



PRODUCT:
E3 Codes:

USDA
USDA30

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 a 30-year fixed rate term.

Appraisal Requirements: A full URAR is required on all transactions. All appraisals must be completed by a HUD approved appraiser and ordered through PCM Valuation department to ensure compliance with AIR guidelines (as of 4/1/2011).

See "Property Requirements" for additional information

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

- A VOD must be accompanied by minimum 1 months complete bank statement or account history printout. **The most recent 2 months average balance will be used for funds to close (per RD requirements).**
- All online or other activity printouts must clearly identify the borrower, the bank name, account number **and cover a full 60 days.**
- 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.

Per RD, liquid assets in excess of \$5000 remaining after closing must be considered income producing with a monthly income amount considered in the Household Income Eligibility Calculation. See "Income Limitation" for additional information.

Per RD requirements, Assets for all household members must be disclosed and verified in the file according to the documentation requirements noted above (in order to properly calculate Household Income)

Credit Score and Credit Requirements:

All loans must have a minimum **640** score for both borrowers REGARDLESS of GUS findings. A minimum of two scores is required for all borrowers. Borrowers with only one score will not be eligible, even with GUS approval.

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 GUS 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 GUS 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 GUS.** VOM's obtained outside of traditional credit reporting methods must reflect 0 x 30 over the last 12 months.

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

Loans receiving a Refer through GUS 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	1 x 30 in past 12 months
Revolving	1 x 30 in past 12 months
Chapter 7 Bankruptcy	Discharged 3 years
Chapter 13 Bankruptcy	Discharged or 12 months timely payments & Court Approval
Foreclosure/Short-Sale	None in last 3 years

Accounts cannot have been placed in collection for at least 12 months. Collections older than 12 months do not have to be paid but must have repayment plan in place a minimum of 6 months. Judgments and Tax liens must not have occurred within last 12 months. All tax liens and judgments must be paid prior to closing regardless of age.

- Disclosures:** Completed Guarantee Fee Form *Form 1980-21- completed and signed by all parties (all borrowers must have clear CAIVR #). Income Calculation form, Guaranty Fee Calculation and any state specific forms must be included with package.
- Documentation:** Credit file documentation must be dated within 90 days of the note for existing properties and 120 days for newly constructed properties.
- Down payment:** Borrowers are not required to make a down payment.
- Eligible Borrowers:** U.S. Citizens and permanent resident aliens are allowed under standard underwriting guidelines. All borrowers must have a valid Social Security Number.

A clear CAIVR number will be required for all borrowers on all transactions.
- Escrow Holdback:** Not allowed.
- Financed Closing Costs:** If the value of the home being purchased is appraised higher than the purchase price, the borrower may finance any prepaid expenses and closing costs not being paid by the seller, up to a maximum of 100% of the appraised value. The borrower may NOT finance discount points. These fees must be paid from the borrowers own funds.
- First Time Homebuyers:** First time homebuyers are allowed. Counseling may be required – refer to state specific guidelines.

Geographic Restrictions:

The property must be located in a designated rural area as designated by the RHS office. To determine whether the property is located in a designated rural area, go to the Rural Development website at <http://eligibility.sc.egov.usda.gov>. From the home page, click "Single Family Housing" under "Property Eligibility." Enter the property address to get an instant determination or to view a map.

Gifts:

Gifts are allowed. A fully executed gift letter confirming no repayment will be required. The file must also contain evidence of donor's ability to give gift prior to closing along with the certified check at closing. Refer to individual state guidelines regarding gifts used for reserves. Not all states allow gift funds to be considered as acceptable reserves for qualifying.

Guarantee Fee:

A one-time guarantee fee of 3.5% is required on purchase transactions. On refinances (see refinance guidelines for additional details), the fee is reduced to 2.25%**. The guarantee fee may be financed.

PLEASE NOTE: When financing the guaranty fee, the actual amount financed will result in a percentage higher than 3.5% due to the required calculation method. Refer to the chart below for proper fee calculation.

The Guarantee Fee may be calculated in two ways depending on whether the fee will be financed:

Transaction Type	Guarantee Fee Not Financed	Guarantee Fee Financed
Purchase	Multiply the loan amount by 3.5% and round to the nearest cent. Example: \$100,000 x .035=\$3500	The fee is calculated as follows: 1. Divide the base loan amount by .965 and round to the nearest cent. 2. Multiply that number by .035 (3.50%) and round to the nearest cent. Example: \$100,000/.965=\$103,626.94 \$103,626.94 x .035=\$3626.94
R/T Refi*	Multiply the loan amount by 2.25%. Example: \$100,000 x .0225= \$2250.00	Follow steps 1 and 2 above, substituting .9775 for .965 and .0225 for .035. Example: \$100,000/.9775= \$102,301.79 \$102,301.79 x .0225= \$2301.79

*See Refinance Section for additional requirements/guidelines.

