



**Pacific Union Financial LLC
Conventional Underwriting Guidelines**

(2/15/2012)

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General

Pacific Union Financial works hard to see every loan submitted to us is given the opportunity to fund and we take great pride in our ability to offer Fannie Mae's guidelines as our own with very minimal overlays. Pacific Union Financial will however, only funds loans that receive an Approved/Eligible from Desktop Underwriter.

Conforming Loans - Excessive Points and Fees

Per the established policy by Fannie Mae, the total points and fees charged to the borrower on conforming loans must not exceed 5% of the mortgage amount.

Prepayment Penalty Options

Pacific Union Financial does not offer prepayment penalty options.

Purchase Transactions

Purchase money transactions ("purchases") are proceeds used to finance the purchase of the subject property, as defined in a sale and purchase agreement executed by the borrower and property seller.

Refinance Transactions

In a refinance transaction, the proceeds are used to satisfy the repayment of an existing debt from a new mortgage that has, as borrowers, the current legal owners of the property securing the loan. There must be at least one borrower on the new loan who was a borrower on the existing loan being refinanced.

Payoff Demand Statements

Regardless of Automated Underwriting System (AUS) approval, a payoff demand statement is required in each loan file on all refinance transactions. The payoff demand statement must reflect the following about the loan being paid off:

- Is not more than 30 days delinquent
- Does not contain charges associated with default/forbearance
- Does not indicate a curtailment of principle/interest (for example, a short pay)
- Meets the mortgage derogatory requirements

Ineligible Transactions

Loans with the following characteristics are ineligible:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage, or
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness, or
- Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage, or
- Conversion of any portion of the original mortgage debt from secured to unsecured, or
- Straw Buyers, Double Escrows, Equity Skimming & Foreclosure Bailouts.

Restructured Loans: A restructured loan is a mortgage in which the terms of the original transaction have been changed, resulting in either the absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan.

Short Payoffs: A short payoff is a mortgage loan in which the servicer/investor of the mortgage agrees to a payoff of a lesser amount than is actually owed, even on a current mortgage.

High-Cost Loans

The Home Ownership and Equity Protection Act of 1994 (HOEPA) was designed to notify borrowers when their loan was classified as a "high-rate" or "high-fee" mortgage. HOEPA was implemented by Section 32 of Regulation Z. These types of loans are often referred to as Section 32 loans.

Many states and cities have also enacted legislation to protect borrowers from abusive and predatory lending practices. These laws define and restrict the terms allowed on "high-cost" loans.

- Loans subject to Section 32 or defined as high-cost under state or city legislation are **not** eligible for financing.

Higher-Priced Mortgage Loans

In July 2008, the Federal Reserve Board issued a final rule amending Regulation Z, implementing the Truth in Lending Act (TILA). The rule established a new category of loans termed "higher-priced mortgage loan" (HPML) which occurs when the annual percentage rate (APR) of a loan exceeds the Average Prime Offer Rate (APOR) for a comparable transaction, as of the date the interest rate is set, by 1.5% or more for first lien loans and 3.5% or more for subordinate-lien loans.

As a result of these changes Pacific Union Financial ensures no loans are HPML.

Age of Documentation

- All income and assets must be dated within 30 days of the application date and within 60 days of the note date.
- Lender credit report must be dated within 60 days of note date.
- Title must be dated within 90 days of funding.
- Appraisal must be dated within 120 at funding. If over 120 days but under 180 days, an appraisal recertification is acceptable, if the appraiser inspects the exterior of the property again and comments the value has not declined.

Borrowers

Pacific Union Financial makes mortgages to natural persons only. If the borrowers are another type of legal entity or hold title in another type of legal entity (such as a corporation, S corporation, non-revocable inter-vivos trust, life estate, land trust, general partnership, or real estate syndication), the mortgage is ineligible. Additionally, loans where a custodian, agent, conservator, or guardian is signing on behalf of the borrower, non-borrower spouse, or a vested owner are not allowed.

Limited (or Specific) Power of Attorney that references the property and authorizes the attorney-in-fact to enter into a real estate transaction to the mortgage property are allowed but must be approved by Pacific Union Financial prior to docs being drawn.

Power of Attorney

A Power of Attorney is acceptable for any transaction, on loan documents only. The borrower(s) must sign all initial disclosures and loan applications representing themselves.

General Requirements

For Power of Attorney acceptance, a Limited or Specific Power of Attorney is required that contains the following:

- Clearly references the subject property (if a legal description is referenced, it must be stated or attached accordingly)
- Authorizes the attorney-in-fact to enter into a real estate transaction and to mortgage the property
- Indicates clearly that the mortgagor is appointing an attorney-in-fact
- Precisely identifies who is being appointed
- Identically matches legal name(s) on the Power of Attorney to the typed name(s) and signature(s) for the Borrower and Power of Attorney. If the legal signature of the Borrower or Power of Attorney differs from the typed name, a notarized copy of the Signature/Name Affidavit is required
- Is signed and dated by the Borrower (aka principal)
- Is notarized (notary must be complete, contain a valid date and may not contain blank fields)
- Is signed no more than 90 days prior to, or concurrent with, date of the security instrument
- Is recorded prior to, or concurrent with, date of the security instrument and within the same jurisdiction
- Must be approved by the Title Company issuing the Title Policy, and stamp certified
- Military borrowers will need an alive and well cert.
- A General Power of Attorney is **not** acceptable.

Signatures

In all states, documents executed by the attorney-in-fact must include the principal's name, the agent's name, and the agent's capacity (attorney-in-fact) in the signature. The agent's capacity (attorney-in-fact) must be written out in its entirety as abbreviations (AIF, POA, etc.) are not acceptable. Additionally, the same information should be typed on the document(s). **The sole acceptable example is "John Smith by Jane Doe, Attorney-in-Fact" and must be pre-approved by the lender prior to loan documents.**

Note: Legal name(s) stated on the Power of Attorney, must identically match the typed name(s) and signature(s) for the Borrower and Power of Attorney on all collateral documentation (if the legal signature of the Borrower or Power of Attorney differs from the typed name, a notarized copy of the Signature/Name Affidavit is required).

Note: All corrections, additions, and deletions must be initialed by the actual borrower(s). Use of a Correction Agreement Limited Power of Attorney or any other type of document similar in nature, but not limited to, is not acceptable.

Borrower's Age

All borrowers must have reached the age at which the mortgage note can be legally enforced in the jurisdiction where the property is located. There is no maximum age limit for borrowers. All applicants are evaluated on their ability to meet underwriting guidelines.

Non-Purchasing Spouse

To perfect a lien under governing state law when a married applicant purchases a property without involving a spouse and when required by law, Pacific Union Financial requires the spouse to sign the security instrument, and any other applicable documentation, to confirm relinquishing all rights to the property.

Note: If a spouse is on the purchase contract, they must be added to the loan application or removed from the purchase contract.

Co-Borrowers

The maximum number of borrowers on a single transaction is 4.

First-time Homebuyer

A first-time homebuyer is defined as a borrower who:

- Will purchase and reside in the subject property,
AND
- Has had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of purchase of the subject property,
OR
- Is a displaced homemaker or single parent who has had no ownership interest in a principal residence (other than joint ownership with a spouse) during the preceding three year period.

Social Security Number

Permanent and non-permanent resident aliens must have valid social security numbers (SSNs). If Pacific Union Financials credit report shows a SSN variation, a SSA-89 form must be completed and executed with SSA office.

Note: Pacific Union Financial does not allow for TINs.

Title Requirement

Title to the property must be in the name of individual borrowers only at closing. It is acceptable to have vesting in a Trust at time on loan submission, but must be removed at closing. See title section for more details.

Impounds

In California, borrowers are not required to take impound or escrow accounts if the LTV is less than or equal to 90%. In all other states, impound or escrow accounts are required if the LTV is over 80%.

Note: In order to exclude a pricing hit for non-impounded loans, the borrower must choose to fully impound the loan including, property taxes, hazard insurance, flood insurance, mortgage insurance and H0-6 coverage (if applicable).

Note: If impounding for a condominium which requires the borrower to have their own H0-6 coverage, the H0-6 coverage premium must be impounded and the borrower may not elect for the premium to be withheld from the impound account.

Initial 1003

Each file must contain an initial 1003 signed and dated by borrower(s) and loan officer. All pages must be included, initialed or signed and include a complete 2 year residence and employment history for each borrower.

Residency and Immigration Status

United States Citizen

A United States citizen is a native or naturalized person entitled to rights and privileges of the United States. Unless otherwise noted, loan program requirements are based on the assumption that the borrower is a United States citizen.

Permanent Resident Aliens / Green Cards

A copy of the Green Card is required for all permanent resident aliens whose income and/or assets are being used to qualify for a loan. A copy of the front and back of the card is required and must be included in the loan file.

While the Green Card itself states "Do Not Duplicate" for the purposes of replacing the original card, U.S. Citizenship and Immigration Services (USCIS) allows photocopying of the Green Card. Making an enlarged copy or copying on colored paper may alleviate any concerns the borrower may have with photocopying.

Non-U.S. Citizen Borrowers / Non-Permanent Resident Aliens

In order to ensure that the borrower(s) is legally able to reside and work in the U.S., a valid Social Security Number (SSN) is required for all borrowers whose income and/or assets are being used to qualify for a loan.

Only the following types of Non-U.S. Citizen Borrowers are eligible for financing on all offered Pacific Union Financial programs provided the following documentation can be met:

- Copy of the borrower's I-94 card or un-expired passport, and
- A copy of the borrower's VISA with proper photo identification, and
- Evidence the borrower has at least 6 months remaining on Visa.

Acceptable Visas

- A Series (A-1, A-2, A-3): these visas are given to officials of foreign governments, immediate family members and support staff. Only those without diplomatic immunity, as verified on the visa, are allowed.

- E-1, Treaty Trader: this visa is essentially the same as an H-1 or L-1; the title refers to the foreign country's status with the United States.
- G series (G-1, G-2, G-3, G-4, G-5): these visas are given to employees of international organizations that are located in the United States. Some examples include the United Nations, Red Cross, World Bank, UNICEF and the International Monetary Fund. Verification that the applicant does not have diplomatic immunity must be obtained from the applicant's employer and/or by the viewing the applicant's passport.
- H-1, Temporary Worker: this is the most common visa given to foreign citizens who are temporarily working in the United States.
- L-1, Intra-Company Transferee: an L-1 visa is given to professional employees whose company's main office is in a foreign country.
- TN, NAFTA visa: used by Canadian or Mexican citizens for professional or business purposes.
- TC, NAFTA visa: used by Canadian citizens for professional or business purposes.

Note: Borrowers who have a valid I-94 w/VISA classification that meet the above eligible VISA categories and can provide the application for permanent residency or application for extension are eligible for financing with Pacific Union Financial.

Foreign Nationals (Non-Resident Aliens)

Foreign nationals are non-United States citizens who are neither permanent nor non-permanent resident aliens and have neither full nor partial diplomatic immunity. Foreign nationals are not eligible for financing except as noted below.

Note: Foreign nationals from Canada and Mexico who are working in the U.S. under the terms of NAFTA are eligible. Refer to North American Free Trade Agreement (NAFTA) Workers on the next page for more information.

North American Free Trade Agreement (NAFTA) Workers

Canadian and Mexican citizens who are working in the United States under the terms of NAFTA must be treated as non-permanent resident aliens when determining their eligibility. They must meet the standard requirements established for non-permanent resident aliens. NAFTA workers must provide a NAFTA Worker's visa.

Multiple Mortgages to Same Borrower

The occupancy of the property being financed determines the limitations on how many other financed one-to-four family properties the borrower may own. For all loans, the borrower's primary residence, subject property and any properties owned separately by a co-borrower must be included in the total. Joint ownership in residential property is considered the same as total ownership for limitation purposes.

- Ownership in multi-family (5+units), commercial real estate or unimproved land is excluded from these limitations.

Allowable Number of Financed Properties

The following table lists the maximum number of financed properties a borrower may have including the subject property.

Occupancy	Conforming
<u>Owner-Occupied</u>	10
<u>Second Home</u>	4
<u>Investment Property</u>	4

The following are not included when evaluating the maximum number of financed properties:

- Ownership in multi-family (5+ unit) properties
- Ownership in commercial real estate
- Ownership in unimproved land

Note: The max number of financed properties allowed is the total amount of properties for all borrowers on the loan application and must also include any properties listed on the schedule E of the borrower(s) personal tax returns.

Note: A borrower may not payoff a mortgage through escrow in order to exclude the property from the max allowable financed properties.

Exception to Allowable Number of Financed Properties

Pacific Union Financial will allow borrower(s) to obtain financing on investment and/or 2nd homes when they exceed (4) financed properties, provided that at the close of the new loan(s) they do not exceed (10) financed properties and they meet all criteria in the table below.

5-10 FINANCED PROPERTIES					
LTV / FICO MATRIX					
Transaction Type	Occupancy	# of Units	LTV	CLTV	FICO
Purchase	2 nd Home or Investment	1 Unit	75%	75%	720
Rate & Term	2 nd Home or Investment	1 Unit	70%	70%	720
Purchase or Rate & Term	Investment	2-4 Units	70%	70%	720
5-10 FINANCED PROPERTIES OVERLAYS					
Eligibility Overlays	<ul style="list-style-type: none"> • High Balance loans are subject to High Balance LTV/CLTV & Credit Score Requirements • Rental Income must be supported by the most recent two years federal tax returns • No interest only or 3/1 ARMS 				
Credit Overlays	<ul style="list-style-type: none"> • No Bankruptcy within the last seven years • 0 x 30 mortgage lates in the past 12 months 				
Reserves Overlay	<ul style="list-style-type: none"> • DU Requirements + 6 months PITI for all other properties 				
Appraisal Overlay	<ul style="list-style-type: none"> • Form 1025 or 1007 & 216 required for all investment properties 				
Condo & Pud Overlays	<ul style="list-style-type: none"> • No New Projects or New Conversions • CPM approval or Fannie Mae approved condo within expired 1028 				

Transactions

All loans originated at Pacific Union Financial are subject to occupancy guidelines. Pacific Union Financial originates single family, two-to-four unit, and PUD properties.

Primary Residence / Principal Residence / Owner Occupied

A principal residence is a 1-to-4 family property that is the borrower's primary residence. All borrowers must occupy and hold title to the property, and also execute the Note and mortgage. The borrowers must occupy the subject property within 30 days of the close of escrow. If the borrower is purchasing a new primary residence, it must clearly be an upgrade from their existing residence.

Note: If the borrower is purchasing a new home, but has refinanced their current primary residence within the last 12 months, the new transaction must be done as an investment or second home property.

Note: If the borrower currently occupies a multi-unit property, and the subject property is also a multi-unit property, it may not be classified as owner occupied regardless of the value or number of units of the new the property.

Second Homes

A second home is a 1-unit SFR or detached PUD property that the borrower occupies in addition to the borrower's primary residence. Second homes must be located in a universally accepted vacation/resort area. If the property's location in a vacation/resort type area is in question, consideration by exception basis will be given to homes located on or in immediate facility to lakes, oceans, golf courses or ski facilities, but the borrower may not own any investment properties.

If rental income has been claimed on the subject property within the past two years, the home must be considered non-owner.

Note: The borrower may own multiple second homes.

Investment Properties

An investment property is a 1-to-4 family property that the borrower does not occupy. This definition is used whether or not the property produces income.

Note: When financing an investment property, the borrower must also meet guidelines for the maximum number of financed properties.

Property Tax Calculation

CA Properties

Refinances: Use amount on title, unless property purchased in last 12 months. Then use the higher of actual amount on title or 1.25% of previous purchased price.

Purchases: Use 1.25% of the purchase price.

All Other States

Refinances: Use amount on title, unless property purchased in last 12 months. Then use the higher of actual amount on title or 1.25% of previous purchased price.

Purchases: Use 1.25% of the purchase price, unless the tax information sheet completed by title shows a higher amount.

Maximum Loan Limits

The following current maximum loan limits for conforming first mortgages are:

Number of Units	48 Contiguous States		Alaska & Hawaii	
	Standard	High Balance ¹	Standard	High Balance ¹
<u>1 Unit</u>	\$417,000	\$625,500	\$625,500	\$938,250
<u>2 Units</u>	\$533,850	\$800,775	\$800,775	\$1,201,150
<u>3 Units</u>	\$645,300	\$967,950	\$967,950	\$1,451,925
<u>4 Units</u>	\$801,950	\$1,202,925	\$1,202,925	\$1,804,375

¹ To determine the maximum loan amount by county, refer to the following Web sites.

Fannie Mae: <https://www.efanniemae.com/sf/refmaterials/loanlimits/index.jsp>

LTV Ratios

The following general requirements apply when determining loan-to-value (LTV) and combined-loan-to-value (CLTV) ratios.

LTV: Loan-to-value is determined by dividing the loan amount by the lesser of the purchase price or appraised value.

CLTV Ratio: Combined loan-to-value ratio is determined by dividing the sum of the unpaid principal balance of the first mortgage and the unpaid principal balance of all subordinate mortgages by the lesser of the sales price or appraised value. For HELOCs, use the maximum line amount to calculate the CLTV ratio.

Note: Calculations must be taken out to two decimal places and always rounded upward to the next whole number. For example, 80.01% becomes 81%.

LTV / CLTV Calculations

Transaction	Calculation Based On:
<u>Purchase</u>	The LTV/CLTV is based on the lesser of the sales price or appraised value.
<u>Refinances</u>	Owner Occupied: The LTV/CLTV is based on the current appraised value Second Homes: The LTV/CLTV is based on the lesser of the current appraised value or original sales price if acquired within 6 months of the application date. Non-Owner: The LTV/CLTV is based on the lesser of the current appraised value or original sales price if acquired within 6 months of the application date.

Matrix

Conforming Full Doc – Primary Residence				
Transaction Type	Max Loan Amount	Units	LTV/CLTV	Minimum Fico
<u>Purchase & R/T</u>	\$417,000	1	80/95	620
<u>Cash-Out</u>	\$417,000	1	80/85	620
<u>Purchase & R/T</u>	\$533,850	2	80/80	620
<u>Cash-Out</u>	\$533,850	2	75/75	620
<u>Purchase & R/T</u>	\$645,300/\$801,950	3-4	75/75	620
<u>Cash-Out</u>	\$645,300/\$801,950	3-4	75/75	620

Conforming Full Doc – Second Home				
Transaction Type	Max Loan Amount	Units	LTV/CLTV	Minimum Fico
<u>Purchase & R/T</u>	\$417,000	1	80/80	620
<u>Cash-Out</u>	\$417,000	1	75/75	620

Conforming Full Doc – Non-Owner Occupied				
Transaction Type	Max Loan Amount	Units	LTV/CLTV	Minimum Fico
<u>Purchase</u>	\$417,000	1	80/85	620
<u>Rate & Term</u>	\$417,000	1	75/75	620
<u>Cash-Out</u>	\$417,000	1	75/75	700
<u>Purchase & R/T</u>	\$533,850/\$645,300 / \$801,950	2-4	75/75	680
<u>Cash-Out</u>	\$533,850 /\$645,300 / \$801,950	2-4	70/70	680

******* Conforming and Agency Jumbo Loan Amount Notes *******

- All ARM products are 5/2/5 with a 2.25% Margin based on the 1 YR LIBOR as published by the Wall Street Journal
- 5/1 ARMs are calculated using the greater of the fully amortized payment (index + margin) or the note rate + 2%.
- Minimum loan amount is \$100,000 for investment properties in California, \$50,000 for all other occupancies and states.

Agency Jumbo/High Balance Conforming Fixed Term – Primary Residence				
Transaction Type	Max Loan Amount	Units	LTV/CLTV	Minimum Fico
<u>Purchase & R/T Fixed</u>	See County Limits	1	75/75	660
			80/90	700
<u>Purchase & R/T ARM</u>	See County Limits	1	75/75	680
<u>Purchase & R/T</u>	See County Limits	2-4	75/75	740
<u>Cashout</u>	See County Limits	1	60/60	740

Agency Jumbo/High Balance Conforming Fixed Term – Second Home				
Transaction Type	Max Loan Amount	Units	LTV/CLTV	Minimum Fico
Purchase & R/T	See County Limits	1	65/65	740

Agency Jumbo/High Balance Conforming Fixed Term – Non-Owner Occupied				
Transaction Type	Max Loan Amount	Units	LTV/CLTV	Minimum Fico
Purchase & R/T	See County Limits	1	65/65	740

Subordinate Financing

Pacific Union Financial will close mortgages that are subject to subordinate financing held by another investor, as long as the lien is recorded and clearly subordinate to the first mortgage lien. All loans with subordinate financing must meet the established LTV and CLTV program requirements along with the following:

- A copy of the note and fully executed subordination agreement is provided;
- The note shows at a regular monthly payment, that at a minimum covers the monthly interest due;
- The interest rate on the note is no less than the Prime rate – 1.25%;
- No balloon payment will be due within the next 5 years

Ineligible Subordinate / 2nd Mortgages

Pacific Union Financial will not close mortgages that are subject to subordinate financing if:

- The subordinate mortgage has wraparound terms, combining the indebtedness of the first mortgage with the subordinate mortgage.
- The subordinate mortgage does not provide for either regular monthly payments of principal and interest, or interest only. (silent seconds, forgivable silent 2nds)
- The subordinate mortgage allows negative amortization.
- The subordinate mortgage has repayment term of less than five years.
- The subordinate lien is cross collateralized.
- Seller carry with LTV/CLTV that exceeds 80%.

Housing Expense Ratio

For existing HELOCs use current monthly payments as shown on credit report. If the line has a balance and no monthly payment reflected on credit, use 1% of line limit.

When calculating the total housing expense ratio, the payment for the secondary financing must be included. For new HELOCs, calculate the monthly payment using the higher of 1% of the total line amount OR actual amount on new note.

For HELOCs with written evidence of a line modification after the application date, the modified limit is used to calculate the 1% monthly payment. A copy of the original HELOC terms is always needed.

Purchase Transactions

Contributions

Contributions may be used to pay closing costs normally paid by the borrower and may be provided by the property seller only, and may be for Recurring, and/or Non Recurring

Closing Costs, up to the max allowed limit by program, not exceeding actual closing costs.

The sales price may not be increased on a finalized purchase contract to cover closing costs. The LTV/CLTV must be based on the lesser of the original sales price or appraised value if there is evidence in the loan file that the sales price was increased to include the borrowers closing costs.

Note: The Real Estate Agent(s) may credit any or all of their commissions to the buyer for recurring or non-recurring closing cost as long as total contributions do not exceed guideline limits for max contribution and do not exceed total closing costs.

Employer's Contribution

If the contribution is made by the employer as an advance against the borrower's future salary, this borrower is not eligible for financing.

