Section 3: Loan Analysis

3.1. Loan Seasoning (5/3/2012 10:49:48 AM)

The funding date for a refinance of a previous Provident Funding loan may not be within 180 days from the funding date of the previous transaction.

The Rate and Term refinance of a mortgage originated at the time the borrower purchased the subject property requires a minimum of 180 days seasoning for the refinance of a previous Provident Funding loan or 120 days seasoning for the refinance of a non-Provident Funding loan measured from Note date to Note date.

The refinance of a previous Provident Funding cash-out refinance will be considered cash-out, unless the original mortgage is seasoned 6 months. To establish 6 months seasoning, both of the following requirements must be met:

- The funding date of the current refinance transaction must not be within 6 months of the date of the previous mortgage.
- Borrower has made six regular monthly mortgage payments on the existing loan.

3.2. State Restrictions (4/10/2012 9:26:46 AM)

Loans in the following states are ineligible:

- Alaska
- District of Columbia
- New York
- West Virginia

The following loan transactions are ineligible:

- Cash out refinances in Texas.
- Loans with a debt-to-income ratio greater than 60% in Massachusetts and Minnesota.
- Primary residence refinances on an ARM or interest only loan in Rhode Island.
- Interest only loans in Illinois and Maine.
- ARMs with an initial fixed period of 3 years or less in Illinois.
- Condominiums except units in high rise projects (8+ stories) located in Chicago-IL, Honolulu-HI, San Francisco-CA, Seattle-WA.

3.3. Mortgage Insurance (10/12/2012 6:55:34 PM)

Mortgage insurance is required on each mortgage that has a loan-to-value (LTV) ratio greater than 80%. The standard required coverage levels used by all mortgage insurance companies for the correct amount of mortgage insurance are listed below.

All Mortgages Except 10, 15 and 20 Year Fixed Mortgages

- 80.01-85% LTV Ratio = 12% MI Coverage
- 85.01-90% LTV Ratio = 25% MI Coverage
- 90.01-95% LTV Ratio = 30% MI Coverage

10, 15 and 20 Year Fixed Mortgages

- 80.01-85% LTV Ratio = 6% MI Coverage
- 85.01-90% LTV Ratio = 12% MI Coverage
- 90.01-95% LTV Ratio = 25% MI Coverage

"Reduced" or "Custom" options that may be reflected on the AU feedback are not allowed. Only the "Monthly" or "Deferred" (zomp) payment options are allowed with no reserves required at closing.

3.3.1. Additional Requirements when LTV > 80% (8/3/2011 9:26:31 AM)

The following requirements apply to each borrower when the LTV is greater than 80%:

Standard Conforming

- Minimum Credit History: 12 months except where additional credit history requirements are indicated below.

- Minimum Tradelines: (must meet one of the following requirements)
  - More than 24 months housing payment history with 0x30 late PLUS two additional installment and/or revolving tradelines with at least 12 months of credit history.
  - 12-24 months housing payment history with 0x30 late PLUS three additional installment and/or revolving tradelines with at least 24 months credit history.
  - 0-12 months housing payment history with 0x30 late PLUS four additional installment and/or revolving tradelines with at least 24 months credit history.
  - More than 12 months housing payment history with prior derogatory history PLUS four additional installment and/or revolving tradelines with at least 24 months credit history.
- Housing Payment History (Mortgage and/or Rent): No 30-day late payments in the most recent 12 months. A Verification of Rent (VOR) is required for any borrower without property ownership for the most recent 12 months.
- Installment Debt History: No more than one 30-day late payment in the most recent 12 months.
- Revolving Debt History: No more than two 30-day late payments in the most recent 12 months.
- Derogatory Credit: No collections, charge-offs or past-due accounts in the most recent 12 months, even if they have been paid current.
- Bankruptcy: Minimum 48 months since discharge/dismissal date.
- Foreclosure, Short Sale, Short Refinance, Deed-in-Lieu: Minimum 60 months since date of activity.
- Construction-to-Perm: Ineligible
- Rate & Term Refinance: Payoff of a purchase money second/HELOC is permitted only for the original lien that is reflected on the purchase HUD-1. Payoff of a second/HELOC that was obtained through the rate/term refinance of the original purchase money is ineligible.
- A minimum 2-year history of managing rental properties is required if any rental income is used to qualify.
- Capital gains income may not be used to qualify.
- Validation of the borrower's two-years individual federal tax returns is required regardless of the documentation level required per the AU Feedback.

Super Conforming

- Minimum Credit History: 24 months except where additional credit history requirements are indicated below.
- Minimum Tradelines: (must meet one of the following requirements)
  - More than 24 months housing payment history with 0x30 late PLUS two additional installment and/or revolving tradelines with at least 12 months of credit history.
  - 12-24 months housing payment history with 0x30 late PLUS three additional installment and/or revolving tradelines with at least 24 months credit history.
  - 0-12 months housing payment history with 0x30 late PLUS four additional installment and/or revolving tradelines with at least 24 months credit history.
  - More than 12 months housing payment history with prior derogatory history PLUS four additional installment and/or revolving tradelines with at least 24 months credit history.
- Housing Payment History (Mortgage and/or Rent): No 30-day late payments in the most recent 24 months. A Verification of Rent (VOR) is required for any borrower without property ownership for the most recent 24 months.
- Installment Debt History: No more than one 30-day late payment in the most recent 24 months.
- Revolving Debt History: No more than two 30-day late payments in the most recent 24 months.
- Derogatory Credit: No collections, charge-offs or past-due accounts in the most recent 24 months, even if they have been paid current.
- Bankruptcy: Ineligible regardless of seasoning.
- Foreclosure, Short Sale, Short Refinance, Deed-in-Lieu: Ineligible regardless of seasoning.
- Construction-to-Perm: Ineligible
- Rate & Term Refinance: Payoff of a purchase money second/HELOC is permitted only for the original lien that is reflected on the purchase HUD-1. Payoff of a second/HELOC that was obtained through the rate/term refinance of the original purchase money is ineligible.
- A minimum 2-year history of managing rental properties is required if any rental income is used to qualify.
- Capital gains income may not be used to qualify.
- Validation of the borrower's two-years individual federal tax returns is required regardless of the documentation level required per the AU Feedback.

