Tip: To find specific information for a product, Press Ctrl+F (or use "Find" from the Edit Menu) and then search for the information or topic you are looking for. If you don't find the topic the first time, try variations, different terms or less words.

FHA 203K Limited Renovation Loan Standard and High Balance Retail Channel Only

30 Year and 15 Year Fixed[1]
5/1 ARM[1]

LTV[2]	CLTV	Purpose	Units	Occupancy	Credit Score
96.50	96.50[5]	Purchase	1-4	O/O	620 – Standard Balance 640 – High Balance
97.75[3]	97.75	Rate/Term[4]	1-4	O/O	620 – Standard Balance 640 – High Balance

1. 5/1 ARM and 15 Year not available with High Balance option
2. LTV limited to 75% on 1 unit properties with unrelated non-occupant co-borrower or on 2-4 unit with any (related or unrelated) non-occupant co-borrower
3. If a borrower is re-occupying a property that was previously not their primary residence fewer than 12 months prior to the case number assignment date of the refinance, Cash Out refinances are not allowed and Rate/Term refinances have a max 85% LTV for a borrower who has occupied the subject property as their principal residence for fewer than 12 months prior to the case number assignment date; or if owned less than 12 months, has not occupied the property for that entire period of ownership.
4. Renovation costs are not considered "Cash Out."
5. 110% CLTV for Good Neighbor Next Door (GNND) program

Please note, investor review of the 203K specific documentation is required.

Reach out to Renovation@prmg.net with any questions on this product

PRODUCT NAME	• FHA 203K Limited 15 Year Fixed • FHA 203K Limited 30 Year Fixed • FHA 203K Limited 5/1 Treasury ARM • FHA 203K Limited High Balance 30 Year Fixed • FHA 203K Limited Good Neighbor Next Door 15 Year Fixed • FHA 203K Limited Good Neighbor Next Door 30 Year Fixed
ALLOWABLE ORIGINATION CHANNELS	• Retail
AGENCY LINKS	• In addition to any Product Profile requirements, you must always meet the published HUD guidelines. See 4000.1.II.A.8.a for specific 203K guidance. If published HUD guidelines are more restrictive then what is allowed in the Product Profile, you must always defer to HUD Guidelines. • All PRMG staff can access all end Agency guidelines though AllRegs Online at http://allregs.elliemae.com. Instructions on how PRMG staff can access the AllRegs service is available in the Resource Center. • Use the following link to access the HUD Housing Handbooks site, and from there, obtain access to the 4000.1 Handbook: • http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsgh • Access the All Regs version of the Handbook at: • http://www.allregs.com/tpl/public/fha_freesite.aspx
MINIMUM LOAN AMOUNT	• **Standard Balance**: No Minimum Loan Amount • **High Balance**: $1 above Standard Balance Limit • Note that loan amounts under $30,000 will require special pricing by Secondary Marketing
MAX. LOAN AMOUNT	• Standard: • The lesser of the base loan amount listed below or the particular county's maximum HUD loan limit. HUD Loan Limits can be found here: • https://entp.hud.gov/idapp/html/hicostlook.cfm • Refer to PRMG's "Eligible States" list for states currently available for business For cases assigned prior to 1/1/2019, all States: • 1 Unit $453,100 • 2 Units $580,150 • 3 Units $701,250 • 4 Units $871,450 For cases assigned after 1/1/2019, all States: • 1 Unit $484,350 • 2 Units $620,200 • 3 Units $749,650 • 4 Units $931,600 High Balance: • Fixed Products Only • Any base loan amount higher than those listed above for 1-4 unit properties. • Base loan amount (including repairs) cannot exceed the max county limit • Maximum loan amount by county may be exceeded by only the amount of the financed up front MI (UFMIP) • Max loan amounts follow HUD's Maximum Loan Limits and are county specific. • Max limits for all counties can be found here:

	https://entp.hud.gov/idapp/html/hicostlook.cfm

GEOGRAPHIC RESTRICTIONS	• Please refer to PRMG's "Eligible States" list, which can be found at this link: http://www.eprmg.net/guidelines/Eligible%20States.pdf
	• If the property is in Texas, please refer to the addendum at the end of this product profile.
	• Properties located in Alaska not eligible
	• If the subject property is located in the Alabama Restricted Lending Area (Coliseum Boulevard Area of Montgomery - this area contains a subsurface chemical contamination condition or environmental condition known as the Coliseum Boulevard Plume (CBP)) the loan must meet the following requirements:
	  ◦ A full appraisal (interior/exterior) is required.
	  ◦ A fully executed disclosure issued by the Montgomery Area Association of Realtors (MAAR), identified as the Coliseum Boulevard Plume Disclosure, must be a part of the purchase contract, signed, and dated by all required parties prior to closing.
	• Properties located in Illinois in the counties of Cook, Kane, Peoria or Will requires copies of the following to be closely reviewed: (1) A copy of the Certificate of Compliance with the counseling requirements or the Certificate of Exemption, if the lender or transaction is exempt and (2) A copy of Title Commitment free from any exceptions related to the anti-predatory lending database requirements.

PRINCIPAL CURTAILMENT	• Maximum principal curtailment is $500 • If the contingency reserve is not used (or not completely used), the remainder will be put towards the principal balance.
COMPLIANCE REQUIREMENTS	• All Clear to Close (CTC) conditions must be cleared before issuing CD • Compliance Department must review initial CD prior to docs. Please send email with loan number and borrower requesting compliance review to compliancereview@prmg.net • Compliance Department must complete final review of file for compliance acceptance prior to funding. Please send email with loan number and borrower requesting review to compliancereview@prmg.net
RENOVATION DOCUMENTATION REVIEW REQUIREMENTS	• Renovation documentation must be reviewed and approved by PRMG's Renovation team (renovation@prmg.net) prior to submission to underwriting. If the Renovation team did not assist in documentation collection and review, please email renovation@prmg.net with loan number and request for review. • After underwriting renovation documentation will be submitted by underwriter to investor for final renovation documentation approval. Investor requirements can be found at the following link: http://www.eprmg.net/ResourceCenter/FHA203KForms/RenovationInvestorSubmissionForm.pdf

RENOVATION	• The FHA Limited 203K Renovation loan enables borrowers to finance either the purchase or refinance of a home AND the cost of its renovation through a single mortgage.
	  ◦ Minimum Rehabilitation amount: $0
	  ◦ Maximum Rehabilitation amount: $35,000
	  ◦ Maximum rehabilitation amount of $35,000 including any fees not paid out-of-pocket as well as cash paid out of pocket (Line B14 of the MMW cannot exceed $35,000)
	  ◦ Rehabilitation construction must begin within 30 days of closing and all work must be completed within 6 months of closing.
	  ◦ Borrower paid repair overages are not allowed.

	• Under no circumstances can the total repair exceed $35,000. • Upon completion of repairs, must complete all applicable fields on the Escrow Closeout Certification screen in FHAC.
WORK PLAN	• The Borrower must submit a work plan use one or more contractors to provide the Cost Estimate and complete the required improvements and repairs. The contractors must be licensed and bonded if required by the local jurisdiction. The Borrower must provide the contractors' credentials and bids. • Must review the contractors' credentials, work experience and client references and ensure that the contractors meet all jurisdictional licensing and bonding requirements. The Mortgagee must examine the work plan and the contractors' bids and determine if they fall within the usual and customary range for similar work. • May require the Borrower to provide additional Cost Estimates if necessary • Please note, this is not the same as an estimate, it is a write-up which itemizes labor, materials, work explanations and draw schedule) • When an appraisal report identifies the need for health and safety repairs that were not included in the Borrower's work plan, or contractor's proposal, must ensure the repairs are included in the Borrower's final work plan. • The written proposal must indicate work Items that require permits and state that repairs are non-structural
INSPECTIONS	• Inspections are required on a case-by-case basis depending on the number of contractors • Certificates from municipalities are acceptable in lieu of inspections • Only one title update at final draw is performed

ELIGIBLE EXPENSES	• Expenses eligible to be included in the cost of rehabilitation are:
	  • Materials
	  • Labor
	  • Overhead profit (noted in each work item)
	  • Expenses related to the rehabilitation such as permits, licenses, inspection fees, etc…

ELIGIBLE IMPROVEMENTS	• Examples of eligible improvements are, but are not limited to: • Modernization and improvements to the home's function. • Elimination of health and safety hazards. • Changes that improve appearance and eliminate obsolescence. • Reconditioning or replacing plumbing. • Installing well and/or septic system. * • Adding or replacing floors and/or floor treatments. • Enhancing accessibility for a disabled person. • Making energy conservation improvements. • * If installing/replacing/repairing well and/or septic systems, the repairs on that item must be completed prior to any other work beginning.
ELIGIBLE REPAIRS AS LISTED IN HANDBOOK 4000.1	• Eliminating health and safety hazards that would violate HUD's MPR; • Repairing or replacing wells and/or septic systems; • Connecting to public water and sewage systems; • Repairing/replacing plumbing, heating, AC and electrical systems; • Making changes for improved functions and modernization; • Eliminating obsolescence; • Repairing or installing new roofing, provided the structural integrity of the Structure will not be impacted by the work being performed; siding; gutters; and downspouts; • Making energy conservation improvements;

	• Creating accessibility for persons with disabilities; • Installing or repairing fences, walkways, and driveways; • Installing a new refrigerator, cooktop, oven, dishwasher, built-in microwave oven and washer/dryer; • Repairing or removing an in-ground swimming pool; • Installing smoke detectors; • Installing, replacing or repairing exterior decks, patios, and porches; and • Covering lead-based paint stabilization costs (above and beyond what is paid for by HUD when it sells REO properties) if the Structure was built before 1978, in accordance with the Single Family mortgage insurance lead-based paint rule and EPA's Renovation, Repair, and Painting Rule.
INELIGIBLE IMPROVEMENTS	• Improvements for this program are limited and can not include any major rehabilitation or remodeling, new construction such as a room addition, repairs to structural damage, site amenity improvements, landscaping or luxury items (i.e. Pools, Jacuzzis, TVs, etc…) • Modifications that change the layout of the house (i.e. adding or removing walls to create or expand rooms or adding a bathroom) • No structural changes • No landscaping or site amenities • No outbuildings • Replacing Chinese Drywall • Projects which alter the number of units are not permitted. For example, a 2-unit dwelling converted into a 1-unit dwelling. • Homes that have never been completed that have no certificate of occupancy or existing homes completed that the certificate of occupancy is less than one year old. • NOTE: A structural repair is defined as any change to the foundational footprint of the home, any foundation repairs requiring excavating work, any alteration of the sizes of windows or doors, or changes to the home's interior layout. While the foundation may be added to, the original foundation must stay intact.

INELIGIBLE REPAIRS AS LISTED IN HANDBOOK 4000.1	• The repair or improvements are expected to require more than six months to complete;
	• The rehabilitation activities require more than two payments per specialized contractor;
	• The required repairs arising from the appraisal:
	    • necessitate a Consultant to develop a specification of repairs/Work Write-Up; or
	    • require plans or architectural exhibits; or
	    • The repair prevents the Borrower from occupying the Property for more than 15 Days during the rehabilitation period.
	Additionally, the Limited 203K mortgage proceeds may not be used to finance the following specific repairs:
	• Converting a one-family Structure to a two-, three- or four-family Structure;
	• Decreasing an existing multi-unit Structure to a one- to four-family Structure;
	• Reconstructing a Structure that has been or will be demolished;
	• Repairing, reconstructing or elevating an existing foundation;
	• Purchasing an existing Structure on another site and moving it onto a new foundation;
	• Making structural alterations such as the repair of structural damage and New Construction, including room additions;
	• Landscaping and site improvements;
	• Constructing a windstorm shelter;

	• Making additions or alterations to support commercial use or to equip or refurbish space for commercial use; and/or • Making recreational or luxury improvements, such as: • New swimming pools; • An exterior hot tub, spa, whirlpool bath, or sauna; • Barbecue pits, outdoor fireplaces or hearths; • Bath houses; • Tennis courts; • Satellite dishes; • Tree surgery (except when eliminating an endangerment to existing improvements); • Photo murals; or • Gazebos
HUD CONSULTANT	• Use of a HUD 203K Consultant is <u>not allowed.</u>
CONTINGENCY RESERVE	• A Contingency Reserve is required to cover unexpected expenses. • The required amount in the contingency reserve is 10% of the cost of renovation. • 15% is generally required if utilities not on or if property is vacant, a reserve amount of 10% can be allowed on a case-by-case basis if reviewed and approved during the investor construction review process. • Underwriter has discretion to impose a higher figure • If the contingency reserve is insufficient, the borrower must place additional funds into the account for payment. • If the contingency reserve is not used (or not completely used), the remainder will be put towards the principal balance. • Must ensure funds escrowed in the Contingency Reserve are used solely to pay for the proposed repairs or improvements and any unforeseen items related to these repair items.

DISBURSEMENT OF FUNDS	First Disbursement:
	• Lender may disburse:
	  ◦ permit fees at closing (the permit must be obtained before work commences);
	  ◦ origination fees;
	  ◦ discount points; and
	  ◦ up to 50% of the estimated materials and labor costs before beginning construction only when the contractor is not willing or able to defer receipt of payment until completion of the work, or the payment represents the cost of materials incurred prior to construction. A statement from the contractor is sufficient to document. If it is disbursed, included with the disbursement is an instruction letter that explains how the final disbursement works and provides contact information for the borrower.
	• This amount may be disbursed at closing through Escrow, if the following is obtained/complied with:
	  ◦ Statement from contractor that they are not willing or able to defer receipt of payment until completion of the work, or the payment represents the cost of materials incurred prior to construction (NO EXCEPTION to this requirement! – May use certification on the 203K PRMG Allow Costs Worksheet, which is available from the Resource Center, or contractor may provide their own statement.)
	  ◦ Underwriter must condition for escrow to provide to the borrower a two-party check made out to the borrower and the contractor at 50% of each invoice amount at close (Total of all initial disbursements may not exceed half of the rehabilitation (repair) amount under any circumstances.) Copy of checks must

	be submitted to PRMG. • Underwriter must condition for a completed W-9 for each contractor prior to close (no exceptions.) • No advances can be made for any areas containing lead based paint. • If required documentation is obtained, escrow will disburse to the borrower a two-party check made out to the borrower and contractor at 50% of each invoice amount. • All disbursements must be reflected on the Closing Disclosure and Loan Transmittal. • After close, borrower will receive information that explains how the final disbursement works and provides contact information for the borrower. Second Disbursement: • The remainder of the funds is disbursed upon completion of ALL work. If the cost of the renovation is over $15,000, an inspection by the original appraiser is required. • Before a final release is made to any contractor, lender must determine that all work by the contractor has been completed, is acceptable by the Borrower, and all necessary inspections have been made with acceptable documentation. • A W-9 must be provided to set up the contractor in the system, and a two-party check is made out to the borrower and the contractor, and is then sent to the borrower. • If multiple contractors are being used, 50% of the cost of the repairs for each contractor is disbursed up front and no more than 2 draws per specialized contractor and only if a statement is provided indicating the contractor is not willing or able to defer receipt of payment until completion of the work, or the payment represents the cost of materials incurred prior to construction. No individual contractor can receive more than 50% of the amount of their agreed upon work proposal. • For each contractor, receipt of a fully executed Allowable Costs Released at Closing form. • Maximum 2 draws • No holdbacks • If the contingency reserve is not used (or not completely used), the remainder will be put towards the principal balance.
TITLE REQUIREMENTS	• Must ensure validity of the first lien on the property. • Interim Draws – Title updates or lien waivers are appropriate based upon local lien laws. • Final Draws – An endorsement to the title policy extending the effective date through the completion of the renovation and assuring first lien position is required. A lien waiver is not a substitute for an endorsement to the title policy for a final draw.
APPROVED TITLE COMPANIES FOR 203K PRODUCT	Title insurance must be issue by one of title insurers listed below: Nationwide: • Chicago/Fidelity Group (Alamo Title Insurance, Chicago Title Insurance Company, Commonwealth Land Title Insurance Company, Fidelity National Title Insurance Company) • First American Group (First American Title Insurance Company, First American Title Insurance Company of Louisiana, Ohio Bar Title Insurance Company, First American Title Guaranty Company) • Old Republic Group (American Guaranty Title Insurance Company, Mississippi Valley