**As of October 18, 2010 the temporary refinance guaranty fee will be 1%. This fee is subject to change without notice. For all calculations substitute 1% where 2.25% is referenced.

Effective with loans receiving a conditional commitment from RD on or after October 1, 2011 the Guarantee Fee for purchases will reduce to 2%. The Fee for refinances will remain 1%. In addition, both purchase and refinances will require an annual fee equal to .30%. The annual fee is calculated over a 12 month average of the subject's principal balance. A guarantee fee calculator can be found online at <https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do>

Income and Employment Documentation:

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.

Gaps of employment greater than one month must be explained by the borrower. Supporting documentation may be required as determined by PCM underwriting.

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.

- A two year employment and income history must be verified on all borrowers:
- Salaried borrowers require a completed VOE or a completed Verbal VOE, two years W2's and 30 days worth of pay-stubs.
 - Self employed individuals require two years tax returns and a year to date profit and loss statement /balance sheet.
 - Alimony and Child support must have minimum 1 year history with proof of 3 years continuance. 12 months verification of receipt must be provided.
 - Part time income, overtime, bonus, and commission income must have 24 month history and will require full written VOE for verification.
 - Disability Benefits require Benefits letter and 3 years continuance* .
 - Social Security benefits require awards letter or 2 month bank statements and 3 years continuance* .
 - PCM to order 4506T on all loans.

***Non taxable sources of income may be grossed up by the amount of tax savings attributable to the non-taxable income. The table below reflects current tax brackets for both single and married borrowers:**

Tax Bracket	Married Filing Jointly	Single
10% Bracket	\$0 – \$17,000	\$0 – \$8,500
15% Bracket	\$17,001 – \$69,000	\$8,501 – \$34,500
25% Bracket	\$69,001 – \$139,350	\$34,501 – \$83,600
28% Bracket	\$139,351 – \$212,300	\$83,601 – \$174,400
33% Bracket	\$212,301 – \$379,150	\$174,401 – \$379,150
35% Bracket	Over \$379,150	Over \$379,150

For example – a single borrower with \$50,000 taxable income, but only \$7000 in non-taxable SSI, the \$7000 may be grossed up by only 10%.

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.)

Income Limitation:

The borrower's adjusted "household" income cannot exceed 115% of the area median income. An income calculator is available on the Rural Development website at <http://eligibility.sc.egov.usda.gov>. From the home page, click "Single Family Housing" under Income Eligibility" tab.

Income for all non-applicant household members (age 18 and up) must be documented in the same manner as those obligated on the note.

If any adult household member has a history of employment but is not presently employed, that person's income will be considered unless the applicant AND the other household member signs an affidavit that the person is not presently employed and does not intend to resume employment in the foreseeable future.

For purposes of household income calculation, farm or self-employed business losses are NOT deducted from the overall income total. They are to be considered as "0" for income eligibility purposes. See "Qualifying Ratios" for additional qualifying information.

Liquid assets in excess of \$5000 remaining after closing must be considered income producing with a monthly income amount considered in the Household Income Eligibility Calculation. If an interest rate or annual interest figure is not reflected on the statement, the current standard passbook savings rate will be applied.

Maximum Loan Amount:

The maximum loan amount is 100% of the conforming loan limit or 103.5% when the Guarantee fee is being financed.

Maximum Loan to Value:

100% of the market appraised value is allowed and may include closing costs. The maximum LTV may exceed 100% of the appraised value only by the amount of the Guarantee Fee being financed in the loan amount. Purchase transactions are eligible up to a maximum of 103.5% LTV. Refinance transactions may exceed 100% of the appraised value by only the 2.25% Guarantee Fee (or 1% under the current temporary reduction).

Mortgage Insurance:

Not required

Multiple Property Ownership:

Borrowers cannot own an adequate dwelling within the local commuting area after the proposed loan closes. A manufactured home on a rented site or on a non-permanent foundation is considered inadequate.

Net Tangible Benefit:

Refinances must meet Primary Capital's Net Tangible Benefit requirements. For requirements please go to our website at www.pcmexpress.com.

Non-Occupant Co-Borrower:

Not allowed.

Non Traditional Credit:

Not allowed.

Occupancy:

Primary residences only.

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.

Property Type:

Eligible properties include single-family, RD eligible PUD, and FHLMC/FNMA approved condos.

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 (land value may not exceed 30%).

Ineligible properties include 2-4 family, manufactured homes, homes with an in ground swimming pool (exceptions made case by case by PCM and USDA), second homes, investment **or other income producing** properties, properties located in a flood zone (exceptions made case by case by USDA), leaseholds, log homes, mixed use properties, working farms, **buildings principally designed to accommodate a business or income, buildings not essential to housing**, and properties where the site value exceeds 30% of the value.