Buyer Paid Fees

The borrower may never pay any fee on behalf of the seller. These types of fees include but are not limited to:

- Finder or Consulting fees
- Payoffs amounts for 2nd lien holders
- Agent commissions
- Delinquent taxes or HOA dues
- Moving Expenses

Fees and Services

Any portion of fees and services or any other items related to the transaction that are not paid by the borrowers are considered a contribution. These may include:

- Title insurance fees
- Survey fees
- Lender fee
- Tax service fees
- Transfer taxes
- Homeowner's association dues
- Builder rate cap lock-in fee

Giveaways

The cost of any contributions from an interested party that are in the form of furniture, decorator allowances, moving costs or other "giveaways" must always be deducted from the property's sales price.

Homeowners' Association Dues

Loans where the advance payment of Homeowners' Association dues is subsidized are not eligible. Interested parties, including builders and property sellers, may not contribute any fees charged to the borrower at closing to set up or administer an HOA account.

Real Estate Commissions

Any aggregate real estate commission including a "bonus" greater than 8% is considered a sales concession and that commission and/or bonus amount over 8% must be deducted from the sales price. The appraiser is required to disclose whether the purchase contract was reviewed and, if so, comment on any excessive sales

commission. Any excessive sales commission should be taken into consideration when arriving at the final value.

Note: For underwriting purposes, a downward adjustment to the property's sales price is made to reflect the amount of any contributions that exceed the maximum allowed.

Maximum Allowable

The maximum allowable contribution depends on the mortgage type, the loan-to-value (LTV) ratio, and occupancy type. The maximum LTV must be calculated on the lesser of the reduced sales price or appraised value.

For all loans, the total of all contributions, as a percentage of sales price or appraised value, whichever is less, is limited to the following values shown in the table below.

Occupancy	LTV/CLTV		Maximum Financing Contributions
	Standard Loans	High-Balance Mortgage	
<u>Owner Occupied</u>	> 90%	≤ 90%	3%
	≤ 90%	≤ 85%	6%
<u>Second Home</u>	All LTV/CLTV	All LTV/CLTV	3%
<u>Investment</u>	All LTV/CLTV	All LTV/CLTV	2%

Current Seller / Vesting

In accordance with agency guidelines for purchase money transactions a copy of the Purchase Contract and all addenda signed/initialed is needed. If the vesting on title is currently not in an individual(s) name, a copy of the seller's Power of Attorney (POA) is needed. If the seller is involved in a short sale, a copy of the fully executed short sale addendum is needed.

Note: The buyer on a purchase involving a short sale may not payoff any of the existing liens from seller.

Note: All buyers listed on the purchase contract must be on the loan application as well.

Payment Shock

Payment shock is the increase of borrowers housing payment from current to proposed amount. When payment shock is less than 200% generally no other documentation is needed. When payment shock exceeds 200%, six months reserves may be needed.

Note: For borrowers currently living rent free, only owner occupied purchase transactions are allowed.

Verification of Rental Payment History (VOR)

Verification of borrower's rental history is only needed when the AUS conditions for it. Any one of the following is acceptable for verification of mortgage and/or rental payment history:

- An institutional VOR or
- A private VOR with 12 months cancelled checks

Note: 12 months bank statements may be used in lieu of cancelled checks. However any large deposit on the bank statements needs to be explained and paper trailed.

Property Flips (Flipping)

Property flips occur when ownership of one property changes several times in a brief period. Flips artificially inflate the value of a property in order to obtain larger loans than what might otherwise be possible, and to "skim" the newly created equity from the property. Flips also are used to conceal the identity of the true buyer or client of the property. Potential indicators of property flips include:

- Ownership changes two or more times in a brief period of time.
- The current seller obtained ownership under 3 months from new purchase contract date.
- Two or more closings occur at nearly the same time for significantly different values, resulting in artificially inflating the property's value.
- Property seller is not on title policy.
- Reference to double escrow or other Settlement Statement (HUD-1) form.
- Parties to the transaction are affiliated or related by birth or marriage.
- A property sale that does not involve a Realtor.

Investigating Property Flips

When potential flip indicators are detected in a loan file, Pacific Union Financial requires further investigation to determine the legitimacy of the transaction and the true value of the collateral. The following are required:

- The transaction must be an owner occupied purchase.
- Appraiser to comment on all upgrades and improvements by current seller.
- Verification that the property seller and owner of record are one and the same.
- Verification that there is no apparent relationship between the parties to the transaction, either on the current sale or previous sale.
- Pacific Union Financial will perform a Desk Review on the appraisal.

Note: In order for an increase in appraised value on a flip transaction to be considered acceptable, repairs to the subject property must have been made to the extent that it justifies the increase in the subject property's appraised value.

Note: Non-Arm's length transactions that are also flip transactions are not eligible for financing.

Non-Arm's Length Transactions

A non-arm's length transaction occurs when a personal or business relationship exists between the borrowers and the builder or lender. These transactions include:

- Sales from existing landlord
- Employees working at the same company as the submitting loan officer
- Family sales or transfers
- Corporate sales or transfers
- Realtors who are also the broker on the loan transaction
- Listing/Selling agents who are also the buyer
- Mortgagors employed in the real estate or construction trades who are involved in the construction, financing, or sale of the subject property
- Some transactions involving principals or a lender or other vendor (such as an appraiser, settlement agent, title company) who is involved in the lending process of the subject property

Note: Non-arm's length transactions are only allowed on owner occupied transactions and may require additional documentation depending on the underwriter's assessment of risk.

Properties Sold at Auction

Properties sold at auction are not eligible for financing.

Short Sales

A copy of lender approved agreement is required. If there are multiple existing liens on title, they must all approve the sale, and approve the HUD before closing.

Purchasing From a Builder

If borrowers are purchasing a property from a builder who is purchasing the borrowers' existing residence, it is considered a non-arm's length transaction and is not eligible for financing.

Note: Installment land contracts or un-developed land are not eligible for financing.

For Sale by Owner (FSBO)

For Sale by Owner purchase transactions are allowed, but must be treated as non-arm's length transaction.

Required Documentation for Non-Arms Length Transaction

- Owner occupied transactions only.
- Evidence the existing mortgages on title are current (need payoff demands).
- An executed purchase or sales agreement.
- Verification that the borrower is not now, nor has been in the previous 24 months, on title to the subject property.
- Borrower must provide a written explanation stating the relationship to the seller and the reason for purchase.
- 5% of sales price must be verified as borrower's own funds. (these funds do not have to be used towards down payment)
- The appraised value of the property is well supported, particularly for gifts of equity or gifts of more than 20% of the LTV.
- Gifts are allowed if they meet gifting guidelines.
- Second Appraisal is required

Refinance Transactions

A refinance transaction is defined as: The repayment of an existing debt from the proceeds of a new mortgage loan where the borrowers are the current legal owners of the property securing the loan.

Net Tangible Benefit (NTB)

All refinance transactions must contain a net tangible benefit to the borrower. These include but are not limited to:

- Moving from an ARM loan to a Fixed rate loan
- Shortening the term of a Fixed rate loan (e.g., from 30 years to a 15 or 20 year fixed)
- Reducing the interest rate by 0.25% or more on a fixed rate loan
- Providing cash in hand
- Reducing overall monthly payments (paying off debt)

Borrowers Not On Current Mortgage and Note (Continuity of Obligation)

For a refinance transaction to be eligible for financing there must be a continuity of obligation if there is currently an outstanding lien that will be satisfied through the refinance transaction.

Continuity of obligation is met when any one of the following exist:

- At least one borrower on the existing mortgage is on the loan application
- The borrower has been on title and residing in the property for at least 12 months and has either paid the mortgage for the past 12 months or can demonstrate an immediate relative relationship with the current obligor
- The loan being refinanced and title to the property are in the name of a natural person or a limited liability company (LLC) as long as the borrower was a member of the LLC prior to the transfer. Transfer of the ownership from a corporation to an individual does not meet the continuity of obligation requirement.
- The borrower has recently inherited, or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership)
- Have been vested on title for at least the past 12 months.

Note: Immediate relative is defined as the borrower’s spouse, child, or other dependent, or any individual related by blood (sibling, parent, grandparent, aunt, uncle, niece, nephew or 1st cousin), marriage, adoption, or legal guardianship. VOM and cancelled checks are required for payment verification.

No Acceptable Continuity of Obligation

If the borrower is currently on title but is unable to demonstrate an acceptable continuity of obligation, or if there is no outstanding lien against the property, the loan is still eligible for financing, but with additional restrictions described in the following table.

Outstanding Liens	Purchase Date	LTV Ratio Requirements
No (the property was purchased for cash, previous mortgages have been paid off)	Within the 6-12 month period prior to the application date for the new financing	The LTV/CLTV/HCLTV ratios must be based on the lesser of the original sales price/acquisition cost (documented by the HUD-1 Settlement States) or the current appraised value
	More than 12 months prior to the application date for the new mortgage	The LTV/CLTV/HCLTV ratios must be based on the current appraised value
Yes	The borrower has been on title for at least 6 months	The maximum LTV/CLTV/HCLTV ratios are limited to 50% of the current appraised value

Reverse Mortgages

Pacific Union Financial does not originate reverse mortgages also known as HECM. However, if the borrower currently has a reverse mortgage, it may be paid off and treated as a cashout transaction.

Note: If the borrower is purchasing a new property and currently has a reverse mortgage, no payments must be included in the DTI. However, property tax and insurance for the primary residence must be used in DTI.

Properties Acquired through Auction

Refinances of properties that were purchased through an auction may be eligible for financing after a careful review of the comparables, the present condition of the subject property and the surrounding neighborhood. The transaction must be closed as a rate and term only, cash out transactions are not allowed.

Properties Listed for Sale

Properties listed for sale are eligible for financing if the following criteria is met:

- Copy of MLS cancellation showing property was withdrawn off market 1 day prior to application date
- Final appraised value must be lower than lowest previously listed price of subject.
- Max LTV/CLTV is 70% for cash out transactions.
- Signed LOE why property was listed for sale and removed.

Installment Land Contract

Installment land contracts are not eligible for financing.

Straw Borrower

A straw borrower is used as a “cover” or “front” when the true identity or motivation of the actual borrower is concealed to gain loan approval. Indicators of a straw borrower situation include:

- Names added to the purchase contract.
- Sales to a relative or related party.
- No sales agent involved.

Participants in a straw borrower situation may be identified as follows:

Actual Borrower	Straw Borrower
<ul style="list-style-type: none"> • May not qualify for the loan. • Does not intend to occupy the property as a principal residence. • May not be eligible for a special purpose loan program. • Has no or minimal credit record or substandard credit history. 	<ul style="list-style-type: none"> • Acts as a substitute for the actual borrower. • Uses a quit-claim deed either immediately before or soon after closing the loan. • Represents investment property as owner-occupied or a second home. • Signs on the actual borrower’s behalf.

Double Escrows

Double escrow transactions are not illegal; however, they are considered high risk since they are often associated with no-money-down purchase transactions, and/or inflated property values. Double escrows are one of the methods used to avoid down payment requirements. Parties involved in property flipping schemes often use double escrows in the original acquisition of the property.

Example of typical double escrow: A buyer’s offer is accepted to purchase a property for \$150,000. Before escrow closes, the buyer acts as the seller of the property and opens a second escrow using a “straw buyer” who purchases the same property for \$185,000. The straw buyer obtains a 90% loan. With the proceeds from the second escrow

transaction, the first escrow closes concurrently with the second escrow, resulting in no exchange of money.

Equity Skimming

Equity skimming involves investment property. The owner/investor collects the monthly rents and fails to make the mortgage payments. The investor usually obtains the property through a purchase transaction or an assumption.

- If obtained through a purchase transaction, the investor generally executes a second trust deed to the property seller as the down payment, resulting in no cash investment in the property.
- Once the property is assumed, the investor profits by collecting rent for the time it takes the lien holder to complete the foreclosure process. Investors using this method frequently obtain several properties within a short period of time. The investor makes mortgage payments (while acquiring other properties using the same scheme) before finally defaulting on the mortgage payments.

Foreclosure Bailout

A foreclosure bailout may be a refinance or purchase transaction when the true purpose of the loan is to bail out the property owner from an existing lien that is in foreclosure. These transactions can be structured as a refinance or a purchase.

When structured as a refinance, title is transferred (or gifted) to a friend or family member who applies for a loan in his/her own name.

When structured as a purchase, the borrower acts as a "straw buyer" for the true owners of the property. In this case, the sales price and appraisal may be inflated to support an artificially low LTV.

Types of Refinance Transactions

Rate and Term

Pacific Union Financial will consider transactions meeting the following criteria to be Rate/Term (i.e., No Cash-out) refinances:

- A refinance of the subject property may not have been a cashout transaction in the last 6 months. If the credit report shows a refinance in the last 6 months, a copy of the final hud is required. Recording date of existing mortgage to note date of current mortgage is what is used to calculate the six months.
- Pay off of the current mortgage (principal balance plus accrued interest, and any required prepayment penalty, only; other costs such as late fees and past-due amounts may not be paid with the new loan)
- If the first mortgage is a Home Equity Line of Credit (HELOC) a copy of the HUD-1 Settlement Statement from the borrower's purchase of the subject property must be provided evidencing the proceeds were used in their entirety to acquire the subject property
- Pay off (as defined above) of any subordinate mortgage lien that was used in its entirety to acquire the subject property - regardless of seasoning
- A copy of the HUD-1 Settlement Statement from the borrower's purchase of the subject property must be provided evidencing that any subordinate financing was used in its entirety to acquire the subject property
- Standard loan fees (e.g., closing costs on the new mortgage; prepaids, such as interest, taxes, insurance, etc; and points)

- Incidental cash to the borrower not to exceed the lesser of \$2000 or 2% of the principal balance of the new loan amount. If the borrower is receiving over the maximum \$2000 or 2%, a principle curtailment may be applied to a max \$1500 and still consider this loan a rate and term.

Note: Delinquent property taxes or HOA dues cannot be included in the loan amount on a rate-and-term refinance.

Note: If the final HUD from the purchase of the subject property shows an initial draw on the HELOC less than the current balance, the loan must be considered a cashout.

Note: The payoff of a junior lien, regardless of age, is acceptable for the transaction to be considered a rate/term refinance when the junior lien on the property is being paid by funds brought to closing by the borrower, not by the proceeds of the rate/term refinance. Existing secondary fees, such as re-conveyance fees that are charged at closing, may be paid by the proceeds of the rate/term refinance.

Note: For loans which are eligible financing per the Rate and Term guidelines and are which also classified by the AUS as DU Refi plus eligible, the DU and guidelines must be adhered to for both sets of guidelines, ultimately resulting in the max cash in hand at the close of escrow as \$250.

Cash Out

A cash-out refinance involves a new mortgage loan in which the cash back exceeds the lesser of 2% of the new mortgage principal balance or \$2,000 and is used to pay off the unpaid principal balance of the existing first mortgage and the amount required to satisfy any outstanding subordinate mortgage liens, no matter how old.

If the borrower has owned the property for less than six months preceding the application date, the borrower is ineligible for a cash-out refinance transaction.

Note: Although there is no cash in hand limit, amounts greater than \$20,000 must be accompanied by a signed and dated detailed LOE from all borrowers explaining the purpose/use of the cashout.

Note: To be eligible for a cash-out refinance, the borrower must have been on title for the subject property for more than six months. If the borrower is not currently on the note, please reference "Borrowers Not On Current Mortgage Note" section of the guidelines.

Subordinate Loans

When subordinate liens remain outstanding, they must be clearly subordinate to the new refinance loan. Additionally, the new refinance loan must meet the subordinate financing criteria.

A loan's classification as a rate-and-term refinance transaction will not be affected when there is existing secondary financing that will be subordinated.

Note: Secondary financing terms may not include a negative amortization clause. (Negam). You may modify the current second lien, removing the negam verbiage.

Cash Out From Concurrent Secondary Financing

The borrower may receive cash out from the proceeds of the concurrent secondary lien as long as the CLTV is within loan program guidelines and the first lien meets the seasoning requirements.

If the first lien is a rate-and-term refinance and cash out is received from concurrent secondary financing, the first lien may remain classified as a rate-and-term refinance.

DU Refinance Plus Transactions

Pacific Union Financial does originate DU refinance plus transactions as defined by Fannie Mae. The standard refinance guidelines must be followed when underwriting for this program in addition to adhering to the additional following guidelines:

- Maximum \$250 cash in hand at Close of Escrow
- Minimum 620 Fico on Owner Occupied Loans, 680 for 2nd Homes and Investment Properties
- The loan being paid off was delivered to Fannie Mae prior to March 1, 2009
- Only the payoff of 1st liens are allowed (2nd liens and debts are not allowed)
- Any existing subordinate lien must re-subordinate without modification
- New subordinate financing is not allowed
- Max LTV/CLTV is 105%
- The most recent 12 month mortgage history must be documented through the funding date with 0x30 rating
- DU must return the following message: "This loan case file was underwritten according to the DU Refi Plus expanded eligibility guidelines offered on certain limited cash-out refinance loan case files where the borrower's existing loan is identified by DU as a Fannie Mae loan"
- Any borrower on the original loan transaction must be on the loan application unless they can provide (12) months cancelled checks from a non-joint personal account showing they have made the mortgage payments in full

Pacific Union Financial does allow for DU Refinance Plus transactions with LTV/CLTV greater than 105% on its portfolio product, provided the requirements outlined on the table below are met.

DU REFI PLUS					
LTV/FICO MATRIX					
Transaction Type	Occupancy	# Units	LTV	CLTV	FICO
Rate & Term Refinances	Primary	1-4 Units	125% on Fixed Rate	Unlimited	580
			105% on Adjustable Rate	125%	
	Second Home	1 Unit	125% on Fixed Rate	Unlimited	580
			105% on Adjustable Rate	125%	
	Investment	1-4 Units	125% on Fixed Rate	125%	580
			105% on		

			Adjustable Rate	
DU REFI PLUS				
OVERLAYS				
LTV/CLTV	<ul style="list-style-type: none"> • LTVS >105% allowed on 30yr fixed product 			
Eligibility	<ul style="list-style-type: none"> • Loans must receive an Approved/Eligible thru DU • Temporary Interest Rate buy downs are not allowed • No Interest Only Loans • Existing loan may not be subject to credit enhancement or repurchase obligation 			
Credit	<ul style="list-style-type: none"> • At least 1 credit score is required 			
Appraisal	<ul style="list-style-type: none"> • All investment properties require an interior & exterior inspection 			
Eligible Terms	<ul style="list-style-type: none"> • 10,15,20 & 30 years Fixed Rate • 5/1, 7/1, 10/1 ARMs with 30 year term 			
Condo & PUD	<ul style="list-style-type: none"> • Confirmation the property is not a condo-hotel/motel is needed • No outstanding/pending litigation or >15% HOA due delinquency 			
Mortgage Insurance	<ul style="list-style-type: none"> • Loans requiring mortgage insurance are not allowed 			

Note: DU Refinance Plus transactions are allowed on owner occupied, second home and investment properties. If the property is a condo, no project review is needed.

Credit

Credit Scores

Each borrower must have at least one valid credit scores; Borrowers without a credit score(s) are ineligible for financing. Pacific Union Financial will run its own credit report on all files, with the scores being obtained from major repositories, such as Equifax®, Experian®, and TransUnionsSM. The data pulled on this credit report is used to determine fico/tradelines eligibility.

Note: Client-created scores, or alternative scoring methods including those generated by independent credit-reporting companies using traditional or non-traditional credit, are not considered valid scores for loans. Borrowers with No credit score are not eligible for financing. Broker credit report/supplements are not acceptable.

Borrower Representative Score

- If there is only one borrower on the loan, the middle fico score for that borrower will be used to qualify.
- If there are co-borrowers on the loan, the credit score applicable to the loan itself will be the lowest of the respective borrowers' scores.

Tradelines

For a credit score to be considered valid and usable, the underwriter must determine if the borrower's credit contains a significant mix of older and new accounts to create a true credit profile for the borrower.

Purpose of Credit Scores

Credit scores rank borrowers according to the likelihood that they will default on the mortgage loan in the future using statistical modules. The higher the score, the lower the risk of default and, conversely, the lower the score, the higher the risk. As a result, credit scores are a powerful tool for underwriters to use when evaluating the layered risk within the borrower's credit profile.

Credit scores alone are not sufficient to make an informed decision about the acceptability of a borrower's credit history. The borrower's credit information should still be reviewed to ensure an acceptable level of risk.

Determining Validity of a Score

Before a score can be used in analyzing the borrower's credit history, the validity of the score must be determined. To determine the validity of a credit score and its usefulness as a tool for establishing layers of risk, the underwriter must:

- Verify that all debts are disclosed on the credit report.
- Verify that there are no disputed accounts.
- Determine that each credit score is based on sufficient and accurate information.
- Address disputed accounts by documenting their inaccuracies or obtaining new credit showing the accounts are no longer disputed.

Credit Analysis

Factors to Consider

When evaluating the borrower's credit history, the following factors should be considered to determine if the borrower's credit is acceptable:

- The type and amount of outstanding credit
- Age of the borrower's credit history
- Balance-to-account-limit ratios
- Recent changes in the number of open accounts or overall amount of credit outstanding
- Payment history of all accounts
- Any recent inquiries shown on the credit report
- Any public record or collection item

Acceptable Credit History

The acceptable credit reputation of one borrower cannot be used to offset the unacceptable credit reputation of another borrower. The credit worthiness of all borrowers who will appear on the Note is to be considered separately, including each borrower's income, assets and debt.

Unacceptable Credit

The lack of acceptable credit cannot be compensated for by either capacity or collateral strengths. When determining investment quality, the likelihood of timely repayment, as demonstrated by responsible credit, must always be present. Once credit is established, however, collateral and capacity can be used to strengthen the loan's overall investment quality.

- Loans with mortgage derogatories greater than 0x30 in the last twelve months are ineligible, unless they receive an Approved/Eligible feedback from Desktop Underwriter

Credit Report Security Freeze

If the borrower has frozen his credit file at one or more of the three national credit repositories, the credit freeze must be removed and a new credit report obtained before the loan can be underwritten.

Note: To temporarily lift the credit freeze, the borrower will need to contact the repositories to unfreeze their credit file.

Credit Inquiries

Credit inquiries other than those related to the subject transaction must be explained via a written signed and dated LOE from borrower. The underwriter should carefully consider these inquiries and include any new debt in the DTI.

Evaluating Credit Risks

Payment History

Although the borrower's payment history is the most important indicator of credit risk, other factors also contribute to unacceptable risk, particularly when combined with prior payment problems. Borrowers whose credit history shows no significant adverse or derogatory information can still have unacceptable credit.

Amount of Debt

The amount of outstanding debt the borrowers have indicates credit risk. Generally, high balances indicate greater risk. However, the proportion of those balances to the total amount of credit available and the proportion to the borrower's income the most important factor in determining risk.

Recent Versus Older Debt

Although the borrower's entire credit history should always be considered, more weight should generally be given to the borrower's payment history over the past two years than to older credit.