	Title Insurance Company, Old Republic National Title Insurance Company) • Stewart Group (Stewart Title Guaranty Company, Stewart Title Insurance Company) Regional: • Agents National Title Insurance Company: AK, AL, AR, AZ, CO, DC, DE, FL, GA, HI, IA, IL, IN, KS, KY, MD, MN, MO, MS, MT, NC, ND, NE, NH, NM, OH, OK, PA, RI, SC, SD, TN, TX, UT, WV, WY Alliant National Title Insurance Company (AL, AR, AZ, CO, GA, FL, IA, KS, LA, MN, MO, MS, NC, NE, NM, NV, OK, SC, TN, TX, UT, WI) • Amtrust Title Insurance Company AK, AR, AZ, CT, DC, DE, FL, HI, IL, IN, KY, LA, MA, MD, MI, MO, MS, NC, ND, NE, NH, NJ, NM, NV, NY, OH, OK, OR, PA, RI, SC, TN, TX, UT, VA, VT, WA, WV Attorneys' Title Guaranty Fund, Inc. (Illinois) (IL, IN, MI, WI) • Conestoga Title Insurance Company (AL, DC, DE, GA, IN, KY, MD, MS, NJ, NY, OH, PA, SC, TN, VA) • Connecticut Attorneys Title Insurance Company (CATIC) (AR, CO, CT, IN, MA, MD, ME, MO, NH, NJ, NY, RI, UT, VA, VT) • First National Title Insurance Company (AZ, FL, NM, TX) • General Title Insurance Company (AR, IN, KY, OH, PA, TN) • Investors Title Insurance Company (AL, AR, AZ, CO, CT, DC, DE, FL, GA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MI, MN, MO, MS, MT, NC, ND, NE, NH, NJ, NM, NV, NY, OH, OK, PA, RI, SC, SD, TN, TX, UT, VA, VT, WI, WV, WY) • Land Title Insurance Corporation (& its affiliate agent Land Title Guarantee Company) (CO) • National Investors Title Insurance Company (AR, DC, DE, FL, GA, IN, KY, MD, MN, MO, NC, NE, NJ, NY, OH, PA, SC, TX, VA, WI, WV) • National Title Insurance of New York, Inc. (AL, AR, AZ, CA, CO, CT, DC, DE, FL, GA, HI, ID, IL, IN, KS, KY, LA, MA, MD, ME, MI, MN, MO, MS, MT, NC, ND, NE, NH, NJ, NM, NV, NY, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VA, VT, WA, WI, WV, WY) • North American Title Insurance Company (AL, AZ, CA, CO, DC, DE, FL, GA, IL, IN, KY, MA, MD, MI, MN, MS, NC, NJ, NV, OH, OK, OR, PA, SC, TN, TX, UT, VA, WA, WI, WY) • Premier Land Title Insurance Company (Pulte Homes subsidiary) (AZ, CA, CO, DC, DE, FL, GA, IL, IN, MD, MN, MO, NC, NM, NV, OH, PA, SC, TX, VA, WV) • Pulsar Title Insurance Company (LA) • Radian Title Insurance, Inc. (formerly Entitle Insurance Company): AL, AR, AZ, CA, CT, DC, DE, FL, GA, IA, IL, IN, KS, KY, LA, MA, MD, MN, MO, MS, MT, NC, NE, NM, NV, NY, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VA, WA, WI, WV • Real Advantage Title Company: AL, AZ, CA, CO, GA, IN, KS, LA, MN, MS, MT, NC, ND, NE, NV, OH, OK, SD, TX, UT, WI, WV Security Title Guarantee Corporation of Baltimore (AL, AR, CO, DC, DE, KY, LA, MD, ME, MS, NH, NJ, NY, OH, PA, SC, TN) • Title Guaranty Division of the Iowa Finance Authority (Required in Iowa, see the below sections for additional requirements for properties in Iowa.) • Title Resources Guaranty Company (AL, AZ, CA, CO, CT, DC, FL, GA, HI, ID, IL, KS, LA, MA, MD, ME, MI, MN, MO, MT, NC, NJ, NM, NV, NY, OH, OK, PA, SC, TN, TX, UT, VA, WA, WI) • Westcor Land Title Insurance Company (AL, AR, AZ, CA, CO, CT, DC, DE, FL, GA, HI, ID, IL, IN, KS, KY, LA, MA, MD, ME, MI, MN, MO, MS, MT, NC, ND, NE, NH, NJ, NM, NV, NY, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VA, VT, WA, WI, WV, WY) • WFG National Title Insurance Company (AK, AL, AR, AZ, CA, CT, DC, DE, FL, GA, HI, ID, IL, IN, KS, KY, LA, MA, MD, MI, MN, MO, MS, MT, NC, ND, NE, NH, NJ, NM, NV, NY,

	OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VA, WA, WI, WV, WY)
CONTRACTOR REQUIREMENTS	• All rehab work must be performed by a qualified and experienced contractor chosen by the borrower and completed in a workmanlike manner who will provide estimates for the work to be done. • PRMG will then review the estimates to ensure that the planned work meets all program and repair recommendations as noted on the appraisal report. • The borrower must provide a written cost estimate(s) and references from a qualified and experienced contractor(s) for each specialized repair or improvement. Borrower must sign and date each estimate. • Borrowers may not use relatives/employers as their contactors. • Borrower is limited to a total of 3 sub-contractors or a General Contractor will be required. • The borrower may not act as the General Contractor. "Self-Help" loans are not permitted. • Contractor's Resume, including three trade references, should be completed by all contractors. Trade references must be checked by PRMG underwriter. A contractor profile or resume is required with trade references and customer references listed. Documentation within the file that the lender has verified references; Negative references should not be accepted • Copies of all licenses and insurance for all contractors, including sub-contractors is required, as required by municipality • Copy of contractor's insurance policy must be submitted. It is the underwriter's discretion to determine the amount of liability insurance. Contractors often have between $500,000 and $1,000,000 in coverage, but if they're doing a small renovation, the underwriter might allow $200,000 for the overage. However, the contractor's liability insurance coverage should be in an amount that equals or exceeds the total loan amount. • All required licenses and insurances should be valid and not expired • The repairs or improvements must meet any local codes and ordinances and the borrower and/or contractor must obtain all required permits prior to the commencement of work. • Proper building permits are required prior to any monies being advanced for a particular repair type. The requirements of the municipality in which the property is located must be adhered to. A lender's permit certification must be signed by an official of the municipality for all 203K transaction types identifying all required permits. • Projects that increase density, change the current use, or do not conform to legal use must be addressed prior to closing to avoid unsaleable loans. • The cost estimate(s) must clearly state the nature and type of repair and the cost for completion of the work item. • Estimates should include the cost for labor & materials. • Estimates must itemize all work being included. • All estimate amounts must match the Borrower/Contractor Agreement(s). • Materials or appliance estimates from "box stores" (i.e. Home Depot, Lowe's, etc.) must be accompanied by labor estimates from the installing contractor who will install the materials. • Whether the installing contractor is independent OR a sub-contractor for a store, they must still provide an executed Borrower/Contractor agreement, and be "Accepted" by PRMG. • Exception: free-standing appliances (or items that do not require installation or labor

	to install) may be presented as stand-alone estimates (i.e. free-standing stove, washer, dryer). • Paint must always be accompanied by a labor estimate. • PRMG will review the contractor's credentials, work experience and client references and may require the borrower to provide additional cost estimates if necessary. • Underwriter must complete the 203K Contractor Acceptance Checklist, which can be found in the Resource Center. • After review, the selected contractor(s) must agree in writing to complete the work for the amount of the cost estimate and within the allotted time frame (6 months after the loan is closed). • A copy of the contractor's cost estimate(s) and the Borrower/Contractor Agreement(s) must be included in the file. There must be an agreement for each contractor used. (Note, if a General Contractor is used then only their information is needed unless there is specialized work like Lead Based Paint.) • The contractor must finish the work in accordance with the written estimate and Borrower/Contractor Agreement and any approved change order. • Contractor's Lead Based Paint Certification is required for all homes built prior to 1978, if the repairs include: Renovation, repair or painting activities of 6 sq ft or more of lead base paint is disturbed in a room (interior) or 20 sq ft or more exterior, window replacement or demolition • Contractor's Lead Base Paint Certification is NOT required if either none of the above listed repairs are being made to the property OR if there is a lead base paint inspection report showing there is NO lead base paint evident at the property • Contractor Acceptance Checklist completed, signed, and in file.
LEAD PAINT REMEDIATION ON HUD REOS	• Loan may be used for the financing of REO purchases where a pre-1978 property has been determined to contain lead-based paint and the M&M Contractor has completed a stabilization plan and cost estimate to stabilize (mitigate) the deteriorated paint. • UW must condition for the "Lead Paint Stabilization Plan and Cost Estimate." • The Lead Paint Stabilization Plan and Cost Estimate estimates how much the job will cost, and this will match the credit they will give at closing for LPR • Although the funds will be collected at closing from the Seller and put into the rehab escrow account, they are NOT financed • The lead-paint amount will appear in 203k MMWS Line B14 total, however, when completing boxes C or D for max mortgage, the lead paint credit must be subtracted BEFORE completing max mortgage. The lead paint credit cannot be financed. • The borrower must find their OWN federally –licensed lead-paint contractor to do the work • That contractor will try to match HUD‟s estimate • If the borrower's contract is higher than HUD‟s credit, the difference may be financed into the 203k; UW must re-calc max mortgage • If the borrower's contract is lower than HUD‟s credit, the M&M contractor should be notified, and the Lead Based Paint credit is sometimes reduced • UW must perform normal contractor due-diligence on the Lead Paint contractor selected, with an extra added check to confirm the federal EPA license to handle lead paint • UW must condition for the lead-paint credit from Seller (HUD) to appear on the HUD-1, and funds for that credit to be present at the closing table • PRMG may not disburse funds at escrow for properties with Lead Based Paint. • PRMG must receive the seller lead-paint funds at closing from HUD (Seller) so that

	they are deposited into the Rehab Escrow Account, and get managed by the post-closing Draw Department • UW must condition for the lead-paint work to be done prior to ALL other work listed in the 203k plan • If the lead-paint is being done in a part of the home where livability is compromised, UW must condition for occupancy to be prohibited until lead paint remediation is complete • A final "Clearance" or "Wipe Test" is required to confirm LBP has been remediated
MORTGAGE PAYMENT RESERVE	• Borrower must move into property within 30 days of closing. Mortgage payments may not be escrowed.
DISCLOSURES	• Disclosures must sent to Compliance/Disclosure team for review prior to sending them to the borrower. Send an email to ComplianceGroup@prmg.net with the borrower name/loan number requesting review of the disclosures for a 203K product.

203K LIMITED FEES	• The following costs and fees may be financed: costs of construction, repairs and rehabilitation; inspection fees performed during the construction period, provided the fees are reasonable and customary for the area; title update fees; and permits.
	• **<u>LE Section A (Series 801 – Include in APR)</u>**
	  • **Supplemental Origination Fee**
	    • 1.50% of the renovation amount, or $350, whichever is more
	• **<u>LE Section B (Line Series 1100 – Do Not Include in APR)</u>**
	  • **Title Update Fees**
	    • Title Update Fees @ $150 each (Only 1 update is allowed on the Standard 203K unless the loan is located in the states of VA or OH. These states will require title updates with each draw and should match the inspections, as inspections will be completed with each draw.) NOTE, even if the borrower shops for a title company, the Title update fee will be Investor's choice.
	• **<u>LE Section B (Include in APR)</u>**
	  • **Inspection Fees**
	    • Inspections @ $165 each
	• **<u>LE Section B (Provider on SSPL) or C (Provider not on SSPL) (Line Series 1300-1309 – Do Not Include in APR)</u>**
	• **Architectural and Engineering Fees** (if applicable)
	• **Pest/Well/Septic/Water Purity Certifications** (if applicable)
	• **Survey Fees** (if applicable)
	• **<u>LE Section H – Do Not Include in APR (Line Series 1310+)</u>**
	  • **Building Permit Fees**
	    • Building permit fees from contractor's bid; if work will require a permit (*e.g.,* roof), then permit fees must be disclosed

ADDITIONAL FORMS TO BE COMPLETED BY LENDER	• The following forms must be completed in conjunction with this program:
	  • 203K Allowable Costs Worksheet
	  • 203K Rehabilitation Loan Agreements (Borrower and Lender)
	  • 203K Mortgagee's Assurance of Completion
	  • 203K Contractor Acceptance Worksheet

INVESTOR REVIEW OF 203K DOCUMENTATION	• The following documentation must be submitted to the investor for review (Underwriter to reference *Instructions for Submitting Loans to Investors and MI Companies* document for procedure and additional information):
	  • Submission List
	  • Maximum Mortgage Worksheet (final) - must use the 203K Calculator in FHAC

	prior to endorsement for all 203K transactions and may begin to use the functionality immediately (A print out of the worksheet from FHA Connection must be in the loan file.)
	• “After Improved” Appraisal (subject to the completion of the repairs)
	• AUS Underwriting Decision with Approve/Eligible (DU)
	• Sales Contract
	• Contractor Bids-all bids with labor and material costs separated
	• Contractor Acceptance Form/Profile
	• If HUD REO – as-is appraisal, if HUD will provide, otherwise a new appraisal must be ordered
	• If HUD REO – lead base paint inspection
	• * Contractor’s Lead Based Paint Certification is required for all homes built prior to 1978, if the repairs include: Renovation, repair or painting activities of 6 sq ft or more of lead base paint is disturbed in a room (interior) or 20 sq ft or more exterior, window replacement or demolition
	• Contractor’s Lead Base Paint Certification is NOT required if either none of the above listed repairs are being made to the property OR if there is a lead base paint inspection report showing there is NO lead base paint evident at the property
	• Additionally:
	  • Maximum of 3 contractors allowed on a 203K Limited or will need a General Contractor.
	  • No advances can be made for any areas containing lead based paint or mold
	  • PRMG does not allow the use of a HUD Consultant
	  • Turn time for review and response back to lender is typically 48 hours from package receipt
	  • Review time is a maximum of 72 hours (typically closer to 24-48 hours)

