PINNACLE CAPITAL
mortgage corporation

PINNACLE PLUS

Updated: 1-16-2015 (changes are highlighted in yellow)

Removed footnote for cash out up to 85% with DU version 9.1 (Page 1): Updated 1-16-15
Updated cash flow analysis requirement for use of business funds and removed CPA letter guidance (Page 3): Updated 1-16-15
Removed waiting period guidance for applications dated before August 16 on preforeclosures, Short Sale or Deed-in-Lieu (Page 7): Removed 1-16-15
Added solar panel guidance (Pages 13-14): Added 1-16-15

ITEMS NOT COVERED IN THE FOLLOWING GUIDELINES MUST FOLLOW FANNIE MAE GUIDELINES
https://www.fanniemae.com/singlefamily/originating-underwriting

PRIMARY RESIDENCE AND SECOND HOMES AND INVESTMENT PROPERTIES WITH 1-4 FINANCED PROPERTIES

PRIMARY RESIDENCE

Purchase & Rate/Term Refinance

# FINANCED PROPERTIES	LOAN AMOUNT	PROPERTY TYPE	LOAN TYPE	LTV[1]	CLTV / HCLTV	FICO[1]	UW[2]
< 5 financed properties	Conforming	1-unit	Fixed Rate	97 [3]	97 [3]	620	DU only. For manual underwriting, refer to the matrix in the Manual Underwriting section of the guidelines.
< 5 financed properties	Conforming	1-unit	Fixed Rate	95	95	620	
< 5 financed properties	Conforming	1-unit	ARM	90	90	620	
< 5 financed properties	High Balance	1-unit	Fixed Rate	90	90	620	
< 5 financed properties	High Balance	1-unit	ARM	75	75	620	
< 5 financed properties	Conforming	2-unit	Fixed Rate	85	85	620	
< 5 financed properties	Conforming	2-unit	ARM	75	75	620	
< 5 financed properties	High Balance	2-4 unit	Fixed Rate	75	75	620	
< 5 financed properties	High Balance	2-4 unit	ARM	65	65	620	
< 5 financed properties	Conforming	3-4 unit	Fixed Rate	75	75	620	
< 5 financed properties	Conforming	3-4 unit	ARM	65	65	620	

Cash Out Refinance

# FINANCED PROPERTIES	LOAN AMOUNT	PROPERTY TYPE	LOAN TYPE	LTV[1]	CLTV / HCLTV	FICO[1]	UW[2]
< 5 financed properties	Conforming	1-unit	Fixed Rate	80	80	620	DU only. For manual underwriting, refer to the matrix in the Manual Underwriting section of the guidelines.
< 5 financed properties	Conforming	1-unit	ARM	75	75	620	
< 5 financed properties	High Balance	1-unit	Fixed Rate & ARM	60	60	620	
< 5 financed properties	Conforming	2-4 unit	Fixed Rate	75	75	620	
< 5 financed properties	Conforming	2-4 unit	ARM	65	65	620	

SECOND HOME

Purchase & Rate/Term Refinance

# FINANCED PROPERTIES	LOAN AMOUNT	PROPERTY TYPE	LOAN TYPE	LTV[1]	CLTV / HCLTV	FICO[1]	UW[2]
< 5 financed properties	Conforming	1-unit	Fixed Rate	90	90	620	DU only. For manual underwriting, refer to the matrix in the Manual Underwriting section of the guidelines.
< 5 financed properties	Conforming	1-unit	ARM	80	80	620	
< 5 financed properties	High Balance	1-unit	Fixed Rate & ARM	65	65	620	

Cash Out Refinance

# FINANCED PROPERTIES	LOAN AMOUNT	PROPERTY TYPE	LOAN TYPE	LTV[1]	CLTV / HCLTV	FICO[1]	UW[2]
< 5 financed properties	Conforming	1-unit	Fixed Rate	75	75	620	DU only. For manual UW, refer to the matrix in the Manual UW section of the
< 5 financed properties	Conforming	1-unit	ARM	65	65	620	

INVESTMENT PROPERTY

Purchase

# FINANCED PROPERTIES	LOAN AMOUNT	PROPERTY TYPE	LOAN TYPE	LTV[1]	CLTV / HCLTV	FICO[1]	UW[2]
< 5 financed properties	Conforming	1-unit	Fixed Rate	85	85	620	DU only. For manual UW, refer to the matrix in the Manual UW section of the guidelines.
< 5 financed properties	Conforming	1-unit	ARM	75	75	620	
< 5 financed properties	Conforming	2-4 units	Fixed Rate	75	75	620	
< 5 financed properties	Conforming	2-4 units	ARM	65	65	620	
< 5 financed properties	High Balance	1-4 units	Fixed Rate & ARM	65	65	620	

Rate/Term Refinance

# FINANCED PROPERTIES	LOAN AMOUNT	PROPERTY TYPE	LOAN TYPE	LTV[1]	CLTV / HCLTV	FICO[1]	UW[2]
< 5 financed properties	Conforming	1-4 units	Fixed Rate	75	75	620	DU only. For manual UW, refer to the matrix in the Manual UW section of the guidelines.
< 5 financed properties	Conforming	1-4 units	ARM	65	65	620	
< 5 financed properties	High Balance	1-4 units	Fixed Rate & ARM	65	65	620	

Cash Out Refinance

# FINANCED PROPERTIES	LOAN AMOUNT	PROPERTY TYPE	LOAN TYPE	LTV[1]	CLTV / HCLTV	FICO[1]	UW[2]
< 5 financed properties	Conforming	1-unit	Fixed Rate	75	75	620	DU only. For manual UW, refer to the matrix in the Manual UW section of the guidelines.
< 5 financed properties	Conforming	1-unit	ARM	65	65	620	
< 5 financed properties	Conforming	2-4 units	Fixed Rate	70	70	620	
< 5 financed properties	Conforming	2-4 units	ARM	60	60	620	

1) LTV over 80% must meet all MI company guidelines (INCLUDING CREDIT SCORE REQUIREMENTS). PCM minimum credit score is 620.
2) Refer to the Underwriting section of the guidelines for manual underwriting LTV/CLTV/Credit Score/Reserve requirements
3) 95.01-97% LTV/CLTV/HCLTV: DU Version 9.2 only. At least one borrower must be a first-time homebuyer on purchase transactions. Refer to the LTV/CLTV/HCLTV section of the guidelines for further guidance.

