



PRODUCT:	FHA30	PCM FHA
	FHA25	FHA15
	FHA20	FHA ARM 3/1
		FHA ARM 5/1

Primary Capital Mortgage guidelines have been created to provide direction and consistency in determining a credit decision. The intention of these guidelines is to describe the general underwriting philosophy of the company, however is not all inclusive of different situations that may arise from loan to loan. PCM strives to make solid underwriting decisions based on the quality of the loan, basing our underwriting decision on all aspects of the loan file (i.e. loan to value ratio, collateral value, credit history, assets, qualifying ratios, etc.). Although multiple risk factors are assessed, the underwriter will attempt to balance the evaluation between the borrower and the property & the borrower’s ability to repay the loan provided.

PCM reserves the right to apply additional underwriting criteria depending on the overall risk of the loan file. Guides are subject to change without notice.

Amortization: Product is available on 15, 20, 25 and 30 year terms. All ARMs are 30 year term only.

ARM Specifics:

Caps	1/1/5
Margin	2.00
Index	1 Yr Treasury
Adjustments	Fixed for 1, 3 or 5 years. Thereafter, adjusts annually.
Conversion	A conversion option is not available.
Assumability	Product is not assumable.

Appraisals and Case Numbers:

Appraisals must be completed by approved FHA roster appraisers (General Certified or Certified Residential ONLY) and include the assigned FHA case number. Appraisers must confirm that the subject property meets all HUD minimum property standards. Appraisals must be ordered using FHA appraiser independence guidelines through PCM Valuation department.

Appraisals are valid for a period of 120 days. A re-cert of value may be obtained to extend the validity for an additional 120 days if ordered prior to the original appraisal expiration date. The re-cert of value must be performed by the original appraiser and must include an updated 1004MC addendum.

All Case number requests must include certification of an active loan application and accepted, fully executed sales contract as of the date of the case number request. Orders will not be accepted until this certification can be made.

Case numbers will automatically be cancelled by FHA after six months of inactivity. Activity consists of ONLY the following pre-closing actions:

- Case number assignment, or
- Appraisal logging

Case transfers, updates to the borrower name(s) and/or property address **DO NOT** constitute activity to prevent cancellation.

Assets:

Documentation of assets will be based on AUS findings with the following additional requirements:

- A VOD must be accompanied by minimum 1 months complete bank statement or account history printout.
- All online or other activity printouts must clearly identify the borrower, the bank name and account number.
- Verification of full accounts numbers will be required if not found on full statements or printouts.
- Mutual funds, Stocks and Bonds must be discounted by 30% of the available balance.
- Retirement accounts must be discounted by 40% of the vested balance after loans. (See additional notes in the "Reserves" section)
- Deposits that are not verified from payroll, retirement, SSA, disability sources and that are deemed to be excessive must be documented with a satisfactory letter of explanation and supporting documentation. Factors in determining if a deposit is deemed to be excessive may include:
 - The borrower's income stream
 - The borrower's recent history of cash withdrawals
 - The borrower's typical deposit history and spending habits
 - The percentage of the deposit(s) in relation to the borrower's overall asset portfolio
- If credited at closing, all Earnest Money deposits must be documented with a copy of the canceled check and the bank statement reflecting the funds drawn from the borrower's account. Any large/non-payroll deposits must be documented in accordance with HUD and PCM guidelines.
- Self employed borrowers wishing to use assets held in the business name may be subject to additional documentation requirements in order to consider the funds acceptable for closing.

Cash on Hand:

Cash on hand is acceptable under the following circumstances:

- The borrower does not otherwise have a history of using traditional banking practices.
- The borrower completes a budget that details monthly income, expenses, savings, and the time required to acquire the funds.
- The budget and savings history makes sense and is consistent with other information verified in the file.
- The funds are deposited into a traditional depository account belonging to the borrower or the closing attorney's escrow account. Documentation of the deposit and amount will be required.

Condominiums:

Allowed only if currently shown on the FHA Condo HRAP/DELRAP approval list (found at <https://entp.hud.gov/idapp/html/condlook.cfm>). A copy of the HUD approval must be in the file at the time of submission and will be required in order to place a case number/appraisal request.

In addition to HUD approval, the following must be provided to comply with FHA loan level certification requirements:

- 1) Fully completed PCM Condo Questionnaire (if HOA provided, the information must be the same as that required on the PCM questionnaire)
- 2) For projects completed or converted within the last 5 years and/or the builder is still in control of the complex, a fully executed pre-sale certification with acceptable supporting documentation must be provided by the builder. (Form available at www.pcmexpress.com)
- 3) For projects with a CO issue date within the past 12 months, FHA new construction documents will be required (see "Property Requirements" for full new construction details)
- 4) Copy of Current Homeowners Insurance, Master Policy meeting FHA requirements:
 - a. 100% coverage required – the borrower **MAY NOT** obtain gap coverage to meet this requirement.
 - b. Flood Insurance provided by the HOA (if located within a special flood hazard area. Flood insurance must protect the interests of the unit owners as well as the common areas.
 - c. HO-6/Walls in policy when the master policy does not include interior coverage, **including replacement of improvements and betterments** (i.e.: any upgrades made to the unit). **The cost of any required coverage will be included in monthly escrows.**

PCM Underwriting will not complete the loan level certification until all of the above items are provided and have been determined to meet FHA requirements. Each project will be re-verified by the underwriter at the time of certification to confirm that the approval status has not been revoked or withdrawn. PCM will not approve a loan for any condominium project that has had its approval status revoked or withdrawn by FHA, even if shown as approved at the time of application.

