, driver's license, and occupational licensing. ▪ In the case of a purchase money transaction, the Borrower must state his or her intention to occupy the Mortgaged Property as his or her principal residence. o **SECOND HOME OR VACATION HOMES** ▪ A second home or vacation home is a one-unit dwelling owned and occupied by the Borrower for his or her exclusive use and enjoyment. The property should be located at a sufficient distance and time of travel from the primary residence. The following define a second/vacation home: ▪ The property is suitable for year-round occupancy. ▪ The property is not subject to timesharing, rental agreement ownership, rental pools, or agreements that stipulate the rental of the property. ▪ A management firm must not control occupancy. ▪ The property may not be remote or inaccessible and may be used only for residential purposes. ▪ Income from a second/vacation home is not acceptable. ▪ The Investor limits the number of loans a Borrower may have for second/vacation homes to one. Two to four unit properties are ineligible as second/vacation homes.

TRANSACTION TYPES	• **PURCHASE:** A Purchase transaction involves the purchase of a real property, as defined by a Sale and Purchase Agreement executed by the Borrower and home Seller that represents a First or Second Mortgage on the property. o **Non-Arm's Length** ▪ A non-arm's length transaction is a transaction between family members, co-workers, friends or anyone associated with the transaction such as the listing agent, mortgage lender or broker. ▪ Non-Arms' length transactions are not eligible for purchase except for Gift of Equity (GOE) or inherited properties. ▪ Examples of non-arm's length transactions include but are not limited to: ▪ Relatives: Relatives are defined as individuals related by blood, marriage, adoption, or legal guardianship. Transactions between an individual and their spouse, parent, sibling, grandparent, aunt, uncle, cousin, stepparent or stepchild, regardless of whether the relationship is by blood, adoption, marriage, or legal guardianship are considered non-arm's length. The definition also includes domestic partners and fiancées. a. A purchase and sale transaction between relatives, including the estate of a deceased family member unless the transaction is a probate sale. b. A financing transaction between relatives, such as the processing or origination of a Loan for a relative by an employee of the Provident Bank Mortgage. c. Parents purchasing and financing a property for a child who then wants to refinance to pay-off the parents ▪ **Employer/Employee** a. A purchase and sale transaction between an employer and an employee. b. A financing transaction between an employer and an employee, including a Loan originated by the Provident Bank Mortgage for the Provident Bank Mortgage's employee, contractor, or principal. ▪ **Landlord/Tenant** a. A purchase and sale transaction between a landlord and tenant, including lease option purchase options. b. A financing transaction between a landlord and tenant, such as the processing or origination of a Loan for a tenant when the landlord is an employee of the P. ▪ **Home Builders** a. Purchase transactions where the Borrower is the owner of, or is employed by the homebuilder who has constructed the subject property. b. Transactions where the principals of constructions companies are involved in the sale and financing of the subject property, with the exception of qualifying builder owned lending operation transactions.

TRANSACTION TYPES (CONTINUED)	▪ **Real Estate Brokers/Agents:** A transaction where the Borrower or a relative of the Borrower, is a licensed real estate broker or agent employed in the real estate industry and is involved in the financing or sale of the subject property, regardless of whether he/she received a sales commission. This includes a Borrower or a relative of the Borrower. a. Acting as the property sellers' agent under a listing agreement with the Seller of the property; b. Acting as his/her selling agent for a real estate broker; c. Acting as both the listing agent and as the seller agent (dual representation); and d. Employed by the Provident Bank Mortgage acting as the Loan interviewer, e. A transaction where the Borrower acts as his/her own real estate agent (buyer's agent) in the purchase of a property will considered arm's length. ▪ **Third Party Service Vendors:** A transaction where the Borrower is always a principal or a third party vendor, such as a settlement agent, escrow company, title company, appraisal company, or credit reporting company providing such service for the subject Loan. ▪ **Provident Bank Mortgage Employees:** A Borrower who is employed by Provident Bank Mortgage (i.e. no employee loans) ▪ **Seller Financed:** The payoff of a loan currently financed by Provident Bank Mortgage ▪ **Interfamily Transfer** ✓ The HUD-1 must reflect the gift of equity as part of the transaction or the purchase price. ✓ The property must be owner occupied (non-owner occupied interfamily transfers will be reviewed by the investor on a case-by-case basis). ✓ Interfamily transfers are considered Purchase transactions. For an interfamily transfer to be eligible for purchase by the investor, the appraisal must support value, **AND**: ❖ Existing liens on the property must be current. ❖ The HUD-1 must reflect the gift of equity as part of the transaction or the purchase price. ❖ For owner occupied properties, the maximum LTV/CLTV is 80% or per the matrix whichever is lower. ❖ For non-owner occupied properties, the maximum LTV/CLTV is 70% or per the matrix whichever is lower. ✓ Family members are defined as parents, grandparents, siblings, spouses, children, aunts and uncles.

TRANSACTION TYPES (CONTINUED)	▪ **Renting Back the Current Residence** ✓ The Borrower may rent back their current home for up to 30 days from the closing sale date. In some cases such as relocations, the investor, at their sole discretion may allow the rent-back period to be greater than 30 days.
RATE/TERM REFINANCE	• A Rate/Term Refinance represents a First Mortgage that is used to pay off an existing mortgage(s) or lien(s) with a new loan. This loan secures the Mortgaged Property in order to acquire a different interest rate or loan term. Cash removal or debt consolidation other than incidental cash (the lower of 1% of the loan amount or $2,000), is not permitted. • A Rate/Term Refinance is when the Mortgage Loan proceeds are used for. o Reasonable and customary loan closing costs/fees. o Payoff of the First Mortgage o Payoff of closed end subordinate mortgage(s) that: ▪ Are at least 12 months seasoned ▪ Where used to purchase the Mortgaged Property ▪ Were used for documented home improvements o Payoff of Home Equity lines of Credit where: ✓ A cash draw greater than $2,000 has not been taken in the last 12 months. OR ✓ Proceeds have been used for documented home improvements. • **Refinance Resulting from Divorce** o A refinanced transaction resulting from a divorce settlement wherein either the Borrower or the Co-Borrower is required to buy out the interest of the other spouse in the Mortgage Property may be considered a Rate/Term Refinance transaction if: ✓ The Borrower who will be acquiring sole ownership of the property receives no cash-out from the proceeds of the transaction. ✓ The Borrower provides a copy of the divorce decree or the property settlement agreement reflecting the required buy-out. o Other divorce-related property right dissolution shall be treated as a Cash-Out Refinance transaction.

CONTINUITY OF OBLIGATION	• For Refinance Transactions, there must be a continuity of obligation if there is currently an outstanding lien that will be satisfied through the refinance transaction. Continuity of obligation is met when any one of the following exists: o At least one (1) borrower is obligated on the new loan who was also a borrower obligated on the existing loan being refinanced; o The borrower has been on title and residing in the property for at least twelve (12) months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor; o The loan being refinanced and the title to the property are in the name of a natural person or a limited liability company (LLC), as long as the borrower was a member of the LLC prior to transfer. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirements. o The borrower has recently inherited, or was legally awarded, the property (divorce, separation or dissolution of a domestic partnership). • Loans with an acceptable continuity of obligation may be considered Limited Cash Out as described in the section.
CONSTRUCTION-TO-PERMANENT REFINANCE	• A Construction-to-Permanent Refinance is a loan obtained to pay off an interim (short-term) loan used to finance the construction of the subject property. The transaction may be treated as a Purchase, Rate/Term Refinance. For information regarding the treatment of the Construction-to-Permanent financing, refer to the Loan-to-Value Ratio section.
LAND CONTRACT REFINANCE	• A Land Contract is an installment contract for the sale of land and improved structures. The home seller has legal title until the installment is paid and the buyer has equitable title during the term of the contract. Land Contracts are treated as refinance transactions. Land Contract transactions are acceptable on owner occupied properties only. o **Land Contract/Contract for Deed (Recorded or Unrecorded):** A Land Contract/Contract for Deed is subject to the following: ✓ The home seller must be the current owner of the property as reflected on the Preliminary Title Report/Commitment. ✓ A copy of the Land Contract/Contract for Deed is required. ✓ Canceled checks (front and back) or bank statements are required to evidence the down payment. ✓ Copies of canceled checks (front and back) to evidence the monthly payments covering all months of residency for the past 12 months are required.