Continue to the next page for Second Homes & Investment Properties with 5-10 financed properties

SECOND HOMES AND INVESTMENT PROPERTIES WITH 5-10 FINANCED PROPERTIES[2]

SECOND HOME

Purchase & Rate/Term Refinance

# FINANCED PROPERTIES	LOAN AMOUNT	PROPERTY TYPE	LOAN TYPE	LTV[1]	CLTV / HCLTV	FICO[1]	UW[3]
5-10 financed properties[2]	Conforming	1 unit	Fixed Rate	75	75	720	DU only. For manual UW, refer to the matrix in the Manual UW section of the guidelines.
5-10 financed properties[2]	Conforming	1 unit	ARM	65	65	720	
5-10 financed properties[2]	High Balance	1 unit	Fixed Rate & ARM	65	65	720	
Delayed Financing Cash-Out [2]							
5-10 financed properties[2]	Conforming	1 unit	Fixed Rate	70	70	720	DU only. For manual UW, refer to the matrix in the Manual UW section of the guidelines.
5-10 financed properties[2]	Conforming	1 unit	ARM	60	60	720	

INVESTMENT PROPERTY

Purchase & Rate/Term Refinance

# FINANCED PROPERTIES	LOAN AMOUNT	PROPERTY TYPE	LOAN TYPE	LTV[1]	CLTV / HCLTV	FICO[1]	UW[3]
5-10 financed properties[2]	Conforming	1 unit	Fixed Rate	75	75	720	DU only. For manual UW, refer to the matrix in the Manual UW section of the guidelines.
5-10 financed properties[2]	Conforming	1 unit	ARM	65	65	720	
5-10 financed properties[2]	High Balance	1 unit	Fixed Rate & ARM	65	65	720	
5-10 financed properties[2]	Conforming	2-4 units	Fixed Rate	70	70	720	
5-10 financed properties[2]	Conforming	2-4 units	ARM	60	60	720	
5-10 financed properties[2]	High Balance	2-4 units	Fixed Rate	65	65	720	
5-10 financed properties[2]	High Balance	2-4 units	ARM	60	60	720	
Delayed Financing Cash-Out [2]							
5-10 financed properties[2]	Conforming	1 unit	Fixed Rate	70	70	720	DU only. For manual UW, refer to the matrix in the Manual UW section of the guidelines.
5-10 financed properties[2]	Conforming	1 unit	ARM	60	60	720	
5-10 financed properties[2]	Conforming	2-4 units	Fixed Rate	65	65	720	
5-10 financed properties[2]	Conforming	2-4 units	ARM	60	60	720	

1) Delayed financing guidelines must be followed
2) Second homes and Investment properties with 5-10 financed properties have additional eligibility requirements. Refer to the Number of Loans/Properties section of the guidelines.
3) Refer to the Underwriting section of the guidelines for manual underwriting LTV/CLTV/Credit Score/Reserve requirements

PROGRAM DESCRIPTION:

The Pinnacle Plus loan program is designed to enhance the standard PCM Conforming and Conforming High Balance Underwriting Guidelines to provide additional flexibility. The guideline topics outlined below can be used under the Pinnacle Plus loan program.

ABILITY TO REPAY (ATR) FORM

An Ability to Repay (ATR) form must be completed by a PCM Underwriter and retained in every loan file.

AGE OF DOCUMENTS:

- Credit Documents (credit report / employment / income / assets / preliminary title report) must be no more than **four months from the date the note is signed**. This timeframe applies to existing and new construction.
- The first AUS submission date can be no more than one year prior to the Note Date.
- For age requirements related to appraisals, refer to the Appraisal section of the guidelines

APPRAISAL:

Appraisal Update

- If the 1004D indicates an increase in value, the higher appraised value may only be used if a new appraisal is obtained that reflects the increase in value.

Exterior-Only Appraisals

- For certain loans, DU will offer an Exterior-Only appraisal (2055) option. (Note: On refinances of properties where the most recent transaction was an REO sale, an HVCC interior/exterior inspection is required regardless of DU requirement)
  - An Exterior-Only appraisal may not be used (and a full Interior/Exterior appraisal (1004) must be provided) if PCM has reason to believe a full appraisal is warranted based on additional information obtained about the property or subsequent events (such as a hurricane or other natural disaster), or based on additional information provided by DU regarding the subject property and/or loan casefile.
  - A full Interior/Exterior appraisal (1004) is required on all properties with unpermitted additions/conversions or Illegal accessory units regardless of DU findings. Refer to the Property Eligibility section for appraisal requirements on these properties.

Fieldwork Waivers (aka PIW)

- Eligible per DU decision only (not eligible on manual underwriting)
    - The final submission of the loan casefile to DU must result in a property fieldwork waiver offer

  AND

    - The property fieldwork waiver offer does not exceed four months from the note date
- All loan terms (as indicated in the Loan Terms section of the guidelines)
- Standard loan amounts only
- $75 fee
- On refinances of properties where the most recent transaction was an REO sale, an HVCC interior/exterior inspection is required regardless of DU requirement
- A fieldwork waiver may not be used, and must order the minimum level of property fieldwork as specified by DU, if PCM has reason to believe that fieldwork is warranted based on additional information obtained about the property or subsequent events (such as a hurricane or other natural disaster), or based on additional information provided by DU regarding the subject property and/or loan casefile.
- If the property has been listed within the past 6 months, a fieldwork waiver may not be executed and a full appraisal must be provided.
- If the subject is an investment property and DU requires a 1007, a 1007 must be obtained and included in the loan file (regardless if a property inspection waiver is exercised)
- **Additional Disclosure Requirements:**
    - Letter Of Explanation from borrower disclosing the length of time the borrower has owned the property and confirmation the subject property is not currently for sale
    - "Notice About Appraisal of Your Property" (final disclosure to be signed at closing)

Re-Inspection and Review Requirements for Disaster Areas

- If the original valuation was a Fieldwork Waiver (aka PIW), a licensed inspector must warrant that the property has not sustained any damage as a result of the disaster. If the inspector indicates that property has been damaged as a result of the disaster, a full 1004 must be obtained and all requirements as indicated in the Conforming Underwriting Guidelines must be followed.

Transferred Appraisals

- PCM will accept appraisals prepared by an appraiser for a different lender, subject to the following requirements:
    - Appraisal Eligibility
        - The appraisal must meet all PCM Appraisal standards. If it does not, the PCM Underwriter may condition for a separate appraisal to be ordered through PCM's Appraisal Department.
    - Appraiser Eligibility
        - A satisfactory LDP/GSA check must be performed/conditioned for.
    - Appraisal Condition Requests
        - The initial lender must be contacted for any appraisal updates/conditions requests.
    - Certificate of Appraiser Independence
        - The lender must provide PCM a certification that states that the appraisal was obtained in a manner consistent with Appraiser Independence Requirements.
    - Submission Summary Report (SSR):
        - All transferred appraisals must include FNMA and FHLMC SSRs.

ASSETS:

Business Funds

- The use of business funds are allowed as a source for down payments, closing costs and reserves per the following guidelines:
    - Verification of the ability of funds:
        - Sole proprietor: Verification of 100% ownership of the business.
        - Corporation: If the borrower is not a 100% stockholder, verification of the ability to withdraw funds to the extent of the percentage of ownership is required and approval of the stockholders with a corporate resolution.
        - Partnerships: Borrower must be a general partner. Verification of the ability to withdraw funds to the extent of the percentage of ownership and approval of the other partners is required.
    - When business funds are used to meet reserve requirements for Corporations and Partnerships:
        - 6 months bank statements must be obtained to determine if the average balance is sufficient for reserve amount and will not adversely affect the business.
    - A cash flow analysis on the business is required. The cash flow analysis must be performed on FNMA Form 1084 by a PCM Underwriter to confirm that the use of business funds needed for the transaction will not have a negative impact on the business. To assess the impact on the business, if business tax returns are not sufficient the underwriter may request additional information such as several months bank statements or balance sheet.