For a complete copy of the FHA Condominium Project Approval and Processing Guide, please refer to Mortgagee Letter 2011-22 located at <http://portal.hud.gov/hudportal/documents/huddoc?id=11-22mlguide.pdf> Specific loan level requirements are located in Chapter 3 of the Guide.

Construction-Perm Refinance:

Used for payoff of a construction note to on a newly constructed dwelling only. Transactions will be treated as a refinance only and borrower must be the current Owner of record (land).

Acceptable documentation of acquisition cost is required on all properties for LTV calculation as follows:

- HUD-1 settlement statement & recorded deed from purchase of land (if owned greater than 6 months or received as gift/inheritance current value from appraisal cost breakdown will be used).

- HUD-1 settlement statement from construction loan closing, if separate from land transaction
- Construction contract from builder/contractor or construction statement with breakdown of costs signed by the borrower and builder.

A VOM plus 12 months canceled checks (or all checks since opened date if less than 12 months) will be required to verify timely payments have been made.

A CO (Certificate of Occupancy) will be required at closing. For properties over 90%, FHA new construction exhibits will be required (Building Permit, Fully Executed Builder's Certification, HUD 1 year Builder Warranty).

If the borrower is acting as their own builder, they must provide documentation that they are a properly licensed General Contractor. Any borrower that is not properly licensed, must employ a licensed General Contractor for the construction of the home.

A three day right of rescission will be required when the property is appraised as "owner occupied" rather than vacant or photos reflect that the home is already being occupied.

Appraisals CANNOT be performed prior to the home being at least 90% complete. Properties that are appraised prior to 90% completion may require additional documentation and inspections as necessary to meet FHA guidelines for proposed construction.

Credit Score and Credit Requirements:

All loans must have a minimum **640*** score for all borrowers REGARDLESS of AU findings. Streamline refinances are not exempt from this credit score requirement.

***660 score required for loans in excess of \$417,000.**

Borrowers with no score or with scores below 640 are not eligible.

In addition to score requirements, every borrower, regardless of AUS findings, must have a minimum of **2** valid trade lines reporting for a minimum of 12 months during the past 3 years. Authorized User and Deferred Student Loans cannot be used to meet this requirement. Borrowers with an excessive number of authorized user trade lines will require additional documentation. Any loan that receives an Approve/Eligible rating through AUS that does not meet these requirements *MAY* be considered for approval by the Underwriter with additional supporting documentation. This documentation may include, but is not limited to: a satisfactory 12 month VOR, verification of alternate credit, credit explanations, reserves from borrower's own funds, etc. – which should be included with the file at the time of initial submission.

Maximum 1 x 30 mortgage late in the last 12 months with AUS Approval. This includes HELOC's and all second mortgages. Loans receiving a REFER rating though AUS will be required to have 0 x 30 mortgage rating over the last 12 months. **Mortgage history must be scored through AUS.** VOM's obtained outside of traditional credit reporting methods must reflect 0 x 30 over the last 12 months.

Home Equity Line of Credit (HELOC): If not shown on the credit report, payments on a home equity line of credit (HELOC) with an outstanding balance may be calculated at 1% of the outstanding balance or the payment reflected on the borrower's current billing statement. If the balance is zero, no monthly payment is required to be counted in the recurring monthly debt.

AUS Manual Downgrade Policy – In the event that credit terms or other loan information was not considered in the AUS decision, an Approve/Eligible or Accept/Eligible decision must be downgraded to a refer and manually underwritten. Circumstances requiring a downgrade, *if not considered in the AUS decision*, include but are not limited to:

- Delinquent federal debt, CAIVRS, and individuals on the LDP and/or GSA lists;
- Disputed accounts, significant inaccuracy or undisclosed debt
- Collection accounts, tax lien, charge-off, judgment;
- Bank statements that indicate multiple NSF charges. (i.e.: more than 1 to 2 isolated incidents over a 60 day period);
- When a short sale is reflected on the credit report;
- Failure to meet the specific conditions of an AUS approval.

Loans receiving a Refer through AUS or manually downgraded by underwriting must meet the following additional credit criteria:

Mortgage/Housing	0 x 30 in past 12 months 1 x 30 and 0 x 60 in past 13-24 months
Installment	0 x 30 in past 12 months 1 x 30 and 0 x 60 in past 13-24 months
Revolving	3 x 30 in past 12 months 5 x 30 and 2 x 60 in past 13-24 months
Chapter 7 Bankruptcy	Discharged 2 years*
Chapter 13 Bankruptcy and CCCS	1 year in repayment plan 12 months timely payments Court approval to enter new mortgage
Foreclosure	None in last 3 years*

*High Balance loans in excess of \$417,000 must have 7 years elapsed from bankruptcy and foreclosure

Collections may not have to be paid as a condition of loan approval, but will be considered in overall credit analysis.

Judgments and Tax Liens must be paid at or prior to closing. Tax liens may remain unpaid with an established repayment agreement and a minimum of 12 months timely payments verified. A satisfactory subordination agreement is required for any lien that is approved to remain in place after closing.

Borrowers with a short sale in the past three years would be eligible for FHA financing provided the mortgage was secured by their primary residence at the time of the sale, they were current on the mortgage (with maximum 1 x 30 if in the past 12 months) and other installment debts at the time of the short sale, and the proceeds from the short sale will serve as payment in full.

