Portfolio Conforming & Jumbo Guidelines
Conforming PA51, PA71
Jumbo PA51J, PA71J

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GENERAL INFORMATION

This Guide describes Provident Bank program eligibility and underwriting requirements. In addition to the program eligibility and prudent underwriting, Provident Bank requires all loans meet the Ability to Repay (ATR) rules established by the Consumer Financial Protection Bureau (CFPB).

The ATR rule requires that the originator make a reasonable, good-faith determination before or when the loan is consummated and that the consumer has a reasonable ability to repay the loan. The origination lender must consider the eight underwriting factors established by the CFPB and the loan file must be documented accordingly.

1. The borrower’s current or reasonably expected income or assets;
2. The borrower’s current employment status;
3. The borrower’s monthly payment on the covered transaction;
4. The borrower’s monthly payment on any simultaneous loan;
5. The borrower’s monthly payment for mortgage-related obligations;
6. The borrower’s current debt obligations, alimony and child support;
7. The borrower’s monthly debt-to-income ratio or residual income; and
8. The borrower’s credit history.

By submitting a loan for purchase, Mortgage loan originator certifies that: (i) Mortgage loan originator has made, or is making its own credit decision with respect to the loan to the Borrower, regardless of whether Provident Bank purchases or declines to purchase the loan;(ii) none of Provident Bank, its directors, officers, employee’s, agents, or contractors, or any of its affiliates has influenced, or will influence Mortgage Loan Originators credit decision with respect to the loan to the Borrower by (a) indicating whether it will purchase the loan if the Mortgage Loan originator, originates and closes the loan, or (b) any other action or statement; and (iii) if the Mortgage Loan Originator has closed, or in the future does close the loan to the Borrower, Mortgage Loan Originator did, or will, fund the closing of the loan with funds from a source other than Provident Bank or any of its affiliates.

PORTFOLIO CONFORMING & JUMBO PRODUCT MATRIX

PRIMARY RESIDENCE: PURCHASE

Property Type	Maximum LTV/CLTV	Maximum Loan Amount	Minimum Loan Amount	Minimum FICO Score	Maximum DTI
1-2 units PUD Condo	90%[1,3]	$850,000	PA51 - $100,000 PA51J - $484,351 PA71- $100,000 PA71J- $484,351	690[4]	43%
	80% [2,3]	$1,000,000		690[4]	43%
	70%	$1,500,000		700	43%

PRIMARY RESIDENCE: RATE & TERM REFINANCE

Property Type	Maximum LTV/CLTV	Maximum Loan Amount	Minimum Loan Amount	Minimum FICO Score	Maximum DTI
1-2 Units PUD Condo	90% [1,3]	$850,000	PA51 - $100,000 PA51J - $484,351 PA71- $100,000 PA71J- $484,351	700	43%
	80%[2,3]	$1,000,000		700	43%
	70%	$1,500,000		700	43%

PRIMARY RESIDENCE: CASH OUT REFINANCE

Property Type	Maximum LTV/CLTV	Maximum Loan Amount	Minimum Loan Amount	Maximum Cash Out	Minimum FICO Score	Maximum DTI
1-unit PUD Condo	70%	$1,000,000	PA51 - $100,000 PA51J - $484,351 PA71- $100,000 PA71J- $484,351	$250,000	720	43%

1. Acceptable MI companies are Radian, Essent, United Guaranty, National and MGIC. No reduced coverage allowed. Most have pricing adjustments for LTV's up to 90%LTV to $850,000.
2. Mortgage Insurance for LTV's 75.01% to 80% will be handled by Provident Bank Underwriter. **"Request for LPMI"** located in Forms. Underwriter to complete the **"Urgent Booking Sheet"** located in forms.
3. When transaction has new or existing subordinate financing max LTV for first is 75%.
4. Adjustment to price for FICOs below 700 and ALL Exceptions; note there will be an additional cost to either the rate and/or fee for Multiple Exceptions. See Rate Sheet/Exception Form

PRODUCTS

- 5/1 LIBOR ARM 30-Year Term Fully Amortizing 5 year Fixed
- 7/1 LIBOR ARM 30-Year Term Fully Amortizing 7 year Fixed
  - Qualifying Rate
    - 5/1 LIBOR ARM Greater of the fully indexed rate* or the Note Rate + 2.0%

A. Fully indexed rate = Index + Margin

- 7/1 LIBOR ARM Note Rate + 1.0%
  - 7/1 ARM may qualify at the Note Rate with the following requirements:
    - Minimum 730 Credit Score
    - Maximum LTV of 70%
    - No Exceptions
- Ineligible Products/Attributes
  - Interest Only
  - Negative Amortization
  - Graduated Payments
  - Temporary Buydowns
  - Balloon Payments
  - Loans with Prepayment Penalties

ARM SUMMARY	
INTEREST RATE ADJUSTMENT CAPS	**5/1: 5 Year Fixed** • Initial: 2% up/down • Subsequent: 2% up/down • Lifetime: 5% up **7/1: 7 Year Fixed** • Initial: 5% up/down • Subsequent: 2% up/down • Lifetime: 5% up
MARGIN	2.75
INDEX	1-Year LIBOR (London InterBank Offer Rate)
INTEREST RATE FLOOR	Start Rate

PRODUCTS CONTINUED	**CHANGE DATES**	**5/1 ARM: 5 Year Fixed** • The first Change Date is the 60th payment due date. Subsequent Change Dates are every twelve (12) months thereafter. **7/1 ARM: 7 Year Fixed** • The first Change Date is the 84th payment due date. Subsequent Change Dates are every twelve (12) months thereafter.
	CONVERSION OPTION	None available
	ASSUMPTION	Assumable during ARM period
	MI REQUIREMENTS	• Mortgage Insurance will be required down to 80.01% LTV. • 80.01% to 90% LTV follow standard MI requirements for non-delegated “No upfront” monthly (borrower paid or “up front” One Time Premium (borrower paid). 80.01% to 85% LTV at 12% coverage. • 85.01% to 90% LTV at 25% o LTV 80.01%- 90.00% allows the borrower to buy up the interest rate in-order to use the LPMI. • See rate sheet for Monthly LPMI rates for LTV’s greater than 80%. o LPMI Monthly **ONLY**. ▪ No One Time Available ▪ LPMI (monthly) does not get entered into LOS. ✓ Just order the Cert.