Depository Accounts

- Large Deposits (DU Loans):
  - Any time a single deposit exceeds 50% of the borrower's total monthly qualifying income, the following requirements apply:
    - If funds from a large deposit are needed to complete the transaction (down payment, closing costs, or financial reserves), documentation must show that the funds are from an acceptable source. Occasionally, a borrower may not have all of the documentation required to confirm the source of a deposit. In those instances, the Underwriter must use reasonable judgment based on the available documentation as well as the borrower's DTI ratio and overall income and credit profile.
    - Verified funds must be reduced by the amount (or portion) of the undocumented large deposit (as defined above), and the Underwriter must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves. When the lender uses a reduced asset amount, net of the unsourced amount of a large deposit, that reduced amount must be used for underwriting purposes (whether the mortgage loan is underwritten manually or through DU).
      - When a deposit has both sourced and unsourced portions, only the unsourced portion must be used to calculate whether or not it must be considered a large deposit.
    - If the source of a large deposit is readily identifiable on the account statement(s) (such as a direct deposit from an employer, IRS or state income tax refund or a transfer of funds between verified accounts) and the source of the deposit is printed on the statement, the Underwriter does not need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but the Underwriter still has questions as to whether the funds may have been borrowed, additional documentation must be obtained.
- Accounts opened within 90 days of application date and account balances that are considerably greater than the average balance must be investigated.
- Refer to the FNMA Seller's Guide for all other depository account guidance

Gift Funds

- Gift Fund Eligibility:
  - A borrower of a mortgage loan secured by a principal residence or second home may use funds received as a personal gift from an acceptable donor. Gift funds may fund all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements.
  - Gifts are not allowed on an investment property.
  - A gift can be provided by:
    - A relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship

      OR
    - A fiancé, fiancée, or domestic partner
  - If the borrower receives a gift from a relative or domestic partner who has lived with the borrower for the last 12 months, or from a fiancé or fiancée, the gift is considered the borrower's own funds and may be used to satisfy the minimum borrower contribution requirement as long as both individuals will use the home being purchased as their principal residence.
  - The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.
  - Minimum Borrower Contribution Requirements:

LTV, CLTV, or HCLTV	Occupancy/Property	Minimum Borrower Contribution Requirement from Borrower's Own Funds
80% or less	1-4-unit Primary Second home	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
Greater than 80%	1-unit Primary	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.
	2-4-unit Primary Second home	The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs and reserves.

Retirement Accounts:

- Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401k accounts) are acceptable sources of funds for down payment, closing costs and reserves.
- If the retirement assets are in the form of stocks, bonds or mutual funds, in order to be considered for reserves the following calculations must be used to determine the value:
  - If the borrower is NOT at retirement age of 59½:
    - The account must be discounted by 30% to account for market volatility and an additional withdrawal penalty of 10% (unless otherwise confirmed) for a total discount of 40%.
  - If the borrower IS at retirement age of 59½:
    - The account must be discounted by 30% to account for market volatility
- Stock options and non-vested restricted stock are not eligible for use as reserves
- In order to be considered as effective reserves, retirement accounts must be vested and allow withdrawals regardless of current employment status. Terms of withdrawal must be provided.

Unacceptable Sources of Funds:

- Commission from sale of subject property

AUS:

Desktop Underwriter

- A Desktop Underwriter (DU) Automated Underwriting System "Approve/Eligible" response is required on all loan transactions.
- The first AUS submission date can be no more than one year prior to the Note Date.

Refer to the Underwriting section of the guidelines for Manual Underwriting requirements.

BORROWERS:

Maximum Number of Borrowers

- Maximum four borrowers on a transaction

CONVERSION OF PRIMARY RESIDENCE:

If the property has already been vacated and a minimum of 6 months of rental income has been verified, standard rental income guidelines may be followed.

CREDIT:

Bankruptcy

- Chapter 7 or 11 Bankruptcy

	Waiting Period
Financial Mismanagement	4 years
Extenuating Circumstances	2 years

- Chapter 13 Bankruptcy

	Waiting Period
Financial Mismanagement	2 years from discharge date
	4 years from dismissal date
Extenuating Circumstances	2 years from discharge date
	2 years from dismissal date

- Multiple Bankruptcy Filings

	Waiting Period
Financial Mismanagement	5 years if more than one filing within the past 7 years
Extenuating Circumstances	3 years from the most recent discharge or dismissal date

- Waiting period measurement:
  - Seasoning is measured by the credit report date.
  - If DU determines that the waiting period has not been met based on the credit report used on the initial submission to DU, an updated credit report may be obtained and the loan case file may be resubmitted to DU after the required time has elapsed.
- Extenuating Circumstances must be documented

Collections and Charge-offs:

- Collections and non-mortgage Charge-Offs:
  - 1-unit Primary Residence:
    - Borrowers are not required to pay off outstanding collections or charge offs, regardless of the amount.
  - 2-4 unit Primary Residence and Second Home:
    - Collections and charge-offs totaling more than $5,000 must be paid in full prior to or at closing.
  - Investment Properties:
    - Individual accounts greater than or equal to $250 and accounts totaling more than $1,000 must be paid in full prior to or at closing.
- DU loans - Charge-Offs on mortgage accounts:

	Waiting Period
Financial Mismanagement	4 years
Extenuating Circumstances	2 years

- Waiting period measurement:
  - Mortgage charge-offs:
    - Seasoning is measured by the funding date of the new loan.
  - All other non-mortgage charge-offs and collections:
    - Seasoning is measured by the credit report date.
    - If DU determines that the waiting period has not been met based on the credit report used on the initial submission to DU, an updated credit report may be obtained and the loan case file may be resubmitted to DU after the required time has
- Borrowers will be required to pay off outstanding collections or charge-offs—regardless of the amount—if the collection will threaten PCM's first-lien position.

Credit Score

- Refer to FNMA Guidelines for eligibility

Disputed Tradelines

- **Disputed Tradeline IS reflected in DU findings:**
  - A new credit report must be obtained with the tradeline no longer reported as disputed and resubmit the casefile to AUS. This requirement applies whether the tradeline belongs to the borrower or not.
- **Disputed Tradeline IS NOT reflected in DU findings:**
  - If a DU Approve/Eligible is obtained and the disputed tradeline **is not noted in the AUS findings**, obtain a Credit Supplement to verify that the terms and payment history are accurate. A new credit report without the tradeline is not required in this case.
    - If the payment or balances differ from the original credit report, update and rerun AUS to ensure an accurate credit profile in DU.

Extenuating Circumstances:

- To be eligible for the reduced seasoning time due to extenuating circumstances borrower must have re-established credit for 2 years and provide letter of explanation and documentation evidencing the incident was not due to financial mismanagement. Following are some examples of acceptable situations:
  - Death of primary wage earner
  - Long term illness or disability not covered by insurance
  - Prolonged loss of employment for reasons beyond borrower's control (such as site closings or mergers)

Modified/Restructured Loans

- A Restructured or Modified loan is a mortgage loan in which the terms of the original transaction have been changed, resulting in an absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in any of the following:
  - Forgiveness of a portion of principal and/or interest on either the first or second mortgage.
  - Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness.
  - Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage.
  - Conversion of any portion of the original mortgage debt from secured to unsecured.
- If paying off any Restructured or Modified lien on the subject property, the loan is only eligible if the following requirements are met:
  - The borrower has made a minimum of 24 consecutive months of timely mortgage payments on the restructured loan before closing on the refinance mortgage loan. The 24 month seasoning requirement is based on the terms of the loan after the loan was restructured.
- Waiting period measurement:
  - Seasoning is measured by the funding date of the new loan.
- If subordinating a Restructured or Modified lien on the subject property, the loan is not eligible.
- If any borrower on the transaction has had a Restructured or Modified loan on a property other than the subject property, the loan is eligible.