However, borrowers are not eligible if they pursued a short sale agreement simply to take advantage of declining market conditions and then purchase a similar or superior property at a reduced price within a reasonable commuting difference. Borrowers that do not meet FHA requirements would be required to wait 3 years from the completion of the short sale to become eligible for new mortgage financing.

See "Qualifying Ratios" for additional credit requirements for borrowers located in a community property state.

Disaster Area Victims:

This enhancement is to provide relief to borrowers whose previous residence was destroyed by flood, fire, storm, hurricane, earthquake or other natural disasters. The previous residence must be in an area in which the President of the United States issued a formal declaration of a major disaster, as verified online at www.fema.gov/disasters. File must be submitted to underwriting within 1 year of President's declaration, unless deadline extended by HUD.

The new subject property must be a single-family detached home or condo in an approved project. The new property need not be in a disaster area. Financing to 100% is available on these properties. The borrower may be qualified at ratios of 31/45%.

Evidence of inhabitability is required verifying that the single-family dwelling previously occupied by the borrower was destroyed or damaged to such an extent that reconstruction or replacement is necessary.

Documentation:

Documentation required is determined by AUS. For manually underwritten loans, full or alternative documentation is required. Credit file documentation must be dated within 90 days of the note for existing properties and 120 days for newly constructed properties.

Downpayment and Closing Costs:

The required down payment on all purchase transactions is 3.5%.

POC appraisal/application fees and Seller real estate tax pro-rations to be received at or credited at closing may not be considered towards the borrower's minimum required investment.

Tax service fees can never be charged to the borrower, but may be charged to the seller.

Only Bona Fide discount points payable to Primary Capital may be charged.

Premium pricing can be used to pay all or part of borrower's closing costs and/or prepaid items. Costs paid through premium pricing are not subject to the 6% limitation. Premium pricing cannot be used to fund any portion of the borrower's minimum 3.5% cash investment.

Down Payment Assistance:

Seller Funded Down Payment Assistance gifts are NOT an acceptable source of funds and cannot be used, even if provided through an IRS Non-Profit agency.

Eligible Borrowers:

U.S. Citizens and permanent resident aliens are allowed under standard underwriting guidelines. All borrowers must have a valid Social Security Number and a minimum of 2 years residency and employment in the United States.

Permanent resident aliens must provide evidence of lawful residency from the Bureau of Citizenship and Immigration Services (BCIS).

Non-permanent resident aliens are eligible for maximum financing under the following conditions:

- Primary Residence Only
- Must have valid SSN
- Evidence of eligibility to work in the US issued by the BCIS

Eligibility for Government Financing:

A clear CAIVR number will be required for all borrowers on all transaction types with the exception of streamline refinances.

All parties to the transaction must be checked against the FHA LDP and GSA lists for eligibility. These lists must be checked on all loans, including a streamline refinance.

Employment/Income:

All Borrowers must be on their job a minimum of 30 days and have a paystub that reflects a minimum of 30 days earnings documented in loan file prior to loan closing. A written VOE may not be used in lieu of this requirement.

PCM will allow a borrower to close within 30 days of starting new job IF all of the following conditions are met:

1. Loan must be manually underwritten according to the FHA 4155 guidelines for projected income.
2. Borrower will have to provide paystubs to cover 30 days after closing (sign 1010) as this is required for FHA insurance.
3. Acceptable new employment contract from employer with all conditions/contingencies met.
4. Borrower must be in position that is standard for having an employment contract – such as teacher, attorney, doctor, CPA, etc. This will NOT apply to those borrowers who are simply changing employers and/or relocating.

If all of the above conditions (ie: 1-4) cannot be met, borrower will be required to start the new job and provide a paystub reflecting 30 days earnings prior to loan closing.

Verification of Self Employment must be documented with minimum 2 years full tax returns, signed by the borrower, along with a signed 4506T. Business Returns may be required (as determined by the Underwriter, or AUS).

Verbal or independent verification of employment will be performed by PCM on all loans, including those made to self employed borrowers and on streamline refinances. Requirements are as follows:

Salaried borrowers

- Verbal VOE's will be obtained within 72 hours of closing
- PCM must be able to independently verify the phone number for the business (i.e.: online search, directory assistance, etc.)
- If the borrower's employer uses an online service such as "The Work Number", the information must be current within 10 days of closing.

Self-employed borrowers

- Third party verification dated within 30 days of closing (i.e.: CPA letter, Agency verification, etc.), AND
- Verification of the telephone number and address of the borrower's business from an additional source such as The Yellow Pages, internet website, directory assistance, etc.

(Self employed borrowers that are unable to meet the above requirements, may be subject to additional supporting documentation as deemed necessary by PCM underwriting.)

A Civilian borrower employed as a military contractor overseas IS NOT eligible for FHA financing as they cannot meet occupancy requirements. Only active duty military borrowers who have immediate family to occupy the home can meet FHA occupancy requirements.

Borrowers with an extended absence (6 months or more) must be back on the job a minimum of 6 months and have a documented prior 2 year work history in the same or similar line of work for income to be considered stable for qualifying.

Other sources of income (such as commission, bonus, overtime, etc.) must have a documented 2 year history of receipt as verified with tax returns, written VOE's and/or other documentation required to meet AUS findings.

Escrows:

Escrow accounts are required to be established on all FHA transactions, regardless of LTV.

First Time Homebuyers:

First time homebuyers are allowed.