3.4. Conversion of a Primary Residence (3/18/2011 12:16:41 AM)

Conversion of a Primary Residence to a Second Home

Both the current and proposed mortgage payments must be used to qualify the borrower for the new transaction, and 6 months PITI for both properties is required to be held in reserves. The reserve requirement may be reduced to 2 months PITI for both properties if there is documented equity of at least 30% in the existing property, based on a full appraisal dated no more than 60 days from the funding date minus any outstanding liens. Use of the previous residence as a second home must be reasonable; otherwise, it must meet the following requirements for conversion to investment property.

Conversion of a Primary Residence to an Investment Property
Both the current and proposed mortgage payments must be used to qualify the borrower for the new transaction, and 6 months PITI for both properties is required to be held in reserves. The borrower is permitted to use rental income to offset the housing payment for the previous residence if the borrower has a two-year history of managing investment properties and there is documented equity of at least 30% in the existing property, based on a full appraisal dated no more than 60 days from the funding date minus any outstanding liens. The rental income must be documented with a copy of the fully executed lease agreement and receipt of a security deposit from the tenant and deposit into the Borrower's account. Rental income may not be used if 30% equity cannot be documented or if the LTV on the proposed mortgage is greater than 80%. A property that is pending sale but will not close prior to the date of purchasing a new primary residence will be treated as an investment property for qualification purposes.

If the Borrower is converting a 2-4 unit primary residence to an investment property, the rental income for the unit(s) not previously occupied by the Borrower may be used to qualify, subject to the rental income requirements in Section 2.5.3.

3.5. Purchase (9/15/2005 3:52:00 PM)

3.5.1. Purchase Contract (7/5/2012 7:54:51 AM)

Must include all addenda and be fully executed by Borrower(s) and Seller(s). Personal property must not be included or the purchase price will be reduced dollar for dollar by the value of the personal property.

Electronic signatures may be accepted when an "e-sign certificate" from the e-signature service provider is provided to support the authenticity and E-SIGN Act compliance of the e-signatures.

3.5.2. Rent Back (9/15/2005 3:51:36 PM)

The seller is permitted to rent back the subject property for up to 60 days if they are currently occupying the property. The purchase contract must reflect that the rent back will not exceed the 60-day limitation. PF will not approve a rent back if the property is currently vacant or is currently being occupied by tenants.

3.5.3. Flip Transactions (12/11/2009 4:03:54 PM)

A flip transaction is defined as a purchase transaction for a property acquired by the seller which is being sold for a quick profit or when the title reveals several changes in ownership in the course of a few months. Due to possible inflation of sales price, financial bailouts, misrepresentations and/or straw buyers, flip transactions are ineligible. If the seller is not in title at the time the purchase contract is executed, the contract may not be valid.

Purchase transactions where the seller has owned the property for less than 6 months are considered flip transactions and are ineligible. The following are not considered flip transactions:

- Property obtained through an inheritance.
- Property that is part of a settlement in a divorce agreement.
- Property that is part of an employer relocation program.
- Property that is resold by a lender/servicer after acquisition of the property from a foreclosure or deed in lieu of foreclosure. Agents or subsequent owner(s) of the property that acquired the property directly from the lender are not considered the lender.

3.5.4. Valuation for Purchases (11/28/2008 2:31:16 PM)

The Value is determined by the lesser of the appraised Value or the purchase price as stated on the executed purchase agreement or HUD-1.

3.5.5. Seller Authorization to Execute Real Estate Transactions (10/4/2012 12:22:14 AM)

3.6. Refinance Transactions (10/4/2012 12:18:08 AM)

A refinance mortgage is either a mortgage where the proceeds are used to pay off an existing mortgage(s) secured by the subject property, or a mortgage secured by the subject property that was previously owned free and clear by the borrower. At least one borrower in the current refinance transaction must be currently on title to the property, as an individual or through a living trust, before any additional borrowers may be added. If the borrower is on title with other individuals and the other individuals are to be removed from title, a "quit claim deed" for each individual being removed must be executed at closing.

All loans must be run through the Automated Underwriting Engine based on the names in which the borrowers currently hold title. This is to include all reflected middle initials and full middle names. If the AU Feedback is returned with a "Caution/Refer" and an "Accept/Approve" was obtained using a different version of the name with or without a middle name or middle initial, it is not acceptable to change the AU submission. The submission, based on the names as they appear on title, is the most accurate AU decision.

It is not necessary for the borrowers to be reversed due to the second person being the primary wage earner. Under no circumstances should the loan system be changed to accommodate the borrower’s desire for vesting that does not match the LP feedback. If a borrower has married or divorced, and wishes to take title under the “new” name, a “grant deed” to correct title vesting must be executed at closing.

If the property is currently listed or has been listed for sale in the past 6 months prior to the loan application date or appraisal inspection date, the loan is ineligible for a refinance.

A copy of the mortgage payoff statement is required for all refinance transactions. For New Jersey refinance transactions, the mortgage payoff statement must be provided for all loans/lines of credit, secured by both subject and non-subject property, paid off in the transaction prior to drawing loan documents.

3.6.1. Continuity of Obligation (6/21/2010 10:43:05 AM)

To be eligible for a refinance transaction where the proceeds will be used to pay off an existing mortgage secured by the subject property (either no cash out or cash out), there must be a continuity of obligation for the borrower, which must be demonstrated in one of the following ways:

- At least one borrower on the current refinance transaction is also a borrower (as an individual) on the existing mortgage that will be paid off.
- At least one borrower on the current refinance transaction has been on title and residing in the property for at least 12 months and either:
    - Has paid the existing mortgage that will be paid off for the last 12 months on time (evidenced with cancelled checks); or
    - Can document a relationship (spouse, registered domestic partner, parent/child or sibling) with the current obligor on the existing, non-delinquent mortgage that will be paid off.
- At least one borrower on the current refinance transaction has recently inherited or was legally awarded the subject property by divorce, separation, or dissolution of domestic partnership. See section 3.7.2 of this guide for requirements for Non-Arm’s Length Transactions with Family Members.

Transfer of ownership from a legal entity other than a living trust such as a corporation, LLC, or partnership does not meet the continuity of obligation requirement.