LAND CONTRACT REFINANCE (CONTINUED)	**Note: The Borrower might be eligible for a cash-out transaction depending on when the Land Contract/Contract for Deed was executed:** ✓ Executed Less Than 12 Months. If the Land Contract/Contract for Deed has been executed for less than 12 months, then the transaction must be Rate/Term Refinance and it will be based on the Appraised Value or contract price, whichever is less; OR ✓ Executed at Least 12 Months. If the Land Contract/Contract for Deed has been executed for at least 12 months, the Borrower may be eligible for a Cash-Out Refinance, and the transaction may be based on the Appraised Value. **Note:** 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. ✓ Since the tax rate will be reassessed for the new transaction, the newly established tax rate will be used for qualifying the borrower. o **Multiple Transactions Executed by One Seller** ✓ Multiple applications for Land Contract/Contract for Deed transactions that are executed by the same Seller, company, and/or individual are unacceptable. ✓ A Land Contract/Contract for Deed executed by a company or property owner whose primary business is investments in real estate or rehabilitation of deferred maintenance properties are not eligible.
LEASE OPTION-TO-PURCHASE	• **A Lease Option-to-Purchase** is an agreement to lease a property for a specified period of time at an agreed-upon monthly rent payment. Under this option, a portion of the payments in excess of the market rents will be applied toward the down payment. Once the potential buyer has satisfied the terms of the down payment, he or she may execute the Option-to-Purchase the property at the sale price agreed upon in the Lease Option-to-Purchase agreement. Lease Option-to-Purchase transactions are eligible on owner occupied properties only. Loan proceeds can only be used to pay off the contract. o **Rent Credit** ▪ 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.

LEASE OPTION-TO-PURCHASE (CONTINUED)

- **Refund of Excess Deposit**
  - If the Borrower earned a large amount of rental credit during the term of the Lease Option-to-Purchase, the Borrower may receive a refund of excess deposits at close.

    For example:

Purchase Price	$100,000
Option Credit earned	-$36,000____
Subtotal	$64,000
Loan amount (85% LTV)	$85,000
Balance due on lease	-$64,000____
Excess deposit	=$21,000 ***(Refund to excess deposit)***

- **Requirements and Guidelines:** The following requirements and guidelines apply to Lease Option-to-Purchase transactions:
  - A copy of the executed Lease Option-to-Purchase agreement is required
  - Proof of the Borrower's earnest money deposit, in the form of copies of canceled checks (front and back) must be provided.
  - Copies of canceled checks (front and back) to evidence the monthly payments covering all months of residency for the past 12 months.
  - A documented lease with a Lease Option-to-Purchase and less than 12 months of seasoning will be treated as a Purchase transaction. The lesser of the purchase price or the Appraised Value will be used to determine the LTV/CLTV.
  - A Lease Option-to-Purchase with at least 12 months of seasoning will be treated as a refinance transaction. The Appraised Value will be used to determine the LTV/CLTV. Lease Option-to-Purchase transactions are eligible for Rate/Term Refinances only to pay off the contract. They are ineligible for Cash-Out Refinance transactions.
  - Lease Option-to-Purchase transactions that do not involve an earnest money deposit and/or monthly rent in excess of proven market rents will not be considered a Lease Option-to-Purchase transaction and must comply with standard Purchase guidelines

INHERITED PROPERTIES	• If a Mortgaged Property was inherited within the past 12 months, the following limitations apply: o The Borrower must have clear title. o If the Borrower is paying only existing mortgages and heirs with cash-out, the maximum LTV/ CLTV is 80%, or the maximum allowed per the matrix, whichever is less. This will be treated as a Rate-Term Refinance. o The maximum LTV/CLTV on Cash-Out Refinances where the proceeds for debt consolidation or cash-in-hand is 70% or the maximum allowed per the matrix, whichever is less. o Rate/Term Refinances only for non-owner occupied properties. • Buying out additional heirs identified in the related will is allowed. A copy of the will must be provided, along with the buyout agreement signed by all of the beneficiaries identified in the will. • For inherited properties, there is no restriction for occupancy. • If the property was inherited more than 12 months ago, standard refinance guidelines apply.
INELIGIBLE TRANSACTIONS TYPES	• A Lease Back Purchase Transaction, where the lease-back period is greater than 30 days is an ineligible • Multiple 2-4 Units • Outside Subordinate financing • LTV/CLTV over 90% • Cash-Out not allowed • See Enhanced-2 StandAlone Closed End 2nd Lien Guidelines produce code **CE2ND20SAG**

COLLATERAL	

COLLATERAL	• 1 Full Appraisal[1] if Combined Loan Amount ≤ \$1.5M
	• 2 Full Appraisals[1] if Combined Loan Amount > \$1.5M[3]
	• Condominiums require HOA Certification Form
	CLEAR CAPTIAL (CDA) REVIEW REQUIRED ON ALL LOANS
	▪ **Branch is responsible for ordering the CDA From PBM Appraisal Admin**
	▪ Collateral Desktop Analysis (CDA)[2]
	▪ If the CDA returns a value that is ≤ 5% of the Appraisal Value[4], The Appraised Value [4] can be used to establish the LTV/CLTV
	▪ If the CDA returns a value that is >5% but ≤10% of the Appraised Value[4], two options are available:
	  ▪ The CDA value can be used to establish the LTV/CLTV, however the LTV/CLTV maximum is the lower of the matrix maximum or 70% whichever is less.
	  ▪ A Clear Capital Broker Price Opinion (BPO) and Clear Capital Valuation of Three Reports may be ordered. In the case where two Appraisals were required, the two Appraisals and the CDA can be used to the Value Reconciliation of Three Reports. The reconciled value determined by Clear Capital will be used to determine LTV/CLTV.
	  ▪ If the CDA returns a value that is **"Indeterminate"** or > 10% of the Appraised Value, a Clear Capital Broker Price Opinion (BPO) and Clear Capital Value Reconciliation of Three Reports must be ordered. The reconciled value determined by Clear Capital will be used to determine LTV/CLTV.
	  ▪ If the Clear Capital CDA returns a value is greater than the Appraised Value[4], the Appraised Value[4] will be used to determine LTV/CLTV.
	1. " Full Appraisal" refers to a Uniform Residential Appraisal Report (URAR), This includes a FNMA 1004 and FHLMC 70
	2. The Collateral Desktop Analysis (CDA) must include the MLS data
	3. The CDA will be completed on lower of the two appraisals.
	4. The "Appraised Value" is the value determined from the original appraisal(s) obtained by Provident Bank Mortgage.

MAXIMUM ACCEPTABLE ACREAGE	• The maximum acreage allowance is 10 acres. Generally, value should only be given to 5 acres unless it can be shown with comparable sales that 5 to 10 acres is typical for the area. • Acreage exceeding 10 acres will be reviewed on a case-by-case basis. ▪ Comparable market activity of like-sized parcels must align with the acreage of the Mortgaged Property. • Ranches, working farms, orchards, and/or commercial operations of any type are not permitted.