Geographic Restrictions:

Cash-out refinances are not allowed in Texas. Ineligible locations include properties located in Georgia counties Bryan, Camden or Liberty; or Properties located in a Coastal Barrier Resource System. Streamline refinances are not allowed in Kansas.

Gifts:

Gifts are allowed. A fully executed gift letter confirming no repayment will be required. The gift letter must include name, address, and relationship of the donor; both borrower and donor signatures and confirm that the funds were not made available from any party to the transaction. The file must also contain evidence of donor's ability to give gift prior to closing. Transfer of gift funds must be in accordance with the online version of the HUD 4155.1 Section 1.5.B.5.b

<http://www.fhaoutreach.gov/FHAHandbook/prod/infomap.asp?address=4155-1.5.B.5.b>

Eligible donors include:

- Relative by blood, marriage or law
- Borrower employer
- Charitable organization
- Government agency providing homeownership assistance
- Unrelated individual that can document evidence of a family type, longstanding and substantial relationship not arising out of the transaction

Gifts from a borrower's relative real estate agent's commission are acceptable. The relationship must be disclosed in the sales contract and the gift reflected on the HUD-1 at closing. Cash back as a result of the gift is not allowed.

HUD Repo:

HUD REO contract (form HUD-9548) must be provided, and be fully executed by all parties, including HUD. FHA financing type must be reflected on the contract. If HUD REO sales incentives apply and have been specified in writing, \$100 down payment is allowed (LTV guidelines do not apply, use loan code "FHA Repo"). Subordinate financing cannot be combined with the \$100 down payment program.

Per Mortgagee Letter 2011-19, buyers who purchase a HUD REO property using the \$100 down payment sales incentive may finance the cost of the UFMIP into the loan PROVIDED the total mortgage amount including the UFMIP does not exceed 100% of the "as is" appraised value. If the value is not sufficient to support the inclusion of the UFMIP (and/or escrow for repairs if applicable), the full amount must be paid from the borrower's funds. A partial amount may not be financed.

When a contract is written for an amount higher than the HUD starting bid (generally the value determined by the HUD M&M Appraisal), the borrower must pay the difference between the contract price and the HUD starting bid amount/appraised value. A secondary appraisal may not be obtained to support the higher bid price.

FHA "For Your Protection, Get a Home Inspection" disclosure must be provided with the contract, or must be executed by borrower prior to loan application.

If required by contract for FHA insurance, maximum acceptable escrow holdback is \$500 and must be completed within 48-72 hours of closing. (203b Repair Escrow). **PCM will consider 203(b) Repair Escrow contracts with repairs exceeding \$500 with prior approval from underwriting (contact your Account Executive).** Repairs over \$5000 or 203(k) transactions are not eligible. Excess escrow funds remaining after the completion of repairs must be applied as a principal reduction.

Appraisals are not required when the existing HUD M&M appraisal is less than 120 days old at the time of contract. PCM reserves the right to require an additional appraisal.

All borrowers must be owner occupants. Non-occupant co-borrowers and Investor purchasers not allowed

Identity of Interest:

Identity of interest transactions are restricted to a maximum LTV of 85% except under the following circumstances:

- A family member purchases another family member's current home as a principal residence. (If the subject is currently an investment property, the maximum LTV is 85% unless documentation is provided to show the borrower has been the tenant for a minimum of 6 months.),
- An employee of a builder purchases one of the builder's new homes or model homes as a principal residence,

- A current tenant, who has a business or family type relationship with the landlord, purchases the property that he or she has rented for at least six months preceding the sales contract. Evidence of occupancy must be provided. (Rental agreements between unrelated parties alone do not constitute an Identity of Interest relationship and are not subject to LTV restrictions), OR
- A corporation transfers an employee to another location, purchases that employee's home, and then sells the home to another employee.

Interest Credits:

Interest credits, up to a maximum of 7 days, will be allowed provided there is a documented, unforeseen circumstance and if the interest credit is in the best interest of the borrower. Acceptable circumstances include, but are not limited to:

- Lock or contract expiration (where extension is not possible)
- Program discontinued
- Unable to delay closing due to borrower work conflict

Files must be documented accordingly. Refinances that are delayed will require verification all mortgage payments due have been properly posted in the month due. (i.e.: if 3 day right of rescission date falls on or after October 1, verification September's payment has been made & posted in September will be required.)

Investment Property Refinances:

Investment properties are only allowed on a streamline refinance without an appraisal. See "Streamline Refinances" for standard streamline guidelines. The following additional requirements also apply:

- Minimum 660 credit score required
- Fixed rate products only
- Title must currently be held in an individual's name. LLC's and corporate owners are not allowed. Transfer of title at or immediately prior to closing is not allowed.
- Properties that were originally purchased as owner occupied but later converted to investment are eligible.
- The new loan amount cannot exceed the current principal balance. (*UFMIP MAY NOT BE INCLUDED* in the new loan amount.)
- The last logged appraised value will be used to determine the LTV for monthly MI calculation.
- Subordinate financing is not allowed.
- Maximum number of rental UNITS located with the same subdivision or contiguous area is 7, including the subject. (See multiple property ownership for additional limitations if properties are financed)

Maximum Loan Amount and LTV:

The maximum insurable loan amount is the lesser of the published statutory loan limits for the area, or the LTV as outlined below. Current FHA statutory loan limits can be found online at <https://entp.hud.gov/idapp/html/hicostlook.cfm>
NOTE: Loans exceeding \$417,000 require minimum credit score of 660. A second appraisal will be required on high balance loans over 95% LTV in declining market areas.