Property Requirements:

All properties must have the following inspections and certifications. All certifications and inspections must be completed, with evidence provided, prior to closing:

- Certification property meets HUD standards per Handbooks 4150.2 and 4905.1 (to be made by assigned FHA appraiser)
- Termite Inspection- as required by RD and or appraiser/contract
- Well and/or Septic inspection if applicable.
 - Well/Private Water Supply:
 - Existing home - The local health authority or state certified laboratory must perform a water quality analysis. The water quality must meet state and local standards. Call EPA for referrals to certified labs and other inquires: 800/426-4791.
 - New Construction – Approval issued by local authority
 - Community Well – State operating permit AND recorded third party trust agreement.
 - Septic System:
 - Existing home – Inspection by government health authority, licensed septic professional, or qualified home inspector to certify the system is free of observable evidence of failure. **A FHA roster appraiser or qualified home inspector may also be used to perform the septic inspection.**
 - New Construction – County (or local authority) permit for installation (if required)
- Newly Constructed Dwellings:
 - Evidence of Certified Plans and Specs, as documented by:
 - Eligible building permit issued by an approved local jurisdiction, **or**
 - Certificate of Occupancy (CO) issued by an approved local jurisdiction, **or**
 - Certification from a qualified individual or organization (i.e.: licensed architect, engineer, national code certified plan reviewer, local building official, etc.) that has reviewed the plans and specs, and determined that they meet all applicable building codes and standards. (Form 1924-25 “Plan Certification may be used)
 - Evidence of Construction Inspection/Warranty with:
 - Certificate of Occupancy (CO) issued by an eligible local jurisdiction **AND** a 1 Year Builder Warranty (same as HUD 92544), **or**
 - Copies of 3 construction inspections performed when: (1) footings/foundation; (2) shell is complete/wires still exposed (framing); and (3) final inspection prior to occupancy **AND** a 1 year Builder Warranty (HUD 92544), **or**
 - Final Inspection and a 10-year builder warranty plan acceptable to Rural Development (i.e.: 2-10 HBW, RWC, etc.)

Newly constructed dwellings that cannot meet all RD construction requirements will be limited to a max LTV of 90%, not including the guaranty fee.

Qualifying Ratios:

**Maximum DTI is 55% regardless of GUS findings.
Ratio waivers may be required by RD – case by case.**

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 29/41. Newly constructed properties meeting energy efficient standards may be underwritten to expanded ratios of 31/43.

Self-employed business losses or farm losses (for applicant borrowers only) are NOT deducted from the overall income total. They are to be considered as a monthly obligation for DTI qualifying purposes. (For example, an annual loss of \$6000 would require a monthly debt of \$500 to be added as a liability.)

Installment debts with less than 6 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.

Student loans, regardless of deferment period, must be included in qualifying ratios.

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

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

Refinances:

Rate/term refinances are allowed on loans already secured by a USDA mortgage. Loans secured by any other type of financing are not eligible.

As of October 18, 2010 the temporary refinance guaranty fee will be 1%. This fee is subject to change without notice. For all calculations substitute 1% where 2.25% is referenced.

Description	Requirement
Cash-Out	Not allowed
Term	30 years
Interest Rate	Must be minimum 1% lower than the interest rate of the existing loan.
Guarantee Fee	The fee amount is 2.25% of the total principal obligation of the new loan. The fee may be financed into the new loan amount. The LTV of the new loan may exceed 100% only if the excess amount represents a financed guarantee fee of no more than 2.25%
Household Income	Cannot exceed 115% of the median area income. (Refer to USDA website to verify actual geographical limits)
Loan Amount	Maximum loan amount cannot exceed the current principal balance of the loan being refinanced, plus the guarantee fee (if supported by the original appraised value). Subordinate financing, such as home equity lines of credit and down payment assistance seconds cannot be included in the new loan amount.

	Unpaid fees, such as late fees due the servicer, cannot be included in the new loan amount.
Appraisal	A new appraisal is required if the new loan amount will exceed the current principal balance (i.e.: when closing costs, prepaid escrows, etc. are financed) or 12 months has passed from the date of the original note.
Occupancy	The subject property must still be the borrower's principal residence.
Borrowers	All borrowers originally obligated on the note must remain on the new note. If a borrower wishes to be removed, the remaining borrower must demonstrate their own repayment ability.

**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-paids when seller paid closing costs/pre-paids 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:

Not required. All earnest money checks must be documented as cleared for credit on the HUD-1 at closing.

Right of Redemption:

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

Sales Concessions:

6% allowed.

Subordinate Financing:

Not allowed.

Temporary Buydowns:

Not allowed

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 must be run through Rural Development's Guaranteed Underwriting System (GUS). Loans receiving a refer must meet PCM and RD underwriting guidelines. Layering of risk will not be permitted on loans receiving a Refer rating (i.e.: significant derogatory credit, payment shock, high ratios, etc.).