PRODUCTS CONTINUED

MI REQUIREMENTS (CONTINUED)

- For LTV’s at 75.01% to 80% at no cost to the borrower.
  - An LPMI request (exhibit A, to these guidelines) must be sent with the items listed on the exhibit to Loan Underwriter
  - 75.01% to 80% LTV 6% coverage.

BOOKING SHEET

- Funders **MUST** complete Booking Sheet form at funding for **ALL** loans with the “Lender Paid MI” Option.
- A copy of the Booking Sheet form can be found on the last page of these guidelines

DOCUMENTATION

- Full income and asset verification is required. In an effort to fully document the borrower’s ability to meet their obligations, borrowers should disclose and verify all liquid assets (in addition to minimums required).

UNDERWRITING

- **ALL loans must be run through Fannie Mae Desktop Underwriter (DU).**
- All loans will be manually underwritten.
- Credit documentation is based on DU findings or Underwriter’s discretion based on the risk factors of the loan file.
- Unless otherwise addressed in these guidelines, Fannie Mae underwriting guidelines should be followed.
- In some cases, exceptions to underwriting guidelines or product eligibility may be acceptable when strong compensating factors exist to directly address the issue and offset the risk.

UNDERWRITING CONTINUED

- **Applying the Re-underwriting Criteria**
  - The following steps are required if the borrower discloses or Provident Bank discovers additional debt(s) or reduced income after the underwriting decision was made up to and concurrent with loan closing:

Step	Description
1	Provident Bank must document the additional debt(s) and reduced income and apply those changes to the loan to confirm loan eligibility.
2	If there is a new subordinate debt on the subject property, the mortgage loan must be re-underwritten
3	The final loan application signed by the borrower must include all income and debts verified, disclosed, or identified during the mortgage process

EXCEPTIONS

- Exceptions to these written guidelines may be made by Provident Bank on a case by case basis.
  - **NO** Exceptions will be granted for **DTI EXCEEDING GUIDELINE REQUIREMENTS**.
  - Exceptions to any of the above guidelines must be approved
  - Exceptions on loans requiring MI must be prior approved with the Mortgage Insurance Company.
  - Fully Executed Approved Exception forms must be retained in the loan file.

ALL RATE/TERM REFINANCE TRANSACTIONS

- Underwriter to condition "UTR" the Borrower(s)" Certificate of Reasonable Tangible Net Benefit for Refinance Loans" Disclosure prior to funding.
- "Borrower(s) Certificate of Reasonable Tangible Net Benefit for Refinance Loans" disclosure
  - Disclosure is generated with closing package and must be fully completed and executed by the borrower and returned with loan documents.
  - Borrower(s) Benefit Worksheet
  - Underwriter to review the complete/executed "Borrower(s) Certificate of Reasonable Tangible Net Benefit" Disclosure and complete the "Borrower(s) Benefit Worksheet" based on the information provided by the borrower.
  - To be completed by the Underwriter prior to funding.
  - Copy of both executed forms to be placed in loan file behind the 1008.
  - Forms are located in the Provident Bank Manual under Policy and Procedures in the "Forms" Folder.

AGE OF DOCUMENTATION

TYPE	AGE OF DOCUMENTATION
Credit Report	No more than 60 days from before Note date
Income	No more than 60 days from before Note date
Assets	No more than 60 days from before Note date
Appraisal	No more than 120 days from before Note date
Title Commitment	No more than 120days from before Note date

BORROWER ELIGIBILITY

A. Eligible Borrowers

The following are eligible borrowers:

- US Citizens
- Inter-Vivos Revocable Trusts
- The inter vivos revocable trust must be established by one or more natural persons, solely or jointly.
- The primary beneficiary of the trust must be the individual(s) establishing the trust.
- If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage
- The trustee(s) must include:
    - The individual establishing the trust (or at least one of the individuals, if there are two or more)
    - Provident Bank does not allow an institutional trustee
- The trustee must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are borrower(s) under the mortgage or deed of trust note.
- The mortgage must be underwritten as if the individual establishing the trust (or at least one of the individuals, if there are two or more) were the borrower (or a co-borrower, if there are additional individuals whose income or assets will be used to qualify for the mortgage).
- The trustee must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are borrower(s) under the mortgage or deed of trust note.

BORROWER ELIGIBILITY CONTINUED

- The mortgage must be underwritten as if the individual establishing the trust (or at least one of the individuals, if there are two or more) were the borrower (or a co-borrower, if there are additional individuals whose income or assets will be used to qualify for the mortgage).
- Eligibility Requirements
    - At least one individual establishing the trust must be a borrower on the loan.
    - Occupancy must be as a primary residence
    - The title insurance policy must ensure full title protection and must indicate that title to the subject property is vested in the name of the trustee(s). The policy may not list any exceptions arising from the trust ownership of the property.
    - Full title to the property must be vested either:
        1. Solely in the trustees, or
        2. Jointly in the trustees and in the name of an individual borrower.
- **Trust Agreement Requirements**
    - The trust is established by a written document during the lifetime of the individual establishing the trust, to be effective during his/her lifetime.
    - The individual establishing the trust has reserved the right to revoke or alter the trust during his/her lifetime.
    - The trustee has the power to mortgage the subject property for the purpose of securing a loan at the instruction of the beneficiary(s).
    - The primary beneficiary of the trust is the individual establishing the trust. If more than one individual establishes the trust jointly, there may be more than one primary beneficiary.
    - The beneficiary(s) must have the sole power of direction over the trust and trustee.
- **Permanent Resident Aliens/Non-Permanent Resident Aliens are eligible if they meet the following requirements:**
    - Can provide acceptable documentation to verify that a non-U.S. citizen borrower is legally present in this U.S.
    - Must be employed in the United States for the past 24 months.
    - Demonstrate that income and employment for at least 12 months and is likely to continue for at least three (3) years.