Loan Purpose	# Units	Maximum LTV/CLTV	Lesser of Sales Price or Appraised Value
Purchase	1-4 Unit	96.5%/100%*	Based on Lesser of Sales Price or Appraised Value
No Cash-Out Refinance	1-4 Unit	97.75%/97.75%**	Use Appraised Value (or Acquisition if owned less than 12 months)
Construction to Permanent Refi	1 Unit	96.5%/96.5%	Based on Lesser of Documented Acquisition cost or Appraised value ***
Cash-Out	1-2 Unit 3-4 Unit & Loans in excess of \$417,000	85%/85%	Use Appraised Value (or Acquisition if owned less than 12 months)
Purchase Disaster Area Victim 203(h)	1 Unit	100%	Use lesser of Sales Price or Appraised Value

*Subordinate financing must meet guidelines set out pg 4.

** 100% CLTV allowed on streamline refinances with and without appraisals. Refer to Streamline refinance section for additional details.

***Land value may be used in lieu of cost if gift or owned greater than 6 months.

Mortgage Insurance:

Effective with case numbers ordered on or after October 4, 2010 FHA will charge an upfront premium on all loans, regardless of credit score or down payment, in an amount equal 1%. This premium is applied to all loan types including streamline refinances. UFMIP cannot be partially financed.

Annual premiums will also be charged based on the case number order date, the initial LTV and length of mortgage, according to the following schedule:

For Case Numbers assigned through April 17, 2011

LTV	Annual for Loans >15 Years)	LTV	Annual for Loans ≤ 15 Years
< 95	.85	≤ 90	-None-
> 95	.90	> 90	.25

For Case Numbers assigned on or after April 18, 2011

LTV	Annual for Loans >15 Years)	LTV	Annual for Loans ≤ 15 Years
		≤ 78	None
< 95	1.10	78.01 - 90	.25*
> 95	1.15	> 90	.50

Monthly mortgage insurance will terminate when the LTV reaches 78% of the lesser of the original sales price or original appraised value. However, monthly mortgage insurance must be paid for a minimum of 5 years regardless of LTV.

*Annual premiums (or monthly mortgage insurance) will not be charged on loans meeting the following criteria:

- A term of 15 years or less, AND
- A loan to value ratio (LTV) at or below 78% at the time of origination

**Multiple Property
Ownership:**

Borrowers may own up to 4 total properties including the subject (this condition applies to all properties, even if owned free and clear).

Borrowers owning a home with a FHA mortgage may not purchase another principal residence using FHA financing, except under the following circumstances:

- Relocation to another area not within reasonable commuting distance to the current principal residence
- Increase in family size. Increase in family members must be documented. Increase in home size is verified by total Bedroom count, not square footage of home. Parents living with/moving in with the borrower do not qualify as an increase unless they can be claimed as a dependent on the borrower's tax returns. The current FHA mortgage must be paid down to 75% LTV based on a current FHA appraisal.
- Vacating a jointly owned property
- Non-occupying co-borrower

Net Tangible Benefit:

All refinances, with the exception of the payoff of a construction loan, must meet Primary Capital's Net Tangible Benefit requirements. For requirements please go to our website at www.pcmexpress.com.

**Non-Occupant
Co-Borrower:**

Non-occupant co-borrowers are allowed on purchases and rate/term refinances only. Mortgages with non-occupying borrowers are limited to one-unit properties if the LTV exceeds 75%.

The maximum number of borrowers on one transaction is four (4).

Occupancy:

Primary residences only. Investment properties and second homes are not allowed (See "Streamline Refinances" for exceptions on investment properties).

Borrowers must occupy the subject property within 60 days of closing, and intend to continue occupancy for a minimum of 12 months.

Additionally, if the borrower has a previous mortgage transaction for a primary residence within the past 12 months, the borrower must provide reasonable documentation to justify the new transaction (i.e.: letter of explanation and other supporting documentation) and confirm their intent to occupy the subject property as their new primary residence.

Power of Attorney:

Allowed. All POA's must be approved by PCM underwriting prior to closing. The 1003 and sales contract (if applicable) must be signed by the borrower if using a POA for closing.

Principal Residence Conversion:

Rental income from recently vacated primary residences may NOT be used for qualifying unless one of the two following exceptions can be met:

- Employer relocation (either by a new employer or present employer) to an area not within a reasonable commuting distance.
- Verified sufficient equity in the present home equal to 25% of more as determined by a current appraisal.

In both cases, the file must contain an executed one year lease and evidence of receipt/deposit of the first month's rent and/or security deposit paid to the homeowner.

Property Flipping:

For properties where title has transferred in the last 12 months, there are additional financing restrictions and/or additional documentation requirements.