MORTGAGE TYPES	• Any FHA programs/mortgage types identified in the FHA Handbook that are not specifically allowed in the product profile, including but not limited, to Energy Efficient Mortgages are not eligible.
DOCUMENTATION	• Full/Alt Doc • When all income used to qualify a loan for the borrower is made up exclusively of wage earner income reported on a W2 and/or non-grossed up fixed income reported on a 1099 (i.e., social security or VA benefits) transcripts are not required, unless full tax returns are required for the borrower by the AUS (i.e., borrower employed by family members). If multiple borrowers are qualifying on the loan, but the tax returns are not filed jointly, and one borrower requires full returns, but the other borrowers are qualified exclusively on W2 and/or fixed income then no transcripts are required for the W2/fixed income borrower and 1040 transcripts are required for the self-employed borrower/borrower requiring full returns. When using this option, there can also be no tax returns included in the loan file (including if tax returns are required to be reviewed by the PRMG underwriter for MCC Approval or other purpose). If the borrower earns other income that is used to qualify that would be able to be validated with 1040 transcripts (i.e., rental income from tax returns, etc.) then 1040 transcripts are required to validate that income. A completed and executable (signed) 4506T must be submitted with the loan file. For the borrowers where transcripts are not required, be sure to select the W2/1099 option only when completing the 4506-T. Do not mark the 1040 or Record of Account option. • When tax returns are required for a borrower or when borrower’s qualifying income is not made up of W2 or is using grossed up fixed income reported on a 1099,

	validated 1040 tax transcripts are required if borrower's income is utilized as a source of repayment. If multiple borrowers are qualifying but the tax returns are not filed jointly (when one borrower requires full returns), then it is acceptable to provide no transcripts for the salaried/fixed income borrower and 1040 transcripts for the self-employed borrower/borrower requiring the tax returns. • When required, transcripts must be provided for the number of years of income documentation required to be in the loan file, in accordance with the AUS findings and/or HUD requirements. Tax transcripts are required to support the income used to qualify the borrower. The purpose of the 4506-T is to verify the income reported is accurate. 2106 Expenses (unreimbursed business expenses) do not need to be considered in income calculations • Tax transcripts must come to lender directly from the IRS or through a third party vendor ordered/obtained by lender • When business tax returns are required by AUS, business income is used to qualify or business income is used to offset a loss on personal tax returns or is included in the loan file, a separate IRS Form 4506-T must be executed (but not processed and must allow enough time to be executed post-closing after delivery to investor) for each business for the required number of years of income documented, for each self-employed borrower on the loan transaction. Allowable signatures (per IRS): 1120/1120S: Borrower must sign name with title and only the following titles are acceptable: President, Vice President, CEO, CFO, Owner, 1065: Borrower must sign name with title and only the following titles are acceptable: General Partner, Limited Partner, Partner, Managing Member, Member • For self-employed borrowers or a borrower who has commission income greater than 25 percent of the borrower's total earnings, using tax transcripts in lieu of returns is allowed as outlined per 4000.1 • For non-self-employed borrowers: Verbal VOE is required to be completed no more than 10 days prior to the note date for wet funding states and escrow states. If the Verbal VOE is completed more than 10 days prior to the funding date, another Verbal VOE should be completed 10 days prior to funding date for escrow states. • For self-employed borrowers: No more than 30 calendar days prior to note date, verify the existence of the borrower's business from a third party that may include a CPA letter (cannot be vague, must state length of time doing taxes and be signed by CPA), regulatory agency, or appropriate licensing bureau; OR verify a phone listing and address for the borrower's business through resources such as the telephone book, directory assistance, internet, or contact the appropriate licensing bureau. Verification may not be made verbally, and a certification by PRMG indicating the information was verified is not allowed. Documentation from the source used to verify the information must be obtained and in the file. Internet sites such as 411.com, Chamber of Commerce sites and Manta.com where they allow the business owner to add their own information are not acceptable. Also single source verifications, such as from superpages.com, yellowpages.com and searchbug.com are not allowed. If all other methods of obtaining third party verification have been exhausted, the borrower can provide letters from three clients indicating the type of service performed, length of time of business relationship, frequency of service, payment arrangements, etc. and support the income with current bank statements, deposits, etc. The underwriter must thoroughly investigate that the business, income and proof of business is legitimate. • Amended tax returns must have been filed at least sixty (60) days prior to the earliest of the purchase agreement, initial credit report date, or mortgage application date, unless the changes made are non-material to the amount of

	income claimed, and qualification for the mortgage loan. When using the amended returns if filed within sixty (60) days to the earliest of the purchase agreement, initial credit report date, or mortgage application date, or after, the Underwriter must provide justification and commentary regarding its use, including that borrower does not require use of amended income for qualification. Regardless of when the amended returns were filed, due diligence must be exercised with close examination of the original, and amended returns, to determine if the use of the amended return is warranted and the following documentation should be reviewed when income from the amended return is required: A letter of explanation regarding the reason for the re-filing; evidence of filing (must be validated with a record of account (4506T results); copy of the original 1040; any extensions filed, and evidence of payment of the taxes due, and the ability to pay, if the check has not yet cancelled. • Special note: VOR/VOM required on all loans unless it is not required per the AU approval. • Profit and loss statement and balance sheet required if more than a calendar quarter has elapsed since date of most recent calendar or fiscal-year end tax return was filed by the borrower. (A balance sheet is not required for self-employed borrowers filing Schedule C income.) Additionally, if income used to qualify the borrower exceeds the two-year average of tax returns, an audited profit and loss statement or signed quarterly tax returns obtained from IRS are required. • Preliminary Title policy must be no more than 90 days when the note is signed • Provide a written analysis of the income used to qualify the borrower on the Transmittal Summary or like document(s) in the file. An Income Analysis must be completed for self-employed borrowers. • When paying off any non-transaction related item (i.e., debts, third party payouts, etc.) that has a balance of $5,000 or more, paid for by either borrower or seller, to ensure that the total payoffs are accurate, copies of the actual invoices (statements), an updated (current) credit report/refresh or credit supplement reflecting the current balance with a signed amendment (or similar) authorizing disbursement for these account(s) are required. You cannot use the amount listed on the credit report to document the payoff amount. • All documentation used in qualifying the borrower must be legible and if not in English, will require a full written translation of the entire documentation into English. • Must authenticate documents obtained from an Internet website and examine portions of printouts downloaded from the Internet including the Uniform Resource Locator (URL) address, as well as the date and time the documents were printed. The lender must visit the URL or the main website listed in the URL if the page is password protected to verify the website exists and print out evidence documenting the lender's visit to the URL and website.
DOCUMENT EXPIRATIONS	• Preliminary Title policy must be no more than 90 days when the note is signed • Credit documentation must not be more than 120 days old from the disbursement date • All verifications of funds, including the most recent asset account statements, must be dated within 45 days of the loan application or an updated statement is required. • Appraisals are valid for 120 days and must be dated within 120 days of the disbursement date
AUTOMATED UNDERWRITING	• The last AUS finding, which must match the terms of the loan, must be in the loan file. For all loans, the first submission to the AUS must occur prior to the note date (it cannot be the same as the note date.)

DESKTOP UNDERWRITER (DU)	• All loans, must be run through FHA's TOTAL SCORECARD decisioning engine via DU. A copy of the findings must be included in the file.
	• Must receive an Approve/Eligible
	• All conditions outlined in the Findings Report must be satisfied.
	• Manual downgrades or Refer/Eligible not eligible
	• If TOTAL Scorecard issues an Approve/Eligible and the following applies or the DU findings indicate you need to downgrade, then the loan must be downgraded to a Refer and is not eligible:
	  • the mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard;
	  • additional information, not considered in the AUS recommendation affects the overall insurability of the Mortgage;
	  • the Borrower has $1,000 or more collectively in Disputed Derogatory Credit Accounts (defined as disputed charge off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months; exclusions from cumulative balance include: disputed medical accounts; and disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use. To exclude these balances, the Mortgagee must include a copy of the police report or other documentation from the creditor to support the status of the accounts.)
	  • the date of the Borrower's bankruptcy discharge as reflected on bankruptcy documents is within two years from the date of case number assignment (see credit section for seasoning requirements);
	  • the case number assignment date is within three years of the date of the transfer of title through a Pre-Foreclosure Sale (Short Sale) (see credit section for seasoning requirements);
	  • the case number assignment date is within three years of the date of the transfer of title through a foreclosure sale (see credit section for seasoning requirements);
	  • the case number assignment date is within three years of the date of the transfer of title through a Deed-in-Lieu (DIL) of foreclosure (see credit section for seasoning requirements);
	  • for purchase and non-cash out refinances transactions, if any mortgage trade line reported on the credit report used to score the application, including mortgage line-of-credit payments, during the most recent 12 months reflects: 3 or more late payments of greater than 30 days; OR 1 or more late payments of 60 days plus one or more 30-day late payments; OR 1 payment greater than 90 days late
	  • For a cash out transaction if a mortgage trade line reported on the credit report used to score the application reflects a current delinquency or any delinquency within 12 months of case assignment date or a current delinquency
	  • the Borrower has undisclosed mortgage debt that reflects: (1) a current delinquency; (2) any delinquency within 12 months of the case number assignment date; or (3) more than two 30 Day late payments within 24 months of the case number assignment date
	  • business income shows a greater than 20 percent decline over the analysis period.

LOAN PRODUCT ADVISOR (LPA)	• Not allowed • Formerly known as Loan Prospector (LP)
MANUAL UNDERWRITING	• Not allowed
CAIVRS/DELINQUENT FEDERAL DEBT	• Credit Alert Interactive Voice Response System (CAIVRS) needs to be run • Borrower may not be denied solely on the basis of CAIVRS information that has not

	been verified. Lender must contact the creditor agency using the contact phone number and debt reference number reflected in the Borrower's CAIVRS report • If a Borrower is currently delinquent on an FHA-insured Mortgage, they are ineligible for a new FHA-insured Mortgage unless the delinquency is resolved. • Borrowers with delinquent Federal Tax Debt are ineligible. See Qualifying Section for borrowers who have past due federal tax debt and are in a payment plan. • Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt and the Borrower has made timely payments for at least three months of scheduled payments. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments. (Payment must be included in DTI.) • Mortgagees must check public records and credit information to verify that the Borrower is not presently delinquent on any Federal Debt and does not have a tax lien placed against their Property for a debt owed to the federal government • To verify a delinquent student loan, or loan paid by a government claim, is not a defaulted federal loan (when not appearing in CAIVRS or clearly listed on the credit report as federal debt or even when reporting as a charge-off on credit report), contact 1-800-621-3115 or DCS_Help@ed.gov • For delinquent federal non-tax debt, including deficiency judgments and other debt associated with past FHA-insured mortgages, must include documentation from the creditor agency to support the verification and resolution of the debt (the Borrower must resolve their federal non-tax debt in accordance with the Debt Collection Improvement Act). For debt reported through CAIVRS, the Mortgagee may obtain evidence of resolution by obtaining a clear CAIVRS report. • If CAIVRS indicates the borrower is presently delinquent or has had a foreclosure within the previous three years, the borrower must have CAIVRS updated/cleared and the foreclosure seasoning is based on transfer deed date of the foreclosed property.
LDP/GSA REQUIREMENT	• All parties involved with and who handle the loan file (see instructions in the Resource Center for additional information) must be checked against HUD's Limited Denial of Participation (LDP) list at https://www5.hud.gov/ecpcis/main/ECPCIS_List.jsp and the General Services Administration's (GSA) Excluded Party List at https://www.sam.gov/portal/public/SAM/ • Any entity noted on either of the LDP and GSA lists must be removed from the transaction or will cause the loan to be ineligible. • The parties to verify include, but are not limited to, Buyers (including AKAs on the credit report), Sellers, Loan Officer, Buyers Agent, Sellers Agent, Escrow Officer, Title Officer, Appraiser, Processor, and Underwriter.
MORTGAGE CREDIT REJECT/SANCTION	• Any mortgage credit reject or mortgage credit sanction will require a second signature from an Operations Manager. The underwriter must justify on their LT why they want to overturn another lender's decline and document the file accordingly.
PROPERTY TYPES ELIGIBLE	• Single Family Residence • 1-4 unit HUD REOs • 1-4 Units • 1 unit condominiums • Modular Homes • HUD Approved Condos (project must be at least 51% owner-occupied) • PUDs Attached and Detached
INELIGIBLE	• Hawaii properties in lava zones 1 and 2

	• Hawaii Homeland Leasehold properties • Condos without HUD Approvals • Leasehold Condominiums • Leasehold PUDs • Properties with illegal accessory units • Manufactured Homes • Mobile homes • Geodesic Domes • Condotels • Mixed-Use • Log Homes • Historic Properties • Leased Land • Co-op • Land Trusts • Illinois Land Trusts • Working Farms • Properties with Oil and Gas Leases • Properties in a flood zone that do not participate in the National Flood Insurance Program • Properties located in communities requiring Point of Sale Violation Reports (note, it is only when the community requires it, not if the property has a Point of Sale Violation Report • Properties with active or unexpired oil or gas leases • Indian land (leased or fee simple) • Properties with Unexpired Redemption Rights • Refinances of Good Neighbor Next Door loans that were originated in the last 3 years • Properties that have a Property Assessed Clean Energy (PACE) loan are not eligible (such as the Home Energy Renovation Opportunity (HERO) Program) unless the lien will subordinate via a subordination agreement where the lien is no longer part of the property taxes that can take first lien priority (note, the HERO subordination agreement does not provide for this and is not eligible) and meets all Agency requirements
MODULAR HOMES	• Factory-built housing must assume the characteristics of site-built housing and be legally classified as real property. The purchase, conveyance, and financing (or refinancing) of the property, which must be evidenced by a valid and enforceable first lien mortgage or deed of trust that is recorded in the land records, must represent a single real estate transaction under applicable state law. • Prefabricated, panelized, or sectional housing units must conform to all local building codes in the jurisdiction in which they are permanently located. • Modular homes must be built to the state building code requirement of the state in which they are to be installed. There are several state agencies that have adopted a Uniform Building Code for modular homes. • Marketing time must not exceed 6 months. • Minimum of 2 similar factory-built comparables.
CONDOS	• Interior rehabilitation is permitted only (no common areas) • There is no limit to the number of condos in the entire project, but there cannot be more than 4 units in the building the condo is located in. • Projects must be established to be eligible which means 100% completion and HOA

	vested >1 year to the homeowners • New Construction condominiums are not eligible • Must be HUD Approved on the HUD Approved condo list, which is found at the following link: https://entp.hud.gov/idapp/html/condlook.cfm or eligible under Single Unit Approval • For cases assigned on or after 10/15/19, all loans with properties in condo projects must have HUD Form 9991 completed. HUD approved projects require sections 1-3 to be completed. Single Unit Approvals require sections 1-4 to be completed. • For cases assigned on or after 10/15/19, all loans with properties in HUD approved condo projects underwriter must ensure all items in the 4000.1 under Requirements for Units in Approved Condominium Projects are met. • For cases assigned on or after 10/15/19, Single Unit Approvals are eligible, see section below for requirements • For loans with properties in HUD approved condo projects, condo projects involved in monetary litigation may be eligible, if litigation is reviewed and approved through condoreviews@prmg.net . Documentation regarding the litigation (i.e., court documents) must be submitted to condoreviews@prmg.net for review and approval. (If project was by HUD approved after litigation date, the litigation would be considered in the approval and not required to be reviewed as there would be no changes to the project.) For loans with Single Unit approvals, litigation will be reviewed as part of the approval process. • For cases assigned prior to 10/15/19, Underwriter must certify that there have been no changes to the project since HUD approval that would cause the project to no longer be HUD approved. HUD requires use of Appendix B Certification for Individual Unit Financing, which is available on the Resource Center at the following link: https://www.eprmg.net/ResourceCenter/FHAForms/FHA%20condo%20certification.pdf • For HUD REOs, condominium projects do not need to be currently approved by HUD • Detached condos, meeting HUD's definition of a site condo, do not have to have project approval.