BORROWER ELIGIBILITY CONTINUED

- First time homebuyers: A first-time buyer is defined as anyone who has not owned a home for three (3) years. For loans with more than one (1) borrower where at least one borrower has owned a home in the past three (3) years, first-time homebuyer requirements do not apply. (see loan amount limits and reserve requirements)
- All borrowers must have a social security number

B. Ineligible Borrower

- **Irrevocable trusts**
- **Land trusts**
- **Limited partnerships, general partners, corporations, and limited liability companies**
  - LLC's may be considered by exception only:
    - Require personal guarantees by all parties owning ≥ 25%.
    - Max LTV 50%
    - Personal guarantors sign the note only.
    - Verify names of LLC's principals listed on the Articles of Organization through the California Secretary of State's website and place copy of the print out in file: https://businesssearch.sos.ca.gov/

NON OCCUPANT BORROWERS

- **Non-Occupant Borrowers are credit applicants on a principal residence transaction who:**
  - Do not occupy the subject property
  - May or may not have an ownership interest in the subject property as indicated on the title;
  - Sign the mortgage or deed of trust note;
  - Have joint liability for the note with the borrower(s); and
  - Do not have an interest in the property sales transaction, such as the property seller, the builder, or the real estate broker.

NON OCCUPANT BORROWERS CONTINUED

- **Down Payment and Qualifying Ratio Requirements**
  - If the income of a non-occupant borrower is used for qualifying purposes, the occupying borrower(s) must make the first 5% of the down payment form their own funds unless:
    - The LTV or CLTV ratio is less than or equal to 80%; or
    - The occupying borrower is purchasing funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution.
    - Using only the income of the occupying borrower(s) to calculate the DTI ratio, the maximum allowable DTI ratio is 43%.
- **LTV Ratio Requirement**
  - If the income of a co-borrower is used for qualifying purposes, and that co-borrower will not occupy the subject property, the maximum LTV, CLTV and HCLTV ratio may not exceed 90%.

OCCUPANCY TYPES

- **Eligible occupancy types include:**
  - Primary residences for 1-2 units properties
- **Ineligible occupancy types include:**
  - Primary residences for 3-4 unit properties
  - Second home residences
  - Investment properties

MULTIPLE PROPERTIES FINANCED/OWNED

- The borrower(s) may own a total of ten (10) financed, 1-4 unit residential properties, including the subject property and regardless of occupancy. All financed properties, other than the subject property, require additional four (4) months reserves for each property. See Matrix for the subject property reserve requirements. NOTE: 1-4 unit financed properties held in the name of an LLC or other corporation can be excluded from the calculation of number of properties financed only in cases where the borrower is not personally obligated for the mortgage.

OWNERSHIP INTEREST

- **Title must be in the Borrower’s name at time of application for refinance transactions and at time of closing for all transactions. Borrower(s) may hold title as follows:**
    - Title must be in the Borrower’s name at time of application for refinance transactions and at time of closing for all transactions. Borrower(s) may hold title as follows:
        - Individual: Individual vesting is an individual Borrower taking sole ownership to a property.
        - Joint Tenants: Joint tenancy is a form of co-ownership giving each tenant equal interest and equal rights in a property, including the right of survivorship.
    - Leasehold Estates: In areas where leasehold estates are commonly accepted, loans secured by leasehold estates are eligible for purchase. The mortgage must be secured by the property improvements and the borrower’s leasehold interest in the land. The leasehold estate and the improvements must constitute real property, must be subject to the mortgage lien, and must be insured by the Provident Bank’s title policy.

TRANSACTIONS

- **Eligible Transaction Types**
    - **PURCHASES**
    - **RATE & TERM REFINANCE WITH THE FOLLOWING LIMITS:**
        - The new loan amount is limited to the payoff of the present first lien mortgage, any seasoned non-first lien mortgages, closing cost and prepays.
            1. A seasoned non-first lien mortgage is a purchase money mortgage o9r a mortgage that has been in place for 12 months. A seasoned equity line is defined as not having any draws greater than $2,000 in the past 12 months.

            a. Withdrawal activity must be documented with at transaction history for the Line of Credit.
        - The borrower max receive cashback in an amount that is not more than the lesser of 2% of the new refinance loan amount or $2000.00
        - Properties that have been listed for sale within the past 6 months prior to the loan application are not eligible for a rate/term refinanced transaction.
        - Inherited properties may not be refinanced prior to 6 months ownership.

TRANSACTIONS CONTINUED

- Construction-to-permanent refinances are eligible with the following conditions:
  1. If the lot was acquired 12 or more months before applying for the construction financing, the LTV/CLTV/HCLTV is based on the current appraised value of the property.
  2. If the lot was acquired less than 12 months before applying for the construction financing, the LTV/CLTV/HCLTV is based on the lesser of
     - I. The current appraised value of the property and
     - II. The total acquisition cost (sum of construction costs and the lower of the sales price or current appraised value of the lot).
  3. A certificate of occupancy from the applicable government authority is provided. If the applicable government authority does not require a certificate of occupancy, then proof of the absence of this requirement must be provided.
  4. The Cash-out amount is limited to the amount as specified on the Matrix plus any documented costs paid for from the borrower's own funds.
  5. The borrower must hold legal title to the lot and be named as borrow for the construction loan.