3.6.2. Rate/Term Refinance (3/16/2011 9:44:30 PM)

Requirements for "no cash-out" refinance mortgages must meet the applicable LTV/CLTV requirements for the loan program and property type.

The subject loan amount is limited to the amounts used to:

- Pay off the first mortgage, regardless of its age, except:
    - Rate and term refinance transactions with LTV greater than 80% are ineligible to payoff a mortgage obtained in the past 6 months to consolidate a first mortgage and secondary financing. A copy of the HUD-1 from a refinance transaction in the past 6 months must be provided to demonstrate the refinance mortgage was not used to consolidate a first mortgage and secondary financing.
- Pay off any junior liens secured by the Mortgaged Premises that were used in their entirety to acquire the subject property (the length of time seasoned does not matter in this situation).
- Pay related Closing Costs, Financing Costs and Impound Account items.
- Disburse cash out to the Borrower not to exceed 2% of the new refinance mortgage or $2,000, whichever is less.

When a junior lien is permitted to be paid off as part of the "no cash-out" transaction, the HUD-1 from the purchase of the property must be provided to demonstrate that the full amount of the lien was used for the purchase of the subject property. The refinance of a second/HELOC that was obtained through the Rate and Term refinance of the original purchase money second/HELOC may not be considered a Rate and Term transaction.

The Borrower is not required to satisfy outstanding junior liens, provided that:

- The junior liens remain subordinate to the lien of the new refinance mortgage.
- The junior liens meet the secondary financing requirements for the loan program.
- A copy of the subordination agreement is maintained in the mortgage file.

3.6.3. Cash-Out Refinance (10/4/2012 12:14:50 AM)

A “cash-out” refinance mortgage must meet the applicable LTV/CLTV requirements for the loan program and property type. The loan amount may include:

- Paying off the first mortgage regardless of age.
- Paying off any junior liens secured by the subject property, including a HELOC, regardless of age.
- Paying related Closing Costs, Financing Costs and Impound Account items.
- Disbursing cash-out to the Borrower.

A mortgage placed on a property currently owned "free and clear" by the Borrower is always considered a cash-out refinance mortgage.

The Borrower must have a six (6) month history of ownership of the subject property to be eligible for a Cash Out Refinance. Properties acquired by the borrower within the 6 months preceding the application date of the current refinance transaction are ineligible for Cash Out, unless the property was purchased by the borrower with no financing. To be eligible for a cash-out refinance with less than a 6 month history of ownership, all of the following restrictions shall apply:

- The new loan amount must not exceed the actual documented amount of the borrower's initial investment in purchasing the property.
- The purchase transaction was an arms-length transaction.
- A copy of the HUD-1 for the purchase transaction is required and must not reflect any financing used to acquire the property.
- The title report must not reflect any liens on the property.
- The source of funds used to purchase the subject property must be fully documented.
  - If funds were borrowed to purchase the subject property, those funds must be repaid and reflected on the HUD-1 Settlement Statement for the new loan.

For any cash-out transactions in which the Borrower(s) is receiving more than $10,000 cash in hand, the cash out section of the application (1003) must be completed. This section must indicate the purpose/use of the funds. In addition, the Borrower must provide a letter detailing the specific purpose/use of the funds and stating if their use will result in additional debt obligation. If other liabilities may be established with the use of the funds, PF will request additional documentation evidencing the amount that will be borrowed. Borrower must qualify with any additional liability.

3.6.4. Valuation on Refinances (11/28/2008 2:30:30 PM)

For both cash-out and rate/term refinance transactions, the new appraised value may be used even if the Borrower has not owned the home for a full 12-month period. However, using the current appraised value must make sense, especially if the current appraised value is higher than the acquisition price. Such as where the property is located if in an area of appreciating values.

3.6.5. Net Tangible Benefit (8/1/2012 6:10:06 PM)

The Seller must use best efforts to ensure that each loan offered to a borrower is consistent with his or her needs, objectives, and financial situation. Each Mortgage Loan, the proceeds of which have been used to refinance a previous mortgage loan, must offer a documented, demonstrable, tangible net economic benefit to the borrower through a reduction in monthly payment amount and/or reduced duration of original loan terms. Borrower costs associated with refinance originations must be demonstrated to be recouped over the life of the new loan.

All applicable State requirements for documenting tangible net benefit to the borrower(s) must be met.

3.7. Arm’s Length and Non-Arm's Length Transactions (11/27/2007 10:36:46 AM)

3.7.1. Arm's Length Transaction (7/17/2008 10:19:44 PM)

An arm's length transaction occurs when the parties involved are entirely independent of one another. That is, all parties deal with one another as strangers and have no reason to collude.

3.7.2. Non-Arm's Length Transaction (5/3/2012 4:46:07 PM)

A non-arm’s length transaction is one where a direct relationship between any of the parties to the Loan and/or sale transaction exists, including the Borrower, Seller, employer, lender, broker or appraiser. These transactions include:

- Family sales or transfers, including estate sales.
- Corporate sales or transfers.

- Mortgagors employed in the real estate or construction trades who are involved in the construction, financing or sale of the subject property.
- Transactions involving principals or vendors (including the appraiser, settlement agent, title company, etc) who is involved in the lending process of the subject property.

Provident Funding does not permit appraisal, closing agent or title services to be completed by anyone with a direct relationship to the Borrower. In the instance that closing or title services are performed by the employer of the Borrower, a letter must be obtained from the Title Insurer verifying that the Borrower will not perform any services that pertain to the closing of the loan.

Additional risks that may occur with non-arm's length transactions include:

- Absence of equity or down payment.
- The purchase price may not represent actual consideration given.
- Financial bailouts or attempts to hide poor credit.
- Occupancy concerns.
- Financing of unsold builder inventory, especially in soft real estate markets.

Transactions with Non-Family Members
Non-arm's length transactions with non-family members will be permitted only if they are a bona fide refinance or sales transaction and the borrowers will occupy the property as their primary residence. Full Documentation of the borrower's Income and Assets is required.

If borrowers are purchasing a property from a builder who is purchasing the borrowers' existing residence, it is an unacceptable non-arm's length transaction and is not permitted by Provident Funding.