Condo Single Unit Approvals	• When using the Condo Single Unit Approval, the following LTV restrictions apply:
	    • Max LTV 96.5% with Accept from TOTAL Mortgage Scorecard
	    • Max LTV 90% with manual underwrite (including downgrades)
	• Condo Single Unit Approval are only eligible when submitted by the fulfillment center or retail branch to condoreviews@prmg.net with the FHA Single Unit Approval Submission Form and required documentation and an approval on the project is issued through Condo Reviews.
	• Follow the steps outlined in Mortgagee Letter 2019-13 to order case number for a property using a Single Unit Approval
	• Request for Condo Single Unit Approval should be submitted to condreviews@prmg.net by the fulfillment center or retail branch when all required documentation has been obtained and loan has been conditionally approved
	• The FHA Single Unit Approval Submission Form can be found on the Resource Center or at the following link: https://www.eprmg.net/ResourceCenter/GeneralForms/FHASingle-UnitApprovalSubmissionForm.pdf
	• Anticipated turn time for FHA Condo Approvals is currently 5-7 business days (but is subject to change)
	• Upon single unit approval, all documentation used in the condo review must be uploaded and retained in the loan (case binder)

	• When Condo Single Unit Approval is used, the following documentation is required: HUD Form 9991 (FHA Condo Questionnaire); AUS (TOTAL Scorecard) Findings; Certificates of Insurance (as applicable - Property/wind, Liability, Fidelity, FEMA Flood Map, Flood including RCV (if required), HO-6 (if Master insurance is not walls-in); Recorded copy of CCRs or Declaration of Condominium; Recorded copy of By-Laws of Condominium; Recorded copy of Articles of Incorporation of the condo association (if unincorporated please advise); Current Annual Budget, Balance Statement (Less than 90 days), Financial Distress Resolution (Dated legal document evidencing Resolution of Financial Distress); Litigation (Provide copy of Complaint(s)); if Leasehold, copy of Lease and Attorney Opinion letter addressing that the lease meets FHA Requirements; For projects with Commercial/Non-Residential Space: YTD Operating Statement and Prior Year Operating Statement • See the Single-Unit Approval section in the 4000.1 for complete requirements. Additionally, PRMG has developed a checklist for reference purposes, which can be found at this link: https://www.eprmg.net/ResourceCenter/GeneralForms/FHASingleUnitApprovalProcess.pdf
3-4 UNIT PROPERTIES	• 3 month PITI in reserves required • The property must be self-sufficient (i.e. the maximum mortgage is limited so that the ratio of the monthly mortgage payment, divided by the monthly net rental income, does not exceed 100%).
LEASE LAND	• Must meet FHA guidelines
MULTIPLE PARCELS	• If a property is comprised by multiple lots/parcels, each with a separate property tax account number, the multiple lots/parcels must be on the same deed. The legal description of the property (often referred to as a metes and bounds description or a rectangular survey system) contained within the deed must specifically reference and described EACH lot/parcel in its entirety and each must be encumbered under the same deed. The property must be one contiguous assemblage of land (parcels touching) and improvements and all parcels must be encumbered under the same mortgage instrument. • Said another way: you may have more than one parcel (i.e. two property tax ID numbers) in your transaction as long as they are contiguous AND they appear on the same deed, and meet the following requirements: (1) The second parcel must not have a habitable structure on it (i.e. cannot have another unit), but could have a garage or shed or barn, or be vacant, etc. (2) If the subject dwelling straddles two parcels (the foundation rests on two tax ID numbers), the parcels MUST be combined into one property tax account number, or evidence provided that a "request to combine parcels" has been submitted (and accepted) by the local municipality, PRIOR TO CLOSING.
MAXIMUM ACREAGE	• Maximum 40 acres • Must enter "Over 10 Acres" in Loan Program Comments section of Investor Overlay Screen in FT360 if property is over 10 acres
PROPERTIES EXISTING WITH UNPERMITTED ADDITIONS	• Must check and make sure that a permit can be obtained for the work that was done (if the addition causes a title issue it will not be acceptable) • Must meet HUD requirements
LEGAL RESTRICTIONS ON CONVEYANCE (FREE ASSUMABILITY)	• There may be no legal restrictions on conveyance (transfer of title) in accordance with 24 CFR § 203.41, which would include items like Private Transfer Fees and Community Enhancement Fees unless specifically allowed per 24 CFR § 203.41. (see AllRegs for additional information on 24 CFR § 203.41.) • Underwriter must review and confirm that if are legal restrictions on conveyance,

	they are allowed in accordance with 24 CFR § 203.41 and are not further restricted by the product profile (for instance allowable deed restriction types).
COMMUNITY DEVELOPMENT DISTRICT (CDD)	• Allowed, must meet any agency requirements in regards to special assessment districts
NEW CONSTRUCTION	• Not allowed, borrower must have a certificate of occupancy for a minimum of one year.
HISTORIC PROPERTIES	• Not allowed
CONSTRUCTION TO PERMANENT FINANCING	• Not allowed
OCCUPANCY	• Primary Residence (O/O)
ELIGIBLE BORROWERS	• U.S. Citizens, Permanent and Non- Permanent Resident Aliens, Non-Occupying Co-Borrowers. • A maximum of 4 borrowers per loan application is allowed. • ITIN (Individual Tax Payer Identification Numbers) are not allowed • Borrowers with diplomatic immunity are not allowed • Borrower must take title in individual names, no trusts, etc. allowed • Life estates are not eligible for financing. A life estate is an estate whose duration is limited to the life of the party holding it, or some other person, upon whose death the right reverts to the grantor or his heirs • Registered Domestic Partners are treated the same as spouses • The borrower must permanently reside in the United States. In addition, an accurate and successful AUS submission requires the borrower currently reside in the U.S. and have a U.S. address or an APO military address within the U.S. for active deployed military, regardless of citizenship. Adequate documentation must be provided to substantiate such residency in the U.S.

RESIDENT ALIENS	• Permanent resident aliens are eligible and must provide evidence of a valid Social Security number.
	• Non-permanent resident alien may be eligible provided:
	    • the Property will be the Borrower's Principal Residence;
	    • the Borrower has a valid SSN, except for those employed by the World Bank, a foreign embassy, or equivalent employer identified by HUD;
	    • the Borrower is eligible to work in the United States, as evidenced by the Employment Authorization Document issued by the USCIS; and
	    • the Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.
	    • The Employment Authorization Document is required to substantiate work status. If the Employment Authorization Document will expire within one year and a prior history of residency status renewals exists, the Mortgagee may assume that continuation will be granted. If there are no prior renewals, the Mortgagee must determine the likelihood of renewal based on information from the USCIS.
	    • A Borrower residing in the U.S. by virtue of refugee or asylee status granted by the USCIS is automatically eligible to work in this country. The Employment Authorization Document is not required, but documentation substantiating the refugee or asylee status must be obtained.
	• Borrowers under Deferred Action, the Dreamer's Act or DACA (EAD Code C33, C14, etc.) are not eligible. Although, these individuals may have been granted permission to remain in the U.S. for a period of time, DACA/Deferred Action does not grant a legal status. PRMG requires all borrowers to document proof of legal residency in the

<table>
<tr><td></td><td>U.S. Additionally, they must follow the applicable guidelines for income (typically 2 year history and likely to continue for 3 years as applicable.) A borrower with DACA/Deferred Action status would not be able to meet the borrower eligibility documentation requirements (i.e., green card or meet applicable agency standard guidelines for income) and therefore is not be eligible.</td></tr>
<tr><td>NON-OCCUPYING CO-BORROWERS</td><td>
Non-occupying co-borrowers are acceptable when the following can be met:
Must be on the Note
All debts of the co-borrower must be included when calculating the debt ratios.
No qualifying ratio requirements for the owner occupant.
For 1 unit properties, loans with non-occupant co-borrowers have a max 75% LTV unless non-occupant borrowers are a Family Member, as defined by HUD. However, if a Family Member is selling to the borrower and that Family Member will be a non-occupying co-borrower then the max LTV is 75%
For 2 – 4 unit properties, the max LTV is 75%, if there is any non-occupant co-borrower on the loan.
</td></tr>
<tr><td>POWER OF ATTORNEY</td><td>
Power of Attorney must be reviewed and approved by fulfillment center Operation Manager or PRMG's Compliance Group

Allowed with the following requirements:
Power of Attorney may be utilized on primary residence only.
The original application may <u>not</u> be executed by the Power of Attorney. The original application must be executed by all individual borrowers.
The individual identified as the Power of Attorney must have a family or fiduciary relationship to the borrower. The borrower must provide an original Power of Attorney for review and approval by the lender, closing counsel and the title company.
The Power of Attorney must be “transaction specific” to the subject property (As permitted by state regulation, a General Power of Attorney may be utilized, with lender approval).
Must receive title insurance, without exception, in accordance with investor guidelines.
The Power of Attorney must be forwarded, with the security instruments, for recording.
Documents signed by a Power of Attorney must comply with applicable state law and the title insurance policy for the loan must contain an endorsement or equivalent affirmative language that provides coverage for the execution of documents using the Power of Attorney.
A written statement that explains the circumstances of the use of the POA must be included in the loan file.

Must met all Agency requirements
</td></tr>
<tr><td>LEXIS-NEXIS SEARCH REQUIREMENT</td><td>
For any of the following transaction types an email request (which includes a screenshot or snip of the loan in the FastTrac pipeline) must be sent to QC to have a LexisNexis search run on involved parties to the transactions to ensure there is no relationship between the buyer and seller. (Not all items listed may be applicable to this product, review product profiles for what is allowed):

Short Sale Purchase
Property Flips <= 180 days
Contractors on a 203K loan
For Sale by Owner (FSBO) required for all except:

If the borrower and seller are related or are landlord and tenant, and the relationship is disclosed and is acceptable per PRMG guidelines

</td></tr>
</table>

	• An investor, such as HUD, FNMA, FHLMC, etc. • REO lender who acquired the subject property by Trustee Sale as the Beneficiary

QC AUDIT REQUIRED	• A QC audit is required if the loan has any of the following high risk characteristics (not all items listed may be applicable to this product, review product profiles for what is allowed):
	  • 5-10 financed properties for second home and investment transactions.
	  • 3-4 Units
	  • 2-4 Unit properties in New Jersey
	    • All NJ 2-4 unit properties will require a Bank VOD. This can be ordered by the branch for the retail channel and will be ordered as part of the QC process for Wholesale/Correspondent channels.
	  • Renovation (203K/Homestyle) loans (Lexis Nexis is required on all contractors as well)
	  • VOE only used (when allowed by AUS) and not supported by paystub/W2 for Wholesale and Correspondent channels only (not required for retail channel)
	  • If the borrower is employed by a party to the transaction
	  • When the borrower is also a Real Estate Agent for the loan transaction
	  • Retail loans referred to the AFS department any time the referring Loan Officer or the AFS Loan Officer are in “New” or “Watch” status
	  • When the Real Estate Agent is also the Loan Officer on the transaction (not allowed on retail).
	• NOTE: The above list applies to credit qualifying loans only.

QC REVALIDATION REQUIRED	• A QC validation is required if the loan has any of the following characteristics (not all items listed may be applicable to this product, review product profiles for what is allowed):
	• A revalidation of the VOE (in addition to the audit) is required by the QC Department if the following is used:
	  • VOE only used (when allowed by AUS) and not supported by paystub/W2 and
	  • Wholesale and Correspondent channels only (not required for retail channel)
	• A revalidation of the VOD is required by the QC Department for the if the following is used:
	  • VOD only used (when allowed by AUS) and not supported by bank statements and
	  • Wholesale and Correspondent channels only (not required for retail channel)
	• Note: A Borrower Authorization in name of PRMG may be required to obtain VOD or VOE revalidation if requested by the verifying institution.

INCOME REQUIREMENTS/LIMITS	• Underwriter has the discretion when evaluating the loan file to utilize a more conservative approach to income/expenses for qualification purposes based on the circumstances of the loan. • All income sources used to qualify borrowers must be legal at the local, state, and federal level. Any income derived from an activity or source that violates Federal, state, or local laws cannot be considered for loan qualification for both self-employed borrowers and wage earners working for a company. • Income calculations must be included in the file • For borrowers with social security or disability income, in addition to AUS income documentation requirements, a copy of the last Notice of Award letter or an equivalent document that establishes the award benefit expiration date must be provided to document continuance of income. If the benefits do not have a defined expiration date, the underwriter should assume income will continue. Under no

	circumstance, should documentation be requested concerning the borrower's disability or medical condition. • If a borrower is currently on temporary disability (including maternal/parental leave), the borrower must provide a letter of intent to return to work and the employer must provide a letter or other communication of the borrower's right to return to work and a description of the employment terms (same as prior to leave). The temporary disability benefits must be used for loan qualification and must not terminate prior to the borrower returning to work, unless the borrower(s) has liquid reserves sufficient to offset reduced income, covering the gap between the benefits expiration and the return to work dates. See 4000.1 for specific requirements. • For borrowers with gaps in employment of six months or more (an extended absence), the borrower's current income can be used for qualifying if it can verify and document that: (1) the borrower has been employed in the current job for at least six months at the time of case number assignment; and (2) a two year work history prior to the absence from employment using standard or alternative employment verification. • For borrowers with rental income, if a lease agreement is required then the lease agreement must be executed by the landlord and the tenant and all pages of the lease agreement must be included. • Housing Assistance Payments (HAPs), which are often known as Section 8 Homeowner Vouchers, where a portion of the mortgage payment is paid directly to the borrower/lender as a subsidy for the mortgage payment on the subject property is not allowed.
SEASONING REQUIREMENTS	• See sections below
RECENTLY DELISTED PROPERTIES	• Must have been removed from MLS at least 1 day prior to the application date. • Evidence of listing cancellation is required. • If a primary residence, borrower must provide written confirmation of the intent to occupy
TITLE SEASONING/LOAN SEASONING	• Rate/Term: No seasoning requirement, however borrower must be on title prior to case number assignment. See Rate/Term Refinance section for information regarding calculating LTV when property has been owned for less than 12 months • Cash Out: N/A • For rate/term transactions, there are no minimum number of months required that the borrower must have been making payments.
ANTI-FLIPPING POLICY	• For purchases - The Property Seller must have taken title to the subject property more than 90 days prior to the contract date on the sale of the property to the applicant. • Property flipping is a practice whereby a recently acquired property is resold, often for a considerable profit. If there is a partial continuity of ownership, a quit claim deed transaction is not a sale and is not subject to the rules prohibiting property flipping. The use of a quit claim will not be deemed a flip as long as at least one of the original owners retains an ownership interest in the property after the quitclaim is recorded. • The seller's date of acquisition is defined as the settlement date on the seller's purchase of that property. • Must obtain a 12-month chain of title documenting compliance with time restrictions on resales. • If the seller has taken title within the past 91 to 180 days and the new sales price exceeds the previous sales price by 100% or more, a second FHA appraisal (by

	another appraiser) is required. The borrower is not allowed to pay for the Second appraisal.
	• The Anti-Flipping requirements do not apply to the exceptions below:
	  • properties acquired by an employer or relocation agency in connection with the relocation of an employee;
	  • resales by HUD under its REO program;
	  • sales by other U.S. government agencies of Single Family Properties pursuant to programs operated by these agencies;
	  • sales of Properties by nonprofits approved to purchase HUD owned Single Family Properties at a discount with resale restrictions;
	  • sales of Properties that are acquired by the seller by inheritance;
	  • sales of Properties by state and federally-chartered financial institutions and Government-Sponsored Enterprises (GSE);
	  • sales of Properties by local and state government agencies; and
	  • sales of Properties within Presidentially-Declared Major Disaster Area, only upon issuance of a notice of an exception from HUD.
	• The restrictions listed above and those in 24 CFR § 203.37a do not apply to a builder selling a newly built house or building a house for a Borrower planning to use FHA-insured financing.
	• The re-execution of the sales agreement in order to circumvent the 90-day flipping rule is not be permitted, an entire new transaction would be required (new purchase contract, loan number, case number, appraisal, etc.)
	• For refinances – See "Title Seasoning" section above.
	• Evidence of required seasoning must be documented in the file.

VALUE FOR LTV/CLTV CALCULATION	• See below to determine As-Is Adjusted Value • Note, As-Is Property Value refers to the Adjusted As-Is Value as determined by the FHA Roster Appraiser except in the case of Property Flipping. • For the purpose of calculating the LTV for application of the MIP, must divide the Base Loan Amount by the After Improved Value.

PURCHASE	• The lesser of:
	  • the purchase price less any inducements to purchase; or
	  • the As-Is Property Value

RATE/TERM REFINANCE	• Must obtain an as-is appraisal to determine the Adjusted As-Is Value when the existing debt on the Property plus the cost of repairs exceeds the After Improved Value, or the Property was acquired within 12 months of the case number assignment date.
	• For Properties acquired greater than or equal to 12 months prior to the case number assignment date:
	  • When an appraisal is obtained, the Adjusted As-Is Value is the As-Is Property Value.
	  • When the existing debt on the Property plus the cost of repairs does not exceed the after-improved value, the Mortgagee has the option of using the existing debt plus fees associated with the new Mortgage or obtaining an as-is appraisal to determine the Adjusted As-Is Value.
	• For Properties acquired within 12 months of the case number assignment date:
	  • For Properties acquired by the Borrower within 12 months of the case number assignment date, an as-is appraisal must be obtained. The Adjusted As-Is Value is the As-Is Property Value.
	  • For Properties acquired by the Borrower within 12 months of the case number assignment date by inheritance or through a gift from a Family Member, the

	Mortgagee may utilize the calculation of Adjusted As-Is Value for Properties acquired greater than or equal to 12 months prior to the case number assignment date.
	• Existing debt includes:
	  • the unpaid principal balance of the first Mortgage as of the month prior to mortgage Disbursement;
	  • The unpaid principal balance of any purchase money junior Mortgage as of the month prior to mortgage Disbursement;
	  • the unpaid principal balance of any junior liens over 12 months old as of the date of mortgage Disbursement. If the balance or any portion of an equity line of credit in excess of $1,000 was advanced within the past 12 months and was for purposes other than repairs and rehabilitation of the Property, that portion above and beyond $1,000 of the line of credit is not eligible for inclusion in the new Mortgage;
	  • interest due on the existing Mortgage(s);
	  • Mortgage Insurance Premium (MIP) due on existing Mortgage;
	  • any prepayment penalties assessed;
	  • late charges; and
	  • escrow shortages.
	• For properties acquired less than 12 months prior to the case assignment date, the Mortgagee must document the lowest Acquisition Cost in the past 12 months by obtaining a copy of the Settlement Statement or other legal documentation evidencing Acquisition Cost. If improvements were made to the Property subsequent to the acquisition, the Mortgagee must document the associated cost of the improvements by obtaining the following: a contract for completion of work; materials cost and paid receipts; and permit costs.