Reason Codes

Along with the credit scores, credit repositories return up to four reason codes (sometimes referred to as score factor codes) with each score. These codes provide an explanation as to why the borrowers did not receive a higher score.

Recent Inquiry Risk Factors

Inquiries on the borrower's credit report generally reflect the borrower's requests for new or additional credit. Multiple recent inquiries may indicate that the borrowers are in danger of becoming overextended and/or have additional property acquisition(s). The following factors should be considered:

- Borrower's payment experience
- Type of credit being sought
- Total amount of credit outstanding
- Credit utilization reflected on the report

Note: Pacific Union Financial uses MERS prior to closing all loans to confirm real estate holdings have been accurately disclosed.

Age of Account Risk Factors

Like inquiries, several recently opened accounts may be a warning that the borrowers may be getting overextended. In addition, a credit history with all accounts recently opened may signal that the borrowers do not have sufficient experience managing financial obligations. The following factors should be considered:

- Borrower's payment experience
- Utilization of revolving credit lines
- Total amount of credit outstanding
- Recent inquiries
- Whether the borrower has sufficient experience in managing investment property

High Balance to Limit Risk Factors

The current balance for each open account should be compared to the high credit or limit to determine whether there is a pattern of revolving accounts at or near their limits. Such a pattern may indicate that the borrower is becoming overextended or making minimum payments on revolving or mortgage accounts instead of reducing the debt. The following factors should be considered:

- Borrower's payment experience
- Age of borrower's credit
- Number of accounts with outstanding balances
- Recent inquiries
- Total amount of outstanding credit
- Borrower's equity in real estate owned

Derogatory or Adverse Information

Adverse or derogatory credit information does not necessarily mean the borrower's credit is not acceptable. The borrower's overall credit history should still be evaluated to determine the level of risk.

General Guidelines

- Any outstanding collection, judgments and/or tax liens, as well as any other derogatory items must be paid/released if required by DU.

Note: All accounts with a late payment history/derogatory in last 24 months must be explained by the borrower with a signed and dated LOE.

Weighing the Risk Factors

When evaluating borrowers with adverse credit information, more weight should be given to derogatory credit information or late payments occurring within the past two years. The following factors should still be considered:

- The number, timing and extent of the delinquency
- Eventual repayment of delinquent obligations
- Any previous bankruptcy, mortgage foreclosures, or deed-in-lieu of foreclosure within the past seven years
- Whether other characteristics of the borrower's credit profile, such as age of credit, use of outstanding credit, and inquiries, make any significant difference in the derogatory credit information

Major Derogatory Credit

The credit history for the last forty eight months should be reviewed to determine whether there are any major indications of derogatory credit, such as undischarged debts, judgments, bankruptcy, etc. Any litigation involving the borrower, including bankruptcy, foreclosure, deed-in-lieu, pre-foreclosure, short sale, judgments, tax liens, collection accounts, and charge-offs must be evaluated separately and meet the specific loan program guidelines.

Bankruptcies

Bankruptcies require a minimum of (4) years seasoning from the discharge/dismissal date on all chapters of bankruptcy and re-established credit.

Foreclosures

A borrower is not eligible for financing within seven years of a foreclosure cure date. Short sale or a mortgage modification is treated the same as a foreclosure.

Note: Modification of a HELOC down to a lower limit is **not** considered a foreclosure.

Note: In a community property State, if an applicant's current spouse, who is not on the transaction, has defaulted on a property in the past, the credit rating will affect our borrower.

Re-establishing a Credit Record

For borrowers with major derogatory credit events (Bankruptcy, Foreclosure, Short Sale) new minimum credit must be established. This new credit must include a minimum of 4 open/active tradelines with no lates rated for at least 24 months.

Credit Counseling

Credit counseling serves a variety of purposes. It may involve establishing a budget for individuals with no creditor contact; soliciting creditors for payment balance reduction; settling balances for less than owed; or obtaining debt forgiveness.

A borrower currently in Credit Counseling is not eligible for financing.

Note: Credit counseling on the borrower's credit is treated as a Chapter 13 bankruptcy.

Fraud Alert Messages

All three national credit repositories have developed automated messages to help identify possible fraudulent activity on a credit report. These alerts are commonly known as HAWK Alerts.

All alert messages shown on a credit report (particularly those in the Fraud Verification Information section) must be addressed and resolved prior to closing a loan.

Disputed Account Information

When erroneous or disputed accounts are identified on the credit report and DU Findings Report, the underwriter must verify the accuracy of the disputed tradeline(s) and determine if the tradeline(s) belong to the borrower and confirm the accuracy of the payment history. To satisfy these requirements, the underwriter must use one of the following options:

- Obtain a written LOE, signed and dated by the borrower(s) along with any supporting documentation for the erroneous or disputed account(s). If the tradeline does not belong to the borrower, or the reported payment history is inaccurate, no further action is required.
- If the tradeline does belong to the borrower and the reported payment history is accurate, the disputed tradeline(s) must be considered in the credit risk assessment. To ensure the disputed tradeline is considered, the borrower must remove the dispute on the tradeline(s) and a new credit report pulled reflecting the removal and new DU findings issued.

Lawsuits

Borrower(s) involved in lawsuits will not necessarily exclude them from obtaining financing. If the borrower(s) are involved in a lawsuit, a signed and dated LOE with a copy of the complete lawsuit must be provided to determine if the potential outcome of the lawsuit will have an effect on the borrower's ability to repay his/her monthly obligations.

Determining Capacity

Another component of establishing the borrower's credit worthiness is to evaluate the borrower's capacity to make timely payments on the mortgage loan. Qualifying ratios and adequate reserves are the primary criteria used for judging capacity.

Establishing Capacity

Adequate capacity is established by documenting a stable monthly income or liquid assets, along with any additional information that clearly shows the borrowers have paid their past obligations in a timely manner.

Unless the borrower's capacity is evidenced by overwhelming liquid assets, the underwriter should ensure the borrowers are able to pay their mortgage payment after the loan is made, in addition to any other outstanding obligations.

Factors to Consider

When evaluating the borrower's capacity, consider the following factors:

- Payment shock
- Reserves are low, adequate or substantial
- Income stability
- Debt ratios suggest questionable affordability.

Significant Change in Obligation

If a new mortgage loan significantly increases the borrower's monthly debt, the underwriter must consider how the borrowers will be able to make the higher payments. If the borrower's monthly obligations decrease with the new mortgage, the borrower's ability to meet all outstanding obligations after the loan is made should still be carefully evaluated.

Determining Stable Monthly Income

In determining what is "stable" income, underwriters must be able to conclude, based on all sources and documentation verifying the income, that it can reasonably be expected to continue for the next three years.

Additional Factors for Stability

Many factors contribute to an assessment of stability including:

- Education
- Training
- Technical skills
- Occupation
- Past employment history

The probability of consistent compensation should be considered to determine stability on a case-by-case basis. In addition, a move from dependence on public assistance to earned income should be considered a positive factor in determining income stability.

Earned Income

Stable earned income primarily consists of employment based earnings. Secondary income includes:

- Bonuses
- Commissions
- Overtime

- Additional part-time employment
- Unemployment compensation

Items considered secondary income must be verified and substantiated by the borrower's previous two year's earnings and have a likelihood of continuance for next 3 years.

Tax Exempt Income

If it has been determined and documented that tax exempt income (including military allowances, worker's compensation benefits, social security and disability retirement payments) is likely to continue and remain untaxed as documented per personal tax returns, the underwriter may gross up the net income and use it when determining capacity.

To gross up the income, the underwriter must add 25% to the net income amount.

Frequent Job Changes and Seasonal Employment

Borrowers who frequently change their jobs do pose a greater credit risk. If the job changes are for advancement or higher wages, these changes should be viewed favorably.

Seasonally employed borrowers due to their nature of work, pose a greater lending risk and thus must have compensating factors to be eligible for financing.

Note: When evaluating borrowers who change jobs frequently, focus should be placed on whether the changes have, in the past, affected the borrower's ability to meet their monthly obligations or maintain a stable income. For example, an unstable employment history may be offset by the borrower's overall financial strength, including a continual ability to meet financial obligations.

Monthly Housing Expense-to-Income

Negative Income

Negative rental income must be included as a liability when determining qualifying ratios.

Monthly Housing Expense Reserves Calculations

For all loans, the reserves calculation for a financed property should be based on the monthly housing expense of the financed property. The monthly housing expense (defined by Fannie Mae as PITI) includes the all of the following (as applicable):

- Principal and interest payments on the mortgage
- Hazard and flood insurance premiums
- Real estate taxes **and**
- Any applicable charges for:
 - Mortgage insurance premiums
 - Leasehold payments
 - Homeowner's association dues or condominium maintenance fees, excluding utility charges
 - Co-op maintenance fees
 - Special Assessments
 - Payments on secondary financing
 - Ground rents

Monthly Debt Payments

The monthly debt payment is the sum of the following monthly charges:

- Monthly housing expense (PITI) for all properties.
- Payments on all installment debts with more than 10 months of payments remaining.
 - The only exception to this policy is that payments on all automobile and non-automobile leases, regardless of the remaining number of payments, must be included in the calculation of recurring monthly expenses.
- Alimony, child support, or maintenance payments.
- Monthly payments (or 5% of the outstanding balance if a monthly payment is not provided) on revolving accounts, open accounts, and unsecured lines of credit (all considered to be open-ended) regardless of the balance unless instructed to be handled otherwise per the applicable AUS decision.
- Aggregate negative net rental income from all investment properties owned.
- Monthly mortgage payment for second home and departing residence.
- Monthly payment amount on an existing HELOC secured by property other than the subject property. The payment amount shown on the credit report is used to calculate the debt-to-income ratio. If the payment amount is not shown on the credit report, use 1% of the total line amount to calculate the monthly payment amount.
- Payments on all deferred loans (for instance, student loans and loans in forbearance).
 - In all cases, deferred loan payments must be included as a recurring monthly expense.
 - If a payment is not indicated on the borrower's credit report, a copy of the borrower's payment letter or forbearance agreement is required to determine the payment amount to use in calculating the borrower's total monthly obligations.
- Business expenses incurred by the borrower that are not reimbursed by the employer must be included in the debt ratio calculation. A 24-month average of the business expenses reported in Schedule A and IRS Form 2106 attachments to the borrower's signed tax return is required. This average must be subtracted from the borrower's monthly income.

Note: Mortgages that are solely the responsibility of the non-borrowing spouse may only be excluded from DTI calculations if the subject property and borrower's residence are both in a non-community State.

Note: Child support or alimony must always be included in the borrower's debt ratios regardless if the court order for payment has less than (10) months remaining

Proceeds Used to Pay Debts

Accounts may not be "paid down" to 10 months or less to allow the borrower to qualify. Installment or Mortgage accounts must be paid in full in order to exclude from DTI. Paying off revolving debt to qualify is typically not allowed. However revolving debt can be excluded from debt ratios if all the following is met:

- The DTI before paying off the debt is less than 60%.
- A credit supplement or letter from creditor showing account is closed is provided before closing.
- The Payoff of debt must be reflected on Final Hud-1.
- The items being paid off must have been indicated as being paid off on initial handwritten signed 1003.
- The loan must be treated as a cashout transaction.

Note: Borrowers who increase debt then periodically refinance or use debt consolidation to reduce payments to a manageable level present a higher risk, and are not eligible for paying off revolving debt to qualify.

Note: If the borrower has less than 10 months remaining on an installment debt, but the underwriter feels the liability impacts the borrower's ability to repay the new mortgage, the debt may not be excluded from the debt ratios.

Note: Debt may not be paid off after the initial disclosure date in order to qualify the borrower for better loan terms, including but limited to changing the transaction to rate and term vs a cashout transaction or to exclude a debt from the borrower(s) debt to income ratios.

Maximum Ratio

As a general guideline, the monthly debt should not be greater than 45% of the borrower's stable monthly income. A higher monthly payment ratio may be appropriate in some cases and determined by DU up to 50% depending on compensating factors.

Contingent Liabilities

In calculating the borrower's recurring expenses, certain debts may be excluded. These are limited only to:

Excluding Obligations

Obligations may only be excluded if evidence is provided that loan was co-signed by the party making the payments and if all the following documentation is provided:

- 12 months of canceled checks that show payments have been made in full by another party. If the account or loan has been in existence for less than 12 months, the full payment of the co-signed account is considered a liability and must be used in calculating the debt ratio.
- Verification that there have been no delinquencies on the account during the most recent 12 months.

Court Ordered Debt

- A copy of the pertinent pages from the court order, showing assignment of the debt to another party
AND
- Documentation of any ownership transfer (as applicable)

Income

Self-Employed Borrowers

Borrowers who have ownership of 25% or more in a business are considered self-employed. For these borrowers, income is dependent on the continuity of the business; therefore, specific documentation relating to the business is required for borrowers who are self-employed. Developing an average monthly income and evaluating continuity of the borrower's business for self-employed borrowers is based on a review of the borrowers' signed individual tax returns, IRS transcripts, financial statements and business tax returns, when applicable. This review focuses on assessing the strength and future viability of the business.

Income History

For self-employed borrowers, the underwriter must develop a history of stable and continuous income for the previous two years. A written income analysis should be prepared and included in the loan file.

Analyzing the Business Stability and Source of Income

A steady decrease in the business' income for the previous two or three years is not acceptable to Pacific Union Financial, even if the borrowers' current ratios conform to program requirements. Particular attention should be placed on the business' earnings trend to ensure income is steady or increasing, and to the source of that income. Clients should ensure increases are **not** due to factors not related to the business (such as capital gains from the sale of real estate), unless this is the character of the business. Even if income from the self-employed borrower's business is not used for qualification purposes, the business must still be analyzed to ensure that it will not affect the borrower's personal income or assets negatively. An analysis of the borrower's experience, income stability, financial strength of the business, location and nature of the business, and demand for service or product offered by the business should be performed.

For self-employed borrowers to qualify for the loan, the underwriter should be able to confirm the financial strength of the business, and that it will continue to generate the necessary income. No relocation loans for self employed borrowers allowed.

Projected Income

Projected income may not be used for qualifying. Only the income reported on the federal tax returns can be used.

Calculating Self Employed Income

A borrower is considered self-employed whenever he/she has a 25% or greater equity stake in a sole proprietorship, partnership or corporation. In order to use self employed income to qualify a borrower, DO/DU findings must be followed and at a minimum the following documentation is required:

- Most recent year signed personal federal tax returns, and
- Most recent year W2s and K-1s (as applicable), and
- Most recent years 1120s and/or 1065s, and
- Evidence the borrower has been self employed under the same name/entity for at least the past two years as evidenced by a CPA letter, business license or professional license

If the most recent signed personal federal tax return cannot be provided due to a filing of an extension, the additional documentation must be provided:

- Copy of the most recent federal tax extension, and
- A copy of the previous year's tax returns, and
- A Profit and Loss statement prepared by a non-interested CPA for the most recent tax year that was unable to be verified

Note: If K-1 shows positive income, and it is not being used to qualify, a copy of corporate tax returns are not needed.

Note: If the most recent tax returns cannot be verified via a 4506T due to a recent filing, last year's tax returns must be provided.

Use Fannie Mae form 1084 (cash flow analysis) to calculate income.

If the borrower's income is declining year over year, the underwriter must condition for an LOE from the borrower documenting why the income declined and be absolutely sure that income has stabilized. Typically a decrease in income over 30% year over year is considered unstable income, and cannot be used. Income will be calculated using the most recent tax returns if income is declining, not a 2 year average.

Note: In the event that the borrower's federal tax returns show a self employed loss for a non-borrowing spouse, Pacific Union Financial does not require that the negative income from the spouse be counted against the borrower's total income.

Note: Borrower may switch employers if a 1099 employee, as long as they switch within the same industry and was previously also a 1099 employee.

Note: Personal tax returns must be verified against IRS transcripts.

Note: If transcripts are unable to verify the accuracy of the submitted tax returns due to a recent filing of the most recent tax year, the income from those tax returns may be used to qualify if less than 60 days has elapsed from the filing and the funding date and a copy of the cleared IRS taxes due check, IRS refund or other government document can be verified.

Income for Wage Earners

Wage earning borrowers are typically paid on a weekly, bi-weekly, semi-monthly, or monthly basis. In all cases, ensure the borrower is working consistently by comparing base income to year to-date or the previous years' income. If gross monthly income is not supported, determine why this is not the case and take appropriate action (such as, averaging the income). If the income cannot be determined to be reasonably stable, it should not be used in qualification.

- Multiply weekly income by 52, and then divide by 12
- Multiply bi-weekly income by 26, and then divide by 12
- Multiply hourly income by 173.33 or by the number of hours worked per week, multiply that result by 52, then divide by 12
- Multiply bi-monthly income by two

Note: All paystubs must have YTD earnings and must be typed or computer generated. If the typed or computer generated paystub does not reflect YTD earnings, a written VOE is needed to supplement the paystub(s). Handwritten paystubs may be allowed on an exception basis, provided in is common for the practice within the industry a written VOE with year-to-date earnings is supplied and the prior 2 years W2s support the income on the paystubs/VOE.

Overtime or Bonus Income

Overtime and Bonus Income may be used for all borrowers on the loan application provided all of the following has been met:

- The most recent paystub reflecting year-to-date Bonus/Overtime income earned
- A written VOE breaking down base and Bonus/Overtime year to date, and for the previous (2) years
- The borrower has a two year history of receiving Bonus/Overtime within the same industry
- W-2 forms and payroll earning statements indicate an earnings level that is consistent with the total income that is being used to qualify

Overtime and bonus income will be calculated using the following method:

- Year to date + previous year / (# of months worked YTD + 12)

Note: The two year history of overtime or bonus income may be satisfied from different employers, so long as the borrower was in the same position and industry at his/her previous employer.

Note: If income has declined as evidence per YTD earnings then overtime/bonus income must be calculated using Year to date / # of months worked year to date.

Note: Due to the volatility of the stock market, the typical vesting schedule and restrictions placed on them, stock options may not be considered as stable bonus income but may be used as a potential compensating factor.

Shift Premium, Holiday Pay, MISC Income for Wage Earners

See Overtime and Bonus Income section for guidelines and calculations.

Union Workers

Union workers are members of a specific trade union and are often skilled tradesperson. (E.g. electricians, plumbers, roofers, etc) Workers can work for a single employer on a long-term basis or for more than one employer throughout the year. In order to use income from a union worker, the borrower must be currently employed and provide the following:

- Most recent two years tax returns, and
- All W-2 forms from all employers for the past (2) years, and
- A current paystub, and
- Written verification that the borrower has been part of the union for the past two years and is currently an active member
- Verbal verification the borrower is currently still working

This policy does not apply to borrowers who are employed by a traditional employer (E.g. Ford, GM, etc) but rather are members of a trade union such as a carpenters union. Income will be calculated using the following method:

- Previous 2 year W-2 income – past 2 years 2106 expense / 24 months

Note: If income has declined as evidence per YTD earnings then income must be calculated using Previous Year W-2 income – last year's 2106 expense / 12 months.

Employed by Relatives

If borrowers are employed by a relative, domestic partner, fiancé/fiancée, or family business, the following must be obtained:

- Most recent (2) years completed personal federal tax returns, and
- Most recent paystub covering at least 30 days earnings year to date, and
- The most recent (2) years W2s, and
- A written VOE by disinterested party (Accountant, CPA) verifying income.

Current income reported on the paystub may be used only if it's consistent with the W-2 earnings reported on the tax returns. If the W-2 earnings or income is substantially lower on the current paystub, the underwriter will use the current YTD amount.

Change in Employment

If the borrower's employer changed over the past two years, verification must be obtained from the previous employers as well as the current employer. Full verification must be done for the entire two-year period.

Gap in Employment

The loan application should reflect all borrowers work history over the course of the past two years. Upon review of this employment history, if it is found that an employment gap exists for greater than (1) month but less than (3) months, income can be used provided the following can be obtained and documented:

- Written LOE signed by the borrower addressing the reason for the employment gap
- The borrower has had a 2 year work history prior to the employment gap

For gaps in employment more than (3) months, income can be used provided the following can be obtained and documented:

- Written LOE signed by the borrower addressing the reason for the employment gap
- The borrower has had a 2 year work history prior to the employment gap
- The borrower has been on his or her current job for a minimum of (6) months
- The borrower can document (6) months PITI in reserves

In cases where the borrower has just graduated from college (within the past 2 months before entering the job market) and has entered the field in which he or she obtained a degree, income may be used to qualify if the following documentation is met:

- The borrower has been on his/her current job for the past 3 months and
- A copy of the borrower's diploma is provided.

Commission Income

It is important to establish an earnings trend for the income. Annual earnings must be level or increasing. If earnings show a decline in the current year, there must be strong offsetting factors to make the commission income acceptable.

Borrowers who receive commission income equal to or greater than 25% of their total income must provide the following:

- Most recent (2) years federal tax returns, and
- Most recent paystub, and
- Most recent year's W-2

If commission income is being used to qualify, the following documentation is also needed:

- Evidence the borrower has been on his/her current job for the past (2) years, and
- A written VOE breaking down base and commission income year to date and for the previous (2) years

Commission income will be calculated using the following method:

- $(\text{Year to date} - \text{prorated last year's 2106 expense}) + (\text{previous year commission} - \text{previous year 2106 expense}) / (\# \text{ of months worked year to date} + 12)$

Note: If income has declined as evidence per YTD earnings then commission income must be calculated using Year to date – prorated last year’s 2106 expense / # of months worked year to date.

Note: If the borrower has switched employers within the past (2) years, but is in the same line of work, commission income may be used if a written VOE is obtained from the previous employer verifying that commission was received and breaking down all earnings.

Tip Income

Tip income, averaged over a two-year period, may be included for loan qualification purposes, provided it meets the following requirements and documentation is provided:

- The borrower must have a two-year history evidencing receipt of tip income.
- The tip income must be stable or increasing, and likely to continue.
- Provide a Verification of Employment Letter or two years of personal income tax returns (including W-2’s).
- A current paystub with year-to-date earnings for the most recent 30 days.

See Commission Income section for income calculation.

Note: If the tip income is not reported on the pay stub or income tax returns, it may not be used for qualifying or as a compensating factor.

Relocation / New Job

Income from a borrower who is relocating or taking on a new job may be used with the following documentation:

- Copy of the employment offer, showing start date, employee name, company and pay rate, and
- A written VOE documenting the borrower has completed at least one day of work prior to funding

Note: If a self employed borrower has recently become a wage earner, evidence of the dissolution of the prior business is needed, or no income can be used from the new wage earner job. Refer to Base Monthly Income for Wage Earners calculations.

Teachers’ Income

Teachers may be paid on a 9-month, 10-month or 12-month basis. As such, a current year-to-date paystub dated within 30 days of application date may not be available. Income structure must be determined before calculating qualifying income. If the borrower is on a pay structure other than 9-months a VOE, or valid contract is needed to verify pay.