A transaction in which a builder or developer is selling a property to one of its employees (the Borrower) is permitted provided the employee does not hold any ownership interest in seller's company.

Transactions with Family Members
A Family Sale is a transaction where one family member sells to another family member with no real estate agent involved or a family member acting as an agent. These transactions carry the potential for high risk as in bailout situations (i.e. the selling party has financial problems and is unable to maintain their payments). The following are general requirements:

- The family member or relative is the borrowers' spouse, child, parent, or any other individual related to the borrowers by blood, adoption, or legal guardianship.
- Full documentation of the Borrower's income, employment and assets.
- Borrower must provide copies of cancelled check(s) to verify all earnest money paid to the seller.
- 5% of the sales price must be verified as being saved by the Borrowers but these funds do not have to be used towards the down payments.
- Verification that the Borrower is not now, nor has previously been, on title to the property.
- A payment history for the existing mortgage (verification of seller's mortgage) on the subject property must be obtained and show no delinquencies within the past 12 months.
- Borrower must provide a written explanation stating the relationship to the seller and the reason for purchase.
- The underwriter must be satisfied the transaction makes sense and that the Borrower will occupy the property as a primary residence.
- Verified amounts of gifts of equity in the subject property are acceptable sources of down payment. The donor must provide a gift letter. When the LTV/CLTV is greater than 80%, the Borrowers must contribute a minimum of 5% of the sales price towards the down payment from their own funds. Transactions with an LTV/CLTV at 80% or below can be an all gift transaction, however 5% of the sale price must be verified as being saved by the Borrowers.

If the property is held in an estate and the Borrower is a beneficiary, the following must also be met in addition to the requirements above:

- Full documentation of the Borrower's income, employment and assets.
- Verification of the Borrower as a beneficiary of the property.
- The Borrower may not receive cash back at closing.
- If the Borrower uses a portion of the proceeds to buy out other beneficiary's interest, his/her interest must be verified in a copy of the will and a buyout agreement must be fully executed. Payoffs to the beneficiaries must be a closing condition and shown on the Hud-1 Closing Statement.
- The transaction is considered as a rate/term refinance for LTV purposes.
- Primary residence only.
- Obtain verification of mortgage on an existing financing to verify the outstanding balance; the payment history should be disregarded on existing mortgage as not a credit consideration.

Appraisal Requirements for Non-Arm's Length Transactions
Non-arm's length relationships contribute an additional layer of risk to the mortgage transaction and thus the loan collateral should be carefully scrutinized.

An Appraisal Desk Review is required for all Non-Arm's Length Transactions, and the Underwriter must carefully review the appraisal per the Property Eligibility Section of this guide.

The Property Inspection Alternative (PIA) provided through the Loan Prospector automated engine is not permitted for Non-Arms Length Transactions.

3.8. Second Home Mortgage (12/11/2009 4:06:37 PM)

Qualifications for second home mortgages:

- The borrowing individual must also occupy and have secured a 1-unit property for some portion of the year.
- The property must be in a location remote in distance from the Borrower's Primary Residence and cannot be located in the same metropolitan area.
- The property must be located in an area in which the primary use is vacation/resort homes or the Borrower must provide a signed letter of explanation regarding the use of the property as a second home. The underwriter must be satisfied the transaction makes sense and that the Borrower will occupy the property as a second home.
- The property must be suitable for year-round occupancy.
- The property must be available for the Borrower's exclusive use and enjoyment (i.e. no rental income, no timesharing ownership arrangement, rental pools or agreements that require the Borrower either to rent the property or give a management firm control over the occupancy of the property are permitted).
- The Borrower may not be affiliated in any way with the builder, developer or the property seller.
- The housing expense-to-income (top/front-end) ratio must be computed using the Borrower's Primary Residence expenses and the monthly housing expense on the second home must be considered in calculating the debt-to-income (bottom/back-end) ratio.
- The Borrower must document a minimum of two months PITI for the second home in reserves plus an additional two months reserves for each additional financed second home and investment property. For Super Conforming loans, the Borrower must document a minimum of six months PITI for the second home in reserves plus an additional two months reserves for each additional financed second home and investment property.

The Borrower may not have individual or joint ownership interest in more than four (4) financed, residential properties (including the subject).

3.9. Investment Property Mortgage (5/17/2011 9:10:35 AM)

Requirements for investment property mortgages when the Borrower only has one financed:

- The loan may not contain temporary subsidy buy-downs.
- The Borrower may not be affiliated in any way with the builder, developer or property seller.
- The housing expense-to-income ratio must be computed using the Borrower's Primary Residence expenses.
- The Borrower must demonstrate at least a two-year history of managing 1-4 unit Investment Properties before the Net Cash Flow of the subject can be used in qualifying the Borrower.
- The full PITI of the investment property must be used in calculating the Borrower's debt-to-income ratio if the two year history of managing investment properties is not verified.
- The Borrower must document a minimum of six months PITI for the investment property in reserves plus an additional two months reserves for each additional financed second home and investment property.
- The Borrower must have rent loss insurance coverage on the subject investment property to provide insurer's liability worth six month's gross monthly rent only when rental income is used.

If the Borrower owns more than one financed investment property, the loan must meet all of the above requirements as well as the following:

- The loan program is limited to a fixed-rate, level-payment mortgage or 7/1 ARM.
- The Borrower cannot have individual and/or joint ownership of more than four (4), 1- to 4-unit properties that are financed including the subject property.

3.10. Construction-to-Perm Mortgages (6/9/2008 1:36:28 PM)

A construction-to-perm loan pays off the interim (short-term) loan that financed the construction of the subject property. The Borrower must be the primary obligor on construction financing obtained through a legitimate financial institution or be the owner of the lot on which the residence is constructed. The LTV/CLTV's are based on whether the loan is considered a purchase, rate and term or cash-out refinance.

To be considered a purchase transaction the following apply:

- The loan must close within 180 days of documented completion.
- Cash to borrower to recoup any out-of-pocket expenses is not permitted.
- LTV/CLTV is based on the lesser of the current appraised value or the purchase price (the current appraised value of the lot plus documented actual cost to construct the improvements).