CASH OUT	• Not Allowed

MAXIMUM MORTGAGE CALCULATION	• The max mortgage worksheet has been eliminated and the DE Underwriter must log into during underwriting to fill in the calculations. A print out of the worksheet from FHA Connection must be in the loan file.
	• Must use the 203K Calculator in FHA Connection prior to endorsement for all 203K transactions. A print out of the worksheet from FHA Connection must be in the loan file.
	• Loan officers/processors should use the 203K worksheet available from HUD, print the results and include it in the loan file submission that can be found at the following link: https://entp.hud.gov/idapp/html/f17203k-look.cfm
	• For PURCHASES, the base mortgage amount is the LESSER of:
	  • The LTV limit (96.50%) multiplied by the lesser of:
	    • the Adjusted As-Is Value, plus Financeable Repair and Improvement Costs for Limited 203K; Financeable Mortgage Fees for Limited 203K; Financeable Contingency Reserves for Limited 203K or
	    • 110 percent of the After Improved Value (100 percent for condominiums); or
	    • The HUD county limit
	• For REFINANCES, the base mortgage amount is calculated by the LESSER of:
	  • The existing debt and fees associated with the new Mortgage, plus Financeable Repair and Improvement Costs for Limited 203K; Financeable Mortgage Fees for Limited 203K; Financeable Contingency Reserves for Limited 203K or
	  • The LTV limit (97.75%) multiplied by the lesser of:
	    • The Adjusted As-Is Value, plus: Financeable Repair and Improvement Costs for Limited 203K; Financeable Mortgage Fees for Limited 203K; Financeable

	Contingency Reserves for Limited 203K or • 110 percent of the After Improved Value (100 percent for condominiums); or • The HUD county limit
PURCHASE	• The purchase and rehabilitation of existing homes completed for more than one year. • If there is evidence that borrower, a member of the borrower's family or party who has a clearly defined interest in the borrower (i.e., close family friend) previously owned a home being purchased that was a distressed sale (i.e., short sale) or foreclosure by the borrower or borrower's family member, the borrower may not purchase the property, regardless of the length of time since the distressed sale/foreclosure or the number of owners between the distressed sale/foreclosure and current owner. Bail outs not allowed. • The lender must ensure the sales contract includes a written provision that the Borrower has applied for Section 203K financing, and that the contract is contingent upon mortgage approval and the Buyer's acceptance of additional required improvements as determined by the lender. • All purchasers listed on the contract of sale must be borrowers, however family members (as defined by HUD) may be on the contract and not be a borrower • Purchase contract assignment (assignment of the sales contract) not allowed. • Purchase transaction Seller Rent Backs are not allowed • The Real Estate Certification is required and must be executed prior to closing, except where indicated below, on all purchase transactions. The document must be signed all borrowers, sellers and the selling real estate agent or broker. A sample of the form will be available in the Resource Center. Note, the Real Estate Certification is not needed when the sales contract contains a provision that there are no other agreements between parties, and the terms constitute the entire agreement between the parties, and all parties are signatories to the sales contract submitted at the time of underwriting.
RATE/TERM REFINANCE	• The rehabilitation of existing homes completed for more than one year. • The rehabilitation of existing homes completed for more than one year and refinance the outstanding liens on the property.
CASH OUT REFINANCE	• Not allowed
SHORT REFINANCE	• Not allowed

GOOD NEIGHBOR NEXT DOOR (GNND) SALES PROGRAM	• Borrowers in selected professions are eligible to purchase designated HUD owned properties, in revitalization/exception-criteria areas, at up to 50% off the sales price, as specified by HUD. The following borrowers are eligible for the Good Neighbor Next Door Sales Program:
	  • Law Enforcement Officers
	  • Firefighters
	  • Emergency Medical Technicians (EMTs)
	  • Private and Public School Teachers
	• 15 and 30-year fixed rate terms only.
	• Owner Occupied SFRs, PUDs, Modular Homes and Condos are eligible for this program.
	• Full sales price and appraised value should be entered in FastTrac
	• The discounted amount should be entered as Secondary Financing and is considered a DPA
	• 110% Max CLTV
	• $100 Minimum Down Payment option is NOT ALLOWED – No Exceptions!
	• The buyer may include in the mortgage amount all of the buyer's reasonable and

	customary closing costs (including prepaids) and the real estate broker fees
	• Borrowers must agree to occupy the property as a primary residence for three years without interruption.
	• HUD requires borrower sign a Second Mortgage and Note on the discounted amount (which could be up to 50% of the sales price). No interest or payments are required on this "silent second" mortgage if the borrower lives in the home for the entire 36-month occupancy period. Borrower may be required to pay a pro-rata portion of the discount to HUD should the borrower fail to fulfill the three-year occupancy requirement.
	• Borrower may not own any other residential real property at the time the borrower submits the offer to purchase a home and for one year previous to that date.
	• The participant must certify he or she is living in the GNND home as a sole residence at the time of purchase and each year after that. HUD can conduct spot checks to make sure the GNND home is his or her sole residence at any time during the 3-year period. HUD may foreclose this mortgage if the borrower does not comply with the 36-month occupancy requirement.
	• HUD REOs not allowed in Texas
	• The following additional documentation is required:
	  • Certificate of Law Enforcement Officer, Teacher, Firefighter or EMT
	  http://www.eprmg.net/HUD-9549.pdf
	  http://www.eprmg.net/HUD-9549-A.pdf
	  http://www.eprmg.net/HUD-9549-B.pdf
	  http://www.eprmg.net/HUD-9549-C.pdf
	• For more information, and to view eligible listings, visit the following website:
	https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/reo/goodn/gnndabot
	https://www.hudhomestore.com/Home/Index.aspx

QUALIFYING	• Fixed Rate: Qualify at note rate • 5/1 ARMs: Qualify at note rate • Minnesota Properties: All ARMS qualify at the greater of the product's qualifying requirement or the loans fully indexed fully amortized rate • Installment debt can be paid off to qualify. • Installment (closed end) debt does not have to be included if they will be paid off within 10 months and the cumulative payments of all such debts are less than or equal to 5 percent of the Borrower's gross monthly income. The borrower may not pay down the balance in order to meet the 10-month requirement. • Accounts for which the borrower is an authorized user must be included in a borrower's DTI ratio unless documentation shows that the primary account holder has made all required payments on the account for the previous 12 months. If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the borrower's DTI. • For contingent/co-signed liabilities, follow HUD guidelines which will allow the payment to be excluded from monthly liabilities only if (1) documentation is provided to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months and does not have a history of delinquent payments on the loan; or (2) documentation is provided which verifies and documents that there is no possibility that the debt holder will pursue debt collection against the borrower should the other party default. • For non-HELOC loans, when qualifying a borrower that has a non-subject negative amortization or interest only loan, use the fully amortized payment

	• For any additional properties, obtain a recent payment coupon or other documentation to ensure the loan is qualified using the full PITIA. • The percentage of non-taxable income that may be added cannot exceed the greater of 15% or the appropriate tax rate for the income amount, based on the borrower's tax rate for the previous year. If the borrower was not required to file a federal tax return for the previous tax reporting period, gross up the non-taxable income by 15%. Any additional adjustments or allowances based on the number of the borrower's dependents is not allowed. • A tax withholding table can be found at the following link, but sure to use the most recent tax table: https://www.irs.gov/pub/irs-pdf/n1036.pdf • If the borrower has a tax lien, the underwriter must condition for proof the money owed has been paid in full or paid off in full at closing and must include the current amount of the lien, including all interest and late fees or provide evidence to verify the borrower has entered into a valid repayment agreement with the federal agency to make regular payments on the debt and the borrower has made timely payments for at least three months of scheduled payments. The borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments. The lender must include the payment amount in the agreement in the calculation of the borrower's DTI ratio. There is no requirement for a record of account or other documentation to reflect tax payment status. For the current tax year (most recent tax filing), if 1040s or other documentation shows the borrower has outstanding tax debt for the current tax year, evidence of payment of the taxes due (or evidence borrower is on a payment plan with at least one month payment required to have been made in lieu of full payment as long as the borrower qualifies with the payment in the ratios) is required. If the check to the IRS has not yet cancelled, the file must reflect the borrower's ability to pay (borrower must have enough assets after backing out funds used for transaction and reserves). For prior tax years, if there is evidence the borrower has outstanding tax debt or the borrower is in a payment plan, evidence to verify the borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt and underwriter discretion can be used to determine the minimum months of payment required to have been made, but at least one month payment is required to have been made. For Amended Tax Returns or Stamped Tax Return option, see the applicable guidance in the Product Profile for further requirements. • In community property states, tax liens of any non-borrowing spouse must be paid. The credit history of the non-borrowing spouse in regards to the lien does not have to be considered, but the tax liens have to be paid. • To calculate DTI for loans with subordinate HELOCS: (for all properties): If there is a balance, use the payment that is reflected on the credit report. If there is no payment on the credit report, obtain a copy of the billing statement, or note to determine the payment amount, based on the terms of the note, or the statement. If there is no balance, a payment does not need to be included. • Business use of subject property, as reflected on tax returns, may not exceed 25% of the home. • Lease payments must be included in the borrower's recurring monthly debt obligations, regardless of the number of months remaining on the lease unless there is evidence provided that the lease will not be renewed and another vehicle will not be purchased/leased, or if another vehicle was leased/purchased then the payment for that vehicle should be included in the ratios as appropriate. • All deferred obligations (excluding student loans), regardless of when they will begin, must be included in the qualifying ratios. The lender must obtain evidence of: the

	deferral; the outstanding balance; the terms of liability; and the anticipated monthly payment. If the actual monthly payment is not available for installment debt, the lender must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment. • Student loans must be included in the borrower's liabilities, regardless of the payment type or status of payments (deferred or in payment status). If the payment used for the monthly obligation is: (1) less than 1 percent of the outstanding balance reported on the Borrower's credit report, and (2) less than the monthly payment reported on the Borrower's credit report; then written documentation must be obtained of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor. Regardless of the payment status, use either: (1) the greater of: (a) 1 percent of the outstanding balance on the loan; or (b) the monthly payment reported on the Borrower's credit report; or (2) the actual documented payment, provided the payment will fully amortize the loan over its term. • For 30 day accounts, must verify the borrower paid the outstanding balance in full on every 30-Day account each month for the past 12 months. 30-Day accounts that are paid monthly are not included in the borrower's DTI. If the credit report reflects any late payments in the last 12 months, must utilize 5% of the outstanding balance as the borrower's monthly debt to be included in the DTI. Must use the credit report to document that the borrower has paid the balance on the account monthly for the previous 12 months. Must use the credit report to document the balance, and must document that funds are available to pay off the balance in excess of the funds and reserves required to close the mortgage. • For revolving accounts, must include the monthly payment shown on the credit report for the revolving charge account. Where the credit report does not include a monthly payment for the account, must use the payment shown on the current account statement or 5% of the outstanding balance. Must use the credit report to document the terms, balance and payment amount on the account, if available. Where the credit report does not reflect the necessary information on the charge account, must obtain a copy of the most recent charge account statement or use 5% of the outstanding balance to document the monthly payment. • If a credit report shows an asterisk next to the payment, it can be an indication that the payment listed is not the required monthly minimum payment amount, and as such will require supplemental documentation to support the payment, as required by the agency or, if revolving, 5% of the balance can be used for the payment • Paying off revolving debt to qualify is allowed. The debt includes any revolving debt that is being paid off and not included in the ratios. Account must be paid in full prior to or at closing and documentation must be provided evidencing repayment. Source of funds must be documented (proceeds on a cash out transaction are acceptable.) Accounts are not required to be closed. • The full payment on a retirement loan should generally be included in the calculation of qualifying ratios. It is a tangible debt that the borrower pays monthly, despite being secured by a financial asset. The payment will not be required to be included in DTI provided the following documentation can be provided: (1) A copy of the applicable loan instrument that shows the borrower's financial asset as collateral for the loan, AND (2) Verification from the plan administrator that a hardship liquidation can be requested in order to repay the retirement loan. *If the retirement account is identified and documented to be a qualified 401 or 403 Plan, or a retirement account funded by the US Federal or State government, the plan automatically contains a clause which would deem lack of repayment to be a distribution, and therefore no

	documentation is required for this piece. If the borrower intends to use the same asset to satisfy the cash requirements for the loan transaction, the vested balance must be adjusted to insure all applicable offsets are accounted for: (1) The vested balance must be discounted by 40% to account for volatility, taxes, fees and penalties AND (2) The underwriter must deduct the entire outstanding balance of all retirement loans AND (3) The underwriter must deduct any portion of the retirement account being liquidated for cash investment into the transaction and (5) The "net" remaining balance may be considered for reserves • For borrowers with collection accounts, if the cumulative outstanding balance of all collections of all borrowers is less than $2,000, the lender is not required to consider or evaluate collection accounts. If the cumulative outstanding balance of all collections of all borrowers is equal to or greater than $2,000, the lender must include monthly payments in the borrower's debt-to-income ratio for accounts that will remain open subsequent to closing or require the collection account to be paid off as described as follows (also see Qualifying Section): At the time of or prior to closing, payment in full of the collection account (verification of acceptable source of funds required). The borrower makes payment arrangements with the creditor. If the borrower has entered into a payment arrangement with the creditor, a credit report or letter from the creditor verifying the monthly payment is required. The monthly payment must be included in the borrower's debt-to-income ratio. If evidence of a payment arrangement is not available, the lender must calculate the monthly payment using 5% of the outstanding balance of each collection, and include the monthly payment in the borrower's debt-to-income ratio. Note, All medical collections and charge off accounts are <u>excluded</u> from this requirement and do not require resolution. Collection accounts of a non-purchasing spouse in a community property state are <u>included</u> in the cumulative balance. • For borrowers with a court ordered judgment where the borrower has an agreement with the creditor to make regular and timely payments, a copy of the agreement and evidence that payments were made on time in accordance with the agreement, and a minimum of three months of scheduled payments have been made prior to credit approval is required. Note, borrowers are not allowed to prepay scheduled payments in order to meet the required minimum of three months of payments. The payment amount in the agreement must be included in the calculation of the borrower's debt-to-income ratio. Judgments of a non-purchasing spouse in a community property state must be paid in full, or meet the exception guidance for judgments above, unless excluded by state law. • If borrower or non-occupant co-borrower will not be occupying the subject property (i.e., borrower on second home or investment property and any non-occupying co-borrower) does not have a current housing expense, because they state they live rent free on the 1003, proof they live rent free must be provided. Acceptable documentation would include, but is not limited to, an LOE from the owner/landlord of the residence where they currently live. • If a borrower is on title (has ownership interest) and is on the note to other properties besides the subject property, follow FHA guidelines for contingent liabilities for both the P&I payment as well as the taxes, insurance and additional items (association fees) (TIA). If borrower is just on title, and not obligated on the note for non-subject properties, the TIA does not have to be included in borrower's ratios as long as documentation is provided to show 12 months' satisfactory payments by the other party who is on title and the note, in alignment with contingent liability requirements. If the taxes and insurance are not escrowed or the property is owned free and clear, and the TIA is not paid on a monthly basis (i.e.