Foreclosures

- If a mortgage debt has been discharged through bankruptcy, even if a foreclosure action is subsequently completed to reclaim the property in satisfaction of the debt, the borrower is held to the bankruptcy waiting periods and not the foreclosure waiting period. Underwriters must obtain documentation to verify that the mortgage debt in question was in fact discharged as part of the bankruptcy.
- The credit report must reflect a zero balance on mortgage liens included in the foreclosure OR documentation must be obtained to support no further obligation

	Waiting Period [1]
Financial Mismanagement	7 years
Extenuating Circumstances	3 years
	Additional requirements after 3 years up to 7 years: - 90% maximum LTV ratios - Purchase, principal residence - Limited cash-out refinance, all occupancy types

1) References to LTV ratios include LTV, CLTV and HCLTV ratios.

- Waiting period measurement:
  - Seasoning is measured by the credit report date.
  - If DU determines that the waiting period has not been met based on the credit report used on the initial submission to DU, an updated credit report may be obtained and the loan case file may be resubmitted to DU after the required time has elapsed.
- Extenuating Circumstances must be documented
- DU Foreclosure Messages:
  - Inaccurate Foreclosure Information: The user may instruct DU to disregard inaccurate foreclosure information on the credit report by entering “Confirmed CR FC Incorrect" in the Explanation field for question c. in the Declarations section of the online loan application and resubmitting the loan casefile to DU. When DU sees this indication, the foreclosure information on the credit report tradeline will not be used in the eligibility assessment. DU will then issue a message stating that the foreclosure information included on the account was not used in the eligibility assessment because DU was instructed by the lender to underwrite the loan casefile without the reported foreclosure information. The user must then either document that the foreclosure was completed 7 or more years from the disbursement date of the new loan or that the account was not subject to a foreclosure and the loan complies with all other applicable FNMA requirements.

  - Foreclosures due to Extenuating Circumstances: The user may instruct DU to disregard foreclosure information on the credit report when it has been confirmed that the mortgage loan meets the applicable timeframes and eligibility requirements for a foreclosure due to extenuating circumstances. This can be done by entering “Confirmed CR FC EC" in the Explanation field for question c. in the Declarations section of the online loan application and resubmitting the loan casefile to DU. When DU sees this indication, the foreclosure information on the credit report tradeline will not be used in the eligibility assessment. DU will issue a message stating that the foreclosure information included on the account was not used in the eligibility assessment because DU was instructed by the lender to underwrite the loan casefile without the reported foreclosure information. The lender must document that the foreclosure was due to extenuating circumstances, that the foreclosure was completed 3 or more years from the disbursement date of the new loan, and that the loan complies with all other FNMA requirements specific to a foreclosure due to extenuating circumstances.

Preforeclosures, Short Sale or Deed-in-Lieu of Foreclosure:

- AUS cannot identify a pre-foreclosure or short sale. The PCM Underwriter is responsible for reviewing the credit report and manually applying the appropriate LTV and waiting period.
- Waiting periods:

	Waiting Period	Credit Score
Financial Mismanagement	4 years	620
Extenuating Circumstances	2 years	620

  - Fannie Mae definition of Application Date: The date on which receipt of the borrower’s financial information first triggers the federal Truth in Lending disclosure requirements to the borrower in connection with the mortgage loan.
- Waiting period measurement:
  - Seasoning is measured by the funding date of the new loan.
  - Documentation of the title transfer date, such as the final HUD, can be used to determine the beginning of the waiting period.
- Extenuating circumstances must be documented
- The credit report must reflect a zero balance on mortgage liens included in the foreclosure OR documentation must be obtained to support no further obligation.

INCOME & EMPLOYMENT DOCUMENTATION:

Farm Income

- Farm income is not the primary source of the borrower’s income
- Any Schedule F income from the subject property may not be used to qualify the borrower
- Any Schedule F loss must be applied

Rental Income

- Rental Income from Accessory Units:
  - Rental income from an accessory unit on an owner-occupied property (including an in-law unit, granny unit or Ohana) is not acceptable.
- Partial or No Rental History on Tax Returns (subject property or other rental properties owned by the borrower):
  - If the property was acquired during or subsequent to the most recent tax filing year:
    - The purchase date must be confirmed using the HUD-1 Settlement Statement or other documentation.
    - If acquired during the year, Schedule E (Fair Rental Days) must confirm a partial year rental income and expenses (depending on when the unit was in service as a rental).
    - If acquired after the last tax filing year, Schedule E will not reflect rental income or expenses for the property and fully executed lease agreements must be used to determine the gross rental income to be used in the net rental income (or loss) calculation.
    - The rental income must be documented by obtaining an appraiser's opinion of market rent, and if applicable, copies of the current lease agreements. The lesser of the appraiser's opinion of market rent or the lease agreements must be used. The gross rental income from the property will be equal to the lesser of the market rent established by the appraiser or the current rent based on the existing lease agreement(s). Net rental income will equal 75 percent of the gross rent; the remaining 25 percent of the gross rent is absorbed by vacancy losses and ongoing maintenance expenses. When the borrower has a history of receiving rental income for the subject property, the rental cash flow should be analyzed.
  - If the rental property was out of service for an extended period:
    - Schedule E will reflect the costs for renovation or rehabilitation as repair expenses. Additional documentation must be required to ensure that the expenses support a significant renovation that supports the amount of time that the rental property was out of service.
    - Schedule E (Fair Rental Days) will confirm the number of days that the rental unit was in service, which must support the unit being out of service for all or a portion of the year.
    - The rental income must be averaged over the number of months that the borrower used the property as a rental unit.
- Rental income from 2-4 unit Primary Residence:
  - The "FNMA Rental Income Worksheet - 2-4 unit Primary Residence" must be completed by the Underwriter and retained in the loan file.
  - The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property.)
  - The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the DTI.
- Rental income from Investment Property:
  - The "FNMA Rental Income Worksheet - Investment Property" must be completed by the Underwriter and retained in the loan file.
  - If the monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income
  - If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations
  - The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation.
  - The full monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation.
  - If rental income is being used to qualify the borrower and the property is an investment property, evidence of a 2-year property management history ***is only required per AUS findings.***

- Rental income from Partnership or S Corporation:
  - The "FNMA Rental Income Worksheet - Business" must be completed by the Underwriter and retained in the loan file.
  - If the borrower is personally obligated on the mortgage debt (as evidenced by inclusion of the related mortgage(s) on the credit report) and gross rents and related expenses are reported through a partnership or S corporation, the business tax returns may be used to offset the property's PITIA. The steps described below should be followed:
    - Obtain the borrower's business tax returns, including IRS Form 8825 for the most recent year.
    - Evaluate each property listed on Form 8825, as shown below:
      - From total gross rents, subtract total expenses. Then add back insurance, mortgage interest, taxes, homeowners' association dues (if applicable), depreciation, and non-recurring property expenses (if documented accordingly).
      - Divide by the number of months the property was in service.
      - Subtract the entire PITIA (proposed for subject property or actual for real estate owned) to determine the monthly property cash flow
    - If the resulting net cash flow is <u>positive</u>, the lender may exclude the property PITIA from the borrower's monthly obligations when calculating the debt-to-income ratio.
    - If the resulting net cash flow is <u>negative</u> (that is, the rental income derived from the investment property is not sufficient to fully offset the property PITIA), the calculated negative amount must be included in the borrower's monthly obligations when calculating the DTI.
  - In order to include a positive net rental income received through a partnership or an S corporation in the borrower's monthly qualifying income, the lender must evaluate it according to Fannie Mae's guidelines for income received from a partnership or an S corporation.
- Documenting Rental Income From Property Other Than the Subject Property:
  - When the borrower owns property – other than the subject property – that is rented, the lender must document the monthly gross (and net) rental income with the borrower's most recent signed federal income tax return that includes Schedule E. Copies of the current lease agreement(s) may be substituted if the borrower can document a qualifying exception.