To document the cost of improvements requires:

- If the borrower employs a general contractor: signed construction contract, complete breakdown of construction costs and specifications, and copies of cancelled checks and corresponding paid receipts for supplies, labor or funds paid to subcontractors by the borrowers.
- If the borrower paid labor and materials, copies of cancelled checks and corresponding descriptive paid receipts are required.
- Sweat and trade equity is not an acceptable construction cost.

To be considered a refinance transaction the following apply:

- Borrower held title to property to the start of construction.
- LTV/CLTV is based on current appraised value.
- For rate/term transactions: All loan proceeds must pay existing land loan and existing construction balances. Cash out to borrowers is not permitted.
- For cash-out transactions: The borrower may receive cash to recoup out-of-pocket expenses but loan is subject to cash-out LTV/CLTV guidelines.

For all loans the property must be complete at the time of funding. A 442 and photographs of the completed property are required.

With non-arm's length transactions (i.e. Borrower/builder, employee/employer, relative or business associate of the builder), one of the following options must be met:

3.10.1. Acquisition Cost Documented (9/15/2005 3:50:10 PM)

- Acquisition cost must be fully documented, regardless of the LTV/CLTV.
- The Borrower must provide copies of receipts, bills, lien waivers, lot purchase agreement, etc., in addition to an itemized cost breakdown, to document acquisition costs.
- The LTV/CLTV is based on the lesser of the documented acquisition cost or appraised value.
- The subject property must be an owner occupied primary residence.
- The Borrower cannot receive cash back at closing that is not a direct verifiable reimbursement of expenses.

3.10.2. Acquisition Cost Not Documented (9/15/2005 3:50:03 PM)

- The Loan meets cash-out refinance LTV/CLTV.
- The LTV/CLTV is based on the appraised value.
- The subject property must be an owner occupied primary residence.
- The Borrower cannot receive cash back at closing.

3.11. Land Contract; Contract for Deed (1/24/2012 8:08:49 PM)

A mortgage in which the proceeds are used to pay the outstanding balance under a recorded land contract or contract for deed may be considered either a purchase transaction or a rate and term refinance, as described below.

A copy of the executed land contract or contract for deed is required.

Purchase transaction requirements:

- The land contract or contract for deed must have been executed less than 12 months prior to the loan application interview date.

- All of the loan proceeds must be used to pay the outstanding balance under the land contract or contract for deed, and no loan proceeds may be disbursed to the Borrower.
- The LTV must be calculated using the lesser of the following:
  - The current appraised value, or
  - The total acquisition cost (the purchase price indicated in the original land contract or contract for deed, plus any cost the Borrower has expended for rehabilitation, renovation, refurbishment or energy conservation improvements). The Mortgage file must contain sufficient documentation on which to calculate the total acquisition cost.

Refinance transaction requirements:

- The land contract or contract for deed must have been executed at least 12 months prior to the loan application interview date.
- The LTV must be calculated using the current appraised value.
- Third-party documentation evidencing no late payments in accordance with the land contract or contract for deed for the most recent 12-month period must be provided.
- The transaction must meet the requirements for a rate and term ("no cash out") refinance.

3.12. Secondary/Subordinate Financing (5/3/2012 4:50:33 PM)

The LTV/CLTV for the loan program and property type must be met. Refer to the LTV/CLTV chart. In the instance that the LTV/CLTV chart permits a maximum LTV that is equivalent to the maximum CLTV, the maximum LTV must be reduced by 5% when secondary financing is present.

A copy of the Note/HELOC Agreement for the secondary financing must be included in the loan file. For first mortgage transactions with new secondary financing created concurrently, a copy of the Security Instrument, final Truth-in-Lending Disclosure Statement, Good Faith Estimate, and final HUD-1 Settlement Statement for the new secondary financing are also required. The final Truth-in-Lending Disclosure Statement and Good Faith Estimate are waived if the secondary financing is from a Home Equity Line of Credit. The terms of secondary financing must meet the following requirements:

- For closed-end seconds, the maturity date or amortization basis of the junior lien must not be less than five years after the Note Date of the first lien, unless the junior lien is fully amortizing.
- For closed-end seconds with a variable interest rate, the monthly payment must remain constant for 12 -month periods (i.e. adjustments occur annually).
- Prepayment penalties are not permitted. For the purpose of subordinate financing eligibility, this does not apply to Home Equity Lines of Credit with terms that allow the lender to recoup third party closing costs paid by the lender on the Borrower's behalf, documented with a copy of the HUD-1, if the Borrower terminates or closes the account within the first three years.
- No negative amortization.
- The terms of the secondary financing must provide for regular monthly payments of principal and interest, or interest only. Secondary financing without regular monthly payments are not acceptable.
- No silent seconds (municipal, city, etc).
- Secondary financing may not be from an interested party to the transaction, including mortgage broker, realtor, seller or builder.
- New secondary financing created concurrently may not be from a private individual.

Notes:

- For refinance transactions with existing secondary financing that will not be satisfied, the existing junior lien must be subordinated to the first mortgage established by the refinance.
- Multiple second mortgages may be subordinated. They should be summed together for CLTV purposes and each be documented as stated above.
- The calculation of the CLTV should include the total usable Home Equity Line of Credit.
- The payment reflected on the credit report for a Home Equity Line of Credit may be used for qualification purposes unless a draw against the Home Equity Line of Credit is part of the loan transaction or is otherwise disclosed in the loan file but not reflected in the balance on the credit report. When no payment is reflected on the credit report for a Home Equity Line of Credit carrying a balance or when there is a draw against a Home Equity Line of Credit, the payment can be estimated using 1% of the balance, documented with a current account statement, or calculated with sufficient documentation reflecting the current repayment terms in effect.

3.13. Property Eligibility (9/15/2005 3:49:28 PM)

3.13.1. Acceptable Properties (8/16/2012 11:18:53 PM)

- Single family residences (1-4 units) and detached PUDs located on a lot no more than 20.00 acres.

- Type "E" attached and detached PUDs.
- Type “F” attached and detached PUDs with the major common areas complete and HOA dues established.
- 1 unit condominiums within a high rise project of 8 stories or more located in Chicago-IL, Honolulu-HI, San Francisco-CA, Seattle-WA.