- **CASH OUT REFINANCE WITH THE FOLLOWING LIMITS:**
  - Borrower must have owned property for at least six months prior to the application date unless requirements for Delayed Financing Exception are met (see below).
  - Properties that have been listed for sale within the past 12 months of loan application are not eligible for cash out refinance transactions.
  - Inherited properties may not be refinanced prior to the 12 months ownership.
  - For cash-out refinance transactions where the borrower is paying off a loan from a pledged asset or retirement account loan, the following guidelines apply:
    - a. Cash out limitation is waived if previous transaction is a purchase
    - b. Seasoning requirement for cash out is waived (borrower does not have to have owned the property for at least 6 months prior to the subject transaction).
    - c. Closing disclosure must reflect payoff or pay down of pledged asset loans or retirement account of loan; if cash out proceeds exceed payoff of loans, excess cash must meet cash out limits.

TRANSACTIONS CONTINUED

- **DELAYED FINANCING EXCEPTION REQUIREMENTS:**
  - The original purchase transaction was an arms-length transaction.
  - The borrower(s) may have initially purchased the property as one of the following:
    a. A natural person;
    b. An eligible inter vivos revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust;
    c. An eligible land trust when the borrower is the beneficiary of the land trust; or
    d. An LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%
  - The original purchase transaction is documented by a settlement statement, 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 settlement statement if a settlement statement was not provided to the purchaser at time of sale.)
  - The prelim must confirm that there are no existing liens on the subject property.
  - The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another 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 (such as a HELOC secured by another property), the settlement statement for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction. Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.
  - The new loan amount can be no 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 on the new mortgage loan (subject to the maximum LTV, CLTV, and HCLTV ratios for the cash-out transaction based on the current appraised value).
  - All other cash-out refinance eligibility requirements are met. Delayed Financing pricing is applicable.

TRANSACTIONS CONTINUED

- **CONSTRUCTION-TO-PERMANENT FINANCING**
  - The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim construction financing that the borrower has obtained to fund the construction of a new residence. The borrower must hold title to the lot, which may have been previously acquired or purchased as part of the transaction.
  - Rate & Term and Cash Out Refinance Transactions:
    - a. For lots owned > 12 months from application date for subject transaction, LTV, CLTV, HCLTV is based on the current appraised value.
    - b. For lots owned < 12 months from application date for subject transaction, LTV, CLTV, HCLTV is based on the lesser of the current appraised value of the property of the total acquisition costs (sum of construction costs and purchase price of lot).
- **CONSTRUCTION-TO-PERMANENT CASH-OUT REFINANCES ARE ELIGIBLE WITH THE FOLLOWING CONDITIONS:**
  - If the lot was acquired 12 or more months before applying for the construction financing, the LTV/CLTV is based on the current appraised value of the property.
  - If the lot was acquired less than 12 months before applying for the construction financing, the LTV/CLTV is based on the lesser of i) the current appraised value of the property and ii) the total acquisition costs (sum of construction costs and the lower of the sales price or current appraised value of the lot).
  - A certificate of occupancy from the applicable government authority is provided. If the applicable government authority does not require a certificate of occupancy, then proof of the absence of this requirement must be provided.
  - The cash-out amount is limited to the amount as specified on the Product Matrix plus any documented costs paid for from the borrower's own funds.
  - The borrower must hold legal title to the lot and be named as the Borrower for the construction loan.

LTV/CLTV CALCULATIONS

- **Purchases**
    - The LTV/CLTV for a purchase transaction is calculated based on the lesser of the purchase price or appraised value of the subject property.
- **Refinances: Rate & Term and Cash Out**
    - If the borrower has less than twelve (12) months ownership in the property, the LTV/CLTV for a refinance transaction is calculated on the lesser of the purchase price or appraised value.
        - For homes where capital improvements have been made to the property after purchase, LTV/CLTV/HCLTV can be based on the lesser of the current appraised value or original purchase price plus the documented improvements.
        - Receipts are required to document cost of improvements.
    - If the borrower has owned the property for twelve (12) months, the LTV/CLTV is based on the appraised value.
    - Released subordinate liens must be paid off and closed to exclude from CLTV calculation.
- **Delayed financing Exception**
    - The LTV/CLTV is calculated based on the lesser of the purchase price or appraised value of the subject property.

NON-ARM'S LENGTH TRANSACTIONS

- **Non-Arm's length transactions are not eligible**
    - A non-arm's length transaction is any transaction where there is a relationship or business affiliation between the borrower(s) and/or any parties in the transaction. If a direct relationship exists between any of the parties to a transaction, including the borrower/buyer, seller (if applicable), employer, lender, broker or appraiser, then the transaction will be considered non-arm's length.
    - **Examples of non-arm's length transactions include, but are not limited to:**
        - Borrower(s) purchasing a property from a builder who, in turn, is purchasing the borrower's existing property
        - Property trades between buyer and seller
        - Employer to employee sales or transfers
        - Borrowers or co-borrowers employed in the real estate or construction trades who are involved in the construction, financing or sale (i.e. listing agent) of the subject property
          a. 24 months cancelled checks required to verify satisfactory payment history.

EMPLOYEE LOANS

- **NOT ALLOWED**

SECONDARY OR SUBORDINATE FINANCING

- Institutional financing ONLY up to the maximum LTV/CLTV.
- Subordinate liens must be recorded and clearly subordinate to the first mortgage lien.
- Full disclosure must be made on the existence of subordinate financing and the subordinate financing repayment terms.
- Acceptable Subordinate Financing Types
    - Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur.
    - Mortgage terms that require interest at a market rate.
    - Seller subordinate financing not allowed. (Exceptions may be considered with pricing and/or rate adjustment).