PROPERTY UNDERWRITING	• The property used as collateral for the loan must provide sufficient value to recover the investment should the loan default. The appraisal provides the basis for evaluating the value of the collateral. The appraiser must present a concise picture of the neighborhood, the site, and the improvements to support an indicated value that adequately supports the estimate of market value. • The Underwriter must perform an audit of the appraisal for the following: o Consistency, logic, and accuracy of the appraisal o Reasonable support for the value of the property o Current and future marketability of the property o Appraiser qualifications o Timeliness and applicability of the data used to determine marketability o Completeness and accuracy of the appraisal forms and exhibits • Investor may elect to require additional appraisal diligence based on the improvements and condition of the property or data within the appraisal report. This increased diligence may include additional comparables, an AVM, a field review, or a second full appraisal on a property.
UNDERWRITER CONSIDERATIONS	• The Underwriter should consider the following when reviewing collateral for the loan transaction: o The accuracy and completeness of the appraisal and its assessment of the marketability of the property; o Underwriting the completed appraisal report to determine whether the Mortgaged Property presents adequate collateral for the mortgage; o Continually evaluating the quality of the appraiser's work through normal underwriting review of all appraisal reports and spot-check field review of appraisals as part of its quality control program; o Ensuring that the appraiser uses sound reasoning and provides evidence to support the methodology used for developing the value opinion; o Ensuring that the appraiser provides an accurate opinion, an adequately supported value, and an accurate description of the property; o Ensuring that the appraiser provides his or her license or certification on the appraisal report; o Complying with the appraiser independence requirements outlined in Section 1026.42 of Regulation Z under the Truth in Lending Act; o Disclosing to the appraiser any information about the Mortgaged Property of which it is aware of that could impact the marketability of the property; o Providing the appraiser with the ratified sales contract and other financing or sales concessions that are associated with the transaction; o Ordering and receiving the appraisal report for each mortgage transaction; and o Ensuring the appraiser does not use unsupported assumptions or use race, color, religion, sex, handicap, familial status or national origin for any party in the transaction as the basis for market value.

APPRAISER QUALIFICATIONS	• The Underwriter should ensure that each appraiser meets the following qualifications:
SINGLE-FAMILY RESIDENCE	• A site-build dwelling designed for single-family use only. The dwelling may share one wall with a residence owned by another. The units may be either detached or attached in groupings of two (“two in home”).
ROW HOME	• A site built attached housing unit that is designed for the use of one family and is built on land owned by the Borrower. A row home is not classified as a Planned Unit Development (PUD) or condo, does not share any common areas, does not pay Homeowner’s Association fees or have covenants, conditions, and restrictions like other attached dwellings. These homes are usually two or more stories with a front and rear entrance only. Row homes are typically located in communities of row homes with similar construction type and appearance and typically fill an entire block.
TOWNHOUSE	• A site built attached dwelling unit generally having two or more floors, and attached to other similar units via party walls. Townhomes are often used in Planned Unit Developments and condominium developments, which provide for clustered or attached housing and common open space. • May be considered single-family, or a PUD depending on the above descripts.
MODULAR HOMES (PANELIZED, PRE-CUT HOMES)	• Modular homes are factory-built homes constructed to the state, local, or regional building codes where the home will be located. • Modular homes are multi-sectioned units that are transported to the site and installed. • Modular homes are treated the same as single-family residences. One comparable must be a modular/prefabricated home. • Manufactured homes **are not** acceptable as comparables.
PLANNED UNIT DEVELOPMENT (PUDS)	• **Project Requirements for PUDs** o The Underwriter must ensure that all PUD properties comply with the requirements and warranties described in this section. o A PUD must comply with PUD warranties. Investor reserves the right to: ▪ Determine whether a particular Mortgaged Property is a PUD. ▪ Require the Underwriter to submit, at the Branch’s expense, an opinion of legal counsel, in form and substance, satisfactory to Investor, and all supporting data that supports Provident Bank Mortgage’s PUD warranties. o Fulfillment of these project requirements does not release the Underwriter from the responsibility of ensuring that the project complies with additional requirements set forth in these guidelines. • **Planned Unit Development (PUD):** A Planned Unit Development (PUD) is a development that has all of the following characteristics: o The individual unit owners own a parcel of land improved with a dwelling.

PLANNED UNIT DEVELOPMENT (PUDS) (CONTINUED)	This ownership is not in common with other unit owners. o The development is administered by a Homeowners' Association (HOA) that owns and is obligated to maintain property and improvements within the development for the common use and benefit of the unit owners. o The unit owners have an automatic, non-severable interest in the HOA and pay mandatory assessments. • Classifications of a PUD are not based on its zoning. While there are many styles of homes that can be within a PUD (townhouse, single-family, detached, quads, etc.), this is not the basis of determination. o The development must meet the above definitions, and Provident Bank Mortgage must make all warranties required for this type of ownership. o There are two classifications for PUD projects; 1) Type E are established PUD projects and 2) Type F are new PUD projects. If the Mortgaged Property is a detached PUD, no additional analysis is required. o **If the subject is an attached PUD, the following review is required:** ▪ *Type E Warranty:* ✓ Type E warranty applies to established PUD projects in which the HOA has been turned over to the unit purchasers. ✓ This is the sole eligibility criterion for qualifying as a Type E project. ✓ Manufactured homes are not allowed. ▪ *Type F Warranty:* ✓ Type F warranty applies to new PUD projects that are still under control of the developer. The project must meet the following eligibility criteria: ✓ The project cannot have been created by the conversion of existing buildings into a PUD. ✓ The project may not include any multi-dwelling units that represent the security for a single mortgage. ✓ A sufficient number of the total units in the project (or legal phase) must have been conveyed or be under contract to be sold to the purchasers in order for Provident Bank Mortgage to determine whether the presales will support the responsibilities of the HOA for at least two years. ✓ The units must be owned in fee simple or leasehold and the unit purchasers must the sole ownership interest in, and right to the use or, the projects' facilities once control of the owners' association has been turned over to them. ✓ Manufactured homes are not allowed.

PLANNED UNIT DEVELOPMENT (PUDS) (CONTINUED)	- The HOA should complete a Limited Project Review Questionnaire (see Forms chapter) for a determination that the Type F warranty requirements have been met. The Full Project Review Questionnaire (see Forms chapter) will be required for all New Associations (less than 1 year) and all Non Fannie/Freddie Approved Projects. - Investor reserves the right to limit the number and/or aggregate dollar amount of loans purchased in any one subdivision or PUD project or to declare loans in any project ineligible for purchase. • **PUD Warranties:** The Underwriter must make the following warranties for each mortgage secured by a PUD unit: - The property meets the definition of a PUD as described above. - All property insurance requirements, as outlined in this Guide, have been met. - One entity does not own more than 10% of the subject project (applies to attached PUDs only). • **Ineligible PUD Project Types:** - Attached PUD projects with any of the following characteristics are ineligible: - Properties less than 400 square feet. In all cases, the property must be typical and common for the market area and supported by two comparables. - Projects in current or threatened litigation are typically ineligible. Litigation may be acceptable if it is determined to be minor and immaterial. Any project for which the developer, project sponsor, or HOA is named as a party to litigation or pending litigation that relates to the safety, structural soundness, habitability, or functional use. ✓ If the master liability policy does not cover a lawsuit or judgment, or special assessments need to be imposed to cover the lawsuit or judgment - Projects managed and operated as a hotel/motel or contain the word hotel/motel in the name. They may have the following characteristics, however, this list is not inclusive: - Daily, monthly or seasonal rentals - Centralized phone and/or key systems - Food or beverage service (room service) is available to the individual units - Lack of a full kitchen within the unit - Housekeeping services on a daily or weekly basis - Advertising of rental rates - Registration service (check-in desk, off-site desk) - Restrictions on interior decorating or furnishings, or the units are sold fully furnished - Franchise agreements - Low owner occupancy density with limited or no owner-occupants - Affiliation with and/or managed by an entity such as a hotel or hospitality chain

PLANNED UNIT DEVELOPMENT (PUDS) (CONTINUED)

- Impose black-out dates or do not have year-round access
- Shares facilities, common elements or amenities with a hotel or resort that is owned and managed by the developer or another third-party entity

- Projects with mandatory rental pooling agreements that require unit owners to either rent their units or give a management firm control over unit occupancy
- Project management and marketing practices such as:
  - The developer or a third-party entity expects to retain ownership or control of the project
  - The developer or a third-party entity retains ownership or control of any common elements or amenities
  - Unit owners have no control over any third-party entity that succeeds the developer
  - Commercial space over which the unit owners have no control
- The PUD documents and any amendments are silent on the presence of common elements and/or amenities, their use and/or ownership, or they state that common elements and/or amenities may be added to, expanded, or deleted as determined by the developer or another third-party entity without the consent of the unit owners or the HOA.
- Manufactured housing projects
- Projects with revenue sharing by either the HOA or unit owner
- Projects with non-incidental business operations (such as restaurants, health club, spa, etc.) owned and operated by the HOA.
- Time-share or segmented ownership projects
- Common interest apartments
- The developer, third-party entity, or the HOA operates commercial facilities within the project or master association, such as retail stores, restaurants, golf course, common areas, recreational facilities, and amenities usually associated with luxury hotels and resorts.
- Assisted living or senior care facilities that have a minimum age requirement and/or provide meal or healthcare services
- Continuing care retirement community (CCRC) or life-care facilities. These are residential projects that are designed to meet the health and housing needs of seniors as their needs change over time.
- Multi-unit PUDs that permit an owner to hold title to more than one unit, with ownership of all of the owned unites evidenced by a single deed and financed by a single mortgage
- Any project owned by several owners as tenants-in-common or by a HOA in which the individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific unit in the building.
- Live-work type PUDs such as artist's studio, workshops, factories and galleries.