Clergy Income

Where a borrower is a member of the clergy, a completed verification of employment, and previous years' W-2 must be provided. If a 1099 is provided, the borrower must be treated as a self-employed borrower. If housing allowance is being used to qualify the borrower, all of the following must be obtained to support housing income:

- Monthly allotment statements
- Proof of receipt for past 2 years
- Proof of continuance for a minimum of 3 years
- Copy of employment contract

Other Income

Part-Time or Second Job

Income from a second job must meet either the documentation requirements for a wage earner or self employed borrower. The borrower must also have a two year history of working at both his/her primary and second job in order to use income from any secondary job.

Pensions / Retirement Income / Social Security Income/ Annuities

If the borrower is of retirement age, income may be used in the qualifying of the borrower with receipt of any of the three listed items below:

- Copy of the most recent award letter/earning statement
- Copy of the most recent 1099-R
- Copy of the most recent signed federal tax returns and a signed IRS form 4506-T

If the borrower is not of retirement age, documentation is needed to evidence the borrower will continue to receive the income for the next (36) months.

Social Security "Net" Income may be grossed up by 25% only when the most recent signed federal tax returns reflect that the entire amount of Social Security Income is non-taxable.

Note: Proof of continuance is not required if income is corporate, government, or military retirement/pension income. If retirement income is in the form of a monthly annuity payment, 401(k), or IRA monthly distribution, proof of three years' continuance is required.

IRA Distributions

IRA distribution income may be used to qualify a borrower with following documentation:

- A 1 year history of receipt via 1099-R or tax returns, and
- Evidence of (3) years continuance as documented with the most recent two months bank statements showing enough funds currently in the account to sustain the calculated income amount.

Spousal or Child Support

Spousal or child support must continue at least three years after the date of the original mortgage loan application to be considered. Pacific Union Financial will accept as verification of the award of spousal and/or child support one of the following documents:

- A copy of the divorce decree, the formal separation agreement, court records, any other type of legal agreement or court decree that describes the payment terms, or

a copy of any applicable state law that requires alimony, child support or maintenance payments and specifies the conditions under which the payments must be made. The document must specify the amount of the award and the period of time over which it will be received.

- The borrowers must provide evidence that the funds have been received for the last 12 months. Acceptable evidence would be deposit slips, canceled checks, bank statements or signed Federal income tax returns.

Note: A 6 to 12-month documented history of receipt of income is acceptable providing the income does not exceed 30% of the total gross qualifying income.

Notes Receivable

Notes receivable income may be used to qualify provided the income is regular, recurring and deemed stable by the underwriter. In order to use notes receivable the following documentation must met:

- A copy of the note confirming the amount, frequency, duration of payments, and
- Evidence the note's payments started at least two years prior to the loan application date, and
- Evidence each individual note being used to qualify has at least three years remaining on it, and
- The most recent (2) years personal tax returns with the note income being reflected on schedule B

Note: Only the interest being derived from the note may be used for qualifying purposes. The repayment of principle must be excluded.

Interest and Dividends

Income must have been received for the past two years as documented per the most recent 2 years personal tax returns. The borrower must also demonstrate the ability to continue earning the calculated income by documenting enough assets needed to continue this level of income. Any funds used for the down payment or closing costs must be subtracted before the income is calculated. A 5% return on investment will be used unless documentation on the asset statements provided clearly shows a different rate of return YTD.

Income will be calculated using the following method:

- 2 years most recent personal tax return / 24 months

Note: If income has declined year over year, must use recent year / 12.

Capital Gains Income

A capital gain or loss is generally a one-time transaction and must not be included as either a gain or loss in income. However, if the borrower's business has a constant turnover of assets which produces regular gains, the gain be considered if it has been received for the past two years as documented per the most recent 2 years personal tax returns. The borrower must also demonstrate the ability to continue earning the calculated income by documenting enough assets needed to continue this level of income. Capital gains from onetime occurrences may not be used to qualify. A 5% return on investment will be used unless documentation on the asset statements provided clearly shows a higher rate of return YTD.

Income will be calculated using the following method:

- 2 years most recent personal tax return / 24 months

Note: If income has declined year over year, must use recent year / 12.

Mortgage Differential Payments

An employer may subsidize an employee's mortgage payments by paying all or part of the interest differential between the employee's present and proposed mortgage payments. This income is not acceptable.

Trust or Estate Income

Trust income may be used if it is properly documented:

- Must be an irrevocable trust
- Reported on last 2 years Schedule E of personal tax returns
- Copy of the Trust Agreement or the trustee's statement confirming the amount, frequency, and duration of the payments
- The income must be guaranteed to continue for at least three years
- Trust fund must have enough remaining assets to guarantee 3 yrs continuance
- Lump sum distributions made before loan closing may be used for the down payment, or closing costs if they are verified by a copy of the check or the trustee's letter shows the distribution amount

Income will be calculated using the following method:

- 2 years most recent personal tax return line 37 of Sch E / 24 months

Note: If income has declined year over year, must use recent year / 12.

Automobile Allowance

For an automobile allowance to be considered as acceptable stable income, a borrower must have received payments for at least two years. The lender must include all associated business expenditures in its calculation of the borrower's total debt-to-income ratio.

Automobile allowances received for less than two years should not be used when calculating the borrower's total debt-to-income ratio. However, this income may be used to justify a higher qualifying ratio.

There are two methods for calculating the income associated with an automobile allowance:

- *Actual cash flow approach:* If the borrower reports automobile allowances on IRS Form 2106 or IRS Form 1040, Schedule C:
 - Funds in excess of the borrower's monthly expenditures are added to the borrower's monthly income.
 - Expenses in excess of the monthly allowance are included in the borrower's total monthly obligations.

If the borrower used IRS Form 2106 and recognized "actual expenses" instead of the "standard mileage rate," the lender must look at the "actual expenses" section to identify the borrower's actual lease payments and make appropriate adjustments.

- *Income and debt approach:* If the borrower does not report the allowance on either Form 2106 or Schedule C, the full amount of the allowance is added to the borrower's monthly income, and the full amount of the lease or financing expenditure for the automobile is added to the borrower's total monthly obligations.

Trailing Income

Pacific Union Financial does not currently allow trailing income from any borrower.

Disability Income

Permanent Disability Income may be used to qualify a borrower only when the following is documented. The documentation must clearly show:

- Payment amount and conditions for termination of payment. The most recent check copy or bank statement is required if the award letter does not contain the current disability payment being received.
- The disability income will continue for the next three years.

Note: Temporary Disability is not allowed.

Foster Care/IHSS

Foster care is typically renewed every 2 years and is therefore not acceptable since it is not guaranteed to continue for the next 3 years.

In cases where the foster care does not need to be renewed, income received for foster care may be used if received on a regular basis for the past two years and is expected to continue at a level that supports the income needed to qualify for the next 3 years. The income must be properly documented which can be a letter from the organization providing the income, award letters, bank statements or deposit slips. The documentation provided must clearly show the number of foster children involved, their ages, and length of care. The total Foster care income may not be more than 30% of total calculated gross income.

VA Benefits

These benefits must be documented by letter or distribution forms from the Veterans Administration and must continue for at least three years. VA Education benefits are not acceptable income because they are offset by education expenses.

Military Income

Military income from flight pay, quarters allowance, and clothing allowance that has a prior two years history may be used if documented by a Leave Earnings Statement and verification clearly shows the payment amount for the future.

Rental Income

Rental income from subject property

Purchase: Document rental income by obtaining an appraiser's opinion of market rent (appraisal forms 1007 & 216) and a copy of the lease (if applicable). Income will be calculated using the lesser of the current market rent derived by the appraiser or the lease currently in place x 75% of that amount – the PITI for the subject property.

Refinance: If the property has been acquired within the most recent tax year, document the rental income by obtaining an appraiser's opinion of market rent (form 1007 & form 216) and copy of current lease agreement. Income will be calculated using the lower of market rent or lease agreement x 75% of that amount – the PITI on subject property.

If the property was acquired prior to the most recent tax year:

- Obtain most recent two years signed personal tax returns (may use 1 year if DU allows for lesser documentation), a copy of the lease agreement and appraiser form 1007 & 216.
- Income will be calculated using the lesser of the following methods:
 - Gross rent amount on the 1040s x 75% - the PITI of the subject property
 - Current lease amount x 75% - the PITI of the subject property
 - Appraiser's opinion of market rent x 75% - the PITI of the subject property

Rental income from other properties

If the property has been acquired within the most recent tax year:

- Obtain a copy of lease agreement and copy of cleared security deposit check.
- Income will be calculated using lease agreement * 75% - PITI for the property.

If the property was acquired prior to the most recent tax year:

- Obtain most recent two years signed personal tax returns (may use 1 year if DU allows for lesser documentation).
- Income will be calculated using the net income line approach.
- If income was not reported on Sch E of tax returns, no rental income may be used for subject property.

If rental income is being used from a non-subject investment property and has been refinanced since the last verifiable tax year:

- Income will be calculated using the lesser of the above method or by taking the gross rents on the most recent variable 1040 for the property x 75% - the PITI for that property.

Note: If using the net income line approach, one-time extraordinary expenses, such as the cost of a new roof, may be excluded if the borrower can satisfactorily evidence the expense was a one-time occurrence.

Note: If the property was acquired in the previous tax year, but rental income was not claimed on the personal tax returns due to the property being "fixed up", rental income may be used to qualify if receipts are provided along with a copy of the current lease and six months cancelled checks/bank statements.

Note: If lease agreements are being used to qualify, the amount of rent must be reasonable to the area and property. The underwriter may ask for a 1007 form to be completed by appraiser if reasonability is in question.

Note: If income is collected by another person or entity (LLC, Corp), and not reported on personal tax returns it cannot be used.

Note: If the borrower has purchased (2) or more rental properties in the past 6 months, the borrower must qualify with the full PITI on those properties and meet all reserve requirements.

Note: On subject non-owner and 2-4 unit owner transactions where rental income is being used to qualify, a minimum of 6 months' Rent Loss insurance is required for the subject property.

Departing Residence - Primary Residence Conversion to Investment

If the current primary residence will become an investment property and at least 30% equity in the current primary residence can be documented via a full AIR appraisal:

- 75% of the rental income may be used to offset the mortgage payment in qualifying for the departing residence when all the following requirements are met:
 - Rental income is documented with a fully executed lease agreement
 - The rental income amount is supported by form 1007 (rental survey by appraiser)
 - Proof is provided that a security deposit was received from the tenant and deposited into the borrower's account
 - Reserve Requirements are met

Underwriter must also determine the logic of the of the primary residence conversion to an investment property based on the values of the two properties and the borrower's situation (such as, moving to a larger home, retirees, distance from employment, etc.).

Note: The appraisal for the departing residence may not be older than (60) days at time of funding, and must be AIR compliant in Pacific Union Financials name.

Boarder Income

Rent from boarders, AKA room rents, may not be considered as income.

Unemployment and Welfare

Unemployment income is an acceptable source of income, provided the following can be documented:

- Evidence the borrower has received unemployment for past two year as denoted on the most recent two years personal tax returns.
- Unemployment is common for the position (seasonal worker).
- Letter from the employer stating the date borrower will return to work.

Foreign Income

Foreign income is an acceptable source of income, provided the following can be documented:

- Evidence the borrower has received the foreign income for past two year as denoted on the most recent two years personal tax returns.
- The pay in its totality is in US dollars.
- Letter from the employer evidencing stability and continuance.
- The transaction must be done as a second home or investment property.

Mortgage Credit Certificates

Pacific Union Financial does not accept a Mortgage Credit Certificate (MCC).

Unacceptable Income

Pacific Union Financial will not accept the use of any income or compensation for qualifying borrowers whose source is not covered in these guidelines.

Examples of these types of unacceptable income included by not limited to:

- The systematic withdraw of funds from a brokerage, savings or checking account
- Unstable income (such as side jobs, under-the-table work, etc)

Non-Taxable Income

Non taxable "net" income may be grossed up by 25% if it can be determined that the entire amount of the income being used is not taxable. Evidence an income source is not taxable can usually be determined by obtaining the borrower's most recent year federal tax return.

Assets / Reserves

Pacific Union Financial requires that all funds needed to close or needed for reserves be documented per the DO/DU feedback. Any large deposits outside the borrower(s)'s normal savings habits must be explained via a written LOE and paper trailed. If the borrower cannot provide a paper trail for the large deposits, the underwriter must back out the deposit(s) from the borrower's assets.

Note: Online transaction histories are only acceptable as supplemental statements to evidence current balances, after DO/DU minimum requirements have been met, and must contain the borrower's name, account number, transaction date history, and a URL.

Note: Any deposits in escrow must be documented, regardless of amount deposited.

Reserves

Under most loan programs, the borrower is required to have a predetermined amount of liquid cash reserves available after the down payment, closing costs and prepaid expenses are paid. The reserves are equal to the proposed monthly housing principal, interest, taxes, insurance (PITI) and are calculated using the Note rate. This requirement assures that the borrower has a financial cushion available should an unforeseen financial problem arise that might impede the borrower's ability to make the mortgage payments in a timely fashion.

Cash-Reserves Requirements

Liquid reserves are determined by AUS with the following exceptions:

- Subject 2nd homes must have a minimum of 2 months PITI for the subject property and 2 months PITI for all other properties.
- Subject non-owner properties must have a minimum of 6 months PITI for the subject property and 2 months PITI for all other properties.
- Purchase transactions where the borrower will be retaining their current residence as either a 2nd home or converting it into a rental property and cannot document 30% equity in the departing home must have a minimum of 6 months PITI for the subject property and 6 months PITI for all other properties.
- Purchase transactions where the borrower will be retaining their current residence as either a 2nd home or converting it into a rental property and can document 30% equity in the departing home must have a minimum of 6 months PITI for the subject property and 2 months PITI for all other properties.
- Loan transactions that have non-permanent resident alien borrower(s) must have 6 months PITI for the subject property.
- When payment shock exceeds 200%

Note: When multiple loans are concurrently closed for the same borrower, each loan must individually meet the cash-reserve requirements for the property type.

Note: Proceeds from the subject transaction may never be used to satisfy minimum reserve requirements.

Acceptable Sources of Funds

Deposits on Sales Contract

Deposits on sales contracts are acceptable as long as the deposit amount is indicated on the purchase contract or escrow instructions and a copy of the canceled check along with a written statement from the holder of the deposit (escrow receipt) is verified.

Equity in Existing Home

Proceeds from the sale of a currently owned home are an acceptable source of funds for the down payment and closing costs of a new house provided the following verification is met:

- A certified seller final HUD-1 showing the net amount distributed to the borrower.

If down payment funds are coming from a HELOC secured by a property other than the subject property, the following must be documented and met:

- A Copy of the HELOC statement showing available funds, and terms of the HELOC.
- Evidence the funds from the HELOC have been transferred into escrow or a documented borrower owned bank account.
- The borrower must be qualified against their debt ratio at 1% of the new HELOC balance as the monthly payment.

Checking and Savings Accounts

100% of the funds may be used from checking, savings and time deposit accounts. If bank statements reflect additional parties on the account and that other party is not the borrower's spouse, a 100% use/access use letter is needed from the co-holder on the statements.

Note: Pacific Union Financial requires all pages of the bank statement(s) in which, reserves, assets being used as qualification purposes, or from which funds to close are coming from.

Business Funds

If the borrower(s) are 100% owners of the business, business funds may be used if all of the following are met:

- CPA letter stating withdrawal of funds will not impact the business.
- Two months latest business bank statements with no large deposits (greater than gross monthly income).

Gift Funds

Gift funds are allowed only on primary and secondary home purchases and refinances and may not be used to meet reserve requirements. Gift funds are allowed to make up the entire down payment but are only allowed on purchase transactions where the LTV/CLTV is less than or equal to 80%. In order to use gift funds, all of the following must be provided:

- The person/party must be an immediate family member, spouse, fiancé/fiancée or domestic partner of the borrower.
- When the gift funds are received prior to the initial verification of assets (bank statement balance includes gift funds), the loan must contain the following documentation:
 - A copy of the gift letter, and
 - Verification of funds in the borrower's account

- When the gift funds are received after the initial verification of assets, the loan file must contain the following documentation:
 - A copy of the gift letter, and
 - Verification of the transfer of the gift funds from the donor to the borrower. Transfer of funds can be verified by a copy of the donor's withdraw slip and borrower's deposit slip OR by a copy of the donor's canceled check and evidence of deposit in to the borrower's account
- When the gift funds are transferred at closing, the loan file must contain the following documentation:
 - A copy of the gift letter, and
 - Verification of the transfer of the gift funds from the donor to the borrower. Transfer of funds can be verified by a copy of the donor's checking showing the donor as the remitter and one line of the settlement statement clearly indicating the exact amount of the gift funds received from the donor.

Gift of Equity

A gift of equity is permitted for purchase of a primary residences or second home. With a gift of equity, no cash changes hands. Instead, the seller agrees to donate a portion of the equity in the subject property in lieu of all or a portion of the down payment.

Equity gifts are restricted to primary residences & second homes only. The LTV should be calculated based on the purchase price or appraised value whichever is less. (The gift of equity may not be deducted from the sales price before calculating LTV.) Gift policy criteria must be met. If the LTV exceeds 80%, at least 5% of the down payment must come from the borrower's own funds, unless the program has a smaller down payment or borrower contribution requirement.

To be eligible as a source of funds for down payment, the following requirements must be met:

- The gift of equity must be provided by a relative (i.e., the borrower's spouse, child or other dependent, or any other individual who is related to the borrower by blood, marriage, adoption or legal guardianship), a fiancé, fiancée or domestic partner; and
- The donor may not be, or may not have any affiliation with, the builder, developer, real estate agent or any other interested party to the transaction; and
- Gift letter explaining the type of gift is required; and
- The lender must confirm that the borrower has contributed his or her own funds equal to at least 5% of the purchase price of the property if the gift of equity is less than 20% of the sales price; and
- The gift of equity must be identified in the Sales Contract; and
- The sales price of the property must be at a market rate; and
- The gift of equity must be transferred to the buyer as a credit in the transaction; the final equity exchange must be documented on the fully executed HUD-1.

If the above requirements are met, the gift of equity from the seller of the property to a buyer who is related to the seller is not subject to interested party contribution requirements

IRA/Keogh Accounts/401(k)/Retirement Plans

60% of the vested assets held in IRA, SEP IRA, 401(K), KEOGH, 403(B) and other IRS qualified retirement plans may be used so long as the borrower is evidenced as being owner of the account. 0% of assets may used for all retirement accounts that contain

employment clauses (CALPERS is an example of this type of an account). If funds are being used to close, a copy of the terms and conditions of withdraw are needed, along with evidence the funds in the account have been liquidated. Loans secured against these assets are not required to be included in the debt ratio, but evidence of the loan terms is required.

Life Insurance

70% of the cash value of a life insurance policy may be used so long as the borrower is evidenced as being the owner of the amount. 0% of the assets may be used if the account contains a clause that would restrict the withdrawal of funds from that account. If funds are being used to close, a copy of the terms and conditions of withdraw are needed, along with evidence the funds in the account have been liquidated. Loans secured against these assets are required to be included in the debt ratio and evidence of the loan terms and receipt of the funds is required.

Government Bonds

Government bonds should be valued at their 60% of the purchase price or redemption value (if known). The redemption value can be determined and verified by copies of the bonds showing the borrowers as owners, date of maturity, the amount of the bond, and the value of the bond on the appropriate U.S. Treasury Table. The actual redemption of bonds and receipt of funds must be verified by a copy of a statement in the loan file.

Stocks or Securities

70% of the assets held in individual accounts are allowable. If the bank statements name an additional party other than the borrower or their spouse a 100% use letter is needed from the institution issuing the statements, unless the other party named is the spouse of the borrower.

Note: Stock options and non-vested restricted stock are not eligible for use as reserves.

Trust Account

Trust account funds may be used if the borrowers have access to them and they can be verified. Verification is limited to a trust cert or a copy of the actual trust agreement (all pages).

Rent Credit for Options to Purchase

The seller may give the purchaser credit toward the down payment for a portion of the previous rental payments the purchaser made under a documented rental purchase agreement with a minimum term of 12 months. The portion of the rental payment that exceeds fair market rent can be applied towards the applicant's down payment. A copy of the rental purchase agreement along with copies of canceled checks or money orders for the last 12 months must be obtained. The appraiser must determine fair market rent for the calculation of the credit. Documentation must be provided to support the applicant's own 5% down payment, including any allowable credit for payments made above the fair market rent.

Note: The use of rent credits given by an uninterested third party is not allowed.

1031 Exchange Documentation

Borrower funds obtained through 1031 tax deferred exchanges are allowed only on investment properties. The following documentation is required:

- Sales contract and/or escrow instructions are required for both the relinquished and acquired properties.
- 1031 Exchange Agreement.
- HUD-1 Settlement Statement for both properties.
- Verification of receipt of funds by the Accommodator or exchange holder from the property being relinquished and credit of those funds to the subject property.

Ineligible / Unacceptable Sources of Funds

The following are considered unacceptable sources of funds that cannot be used for the down payment, closing costs or reserves:

- Depletion of assets
- Cash advance on credit card(s)
- Signature loan(s)
- Unsecured financing
- Personal loan
- A gift that must be repaid
- Cash for which the source cannot be verified (cash on hand)
- Commission from sale of subject property
- Salary advance
- Sweat Equity (contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash)
- Unverified source of funds
- Reverse mortgage
- Pension fund

Condominiums

Pacific Union Financial defines a condominium as a type of ownership in real property where all of the owners own the property, common areas and buildings together, with the exception of the interior of the unit to which they have title. This is often mistakenly referred to as a type of construction or development, but actually refers to the type of ownership.

Pacific Union Financial currently lends only on established projects (excluding conversions) that meet Fannie Mae's DU Limited Review guidelines.

Limited Review Guideline (5 or more units)

In order for a condominium to be eligible for financing with Pacific Union Financial, all of the following must be met:

- The DU feedback must allow for a limited review
- The project must be 100% complete
- 90%+ of all units must have been conveyed to the unit purchasers
- Control of the HOA has been turned over to the individual unit owners
- Commercial space makes up less than 20% of the entire project size
- A copy of the Project's Operational Budget is provided
- An HOA questionnaire completed that answers all questions on Pacific Union Financials published questionnaire form
- The project meets Pacific Union Financials insurance requirements
- The project passes Pacific Union Financials Limited Review Checklist

Limited Review Guideline (2-4 unit Projects)

In order for a condominium to be eligible for financing with Pacific Union Financial, all of the following must be met:

- The DU feedback must allow for a limited review
- The project must be 100% complete
- 100% of all units must have been conveyed to the unit purchasers
- The transaction must be a refinance or resale (not the original sale/conversion loan)
- Control of the HOA has been turned over to the individual unit owners
- Commercial space makes up less than 20% of the entire project size
- No single entity may own more than 1 unit in the project
- All units except (1) must be owner occupied or 2nd homes
- An HOA questionnaire completed that answers all questions on Pacific Union Financials published questionnaire form
- The project meets Pacific Union Financials insurance requirements
- The project passes Pacific Union Financials Limited Review Checklist

Limited Review Guideline (Site Condos)

In order for a condominium to be eligible for financing with Pacific Union Financial, all of the following must be met:

- The DU feedback must allow for a limited review
- The project must be 100% complete
- 90%+ of all units must have been conveyed to the unit purchasers
- Control of the HOA has been turned over to the individual unit owners
- Commercial space makes up less than 20% of the entire project size
- The appraisal and the prelim define the property as an established condominium
- An HOA questionnaire completed that answers all questions on Pacific Union Financials published questionnaire form

- The project meets Pacific Union Financials insurance requirements
- The project passes Pacific Union Financials Limited Review Checklist

Note: A copy of the Limited Review Checklist and HOA certification can be found at www.pacuniondirect.com.