	annually, semi-annually) then a sufficient history of payments made by the other party on title must be presented to make a reasonable conclusion that it will continue. The other party making the payments must be both on the note (if there is a lien) and on title (in all cases) in order to exclude
CURRENT PROPERTIES BEING CONVERTED TO SECOND HOMES OR INVESTMENT PROPERTIES	• The new primary residence occupancy must make sense (buying bigger/more expensive primary or moving from a 2 unit to a one unit) • If rental income is being derived from the property being vacated by the borrower, the borrower must be relocating to an area more than 100 miles from the borrower's current principal residence. Must obtain a lease agreement of at least one year's duration after the mortgage is closed and evidence of the payment of the security deposit or first month's rent. Rental Income must be calculated in accordance with guidance in Handbook 4000.1. • Additionally, when the borrower does not have a history of rental income for the property since previous tax filing, must obtain an appraisal evidencing market rent and that the borrower has at least 25% equity in the property. The appraisal is not required to be completed by an FHA Roster Appraiser. • The loan on the property being vacated must not be an FHA insured loan, unless borrower meets exception for more than one FHA insurance loan as allowed per HUD and must meet the requirements above.
RATIOS	• Max 55% DTI
TEMPORARY BUYDOWNS	• Not allowed
CREDIT	• DE Underwriter Final Loan Approval Date cannot be after Note Date. • The use of a U.S. address to obtain a credit report for a borrower who resides in another country is not permitted. • If the borrower's credit report contains a FACTA credit alert, the completed Fraud Alert Confirmation form must be in the file (available via Resource Center). • Use HUD underwriting guidelines with the following specifics: • Qualifying FICO score is determined by using the middle of three or lowest of two scores. If there are multiple borrowers, then use the lowest representative score of all borrowers to qualify. If only one score is available, then use the one provided. • A three repository merged (tri-merge) credit report (TRMCR) or Residential Mortgage Credit Report (RMCR) from an independent consumer-reporting agency is required. • All Borrowers must have at least 1 valid FICO score. • If a borrower has purchased or refinanced their current primary residence in the last 12 months and is retaining the residence they are not eligible for a purchase transaction on a new primary residence without Operations Management or Corporate Underwriting review and approval of the circumstances unless the existing lender has agreed to allow the borrower to purchase a new primary residence. • The borrower must be current on the mortgage being refinanced for the month due prior to the month in which they close the refinance and for the month in which they close. For example, if the loan is closing on April 8, the borrower must have paid the March payment within the month of March and must make the April payment by closing. However, the borrower's payment that is due at the time of closing (in the example, the April payment) may be included in the payoff statement from the current lender and no additional money is required to be brought into closing. The underwriter must verify that a payment is not being skipped and the payment that is due is included in the payoff statement. It is the borrower's responsibility to make the current month's payment should the loan not close before the last business day of the month in which the refinance takes place. Otherwise, the payment will be considered late and the loan will not be eligible for FHA streamline financing for a

	minimum of 1 year. Additionally, if the present month's payment is made by the borrower prior to close, then only 30 days of interest, not 60 days of interest can be included in the payoff. For instance, if the borrower made his May payment on May 8th and the loan closed on May 28th only 30 days of interest can be charged. • Mortgage history (mortgage lates) on purchase or rate/term allowed per AUS approval/HUD • The credit report for the mortgage history must be updated to include the payment made for the most recent month due. • Cash out refinance transactions must have 0 x 30-day mortgage lates on any mortgage associated with the borrower, property or any other property the borrower has an ownership interest in within the last 12 months. If the current mortgage is seasoned less than 12 months, but greater than 6 months, the borrower must have made all payments when due. Mortgages with less than 6 months of payment history are not eligible. • If a borrower is refinancing a privately held mortgage, the following guidelines apply: (1) The borrower must provide evidence that 12 months of mortgage payments have been made on the current mortgage. If the account has been opened less than 12 months, verification of all payments made is required; AND (2) The mortgage payments must be verified with either cancelled checks or bank statements (if the payment is automatically withdrawn from the borrower's account); AND (3) Evidence must be included in the loan file that the lien being paid off is a current recorded lien against the subject property. • See Qualifying section for capacity analysis for all loans with collections and judgments. Court ordered judgments must be paid off (or provide evidence they have been satisfied). Judgments of a non-borrowing spouse in a community property state must be resolved or paid in full, with the exception of obligations excluded by state law. An exception to the payoff of a court ordered judgment may be made if the borrower has an agreement with the creditor to make regular and timely payments. The borrower must provide a copy of the agreement and evidence that payments were made on time in accordance with the agreement, and a minimum of three months of scheduled payments have been made prior to credit approval. Borrowers are not allowed to prepay scheduled payments in order to meet the required minimum of three months of payments. • For loans using TOTAL, not required to obtain an explanation of collection accounts, charge off accounts, accounts with late payments, judgments or other derogatory information. • For all borrowers with judgments, the following documentation must be provided: evidence of payment in full, if paid prior to settlement; the payoff statement, if paid at settlement; or the payment arrangement with creditor, if not paid prior to or at settlement, and a subordination agreement for any liens existing on title. • Chapter 7 and 13 bankruptcies must be discharged at least 2 years to case number assignment date and the borrower has re-established their credit or chosen not to incur new credit obligations. • Subject properties that have had a loan modification or previous short refinance are eligible. A mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments. If mortgage payment history requirements (as required by HUD for mortgage history) since the date of loan modification are not met, a downgrade to a manual underwrite is required. (Manual underwriting not allowed on this product)

	• Borrowers with a loan modification or short refinance in their credit history are eligible. A mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments. If mortgage payment history requirements (as required by HUD for mortgage history) are not met, a downgrade to a manual underwrite is required. • Deed-in-lieu of foreclosures are considered foreclosures • Short Refinances must reflect mortgage payments on the mortgage being refinanced were made within the month due for the 12-month period preceding this transaction (refinance/modification), and installment debt payments for the same time period were also made within the month due, no previous bankruptcy or foreclosure, loan may not be currently delinquent and a written principal reduction agreement from the current lender required (must be borrower specific and indicate the loan being paid off and the agreement or some other evidence must indicate there will not be a deficiency judgment) • Short sales (Pre-Foreclosure Sales) within the last 3 years to the case number assignment date are not allowed. • Foreclosure: Foreclosures within the last 3 years to the case number assignment date are not allowed • For a borrower that had an FHA mortgage foreclosed, that borrower is not eligible to apply for another FHA mortgage until three years after the date that HUD paid the insurance claim to the lender. • Must obtain a credit report for a non-borrowing spouse who resides in a community property state, or if the subject property is located in a community property state. The credit report must indicate the non-borrowing spouse's SSN, where an SSN exists, was matched with the SSA, or the must either provide separate documentation indicating that the SSN was matched with the SSA or provide a statement that the non-borrowing spouse does not have an SSN. Where an SSN does not exist for a non-borrowing spouse, the credit report must contain, at a minimum, the non-borrowing spouse's full name, date of birth, and previous addresses for the last two years. • The debts of a non-purchasing spouse must be included in the borrowers qualifying ratios if the borrower resides in a community property state or the property is located in a community property state unless that debt is specifically excluded by state law. The underwriter must ensure the debt that is not being included complies with state law and the debt can in no way effect the new first trust deed lien. Additionally, if the debt being excluded is a mortgage lien, it is important to ensure the current loan transaction is not being used to provide a bail out for the other mortgage lien. • Non-borrowing spouse's credit history cannot be used when making a credit decision on the loan. Derogatory event on any property held against borrower only if it appears on their credit report or if they are obligated on note. Derogatory event not held against borrower even if a property appears on a joint tax return, the borrower lives in a property or the borrower is on title. • In addition to other listed requirements regarding disputed accounts, if a disputed account is a borrower's verified previously delinquent mortgage trade line, which may affect the credit decision of the AUS, information regarding the dispute must be obtained. The underwriter must verify that the AUS is considering the previously delinquent mortgage in the credit decision. If it is unclear if the previously delinquent mortgage is being considered (and based on underwriter discretion, the delinquent

	mortgage may impact the credit score/AUS decision), the dispute should be removed at the bureau level, credit report re-run to reflect accurate credit message without dispute, and the AUS re-run to include account in the AUS decision. For instance, a zero balance where the last activity is more than 3 years prior to the credit report date may be determined by the underwriter to not require the dispute to be removed. • MERS search must be run on borrower • Credit documentation must not be more than 120 days old from the disbursement date • PRMG does not allow use of extenuating circumstances in the credit decision for reduced seasoning or satisfactory credit requirements.
TRADE LINE REQUIREMENTS	• All borrowers must have a valid credit score. The credit score cannot be determined using insufficient trade lines (authorized user accounts, deferred student loans or disputed credit lines.) • There are no minimum traditional (credit reported directly to the credit bureaus) trade line requirements with a DU Approve/Eligible. You must always meet the requirements as listed on the DU approval. • Non-traditional credit is not allowed as a basis for loan approval
ALTERNATIVE/THIN CREDIT GUIDELINES	• Not allowed
LANDLORD EXPERIENCE	• Must comply with requirements in Handbook 4000.1 regarding rental income
NEGATIVE CASH FLOW/ POSITIVE CASH FLOW	• Net rental income (for 3-4 units) must be equal to or greater than the projected monthly mortgage payment (i.e. the property must be self-sufficient.) • All rental income must be calculated in accordance with guidance in Handbook 4000.1. • All rental documentation must be provided in accordance with guidance in Handbook 4000.1. • Rental income from boarders is only acceptable if the Borrower has a two-year history of receiving income from boarders that is shown on the tax return and the borrower is currently receiving boarder income. For purchase transactions, the Mortgagee must obtain a copy of the executed written agreement documenting their intent to continue boarding with the Borrower. Must calculate income and provide documentation in accordance with guidance in Handbook 4000.1 • For non-subject properties, when the borrower does not have a history of rental income for the property since previous tax filing, must obtain an appraisal evidencing market rent and that the borrower has at least 25% equity in the property. The appraisal is not required to be completed by an FHA Roster Appraiser.
CASH RESERVES	• 1-2 Units: None required, however, subject to underwriter discretion or per "DU" recommendation • 3-4 Units: 3 months PITIA required (no gifts for reserves) • Cash saved at home allowed, must meet all HUD requirements to be able to use for the transaction and for verification of funds • All verifications of funds, including the most recent asset account statements, must be dated within 45 days of the loan application or an updated statement is required.
REQUIRED DOWN PAYMENT/SOURCE OF FUNDS	• Required 3.50% minimum down payment (gifts allowed-see gift section below for details) • Borrower's 3.5% down payment requirement is calculated off the sum appearing in Line C3 of the 203k Max Mortgage Worksheet (the sum of purchase price + rehab). It is not calculated as 3.5% of solely the purchase price. • Funds that are brought to closing (i.e., cashier's checks or wire) by the borrower must

	be verified as belonging to the borrower. The required funds from the borrower do not have to be from an institution that was sourced in the loan file, as long as the borrower has sufficient funds in the sourced accounts to cover the amount of funds brought to closing. If the funds are not able to be confirmed as belonging to the borrower, the funds would be ineligible. This guidance is only in regards to borrower funds, not gift funds. • For loans with prorated seller paid taxes (taxes that have been prepaid by the seller on the subject property), the prorated taxes can reduce the funds required at closing, however, the loan file must still contain documentation that borrower has 3.5% (or required minimum required investment (MRI) for transaction) of their own funds (or other acceptable source of MRI), even though they may not actually contribute the actual 3.5% (or required MRI) at closing because the seller prorated tax credit is an acceptable source to meet the MRI. In other words, the prorated tax credit cannot be used in the documented assets considered to meet the MRI but can be credited at closing. • A permission letter must be obtained from a non-purchasing account holder stating that the purchasing account holder has permission to use the funds in the joint account for the purchase. The permission letter must be obtained in all instances, regardless of whether the joint account holder is a spouse or non-spouse, and regardless of AUS Total Scorecard approval. • If using borrower's funds, copy of the borrower's canceled check (front/back or proof cleared), from an existing, documented bank account disclosed on the loan application. If the funds came from an account that is not on the loan application, that bank account must be documented satisfactory to lender, and all large deposits explained and sourced. • Borrower-paid POC‟s toward closing costs or prepaids, appearing/listed on the HUD-1 (whether documented in the file or not), may NOT be used to help meet the minimum 3.5% down payment requirement • Cash on hand / Cash saved at home is allowed, see section below for requirements • Direct verification by a third-party asset verification vendor (i.e., AccountChek) is allowed in accordance with HUD as addressed in ML 2019-01 • When borrower's funds-to-close are from a 401k, IRA, or other retirement account, proof of liquidation is required, regardless of Total Scorecard response • Business funds are permitted, but must be documented and business tax returns would be required. Additionally, business funds from a partnership or corporation may not be used to meet any required minimum down payment requirements unless a borrower is 100% owner or the DE Underwriter obtains documentation that the borrower has access to the funds to be used as their required minimum down payment. In all cases, business funds being used for funds to close or reserves are allowed as long as there is a CPA letter or evidence to confirm it will not negatively affect the business. If business is a partnership, written permission from the other partners is required. • All asset sources used to qualify borrowers must be legal at the local, state, and federal level. Any assets derived from an activity or source that violates Federal, state, or local laws cannot be considered for loan qualification for both self-employed borrowers and wage earners working for a company. • Cash deposits over 1% of the adjusted value require an explanation from the borrower as to how they were accumulated in alignment with HUD's requirement for cash on hand. • Cryptocurrency, digital currencies or altcoins (i.e. Bitcoins, Litecoin, Ethereum, etc.)

	may not be included as financial assets for mortgage qualification purposes and is an ineligible source of funds for down payment, closing costs or reserves unless being converted into U.S. currency. To be used as a source of funds for down payment, closing costs, or reserves, cryptocurrency, digital currencies or altcoins must be converted into U.S. currency and be held within a U.S. Financial Institution and verified prior to underwriting final approval. In addition to the verification of U.S. currency, the borrower(s) must be able to provide acceptable documentation for the source of funds used to initially acquire the cryptocurrency prior to the conversion. • If the borrower's source of funds are from a country included on the OFAC Sanctioned Countries List that is found in the Resource Center, the funds are not eligible for use in the transaction. • Must verify and document the deposit amount and source of funds if the amount of the earnest money deposit exceeds 1% of the sales price or is excessive based on the borrower's history of accumulating savings, by obtaining: a copy of the borrower's cancelled check; certification from the deposit-holder acknowledging receipt of funds; or a VOD or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit. If the source of the earnest money deposit was a gift, must verify that the gift is in compliance with gifts as allowed per HUD. • Must verify and document the existence of and amounts in the borrower's checking and savings accounts. For recently opened accounts and recent individual deposits of more than 1% of the Adjusted Value of the property, must obtain documentation of the deposits. Must also verify that no debts were incurred to obtain part, or all, of the minimum required investment. • Sweat Equity not permitted • All verifications of funds, including the most recent asset account statements, must be dated within 45 days of the loan application or an updated statement is required.
CASH ON HAND/CASH SAVED AT HOME	• Borrowers who have saved cash at home, and are able to adequately demonstrate the ability to do so, are permitted to have this money included as an acceptable source of funds to close the mortgage. To include cash saved at home when assessing the borrower's cash assets, the money must be verified prior-to-closing, whether deposited in a financial institution, or held by the escrow/title company, and borrower must provide satisfactory evidence of the ability to accumulate such savings (see below). • To verify cash saved at home, the borrower must explain in writing how the funds were accumulated, and the amount of time it took to accumulate the funds. • The underwriter must then determine the reasonableness of the accumulation, based on the time period during which the funds were saved, and borrower's income stream, spending habits, documented expenses, and history of using financial institutions. • Note: Borrowers with checking and/or savings accounts are less likely to save money at home than individuals with no history of such accounts. Accepting cash "saved at home" from borrowers with checking and/or savings accounts must be strongly documented with satisfactory underwriter justification.