Self-Employed Income

- Business loss from a non-borrowing spouse:
  - Non-borrowing spouse 2106 expenses do not need to be subtracted from the borrower's income as long as the non-borrowing spouse's 1040 wages offset the expenses.
  - All other non-borrowing spouse losses (including Schedule E losses) indicated on personal tax returns must be subtracted from the borrower's income.

Unacceptable Income

- Illegal Income: Income that is not considered legal in all 50 states is <u>not</u> an acceptable source of income. For example, although marijuana is legal in some states, it is not legal in all states and therefore not an acceptable income source.

LOAN TERMS:

30 year Fixed Rate

- Conforming Loan Amounts: CF30PP
- High Balance Loan Amounts: CF30HBPP

20 year Fixed Rate

- Conforming Loan Amounts: CF20PP

15 year Fixed Rate

- Conforming Loan Amounts: CF15PP
- High Balance Loan Amounts: CF15HBPP

5/1 ARM

- Conforming Loan Amounts: CA5/1PP
- High Balance Loan Amounts: CA5/1PPHB
- Caps/Margin/Index/Floor:

CAPS	MARGIN	INDEX	FLOOR
2/2/5	2.25%	1-year LIBOR (as published on the rate sheet)	margin

7/1 ARM

- Conforming Loan Amounts: CA7/1PP
- High Balance Loan Amounts: CA7/1PPHB
- Caps/Margin/Index/Floor:

CAPS	MARGIN	INDEX	FLOOR
5/2/5	2.25%	1-year LIBOR (as published on the rate sheet)	margin

10/1 ARM

- Conforming Loan Amounts: CA10/1PP
- High Balance Loan Amounts: CA10/1PPHB
- Caps/Margin/Index/Floor:

CAPS	MARGIN	INDEX	FLOOR
5/2/5	2.25%	1-year LIBOR (as published on the rate sheet)	margin

LTV / CLTV / HCLTV:

LTV/CLTV/HCLTV 95.01-97%:

- Purchase:
  - 1-unit Primary Residence only.
  - Fixed Rate only.
  - CLTV:
    - If the subordinate lien is not a Community Seconds loan, maximum CLTV is 97%.
    - If the subordinate lien is a Community Seconds loan, maximum CLTV is 105%.
  - HCLTV: Maximum HCLTV is 97%.
  - At least one borrower must be a first-time homebuyer, as indicated on the 1003 when at least one borrower responds "No" to Declaration M.
  - DU Approve/Eligible required.
  - Mortgage Insurance: 35%.
- Rate/Term Refinance:
  - Requirements for existing loan being refinanced:
    - The existing loan being refinanced must be owned (or securitized) by Fannie Mae.
      - Loan Lookup Tool: https://knowyouroptions.com/loanlookup
    - Refer to Fannie Mae's DU Version 9.2 Release Notes for details about how to indicate that Fannie Mae is the owner of the existing loan before submitting the loan to DU.
  - 1-unit Primary Residence only.
  - Fixed Rate only.
  - CLTV:
    - If the subordinate lien is not a Community Seconds loan, maximum CLTV is 97%.
    - If the subordinate lien is a Community Seconds loan, maximum CLTV is 105%.
  - HCLTV: Maximum HCLTV is 97%.
  - DU Approve/Eligible required.
  - Mortgage Insurance: 35%.

MORTGAGE INSURANCE:

Standard loan amounts:

- Financed, Monthly, Single Premium BPMI, Single Premium LPMI and Split Mortgage Insurance available per FNMA guidelines
  - Financed MI:
    - 1-unit Primary Residence or Second Homes only.
    - Purchase and Rate/Term Refinance transactions only.
    - Maximum LTV calculation is inclusive of Financed MI amount
    - Maximum loan amount calculation is inclusive of Financed MI amount

High Balance loan amounts:

- Financed, Monthly, Single Premium BPMI, Single Premium LPMI and Split Mortgage Insurance available per FNMA guidelines
  - Financed MI:
    - Maximum LTV calculation is inclusive of Financed MI amount
    - Maximum loan amount calculation is inclusive of Financed MI amount
    - Loans with Financed MI may not exceed 90% total LTV.

NUMBER OF LOANS/PROPERTIES:

Maximum PCM Exposure

- PCM will only make 4 loans (or $1.2mil, whichever is less) to any one borrower in any 12-month period, regardless of occupancy.
- PCM limits exposure in any given condo project to 5 units or 10% of the project, whichever is greater.

Number of Financed Properties

- **Primary Residence:**
  - For a Primary Residence there is no limit on the number of properties owned and/or financed by the borrower.
  - PCM will only make 1 primary residence loan to a borrower within a 12 month period.
- **Second Homes and Investment Properties:**
  - Unlimited number of properties may be owned, but only 10 (including their Primary Residence) may be financed
  - The financed property limit is cumulative for all borrowers.
  - The type of property ownership determines whether the property is subject to the financing limitations. Refer to the table below.

Type of Property Ownership	Property Subject to Limitations?
Joint ownership of residential real estate. (This is considered to be the same as total ownership of an individual property.) Note: Other properties owned or financed jointly by the borrower and co-borrower are only counted once.	Yes
Ownership of commercial real estate.	No
Ownership of a multifamily property consisting of more than four dwelling units.	No
Joint or total ownership of a property that is held in the name of a corporation or S-corporation, even if the borrower is the owner of the corporation and the financing is in the name of the corporation or S-corporation.	No
Joint or total ownership of a property that is held in the name of a corporation or S-corporation, even if the borrower is the owner of the corporation; however, *the financing is in the name of the borrower.*	Yes
Ownership in a timeshare.	No
Obligation on a mortgage debt for a residential property (regardless of whether or not the borrower is an owner of the property).	Yes
Ownership of a vacant (residential) lot.	No
Joint or total ownership of a property that is held in the name of a limited liability company (LLC) or partnership.	Yes
Ownership of a manufactured home and the land on which it is situated that is titled as real property.	Yes
Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home).	No