INTERESTED PARTY CONTRIBUTIONS

- Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction.
- Interested party contributions may only be used for closing costs and prepaid expenses, and may never be applied to any portion of the down payment or contributed to the borrower’s financial reserve requirements.
- **Interested party contributions are limited according to the CLTV:**

CLTV	Limit
75.01% - 90%	6%
≤ 75%	9%

SELLERS CONCESSIONS

- All seller concessions must be addressed in the sales contract, appraisal and Closing Disclosure. A seller concession is defined as any interested party contribution beyond the stated limits, in the above section, or any amounts not being used for closing costs or prepaid expenses (i.e. funds for repairs not completed prior to closing is a seller concession). If a seller concession is present, both the appraised value and sales price must be reduced by the concession amount for purposes of calculating the LTV/CLTV.

PERSONAL PROPERTY

- Any personal property transferred with a property sale must be deemed to have zero transfer value, as indicated by the sales contract and the appraisal. If any value is associated with the personal property, the sales price and appraised value must be reduced by the personal property value for purposes of calculating the LTV/CLTV.

ESCROWS

- **Impound Accounts:**
  - Escrows may be established for funds collected that are required to be paid under the Security Instrument. These funds include, but are not limited to, taxes, insurance (hazard, flood, and mortgage) premiums, special assessments, ground rents, water, sewer, and other governmental impositions.
  - Escrow holdbacks are not allowed unless the holdback has been dispersed and a certification of completion has been issued prior to funding by Provident Bank.

ASSETS

- **Reserve Requirements**

Occupancy	Loan Amount	Required Reserves
Purchase, R/T or C/O	≤ $650,000	3 months PITI
	$650,000- $1,000,000	6 months PITI
	$1,000,001 - $1,500,000	9 months PITI

  - Beyond the minimum reserve requirements and in an effort to fully document the borrowers' ability to meet their obligations, borrowers should disclose and verify all other liquid assets.
  - 60% of the vested value of retirement accounts may be considered toward the required reserves.
  - First time homebuyers (borrower(s) who have not owned a property in the last 3 years) require reserves of 12 months PITIA and are limited to a maximum loan amount of $850,000.
  - **All financed properties, other than the subject property, requires an additional four (4) months reserves for each property.**

ASSETS CONTINUED

- **Assets Documentation:**
  - **Checking and Savings Account**
    - The two most recent, consecutive months statements for each account are required or 1 month Bank Statement and a VOD covering 60 day average balance
    - Large deposits inconsistent with monthly income or other deposits must be verified and documented.
  - **Marketable Securities**
    - Two most recent, consecutive months stock/securities account statements are required.
    - Full value of stock accounts can be considered in the calculation of assets available for closing and reserves.
    - Non-vested accounts are not eligible for use as down payment or reserves.
  - **Retirement Accounts**
    - Most recent retirement account statement covering a minimum two month period.
    - Evidence of liquidation is required when funds are used for down payment or closing costs.
    - 100% of vested value of retirement accounts, after reduction of any outstanding loans, may be considered toward the required reserves.
    - Proof of liquidation or withdrawal
    - Terms of Withdrawal
    - Retirement accounts that do not allow any type of withdrawal are ineligible for use as reserves.
  - **Business Funds**
    - Business funds may be used for down payment and/or closing costs, not for purposes of calculating reserves.
    - CPA letter to confirm withdrawal will have no impact on business and Cash flow analysis required using 3 months business bank statements to determine no negative impact to business based on withdrawal of funds.
      - a. Borrower must have access to funds
      - b. The borrower must be the sole proprietor or 100% owner of the business (or all borrowers combined own 100%)

GIFT FUNDS

- **The following applies to Gift Funds**
  - For purchase transactions of 1-Unit properties with loan amount < $453,100 100% gift funds may be used (Reserves requirements must still be met)
  - For purchase transactions with loan amounts >$453,100, gift funds may be used once the borrower contributes at least 5% from their own funds. (Reserves requirements must still be met)
  - Gift funds may not be used to meet reserve requirements.
  - Donor must be an immediate family member, future spouse, or domestic partner living with borrower.
  - An executed gift letter with the gift amount, donor's name, address, and telephone number and relationship is required.
  - Proof of transfer of funds or evidence of receipt must be documented.
- **Acceptable Donors**
  - 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.
  - 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.

LTV, CLTV, or HCLTV Ratio	**Minimum Borrower Contribution Requirement from Borrower's Own Funds**	
80% or less	One-to four-unit principal residence 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.

GIFT FUNDS CONTINUED

Greater than 80%	Two-to four unit principal residence Second home	The borrower must make a 5% minimum borrower contribution from his or her own funds. [1] After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves.
[1] 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.		

- **Documentation Requirements**
  - Gifts must be evidenced by a letter signed by the donor, called a gift letter.
  - The gift letter must:
    - Specify the dollar amount of the gift;
    - Specify the date the funds were transferred;
    - Include the donor's statement that no repayment is expected; and
  - When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:
    - A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence.
    - Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.

GIFT FUNDS CONTINUED

- **Verifying Donor Availability of Funds and Transfer of Gift Funds**
  - The Underwrite must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. Acceptable documentation includes the following:
    - A copy of the donor's check and the borrower's deposit slip,
    - A copy of the donor's withdrawal slip and the borrower's deposit slip,
    - A copy of the donor's check to the closing agent, or
    - A settlement statement showing receipt of the donor's check.
- When the funds are not transferred prior to settlement, the Underwriter must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official check.

CREDIT

- Unless otherwise addressed below, Fannie Mae underwriting guidelines should be followed for evaluating a borrower's credit history.

Credit Standards	
Age of Credit Report	45 days old at time of close.
Representative FICO Score	An individual borrower's representative credit score is determined by the following: • If 2 credit bureau scores are reported, the representative credit score will be the lower of the 2. • If 3 credit bureau scores are reported, the representative credit score will be the middle of the 3. When there is more than 1 borrower, the lowest of all borrowers' representative credit scores will be used.