PLANNED UNIT DEVELOPMENT (PUDS) (CONTINUED)	o Own your own property situations where the legal description gives the Borrower the right to occupy a given unit rather than the actual ownership of the unit. o Projects with commercial space used for non-residential purposes that exceeds 20% of the total space o Projects in which a single entity (individual, investor group, partnership, or corporation) other than the developer, owns more than 10% of the units. o New projects in which the property seller offers sales/financing structures in excess of the maximum allowable contributions for individual loans. o Any project that represents a legal, but non-conforming uses of the land, if zoning regulations prohibit re-building improvement to current density in the event of their full or partial destruction o Projects with mandatory club memberships or leased amenities.
RURAL PROPERTIES	• In addition to one of the above property types, a property may be classified as a rural property if any of the following conditions exits: o The property is classified as rural by the appraiser. o The property is located on a gravel road. o Two of the three comparable properties used by the appraiser are more than five miles from the Mortgaged Property. o Less than 25% of the surrounding market area is developed. • In order to be eligible, a rural property must be an owner occupied single-family residence
INELIGIBLE PROPERTY TYPES	• Non Warrantable Condos • Mixed Use properties • Time share units/projects • Unimproved land • Mobile homes • Condo-hotels • Cooperatives • Log homes • Condominiums and PUDs with pending structural litigation • Properties located in a retirement or senior community with limited age restrictions. • Manufactured homes • Property that does not have full utilities installed to meet all local health and safety standards including: o A continuing supply of potable water o A public sewer or certified septic system o Public electricity o Natural or LP gas

INELIGIBLE PROPERTY TYPES (CONTINUED)	• Properties zoned commercial, industrial, or business (where highest and best use is commercial, industrial, or business) • Condominium conversions • Vacant land • "Subject to" values without a Completion Certificate (Fannie Mae Form 1004D) • Properties with square footage of less than 700 square feet (these may be acceptable if acceptable comparables are within 100 square feet of the size of the Mortgaged Property) • Earth-sheltered or dome home • Any property in below average condition • Working farms, ranches, or orchards • Properties that have been modified to accommodate home businesses, such as catering service, in-home day care, animal boarding facilities, or auto repair businesses • Properties currently listed for sale, or that have been listed for sale in the past six months are ineligible for a refinance transaction • Multi-family properties greater than 4 units • Motel conversions • Group homes • Properties located in declining markets • Multiple Family 2-4 Unit properties • Investment properties • **Cash-Out**
CONDOMINIUMS	• A Warrantable Condominium is a Condominium Project that meets Agency-eligibility standards and insurance requirements. • A condominium unit is a single-family dwelling located in a Condominium Project. Each unit owner has title to a single unit in the building plus an undivided interest in the common areas of the project, and sometimes the exclusive use of certain limited common areas. A condominium is real estate that is generally defined as separate ownership in a residential unit with an undivided interest in the real estate designated for common ownership solely by unit owners. Building types may be low-rise (less than four stories), mid-rise (five to eight stories) or high-rise (greater than eight stories), attached, detached, and/or site condominiums. • Condominiums create additional risk because the Homeowners' Association (HOA) has legal rights that could adversely impact the mortgagee's rights. Depending on the financial management of the HOA, the value of the project (unit) can be adversely affected. • Investor will purchase loans secured by units in Condominium Projects, relying primarily on Provident Bank Mortgage's warranties. The sustainability, marketability, and financial stability of the project must be supported by the appraisal, market information, and county records. The project must be located in an area where condominium ownership is common and acceptable.

CONDOMINIUMS CONTINUED	• Condominium Project Review o A project review is required for all Condominium Projects. If the project has not been approved by Fannie Mae, the Originator must initiate the appropriate review, secure the approval, and deliver the approval documentation to the investor as part of our project review. For projects that are already Fannie Mae-approved, approval-related documentation must be included in the Loan File submitted for project review o The following documentation must be supplied for project reviews: ▪ The Underwriter's Loan Approval (Fannie Mae Form 1008) with the type/class indicated on the form ▪ Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073/465 or Form 1075/466). Site condominiums can be completed on either the Individual Condominium Unit Appraisal Report or Single Family Residential Appraisal Report. Common areas and amenities must be inspected by the appraiser and documented. ▪ A completed copy of the Warranty of Condominium Project Legal Documents (Fannie Mae Form 1054). Underwriters may use their own form provided that it includes all the required information. ▪ HOA certification ▪ Insurance declaration page ▪ Flood determination certificate ▪ Current project budget – at least 10% of the budget provides funding for replacement reserves for capital expenditures and deferred maintenance ▪ CPM/PERS project approval documentation (CPM project acceptance certificate). The expiration date must not be prior to the Closing Date. ✓ Attorney opinion letter, if applicable ✓ An environmental hazard assessment is required for Condominium Projects if an environmental problem is identified by the Underwriter or the Investor through performance of its project underwriting or Due Diligence. The solution to the problem must be deemed acceptable by the Investor. • The following Fannie Mae project types are acceptable: o S-CPM Expedited Review or Lender Full Review – established projects o Fannie Mae Full Review - Projects that received a final project approval (PERS) • Underwriters must provide all documentation referenced above that supports the warranty of the project. Loans may be suspended for purchase pending receipt of this information. While the Underwriter may need to obtain additional documents as CC&Rs and bylaws, articles of incorporation, project legal documents, etc. to determine project eligibility, it is not necessary to provide them in the Loan File.

CONDOMINIUMS CONTINUED	• **Condominium projects are divided into the following categories:** o New projects: A project in which: ▪ Project or legal phase is not fully complete or subject to additional phasing or annexation, proposed construction, or new construction, or ▪ Less than 90% of the total units in the project have been conveyed (sold) to unit purchasers, or ▪ The control of the HOA has not been turned over to the individual unit owners. o Established projects: A project which: ▪ The project is 100% complete, and is not subject to additional phasing or annexation ▪ 90% or more of the total units have been conveyed (sold) to the unit purchasers (other than the developer), and ▪ The control of the HOA has been turned over to the individual unit owners. o Site (Detached) Condominium: A detached dwelling unit located in a Condominium Project comprised entirely of site (detached) condominiums that are not manufactured housing. o Two- to Four-Unit Projects: A project that is comprised of at least two but no more than four one-unit dwellings that are each separately owned with separate legal descriptions. • **Project Concentration Limits** o Investor limits each Seller and Borrower to no more than the greater of five units or 10% of the total units in a specific project within a 12-month period. This restriction applies across all product lines. No single entity other than the developer may own more than one unit in a two-to-four unit project. o Investor reserves the right to limit the number and/or aggregate dollar amount of loans purchased in any one subdivision or Condominium Project, or declare loans in any project ineligible for purchase. o **Eligible Project Types** ▪ Condominium projects with the following characteristics are eligible: ▪ At least 90% of the total units in the project have been conveyed to the unit purchasers. ▪ The project is 100% complete, including all units and common elements ▪ The project is not subject to additional phasing or annexation and; ▪ Control of the HOA has been turned over to the unit owners ▪ Note: Non-Warrantable Condominiums are eligible with restrictions. Please refer to the Non-Warrantable Condominium section for guideline criteria o **Ineligible Project Types** ▪ Condominium projects with any of the following characteristics are ineligible: ▪ Condominium conversions ▪ Properties less than 400 square feet. In all cases, the property must be typical and common for the market area and supported by two comparables.