- **5-10 Financed Properties - LTV/CLTV/Credit Score Requirements:**

SECOND HOME						
Purchase & Rate/Term Refinance						
# FINANCED PROPERTIES	**LOAN AMT**	**PROPERTY**	**LOAN TYPE**	**LTV/CLTV/HCLTV**	**FICO**	**UW**
5-10 financed properties[2]	Conforming	1 unit	Fixed Rate	75% / 75% / 75%	720	DU only. For manual UW, refer to the matrix in the Manual UW section of the guidelines.
5-10 financed properties[2]	Conforming	1 unit	ARM	65% / 65% / 65%	720	
5-10 financed properties[2]	High Bal	1 unit	Fixed & ARM	65% / 65% / 65%	720	
Delayed Financing Cash-Out [2]						
5-10 financed properties[2]	Conforming	1 unit	Fixed Rate	70% / 70% / 70%	720	DU only. For manual UW, refer to the matrix in the Manual UW section of the guidelines.
5-10 financed properties[2]	Conforming	1 unit	ARM	60% / 60% / 60%	720	
INVESTMENT PROPERTY						
Purchase & Rate/Term Refinance						
# FINANCED PROPERTIES	**LOAN AMT**	**PROPERTY**	**LOAN TYPE**	**LTV/CLTV/HCLTV**	**FICO**	**UW**
5-10 financed properties[2]	Conforming	1 unit	Fixed Rate	75% / 75% / 75%	720	DU only. For manual UW, refer to the matrix in the Manual UW section of the guidelines.
5-10 financed properties[2]	Conforming	1 unit	ARM	65% / 65% / 65%	720	
5-10 financed properties[2]	High Bal	1 unit	Fixed Rate & ARM	65% / 65% / 65%	720	
5-10 financed properties[2]	Conforming	2-4 units	Fixed Rate	70% / 70% / 70%	720	
5-10 financed properties[2]	Conforming	2-4 units	ARM	60% / 60% / 60%	720	
5-10 financed properties[2]	High Bal	2-4 units	Fixed Rate	65% / 65% / 65%	720	
5-10 financed properties[2]	High Bal	2-4 units	ARM	60% / 60% / 60%	720	
Delayed Financing Cash-Out [2]						
5-10 financed properties[2]	Conforming	1 unit	Fixed Rate	70% / 70% / 70%	720	DU only. For manual UW, refer to the matrix in the Manual UW section of the guidelines.
5-10 financed properties[2]	Conforming	1 unit	ARM	60% / 60% / 60%	720	
5-10 financed properties[2]	Conforming	2-4 units	Fixed Rate	65% / 65% / 65%	720	
5-10 financed properties[2]	Conforming	2-4 units	ARM	60% / 60% / 60%	720	

1) Delayed financing guidelines must be followed

2) Second homes and Investment properties with 5-10 financed properties have additional eligibility requirements. Refer to the Number of Loans/Properties section of the guidelines.

- **5-10 Financed Properties - Loan Eligibility Requirements:**
  - Loan Eligibility Requirements - Standard and High Balance loan amounts
    - The following loan requirements must be met for investor and second home borrowers with five to ten financed properties (regardless of AUS findings).

Underwriting Characteristic	Guideline
Bankruptcy or Foreclosure	The borrower cannot have any history of bankruptcy or foreclosure within the past seven years.
Mortgage Delinquencies	The borrower cannot have any delinquencies (30-day or greater) within the past 12 months on any mortgage loans.
Rental Income	• Rental income on the subject investment property must be fully documented in accordance with Conforming & Conforming High Balance Guidelines.
	• Rental income from other properties owned by the borrower must be supported by two years' federal income tax returns or as long as the property has been owned if less than two years.
	• DU messages permitting reduced rental income documentation must be disregarded and full documentation must be obtained.
Minimum Reserve Requirements	The borrower must have reserves for the subject property and for other properties as follows: • Follow DU requirements for subject property • 6 months reserves on each additional financed Second Home or Investment Property
Special Feature Code	SFC 150 must be reflected in PCM's system.

PROPERTY ELIGIBILITY:

Accessory Dwelling Units:

- An accessory dwelling unit is typically an additional living area independent of the primary dwelling unit, and includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units. Whether a property is a one-unit property with an accessory unit or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented.
- The appraiser is required to provide a description of the accessory unit and analyze any effect it has on the value or marketability of the subject property.
- If the property contains an accessory unit, the property is eligible under the following conditions:
    - The property is one-unit.
    - The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use.
    - The borrower qualifies for the mortgage without considering any rental income from the accessory unit.
- For additions without permits, refer to the Unpermitted Additions & Conversions section.

Condominium Projects

- PCM limits exposure in any given condo project to 5 units or 10% of the project, whichever is greater.

Deed Restrictions

- A deed restriction is a rule affecting the future transferability of real property.
- Properties with **age restrictions are acceptable** (for age-restricted communities). Owner-occupied transactions only.
- Properties with deed **restrictions for charity contributions are unacceptable**.

Hobby Farms:

- Properties with hobby farms are acceptable per the following requirements:
    - The property's primary function is residential
    - Comps must reflect similar acreage
    - The property's farm use is not self-sustaining
    - Appraiser must comment on/describe the nature of the agricultural use on the property
- Refer to the Income and Employment section for Schedule F guidance

Manufactured and Mobile Housing

- If a mobile home (with or without a foundation) or manufactured home exists on the property (in addition to the subject property), it must be removed.
- Manufactured Homes (as the subject property) are allowed on Retail transactions only. Refer to the PCM Manufactured Housing Operational Workflow document for details.

Flipping and Rapid Appreciation Policy

- On property flips and properties with rapid appreciation, PCM requires additional substantiation of the appraisal value through a field review performed by an approved review appraisal company.

Solar Panels

- If the property owner is the owner of the solar panels, standard eligibility requirements apply (for example, appraisal, insurance, and title).
- If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar arrangement, the following requirements apply.
    - The solar panels may not be included in the appraised value of the property.
    - The property must maintain access to traditional electric utilities. For example, properties with leased solar panels must have traditional electrical utilities in addition to the electricity provided by the solar energy, to ensure consistent access to electricity in the event the solar panels become non-functioning or are removed.
    - The lease payment must be included in the debt-to-income (DTI) ratio calculation. This requirement does not apply in the case of a power purchase agreement if the payment goes entirely to pay for the energy. Any portion of the payment that does not go toward the purchase of the energy must be included in the DTI ratio.
    - The owner of the solar panels must have a general liability insurance policy that covers damage to the mortgaged property caused by faulty installation, malfunction, or other manufacturing defects, whether or not covered by the warranty.
    - The owner of the solar panels must not be named loss payee (or named insured) on the property owner's property insurance policy.
    - The borrower's homeowner insurance policy must not exclude coverage for any tort liability the borrower may have under the terms of the contract with the owner of the solar panels (for example, direct damage) and may not exclude coverage for losses to the insured premises by reason of the presence of the solar equipment.

- If applicable, the lease or a power purchase agreement must indicate ALL of the following:
  - The solar panels are removable without causing damage to the mortgaged property
  - Damage that does occur as a result of the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original condition (for example, sound and watertight conditions that are architecturally consistent with the home)
  - In the event of foreclosure, either:
    - The lender may terminate the lease/agreement and require the third-party owner to remove the equipment, OR
    - The lender has the right to become the beneficiary of the borrower's lease/agreement with the third party without charge, OR
    - The lender has the right, but not the obligation, to enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.
  - Any lease/agreement in which the lender is a party in connection with a foreclosure (whether as beneficiary or direct party), must also be assignable to a subsequent purchaser of the realty from the lender. In addition, the lender must also have the right to terminate the lease/agreement and require removal of the equipment (for example, if the third party places restrictions on the assignment to a purchaser).
- Title exceptions with respect to the solar panels (for example, easements, notice of contract) may be present on the title provided the interest is not superior to PCM's first lien position.
- The title cannot reflect any liens related to the ownership or maintenance of the solar panels that will result in a lien superior to PCM's first lien position.

Unacceptable Properties

- Refer to the PCM Conforming Underwriting Guidelines for Unacceptable Property types.