CREDIT CONTINUED		**Tradelines**	• Minimum 3 open trade lines: (1) o One must be open and active for 24 months o At least one of the required 3 trade lines must be an installment. o Remaining trade lines must be rated for 12 months. • Two open trade lines are acceptable for purchase transactions where the borrower(s) have a 24 month history in the past five years. (1) (1) **An exception to the minimum trade line requirement is not required if the borrower’s credit history meets the following:** • No less than 10 trade lines are reporting. • At least one trade line is open and reporting for a minimum 12 months • Credit history established for at least 10 years **NOTE:** Borrowers not contributing income for qualifying purposes are not subject to the minimum trade line requirement.	
		Revolving	If a revolving account balance is to be paid off at or prior to closing, a monthly payment on the current outstanding balance does not need to be included in the borrower’s long-term debt, i.e. not included in the debt-to-income (DTI) ratio. • Such accounts do not need to be closed as condition of excluding the payment from the DTI ratio.	
		Installment	At least one of the required 3 trade lines must be an installment.	

CREDIT CONTINUED

Mortgage/Rent	0x30 late payments in the past 12 months • Rent – 0 x 30 in the past 12 months evidenced by a Verification of Rents (VOR) **OR** • Credit Supplement **and** cancelled checks are required if there is a relationship between borrower and landlord. • 24 month history **MUST** be verified (i.e. if you have a 12 mo. mortgage rating a VOR **or** 12 mos. cancelled checks **and** credit supplement to cover the 24 mo. history). • Applies to all borrowers on the loan o If the borrower is living rent free with family provide a detailed Letter of explanation (LOE) signed/dated by the borrower.**(This can be considered a RED FLAG.)** **NOTE: VOR to be supplied by a Management Company. If the VOR is from a Private Party, borrower will need to furnish bank statements or cancelled checks to cover the 24 month period.**
Authorized User Accounts	Will not be considered as acceptable trade lines
Non-Traditional Credit	Will not be considered as acceptable trade lines
Bankruptcy 7 **Bankruptcy 11** **Bankruptcy 13** **Foreclosure**	None in the last 7 years

CREDIT CONTINUED

Loan Modification	None allowed, unless the modification is lender initiated and documented proof that it was not a distressed situation is provided and no funds were forgiven.
Short Sale Deed-in-Lieu	None in the last 7 years

If an EXCEPTION is made, there will be a LLPA (Loan Level Price Adjustment) Applied.

DEBT TO INCOME

- The Debt-to-Income (DTI) ratio is based on the total of existing monthly liabilities plus any planned future liabilities based on credit inquiries or otherwise disclosed by the borrower, and then divided by the calculated gross monthly income. Liabilities include all housing expenses, revolving debt, installment debts, real estate loans, rent, alimony, child support, and other consistent and recurring expenses.
- For other properties owned, documentation to confirm the P&I, taxes, insurance, HOA dues, lease payments or other property-related expenses must be provided.

CREDIT INQUIRES

- Provident Bank must review the section of the borrower's credit report that indicates the presence of creditor inquiries to determine the number and age of the inquiries.
- When the credit report indicates that recent inquiries took place within 120 days of the credit report date, Provident Bank must confirm that the borrower has not obtained any additional credit that is not reflected in the credit report or the mortgage application. In these instances the borrower must explain the reason for each credit inquiry. If additional credit was obtained, a verification of that debt must be provided and the borrower must be qualified with the monthly payment.
- Confirmation of no new debt may be in the form, but is not inclusive of a new credit report, pre-close credit or gap credit report.

EMPLOYMENT AND INCOME

- **Stability of Employment and Income**
  - Stable monthly income is the Borrower's verified gross monthly income from all acceptable and verifiable sources that can reasonably be expected to continue for at least the next three years. For each income source used to qualify the Borrowers, the Underwriter must determine that both the source and the amount of the income are stable. A two-year history of receiving income is required in order for the income to be considered stable and used for qualifying. When the Borrower has less than a two-year history of receiving income, the Underwriter must provide a written analysis to justify the determination that the income that is used to qualify the Borrower is stable. While the sources of income may vary, the Borrower should have a consistent level of income despite changes in the sources of income.
  - The following is required to establish stability of employment and income for the borrower(s) whose income is used to qualify:
    - A minimum of two (2) years employment and income history
    - Gaps in employment in excess of 30 days during the past two (2) years require a satisfactory letter of explanation and the borrower must be employed with their current employer for a minimum of six (6) months to qualify.
    - For a Borrowers who has less than a two-year employment and income history the Borrower's income may be qualifying income if the Mortgage file contains documentation to support that the Borrower was either attending school or in a training program immediately prior to their current employment history; School transcripts must be provided to document.
    - For borrowers of retirement age using asset distributions for income, see Section 10.C under Fixed Income for further requirements.
    - Income may not be used for qualification purposes if it comes from any source that cannot be verified, is not stable, or will not continue.

IRS FORM 4506-T / TAX TRANSCRIPTS	• A completed, signed, and dated IRS form 4506-T must be completed for all borrowers whose income is used to qualify for the mortgage. • The 4506-T must be processed and tax transcripts obtained (for each year requested) to validate against all income used for qualifying. • If borrower(s) is solely W-2 wage earner, then W-2 Transcripts only are acceptable. o No Self-Employed Wage Earner borrower's allowed. • Tax transcripts must match documentation in the file. • In the case where taxes have been filed and the tax transcripts are not available from the IRS, the IRS Response to the request must reflect "No Record Found". In these cases, an additional prior year's tax transcript should be obtained and provided. Large increases in income that cannot be validated through a tax transcript may only be considered for qualifying on a case-by-case basis. • In cases where the borrower is **self-employed** an IRS 4506T must be completely filled out, signed and **Processed** for **each business tax return** used in the loan decision and/or included in the loan file.
PAYSTUBS	• The paystub must meet the following requirements: o Clearly identify the borrower as the employee. o Show the borrower's current pay period and year-to-date earnings. o If the borrower is paid hourly, the number of hours must be shown on the paystub. o Pay stubs must be computer generated. o Pay stubs issued electronically via email or downloaded from the internet must show the URL address, date and time printed, and identifying information on place of origin and/or author of the documentation.
W-2 FORMS	• W-2 forms must be complete and be a copy provided by the employer.