CONDOMINIUMS CONTINUED	- Projects in current or threatened litigation are typically ineligible. Litigation may be acceptable if it is determined to be minor and immaterial. Details of the litigation must be submitted to the Investor to determine acceptability. ✓ Any project for which the developer, project sponsor, or HOA is named as a party to litigation or pending litigation that relates to the safety, structural soundness, habitability, or functional use. ✓ If the master liability policy does not cover a lawsuit or judgment, or special assessments need to be imposed to cover the lawsuit or judgment o Projects managed and operated as a hotel/motel or contain the word hotel/motel in the name. They may have the following characteristics, however, this list is not inclusive: - Daily, monthly or seasonal rentals - Centralized phone and/or key systems - Food or beverage service (room service) is available to the individual units - Lack of a full kitchen within the unit - Housekeeping services on a daily or weekly basis - Advertising of rental rates - Registration service (check-in desk, off-site desk) - Restrictions on interior decorating or furnishings, or the units are sold fully furnished - Franchise agreements - Low owner occupancy density with limited or no owner-occupants - Affiliation with and/or managed by an entity such as a hotel or hospitality chain - Impose black-out dates or do not have year-round access - Shares facilities, common elements or amenities with a hotel or resort that is owned and managed by the developer or another third-party entity o Projects with mandatory rental pooling agreements that require unit owners to either rent their units or give a management firm control over unit occupancy o **Project management and marketing practices such as:** - The developer or a third-party entity expects to retain ownership or control of the project - The developer or a third-party entity retains ownership or control of any common elements or amenities - Unit owners have no control over any third-party entity that succeeds the developer - Commercial space over which the unit owners have no control ✓ The condominium documents and any amendments are silent on the presence of common elements and/or amenities, their use and/or ownership, or they state that common elements and/or amenities may be added to, expanded, or deleted as determined by the developer or another third-party entity without the consent of the unit owners or the HOA.

CONDOMINIUMS CONTINUED	✓ Manufactured housing projects ✓ Projects with revenue sharing by either the HOA or unit owner ✓ Projects with non-incidental business operations (such as restaurants, health club, spa, etc.) owned and operated by the HOA. ✓ Time-share or segmented ownership projects ✓ Common interest apartments ✓ The developer, third-party entity, or the HOA operates commercial facilities within the project or master association, such as retail stores, restaurants, golf course, common areas, recreational facilities, and amenities usually associated with luxury hotels and resorts. ✓ Assisted living or senior care facilities that have a minimum age requirement and provide meal or healthcare services ✓ Continuing care retirement community (CCRC) or life-care facilities. ✓ These are residential projects that are designed to meet the health and housing needs of seniors as their needs change over time. ✓ Multi-unit condominiums that permit an owner to hold title to more than one unit, with ownership of all of the owned unites evidenced by a single deed and financed by a single mortgage ✓ Any project owned by several owners as tenants-in-common or by a HOA in which the individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific unit in the building. ✓ Live-work type condominiums such as artist's studio, workshops, factories and galleries. ✓ Own your own property situations where the legal description gives the Borrower the right to occupy a given unit rather than the actual ownership of the unit. ✓ Projects with commercial space used for non-residential purposes that exceeds 20% of the total space ✓ Projects in which a single entity (individual, investor group, partnership, or corporation) other than the developer, owns more than 10% of the units. ✓ New projects in which the property seller offers sales/financing structures in excess of the maximum allowable contributions for individual loans. ✓ Any project that represents a legal, but non-conforming uses of the land, if zoning regulations prohibit re-building improvement to current density in the event of their full or partial destruction ✓ Projects with mandatory club memberships or leased amenities. ✓ Multiple property types within the project (e.g., townhomes and condominium units within the same HOA)

CONDOMINIUMS CONTINUED	• **Site Condominiums** o Condominium projects composed of detached, one-unit dwellings that meet the following conditions will be treated the same as single-family residences: ▪ The Condominium Project consists solely of detached one-unit dwellings. (Manufactured homes are not permitted.) ▪ The Mortgage Property is owner occupied. ▪ These transactions must comply with all general condominium requirements outlined in this section. • **Warranties for Site Condominiums** o If the Mortgaged Property is a site condominium unit, Provident Bank Mortgage warrants the following to the Investor as of the Purchase Date: ▪ The mortgage on the subject property is covered by a title insurance policy that includes ALTA Form A, Condominium endorsement. ▪ The property is covered by hazard, flood, liability, and fidelity insurances as required under the Insurance Requirements for condominium • **Insurance Requirements** o The Underwriter must confirm the HOA has a legal obligation to maintain adequate insurance and the budget is sufficient to cover insurance expenses. ▪ Hazard Insurance. Blanket all risk policy with 100% of insurable replacement cost, the deductible may not to exceed 5% of policy face amount per building. A hazard declaration page must be included with the Loan File as evidence of insurance. The declaration page must also contain a reference to the subject property. The policy should include a “severability of interest” clause or a specific endorsement to preclude the Insurer’s denial of a unit owner’s claim because of negligent acts of the HOA or other unit owners. The policy should also provide for 10 days’ notice of cancellation. ▪ Flood Insurance. The policy must be less of 100% of insurable value or the maximum coverage allowed per NFIP. Coverage of each unit should be the lesser of $250,000 or the amount of its replacement cost. Deductible may not exceed $25,000 per building located in the flood zone. ▪ Liability Insurance. General liability of $1,000,000 per occurrence is required for all condominiums. ▪ Fidelity Bond. Insurance equal to the greater of 1) three months of assessments/maintenance fees of all units in the project, or 2) the maximum funds that will be in the custody of the HOA or its agent at any time while the policy is in force is required or the following reviews: ✓ Type R with 21 units or more in the project ✓ Type S with 21 units or more in the project ✓ Type T ✓ Type U ✓ HO6- (Walls-In) Coverage: that is no less than 20% of the condo unit’s Appraised Value (5% deductible limit).

CONDOMINIUMS CONTINUED	• **Legal Review** o Compliance with Laws. The Condominium Project must be created and exist in full compliance with state law requirements of the jurisdiction where the project is located an all other applicable laws and regulations. o Right of First Refusal. Any right of first refusal in the Condominium Project documents will not adversely impact the rights of a mortgagee or its assignee to: ▪ Foreclose or take title to a condominium unit pursuant to the remedies in the mortgage. ▪ Accept a deed or assignment in lieu of foreclosure in the event of default by a Borrower ▪ Sell or lease a unit acquired by the mortgagee or its assignee. o **Amendments to Documents.** The project documents must provide that amendments of a material adverse nature to mortgagees by agreed to by mortgagees that represent at least 51% of the votes of unit estates that are subject to mortgages. The project documents must provide for any action to terminate the legal status of the project after substantial destruction or condemnation occurs or for other reasons to be agreed to by mortgagees that represent at least 51% of the votes of the units that are subject to mortgages. Finally the project documents may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 60 days after it received proper notice of the proposal, provided the notice was delivered by certified or registered mail with a return receipt requested. o **Unpaid Dues.** Any first mortgagee who obtains title to a condominium unit pursuant to the remedies in the mortgage or through foreclosure will not be liable for more than six months of the unit's unpaid regularly budgeted dues or charges accrued before acquisition of the title to the unit by the mortgagee. o Rights of Condominium Mortgagees and Guarantors. The project documents must give the mortgagee and guarantor of the mortgage on any unit of a project the right to timely written notice of: ▪ Any condemnation or casualty loss that affects either a material portion of the project or the unit securing the mortgage. ▪ Any 60-day delinquency in the payment of assessments or charges owed by the owner of any unit on which it holds the mortgage. ▪ A lapse, cancellation, or materials modification of any insurance policy maintained by the HOA ▪ Any proposed action that required consent of a specified percentage of mortgage o First Mortgagee's Rights Confirmed. No provision of the Condominium Project documents gives a condominium unit owner or any other party priority over any rights of the first mortgagee of the condominium unit pursuant to its mortgage in the case of payment to the unit owner of insurance proceeds or condemnation awards for losses to or a taking of condominium units and/or common elements.