Unpermitted Additions & Conversions

- An "unpermitted" addition or conversion occurs when there is a failure to obtain a local/municipal entity building permit. The appraiser must address any unpermitted additions to the subject property. Unpermitted additions and conversions include, but are not limited to: An accessory unit, garage conversion or any other addition. These additions and conversions are acceptable per the following requirements:
  - **Illegal additional unit or accessory apartment (mother-in-law, granny unit)**
    - The illegal/unpermitted use conforms to the subject neighborhood and to the market
    - The property is appraised based upon its current use
    - The borrower qualifies for the mortgage without considering any rental income from the illegal unit
    - The appraisal must report that the improvements represent an illegal use
    - The appraisal report must demonstrate that the improvements are typical for the market through an analysis of **at least three comparable properties** that have the same illegal use
    - The existence of the illegal additional unit will not jeopardize any future hazard insurance claim that might need to be filed for the property
    - 1-2 unit properties only
    - The appraiser must satisfactorily address/provide:
      - The nature of the addition
      - The conformity to the subject property
      - Any affect on value, marketability and zoning
      - All work has been completed in a workmanlike manner
      - All work completed is typical for the area
      - Confirmation that the use and addition are legal under zoning
      - Photos of the addition or conversion to confirm it is of good quality
      - Reasonable and well-supported value
      - A minimum of three comparable sales with the same illegal use
      - There are no aspects of the addition/conversion that pose a health and safety issue

- **Unpermitted Additions and Conversions (attached to the subject property)**
  - General Requirements:
    - Any applicable hazard insurance covers the addition/converted area
    - Properties with Unpermitted Additions and Conversions that meet all Appraisal Requirements except Comparable Sale requirements:
      - The property may still be acceptable at the PCM Underwriter's discretion, the value of the Unpermitted living space must be valued based on its original use.
    - Properties with Unpermitted Additions and Conversions that meet all Appraisal Requirements:
      - If the appraiser can obtain comparables that are the same as the Unpermitted living space and all other Appraisal Requirements listed below are met, no adjustment to the property value is necessary (and the value of the Unpermitted living space with its current use may be used)
  - The appraiser must satisfactorily address/provide:
    - The nature of the addition
    - The conformity to the subject property
    - Any affect on value, marketability and zoning
    - All work has been completed in a workmanlike manner
    - All work completed is typical for the area
    - Confirmation that the use and addition are legal under zoning
    - Photos of the addition or conversion to confirm it is of good quality
    - Reasonable and well-supported value
    - A minimum of one comparable sale must have similar unpermitted use
    - There are no aspects of the addition/conversion that pose a health and/or safety issue

REFINANCE TRANSACTIONS:

Delayed Financing:

- A Cash-Out Refinance transaction is allowed within 6 months of a purchase transaction when no financing was obtained for the purchase transaction under the following requirements:
  - The original purchase transaction was an arms-length transaction.
  - The new loan amount is not more than the actual documented amount of the borrower's initial investment in purchasing the property, plus the financing of closing costs, prepaid fees and points (subject to the maximum LTV/CLTV ratios for the
  - The borrower(s) on the new loan must be the same individual(s) who made the initial investment on the property purchase.
  - The source of funds for the purchase transaction must be documented. Gift funds used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.
  - The original purchase transaction is documented by the HUD-1, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed or similar alternative confirming the amount paid by the grantee to trustee may be substituted for a HUD-1 if a HUD-1 was not provided to the purchaser at the time of sale). The preliminary title search or report must also confirm no liens on the subject property.
  - If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property, the HUD-1 for the refinance transaction must reflect that all cash-out proceeds be used to pay down, if applicable, the loan (unsecured or secured by an asset other than the subject property) used to purchase the property. Any payments on the balance remaining from the original loan must be included in the DTI ratio calculations for the refinance transaction.
  - All other cash-out refinance eligibility requirements must be met and cash-out pricing must be applied.

Refinances to Buy Out An Owner’s Interest

- A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out refinance if the secured property was jointly owned for at least 12 months preceding the disbursement date of the new mortgage loan.
- All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction. Except in the case of recent inheritance of the subject property, documentation must be provided to indicate that the security property was jointly owned by all parties for at least 12 months preceding the disbursement date of the new mortgage loan.
- Borrowers who acquire sole ownership of the property may not receive any of the proceeds from the refinancing. The party buying out the other party’s interest must be able to qualify for the mortgage pursuant to Fannie Mae’s underwriting guidelines.

Tax payoff included in the loan amount

- If the transaction is a refinance and the borrower is requesting that delinquent taxes (defined as past due by more than 60 days, regardless of tax payment options determined by the property state) be included in the loan amount, the transaction must be considered a cash-out refinance. Additionally, an escrow account for future taxes and insurance must be established.

UNDERWRITING

Manual Underwriting

- Assets:
  - If the income of a non-occupant co-borrower is used for qualifying purposes, the occupying borrower must make the first 5% of the down payment from their own funds unless:
    - The LTV or CLTV ratio is less than or equal to 80%

      OR
    - The occupying borrower is purchasing a 1-unit principal residence and meets the requirements to use gifts, donated grant funds or funds received from an employer to pay for some or all of the borrower's minimum contribution.
- Comprehensive Risk Assessment:
  - The Comprehensive Risk Assessment approach must be followed on manually underwritten loans. Under this approach, Underwriters evaluate certain key risk elements to assess the overall level of delinquency risk as follows:
    - Evaluate the delinquency risk of each loan
    - Review the credit report and all other credit information to determine that the credit report meets Fannie Mae's requirements, that the data evaluated was accurate, and that the borrower has the capacity to repay the mortgage loan.
    - Assess the adequacy of the property as collateral for the mortgage requested
    - Determine whether or not the loan meets Fannie Mae's eligibility requirements as detailed in the PCM Pinnacle Plus guidelines and FNMA Selling Guide.
    - Fully document the assessment and the documentation on which the assessment was based.
  - Underwriters must evaluate the overall level of serious delinquency risk that is present in each mortgage application by taking into consideration any layering of risk factors, the significance of risk factors, and the overall risks present in the mortgage application. The Eligibility Matrix provides a solid foundation for assessing the risk of a manually underwritten loan and identifies the risk elements to evaluate for each transaction type.
  - The Underwriter's determination of the mortgage delinquency risk, the assessment of the adequacy of the property as security for the mortgage, the determination of whether the mortgage satisfies Fannie Mae's mortgage eligibility criteria, and the acceptability of the documentation in the mortgage file should all enter into the decision on whether to approve the loan file.
  - The Underwriter must fully document the results of its comprehensive risk assessment and final underwriting decision, and ensure that the information used to reach its comprehensive risk assessment is valid, accurate, and substantiated.
- Credit:
  - A manual underwrite does not override a valid AUS credit finding.
  - A satisfactory 12-month housing history (mortgage or rental) with no lates must be documented.
  - Non-traditional credit reports are unacceptable.
  - If there are multiple disputed tradelines or a dispute on a mortgage tradeline, correspondence must be obtained from the borrower indicating the reason for dispute. The aspect of the tradeline (such as balance, payment, history, etc.) that is being disputed is of particular concern when considering the impact of the borrower's overall credit profile.
- Data input:
  - The PCM Underwriter must select "Manual" for Underwriting Method in PCM's system. AUS information may not appear in PCM's system.
  - SFC 343 must be reflected in PCM's system.
- Documentation:
  - No documentation waivers, full documentation must be provided.
  - AUS findings must be retained in the loan file.
- Overlays to Fannie Mae Guidelines:
  - Maximum 80% LTV/CLTV/HCLTV on cash-out, high balance and investment property transactions
  - Loans with LTVs greater than 80% require **non-delegated Mortgage Insurance**
  - No manufactured homes
  - Second Signature required
  - A satisfactory 12-month housing history (mortgage or rental) with no lates must be documented
  - Non-traditional credit reports are unacceptable
  - Layered Risk: If 3 of the following risk factors are present, management review and approval is required. If 4 of the following risk factors are present, the loan is not eligible.
    - Unstable work history
    - Payment shock that exceeds 150%
    - Less than 3 tradelines that have been active within the past 3 years for a minimum of 24 month duration
    - Any late payments in the last 12 months
    - Total gift funds
- Liabilities and Qualifying Ratios:
  - For manually underwritten loans, Fannie Mae's maximum total DTI ratio is 36% of the borrower's stable monthly income. The maximum can be exceeded up to 45% if the borrower meets the credit score and reserve requirements reflected in the Eligibility Matrix.
- Loan Submission:
  - If it is known at the time of loan submission that a manual underwrite is required, indicate "manual underwriting" on the loan submission form/cover sheet.
- Mortgage Insurance:
  - Mortgage Insurance must be obtained through a **non-delegated process**. The loan must be submitted to the Mortgage Insurance Company for review and approval.