If the transfer was 90 days or less, the property may be eligible for FHA financing under the current FHA waiver (until December 31, 2011) if the following conditions can be met:

- The transaction is arms-length, with no-identity of interest between the buyer and seller or other parties participating in the sales transaction.
- In cases where the sales price of the property is 20% or more than the seller's acquisition cost (as verified by a copy of the HUD-1 Settlement Statement), the following must be provided or the waiver will not apply:
 - A second appraisal ordered through PCM's investor VMG group to support the sales price. The cost of this second appraisal may not be charged to the borrower.
 - Justification of the increase in price must be provided (i.e.: documented receipt of renovation repairs, etc.)
 - Property inspection report provided to the buyer (cost of which cannot be paid to the inspector directly by the borrower but can be collected at closing. The fee for inspection may only be paid to the inspector by the broker). At a minimum, the inspection must include:
 - The property structure, including the foundation, floor, ceiling, walls and roof;
 - The exterior, including siding, doors, windows, appurtenant structures such as decks and balconies, walkways and driveways;
 - The roofing, plumbing systems, electrical systems, heating and air conditioning systems;
 - All interiors; and
 - All insulation and ventilation systems, as well as fireplaces and solid fuel burning appliances.
 - Any repairs determined necessary by PCM underwriting in order to meet FHA minimum property standards must be made with a final inspection ordered through PCM Valuation to verify completion of repairs.

If the transfer was 91-180 days, a second appraisal completed by a different FHA roster appraisal is required if the current sales price is more than 100% higher than the seller's original acquisition cost (as verified by a copy of the HUD-1 Settlement Statement). If applicable, the cost of the additional appraisal cannot be charged to the borrower. The lower of the two values will be used to determine the maximum loan amount. Any repairs listed on either appraisal must be resolved prior to closing. At their discretion, PCM Underwriting may require a second appraisal for increases less than 100%.

If the transfer was 181-365 days, the HUD-1 from the original purchase must be provided. Value must be reasonable.

These restrictions do not apply to properties owned by HUD, government, local/state agencies (or their subsidiaries or assigned vendor through May 10, 2010), FNMA, FHLMC, employer relocation agency or properties located in a federally declared disaster area. New construction properties and recently inherited properties are also exempt. New Construction properties that have been subsequently foreclosed, however, must comply with FHA property flipping guidelines. For inherited properties, additional conditions may apply.

Property Requirements: The following documents and/or inspections will be required as determined by the appraisal and age of the property.

New/Never occupied (less than 1 year)

- Fully completed and executed Builder's Certification (HUD 92541)
- HUD Builder's Warranty (HUD 92544)
- Building Permit and Certificate of Occupancy OR Compliance Inspections and 10-year Warranty issued by a HUD approved warranty company
- Wood infestation Report/Soil Treatment Guarantee (HUD NPCA or NPMA 99A & B)
- Local Health Authority Approval of individual water supply and/or sewage disposal system (if applicable)
 - If on Community Well – Copy of State/Local approval/agreement

(The above requirements are not required for transactions with LTV's at or below 90%)

Existing (Previously occupied, New/Over 1 year as evidenced by CO)

- Well Test and/or Septic Inspection by local authority or acceptable third party – as required by appraiser and/or sales contract.
 - Appraiser certification if public water/sewer is available, and connection if determined to be feasible.
 - If on Community Well – Copy of State/Local approval/agreement
- Wood infestation report/Termite Letter – as required by appraiser and/or sales contract.

Property Type: Eligible properties include single-family attached and detached, 2-4 units, modular homes, **FHA Approved Condos** and PUD's.

Appraisals for modular home must include at least 2 modular comparables.

Properties with excessive acreage may require additional information in order to be deemed eligible.

Ineligible properties include manufactured homes, condotels, log homes, leaseholds, mixed-use properties, unique properties, and working farms.

Qualifying Ratios:**Maximum DTI is 55% regardless of AUS findings.**

For manually underwritten loans, including those manually downgraded by the underwriter (refer to credit section for all reasons findings may be downgraded, including limited credit history), qualifying ratios are 31/43. Newly constructed properties meeting energy efficient standards may be underwritten to expanded ratios of 33/45.

Student loans may be omitted if verified to be deferred a minimum of 12 months from the Note date.

In order to omit a debt(s) paid by another party, the person making the payments must be co-obligated on the debt. A liability paid by a borrower's Schedule C business CANNOT be omitted as the borrower is solely and individually responsible for all expenses and debt. Debts that are paid by a borrower's Partnership, S Corp, or Corporation may be excluded with a documented 12 month history of payment by the business AND verification the business is co-obligated on the debt.

Installment debts with less than 10 months remaining are not automatically excluded from qualifying ratios. Exceptions to omit the debt are determined on a case by case basis and require compensating factors to consider omission. If allowed by underwriting, the omission of the debt ultimately must be determined by TOTAL scorecard in accordance with FHA requirements. (i.e.: the debt must be included when scoring the loan through AUS, and if automatically omitted by the AUS/TOTAL scorecard, and if allowed by PCM underwriting, the debt may be omitted).

Lease payments may NEVER be omitted, regardless of the number of payments remaining.

For properties located in community property states, the debt of a non-purchasing spouse must be included in qualifying ratios as verified by a triple merge credit report. The non-purchasing spouse does not have to meet PCM credit score requirements. Judgments and/or tax liens belonging solely to the non-purchasing spouse do not have to be re-paid as a condition of loan approval, but must have an established payment arrangement and the payment included in qualifying the borrower. If a payment arrangement is not in place, 5% of the outstanding balance will be used for qualifying. In addition, an attorney opinion letter must be obtained to certify the borrower is not liable for the debt and that the judgment and/or lien cannot be placed against our borrower or the subject property.

Qualifying Rate:

Qualifying is on note rate except on the 1 year ARM

The 1 year ARM is qualified at the maximum 2nd year rate for LTVs >95%. For LTV 95% and below, qualifying is at the note rate.