VERIFICATION OF EMPLOYMENT (VOE), VERBAL VOE (VVOE) OR SELF-EMPLOYED CONFIRMATION

- A written Verification of Employment (VOE) may be required for a borrower’s income sourced from commissions, bonus, overtime, or other income when the income detail is not clearly documented on W-2 Forms or paystubs.
  - A verbal verification of employment confirming the borrower’s employment status is required for all borrowers whose income is used for qualification purposes.
  - The VVOE must be completed within 10 business days before the Note date for wage income.
  - Must verify borrower has not received notice of termination by employer.
  - Verification of self-employed businesses by a third-party source is required within 30 calendar days from the Note or funding date.
  - The VVOE or verification of self-employed businesses may be completed after the Note date.
  - However, the post-close verification is not allowed if the borrower is no longer employed in the position shown on the loan application.
- The following standards apply:
  - **Written VOE must include:**
    - Borrower’s date of employment
    - Borrower’s employment status and job title
    - Name, phone number and title of person completing the VOE
    - Name of employer
    - Base pay amount and frequency
    - Additional salary information, which itemizes bonus, commission, overtime, or other variable income, if applicable
    - VOE must be mailed directly to the employer, attention of the personnel department.
    - The VOE must be returned to the lender’s address.

VERIFICATION OF EMPLOYMENT (VOE), VERBAL VOE (VVOE) OR SELF-EMPLOYED CONFIRMATION CONTINUED

- **VVOE must contain the following information**
  - Date of contact
  - Borrower’s date of employment
  - Borrower’s employment status and job title
  - Name, phone number, and title of contact person at employer
  - Name of employer
  - Name and title of person contacting the employer
  - Method and source used to obtain the phone number
  - Must ask if borrower has received any notice of future termination.
- **Self-Employed Confirmation must include**
  - Verification of the existence of the borrower’s business from a third party, such as a CPA, regulatory agency, or applicable licensing bureau. A borrower’s website is not acceptable as a third party verification.
  - Listing and address of the borrower’s business using a telephone book, internet, or directory assistance.
  - Name and title of the person completing the verification

TAX RETURNS

- The following standards apply when using Income Tax Returns to verify income:
  - Personal Income Tax Returns
    - Must be complete with all schedules (W-2 forms, 1099 Forms, K-1 schedules, etc.)
    - Signed and dated
  - Business Income Tax Returns
    - Must be complete with all schedules (K-1 schedules, Form 1065, etc.)
    - Signed and dated
  - For Unfiled Tax Returns for the prior year’s tax return
    - Between Jan 1 and the tax filing date (typically April 15), borrowers must provide:
      - ✓ IRS form 1099 and W-2 forms from the previous year
      - ✓ Loans closing in January prior to receipt of W-2s may use the prior year year-end paystub. For borrowers using 1099s, evidence of receipt of 1099 income must be provided.

TAX RETURNS CONTINUED

- Between the tax filing date and the extension expiration date (typically October 15), borrowers must provide (as applicable):
  - Copy of the filed extension
  - W-2 forms for corporations
  - Form 1099 for commission income
  - Current year profit & loss (signed by the borrower)
  - Year-end profit and loss for prior year (signed by the borrower)
  - Balance sheet for prior calendar year if business is a sole proprietorship
- After the extension expiration date, loan is not eligible without prior year tax returns.

INCOME ANALYSIS FORMS

- Income Analysis Forms
  - The loan file must include an Income Analysis form detailing income calculations. The Fannie Mae Form 1084, Freddie Mac Form 91 or other equivalent lender form consistently utilized by the Provident Bank is acceptable.
  - Income analysis for borrowers with multiple employers, business or income sources must show income/ (loss) details separately, not in aggregate.

INCOME DOCUMENTATION REQUIREMENTS

- Various forms of documentation are required depending on the type of income used to quality.
- Income amounts should be averaged for the time period covered.
- Unless otherwise stated, when declining income has occurred, the most recent twelve (12) months should be used; in certain cases, average income for a longer period may be used when the decline is related to a one-time capital expenditure.
- Documentation for the capital expenditure must be provided.

INCOME DOCUMENTATION REQUIREMENTS CONTINUED

- The following income documentation must be provided for each borrower whose income is used to qualify:

Type	Documentation Requirements
Employment Income	
Salaried	An earnings trend must be established and documented. Large increases in salary over the previous two years must be explained and documented. • W-2 forms or personal tax returns, including all schedules, for prior two years. • Year-to-date pay stub up through and including the most current pay period at the time of application and not earlier than 60 days prior to the Note date. • If borrower is claiming overtime pay, it must be shown on the YTD pay stub.
Hourly & Variable Income	• An earnings trend must be established and documented. Stable to increasing income should be average over a minimum two year period. Declining income must be explained by the employer/borrower and a written determination by the underwriter must be provided if declining income is used for qualifying. o W-2 forms or personal tax returns, including all schedules o W-2 forms or personal tax returns, including all schedules for prior two years. o Year-to-date pay stub up through and including the most current pay period at the time of application.