3.13.2. Unacceptable Properties (10/4/2012 12:19:48 AM)

- Single family residences located on a lot more than 20.00 acres.
- Multi-family residences (5 or more units).
- Manufactured housing (including modular housing).
- Leasehold estates, cooperatives, working farms, mobile homes.
- Condominiums except units in high rise projects (8+ stories) located in Chicago-IL, Honolulu-HI, San Francisco-CA, Seattle-WA.
- Condominium-hotels or condominium projects with hotel-type characteristics, such as but not limited to: a registration desk, short-term occupancy, bellman, concierge, food service, maid service, or centralized utilities such as telephone or tv.
- Condominium projects with rental programs, such as rental pooling or revenue sharing agreements, either mandatory or voluntary.
- Condominium projects containing multi-dwelling units, which an owner may hold a single deed evidencing ownership of more than one dwelling unit.
- Condominium projects containing manufactured homes or houseboats.
- Condominiums with any type of pending litigation with respect to safety, structural soundness, or habitability of the property or that adversely affects the financial solvency of the HOA.
- Timeshares.
- Unusual/unique properties.
- Properties with legal non-conforming zoning compliance that cannot be rebuilt as is or with illegal zoning compliance.
- Properties zoned agricultural but located in a rural area. (This does not include properties zoned "Residential-Agricultural" that meet all other property requirements.)
- Properties zoned EFU (Exclusive Farm Use), which requires an income-producing subject.
- Properties in fair/poor/C5/C6 condition as noted by the appraiser.
- Properties with empty pools (must be filled with water or dirt and photos required).
- Properties with pools must not have the pools located less than three feet from the structure nor a distance that is unacceptable to county code.
- Properties with below ground oil tanks that are not in use.
- Properties with spring-fed water as the only source.
- Properties located in areas of environmental contamination.
- Properties that have windows with bars without the safety releases in rooms without a secondary exit.
- Properties with doors leading out on the second story with an incomplete deck, without meeting county code requirements.
- Properties currently listed for sale or which have been listed for sale within the last 6 months prior to the loan application and the transaction is for a refinance.
- Properties that have more than one parcel and the additional parcel could be subdivided and built upon.
- Deed restricted properties subject to inclusionary zoning or where an enabling authority or jurisdiction retains a right of first refusal or resale controls.
- Properties located on the Island of Hawaii (i.e. the Big Island) and in Lava Zones 1 or 2, as determined by the U.S. Geological Survey Hawaiian Volcano Observatory.
- Properties with unexpired redemption periods, after a foreclosure or tax sale has occurred, during which time the prior owner may reclaim the property upon payment of all amounts owed.
- Properties with Private Transfer Fee Covenants created on or after 2/8/2011.

3.13.3. Survey Policy (6/9/2008 1:37:00 PM)

Not applicable to the following plat map states: Arizona, California, Minnesota, Nevada, Oregon, Utah and Washington. Provident will no longer require surveys if all of the following requirements have been met:

- PF must condition that any survey exception be deleted from the final Title Policy as “title” conditions on the Loan Approval Log. If the Title Company is not willing to delete the survey exception, then a survey must be required.
- PF must condition for Survey coverage or a Survey/Location Endorsement as the “title” condition on the Loan Approval Log.
- PF must verify with the Title Company that any applicable survey exception has been deleted and PF’s final policy will reflect either the required survey coverage or an endorsement.
- The instructions to escrow/title must explicitly state these requirements.

3.13.4. Condominium Projects (10/10/2012 7:26:30 PM)

A Condominium Unit is a 1-unit dwelling located in a Condominium Project. A Condominium Project is real estate that includes the separate ownership in fee of a specified residential unit with an undivided interest in the real estate designated for common ownership solely by unit owners. Attached Condominium Projects with 5 or more total units in the project are divided into two categories: Established Projects and New Projects.

Established Projects	New Projects
● At least 90% of the total units have been sold and recorded, and ● The unit owners control the homeowners association, and ● The project or conversion is complete and not subject to additional phasing or annexation.	● Less than 90% of the total units have been sold and recorded, or ● The developer has not turned control of the HOA over to the unit owners, or ● Not fully complete or subject to additional phasing or annexation.

Provident Funding will lend on High Rise Condominium Projects (8 stories or more) located in Chicago-IL, Honolulu-HI, San Francisco-CA, and Seattle-WA meeting the Established Attached Condominium Eligibility Warranty.

Provident Funding requires that the Homeowners Association maintain "master" or "blanket" insurance that covers all general and limited common elements. The maximum deductible is 5% of face value of policy. The HOA must also carry General liability coverage of $1,000,000 for bodily injury and property damage for entire project for any single occurrence and Fidelity Bond for any project with more than 20 units covering a minimum of 3 months of HOA dues for all units (unless the State requires the HOA to maintain fidelity bond less than the minimum amount, in which case the lesser amount mandated by the State is allowed). For attached condominiums, the master or blanket insurance policy must cover fixtures, equipment, and other personal property inside individual units. Otherwise, evidence of “walls-in” coverage (HO-6 hazard insurance policy) equal to at least 20% of the subject property’s appraised value is required.

Attached Condominiums
Provident Funding requires the Condominium Questionnaire and the HOA's Master Hazard Insurance Policy be provided for Attached Condominiums. Using these documents, the Validator must determine the project's classification and eligibility using one of Provident Funding's Condominium Warranties.

Established Attached Condominium Eligibility Warranty
Attached Condominiums with 5 units or more must meet the following requirements based on the appraisal and Condominium Questionnaire completed by the HOA or management company:

- All of the project’s units, common elements and amenities have been completed and are not subject to additional phasing.
- At least 90% of the total units in the project have been conveyed to the unit purchasers other than the developer.
- Control of the homeowners association has been turned over to the unit owners.
- The LTV/CLTV does not exceed 80% for Primary Residences and 75% for Second Homes.
- No single entity owns more than 10% of the total units. If the project has fewer than 10 units, a single entity may not own more than 1 unit.
- The project does not have common areas or recreational facilities leased to or by the HOA.
- There is no pending litigation involving the HOA or developer.
- HOA must waive its “right of first refusal” to the sale, lease or transfer of a unit in case of foreclosure or deed in lieu.
- Commercial use within the project cannot exceed 20% of the total square footage for the project and compatible with residential use.
- No more than 15% of total units are delinquent on their HOA dues by more than 30 days.
- The project is not an ineligible project (see section 3.13.2 Unacceptable Properties)

3.13.5. PUD Projects (6/28/2012 10:04:26 AM)

A Planned Unit Development (PUD) is a development that has all of the following characteristics:

- The individual unit owners own or have a leasehold interest in a parcel of land improved with a dwelling. This ownership is not in common with other unit owners.
- A homeowners association that owns or has a leasehold interest in and is obligated to maintain property and improvements within the development (i.e. greenbelts, recreation facilities and parking areas) and administers the development for the common use and benefit of the unit owners.
- The unit owners have an automatic, non-severable interest in the homeowners association and pay mandatory assessments.