Refinances:

Eligible refinances include credit qualifying no cash-out, cash-out, streamline without an appraisal and credit qualifying streamline without appraisal. No cash-out (rate/term) transactions may not receive more than \$500 cash back at closing.

HELOC's may be included for payoff in a no-cash out transaction as long as the following two conditions can be met:

- The HELOC has been opened for a minimum of 12 months, and
- Documented draws over the most recent 12 month period total less than \$1000

Proceeds from cash out refinances cannot be used to buy out or pay off a Chapter 13 bankruptcy.

If a property is owned less than twelve months (for rate/term & cash out) the LTV will be based on the lesser of the current appraised value or the original acquisition cost.

Recently listed properties are ineligible for refinances unless the listing was withdrawn (or expired) prior to the date of application. Cash out refinances on recently listed properties will be limited to 70% of the lesser of the last list price or current value unless a minimum of 6 months has passed from the withdrawal or expiration date. A copy of the withdrawn/expired listing will be required.

Negative interest reflected on a payoff that is the result of a prior loan modification MAY NOT be included in the new loan amount financed.

All borrowers on cash out refinances must be occupants. A non-occupant co-borrower may NOT be added to assist with qualifying on a cash out transaction, regardless of LTV.

Cash out transactions, with the exception of homes owned free and clear, require a minimum of 6 months payment history with the current servicer to be eligible for cash out.

Cash-out Refinances for the payoff of land contract are subject to payment seasoning and LTV limitations.

EFFECTIVE WITH CASE NUMBERS ASSIGNED ON OR AFTER APRIL 14, 2011: When a borrower will re-occupy an investment property as their primary residence prior to refinancing, the following guidelines will apply to determine the maximum mortgage amount available:

Occupancy of Former Investment Property	Eligible Financing
12 months or more prior to the loan application date of the refinancing mortgage	Maximum financing at the same level as an owner-occupant
Less than 12 months prior to the loan application date of the refinancing mortgage	Rate/Term refinancing only (no streamline allowed), with an LTV not to exceed 85%.

Sufficient documentation supporting the date of occupancy of the prior investment property will be required.

Refer to the "Streamline Refinance" for additional guidelines related to FHA Streamlines.

Real Estate Commission: Real estate commission is limited to a total of 8%.

**Re-negotiated
Sales Contracts:**

PCM will not accept re-negotiated sales contracts that increase the sales price AFTER the original appraisal has been completed if:

- The appraised value is higher than the contracted sales price provided to the appraiser, **AND**
- The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received, **AND**
- The only change to the purchase agreement is an increase to sales price.

If the purchase agreement is re-negotiated following the completion of the appraisal, the loan-to-value will be based on the lower of the original purchase price or the appraised value, UNLESS:

- Re-negotiation of only seller paid closing costs and/or pre-pays when seller paid closing costs/pre-pays are common and customary for the market and supported by the comparables, **OR**
- An amended sales contract for new construction is obtained due to improvements that have been made that impact the tangible value of the property. In the event of such changes, an updated appraisal must be obtained to verify the value of the modifications/changes.

Reserves:

For 1-2 unit properties, reserves are not required unless required by AUS approval or at underwriter discretion.

For 3-4 unit properties, 3 months reserves are required regardless of approval method.

For borrowers with limited credit history as determined by PCM underwriting, 3 months PITI reserves from the borrower's own funds *may* be required.

Retirement funds that can only be liquidated upon retirement or termination may not be used for reserves. Only 60% of vested balance may be used once account is confirmed acceptable for use.

Right of Redemption:

Properties subject to a right of redemption are eligible for financing with proper title coverage and redemption bond.

Sales Concessions:

Seller contributions up to 6% are allowed.

**Streamline
Refinances:**

For all streamline refinances the following requirements must be met:

- 1) A credit report with at least 2 scores reporting will be required (640 minimum). The subject mortgage account must reflect a 0 x 30 history for the last 12 months (minimum 6 months with current servicer AS OF THE DATE OF APPLICATION OR CASE NUMBER ASSIGNMENT or must be submitted as credit qualifying).
- 2) Although income verification is not required and does not need to be reflected on the 1003, a VOE verifying the borrower's employment for the past 12 months will be required. DTI will not be calculated.

- 3) Self employed borrowers must be able to document self employment history for minimum of 12 months with business license, CPA confirmation, etc.
- 4) Borrowers who receive income from retirement, pension, social security or disability must be able to document with either an official letter from the previous employer or institution making the payments or confirmation from a CPA that the income has been reported on the borrower's tax returns.
- 5) If assets are required for closing, they must be documented according to the asset verification requirements noted on page 1 of these guidelines, and cover a full 60 days.
- 6) Maximum base loan amounts for Streamline refinances WITHOUT an appraisal will be limited to the outstanding principal balance, the current interest charged by the servicing lender on the payoff (maximum 60 days), monthly MIP collected by the servicing lender (maximum 60 days) less any applicable UFMIP refund. Late charges, delinquent interest, escrow shortages, fax/deed fees and all new closing costs, prepaid escrows and interim interest must be paid by the borrower at closing from verified funds. **An appraisal MAY NOT be obtained to increase the principal balance. These transactions must be processed as a regular, fully qualifying rate/term refinance.**

The maximum loan term on a streamline refinance without an appraisal is limited to the lesser of 30 years or the remaining loan term plus 12 years.