APPRAISER QUALIFICATIONS	• The Underwriter should ensure that each appraiser meets the following qualifications: o Has a certified residential appraiser license or a certified general appraiser license in good standing. All licenses must be issued in the state where the Mortgaged Property is located. o Meets the independent appraiser requirements for staff appraisers or, as appropriate, fee appraisers specified by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, and the Office of Thrift Supervision with their respective real estate appraisal regulations adopted in accordance with Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (regardless of whether the Provident Bank Mortgage is subject to those regulations). o Is actively engaged in appraisal work and experienced in the appraisal of properties similar to the Mortgaged Property. o Investor may at any time notify the Underwriter that the Investor will no longer approve loans secured by a Mortgaged Property that was appraised by a particular appraiser.
APPRAISAL REQUIREMENTS	• The mortgage underwriting and approval process depends upon the real estate appraisal report. All appraisals must be in writing. The appraisal report must include sufficient and accurate information to assist in the review of the proposed loans. An appraisal that meets all of the guideline requirements is required. Each appraisal must satisfy the requirements of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (regardless of whether the Provident Bank Mortgage is subject to those regulations). o All appraisers must be state licensed and a copy of the license must be submitted with the appraisal o Appraisals must be dated within 90 days of the Note date. In the event that the Disbursement Date causes the Borrower's credit report and/or credit file to be greater than 90 days old, the Investor reserves the right to request updated credit, asset, and/or income documentation. Disbursement Date is the day on which the loan closes. o All appraisals obtained during the loan origination and underwriting processes must be included in the Loan File o Recertification of value is not allowed • Each Loan must include a third-party valuation review product. Please refer to the Appraisal Valuation Summary for complete requirements. • A complete original summary appraisal report is required on each property. The appraisal report must support the appraiser's estimate of the Mortgaged Property market value. It must present a good visual representation of the neighborhood, site, and improvements. o The appraiser should use the comments section of the report to achieve this goal and attach any additional documentation if needed.

APPRAISAL REQUIREMENTS (CONTINUED)	The Underwriter must ensure that all appraisals are performed in strict accordance with all applicable local, state, and federal laws, regulations, and orders.
	• All appraisals must conform to the Uniform Standards of Professional Appraisal Practice (USPAP) guidelines adopted by the Appraisal Standards Board of Appraisal Foundation.
	• The appraisal report must include the following:
	  o The correct loan transaction type
	  o Occupancy status of the property
	  o Information about property taxes and any special assessments
	  o Property rights appraised
	  o The identity of the Borrower and the identity of the current owner
	  o Address and legal description of the property
	  o Tax Assessor’s Parcel Number (APN) for the Mortgaged Property
	  o Any sales concessions and/or loan charges to be paid by the Seller, or any other party that has a financial interest in the financing or sale of the Mortgaged Property
	  o Identity and address of the appraiser
	• **Required Appraisal Forms**
	  o All appraisals must be in writing. The appraisal report must be submitted on the current version of the appropriate appraisal forms listed below.
	  o **Single-Family Properties and Detached PUD Units**
	    ▪ Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70)
	    ▪ Statement of Limiting Conditions and Appraiser’s Certification (Fannie Mae Form 1004B/Freddie Mac Form 439)
	  o **Condominium Units**
	    ▪ Individual Condominium or PUD Unit (Fannie Mae Form 1073/Freddie Mac Form 465) with Statement of Limiting Conditions
	    ▪ Appraiser’s Certification (Fannie Mae Form 1004B/Freddie Mac Form 439)
	  o **Two-to-Four Unit Properties**
	    ▪ Small Residential Income Property Appraisal Reports (Fannie Mae Form 1025)
	    ▪ Statement of Limiting Conditions
	    ▪ Appraiser’s Certification (Fannie Mae Form 1004B/Freddie Mac Form 430)
	    ▪ Operating Income Statement (Fannie Mae Form 216)
	  o **Field Reviews**
	    ▪ Investor may, at its discretion, require a field review appraisal to be performed. The Residential Appraisal Field Review Report (Fannie Mae Form 2000/Freddie Mac Form 1032) must be used for all field review appraisals.
	      ✓ When a field review is requested, the lower value of the original appraisal or field review will be used to determine LTV/CLTV.

APPRAISAL REQUIREMENTS (CONTINUED)	o **Properties with "Subject to" Repairs or Completion** ▪ All properties where the value is defined as "subject to repairs, alterations, or conditions" or "subject to completion per plans and specifications," require the original Satisfactory Completion Certificate (Freddie Mac Form 442) along with a photo of the completed property. ✓ Escrows for items to be completed or repaired are not acceptable. • **Required Appraisal Attachments:** The following attachments must accompany each appraisal. o A location map showing the Mortgaged Property and comparables. o Three clear descriptive photographs (front, rear, and street scene) of the Mortgaged Property. o One original photograph (may be electronic) of each comparable in the Residential Appraiser Report. ▪ The appraisal must also include photographs of the comparable listings and comparable rentals in multi-family reports. o A diagram of the Mortgaged Property Floor plan, detailing room layout, location of all rooms, and exterior doors. o The appraiser's cover letter explaining unusual items not adequately addressed in the appraisal.
DISASTERS AREAS	• If the Mortgaged Property is located in an area that is declared a federal disaster area, the Underwriter must ensure that the property meets all the Investor's pre- or post-disaster collateral requirements. The list of disaster areas can be found on FEMA's website at: http://www.fema.gov/disasters. • **Property Appraised Prior to Disaster:** o For loans secured by properties appraised before the presidential/state disaster declaration, an interior and exterior inspection of the Mortgaged Property is required and the following pre-disaster guidelines apply: ▪ The original appraiser should perform the inspection and provide a certificate stating: ✓ Mortgaged Property is free from damaged and is in the same condition as previously apprised ✓ Marketability and value remain the same • If the original appraiser is not available: o The inspection maybe be completed by any of the following: ▪ Property / building inspection company ▪ Licensed general contractor ▪ Building or safety inspector for local municipality ▪ Licensed structural engineer o The inspector must be given a copy of the original appraisal report

DISASTERS AREAS (CONTINUED)	o The inspector must provide certification, on their letterhead, stating: ▪ Original appraisal has been reviewed ▪ Interior inspection has been completed ▪ To their best of their knowledge ✓ Subject is free from significant damage ✓ All repairs, if needed, have been completed o **Property Appraised After Disaster** ▪ For loans secured by properties appraised after the presidential/state disaster declaration, an interior and exterior inspection of the Mortgaged Property is required and the following post-disaster guidelines apply: ✓ Appraiser must note any damage and its affect on marketability and value ✓ Electronic evaluations are not acceptable ✓ Investor may at its sole discretion require an interior and exterior inspection of the property by the original appraiser.
PROPERTY INSURANCE REQUIREMENTS	This section defines the various property insurance and mortgagee clause requirements that must be satisfied for loans purchased by Investor. • **Name of Insured** o The name of the insured stated under each required policy must be similar in form and substance to the following: o Association of Owners of the [name of condominium] for use and benefit of the individual owners [designated by name, if required]. • **Mortgage Clause** o All types of property insurance discussed in this section must contain or have attached the standard (New York) mortgagee clause, or if unavailable, the standard mortgagee clause commonly accepted by private institutional mortgage investors in the area where the Mortgaged Property is located. o In order to protect the interest of Investor as mortgagee under the terms of the policy and applicable law, Provident Bank Mortgage must notify all insurance carriers of the change in servicer prior to the Servicing Transfer Date. o The Underwriter must ensure that the mortgagee clause of each insurance policy is properly endorsed and all necessary notices of transfer have been given or any other necessary action must be taken as reasonably requested by Investor. o When permissible, the Underwriter should have the insurance carrier name the Designated Servicer or its assigns as the mortgagee under the mortgagee clause, instead of Investor. o In deed of trust jurisdictions, the name of the servicer beneficiary or the [name of trustee] for benefit of [name of Servicer] must be used, instead of the name of the trustee only. o The mortgagee clause must provide that the insurance carrier notify the servicer named at least 10 days before the effective date of any termination, reduction, or cancellation of the policy.