GIFT FUNDS	• Allowable donors include:
	  • Borrower's family member (as defined by HUD)
	  • The borrower's employer or labor union
	  • Charitable organizations
	  • Government agencies
	  • A close friend with a clearly defined interest in the borrower (family members,

	such as a cousin, who are not considered family members by HUD can be documented as a close friend and still be an eligible donor , but must reference "close friend" in the letter as their relationship.) • a governmental agency or public entity that has a program providing homeownership assistance to low or moderate income families; or first-time homebuyers. • Gift letter required. All gift letters must include the following: • Name, address and phone number of the donor and the borrower. • Dollar amount of the gift. • Relationship between the donor and the borrower. • Specification that no repayment is required. • Signatures of both the donor and the borrower. • Must verify and document the transfer of gift funds from the donor to the Borrower in accordance with the following: • If the gift funds have been verified in the Borrower's account, obtain the donor's bank statement showing the withdrawal and evidence of the deposit into the Borrower's account. • If the gift funds are not verified in the Borrower's account, obtain the certified check or money order or cashier's check or wire transfer or other official check evidencing payment to the Borrower or settlement agent, and the donor's bank statement evidencing sufficient funds for the amount of the gift. • If the gift funds are paid directly to the settlement agent, verify that the settlement agent received the funds from the donor for the amount of the gift, and that the funds were from an acceptable source. (Please note that since funds wired directly to the settlement are not verified in the borrower's account, HUD has indicated that the above bullet point to require evidence of the certified check or money order or cashier's check or wire transfer or other official check, and a bank statement showing the withdrawal from the donor's account applies.) • If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available, the donor must provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction. • Regardless of when gift funds are made available to a Borrower or settlement agent, the Mortgagee must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source. • When a borrower receives a gift from an acceptable source and the donor's bank statement shows a large deposit (which HUD defines as more than 1% of the Adjusted Value of the property), evidence of the source of funds is required to ensure any funds given to the borrower were not made available to the donor from any person or entity with an interest in the sale of the property including the seller, real estate agent, broker, loan officer or any other entity associated with the transaction. Per HUD, cash deposits are acceptable to be used as gift funds, as long as they have been deposited into a bank (as they are no longer considered cash), but are subject to the same sourcing requirements (note, Cash on Hand is not an acceptable source of donor gift funds).
CONTRIBUTIONS BY AN INTERESTED PARTY	• If using some sort of option that provides a lender or realtor credit at closing (i.e., Local Heroes Program or Homes for Heroes Program), a condition (like 3669 or 3721) must be added to the file indicating it is using the program/option, and reflect the amount of the lender or realtor credit on the condition. The credit must also be reflected on CD Page 3 and be within any IPC limits.

	• 6% of lesser of sales price or appraised value.
NON-ARM'S LENGTH TRANSACTION	• Identity of Interest refers to a transaction between Family Members, business partners or other business affiliates. • Conflict of interest refers to any party to the transaction who has a direct or indirect personal, business, or financial relationship sufficient to appear that may cause partiality and influence the transaction. • Sales transactions between Family Members are permitted. The Mortgagee must ensure there are no other instances of Identity of Interest or conflict of interest between parties in the 203K transaction. • Borrower must sign the Identify of Interest Certification
REAL ESTATE AGENT ALSO LOAN OFFICER/BROKER	• The real estate agent for the subject property may not act as the loan officer/broker for the borrowers purchasing the same subject property.

SUBORDINATE FINANCING	• Down Payment Assistance programs are not allowed
	• Funds may not come from any third party that is reimbursed directly or indirectly by the seller or any other entity that financially benefits from the transaction, unless the seller is a Federal, State, or local government, or their agencies or instrumentalities (Government Entities) and it is allowed by HUD
	• Second liens that have been modified may use the modified total loan amount to calculate the CLTV ratio and total loan amounts. An executed and recorded modification agreement must be supplied.
	• When subordinating an existing HELOC, the maximum accessible credit limit must be used for CLTV calculation.
	• Secondary financing must meet HUD guidelines:
	  • Subordinate financing must not have pre-payment penalties, no wrap around terms and no maturity or balloon of less than 10 years.
	  • Payments must be level and monthly.
	  • The combined amount of the 1st and the Second mortgages cannot exceed the applicable LTV ratio and the maximum mortgage limit for the area.
	• Properties that have a Property Assessed Clean Energy (PACE) loan are not eligible (such as the Home Energy Renovation Opportunity (HERO) Program).

DOWN PAYMENT ASSISTANCE PROGRAMS	• Not allowed
MORTGAGE CREDIT CERTIFICATES (MCC)	• Not allowed
HUD REOS	• Must meet all of HUD's requirements in regards to HUD REOs • Full "as is" appraisal required • Mortgagees must order a new appraisal that is valid for a HUD REO property financed with an FHA-insured mortgage • Condominium projects do not need to be currently approved by HUD • Effective 9/30/16, HUD must approve any real estate broker wishing to list properties or represent buyers in sales transactions of HUD REO Properties and closing agents must meet the requirements as outlined in the 4000.1 in order to conduct a closing on a sales transaction of a HUD REO Property.
MORTGAGE INSURANCE	• All loans, regardless of LTV require mortgage insurance. • For the purpose of calculating the LTV for application of the MIP, must divide the Base Loan Amount by the After Improved Value. • Mortgage Insurance Premiums are listed below as "Upfront Amount/Monthly Fee." CASE NUMBERS ASSIGNED ON OR AFTER JANUARY 26, 2015 – ALL LOAN PURPOSES

Loan Terms > 15 Years		
LTV/Base Loan Amount	≤ 95%	> 95%
<=$625,500	1.75%/.80%	1.75%/.85%
>$625,500	1.75%/1.00%	1.75%/1.05%

Loan Terms ≤ 15 Years			
LTV/Base Loan Amount	≤ 78%	>78% and ≤ 90%	> 90%
<=$625,500	1.75%/0.45%	1.75%/0.45%	1.75%/0.70%
>$625,500	1.75%/0.45%	1.75%/0.70%	1.75%/0.95%

- For all loan terms with LTVs <=90% cancellation of the annual (monthly) premium will occur after the borrower has paid the premium for eleven years
- For all loan terms with LTVs >90% the annual (monthly) premium will continue for the loan term

PROPERTY INSURANCE

- Hazard Insurance coverage must equal 100% of the insurable value of the improvements, as established by the property insurer; OR the unpaid principal balance of the mortgage, as long as it equals the minimum amount (80% of the insurable value (total appraised value minus the estimated site value) of the improvements) required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained.
- For refinances transactions, all insurance policies must have, at minimum, an expiration date after the first payment date as shown on the note.
- Maximum deductible is the lesser of $10,000 or 5% of the face amount of the policy.
- Where there is a separate deductible or separate policy for windstorm, hurricane and HO-6 coverage, the maximum deductible is 5% of the face amount of the policy.
- Acceptable Proof of Flood Insurance:
- Copy of Flood Insurance Policy
- Copy of Declaration Page
- Copy of the application for flood insurance with a paid receipt for the first year's premium or if paid at closing, premium reflected on the HUD
- Flood policies and applications provided for closing must indicate the flood zone of the property. This zone must match our flood determination provider's zone. Otherwise, evidence that the borrower's zone is "grandfathered" must be provided. If the improvements are in a split zone (partially in and partially out) the policy must be rated for the more hazardous zone.
- Flood insurance is required if there is knowledge that the property is exposed to flood risks, even if the property is located in a community that does not have FEMA flood maps.
- As required per HUD, Flood insurance in Special Flood Hazard Areas must be obtained through the National Flood Insurance Program (NFIP).
- Flood Insurance: Maximum deductible clause for a flood insurance policy is $5,000
- The subject property must be protected against wind damage. To the extent that the base hazard insurance policy excludes wind coverage, an endorsement or separate policy evidencing wind coverage must be obtained.
- For hazard insurance, properties in an attached condominium and attached PUD project (including 2-4 unit projects) require 100 percent of the insurable replacement cost coverage for the complete condominium (interior and exterior of the condominium). The HO-6 policy must be sufficient to repair the interior of the condominium unit, including any additions, improvements and betterments to its original condition in the event of a loss. If the HOA Master Policy does not provide coverage for the interiors of the project units, an HO-6 (or its equivalent) Policy for

	the individual unit is required. This coverage must be at least 20% of appraised value. • HO-6 coverage must be escrowed in the borrower's monthly payments. Where the HO-6 premium is assessed separately the reserves being collected at closing must appear in the 1000 series of the HUD1. • If the homeowner's association owns the common elements, areas/facilities of a project separately (or holds them in a leasehold estate), insurance on those areas is required to ensure that ownership (if there are no common areas owned by HOA a letter from them will suffice to prove it is not needed.)

TITLE INSURANCE REQUIREMENTS FOR CONDOS/PUDS	• The Title Insurance policy for Condo and Planned Unit Developments (PUDs) must include coverage that provides protection by:
	  • Insuring that the mortgage is superior to any lien for unpaid common expense assessments. In jurisdictions that give these assessments a limited priority over a first or second mortgage lien, the policy must provide assurance that those assessments have been paid through the effective date;
	  • Insuring against any impairment or loss of title of PRMG's first lien caused by any past, present, or future violations of any covenants, conditions, or restrictions of the master deed for the project. The title insurance policy must specifically insure against any loss that results from a violation that existed as of the date of the policy;
	  • Insuring that the unit does not encroach on another unit or on any of the common elements, areas or facilities. This policy must also insure that there is no encroachment on the unit by another unit or by any of the common elements, areas or facilities;
	  • Insuring that the mortgage is secured by a unit in a condominium project that has been created in compliance with the applicable enabling statutes;
	  • Insuring that real estate taxes are assessable and lien able only against the individual condominium unit and its undivided interest in the common elements, rather than against the project as a whole; and
	  • Insuring that the owner of a PUD unit is a member of the homeowner's association and that the membership is transferable if the unit is sold.

APPRAISAL	• Additional appraisal requirements can be found in the PRMG Appraisal Guidelines which is available in the Resource Center or at the following link • http://www.eprmg.net/ResourceCenter/AppraisalForms/PRMG%20Appraisal%20Guidelines.pdf • An appraisal by an FHA Roster Appraiser is always required to establish the After Improved Value of the Property. Except as described in the 4000.1 for in cases of Property Flipping and refinance transactions, the Mortgagee is not required to obtain an as-is appraisal and may use alternate methods mentioned below to establish the Adjusted As-Is Value. If an as-is appraisal is obtained, the Mortgagee must use it in establishing the Adjusted As-Is Value. • The effective date of the appraisal cannot be before the FHA case number assignment date unless the lender certifies, via the certification field in the Appraisal Logging Screen in FHAC, that the appraisal was ordered for conventional lending or government-guaranteed loan purposes and was performed by a FHA Roster Appraiser. The lender must ensure that the appraisal was performed in accordance with FHA appraisal reporting instructions as detailed in this SF Handbook and the Appraisal Report and Data Delivery Guide. The intended use of the appraisal must indicate that it is solely to assist FHA in assessing the risk of the Property securing the FHA-insured Mortgage. Additionally, FHA and the lender must be indicated as the

	intended users of the appraisal report. • Must provide the Appraiser with a copy the work plan, contractor's proposal and Cost Estimates • As-Is appraisal must be completed if the patios or decks are included in the project's work plan. The appraiser must state on the appraisal that he/she has reviewed the written estimates/work-write up for the site improvements of patios or decks and the final As-Is Value of the property would, in fact, increase dollar-for-dollar if they were included on the as-is property currently • For HUD REOs the as-is HUD REO appraisal is ALWAYS required, in entirety, if HUD will provide, otherwise a new appraisal must be ordered • The appraiser must be provided with information regarding the proposed rehabilitation and all cost estimates so that an "as completed" value can be estimated. • A description of the proposed rehabilitation must be included in the appraisal report as well as the contractor's cost estimate. • The appraiser is to indicate in the reconciliation section of the appraisal report an "as completed" value subject to completion of the proposed rehabilitation. • The appraisal must state that the property meets FHA requirements once the renovations are completed. It must indicate "subject to the following Repairs or Alterations" in the reconciliation section of the report. • Appraisals are valid for 120 days and must be dated within 120 days of the disbursement date. • A DE lender may extend the appraisal for 30 days, provided the borrower has signed a valid sales contract or is approved for the FHA loan prior to the expiration date on the appraisal (the loan approval date is the date the DE underwriter signs the 92900-LT – Loan Transmittal) • A 120-day extension is not allowed and an appraisal past the 120 days plus 30-day extension will require a new 1004 appraisal. • For refinances, the "as-is" value of the property must be stated by the appraiser; purchase appraisal should NOT include an as-is value statement; the purchase price is considered as-is value on purchase transactions • A 3 year sales history is required on the subject property. • The seller on the sales contract must be the owner of record. • A property is determined to be in a Declining Market if the appraiser indicates that the property is located in a declining area in both the neighborhood section as well as in the housing trend section, and/or determine if there is an "over-supply" of properties, OR the property is identified by Desktop Underwriter (DU) or Loan Prospector (LP) through Total Scorecard as being located in an area of concern. • If deemed by the appraiser to be in a Declining Market OR if there is an "over-supply" – the appraisal must include: • Two (2) comparables (as similar as possible to subject) closed within 90 days prior to the effective date of the appraisal, and • Two (2) active listings or pending sales in comp position 4-6 or higher (in addition to the three settled sales comps in position 1-3). The listing/pending sales MUST include the original list price, any revised list prices, and total DOM (days on market); adjust active LISTINGS to reflect list-to-sale price ratios for the market; and adjust PENDING sales to reflect the contract purchase price or reflect list-to-sale price ratios for the market • Absorption rate analysis on the 1004 MC • PRMG reserves the right to require additional appraisal reviews/reports at the

	underwriter's discretion.

REVIEW/SECOND APPRAISALS	• Required if the loan amount (excluding the UFMIP) will exceed $417,000 and the LTV (excluding the UFMIP) is equal to or greater than 95% and the property is determined as being in a declining market.
	• The second appraisal must be completed by an FHA approved appraiser, selected by PRMG. PRMG is not to request a second case number through FHA Connection, but to independently engage the appraiser. The second appraisal should be on the following forms: One unit detached house – can be an exterior-only appraisal using form 2055 All other property types must use the appropriate full appraisal form.
	• If the second appraisal has an estimated value more than 5% lower than the original appraisal, the maximum mortgage must be calculated using the lower of the two appraised values. The second appraisal must be included in the FHA insurance binder. If the second appraisal is used to recalculate the maximum mortgage amount, the appropriate information from that appraisal must be entered into the appraisal logging screen in FHA Connection. If any repairs are required on either appraisal – they must be reconciled and completed with satisfactory re-inspection(s).
	• A second appraisal on HUD REOs can only be ordered for three (3) reasons and requires the new case number to be used:
	  ◦ If there are material deficiencies with the current appraisal (material deficiencies include actual errors or omissions that skew the final value opinion or condition. For example: wrong comp sales dates, missing square footage or sales histories, misrepresentation, appearing on watch or exclusionary list, etc. It does not include missing (nice-to-have) comments, lack of similar comps, blurry photos, etc.) OR
	  ◦ The REO appraisal is not valid on the date of the contract ratification, OR
	  ◦ The buyer is applying for a 203k Rehab loan and an as-repaired appraisal is required
	• Review appraisals must be completed by a PRMG approved Appraisal Company.

SALES CONTRACT CHANGES	• PRMG will not accept re-negotiated purchase agreements that increase the sales price after the original appraisal has been completed if:
	  ◦ the appraised value is higher than the contracted sales price provided to the appraiser, and
	  ◦ the new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received, and
	  ◦ the only change to the purchase agreement is an increase in sales price.
	• If the purchase agreement is re-negotiated subsequent to the completion of the appraisal, the loan-to value will be based on the lower of the original purchase price or the appraised value, unless:
	  ◦ Re-negotiation of only seller paid closing costs and/or pre-paids when seller paid closing costs/pre-paids are common and customary for the market and supported by the comparables or
	  ◦ An amended purchase agreement for new construction property is obtained due to improvements that have been made that impact the tangible value of the property. In the event of such changes, an updated appraisal must be obtained to verify the value of the modifications/changes.