Note: Condominiums that are eligible for DU Refinance Plus Transactions do not need to meet the limited condo review requirements, but must meet the minimum insurance requirements for condominiums.

Ineligible Projects

Any projects with the following characteristic(s) are ineligible for financing with Pacific Union Financial:

- Principle Residences with LTV/CLTVs above 90%
- Secondary Homes with LTV/CLTVs above 75%
- Projects that do not waive their right to first refusal
- Manufactured housing or Houseboat(s)
- New Attached unit(s)
- Condotel (projects with hotel like amenities or that share facilities, common elements or amenities with a hotel, resort and/or lodge that is owned and managed by the developer or third party)
- Project/units that do not have full size kitchen appliances; including efficiency kitchens
- Projects with mandatory rental pool agreements requiring unit owners to either rent their units or give management firm control over the occupancy of the unit. These agreements include blackout dates, continuous occupancy limitation and other such restrictions. In return the unit owner receives a share of the revenue generated from the rental of their unit
- Timeshare or segmented ownership
- Live-work condominiums (usually used for artist's studio, workshops, factories or galleries)
- Multi-dwelling unit projects where an individual holds title to more than one dwelling unit with the ownership of all units is evidenced by a single deed of trust or mortgage (i.e.: Developer)
- "Own Your Own Property" which is identified as such in the legal description (this allows the "own your own" individual the right to occupy a given unit, instead of actual ownership of the unit)
- Projects with non-incidental businesses operated or owned by the homeowner's association (restaurant, health club, spa, etc.)
- Any project or building owned by several owners as tenants-in-common or by a HOA in which the individuals have an unidentified interest in a residential apartment building and have the right of exclusive occupancy of a specific unit in the building
- Projects characterized as or promoted as an investment opportunity or have documents on file with the SEC
- Projects with commercial space used for non-residential purposes that exceeds 20% of the total project square footage
- Projects in which a single entity (the same individual, investor group, partnership or corporation) who owns more than 10% of the total number of units in the project
- New projects in which the property seller offers sales/financing structures in excess of the maximum allowable contributions for individual loans
- 2-4 unit projects where a single entity owns more than one unit

- Non-warrantable condominium projects (projects that do NOT meet FNMA or FHLMC warrantable project guidelines); these typically allow for additional features and characteristics such as higher investor concentration and lower presale requirements
- Zoned commercial/residential
- Less than 600 square feet (could be located within a Condotel)
- Litigation of any kind

Insurance Requirements

Pacific Union Financial requires at a minimum the following for all condominium projects:

- 100% or guaranteed replacement cost or
- \$2,000,000 in liability for projects with less than 100 units and \$3,000,000 for projects with over 100 units

AND

- Fidelity Bond Coverage for all projects over 20 units that is equal to at least (3) months HOA dues for all units in the project

AND

- H0-6 (Walls in) coverage of at least 20% of the current appraised value of the subject property

AND

- Flood Insurance if applicable

Collateral Appraisal

Analysis of the appraisal report and underwriting the property is a vital part of a collateral risk analysis. So to ensure the upmost integrity of appraisal report, Pacific Union Financial does not take transferred appraisals.

USPAP Compliant

Pacific Union Financial requires all appraisals to be compliant with the standards and practices established by the Uniform Standards of Professional Appraisers Practice (USPAP).

Responsibility of Underwriter

The underwriter is responsible for thoroughly analyzing the appraisal report, and through it, the property itself, to determine value is adequately supported and the subject property fits program guidelines. A satisfactory appraisal review should be obtained on each file.

Appraisal Interaction Policy

To ensure and maintain independence between third parties and appraisers during the valuation process, associates and third party affiliates of a mortgage broker must not directly or indirectly coerce, influence, or otherwise encourage and appraiser to misstate or misrepresent the value of the consumer's principal dwelling.

Role of Appraiser

The appraiser's role is to provide an estimate of value, as well as a complete, accurate description of the property.

Independent Analysis

It is in the best interest of all parties to have an independent, disinterested examination and valuation of property to accurately determine the borrower's collateral. The appraiser must remain free of any outside influence in the valuation process, and the estimated value must be based on the appraiser's professional conclusion, market data, logical analysis, and judgment.

Providing Copies of the Appraisal

To comply with the Equal Credit Opportunity Act (ECOA) and Regulation B, Pacific Union Financial recommends the following:

- Provide a copy of the appraisal report to the loan applicants, regardless of whether the applicant has paid for the report.
- Send copies of all supporting schedules, or any other supporting documentation submitted by the appraiser, with the appraisal report copies.

Note: Mail delivery is calculated using the following:

- Include Monday through Saturday
- Include both the day mailed and the day delivered
- Exclude Sunday and legal holidays

Examples:

- First Class Mail – is deemed received the fifth day after mailing, including the date mailed.
 - For example, a package mailed on Wednesday (day one) is deemed received on Monday (day five).

- Overnight Mail – is deemed received the day after the package is sent.
- E-mail, hand delivered, and faxed deliveries – is deemed received on the delivery date.

Note: Sundays and legal holidays may not be included in the three business day calculation. However, all of the following may be included in the three business day calculation:

- The appraisal delivery day
- The loan closing (document execution) day
- Saturday

Appraisal Delivery Waiver

AIR allows the borrower to waive the three business day delivery requirement. Appraisal delivery waivers are only to be used in the event that the timing of the appraisal completion conflicts with meeting the required delivery time frame based on the scheduled closing date. Use of waivers is subject to the following conditions:

- The practice of requirement a blanket waiver for the three business day delivery requirement on all loans is unacceptable.
- When the advance delivery requirement is waived by the borrower, a copy of the appraisal is still required to be provided no later than closing (as defined in this Section).
- In all circumstances, the date and method of delivery of each appraisal to the borrower, even if delivered by hand at closing, must be documented in the delivered loan file.
- The waiver of the advance delivery of appraisals cannot be requested by the borrower at closing.

Pacific Union Financial allows appraisal delivery waivers to be facilitated in Written Waiver format:

Written Waiver

Clients may choose to obtain a written waiver of advance delivery of the appraisal from the borrower when the appraisal cannot be delivered timely (at least three business days prior to closing). In this instance, the Appraisal Report Deliver Disclosure (above) would not be used and the client would be relying on the borrower requesting the waiver of the advance delivery of the appraisal for their review by using the Appraisal Report Delivery Waiver form. The written waiver must be voluntary, and executed, signed and dated by a minimum of one borrower at least 3 days prior to docs being drawn; the waiver cannot be signed at closing.

- Sundays and federal holidays do not count towards this 3 day period.
- The day the borrower signs the waiver and the day docs are drawn can both be included in the 3 day period.
 - Example: If the waiver is signed on Monday, docs may be drawn on Wednesday.

General Appraisal Requirements

All appraisals are subject to the following appraisal requirements:

- The most recent and similar comparable sales available as part of the sales comparison approach must be used. Any change in market conditions from the date the contract of sale was signed and date of the appraisal must be considered.

- Verification of comparable sales with a reliable party that is not associated with the subject property or the subject property's development, and at least two comparables, must be verifiable through the Multiple Listing Service (MLS) as arms-length transactions.
- Two of the comparable sales must have closed within the last 90 days.
- At least two active listings, or two pending comps, or one of each must be provided.
- Comparable sales must be mapped in the appraisal.
- Days-on-market (DOM) for subject and comparable sales must be provided, if applicable. The average days-on-market for the comparable sales must not exceed the "Marketing Time" box marked by the appraiser.
- If the appraiser is unable to meet any of the above requirements, the appraiser must provide a detailed explanation as to why the requirements were not met, and if it resulted in making an adjustment to the property value.
- Provide a 12-month listing history for the property. Frequent listings and/or sales require explanation on each occurrence or listing and should include the data sources(s), offering prices, date(s), and any further evaluation that may indicate "flipping."

New Projects and Developments Additional Requirements

The appraiser must use at least one current sale from the subject builder/developer in the project, and either:

- One recently built and sold (last 90 days) comp from another builder/developer, or
- A resale from within the subject property's development that has closed within the last 30 days.

Note: The appraiser may need to rely solely on the builder of the property they are appraising to provide comparable sales data, as this data may not yet be available through typical data sources (such as public records or MLS). In these instances, the appraiser may verify the transaction of the comparable sales by viewing a copy of a HUD-1 Settlement Statement from the builder's file.

Purchase Transaction Additional Requirements

In accordance with agency guidelines for purchase money transactions, the appraiser must be provided with a copy of the Purchase Contract and all addenda so he or she can take into account any unusual or excessive sales contributions or concessions. Any amendments or adjustments after the appraisal is complete must be supplied to the appraiser for review.

Desk Review

A desk review is ordered by an underwriter, when any of the following apply to a file:

- AVM fails or has a high risk score
- Cashout transactions over 75% CLTV
- Property Flipping
- Multi Units
- Refinance transactions with property listed for sale in past 12 months
- At underwriters discretion if comps do not meet requirements.

Appraisal Age Requirements

Appraisal reports are valid for 120 days from completed date by appraiser to funding.

Detrimental Conditions

The presence of any detrimental condition, such as infestations or expansive soils, must be noted by the appraiser and considered in estimating the value and marketability of the property. All detrimental conditions must be fixed prior to loan closing.

Environmental Hazards and Adverse Influences

The appraiser must note and address the presence of:

- Hazardous wastes, such as toxic substances, asbestos-containing materials, urea formaldehyde insulation, or radon gas.

And/Or

- Adverse physical influences, such as railroad tracks, freeways, airport flight paths, shopping centers, and commercial businesses.

Evaluation of the Market Conditions Addendum (Fannie Mae Form 1004MC/Freddie Mac Form 71)

This addendum provides the appraiser with a structured format to report market data, help further clarify conclusions made the appraiser, and supplies the lender with a clear and accurate understanding of the market trends and conditions prevalent in the neighborhood. Appraisers must analyze and note the following:

- Inventory Analysis Section – the appraiser must analyze and report important supply and demand factors in order to reach a conclusion regarding housing trends and market conditions. In order to analyze the sales activity and the local housing supply, the appraiser must include the following:
 - Comparable data reflecting the total pool of comparable properties from which a buyer may select a property. The months of housing supply is based on the total listings for the applicable period divided by the absorption rate.
 - The absorption rate at which properties for sale have been or can be sold (marketed) within a given area. To determine the absorption rate, the appraiser divides the total number of settled sales by the time frame being analyzed.
- Median Sale and List Price, Days on the Market (DOM), List/Sale Ratio – the appraiser must analyze additional trends including the changes in the median prices and DOM for both sales and listings as well as a the change in the list-to-sales price ratios.
- Overall Trend – the appraiser must report potential positive trends, neutral trends, or negative trends in inventory, median sale and list price, DOM, list-to-sale price ratio, and seller concessions.
- Seller Concessions – the appraiser must comment on the prevalence of seller concessions and the trend in seller concessions for the past 12 months. The change in seller concessions within the market provides the client with additional insight into current market conditions. The appraiser should consider and report on seller paid (or third-party) costs.
- Foreclosure Sales and Summary Analysis of Data – the appraiser must comment on the presence and extent of foreclosure/REO sales, summarizing the data, and provide other data analysis or additional information, such as analysis of pending sales which over time can show a market trend.

Note: It is recognized that all of the requested data elements for analysis are not equally available in all markets. If this is the case, the appraiser must explain the attempt to obtain such information. Data may also be available in certain markets only as “average” rather than “median.” Such differences must be noted by the appraiser.

Unacceptable Practices

The following appraisal practices are not acceptable to Pacific Union Financial:

- Inclusion of inaccurate or incomplete data about the subject property, the neighborhood, or any comparable sale.
- Failure to comment on negative factors about the property, the neighborhood, or the proximity of the property to unfavorable conditions that could impact marketability (such as factories, airports, freeways).
- Relying on the valuation analysis of comparable sales that were not personally inspected by the appraiser by, at minimum, a drive-by inspection.
- Selection and use of inappropriate comparable sales or the failure to use comparables that are the most similar to the subject property based on the location and physical size, age, condition, and appearance.
- Use of data, particularly comparable sales data, provided by parties who have a financial interest in the sale or financing of the subject property without verification from a disinterested source.
- Use of excessive or unusual adjustments for differences between the property and the comparable sales that do not reflect the market's reaction to such differences, or failure to make proper adjustments for differences when clearly necessary.
- Development of a valuation conclusion that is based, either partially or completely, on the race, color, religion, handicap, national origin or familial status of either the prospective owners or the occupants of the property, or of the present owners or occupants of the properties in the vicinity of the subject property.
- Development of a valuation conclusion that is not supported by available market data.

Note: Homes in less than average condition, or that require excessive repairs are not eligible for financing.

Appraisal Forms

Full Appraisals

Pacific Union Financial requires a Full Appraisal on all loans except when one is not required per the DU feedback. This report must include an interior and exterior inspection, a sketch map and location map of the subject property, and photos of all of the following for all units:

- The kitchen(s)
- All bathroom(s)
- The main living/family room
- Exterior Front of the subject property
- Exterior Rear of the subject property
- View of the Subject's street
- Photo of any pool or spa
- Any physical deterioration noted in the appraisal
- Any recent updates, such as restoration, remodeling or renovations (if present)

The following are appraisal forms denoted by property type:

- SFR or PUD 1004
- Multi-Unit (2-4 units) 1025
- Condo 1073
- Operating Income Survey addendum 216
- Rental Survey addendum 1007
- Appraisal Update/Completion Report 1004d

Note: Pacific Union Financial does not accept appraisal forms 1075 or 2055 or 2075.

Note: Pacific Union Financial only lends on habitable properties that are originally appraised at average or better condition and free from any safety issues. At a minimum, the property must contain a working stove/oven, running water free from any safety hazards such as broken or missing glass, missing stair wells or toxic mold. Pacific Union Financial also requires all pools and spas be in working order (including being filled with clean water) or they must be filled in completely with dirt and accompanied by a soil engineer report certifying the safety of the filled in pool.

Inspections and Certification Requirements

A property inspection is not required for termite, private well, septic system, or roof, unless required in the purchase agreement or when the appraiser recommends the inspection in the appraisal report.

Corrective Action

When an inspection recommends corrective action, the deficiency must be corrected and documented with an appraisal form 1004d in the loan file prior to closing the loan.

Operating Systems

When an appraiser comments that the operating system or portion of the structure (for example, the roof, plumbing, hot water system, or heating system) is reaching the end of its physical life or utility, the inspection must certify that the system has at least a remaining life of a minimum of three years.

Subject Section

The first section of the appraisal, or subject section, identifies the subject property, describes the property rights to be appraised, and summarizes financing data and sales concessions.

Identification of Property

The appraiser must identify the subject property by its complete property address and legal description. A post office box number is not acceptable. The appraiser must indicate the nearest intersection if a house number is not available. If the legal description is lengthy, the appraiser may attach it as an addendum to the report. The appraiser must provide a full and accurate census tract number. The number must be taken from the most recent census information.

Concessions

The appraiser must state the total dollar amount of the loan charges and/or concessions that will be paid by the Client (or any other party who has a financial interest in the sale or financing of the subject property), real estate taxes, and Homeowners' Association dues. Appraisers should comment on any concessions that are unusual or excessive and the impact, if any, to the sales price.

Estate Type

The appraiser must indicate the type of estate in which the property is held.

Fee Simple: This is the highest form of ownership a person can have in real estate, including the right to occupy, dispose of, and bequeath the property.

Leasehold: This is an interest in property governed by the terms of the lease. When the lease expires, all rights revert back to the owner. The lease term should be at

least ten years longer than the term of the mortgage. Leases on Native American land are not acceptable.

Note: The lease should not contain provisions for termination in the event of damage to or destruction of the premises as long as the leasehold mortgage exists. The lease must provide for the leasehold mortgagee's right to exercise any renewal options that may exist.

Neighborhood Analysis

Common Characteristics of Area

The neighborhood analysis should identify common characteristics and trends in the area where the subject property is located. The actual neighborhood being considered should be clearly defined using street names and other recognizable boundaries.

Comparables

The sales price of comparable properties in the identified area should reflect positive and negative influences in the neighborhood. The analysis should consider the effect of social, economic, governmental, and environmental forces on property values.

If an appraiser uses comparable sales outside the subject neighborhood when comparable sales are available, an explanation and any differences must be provided.

Neighborhood Description

The appraiser must be impartial and specific in describing favorable and unfavorable factors in a neighborhood and should avoid using subjective phrases in the appraisal report. The appraiser should explain changes that have occurred in the area that might influence the marketability of properties within the neighborhood. If foreclosure or Real Estate Owned (REO) sales represent a significant percentage of property transfers, the appraiser should address their impact on value and marketability. In addition, the appraiser must also comment on any market resistance to the neighborhood due to environmental hazards or any other factor.

Urban Areas

Underwriting loans in urban areas on a block-by-block basis is not acceptable.

Area Development

The degree of development (or "built up") is the percentage of the available land in the neighborhood that has been improved. Areas less than 25% developed are not eligible for financing.

Growth Rate

Growth rate is an important indicator of the viability of an area. A stable growth rate is preferred when maximum financing is involved, and property values should be stable or increasing when maximum financing is requested. If property values are declining, the appraiser must comment on the reason for the decline.

Oversupply of Homes for Sale and Marketing Time

Supply and demand for houses and marketing time often go together. When there is an oversupply of houses for sale, the marketing time is usually longer than when there is a shortage of desirable housing. Appraisers must comment in the appraisal if there is an oversupply of houses for sale and/or marketing time exceeding six months.

Transitional Property Value

To determine if a neighborhood is in transition, Pacific Union Financial relies on the present land use, the predominant occupancy composition, and the likelihood that either will change. An area that is primarily tenant-occupied can suffer deterioration in the general appearance of properties and subsequent loss in value. High vacancy rates can also have a negative impact on property values.

Under or Over Improvement

The price range and predominant value of properties in the neighborhood can tell the underwriter if the subject property is an "under-improvement" or an "over-improvement" for the area. Over-improvement may not be acceptable to typical purchasers and may require more stringent loan terms. Usually value is best maintained when the property is in a neighborhood with similar dwellings. However, values in a mixed-use neighborhood may be enhanced by easy access to employment, improving neighborhood appearance, and a high level of community activity.

Percentage of Developed Land

The relative percentages of developed land should be shown; undeveloped land should be shown as vacant. Any unusual situations or types of land use should be mentioned in the comments section. The total types of land use must equal 100%.

Changes in Land Use

Land use change must be indicated. If there is change happening, the appraiser must indicate what the change is so the underwriter can determine if the affect will be positive or negative on the property value.

Properties with Excess Land Acreage

Residential properties with a lot size greater than 10 acres are not eligible for financing.

Working farms, ranches, orchards and commercial operations of any type are not permitted. The appraisal must show that such land/acreage is typical and readily marketable for the area. In addition, the site improvements must represent at least 70% of the market value after the deduction of the value of the outbuildings (barns, stables, machinery storage facilities, and other agricultural related structures) from the appraiser's final estimate of market value.

Note: Although properties located on up to 10 acres are permissible, they may not zoned rural and all comparable sales must meet standard appraisal guidelines.

Site Analysis Topography

To determine if a property qualifies for maximum financing, the underwriter must know if the site is of a size, shape, and topography that is acceptable in the market area. The appraisal must include the actual size of the site and not a hypothetical portion. Utilities, street improvements, and other amenities must be competitive with other properties in the area. Utilities must also meet community and local government standards. Plumbing must be up-to-code and not represent a health and safety hazard to the occupants.

- The appraiser must comment if any items in this section are not typical for the area.

Zoning

In addition to showing alpha or numeric indications (for example, single family for R-1), the zoning classification must be described. The appraiser must include specific information if the improvements do not represent a legal, conforming use of the land. Pacific Union

Financial will not originate a mortgage if the improvements do not constitute a legally permissible use of the land.

No Zoning

Properties not zoned are not eligible for financing, unless common for the area.

Legal Non-Conforming Use Properties

Legal non-conforming use properties are properties that do not conform to current zoning requirements but its use is permitted in its present state. This may be a result of a "grandfather clause" which stipulates that changes to the zoning ordinance do not affect a structure built prior to the law, only new structures.

Pacific Union Financial will originate a mortgage secured by a legal, non-conforming use property; however, the appraiser must confirm the ability to rebuild in the event of full or partial destruction, citing the specific source of his or her data, e.g., the name, position and telephone number at the municipal agency. A "rebuild letter" is also acceptable.

Flood Hazard Area

The appraiser must indicate whether the property is located in a Special Flood Hazard Area (SFHA), as identified by the Federal Emergency Management Agency (FEMA). Flood insurance will be required.

Acceptable Locations

Pacific Union Financial will originate loans for properties in urban, suburban areas. The mortgage must be secured by a residential property based on the description of the property, zoning, and present land use.

Unacceptable Properties

Pacific Union Financial does not lend on:

- Condotels and Hotel Condominiums
- Manufactured. Mobile or Modular homes
- 2-4 unit properties with detached units that can be subdivided
- Subject to deed restrictions
- Are unique to the area, including but not limited:
 - GLA
 - Lot Size
 - Design
 - Consisting of additional structures (E.g. barns, workshops, in-law units)
- Geodesic domes, dome homes, log cabins, A-Frames
- Homes located in Lava Zones 1 or 2
- Located on over 10 acres
- Income producing
- Mixed Use
- Properties containing (5) or more units
- Commercial
- Industrial
- Properties without a heating source or septic systems that aren't common for the subject property's area
- Attached Single Family Residences that do not have a common wall agreement
- Vacant properties (refinances)
- Undeveloped land

- Land developments
- Agricultural properties, such as farms, ranches, orchards
- Properties below 600 sq feet
- Timeshare or segmented ownership properties
- Houseboats
- Multi-dwelling PUDs
- Properties with deed restrictions that limit transferability of title, or contain a "first right of refusal" provision
- Residences lacking kitchen and full bathroom facilities
- Properties in C5/Q5 or C6/Q6 condition

Note: Deed restricted properties include but are not limited to homes in 55+ or older communities, below market rate housing and income restricted housing.