PROPERTY INSURANCE REQUIREMENTS (CONTINUED)	- For condominiums or PUDs, the standard mortgagee clause must be endorsed to provide that any proceeds will be paid to the Association of Owners of the [name of condominium or PUD] for the use and benefit of mortgagees as their interest may appear, or otherwise endorsed to fully protect the interests of Investor - Regardless of how the mortgagee clause is endorsed, Provident Bank Mortgage must ensure that all insurance drafts, notices, policies, invoices, and all other similar documents be delivered directly to the servicer. - Investor will not be responsible for insurance documents that were not received by the Designated Servicer due to Provident Bank Mortgage failure to inform the insurance company of the servicer's correct name and address. If Investor is named as the First Mortgagee, the servicer's address must be used in the endorsements instead of Investor. ✓ **For example:** **ABC Corporation as Servicer for the Investor** **14523 SW Millikan Way Suite 200** **Beaverton, OR 97005** **Property Insurance Types:** **Hazard Insurance** At a minimum, the Mortgaged Property must be protected against loss or damage from fire and other perils covered within the scope of standard extended coverage. The policy may not limit or exclude coverage from damages resulting from windstorm, hurricane, hail, or any other perils that are normally included under an extended coverage endorsement. If such coverages are excluded, Provident Bank Mortgage must obtain a separate policy or endorsement that covers these exclusions. - The hazard insurance coverage must cover: ✓ 100% of the insurable value of the improvements, ✓ Guaranteed replacement; OR ✓ The total of the actual unpaid balances of the first and all subordinate liens. - The insurance coverage may not be less than the minimum amount required under the terms of coverage to fully compensate for any damage or loss on a replacement cost basis. Provident Bank Mortgage must ensure that the Mortgaged Property will be adequately covered even when vacant, and where necessary, must obtain a vacancy permit endorsement. ✓ Deductible. Unless applicable law requires a higher deductible, the deductible may not exceed the lesser of $5,000 or 5% of the applicable coverage amount.

PROPERTY INSURANCE REQUIREMENTS (CONTINUED)	✓ Carrier. The policy must be underwritten by an Insurer that is acceptable to FNMA or FHLMC and is currently rated A/VI or better in Best's Insurance Reports. Lloyd's of London policies are also acceptable. The Insurer must also be licensed or authorized by law to conduct business in the jurisdiction where the Mortgaged Property is located. ▪ **Flood Insurance:** If the area where the Mortgaged Property is located has been identified by the Secretary of HUD or the Director of the Federal Emergency Management Agency (FEMA) as a special flood hazard area, Provident Bank Mortgage must ensure that flood insurance is maintained and that it provides coverage at least equivalent to the National Flood Insurance Program (NFIP) in the amount specified in this section. Flood insurance is required if any part of the principal structure is located within a special flood hazard area. Flood insurance on detached buildings located within a special flood hazard area is required if they serve as part of the security for the loan. ❖ Investor will not purchase loans secured by property located in non-participating communities if the property is located in a special flood hazard area. ❖ The Underwriter may waive the flood insurance requirement if the land, or a portion of it, is in a special flood hazard area but the improvements are not, or if the Borrower has provided Provident Bank Mortgage with a letter of map amendment from FEMA excluding its improvements or the entire property from the special flood hazard area. ❖ Building coverage for single-family properties must be maintained in an amount at least equal to the least of the following: ✓ The maximum available under NFIP's regular program, ✓ The maximum available under NFIP's emergency program if the regular program is not yet in effect in the area where the Mortgaged Property is located, OR ✓ The minimum amount required under the terms of coverage to compensate for any damage or loss on a replacement cost basis, or the unpaid balance of the security instrument if replacement cost compensation is not available for the type of building insured. ✓ Deductibles may not exceed the lower of $1,000 or 1% of the amount of coverage. Any flood insurance policy shall contain the standard mortgagee clause as described in the Hazard Insurance section of this chapter. Flood insurance requirements for single-family properties apply to similar residential properties within a PUD.

PROPERTY INSURANCE REQUIREMENTS (CONTINUED)	▪ **Condominium Insurance:** The scope and amount of insurance coverage for condominiums must meet or exceed all local laws, ordinances, and regulations covering condominiums, and in addition, the following minimum requirements for insurance coverage must be satisfied: ❖ **Scope of Coverage:** A multi-peril type of policy covering the entire Condominium Project is required. This policy must provide, at a minimum, fire and extended coverage and all other coverage in the kinds and amounts commonly required by private institutional mortgage investors for projects similar in construction, location, and use. Coverage must be on a replacement cost basis for at least 100% of the insurable value based on replacement cost. ❖ **Boiler Explosion Insurance:** If a steam boiler is operating on the Mortgaged Property, boiler explosion insurance must be in force. This insurance must be evidenced by the standard form of boiler and machinery insurance policy, and must provide, at a minimum, $100,000 per accident per location. ❖ **Fidelity Insurance:** The condominium owners' association must have fidelity coverage against dishonest acts on the part of directors, managers, trustees, employees, or volunteers responsible for handling funds belonging to or administered by the Homeowners' Association. The fidelity bond or insurance must name the condominium owners' association as the insured. Condominium projects with 20 units or less are not required to have fidelity insurance. The coverage must equal the maximum amount of funds held by the condominium owners' association at any one time, and must total at least three months of assessments on the entire project, plus reserves. An appropriate endorsement to the policy to cover any persons who serve without compensation must be added if the policy would not otherwise cover volunteers. ❖ **Public Liability Insurance:** The condominium owners' association must have a comprehensive policy of public liability insurance, covering all of the common elements, commercial spaces, and public ways in the Condominium Project. The insurance policy must contain a severability of interest endorsement, precluding the Insurer from denying the claim of a condominium unit owner because of negligent acts of the condominium owners' association or other unit owners. ❖ Coverage must also include all other coverages in the kinds and amounts required by private institutional mortgage investors for projects similar in construction, location, and use. Liability coverage must be for at least $1 million per occurrence for personal injury and/or property damage.

PROPERTY INSURANCE REQUIREMENTS (CONTINUED)	❖ **PUD Insurance:** Except as provided for in the following, all coverage required for loans in this Guide is also required for loans secured by PUD units. ❖ **Blanket Insurance Coverage:** In lieu of maintaining an individual hazard insurance policy on each PUD unit, the PUD Corporation, Homeowners' Association, or trust may maintain blanket hazard insurance, providing at a minimum fire, extended coverage, and all other coverage in the kinds and amounts commonly required by private institutional mortgage investors for developments similar in construction, location, and use. ❖ The coverage must be in an amount equal to the full replacement value of all of the PUD units without deductions for depreciation or coinsurance, including the structural portions and fixtures owned by the PUD unit owners. Insurance premiums from any blanket insurance coverage must be a common expense of the PUD Corporation, Homeowners' Association, or trust, and must be included in the regular common assessments of the PUD unit owners. The coverage must name the PUD Corporation, Homeowners' Association, or trust as the insured for the benefit of the PUD unit owners. ❖ **Common Property Coverage:** The PUD Corporation, Homeowners' Association, or trust must have fire and extended coverage for at least 100% of the replacement cost of the insurable PUD common property. The insurance must name the PUD Corporation, Homeowners' Association, or trust as the insured for the benefit of the PUD unit owners. No mortgagee clause in favor of the PUD unit mortgagees is required by the Investor on insurance covering common property. ❖ **Public Liability Insurance:** The PUD Corporation, Homeowners' Association, or trust must have a comprehensive policy of public liability insurance, covering all of the PUD's common property. The insurance policy must contain a severability of interest clause or endorsement precluding the Insurer from denying the claim of a PUD unit owner because of negligent acts of the PUD Corporation, Homeowners' Association, trust, or other unit owners. Coverage must also include all other coverages in the kinds and amounts commonly required by private institutional mortgage investors for projects similar in construction, location, and use. Liability coverage must be for at least $1 million per occurrence for personal injury and/or property damage.

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<td>ESCROW ACCOUNTS</td>
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The Underwriter must conform to the following escrow requirements.