- 7) Streamline refinances may be made to investors without an appraisal only.
 - a. Minimum 660 score required.
 - b. The new loan amount may not exceed the current principal balance.
 - c. All properties owned by the investor must be disclosed. Ownership is limited to 7 rental units (i.e.: each living unit of multi-family properties counts as one unit) when the subject property is part of, adjacent to, or contiguous to, a property, subdivision or group of properties owned by the investor. HUD Form 92651 will be required at closing.
- 8) Subordinate financing may remain in place subject to a maximum CLTV of 100% (owner occupied only).
- 9) The value for streamline refinances without an appraisal will be based on the original appraised value as verified on the FHA Refinance Authorization.
- 10) Loans must meet PCM's net tangible benefit requirements with no exceptions. In addition, all borrowers must also meet FHA's net tangible benefit as outlined in the following chart. Reducing the term of a mortgage, in and of itself, is NOT a net tangible benefit.

To: From:	Fixed Rate	One-Year ARM	Hybrid ARM
Fixed Rate	Reduction of at least 5% of P&I and MIP	New interest rate at least 2% below the current interest rate of the fixed rate mortgage	Reduction of at least 5% of P&I and MIP
One-Year ARM	New interest rate no greater than 2% above the current interest rate of the ARM	Reduction of at least 5% of P&I and MIP	New interest rate at least 2% below the current interest rate of the ARM
Hybrid ARM During Fixed Period	Reduction of at least 5% of P&I and MIP	New interest rate at least 2% below the current interest rate of the ARM	Reduction of at least 5% of P&I and MIP
Hybrid ARM During Adjustable Period	New interest rate no greater than 2% above the current interest rate of the ARM	Reduction of at least 5% of P&I and MIP	New interest rate at least 2% below the current interest rate of the ARM

Any loan not meeting the above criteria, INCLUDING those transactions that include a reduction in mortgage term, must be submitted, underwritten and closed as a full doc, rate/term refinance. Loans that were previously approved as true Conventional Delinquent FHASecure refinances are not eligible for streamline refinances.

Use of TOTAL Scorecard (i.e.: any loan run through DU, LP or any other AUS feeding to FHA's TOTAL Scorecard) will not automatically void the streamline option. Any conditions required by the findings must be provided. PCM will perform case queries upon underwriting and final approval to confirm a loan has not been scored. Any loan scored must be properly documented according to the findings

Subordinate Financing: Subordinate financing on a purchase is acceptable provided the source meets both PCM and FHA guidelines as set forth in Ch. 1, Section 5 of the 4155.1 Rev-5.

A copy of all grant or loan documents must be provided with the submission package. Verification of borrower approval, meeting all terms of subordinate lending or grant organization will also be required as a condition of first mortgage approval. The borrower must be qualified with any required payments on the subordinate lien. Terms of the subordinate lien must meet all applicable FHA guidelines as set forth in the 4155.1 Rev-5.

Permissible subordinate lending arrangements include:

- Government Agencies as described by HUD. Maximum CLTV 100%
- Non-Profit Agencies as described by HUD. Maximum CLTV 100%
- Other Organizations/Private Individuals. CLTV cannot exceed the applicable LTV ratio and the maximum mortgage limit for the area. (See 4155 for full requirements)
- Family Member (parent, child, grandchildren or grandparents only). CLTV cannot exceed 100%. (See 4155 for full requirements)

On rate/term refinances, subordinate financing can remain in place. Refer to LTV/CLTV charts for limitations. The borrower must qualify with all payments. A subordination agreement will be required along with a copy of the note to verify the terms are acceptable to FHA. Qualifying payments on subject property Equity lines will be based on 1% of the total line available regardless of balance, including those with a 0 balance.

Texas Refinances:

Total financed closing costs cannot exceed 10% of the new loan amount.

Special title insurance coverage must be obtained when prepaid taxes (includes non-delinquent taxes which are due and payable, as well as reserves) and insurance (including impounds for monthly MI) are included in the new loan amount:

Possible defect in lien of the insured mortgage because of the Insured's inclusion of reserves or impounds for taxes and insurance in the original principal of the indebtedness secured by the insured mortgage.

POC items to be credited at closing will require evidence of payment from borrower's own funds. Credit for POC's cannot result in cash back to the borrower.

Once a borrower has executed a home equity/cash out refinance on an owner occupied, homestead property under Section 50(a)(6), Article XVI of the Texas Constitution, all subsequent transactions are considered home equity/cash out transactions. Therefore, a rate/term refinance that is being originated to pay off an existing home equity/cash out mortgage is INELIGIBLE for refinance through PCM. Documentation will be required to verify that a home equity/cash out loan {Section 50(a)(6)} has not previously been originated on the subject property. Documentation may include, but is not limited to:

- Title insurance binder confirmation
- Previous Deed of Trust
- Previous HUD-1 settlement statement for each transaction originated after 1/1/98.

Title Commitments:

Full commitment with 24 month chain of title will be required.

Seller name on the contract must match owner of record, as of the date of the buyer's offer. Any discrepancy may require additional documentation to be approved by PCM (i.e.: relocation agreement, foreclosure deed, etc.). (See also "Property Flipping").

Properties held in corporation names, LLC's, Relocation companies, etc. will require documentation to show authorized signor for contract and closing.

Underwriting:

All loans with the exception of streamline refinances must be scored using FHA Total Scorecard through DU. Loans receiving a Refer rating will be manually underwritten to PCM credit guidelines. Refer to the Credit Score/Credit Requirements section for additional guidelines on manual downgrading of AUS findings.