Properties in the Redemption Period

Pacific Union Financial will not originate loans on properties that are in the redemption period.

Improvements

Conformance with Neighborhood

Improvements should conform to the neighborhood in terms of age, type, design, and materials used in construction. The underwriter should review the loan more carefully if there is market resistance to the property because the improvements are not compatible with the neighborhood. Many older neighborhoods, however, feature a diversity of architectural styles and land use that has created a positive marketing influence.

Living Area of Dwelling

Pacific Union Financial requires a minimum 600 square feet living area. Dwelling units must contain sufficient living area to be acceptable to typical purchasers or tenants in the subject market area. There should be comparables of similar size to the subject property to support the general acceptability of a particular property type.

Effective versus Actual Age

The relationship of effective age to actual age is a good indicator of property condition. Properties that have an effective age higher than their actual age probably have not been well-maintained. In such cases, the lender must pay close attention to the condition of the property in their analysis of the loan.

Condition of Improvements

The appraiser must report the condition of the improvements in factual terms. Items found to be below average or inferior to similar items in competing properties in the subject's market area will probably result in buyer resistance to the subject property. The appraiser must comment on these items, the reasons for such findings, and how they affect the marketability and value of the subject property. The significance of such findings must be considered and addressed by the underwriter.

- Properties reported to be in C5 or C6 (condition) are ineligible for financing.

Energy Efficiency

Insulation and energy efficient items should be noted. These two factors can be important marketing items and can result in lower monthly maintenance and upkeep costs. The contribution of these items to value varies throughout the country due to climate conditions and utility costs.

Gross Living Area

The appraiser must be consistent when calculating the above-grade room count and square footage of gross living area that is above grade.

Only finished above-grade areas should be counted; garages and basements should not be included. Pacific Union Financial considers a level to be below-grade if any portion of it is below ground. Rooms that are not included in the above-grade count may add substantial value to the property. The appraiser, therefore, should report the basement and other partially below grade areas separately and make appropriate adjustments for them in the Sales Comparison Analysis section.

Adverse Conditions

Adverse conditions such as infestation, dampness, or settlement should be noted and the appraiser must comment on their effect on the subject property's marketability and value.

Adverse Environmental Conditions

The last item in the comments area for this section requires the appraiser to mention adverse environmental conditions. This is an important area since it could trigger environmental hazard disclosures be provided to the borrowers.

Adjoining Property

The appraiser must consider the present or anticipated use of any adjoining property that may adversely affect the value or marketability of the subject property.

Properties with Outbuildings

Properties with outbuildings must be legal with permits, typical for area and able to be comp'd out with one sold and one active listing.

Accessibility of Property

All properties must be readily accessible by all weather roads that meet local standards and must have adequate utilities that are currently in service. The appraiser must also consider the present or anticipated use of any adjoining property that may adversely affect the value or marketability of the subject property.

Note: If the property has a private road, a copy of the private road agreement is necessary unless located in a PUD. The appraiser must comment on the effect of the private road on the subject property's marketability and value.

Security Bars

The appraiser must comment with respect to the use of burglar or security bars. There must be an emergency release latch for at least one window in each room where the security bars are located, unless local or municipal codes state otherwise. The appraiser must provide a photo(s) of the window being opened/unlatched.

Home Improvements

When documenting home improvements, the appraisal of the property should reflect and comment on the improvements made and be based on the "as-completed" value of the property.

Special Considerations

Certain aspects of the location of a property require special consideration. For example, properties in resort areas that attract people for seasonal or vacation use are acceptable only if they are also suitable for year-round use.

Any property that is not suitable for year-round use is not acceptable, regardless of its location. Geographical areas that have a limited diversification of employers should also be carefully analyzed, since the discontinuance of the operations of a single industry can affect housing stability in the whole area.

Multiple Lots/Parcels

Pacific Union Financial typically lends on properties that have only one tax parcel number. In certain circumstances, division of the lot/parcel is necessary, as when the plot is located on two sides of a public way.

Multiple lots/parcels are eligible with the following requirements:

- The lots/parcels must be adjoining.
- The lots/parcels must be zoned residential.
- Only one lot/parcel may have a dwelling unit.
- Adjoining lot/parcel may have either no improvements or limited, nonresidential improvements, such as a garage.
- Partial release for any lot/parcel is not allowed.

Note: A letter from title must be obtained stating parcels cannot be sold separately.

Special Property Features

Pacific Union Financial will lend on properties with special features, as long as the property meets all other general requirements.

Private Well or Septic Facilities

If the property has private well or septic facilities Pacific Union Financial requires a satisfactory certification under the following conditions:

- The appraiser makes a comment that there appears to be a problem or requires an inspection.

OR

- The sales contract requires an inspection.

When private community facilities are used, the client should verify that the subject property has the right to access the system and that the facilities will be viable on an ongoing basis.

Street Surfaces

The street should be all-weather. A street with a relatively steep grade must have adequate concrete gutters to prevent erosion from heavy rainfall. The appraiser must also comment on the adequacy of storm drain facilities to prevent flooding of basements or houses on low-lying lots. The presence of sidewalks, curbs, gutters, street lights, and alleys depends on local custom; if they are required in the community they must be present.

Building Permits

Building permits are required under any of the following conditions:

- Whenever the Purchase Agreement or Sales Contract requires it.
- If indicated in the appraisal report that there is an addition to the original structure, extensive remodeling, or conversions of an existing structure.
- Whenever a second story, kitchen, bath, multiple rooms, or detached unit has been added to the original structure.

Note: If the appraiser comments that the addition, remodeling, or conversion was permitted, a copy of the actual permit is not required.

If the property has an unpermitted addition, Pacific Union Financial will lend on this property if all the following apply:

- The addition is minimal in nature
- The addition does not contain an unpermitted kitchen
- The appraiser gives no value to the addition.
- The appraiser must indicate it was completed in a workmanlike manner.
- The appraiser must comment the addition conforms to the neighborhood, and wont effect marketability.
- If the garage has been converted, the appraiser may not give value as a garage, and must comment on the cost to cure back to a garage not exceeding \$5,000.
- The property is not a multi-unit property with the unpermitted addition being an additional unit.

Note: No rental income can be used for guest homes, casitas or au pairs.

Mixed Use Properties

A mixed use property is a property that has a business use in addition to its residential use. Mixed used properties are not allowed.

Construction to Permanent Loans

Construction to permanent financing involves two loans, a construction loan and a long-term refinance of the construction loan. The transactions involve the use of standard loan documents. Pacific Union Financial does not originate construction to perm loans, however if the borrower is paying off an existing construction loan, the new transaction must be treated as a cashout transaction.

Escrow Holdbacks

Escrow holdbacks are used to hold a portion of a loan in an escrow account until an additional requirement is completed. This borrower accommodation allows the loan to close and the borrower to occupy the property while incidental work is finished. Pacific Union Financial will not allow escrow holdbacks under any condition.

PUD Classifications

A Planned Unit Development (PUD) is a project that consists of common property and improvements that are owned and maintained by the homeowner's association for the benefit and use of the individual PUD units.

The project may consist of attached dwellings or stand-alone detached dwellings.

The key difference between condominiums and PUDs is a condo owner receives title to a unit and a PUD owner receives title to a lot which includes the dwelling.

Note: The legal description on title will usually show if condo or not.

Attached PUD Established Projects (Type E): A project in which, the project is 100% complete and 90% or more of the total units have been conveyed to the unit purchasers.

Attached PUD New Project (Type F): A new or existing PUD project in which control of the homeowners' association has not been turned over to the unit purchasers and the Detached and Attached PUD is still under control of the developer, regardless of construction status (proposed construction, under construction, or completed construction). Pacific Union Financial will not lend on Type F PUDs.

Detached PUDs: No review is required for mortgages secured by an established detached PUD dwelling (regardless of whether the project consists of attached dwellings only or a combination of attached and detached dwellings). A detached PUD is processed the same as a single family residence.

Note: Pending litigations are not allowed.

Property Valuation / Appraisal Review

The appraisal report must support the appraiser's estimated market value of the property. The property valuation on the back page of the report shows how the appraiser arrived at the estimated value. To ensure investment quality, the approaches used in the report, or explanations for non-use, must be consistent with all other information on the report and in the loan file.

Valuation Approaches

The valuation section of the appraisal report enables appraisers to develop and report an estimate of market value based on three approaches:

- Cost Approach – Estimates the value of the property by adding the replacement costs of the improvements, less depreciation, site improvements, and the land value as of the date of the appraisal.
- Sales Comparison (or Market Data) Approach – Considered the best method for estimating value of a single-family residence, this approach estimates value by comparing similar properties sold in the same or comparable neighborhoods.
- Income – Bases value on the assumption that market value is related to the market rent or income that a property can expect to earn.

Reconciliation

The reconciliation process that leads to the estimate of market value is ongoing throughout the appraiser's analysis. In the final reconciliation, however, the appraiser must reconcile the reasonableness and reliability of each approach to value, and the reasonableness and validity of the indicated values and the available data. The appraiser must then select and report the approach or approaches that were given the most weight. The final reconciliation must never be an averaging technique.

Certificates of Occupancy

The underwriter must warrant that a Certificate of Occupancy has been issued if:

- Property is a new construction.
- Property is an existing construction, but the appraiser states the house, or a portion of the house, is not, or appears not, to be built to code.
- Underwriter has knowledge or strong suspicion that there may be code violations.
- State, city, county or local municipality requires a certificate for property transfers or when a new lien is placed on a property.
- There is evidence that something on or in the property could be considered a health or safety issue.

Certification by Substitute Appraiser

If, for some reason, the original appraiser cannot complete the certification (1004d, or 216 or 1007) a substitute may not be used.

Red Flags

The following are the most common red flags to look for when reviewing a property valuation:

- Depreciation: Beware of depreciation caused by incurable physical deterioration or by economic/external obsolescence. These may affect marketability if the property is taken back in default.

- **Appreciation:** If the property has been owned less than 12 months and the appraisal shows a substantial increase in value from the original purchase price, the appraiser should ensure the increase in value is valid.
- **Site Value:** Ensure the land value is not excessive for the area. A value over 30% must be commented on by the appraiser.
- **Hypothecated Value:** Basing the value on a lesser amount of acreage than the actual lot size. This is not an acceptable practice for loans funded by Pacific Union Financial.
- **Selection of Comparables:** Avoid comparables provided by an interested party to the transaction. Such comparables must be independently verified.
- **Adjustments:** Ensure that adjustments fall within approved percentages of the comparable property's sales price. Large adjustments may indicate the property does not conform to the general market area, or that the comparables used were not the best available. Since they are subjective, time adjustments are normally unacceptable and should be carefully reviewed for consistency with market trends.
- **Reconciliation:** The final value must never be achieved by averaging the three approaches. The appraiser must rank all three approaches and give primary consideration to one, providing the reason for that decision. If there is "subject to" completion or repairs, the property must be re-inspected before closing and a completed Certificate of Completion and/or Certificate of Occupancy should be obtained.

Cost Approach

The cost approach to value assumes that a potential purchaser will consider building a substitute residence that has the same use as the property being appraised. The validity of the cost approach depends on valid reproduction cost estimates, proper depreciation estimates, and accurate site values.

Reliability

The reliability of this approach may decrease as a property gets older because depreciation estimates are subjective. Because of this, Pacific Union Financial will not accept appraisals that rely solely on the cost approach as an indicator of value.

Reproduction Estimate

The reproduction cost estimate should reflect the cost of construction based on the current prices of producing a replica of the property. Materials should be as similar as possible to those used on the subject property but do not have to be exactly the same.

Comments

Comments should be consistent with comments and adjustments elsewhere in the report.

Sales Comparison Approach

The sales comparison approach to value, also referred to as the market data approach, is an analysis of comparable sales, contract offerings, and current listings of properties that are most comparable to the subject property. Only comparable sales are listed in the report. The sales must be verified, analyzed, and adjusted for differences between them and the subject property.

Due Diligence

The appraiser must use due diligence to ensure the reliability of the comparable data used. If data is provided by a party that has a financial interest in the property, such as the real estate broker, the appraiser must re-verify the data with an uninterested party.

Established Subdivisions or Projects

For properties in established subdivisions or units in established PUD projects, the appraiser should use comparable sales from within the subject property's subdivision or project, if available.

New Subdivisions or Projects

For properties in new subdivisions or new (or recently renovated) projects, the appraiser must compare the subject property to properties in its general market area and within the same subdivision or project. Generally, one comparable should be from each of the following areas:

- The same subdivision or project
- Outside the subdivision or project
- Wherever the appraiser feels would be the best indicator of value

The appraiser should keep in mind that sales and resales within the same subdivision or project are preferable to sales from outside as long as the developer or builder is not involved in the transactions.

Adjustments to Comparable Sales

Each comparable sale must be analyzed for similarities and differences between it and the subject property. The appraiser must make adjustments for all the criteria listed on the left hand side of the form. Time adjustments must reflect the time that elapsed between the contract date for the comparable sale and the effective date of the appraisal of the subject property.

Adjustments

Comparable sales must be adjusted to the property, except for sales and financing concessions that are adjusted to the market at the time of sale. The property is the standard against which the comparable sales are evaluated and adjusted.

If an item on a comparable property is superior to that item in the subject property, a minus (-) adjustment is required to make that item equal to the subject property. Conversely, if an item in the comparable property is inferior to that in the subject property, a plus (+) adjustment is required to make that item equal to that in the subject property.

Comparables for Unique Properties

A proper selection of comparable properties minimizes both the need for and the size of dollar adjustments. Occasionally there may be no similar or truly comparable sales because of the uniqueness of the subject property. In such cases Pacific Union Financial will not lend on this property.

Guidelines for Net and Gross Adjustments

To determine if property qualifies as a comparable sale, the underwriter should use the following guidelines for the net and gross percentage adjustments:

- The dollar amount of the **line** adjustments for each comparable sale cannot exceed 10% of the comparable's sales price.
- The dollar amount of the **net** adjustments for each comparable sale should not exceed 15% of the comparable's sales price. If the adjustments exceed 15%, the appraiser must comment on the reasons for not using more similar sales.
- The dollar amount of the **gross** adjustments for each comparable sale should not exceed 25% of the comparable's sales price.

- o The amount of the gross adjustment is determined by totaling all the individual adjustments without regard to plus or minus signs. If the adjustments exceed 25%, the appraiser must comment on the reasons for not using more similar sales.

Note: If the adjustments are above the 15/25 limits, an automated valuation model (AVM) is not acceptable alone, and the underwriter should analyze the appraisal review more carefully.

Adjustment Grid

Evaluating the Grid

There are many places in which an error in dollar adjustments could be made, and errors in arithmetic can have a significant effect on the value conclusion. Underwriters should thoroughly review the sales comparison data, and always spot-check the calculations and the use of the plus (+) and minus (-) signs.

Proximity and Location

The description of the comparable's proximity must be specific, for example, two blocks south or three blocks east. Whenever possible, comparables must be in the same neighborhood as the subject property.

Sales Price

The sales price of each comparable should be within the general range of the estimated market value for the subject property. A \$100,000 comparable sale for a \$75,000 subject property should raise questions about the validity of the comparable.

Sales or Financing Concessions

The dollar amount of sales or financing concessions paid by the client must be reported if the information is reasonably available. Information such as the loan amount, loan type, interest rate, term, and any fees or concessions can be obtained from an individual who was a party to the transaction, or from a data source the appraiser considers reliable.

If the information is not available, the appraiser must explain why. If there is not enough space for the information on the grid, the adjustments should be shown and the explanation contained on an addendum.

Amount of Adjustments for Concessions

The amount of the negative adjustment to be made to each comparable with sales concessions is equal to any increase in the purchase price of the comparable that the appraiser determines to be attributable to the concessions. Adjustments based on dollar-for-dollar deductions equal to the cost of the concessions to the Client are not appropriate.

- Positive adjustments for sales or financing concessions are not acceptable.

Date of Sale/Time Adjustments

At least three comparables must be actual settled or closed sales. The appraiser should provide the date of the sales contract and the settlement or closing date for each comparable.

- If the appraiser does not report both dates, they must identify the reported sale date as either the "contract date" or the "settlement or closing date."

Prior Sales within 36 Months of the Appraisal

For all 1-4 unit properties, the appraiser should report and analyze any prior sales, transfers and sale listings of the subject property that occurred during the 36 months prior to the effective date of the appraisal report.

The appraiser should comment in the narrative section on any prior sales of the comparables that occurred during the one-year period preceding the effective date of the appraisal, as well as any current agreement of sale, option, or listing of the subject property. The appraiser must also provide an analysis of what these prior sales, if any, could mean to the value of the subject.

Appraiser's Comments and Indicated Value

The comments should reflect the appraiser's reconciliation of the adjusted or indicated values for the comparable sales and identify which were given the most weight in arriving at the indicated value for the subject property.

For 2-4 family properties, the appraiser should provide an evaluation of the typical purchaser's motivation for purchasing the property and an analysis of any current agreements of sale, option, or listing for the subject property.

Income Approach

The income approach is not appropriate in areas that consist of primarily owner-occupied properties; therefore, Pacific Union Financial will not accept an appraisal if the appraiser relies solely on the income approach as an indicator of market value.

Title Report

Introduction

All loans must have a title policy at submission.

Purpose of Title Insurance

Title insurance is written by a title company to protect owners against loss if title to a property is imperfect, and to evidence ownership of a property and its lawful possession.

Endorsements

Many title exceptions require a title endorsement. The applicable endorsement must be included on all title policies or binders.

Indemnification

The attorney for the closing agents must provide Pacific Union Financial with an Indemnification Letter, also referred to as an Insured Closing Protection Letter (CPL), from the underwriting title company.

Name on Policy

The title policy must name Pacific Union Financial LLC, and/or its assigns, as the insured. Title must be vested in the mortgagors' names.

Amount of Policy

Title policies may not be for less than the original principal loan amount.

Title Insurance Requirements

The title policy must be written on American Land Title Association (ALTA) 2006 standard policy form with the ALTA Form 8.1, Environmental Protection Lien Endorsement.

Funding Policies

Enhancements in technology have significantly increased the risk of mortgage misrepresentation. Misrepresented verifications of employment, deposit statements, and other documentation, can be easily created that are virtually indistinguishable from valid forms. Therefore, Clients must take measures to ensure documentation is accurate.

Minimum Requirements

The documents used for verification must meet the following minimum requirements:

- Documents cannot contain any alterations, erasures, correction fluid, or correction tape.
- Loan file must contain legible copies of the originals.

Foreign Documents

Documents from a foreign country must be filled out in English, and currency amounts must be converted to U.S. dollars.

Verbal Employment Verifications (VOE)

Verbal VOE Requirements for hourly, salary, and commission income

For each employed borrower, including second jobs, verbal verification of employment (VOE) must be obtained as part of the underwriting documentation in each loan file, regardless of the Automated Underwriting System's (AUS) findings. Verbal verifications should be completed with the borrower's Human Resource, Personnel Department, or supervisor 10 calendar days prior to the closing date. Verbal VOE documentation must include the name and title of the person who confirmed the employment, the date of the call, and the source of the phone number. Written documentation must include the name and title of the person performing the verification.

Note: Any telephone number and address provided by the borrower must be independently obtained; for example, through an online service, telephone book, or directory assistance.

Verbal VOE requirements for self-employed income

The underwriter must verify the existence of the borrower's business within 30 calendar days prior to the note date through either:

- A third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible

And

- Verifying the phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance.
- If the contact is made verbally, the lender must document the source of the information obtained and the name and title of the lender's employee who obtained the information.

Note: If a borrower is in the military, a military Leave and Earnings Statement (LES) dated within 30 days of closing is acceptable in lieu of a verbal or written VOE.

Full Documentation

Full Documentation refers to loans that document credit information through the use of the following standard Fannie Mae forms.

- Verification of Employment (VOE)
- Verification of Mortgage (VOM)
- Verification of Rent (VOR), if applicable

These forms **must** be sent directly by the Client to the borrower's employer, depository, mortgage servicer or landlord for verification.

Note: Verification of Deposit (VOD) is only acceptable to supplement an actual bank statement.

The borrower's employment and income for the most recent two years must be verified unless the borrower is solely a wage earner and the Automated Underwriting System (AUS) decision specifies otherwise. If there are multiple borrowers, only the employment and income used for qualification must be verified.

IRS Form 4506-T

A completed and signed IRS Form 4506-T is required for all borrowers at application and closing and must be included in the loan file.

IRS Transcripts

IRS Transcripts are required in every file, regardless of type of income being used.

Note: Income or loss reported from non-borrowing applicants does not need to be included in DTI.

Note: If the only source of income for the borrower is Social Security, and the borrower hasn't filed personal taxes returns, and the transcripts evidence tax returns not been filed, then the borrower must provide an LOE acknowledging they do not have any other source of income.

Note: If taxes have not been filed for current year a copy of all extensions are needed to support lack of results on transcript.

Comparing Tax Returns to IRS Transcripts

When tax returns are provided to document income, the tax returns must match the IRS transcripts. If the IRS transcripts do not match the tax returns, proof of amended returns must be provided and the amendment must have been dated/filed at least 1 day prior to application date. The transcripts must reflect the amended tax returns.

Comparing W-2s to IRS Transcripts

When W-2s are used to document income, they must be compared to the "Wages, Salaries and Tips" section shown on the IRS transcript for the corresponding years. The following variance guidance applies:

- If the IRS transcripts (Wages, Salaries, Tips, Etc.) show lower earnings than the W-2s provided and proof of amended returns is not provided the file must be denied.
- If the IRS transcripts (Wages, Salaries, Tips, Etc.) show earnings 0 to 10% greater than the W-2s provided, the documentation is acceptable.

- If the IRS transcripts (Wages, Salaries, Tips, Etc.) reflect income that is greater than the W-2s provided by more than 10%, the client should address the disparity and document the file accordingly. Situations where this may occur include, but are not limited to, a:
 - Wage earning spouse who is not on the transaction.
 - Borrower who has an additional wage-earning job not disclosed.

General Guidance

The IRS transcripts should be reviewed for discrepancies that may require additional documentation or re-calculation of income. Additional reasons for discrepancies can include but are not limited to:

- Capital gains/losses
- Rental property income/losses
- Un-reimbursed employee expenses/2106

In addition to reviewing the IRS transcripts for variances with income documentation in file, the transcripts should be reviewed to identify and address any additional discrepancies/red flags. These include, but are not limited to:

- Undisclosed self-employment
- Occupancy issues identified by address discrepancies
- Undisclosed dependants
- Undisclosed rental and/or other properties

Electronic, Faxed, or Computer-Generated Documentation

Verification documentation that is faxed, computer-generated, or downloaded from the Internet, including on-line bank and investment statements is allowed. Documentation must meet all of the following requirements:

- The source of the information must be clearly identified (such as information from the Internet or "fax" banner at the top of the document).
- An acceptable verifier (for example, employer or financial institution) must provide the documentation. A third party may not provide the documents.
- The documents must clearly identify the name of the depository, investment institution, or borrower's employer.
- The documents must include essential information such as hard-copy original documents with the account owner's name, full account number, borrower's employment, income, assets, and funds for closing (as applicable).