Escrow/Impounds for Taxes and Insurance

All first lien mortgage loans require an escrow impound account for taxes and insurance, unless prohibited by statute. Where prohibited, the option to include an impound account should be offered to the Borrower. An escrow impound account is used to collect monthly property tax and homeowners insurance; both are included in the monthly mortgage payment. Once tax and insurance bills come due, the servicer will pay each using the funds from the escrow impound account.

Establishment of Account: When escrow/impounds are established, all amounts required by Provident Bank Mortgage must be paid from the Borrower’s cash or other equity at closing. These amounts may include prepaid real estate taxes and hazard and mortgage insurance. Provident Bank Mortgage is responsible for determining the amount of the Borrower’s escrow payment and must take special care in ascertaining and estimating all charges that will become due and payable with respect to any Mortgaged Property or relating to the loan.
The escrow payments payable by the Borrower must be sufficient to pay such expenses as they become due and payable.
Final Escrow Rule: Any loan with escrows must be closed in accordance with the Dodd-Frank Act, Public Law 111-203, 124 Stat. 1376 (2010) (2013 Title XIV Final Rules) and the Escrow Requirements Under the Truth in Lending Act (Regulation Z) (2013 Escrows Final Rule),rule using the escrow analysis method in compliance with all applicable laws and regulations. Provident Bank Mortgage will complete and deliver an initial escrow account disclosure statement that matches the HUD-1 for each loan with escrows.
Interest: Interest must be paid to the Borrower on escrow/impound accounts.
Amounts Due from Escrow Accounts: All amounts from the Borrower’s escrow account within 30 days of the Servicing Transfer Date to the Investor’s Designated Servicer must be paid by Provident Bank Mortgage on the Borrower’s behalf prior to the transfer of Servicing.
Responsibility for Penalties and Late Fees: Provident Bank Mortgage assumes full responsibility for all penalty payments or late fees that result from incorrect information or from late or non-payment of any insurance, taxes, or assessments that are due within 30 days of the Servicing Transfer Date.

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<td>Escrow Waiver</td>
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Escrows Required on all Loans with LTV >=90%
Escrows Required on ALL Loans with CLTV >=80%

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ESCROW HOLDBACKS	• Mortgage Loans with escrow holdbacks pending **are not** eligible. Escrowed completion funds must have been fully disbursed and the work completed. A completed Form 442; Satisfactory Completion Certificate must be submitted with the Loan.
TEMPORARY BUYDOWNS	• Loans containing temporary interest rate buy downs **are ineligible**.
ALLOWABLE AGE OF CREDIT FILE AND APPRAISAL DOCUMENTS	• All Loans the credit documents and the appraisal must not be more than 60 days old at the time of Loan Submission to Investor.

ENHANCED 2 STAND-ALONE AND COMBO 1ST AND 2ND LOANS, FREQUENTLY ASKED QUESTIONS (FAQs)

Income:

Q: Borrower has a history of overtime. In 2014 he earned $3,600, 2015 it was $9,800 and year-to-date 2016 $32,000. Can we use a 32 month average to qualify since the borrower has a two-year history of receiving OT?
A: We can only average the ’14 and ’15 OT due to the significant increase reflected in ’16.

Q: Is a CPA letter always required for a self-employed borrower as part of the Self-Employed Full Documentation requirement?
A: Yes, Appendix Q requires the following: Self-employed consumers must provide the following documentation: Signed, dated individual tax returns, with all applicable tax schedules for the most recent two years, with all applicable tax schedules and year-to-date profit and loss (P&L) statement and balance sheet.

Q: Self-employed income: 1) A cash flow analysis can be performed by a CPA. If the business tax returns are self-prepared, will they still require a CPA or accountant to do the cash flow analysis?
2) The file must contain evidence that the funds are not an advance against future earnings or future cash distributions. Without a CPA or accountant letter, what other documentation would be acceptable since the tax returns are self-prepared?
A: 1) It would be acceptable for the borrower to prepare their own business tax returns, P&L, etc. Depending on the review of the tax returns, we may need an additional cash flow analysis.
2) However, if the borrower is going to use business funds for cash to close and/or reserves, a CPE/accountant (who is familiar with the business) must prepare a letter indicating that the withdrawal would not impact the business in a negative manner or cause an on-going concern issue.

Q: Capital gains loss carryover for the last two years, the loss occurred over three years ago – do we still have to consider the loss in the income calculation?
A: Net operating losses from the previous years are not typically considered in the income calculation providing they are not consistent or recurring.

Q: Notes due and payable (Corporate) in less than one year – if we can prove the Note has been paid in full by the Corporation do we still have to consider deducting the note due from the income?
A: Mortgages, notes or bonds due and payable in less than one year do not have to be considered in the income calculation if there is evidence that the business has sufficient assets to cover them.

Credit:

Q: Regarding “balance due monthly” accounts: is a 5% payment required or do we allow the account to be discounted as long as the borrower has sufficient funds in their liquid assets?
A: We would not include a payment if they have verified assets to pay off the balance due.

Q: Can a borrower have mortgage lates in the last 12 months?
A: No, this program does not permit any mortgage lates in the most recent 12 months.

Real Estate Owned:

Q: We have a borrower that is a U.S. citizen and files U.S. tax returns but works and lives in a foreign country, coming home every few months and on holidays. He and his family currently rent in the U.S. but would like to buy a home here. Would this be considered an owner-occupied property or an investment property?
A: We could consider this as an owner-occupied property. We would need a detailed letter of explanation regarding the borrower's employment and living arrangements.

Appraisal:

Q: Will we accept an appraisal for a 2-unit duplex, which is non-income producing, on a 1004 form versus a 1025 form? Property has two addresses but the zoning classification is R1 (duplex).
A: We require a 1025 for a 2-unit property even if it is non-income producing.

Non-Arms-Length Transactions:

Q: We have a borrower whose uncle is the selling agent. This is disclosed on the purchase contract and the property is listed in the MLS. Is this transaction acceptable?
A: No, this scenario is Ineligible. This would be considered non arm's length transaction since the borrower is related to the selling agent.

Q: Our borrower is the owner of a mortgage company. He wishes to originate and process his personal loan through his own company. Another loan officer that works for his mortgage company has taken the application and signed. Are we okay to proceed if the borrower is the mortgage broker of the company that his loan is being originated and processed through?
A: We would consider this a non-arm's length transaction and it would be ineligible.

Property Flipping:

Q: Does this product have any specific flipping guidelines?
A: While the guidelines don't mention flips directly, we do watch for red flags. Some of the red flags include, but are not limited to:

- Ownership changes two or more times in a brief period
- Appreciation of the subject property that exceeds that in the normal marketplace
- The property seller recently acquired the property for a significantly lower price or there are other transfers of the property according to the real estate tax assessment record.
- No real estate agent is employed (non- arms-length transaction)
- Property was recently in foreclosure, or acquired at REO sale at a much lower sales price
- Parties to the transaction are affiliated or related by birth or marriage.
- Owner listed on appraisal and/or title may not match the property seller on the sales contract
- A quitclaim deed is used right before or right after closing
- Sales contract has unusually large earnest money deposit held by property seller
- Unusual fees or credits are found on the HUD-1 (Settlement statement)
- Title commitment references other deeds to be recorded simultaneously.
- Property seller is a corporation (i.e. LLC)
- Comparable sales or listings used in the appraisal report are properties involving the seller and/or real estate broker as the subject property in an attempt to create an artificially-inflated value.

- Large non-lien disbursements on the HUD-1 form.

If the loan is HPML then you will need to follow those requirements.

Principal Curtailment/Recast Options:

Q: Do we offer principal curtailments or recast options for borrowers who make a large payment for the principal balance?
A: If a loan is part of a securitization it cannot be recast. The servicing company will recast loans subject to the loan not being in a securitization. The process requires the borrower to apply a substantial (greater than $10,000) sum of money to reduce the unpaid principal balance of their loan and lower the monthly payment. The mortgage servicing company charges a $300.00 fee to the borrower for this. The mortgage servicing company would send the borrower an acknowledgement to sign and send back the large principal payment and $300.00. The mortgage servicing company would then amortize the mortgage and modify it using the Fannie Mae Recast Agreement. Once the servicing company receives the executed agreement back, they adjust the system to the new agreement with the new payment.