- Number of Financed Properties:
  - Borrowers with 5-10 financed properties are subject to limited LTV/CLTV/HCLTV/Credit Scores on Second Home and Investment property transactions as reflected in the matrix.
  - Second homes and Investment properties with 5-10 financed properties have additional eligibility requirements. Refer to the Number of Loans/Properties section of the guidelines.
- Occupancy:
  - If the income of a non-occupant co-borrower is used for qualifying purposes, the combined LTV ratio determines whether the non-occupant co-borrower is required to occupy the subject property as follows:
    - Combined LTV Ratio <= 90%: Non-occupant co-borrower occupancy not required.
    - Combined LTV Ratio > 90%: Non-occupant co-borrower occupancy required.
- Underwriters:
  - PCM Underwriters specifically delegated to underwrite manual agency loan files only.
  - The Delegated Underwriter's name must appear as the Underwriter on the loan Approval and in PCM's system.
- Eligibility Matrix *(includes PCM overlays to Fannie Mae's guidelines):*

PRIMARY RESIDENCE

Purchase & Rate/Term Refinance

LOAN AMOUNT	PROPERTY	MAX LTV/CLTV/HCLTV	FICO/LTV	RESERVES	FICO/LTV	RESERVES
			Maximum DTI <=36%		***Maximum DTI <=45%***	
Conforming	1-unit	Fixed: 95% ARM: 90%	Fixed: 680 if >75% Fixed: 620 if <=75% ARM: 680 if >75% ARM: 640 if <=75%	0	700 if > 75% 640 if <=75%	0
			660 if > 75%	6	Fixed: 680 if >75% Fixed: 620 if <=75% ARM: 680 if >75% ARM: 640 if <=75%	2
High Balance	1-unit	Fixed: 90% ARM: 75%	Fixed: 680 if >75% Fixed: 640 if <=75% ARM: 660	0	Fixed: 700 if >75% Fixed: 660 if <=75% ARM: 680	0
			Fixed: 660 if >75% Fixed: 620 if <=75% ARM: 640	6	Fixed: 680 if >75% Fixed: 640 if <=75% ARM: 660	2
Conforming	2-units	Fixed: 85% ARM: 75%	680 if >75% 640 if <=75%	6	700 if > 75% 660 if <=75%	6
					680 if > 75% 640 if <=75%	12
Conforming	3-4 units	Fixed: 75% ARM: 65%	660	6	680	6
					660	12
High Balance	2-4 units	Fixed: 75% ARM: 65%	720	6	740	6
					720	12

Cash-out Refinance (including Delayed Financing [1])

LOAN AMOUNT	PROPERTY	MAX LTV/CLTV/HCLTV	FICO/LTV	RESERVES	FICO/LTV	RESERVES
			Maximum DTI <=36%		***Maximum DTI <=45%***	
Conforming	1-unit	Fixed: 80% ARM: 75%	680 if > 75% 660 if <=75%	0	700 if > 75% 680 if <=75%	0
			660 if > 75% 640 if <=75%	6	680 if > 75% 660 if <=75%	2
High Balance	1-unit	Fixed: 60% ARM: 60%	720	0	740	0
					720	2
Conforming	2-4 units	Fixed: 75% ARM: 65%	680	6	700	6
					680	12

SECOND HOME

Purchase & Rate/Term Refinance

# FIN PROP	LOAN AMOUNT	PROPERTY	MAX LTV/CLTV/HCLTV	FICO/LTV	RESERVES	FICO/LTV	RESERVES
				Maximum DTI <=36%		*Maximum DTI <=45%*	
< 5	Conforming	1-unit	Fixed: 90% ARM: 80%	680 if >75% 640 if <=75%	2	700 if > 75% 660 if <=75%	2
						680 if > 75% 640 if <=75%	12
5-10 [2]	Conforming	1-unit	Fixed: 75% ARM: 65%	720	2	720	2
1-10[2]	High Balance	1-unit	Fixed: 65% ARM: 65%	720	2	740	2
						720	12
Delayed Financing Cash-Out [1]							
< 5	Conforming	1-unit	Fixed: 75% ARM: 65%	680	2	700	2
						680	12
5-10[2]	Conforming	1-unit	Fixed: 70% ARM: 60%	720	2	720	2
Cash-out Refinance							
< 5	Conforming	1-unit	Fixed: 75% ARM: 65%	680	2	700	2
						680	12

INVESTMENT PROPERTY

Purchase

# FIN PROP	LOAN AMOUNT	PROPERTY	MAX LTV/CLTV/HCLTV	FICO/LTV	RESERVES	FICO/LTV	RESERVES
				Maximum DTI <=36%		*Maximum DTI <=45%*	
< 5	Conforming	1-unit	Fixed: 80% ARM: 75%	680 if >75% 640 if <=75%	6	700 if > 75% 660 if <=75%	6
						680 if > 75% 640 if <=75%	12
		2-4 units	Fixed: 75% ARM: 65%	660	6	680	6
						660	12
5-10[2]	Conforming	1-unit	Fixed: 75% ARM: 65%	720	6	720	6
		2-4 units	Fixed: 70% ARM: 60%	720	6	720	6
< 5	High Balance	1-4 units	Fixed: 65% ARM: 65%	720	6	740	6
						720	12
5-10[2]	High Balance	1-unit	Fixed: 65% ARM: 65%	720	6	740	6
						720	12
5-10[2]	High Balance	2-4 units	Fixed: 65% ARM: 60%	720	6	740	6
						720	12
Rate/Term Refinance							
< 5	Conforming	1-unit	Fixed: 75% ARM: 65%	660	6	680	6
						660	12
		2-4 units	Fixed: 75% ARM: 65%	680	6	700	6
						680	12
< 5	High Balance	1-4 units	Fixed: 65% ARM: 65%	720	6	740	6
						720	12
Delayed Financing Cash-Out [1]							
5-10[2]	Conforming	1-unit	Fixed: 70% ARM: 60%	720	2	720	6
5-10[2]	Conforming	2-4 units	Fixed: 65% ARM: 60%	720	2	720	6
Cash-out Refinance (including Delayed Financing [1])							
< 5	Conforming	1-unit	Fixed: 75% ARM: 65%	700	6	720	6
						700	
		2-4 units	Fixed: 70% ARM: 60%	700	6	720	6
						700	

1) Delayed financing guidelines must be followed

2) Second homes and Investment properties with 5-10 financed properties have additional eligibility requirements. Refer to the Number of Loans/Properties section of the guidelines.