Note: Documents must be legible and free of any alterations, erasures, "whiteouts," or similar indications that changes have been made.

Insurance Requirements

To ensure Pacific Union Financials interest in a property is adequately protected, insurance will be required for all loans. Acceptable property insurance includes:

- Hazard insurance
- Flood insurance
- Wind insurance

Hazard Insurance

Hazard insurance provides coverage that compensates the property owner for physical damage to a property by fire, wind, or other natural disasters. It generally does not

cover damage caused by flood, earthquake, and/or other types of hazards that typically require special coverage or an endorsement to the homeowner’s policy. Areas that are subject to localized hazards, such as flood, sinkhole, mine subsidence, volcanic eruption, hurricane, and high winds that are not covered by hazard property insurance will require special coverage.

General Requirements

The requirement for hazard insurance is the same for all loan programs. At a minimum, the mortgaged premises must be protected against loss or damage from fire and other dangers within the scope of standard extended coverage. The coverage should provide for claims to be settled on a replacement cost basis. The policy must contain the standard clause that provides the insurer will notify the named mortgagee at least 10 days before any reduction in coverage or cancellation of the policy.

Deductibles

For single-family and multiple-unit properties, the maximum deductible may be up to \$2,500 of the amount of the policy.

Hazard Coverage

Refinance loans must have a minimum of three months remaining coverage from the first payment date of note.

1-4 Unit Policy Rating

Policies covering 1-4 unit properties must meet one of the following eligibility criteria:

- Coverage must be provided by Lloyd’s of London.
- Or**
- Be covered under a FAIR Plan (Fair Access to Insurance Requirements Plan), if it is the only coverage available at a reasonable cost. FAIR Plan is a program established within a state to provide access to insurance for property owners in designated areas of high risk.
- Or**
- Be issued by a company that meets the rating requirements of one of the following agencies:

Rating Agent	Rating
<u>Demotech, Inc.</u>	An “A” or better rating in Demotech’s Hazard Insurance Financial Stability Ratings.
<u>A.M. Best Co.</u>	<ul style="list-style-type: none"> • A “B” or better general policyholder’s rating or a “6” or better financial performance index rating in Best’s Key Rating Guide. <li style="padding-left: 20px;">Or • An “A” or better general policyholder’s rating and a financial size category of “VIII” or better in Best’s Insurance Reports-International Edition.

PUD Requirements

Coverage	Criteria
<u>Type of Policy</u>	PUD projects usually carry master policies for common elements and amenities, but do not include the residences. Individual lots are usually covered by individual owner policies. Occasionally, however, a PUD may carry a master hazard insurance policy that includes the residences. This type of master hazard insurance policy is an acceptable alternative to individual dwelling policies, but you must use caution in determining what is covered by the master policy. A review of the master policy is required only if the individual residences do not have separate hazard insurance.
<u>Named Insured</u>	Policy must be in the exact name of the PUD association. Obtain the legal name from the purchase contract, title report, or a recorded association document. The appraisal is not a reliable source unless the appraiser has been provided legal documents to review.
<u>Liability Coverage</u>	Not applicable.
<u>Hazard Coverage</u>	No master policy verification is required. Each individual owner must provide a hazard insurance policy for the PUD residence. If all hazard insurance is carried by the PUD association's master hazard insurance policy that includes all the residences, the policy must cover 100% of the insurable value and must include an insurable value endorsement.
<u>Hazard Deductible</u>	<ul style="list-style-type: none"> • Deductible can be the lesser of either 1% of the face amount of the insurance policy or \$2,500. If the policy has separate deductibles for named perils (fire, water not caused by flooding, or wind) then each deductible may not exceed the same. • No master policy verification is required. If the association carries a master hazard insurance policy, the deductible can be up to \$2,500 of the face amount of the insurance policy.

Amount of Coverage

The following coverage is required.

Type of Property/Policy	Coverage Required
<p><u>Single family and multiple unit properties</u></p>	<p>The lesser of:</p> <ul style="list-style-type: none"> • 100% of the insurable value of the Total Estimate of Cost-New as established by the appraiser. <p>Or</p> <ul style="list-style-type: none"> • 100% of the insurable value of the improvement as established by the property insurer with "Guaranteed Replacement Cost" noted on the policy. • If the amount of coverage does not meet the minimum requirement, additional coverage must be obtained. <p>Note: For properties located in California, lenders are prohibited from requiring hazard insurance in an amount exceeding the replacement value of the improvements on the property.</p>
<p><u>Attached PUDs</u></p>	<ul style="list-style-type: none"> • 100% of the insurable value of the projects improvements including the individual units and • \$1 million liability per occurrence. <p>All policies must include the following endorsements, as applicable:</p> <ul style="list-style-type: none"> • Guaranteed Replacement Cost or Replacement Cost endorsements. • An Agreed Amount endorsement also is required if the policy includes a coinsurance clause. • An Inflation Guard Endorsement, when it can be obtained. • A Building Ordinance or Law Endorsement. • Steam Boiler and Machinery Coverage endorsement, if the project has central heating or air conditioning. The required coverage amount is \$2,000,000 or for the replacement value of the building that the houses the equipment. A stand-alone policy for this coverage is acceptable.

Flood Insurance

A Standard Flood Hazard Determination (flood certificate) is required for all loans. Flood insurance is required if all or part of the property improvements are located in a Special Flood Hazard Area (SFHA). Flood insurance is required even if the mortgaged premises are above the 100-year flood boundary.

Special Flood Hazard Areas

Flood insurance is required on properties located within the following SFHA zones:

- A
- AO
- AH
- A1-A30
- AE
- A99
- AR
- AR/A
- AR/AE
- AR/A1-30
- AR/AH
- AR/AO
- V
- V1-V30
- VE

If the Flood Designation Area on the flood certificate indicates "None" because the subject area has not yet been mapped by FEMA, Pacific Union Financial does not require flood insurance to make the loan eligible for purchase.

Maximum Available through NFIP

The maximum insurance available under the appropriate National Flood Insurance Program (max NFIP) is \$250,000 per unit. This maximum available also applies to PUD projects.

Required Coverage on 1-4 Unit Properties

If flood insurance is required on 1-4 unit properties, the coverage must be for the lowest of the following:

- 100% of the replacement cost of the dwelling, based on the hazard insurance policy (Dwelling Coverage A).
- The maximum insurance available under the appropriate National Flood Insurance Program (NFIP).
- Greater than or equal to the unpaid principal balance of the loan.

Deductibles

The deductibles for 1-4 unit properties and PUD policies may not exceed a maximum of \$5,000. PUD master policy deductibles may not exceed a maximum of \$25,000.

Named Insured

The unit owner is the named insured on an individual policy. The exact legal association name must be on master policies as the named insured.

Notification Requirement and Acknowledgment

The Client must deliver a Flood Insurance Notification to the borrower, which notifies the borrower that the property is located within a flood zone. The Flood Insurance Notification must be mailed to the borrowers by the commitment/approval date or 10 days prior to the loan closing, whichever is less. The borrower must return their written acknowledgment prior to the loan closing.

Escrow Requirement

If the borrower elects the escrow of taxes, hazard insurance or any other charges, Pacific Union Financial also require the escrow of flood insurance premiums and fees.

Wind Insurance

Windstorm coverage is generally included under the standard extended coverage policy through an endorsement. If the policy excludes or limits the windstorm coverage, it is not acceptable. The borrower must obtain a separate policy or endorsement from another commercial insurer that, with the existing policy, provides adequate total coverage. The maximum deductible for windstorm coverage may not exceed 5% of the limit maintained for dwelling coverage, or the maximum allowed under state law.

Glossary of Terms

acceleration clause

A clause in your mortgage which allows the lender to demand payment of the outstanding loan balance for various reasons. The most common reasons for accelerating a loan are if the borrower defaults on the loan or transfers title to another individual without informing the lender.

adjustable-rate mortgage (ARM)

A mortgage in which the interest changes periodically, according to corresponding fluctuations in an index. All ARMs are tied to indexes.

adjustment date

The date the interest rate changes on an adjustable-rate mortgage.

amortization

The loan payment consists of a portion which will be applied to pay the accruing interest on a loan, with the remainder being applied to the principal. Over time, the interest portion decreases as the loan balance decreases, and the amount applied to principal increases so that the loan is paid off (amortized) in the specified time.

amortization schedule

A table which shows how much of each payment will be applied toward principal and how much toward interest over the life of the loan. It also shows the gradual decrease of the loan balance until it reaches zero.

annual percentage rate (APR)

This is not the note rate on your loan. It is a value created according to a government formula intended to reflect the true annual cost of borrowing, expressed as a percentage. It works sort of like this, but not exactly, so only use this as a guideline: deduct the closing costs from your loan amount, then using your actual loan payment, calculate what the interest rate would be on this amount instead of your actual loan amount. You will come up with a number close to the APR. Because you are using the same payment on a smaller amount, the APR is always higher than the actual note rate on your loan.

application

The form used to apply for a mortgage loan, containing information about a borrower's income, savings, assets, debts, and more.

appraisal

A written justification of the price paid for a property, primarily based on an analysis of comparable sales of similar homes nearby.

appraised value

An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of the property. Since an appraisal is based primarily on comparable sales, and the most recent sale is the one on the property in question, the appraisal usually comes out at the purchase price.

appraiser

An individual qualified by education, training, and experience to estimate the value of real property and personal property. Although some appraisers work directly for mortgage lenders, most are independent.

appreciation

The increase in the value of a property due to changes in market conditions, inflation, or other causes.

assessed value

The valuation placed on property by a public tax assessor for purposes of taxation.

assessment

The placing of a value on property for the purpose of taxation.

assessor

A public official who establishes the value of a property for taxation purposes.

asset

Items of value owned by an individual. Assets that can be quickly converted into cash are considered "liquid assets." These include bank accounts, stocks, bonds, mutual funds, and so on. Other assets include real estate, personal property, and debts owed to an individual by others.

assignment

When ownership of your mortgage is transferred from one company or individual to another, it is called an assignment.

assumable mortgage

A mortgage that can be assumed by the buyer when a home is sold. Usually, the borrower must "qualify" in order to assume the loan.

assumption

The term applied when a buyer assumes the seller's mortgage.

balloon mortgage

A mortgage loan that requires the remaining principal balance be paid at a specific point in time. For example, a loan may be amortized as if it would be paid over a thirty year period, but requires that at the end of the tenth year the entire remaining balance must be paid.

balloon payment

The final lump sum payment that is due at the termination of a balloon mortgage.

bankruptcy

By filing in federal bankruptcy court, an individual or individuals can restructure or relieve themselves of debts and liabilities. Bankruptcies are of various types, but the most common for an individual seem to be a "Chapter 7 No Asset" bankruptcy which relieves the borrower of most types of debts. A borrower cannot usually qualify for an "A" paper loan for a period of two years after the bankruptcy has been discharged and requires the re-establishment of an ability to repay debt.

bill of sale

A written document that transfers title to personal property. For example, when selling an automobile to acquire funds which will be used as a source of down

payment or for closing costs, the lender will usually require the bill of sale (in addition to other items) to help document this source of funds.

biweekly mortgage

A mortgage in which you make payments every two weeks instead of once a month. The basic result is that instead of making twelve monthly payments during the year, you make thirteen. The extra payment reduces the principal, substantially reducing the time it takes to pay off a thirty year mortgage. **Note:** there are independent companies that encourage you to set up bi-weekly payment schedules with them on your thirty year mortgage. They charge a set-up fee and a transfer fee for every payment. Your funds are deposited into a trust account from which your monthly payment is then made, and the excess funds then remain in the trust account until enough has accrued to make the additional payment which will then be paid to reduce your principle. You could save money by doing the same thing yourself, plus you have to have faith that once you transfer money to them that they will actually transfer your funds to your lender.

bond market

Usually refers to the daily buying and selling of thirty year treasury bonds. Lenders follow this market intensely because as the yields of bonds go up and down, fixed rate mortgages do approximately the same thing. The same factors that affect the Treasury Bond market also affect mortgage rates at the same time. That is why rates change daily, and in a volatile market can and do change during the day as well.

bridge loan

Not used much anymore, bridge loans are obtained by those who have not yet sold their previous property, but must close on a purchase property. The bridge loan becomes the source of their funds for the down payment. One reason for their fall from favor is that there are more and more second mortgage lenders now that will lend at a high loan to value. In addition, sellers often prefer to accept offers from buyers who have already sold their property.

broker

Broker has several meanings in different situations. Most Realtors are "agents" who work under a "broker." Some agents are brokers as well, either working for themselves or under another broker. In the mortgage industry, broker usually refers to a company or individual that does not lend the money for the loans themselves, but broker loans to larger lenders or investors. (See the Home Loan Library that discusses the different types of lenders). As a normal definition, a broker is anyone who acts as an agent, bringing two parties together for any type of transaction and earns a fee for doing so.

buydown

Usually refers to a fixed rate mortgage where the interest rate is "bought down" for a temporary period, usually one to three years. After that time and for the remainder of the term, the borrower's payment is calculated at the note rate. In order to buy down the initial rate for the temporary payment, a lump sum is paid and held in an account used to supplement the borrower's monthly payment. These funds usually come from the seller (or some other source) as a financial incentive to induce someone to buy their property. A "lender funded buydown" is when the lender pays the initial lump sum. They can accomplish this because the note rate on the loan (after the buydown adjustments) will be higher than the current market rate. One reason for doing this is because the borrower may get to "qualify" at the start rate and can qualify for a higher loan amount. Another reason is that a borrower may

expect his earnings to go up substantially in the near future, but wants a lower payment right now.

call option

Similar to the acceleration clause.

cap

Adjustable Rate Mortgages have fluctuating interest rates, but those fluctuations are usually limited to a certain amount. Those limitations may apply to how much the loan may adjust over a six month period, an annual period, and over the life of the loan, and are referred to as "caps." Some ARMs, although they may have a life cap, allow the interest rate to fluctuate freely, but require a certain minimum payment which can change once a year. There is a limit on how much that payment can change each year, and that limit is also referred to as a cap.

cash-out refinance

When a borrower refinances his mortgage at a higher amount than the current loan balance with the intention of pulling out money for personal use, it is referred to as "cash out refinance."

certificate of deposit

A time deposit held in a bank which pays a certain amount of interest to the depositor.

certificate of deposit index

One of the indexes used for determining interest rate changes on some adjustable rate mortgages. It is an average of what banks are paying on certificates of deposit.

Certificate of Eligibility

A document issued by the Veterans Administration that certifies a veteran's eligibility for a VA loan.

Certificate of Reasonable Value (CRV)

Once the appraisal has been performed on a property being bought with a VA loan, the Veterans Administration issues a CRV.

chain of title

An analysis of the transfers of title to a piece of property over the years.

clear title

A title that is free of liens or legal questions as to ownership of the property.

closing

This has different meanings in different states. In some states a real estate transaction is not consider "closed" until the documents record at the local recorders office. In others, the "closing" is a meeting where all of the documents are signed and money changes hands.

closing costs

Closing costs are separated into what are called "non-recurring closing costs" and "pre-paid items." Non-recurring closing costs are any items which are paid just once as a result of buying the property or obtaining a loan. "Pre-paids" are items which recur over time, such as property taxes and homeowners insurance. A lender makes an attempt to estimate the amount of non-recurring closing costs and prepaid items

on the Good Faith Estimate which they must issue to the borrower within three days of receiving a home loan application.

closing statement

See Settlement Statement.

cloud on title

Any conditions revealed by a title search that adversely affect the title to real estate. Usually clouds on title cannot be removed except by deed, release, or court action.

co-borrower

IAAn additional individual who is both obligated on the loan and is on title to the property.

collateral

In a home loan, the property is the collateral. The borrower risks losing the property if the loan is not repaid according to the terms of the mortgage or deed of trust.

collection

When a borrower falls behind, the lender contacts them in an effort to bring the loan current. The loan goes to "collection." As part of the collection effort, the lender must mail and record certain documents in case they are eventually required to foreclose on the property.

commission

Most salespeople earn commissions for the work that they do and there are many sales professionals involved in each transaction, including Realtors, loan officers, title representatives, attorneys, escrow representative, and representatives for pest companies, home warranty companies, home inspection companies, insurance agents, and more. The commissions are paid out of the charges paid by the seller or buyer in the purchase transaction. Realtors generally earn the largest commissions, followed by lenders, then the others.

common area assessments

In some areas they are called Homeowners Association Fees. They are charges paid to the Homeowners Association by the owners of the individual units in a condominium or planned unit development (PUD) and are generally used to maintain the property and common areas.

common areas

Those portions of a building, land, and amenities owned (or managed) by a planned unit development (PUD) or condominium project's homeowners' association (or a cooperative project's cooperative corporation) that are used by all of the unit owners, who share in the common expenses of their operation and maintenance. Common areas include swimming pools, tennis courts, and other recreational facilities, as well as common corridors of buildings, parking areas, means of ingress and egress, etc.

common law

An unwritten body of law based on general custom in England and used to an extent in some states.

community property

In some states, especially the southwest, property acquired by a married couple during their marriage is considered to be owned jointly, except under special circumstances. This is an outgrowth of the Spanish and Mexican heritage of the area.

comparable sales

Recent sales of similar properties in nearby areas and used to help determine the market value of a property. Also referred to as "comps."

condominium

A type of ownership in real property where all of the owners own the property, common areas and buildings together, with the exception of the interior of the unit to which they have title. Often mistakenly referred to as a type of construction or development, it actually refers to the type of ownership.

condominium conversion

Changing the ownership of an existing building (usually a rental project) to the condominium form of ownership.

condominium hotel

A condominium project that has rental or registration desks, short-term occupancy, food and telephone services, and daily cleaning services and that is operated as a commercial hotel even though the units are individually owned. These are often found in resort areas like Hawaii.

construction loan

A short-term, interim loan for financing the cost of construction. The lender makes payments to the builder at periodic intervals as the work progresses.

contingency

A condition that must be met before a contract is legally binding. For example, home purchasers often include a contingency that specifies that the contract is not binding until the purchaser obtains a satisfactory home inspection report from a qualified home inspector.

contract

An oral or written agreement to do or not to do a certain thing.

conventional mortgage

Refers to home loans other than government loans (VA and FHA).

convertible ARM

An adjustable-rate mortgage that allows the borrower to change the ARM to a fixed-rate mortgage within a specific time.

cooperative (co-op)

A type of multiple ownership in which the residents of a multiunit housing complex own shares in the cooperative corporation that owns the property, giving each resident the right to occupy a specific apartment or unit.

cost of funds index (COFI)

One of the indexes that is used to determine interest rate changes for certain adjustable-rate mortgages. It represents the weighted-average cost of savings, borrowings, and advances of the financial institutions such as banks and savings & loans, in the 11th District of the Federal Home Loan Bank.

credit

An agreement in which a borrower receives something of value in exchange for a promise to repay the lender at a later date.

credit history

A record of an individual's repayment of debt. Credit histories are reviewed by mortgage lenders as one of the underwriting criteria in determining credit risk.

creditor

A person to whom money is owed.

credit report

A report of an individual's credit history prepared by a credit bureau and used by a lender in determining a loan applicant's creditworthiness.

credit repository

An organization that gathers, records, updates, and stores financial and public records information about the payment records of individuals who are being considered for credit.

debt

An amount owed to another.

deed

The legal document conveying title to a property.

deed-in-lieu

Short for "deed in lieu of foreclosure," this conveys title to the lender when the borrower is in default and wants to avoid foreclosure. The lender may or may not cease foreclosure activities if a borrower asks to provide a deed-in-lieu. Regardless of whether the lender accepts the deed-in-lieu, the avoidance and non-repayment of debt will most likely show on a credit history. What a deed-in-lieu may prevent is having the documents preparatory to a foreclosure being recorded and become a matter of public record.

deed of trust

Some states, like California, do not record mortgages. Instead, they record a deed of trust which is essentially the same thing.

default

Failure to make the mortgage payment within a specified period of time. For first mortgages or first trust deeds, if a payment has still not been made within 30 days of the due date, the loan is considered to be in default.

delinquency

Failure to make mortgage payments when mortgage payments are due. For most mortgages, payments are due on the first day of the month. Even though they may not charge a "late fee" for a number of days, the payment is still considered to be late and the loan delinquent. When a loan payment is more than 30 days late, most lenders report the late payment to one or more credit bureaus.

deposit

A sum of money given in advance of a larger amount being expected in the future. Often called in real estate as an "earnest money deposit."

depreciation

A decline in the value of property; the opposite of appreciation. Depreciation is also an accounting term which shows the declining monetary value of an asset and is used as an expense to reduce taxable income. Since this is not a true expense where money is actually paid, lenders will add back depreciation expense for self-employed borrowers and count it as income.

discount points

In the mortgage industry, this term is usually used in only in reference to government loans, meaning FHA and VA loans. Discount points refer to any "points" paid in addition to the one percent loan origination fee. A "point" is one percent of the loan amount.

down payment

The part of the purchase price of a property that the buyer pays in cash and does not finance with a mortgage.

due-on-sale provision

A provision in a mortgage that allows the lender to demand repayment in full if the borrower sells the property that serves as security for the mortgage.

earnest money deposit

A deposit made by the potential home buyer to show that he or she is serious about buying the house.

easement

A right of way giving persons other than the owner access to or over a property.

effective age

An appraiser's estimate of the physical condition of a building. The actual age of a building may be shorter or longer than its effective age.

eminent domain

The right of a government to take private property for public use upon payment of its fair market value. Eminent domain is the basis for condemnation proceedings.

encroachment

An improvement that intrudes illegally on another's property.

encumbrance

Anything that affects or limits the fee simple title to a property, such as mortgages, leases, easements, or restrictions.

Equal Credit Opportunity Act (ECOA)

A federal law that requires lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

equity

A homeowner's financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on its mortgage and other liens.

escrow

An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the earnest money deposit is put into escrow until delivered to the seller when the transaction is closed.

escrow account

Once you close your purchase transaction, you may have an escrow account or impound account with your lender. This means the amount you pay each month includes an amount above what would be required if you were only paying your principal and interest. The extra money is held in your impound account (escrow account) for the payment of items like property taxes and homeowner's insurance when they come due. The lender pays them with your money instead of you paying them yourself.

escrow analysis

Once each year your lender will perform an "escrow analysis" to make sure they are collecting the correct amount of money for the anticipated expenditures.

escrow disbursements

The use of escrow funds to pay real estate taxes, hazard insurance, mortgage insurance, and other property expenses as they become due.

estate

The ownership interest of an individual in real property. The sum total of all the real property and personal property owned by an individual at time of death.

eviction

The lawful expulsion of an occupant from real property.

examination of title

The report on the title of a property from the public records or an abstract of the title.

exclusive listing

A written contract that gives a licensed real estate agent the exclusive right to sell a property for a specified time.

executor

A person named in a will to administer an estate. The court will appoint an administrator if no executor is named. "Executrix" is the feminine form.