There are two Planned Unit Development Classes, Class E and Class F. Class F encompasses all Developments in which the Builder is still in control of the Project. The day that the control is turned over to the unit owners is when the Project automatically becomes a Class E Project.

PF will lend on both attached and detached units that are located in either a Class E or F Project. For a Class F project, the common areas must be complete and the HOA dues established.

For Attached PUD projects that consist of common area that may be used by all owners, i.e. swimming pool, tennis court, playground, etc., the project must carry liability insurance of $1,000,000. A copy of the HOA's Hazard Insurance Declaration page must be included in the loan file. This liability insurance is not required for Detached PUD projects.

A Project Questionnaire must be completed by the HOA or management company and provided when the subject property is an Attached PUD property. Attached PUD projects must meet the following eligibility requirements:

- All units, common areas and facilities, including those that are part of the master association, are 100% complete, and the project is not subject to additional phasing or annexation.
- There is no pending litigation involving the HOA or developer.
- If a lender acquires a unit through foreclosure or deed-in-lieu, the lender is not responsible for more than 6 months HOA dues and/or membership or transfer fees.
- Units are owned fee simple.
- The project is not subject to inclusionary zoning.
- The project:
  - Does not contain hotel or resort type characteristics; and
  - Is not subject to timeshare or segmented ownership arrangements; and
  - Does not have rental programs, such as rental pooling or revenue sharing, either mandatory or voluntary; and
  - Does not contain manufactured homes.

For a Detached PUD property, a Project Questionnaire is not required, however the HOA contact information (address and phone number) must be provided.

3.13.6. Manufactured Housing (2/23/2009 5:35:09 PM)

Manufactured housing is not an eligible property type.

3.13.7. Termite Reports (9/15/2005 3:49:07 PM)

Termite reports and clearances are required when the appraiser notes termite damage and suggests or requires an inspection as "subject to" or purchase agreement refers to possible termite damage.

Note: PF will not condition for the termite report merely because it is reflected in the purchase contract by checking the inspection box. PF will condition for the termite report if the contract reflects it being a part of the agreement between the buyer and seller that the seller pays for all "Section I" items, or that the property is being transferred free of any active infestation.

3.13.8. Septic and Well Certification (9/15/2005 3:48:51 PM)

Septic and Well Certifications are required in the following cases:

- The appraiser makes a comment that there appears to be a problem such as "ground is soggy" or "there is a noxious odor" or requires an inspection as "subject to."
- The sales contract requires an inspection due to possible problems with either system similar to the termite requirements.

3.13.9. Escrow Holdbacks (1/24/2011 9:52:22 AM)

From time to time, a situation occurs when a builder and/or borrower may request that PF allow for a "hold back" of funds. The funds would then be available to use for improvements to the property that could not be completed prior to the close of escrow.

The most common and acceptable "hold back" situation is in areas where the weather does not allow for the completion of the driveway, and/or final grading and seeding. On occasion, a pool may be in the process of being put in, then a storm hits. Or a seller may be willing to repair a roof, and the borrower would rather make up the difference to have a new roof installed. However, the seller does not want the work done until they have moved out. These are examples of the most common reasons for a hold back to be approved.

The branch must obtain approval from the Corporate Senior Underwriter by way of an Operations Case, prior to setting up the hold back account. PF has added the "Hold Back Agreement" form to the document set, so in circumstances where this is applicable, the Closer must print the document and send it to the Closing Agent to be signed by the Borrower(s).

Provident will allow holdbacks as long as the following guidelines have been met:

- The holdback is for a purchase transaction.
- There must be no adverse affect to marketability due to the incomplete items.
- Incomplete items must be minor in nature and not affect the Borrower's safety or ability to live in the home.
- The builder/seller/borrower, as the case may be, is required to submit the bid(s) that they have obtained for the designated work. PF requires that 150% of the highest bid be collected and held in the hold back account, until the 442 from the Appraiser is received, verifying that the work has been completed. At that time, PF will authorize the Escrow account holder the funds will then be released by the escrow account holder.
- 30 days is the maximum amount of time allowed for an escrow holdback.
- The Borrower will be charged an escrow holdback fee of $500. If the branch is aware of the holdback up front, the cost can be represented on the TIL. If the branch is made aware of the holdback after the docs are drawn, then the fee must be paid outside of Escrow, or the docs must be redrawn.
- A final inspection (442) must be provided within 30 days of loan closing and must reflect the completion of all items. Extensions will not be provided.

3.13.10. Declared Disaster Areas (8/30/2011 3:28:09 PM)

When a hurricane, tornado, flood or earthquake strikes, there may be damage done to properties that PF currently has in the branch pipelines. PF will monitor the disaster areas and determine the extent of the damage. If residential properties are affected, PF may require a 442 Completion Report with photos from the original appraiser to confirm that the specific property incurred no damage if the appraisal was dated prior to the disaster date.

The Branch should always be proactive and alert the Senior Corporate Underwriter if they are aware of a local disaster and have not yet seen an Operations Memo released.

3.13.11. Health and Safety Issues (9/15/2005 3:49:14 PM)

PF will not lend on any property where it is noted that there are health and safety issues. A hold harmless letter is not an acceptable alternative to having the issues rectified prior to close. Three of the most common issues are as follows:

- Empty swimming pools: PF will condition for verification that the swimming pool has been filled with dirt or water prior to closing. A fence around the pool is not sufficient.
- Security bars without quick releases: Any room that has security bars on the windows must have a door that exists to the outside of the property, or the bars must have quick release mechanisms.
- Balcony doors on the second floor that open to 'thin air': Appraiser must address that they have been secured in a manner that meets the county code in which the property is located.