MULTIPLE LOANS	• Maximum number of residential properties that can be financed are limited to 4, including the subject property. This includes joint or total ownership and is cumulative across all borrowers on the loan.

REBUTTABLE PRESUMPTION	• If the FHA transaction is a Rebuttable Presumption (APR exceeds APOR by more than the combined annual MIP plus 1.15%), the underwriter must ensure the borrower's ability to repay the loan has been documented, using the following criteria:
	  • The highest payment of principal and interest scheduled in the first seven years of the loan;
	  • Consideration of taxes and insurance, including MIP; and
	  • Verification of the gross monthly income and other resources by using reliable methods, based upon the circumstances of the proposed loan

RESIDUAL INCOME EVALUATION	• Not Required
HIGHER PRICED MORTGAGE LOAN (HPML)	• Allowed within the parameters of Section 35 of CFPB Regulation Z • Must comply with all limitations and requirements of HPML loans as described in PRMG's Compliance Policy regarding HPML-Section 35 loans • Not allowed on 5/1 ARMs • HPML loans must have an escrow account, regardless of LTV
SECTION 32 / HIGH COST LOAN	• Brokers are responsible for identifying loans that are considered high cost loans as defined by federal and/or state laws and/or regulations. High cost loans are not allowed: • Loan is not a high cost loan as defined by Section 32 of the Federal Truth-in-Lending Act; *and* • Loan is not a high cost loan as defined by applicable state laws and/or regulations.
REAL ESTATE COMMISSIONS	• The maximum real estate commission allowed is 8%.
ESCROW ACCOUNT	• Escrows are required for taxes and insurance, regardless of LTV. • Flood insurance must be impounded (escrowed) for all loans with a note date of 1/1/16 or later if the property is in a Special Flood Hazard Area (SFHA), designated as a flood zone beginning with A or V, regardless of LTV and/or federal exemptions and is required for the life of the loan. It is not required to be impounded if the flood insurance is paid through the condominium association, HOA dues, etc. Additionally, the escrow requirement needs to be stated in the Flood Notice that is provided to the borrower.
UNDERWRITING	• Delegated underwriting allowed. • Investor review of the 203K documentation is required • DU underwriting is acceptable provided the loan receives an "Approve" from DU. • All loans must be risk-classified by FHA's TOTAL Mortgage Scorecard
INDEX	• 1 Year Treasury
MARGIN	• 2.00%
INTEREST RATE CAPS	• **1% Initial Adjustment Cap** - Commencing with the first interest rate adjustment date, the interest rate cannot be increased or decreased by more than 1% from the interest rate in effect immediately prior to the interest rate adjustment date. • **1% Adjustment Cap** - Commencing with the second interest rate adjustment date, the interest rate cannot be increased or decreased by more than 1% from the interest rate in effect immediately prior to the interest rate adjustment date. • **5% Lifetime Cap** - There is a life of loan interest rate ceiling equal to the sum of the initial interest rate plus 5%. The floor is the margin.
INTEREST RATE CHANGES	• **Interest Rate** - The initial interest rate will be set at time of lock-in and will remain constant for the first 5 years of the loan. On the first interest rate adjustment date, the interest rate will be adjusted to equal the sum of the index plus the required margin rounded to the nearest .125%, subject to the interest rate caps. On the second interest rate adjustment date and thereafter, the interest rate will be the

	sum of the index plus the required margin rounded to the nearest .125% subject to the interest rate caps. • **Interest Rate Adjustment Date** - Initial note rate is in effect for 60 to 66 months; thereafter the annual adjustment cap begins with the first adjustment
MINIMUM FLOOR	• Margin
ARM DOCUMENTS	• Standard FHA ARM Note and Rider

FHA 203K Limited

Document Checklist

All of the noted documents must be submitted with all FHA 203K Limited loan packages.

- ✓ **203K Maximum Mortgage Worksheet**
  Must use the 203K Calculator in FHAC prior to endorsement for all 203K transactions and may begin to use the functionality immediately. A print out of the worksheet from FHA Connection must be in the loan file.
- ✓ **203K Borrower/Contractor Agreement**
- ✓ **203K Borrower's Acknowledgement**
- ✓ **203K Rehabilitation Loan Agreement**
- ✓ **203K Permit Certification Form**
- ✓ **W-9** (Completed and signed by every contractor working on the project)
- ✓ **Evidence of FHA Case Number Transfer to Investor** (Done after funding by PRMG)

All of the documentation can be found in the Resource Center

Texas Addendum

<table>
<tr><td colspan="2">The following guidelines refer to loans in Texas only. If a topic is not addressed in this addendum, the standard FHA guidelines above should be followed. Also, please note that no underwriting exceptions are allowed on properties located in Texas.</td></tr>
<tr><td>TERMS</td><td>15 and 30 year Fixed only.</td></tr>
<tr><td>PURCHASE</td><td>Allowed</td></tr>
<tr><td>RATE/TERM REFINANCE</td><td>

Proceeds from a rate/term refinance may only pay off the following:

1st liens that are not considered Section (a)(6) and Second liens used entirely for the purchase of the property.
When a prepayment penalty fee is assessed on an existing NON Section 50 (a) (6) loan and is included in the payoff amount, the new loan can be considered a rate/term refinance if the title company agrees and issues a new title policy for the full loan amount (including prepayment penalty fees)
HOA dues may be paid off if the title company requires them to be paid. If the title company does not require them to be paid, the borrower must pay the dues outside of closing, and they must NOT be included in the loan amount.

Proceeds from a rate/term refinance may NOT pay off the following:

Any loan that is considered a Section (a) (6) loan unless the below requirements are met that make it a Section (f)(2) transaction. Section (f)2 transactions are eligible with application dates on or after 1/1/18.
Any loan that the borrower received cash back on
Federal tax debt liens
Liens for delinquent property taxes on the property securing the new loan

Any previous Section 50(a)(6) must be processed as a Section 50(a)(6) unless the following requirements are met to make it a Section 50(f)(2) transaction:

Application dated on or after 1/1/18
The refinance will be closed no less than one year from the closing of the previously funded home equity loan;
The loan proceeds do not exceed any existing liens on the property being refinanced plus any costs associated to the refinance (i.e. no cash back to the borrower);
The loan proceeds cannot be used to pay off other debts;
The refinanced loan cannot exceed 80% loan to value;
The lender must provide the borrower with a notice about their rights associated with a home equity or non-home equity loan 12 more days prior to closing.
Note: for HELOC loans where the borrower has taken his/her last advance in under a year, in calculating the seasoning requirements, PRMG will look to the original advance of credit/HELOC Agreement Date

Rate/term refinances may NOT receive any cash back to the borrower, even incidental cash. Limited cash out refinances that allow the lesser of 2% of the loan amount or $2,000 are NOT eligible under the Texas rate/term refinance program.
Incidental cash back to the borrower at Closing is not allowed, including incidental cash back as result of POC fees being refunded to borrower. Additionally, incidental cash back must either be handled by reducing/curtailing principal or reducing the loan amount and having the documents re-drawn.
For owner occupied primary residence Texas loans, if the property was ever refinanced under Section 50(a)(6) (a cash out refinance) every subsequent refinance is considered a Section 50(a)(6) loan it must be processed under the Agency Texas Home Equity

</td></tr>
</table>

	program unless the above requirements are met that make it a Section (f)(2) transaction. Section (f)2 transactions are eligible with application dates on or after 1/1/18. o In addition to standard rate/term refinance guidelines, the following guidelines apply to all rate/term refinances secured by Owner Occupied, Homestead properties in the state of Texas: Total financed Closing costs are limited to 10% of the new loan amount and are limited to those costs that are reasonable and actually required to close the transaction. Prepaids/escrows can't be financed into the new loan when grossed up in loan payoff. POC Fees can't be financed into the loan amount. Special title insurance coverage must be obtained when impounds for prepaid expenses* are included in the new loan amount. The following must be included as a Schedule B Exception: Possible defect in lien of the insured mortgage because of the Insured's inclusion of reserves or impounds for taxes and insurance in the original principal of the indebtedness secured by the insured mortgage. *Prepaids are defined as funds collected for the payment of real estate taxes (includes non-delinquent taxes which are due and payable, as well as reserves), hazard insurance premiums, and monthly MI premiums covering any period after the settlement date. o The following P-39 Express Insurance Coverage endorsement is recommend: "Company insures the Insured against loss, if any, sustained by the Insured under the terms of this Policy by reason of a final, non-appealable judgment of a court of competent jurisdiction that divests the Insured of its interest as Insured because of this right, claim or interest. Company agrees to provide the defense to the Insured in accordance with the terms of this Policy if suit is brought against the Insured to divest the Insured of its interests as Insured because of this right, claim or interest." o Documentation is required (title insurance binder, Mortgage/Deed of Trust, and/or HUD-1) which verifies that a home equity/cash out Loan {Section 50(a)(6)} has not previously been originated on the subject property. If the purpose of the Loan is not clearly identified on the title binder, it will be necessary to provide the previous Deed of Trust or Hud-1 settlement statement for each transaction originated on or after 1/1/98 to verify the purpose of the existing Loan. • If any subordinate financing exists, its purpose must be verified. Documentation (title insurance binder, Mortgage/Deed of Trust, and/or HUD-1) which verifies the purpose of the subordinate financing is required. If that purpose is not clearly identified on the title binder, it will be necessary to provide the previous Mortgage/Deed of Trust and/or HUD-1 settlement statement for each transaction originated on or after 1/1/98 to verify the purpose of the existing subordinate financing. Depending on the purpose of the subordinate Loan, the following options are available: (1) If the subordinate Loan was used for purchase of the home, the HUD-1 settlement statement from that transaction must be provided as evidence and the title binder may not reflect that Loan was originated as a home equity/cash out {Section 50 (a)(6)} Loan. (2) If the subordinate Loan was used for home improvements, it must have been originally closed with the purpose to use the entire amount for home improvements as evidenced by a Mechanics' or Materialmen's lien on the title binder. Documenting the home improvements by obtaining canceled checks, invoices, receipts, lien waivers, etc is not acceptable. In either of those situations, the financing may be paid off, paid down, or re-subordinated as a rate/term refinance provided the first mortgage was not originated as a home equity/cash out {Section 50 (a)(6)} Loan. If the borrower received any cash back from the subordinate financing and the Loan is being paid off or paid down, the lien is subject to Texas Equity provisions and considered a home equity/cash out {Section 50 (a)(6)}and therefore ineligible. If the subordinate lien was used for a purpose other than the purchase of the home or home improvements, then

	it must be re-subordinated. The subordinate financing may not be paid off or paid down with the proceeds of the refinance since the entire transaction would then be considered a cash-out/home equity transaction which is ineligible for purchase by Wells Fargo. The first mortgage may not have been originated as a home equity/ cash out {Section 50 (a)(6)} Loan.
CASH OUT REFINANCE	• Not allowed
DOWN PAYMENT ASSISTANCE	• Not allowed
MORTGAGE CREDIT CERTIFICATES	• Not allowed
$100 DOWN HUD REO	• Not allowed
REPAIR ESCROW	• Not allowed
SUBORDINATE FINANCING	• Not allowed
TEMPORARY BUYDOWNS	• Not allowed
INTEREST ONLY	• Not allowed

ELIGIBLE COSTS	• A rate/term refinance of a primary residence may include only the following costs:
	  • Pay off of the old loan plus points
	  • Pre-paid items, such as escrow funds and interest (See Additional Documentation section below)
	  • Taxes due
	• The closing costs, whose total may not exceed 5% of the loan amount, must be deemed “necessary and reasonable”. Closing costs that may be included are noted below:
	  • Loan Origination
	  • Tax Service
	  • Recording
	  • Escrow Waiver
	  • Processing
	  • Appraisal
	  • Credit Report
	  • Final Inspection
	  • Underwriting
	  • Application
	  • Survey
	  • Title Insurance Premiums (Lender Policy)
	  • Commitment
	  • Express Mail
	  • Flood Certification
	  • Closing

APPRAISAL	• A full appraisal is required, regardless of AU recommendations.

ADDITIONAL DOCUMENTATION	• All rate/term refinances require a completed Texas Refinance Worksheet (See Exhibit A) • All rate/term refinances require a completed Borrower Acknowledgement Form (See Exhibit B) when the borrower is receiving a refund check at closing. • If impounds for prepaid expenses are included in the new loan amount, special title insurance coverage must be obtained as a Schedule B Exception. • For rate/term refinances, a copy of the commitment for title insurance, mortgage/deed of trust, or HUD-1 is required in order to verify that a Section 50 (a) (6) loan has not previously been originated against the subject property. • Texas Property Code 53.255 Disclosure • Builder's Note • Builder's Contract – signed by the builder and all owners and their spouses before any material is furnished or labor is performed. • Texas Notice of Right to Cancel the Builder's Contract (3-day rescission) – required on a purchase or refinance, in addition to the Federal Notice of Right to Cancel in a refinance transaction. • Texas Home Improvement Certification from Originating Lender • Renewal and Extension Exhibit to the Deed of Trust, describing the lien created by the Builder's Contract • Borrower's Acknowledgement of Construction Compliance Procedures • List of subcontractors and suppliers • Texas disbursement authorization • Texas disbursement statement (draw request) • Affidavit of Commencement • Affidavit of Completion • Lien Waiver • Final Bills – Paid Affidavit
ADDITIONAL REQUIREMENTS	• All improvements must be performed by a third party builder. No self help is allowed. • Disclosure must be delivered to borrower at least one day before closing • All closing documents must be delivered to the borrower not later than one business day before closing. • The builder's contract must be signed by all owners and their spouses. • The builder's contract must be signed and closing must occur at the lender's office, a title company, or an attorney's office. • The builder's contract must not be signed before the fifth day after making written application. • The builder's contract may be rescinded within three days after all parties have signed (purchase and refinance). • No materials may be furnished or labor performed before the three-day rescission period expires. • A 10% statutory retainage should be withheld from each advance to cover any claim notices from subcontractors or suppliers. The entire retainage, representing 10% of construction costs, will be retained for 30 days after final completion. (Subcontractors and suppliers will have only 30 days after completion to notify the borrower of nonpayment claims). • Additional monies requested for cost overruns and upgrades are secured under the builder's contract only if they are evidenced by change orders signed by both parties. Any modification agreement to increase the loan amount must have original change orders attached.

	• Subject property must be a Texas homestead.

Exhibit A

TEXAS REFINANCE
Worksheet

1. Is the loan being refinanced a “low-rate home loan*?” **Y/N**
   - If yes, continue.
   - If no, stop. This worksheet is not required.

2. Did a government or non-profit lender make the “low-rate home loan?” **Y/N**
   - If yes, continue.
   - If no, stop. This worksheet is not required.

3. When was the “low-rate home loan” closed? ____________ (Anniversary Date)
   - If the anniversary date is less than seven years, continue.
   - If the anniversary date is equal to or greater than seven years, stop. This worksheet is not required.

4. What was the initial interest rate on the “low-rate home loan?” _________ %
   A. In the case of a loan with a discounted introductory rate, what was the initial fully indexed rate? ________%
   B. Is the interest rate on the new loan less than the rate referenced in 4A? **Y/N**
   - If yes, continue.
   - If no, this loan is not eligible.

5. A. What were the total points and fees paid by the borrower on the “low-rate home loan?” $ _______________
   B. Are the points and fees being paid by the borrower on the new loan less than the points and fees referenced in 5A? **Y/N**
   - If yes, this loan is eligible.
   - If no, the loan is not eligible.

A “low-rate home loan” is a loan with an initial rate that is two percentage points or more below the yield on treasury securities with maturities comparable to the loan term. If the loan had a discounted introductory rate, then the fully indexed rate should be used to determine whether the loan is a “low-rate home loan”.