Fair Credit Reporting Act

A consumer protection law that regulates the disclosure of consumer credit reports by consumer/credit reporting agencies and establishes procedures for correcting mistakes on one's credit record.

fair market value

The highest price that a buyer, willing but not compelled to buy, would pay, and the lowest a seller, willing but not compelled to sell, would accept.

Fannie Mae (FNMA)

The Federal National Mortgage Association, which is a congressionally chartered, shareholder-owned company that is the nation's largest supplier of home mortgage funds. For a discussion of the roles of Fannie Mae, Freddie Mac (FHLMC), and Ginnie Mae (GNMA), see the Library.

Fannie Mae's Community Home Buyer's Program

An income-based community lending model, under which mortgage insurers and Fannie Mae offer flexible underwriting guidelines to increase a low- or moderate-income family's buying power and to decrease the total amount of cash needed to purchase a home. Borrowers who participate in this model are required to attend pre-purchase home-buyer education sessions.

Federal Housing Administration (FHA)

An agency of the U.S. Department of Housing and Urban Development (HUD). Its main activity is the insuring of residential mortgage loans made by private lenders. The FHA sets standards for construction and underwriting but does not lend money or plan or construct housing.

fee simple

The greatest possible interest a person can have in real estate.

fee simple estate

An unconditional, unlimited estate of inheritance that represents the greatest estate and most extensive interest in land that can be enjoyed. It is of perpetual duration. When the real estate is in a condominium project, the unit owner is the exclusive owner only of the air space within his or her portion of the building (the unit) and is an owner in common with respect to the land and other common portions of the property.

FHA mortgage

A mortgage that is insured by the Federal Housing Administration (FHA). Along with VA loans, an FHA loan will often be referred to as a government loan.

firm commitment

A lender's agreement to make a loan to a specific borrower on a specific property.

first mortgage

The mortgage that is in first place among any loans recorded against a property. Usually refers to the date in which loans are recorded, but there are exceptions.

fixed-rate mortgage

A mortgage in which the interest rate does not change during the entire term of the loan.

fixture

Personal property that becomes real property when attached in a permanent manner to real estate.

flood insurance

Insurance that compensates for physical property damage resulting from flooding. It is required for properties located in federally designated flood areas.

foreclosure

The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property. This usually involves a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt.

401(k)/403(b)

An employer-sponsored investment plan that allows individuals to set aside tax-deferred income for retirement or emergency purposes. 401(k) plans are provided by employers that are private corporations. 403(b) plans are provided by employers that are not for profit organizations.

401(k)/403(b) loan

Some administrators of 401(k)/403(b) plans allow for loans against the monies you have accumulated in these plans. Loans against 401K plans are an acceptable source of down payment for most types of loans.

government loan (mortgage)

A mortgage that is insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) or the Rural Housing Service (RHS). Mortgages that are not government loans are classified as conventional loans.

Government National Mortgage Association (Ginnie Mae)

A government-owned corporation within the U.S. Department of Housing and Urban Development (HUD). Created by Congress on September 1, 1968, GNMA performs the same role as Fannie Mae and Freddie Mac in providing funds to lenders for making home loans. The difference is that Ginnie Mae provides funds for government loans (FHA and VA)

grantee

The person to whom an interest in real property is conveyed.

grantor

The person conveying an interest in real property.

hazard insurance

Insurance coverage that in the event of physical damage to a property from fire, wind, vandalism, or other hazards.

Home Equity Conversion Mortgage (HECM)

Usually referred to as a reverse annuity mortgage, what makes this type of mortgage unique is that instead of making payments to a lender, the lender makes payments to you. It enables older home owners to convert the equity they have in their homes into cash, usually in the form of monthly payments. Unlike traditional home equity loans, a borrower does not qualify on the basis of income but on the value of his or her home. In addition, the loan does not have to be repaid until the borrower no longer occupies the property.

home equity line of credit

A mortgage loan, usually in second position, that allows the borrower to obtain cash drawn against the equity of his home, up to a predetermined amount.

home inspection

A thorough inspection by a professional that evaluates the structural and mechanical condition of a property. A satisfactory home inspection is often included as a contingency by the purchaser.

homeowners' association

A nonprofit association that manages the common areas of a planned unit development (PUD) or condominium project. In a condominium project, it has no

ownership interest in the common elements. In a PUD project, it holds title to the common elements.

homeowner's insurance

An insurance policy that combines personal liability insurance and hazard insurance coverage for a dwelling and its contents.

homeowner's warranty

A type of insurance often purchased by homebuyers that will cover repairs to certain items, such as heating or air conditioning, should they break down within the coverage period. The buyer often requests the seller to pay for this coverage as a condition of the sale, but either party can pay.

HUD median income

Median family income for a particular county or metropolitan statistical area (MSA), as estimated by the Department of Housing and Urban Development (HUD).

HUD-1 settlement statement

A document that provides an itemized listing of the funds that were paid at closing. Items that appear on the statement include real estate commissions; loan fees, points, and initial escrow (impound) amounts. Each type of expense goes on a specific numbered line on the sheet. The totals at the bottom of the HUD-1 statement define the seller's net proceeds and the buyer's net payment at closing. It is called a HUD1 because the form is printed by the Department of Housing and Urban Development (HUD). The HUD1 statement is also known as the "closing statement" or "settlement sheet."

joint tenancy

A form of ownership or taking title to property which means each party owns the whole property and that ownership is not separate. In the event of the death of one party, the survivor owns the property in its entirety.

judgment

A decision made by a court of law. In judgments that require the repayment of a debt, the court may place a lien against the debtor's real property as collateral for the judgment's creditor.

judicial foreclosure

A type of foreclosure proceeding used in some states that is handled as a civil lawsuit and conducted entirely under the auspices of a court. Other states use non-judicial foreclosure.

jumbo loan

A loan that exceeds Fannie Mae's loan limits, currently at \$417,000. Also called a nonconforming loan. Fannie Mae loans are referred to as conforming loans.

late charge

The penalty a borrower must pay when a payment is made a stated number of days. On a first trust deed or mortgage, this is usually fifteen days.

lease

A written agreement between the property owner and a tenant that stipulates the payment and conditions under which the tenant may possess the real estate for a specified period of time.

leasehold estate

A way of holding title to a property wherein the mortgagor does not actually own the property but rather has a recorded long-term lease on it.

lease option

An alternative financing option that allows home buyers to lease a home with an option to buy. Each month's rent payment may consist of not only the rent, but an additional amount which can be applied toward the down payment on an already specified price.

legal description

A property description, recognized by law, that is sufficient to locate and identify the property without oral testimony.

lender

A term which can refer to the institution making the loan or to the individual representing the firm. For example, loan officers are often referred to as "lenders."

liabilities

A person's financial obligations. Liabilities include long-term and short-term debt, as well as any other amounts that are owed to others.

liability insurance

Insurance coverage that offers protection against claims alleging that a property owner's negligence or inappropriate action resulted in bodily injury or property damage to another party. It is usually part of a homeowner's insurance policy.

lien

A legal claim against a property that must be paid off when the property is sold. A mortgage or first trust deed is considered a lien.

life cap

For an adjustable-rate mortgage (ARM), a limit on the amount that the interest rate can increase or decrease over the life of the mortgage.

line of credit

An agreement by a commercial bank or other financial institution to extend credit up to a certain amount for a certain time to a specified borrower.

liquid asset

A cash asset or an asset that is easily converted into cash.

loan

A sum of borrowed money (principal) that is generally repaid with interest.

loan officer

Also referred to by a variety of other terms, such as lender, loan representative, loan "rep," account executive, and others. The loan officer serves several functions and has various responsibilities: they solicit loans, they are the representative of the lending institution, and they represent the borrower to the lending institution.

loan origination

How a lender refers to the process of obtaining new loans.

loan servicing

After you obtain a loan, the company you make the payments to is "servicing" your loan. They process payments, send statements, manage the escrow/impound account, provide collection efforts on delinquent loans, ensure that insurance and property taxes are made on the property, handle pay-offs and assumptions, and provide a variety of other services.

loan-to-value (LTV)

The percentage relationship between the amount of the loan and the appraised value or sales price (whichever is lower).

lock-in

An agreement in which the lender guarantees a specified interest rate for a certain amount of time at a certain cost.

lock-in period

The time period during which the lender has guaranteed an interest rate to a borrower.

margin

The difference between the interest rate and the index on an adjustable rate mortgage. The margin remains stable over the life of the loan. It is the index which moves up and down.

maturity

The date on which the principal balance of a loan, bond, or other financial instrument becomes due and payable.

merged credit report

A credit report which reports the raw data pulled from two or more of the major credit repositories. Contrast with a Residential Mortgage Credit Report (RMCR) or a standard factual credit report.

modification

Occasionally, a lender will agree to modify the terms of your mortgage without requiring you to refinance. If any changes are made, it is called a modification.

mortgage

A legal document that pledges a property to the lender as security for payment of a debt. Instead of mortgages, some states use First Trust Deeds.

mortgage banker

For a more complete discussion of mortgage banker, see "Types of Lenders." A mortgage banker is generally assumed to originate and fund their own loans, which are then sold on the secondary market, usually to Fannie Mae, Freddie Mac, or Ginnie Mae. However, firms rather loosely apply this term to themselves, whether they are true mortgage bankers or simply mortgage brokers or correspondents.

mortgage broker

A mortgage company that originates loans, then places those loans with a variety of other lending institutions with whom they usually have pre-established relationships.

mortgagee

The lender in a mortgage agreement.

mortgage insurance (MI)

Insurance that covers the lender against some of the losses incurred as a result of a default on a home loan. Often mistakenly referred to as PMI, which is actually the name of one of the larger mortgage insurers. Mortgage insurance is usually required in one form or another on all loans that have a loan-to-value higher than eighty percent. Mortgages above 80% LTV that call themselves "No MI" are usually made at a higher interest rate. Instead of the borrower paying the mortgage insurance premiums directly, they pay a higher interest rate to the lender, which then pays the mortgage insurance themselves. Also, FHA loans and certain first-time homebuyer programs require mortgage insurance regardless of the loan-to-value.

mortgage insurance premium (MIP)

The amount paid by a mortgagor for mortgage insurance, either to a government agency such as the Federal Housing Administration (FHA) or to a private mortgage insurance (MI) company.

mortgage life and disability insurance

A type of term life insurance often bought by borrowers. The amount of coverage decreases as the principal balance declines. Some policies also cover the borrower in the event of disability. In the event that the borrower dies while the policy is in force, the debt is automatically satisfied by insurance proceeds. In the case of disability insurance, the insurance will make the mortgage payment for a specified amount of time during the disability. Be careful to read the terms of coverage, however, because often the coverage does not start immediately upon the disability, but after a specified period, sometime forty-five days.

mortgagor

The borrower in a mortgage agreement.

multi dwelling units

Properties that provide separate housing units for more than one family, although they secure only a single mortgage.

negative amortization

Some adjustable rate mortgages allow the interest rate to fluctuate independently of a required minimum payment. If a borrower makes the minimum payment it may not cover all of the interest that would normally be due at the current interest rate. In essence, the borrower is deferring the interest payment, which is why this is called "deferred interest." The deferred interest is added to the balance of the loan and the loan balance grows larger instead of smaller, which is called negative amortization.

no cash-out refinance

A refinance transaction which is not intended to put cash in the hand of the borrower. Instead, the new balance is calculated to cover the balance due on the current loan and any costs associated with obtaining the new mortgage. Often referred to as a "rate and term refinance."

no-cost loan

Many lenders offer loans that you can obtain at "no cost." You should inquire whether this means there are no "lender" costs associated with the loan, or if it also covers the other costs you would normally have in a purchase or refinance transactions, such as title insurance, escrow fees, settlement fees, appraisal, recording fees, notary fees, and others. These are fees and costs which may be

associated with buying a home or obtaining a loan, but not charged directly by the lender. Keep in mind that, like a "no-point" loan, the interest rate will be higher than if you obtain a loan that has costs associated with it.

note

A legal document that obligates a borrower to repay a mortgage loan at a stated interest rate during a specified period of time.

note rate

The interest rate stated on a mortgage note.

notice of default

A formal written notice to a borrower that a default has occurred and that legal action may be taken.

original principal balance

The total amount of principal owed on a mortgage before any payments are made.

origination fee

On a government loan the loan origination fee is one percent of the loan amount, but additional points may be charged which are called "discount points." One point equals one percent of the loan amount. On a conventional loan, the loan origination fee refers to the total number of points a borrower pays.

owner financing

A property purchase transaction in which the property seller provides all or part of the financing.

partial payment

A payment that is not sufficient to cover the scheduled monthly payment on a mortgage loan. Normally, a lender will not accept a partial payment, but in times of hardship you can make this request of the loan servicing collection department.

payment change date

The date when a new monthly payment amount takes effect on an adjustable-rate mortgage (ARM) or a graduated-payment mortgage (GPM). Generally, the payment change date occurs in the month immediately after the interest rate adjustment date.

periodic payment cap

For an adjustable-rate mortgage where the interest rate and the minimum payment amount fluctuate independently of one another, this is a limit on the amount that payments can increase or decrease during any one adjustment period.

periodic rate cap

For an adjustable-rate mortgage, a limit on the amount that the interest rate can increase or decrease during any one adjustment period, regardless of how high or low the index might be.

personal property

Any property that is not real property.

PITI

This stands for principal, interest, taxes and insurance. If you have an "impounded" loan, then your monthly payment to the lender includes all of these and probably

includes mortgage insurance as well. If you do not have an impounded account, then the lender still calculates this amount and uses it as part of determining your debt-to-income ratio.

PITI reserves

A cash amount that a borrower must have on hand after making a down payment and paying all closing costs for the purchase of a home. The principal, interest, taxes, and insurance (PITI) reserves must equal the amount that the borrower would have to pay for PITI for a predefined number of months.

planned unit development (PUD)

A type of ownership where individuals actually own the building or unit they live in, but common areas are owned jointly with the other members of the development or association. Contrast with condominium, where an individual actually owns the airspace of his unit, but the buildings and common areas are owned jointly with the others in the development or association.

point

A point is 1 percent of the amount of the mortgage.

power of attorney

A legal document that authorizes another person to act on one's behalf. A power of attorney can grant complete authority or can be limited to certain acts and/or certain periods of time.

pre-approval

A loosely used term which is generally taken to mean that a borrower has completed a loan application and provided debt, income, and savings documentation which an underwriter has reviewed and approved. A pre-approval is usually done at a certain loan amount and making assumptions about what the interest rate will actually be at the time the loan is actually made, as well as estimates for the amount that will be paid for property taxes, insurance and others. A pre-approval applies only to the borrower. Once a property is chosen, it must also meet the underwriting guidelines of the lender. Contrast with pre-qualification

prepayment

Any amount paid to reduce the principal balance of a loan before the due date. Payment in full on a mortgage that may result from a sale of the property, the owner's decision to pay off the loan in full, or a foreclosure. In each case, prepayment means payment occurs before the loan has been fully amortized.

prepayment penalty

A fee that may be charged to a borrower who pays off a loan before it is due.

pre-qualification

This usually refers to the loan officer's written opinion of the ability of a borrower to qualify for a home loan, after the loan officer has made inquiries about debt, income, and savings. The information provided to the loan officer may have been presented verbally or in the form of documentation, and the loan officer may or may not have reviewed a credit report on the borrower.

prime rate

The interest rate that banks charge to their preferred customers. Changes in the prime rate are widely publicized in the news media and are used as the indexes in

some adjustable rate mortgages, especially home equity lines of credit. Changes in the prime rate do not directly affect other types of mortgages, but the same factors that influence the prime rate also affect the interest rates of mortgage loans.

principal

The amount borrowed or remaining unpaid. The part of the monthly payment that reduces the remaining balance of a mortgage.

principal balance

The outstanding balance of principal on a mortgage. The principal balance does not include interest or any other charges. See remaining balance.

principal, interest, taxes, and insurance (PITI)

The four components of a monthly mortgage payment on impounded loans. Principal refers to the part of the monthly payment that reduces the remaining balance of the mortgage. Interest is the fee charged for borrowing money. Taxes and insurance refer to the amounts that are paid into an escrow account each month for property taxes and mortgage and hazard insurance.

private mortgage insurance (MI)

Mortgage insurance that is provided by a private mortgage insurance company to protect lenders against loss if a borrower defaults. Most lenders generally require MI for a loan with a loan-to-value (LTV) percentage in excess of 80 percent.

promissory note

A written promise to repay a specified amount over a specified period of time.

public auction

A meeting in an announced public location to sell property to repay a mortgage that is in default.

Planned Unit Development (PUD)

A project or subdivision that includes common property that is owned and maintained by a homeowners' association for the benefit and use of the individual PUD unit owners.

purchase agreement

A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

purchase money transaction

The acquisition of property through the payment of money or its equivalent.

qualifying ratios

Calculations that are used in determining whether a borrower can qualify for a mortgage. There are two ratios. The "top" or "front" ratio is a calculation of the borrower's monthly housing costs (principle, taxes, insurance, mortgage insurance, homeowner's association fees) as a percentage of monthly income. The "back" or "bottom" ratio includes housing costs as well as all other monthly debt.

quitclaim deed

A deed that transfers without warranty whatever interest or title a grantor may have at the time the conveyance is made.

rate lock

A commitment issued by a lender to a borrower or other mortgage originator guaranteeing a specified interest rate for a specified period of time at a specific cost.

real estate agent

A person licensed to negotiate and transact the sale of real estate.

Real Estate Settlement Procedures Act (RESPA)

A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

real property

Land and appurtenances, including anything of a permanent nature such as structures, trees, minerals, and the interest, benefits, and inherent rights thereof.

Realtor®

A real estate agent, broker or an associate who holds active membership in a local real estate board that is affiliated with the National Association of Realtors.

recorder

The public official who keeps records of transactions that affect real property in the area. Sometimes known as a "Registrar of Deeds" or "County Clerk."

recording

The noting in the registrar's office of the details of a properly executed legal document, such as a deed, a mortgage note, a satisfaction of mortgage, or an extension of mortgage, thereby making it a part of the public record.

refinance transaction

The process of paying off one loan with the proceeds from a new loan using the same property as security.

remaining balance

The amount of principal that has not yet been repaid. See principal balance.

remaining term

The original amortization term minus the number of payments that have been applied.

rent loss insurance

Insurance that protects a landlord against loss of rent or rental value due to fire or other casualty that renders the leased premises unavailable for use and as a result of which the tenant is excused from paying rent.

repayment plan

An arrangement made to repay delinquent installments or advances.

replacement reserve fund

A fund set aside for replacement of common property in a condominium, PUD, or cooperative project -- particularly that which has a short life expectancy, such as carpeting, furniture, etc.

revolving debt

A credit arrangement, such as a credit card, that allows a customer to borrow against a preapproved line of credit when purchasing goods and services. The borrower is billed for the amount that is actually borrowed plus any interest due.

right of first refusal

A provision in an agreement that requires the owner of a property to give another party the first opportunity to purchase or lease the property before he or she offers it for sale or lease to others.

right of ingress or egress

The right to enter or leave designated premises.

right of survivorship

In joint tenancy, the right of survivors to acquire the interest of a deceased joint tenant.

sale-leaseback

A technique in which a seller deeds property to a buyer for a consideration, and the buyer simultaneously leases the property back to the seller.

second mortgage

A mortgage that has a lien position subordinate to the first mortgage.

secondary market

The buying and selling of existing mortgages, usually as part of a "pool" of mortgages.

secured loan

A loan that is backed by collateral.

security

The property that will be pledged as collateral for a loan.

seller carry-back

An agreement in which the owner of a property provides financing, often in combination with an assumable mortgage.

servicer

An organization that collects principal and interest payments from borrowers and manages borrowers' escrow accounts. The servicer often services mortgages that have been purchased by an investor in the secondary mortgage market.

servicing

The collection of mortgage payments from borrowers and related responsibilities of a loan servicer.

settlement statement

See HUD1 Settlement Statement

subdivision

A housing development that is created by dividing a tract of land into individual lots for sale or lease.

subordinate financing

Any mortgage or other lien that has a priority that is lower than that of the first mortgage.

survey

A drawing or map showing the precise legal boundaries of a property, the location of improvements, easements, rights of way, encroachments, and other physical features.

sweat equity

Contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash.

tenancy in common

As opposed to joint tenancy, when there are two or more individuals on title to a piece of property, this type of ownership does not pass ownership to the others in the event of death.

third-party origination

A process by which a lender uses another party to completely or partially originate, process, underwrite, close, fund, or package the mortgages it plans to deliver to the secondary mortgage market.

title

A legal document evidencing a person's right to or ownership of a property.

title company

A company that specializes in examining and insuring titles to real estate.

title insurance

Insurance that protects the lender (lender's policy) or the buyer (owner's policy) against loss arising from disputes over ownership of a property.

title search

A check of the title records to ensure that the seller is the legal owner of the property and that there are no liens or other claims outstanding.

transfer of ownership

Any means by which the ownership of a property changes hands. Lenders consider all of the following situations to be a transfer of ownership: the purchase of a property "subject to" the mortgage, the assumption of the mortgage debt by the property purchaser, and any exchange of possession of the property under a land sales contract or any other land trust device.

transfer tax

State or local tax payable when title passes from one owner to another.

Treasury index

An index that is used to determine interest rate changes for certain adjustable-rate mortgage (ARM) plans. It is based on the results of auctions that the U.S. Treasury holds for its Treasury bills and securities or is derived from the U.S. Treasury's daily yield curve, which is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market.

Truth-in-Lending

A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the annual percentage rate (APR) and other charges.

two-step mortgage

An adjustable-rate mortgage (ARM) that has one interest rate for the first five or seven years of its mortgage term and a different interest rate for the remainder of the amortization term.

two- to four-family property

A property that consists of a structure that provides living space (dwelling units) for two to four families, although ownership of the structure is evidenced by a single deed.

trustee

A fiduciary who holds or controls property for the benefit of another.

VA mortgage

A mortgage that is guaranteed by the Department of Veterans Affairs (VA).

vested

Having the right to use a portion of a fund such as an individual retirement fund. For example, individuals who are 100 percent vested can withdraw all of the funds that are set aside for them in a retirement fund. However, taxes may be due on any funds that are actually withdrawn.

Veterans Administration (VA)

An agency of the federal government that guarantees residential mortgages made to eligible veterans of the military services. The guarantee protects the lender against loss and thus encourages lenders to make mortgages to veterans.