PF will condition for verification that the bars have the quick release mechanism or that the bars are removed prior to closing if the room does not have the door to the outside.

3.13.12. Property Insurance Requirements (10/3/2012 11:21:39 PM)

Evidence of Insurance for the subject property is required and must reflect the following:

Borrower Names & Property Address:

The Borrower names and property address on the policy should match those on the loan, however it is not required that they match exactly.

Loss Payee or Mortgagee Clause:

For insurance policies paid by the Borrower, the Lender Loss Payable Endorsement 438BFU is required and must specify the rights of the mortgagee.

For insurance policies paid by the HOA, the loss payee clause must be reflected but solely as certificate holder for the master hazard policy.

Coverage amount:

The Dwelling Coverage amount determined by the property insurer will be considered the Replacement Cost of the improvements on the property.

Deductible:

The maximum deductible amount for all policy types other than flood is 5% of the face value of the policy.

Policy Period (Must be Annual):

Insurance Policies Paid by the Borrower:

- For Refinance transactions, the insurance policy (or policies) must not renew prior to the first payment date of the new loan. If the policy is not effective on the first payment date, the renewal policy must be provided and the renewal premium must be paid regardless of whether the loan is impounded or not. For example, if a loan has a 4/1 first payment date and the insurance expires/renews on 3/31 (or before), the full annual renewal policy is required and the premium due 3/31 must be paid. Furthermore, the policy period must be active at the time of funding, which means that the date the loan funds must fall within the annual policy period. For example, a loan cannot be funded on 3/15 if the policy period on the evidence of insurance does not begin until 3/20 unless the existing policy is also provided.
- For Purchase transactions, the insurance policy (or polices) must be effective on or no more than 10 days prior to the funding date, covering one full year from the effective date and paid in full through closing or prior to funding outside of closing. Binders are accepted for purchase transactions except where prohibited by law. The term of the binder cannot exceed 60 days. The binder must include all other information required for hazard insurance policies. Quotes and applications are not acceptable.

Insurance Policies Paid by the HOA:

- Proof of automatic renewal is required. If the policy does not show continued coverage, proof of continued coverage in advance of the annual renewal date is required.

Insurance Agent Contact Information:

The insurance agent's name, address and phone number must be reflected on the evidence of insurance.

Premium Amount and Payment Status:

The annual premium amount must be disclosed as well as any remaining balance. If the policy is paid in full, the remaining balance should state "$0" or "paid in full".

3.13.12.1. Hazard (Fire) Insurance (5/4/2012 10:01:23 AM)

All loans must include evidence of insurance for fire hazard with "special" form coverage endorsement, i.e.: fire only--DP3 or DF3; homeowner's policy--HO3 (as opposed to HO2), and provides:

- Guaranteed Replacement Cost, or
- Replacement or Extended Replacement coverage.

3.13.12.2. Flood Insurance (5/4/2012 10:01:01 AM)

In accordance with the National Flood Insurance Program, evidence of Flood Insurance is required for all properties located in a Special Flood Hazard Area.

For insurance policies paid by the Borrower, the minimum dwelling coverage must be equal to the lesser of the following:

- The maximum amount of NFIP flood insurance coverage available (Currently $250,000 for Single Family Residence)
- The amount of the loan being obtained through Provident Funding, or
- The full replacement value of improvements (structures) on the property (i.e. the dwelling coverage on the fire hazard insurance policy).

For insurance policies paid by the HOA, the dwelling coverage must be equal to the building replacement cost on the master hazard insurance policy.

3.13.12.3. Rent Loss Insurance (10/2/2012 10:45:03 AM)

When rental income from the subject property that is either non-owner-occupied or an owner-occupied 2-4 unit property is used to qualify, 6 month's Rent Loss or Loss of Use Coverage is required.

3.13.12.4. HO-6 Hazard Insurance (10/3/2012 11:23:46 PM)

The master hazard or blanket insurance policy must cover fixtures, equipment, and other personal property inside individual units. Otherwise, evidence of "walls-in" coverage (HO-6 hazard insurance policy) equal to at least 20% of the subject property's appraised value is required. If an HO-6 hazard insurance policy is required, the payment must be qualified in the monthly housing expenses (PITI). However, "walls-in" or HO-6 hazard insurance premiums will not be included in any impound/escrow accounts. The annual policy premium must be paid in full by the Borrower

3.13.12.5. Windstorm Insurance (5/4/2012 10:02:33 AM)

Windstorm coverage is included under the extended coverage endorsement of most hazard policies, but in some states it may be excluded. If the hazard policy excludes the windstorm/hail endorsement a separate windstorm policy must be provided. The coverage amounts should equal that of the fire policy.

3.14. Initial Disclosures (12/14/2011 9:15:30 AM)

The loan originator must include in the loan file copies of the following:

- Good Faith Estimate (GFE) prepared within three (3) rescission days of the application interview date.
- Borrower Certification and Credit Authorization signed by all borrowers.
- Fair Lending Notice indicating both of the following:
  - Broker compensation may or may not be negotiable.
  - In setting the amount of compensation the mortgage broker has not discriminated on the basis of race, color, religion, national origin, sex, marital status, handicap, familial status, or any other legally prohibited basis.
- Broker Fee Agreement signed and dated by the application interviewer and all borrowers.
- Any other notices that the loan originator is required to provide in the state in which the property is located. The loan originator is expected to be familiar with and in compliance with all disclosure regulations imposed by regulators in any state for which a loan is submitted.

Note: Borrower’s Right to Receive Copy of Appraisal is not a required broker initial disclosure.

3.15. Affiliated Business Arrangements (8/1/2012 6:08:21 PM)

The following are ineligible with Provident Funding:

- Affiliated Business Arrangements between parties to the transaction, such as loan originator, realtor, closing agent, escrow company, etc.
- Purchase transactions in which the loan originator acting in more than one capacity, such as loan originator and either the real estate listing or selling agent.
- Loan originator owned escrow companies, including virtual escrow companies.