INCOME DOCUMENTATION REQUIREMENTS CONTINUED	**Part-Time Income**	• Borrower must have worked the part time job uninterrupted for the past two years and plans to continue. If part-time income shows a continual decline, written sound rationalization for using the income to qualify must be provided or income should NOT be used. o W-2 forms for prior two years. o Year-to-date pay up through and including the most current pay period at the time of application.
	Commission	• Commission income must be averaged over the previous two years. If the commission income shows a continual decline, written sound rationalization for using the income to qualify must be provided or the income should not be used. o W-2 forms for prior two years if commissions are less than 25% of the total income. o Tax returns, including all schedules, and W-2 form from the previous two years if commissions are ≥ 25% of the total income. o Unreimbursed business expenses (form 2106) must be subtracted from income. o Year-to-date pay stub up through and including the most current pay period at the time of application and not earlier than 60 days prior to the Note date.

INCOME DOCUMENTATION REQUIREMENTS CONTINUED

Overtime & Bonus	• An earnings trend for bonus and overtime must be established and documented. A period of more than two years must be used in calculating the average overtime and bonus income if the income varies significantly from year to year. If either type of income shows a continual decline, written sound rationalization for using the income to qualify must be provided or income should not be used. o W-2 forms or personal tax returns, including all schedules, for prior two years. o Year-to-date pay stub up through and including the most current pay period at the time of application and not earlier than 60 days prior to the Note date
Self-Employed Income	
Self Employed	• Self-employed borrowers are defined as those individuals who have 25% or greater ownership interest or receive a 1099 statement to document income. o Borrowers who are employed by a family member are considered to be self-employed, regardless of the percentage of ownership, and self-employed documentation is required. o Potential ownership by the borrower must be addressed. o A fully completed, signed and Processed IRS 4506T for each business tax return used in the loan decision and/or included in the loan file is required.

INCOME DOCUMENTATION REQUIREMENTS CONTINUED	**Sole Proprietorship**	• Current quarter P & L. • Balance Sheet • Personal tax returns, including all schedules, for prior two years. • See Tax Returns for additional requirements for unfiled prior year returns.
	Partnerships (General, Limited) **Limited Liability Companies** **“S” Corporations** **Corporations**	• Current quarter P & L. • Balance Sheet • Personal tax returns, including all schedules, for prior two years. • K-1s from prior two years, showing ownership percentage. K-1s are not required if the source is reporting positive income and the income is not used for qualification. If K-1s show a loss, they are required, regardless if they are used for qualifying purposes. If using capital gains, interest/dividend or W2 income from this source is used, K-1s are required. • Business tax returns (1065/1120), including all schedules, for the prior two years are required if the borrower has an ownership percentage ≥ 25%; they are not required if reporting positive income via a K-1, and the income is not used for qualification purposes. • See Tax Returns for unfiled prior year returns for additional requirements.

INCOME DOCUMENTATION REQUIREMENTS CONTINUED

Rental Income

All Properties	• Personal tax returns, including all schedules for prior two years • See section for unfiled prior year returns for additional requirement. • For properties listed on Schedule E of the borrower's tax returns, net rental income should be calculated as the total of (income + depreciation + interest + taxes + insurance) divided by the applicable months minus the current PITI. o If the subject property is the borrower's primary residence and generating rental income, the full PITI must be included in the borrower's total monthly obligations. • If rental income is not available on the borrower's tax returns, a current executed lease agreement is required. Net rental income should be calculated as the gross monthly rent multiplied by 75%. • Net rental income must be added to the borrower's total monthly income. Net rental losses must be added to the borrower's total monthly obligations.

Fixed Income

Retirement Income (pension, annuity, and IRA distributions) Asset Depletion/ Dissipation	• Fixed income payments such as social security or pension income can be used at full value/distribution and may not be considered in any annuitization calculation. • Existing distribution of assets from an IRA, 401K or similar retirement asset account must be sufficient to sustain income continuance for a minimum of three (3) years o Verification of assets of the plan and verification of receipt of the distribution of at least six (6) months is required.

INCOME DOCUMENTATION REQUIREMENTS CONTINUED

	o **NOTE:** Distributions from asset accounts cannot be set up, or changed solely for loan qualification purposes • Asset distribution of all post-closing liquid and retirement assets are acceptable for borrowers of retirement age or with retirement-like situations, i.e. sale of company, etc. • Annuitization (depletion of assets) is calculated using a 3% return over the life of the loan (360 months.) Use of this income calculation supersedes use of existing retirement distributions (exclusive of pension distributions) if those assets are considered in the calculation. • **Ineligible Funds: The first $100,000 of reserves must be excluded from this calculation.**
Social Security Income	• Benefits (for children or surviving spouse) with a defined expiration date must have a remaining term of at least three years. • Acceptable documentation may include a copy of the Social Security Administration’s award letter, copies of the borrower’s previous 12 months bank statements to confirm regular payment deposits, or signed personal tax returns from the prior two years. • Non-taxable social security income may be grossed up by 125%.

INCOME DOCUMENTATION REQUIREMENTS CONTINUED

Alimony & Child Support Separate Maintenance Income	• Will be considered with a divorce decree, court ordered separation agreement, court decree, or other legal agreement providing the payment terms confirming that income will continue for at least three (3) years. If the income is the borrower's primary income source and there is a defined expiration date (even if beyond 3 years), the income may not be acceptable for qualifying purposes. • Documentation evidencing that the borrower has been receiving full, regular, and timely payments for the past 6 months. • See non-taxable income for child support income treatment.
Capital Gains	• Capital gains for like assets may be considered as effective income. The earnings trend or loss must be considered in the overall analysis of this income type. o If the trend results in a gain, it may be added as effective income. If the trend consistently shows a loss, it must be deducted from the total income. o Tax returns for the prior three years, including Schedule D. o Gains must be consistent amounts from consistent sources. o Verified assets to support continuance must be documented. o Income must be consistent amounts from consistent sources. o Capital losses must be deducted from income unless you can document the loss is from a company which is no longer viable.

INCOME DOCUMENTATION REQUIREMENTS CONTINUED

Dividend/Interest	• Interest and Dividend income may be used as long as documentation supports a two-year history of receipt. o Tax returns for the prior two years o Proof of assets to support the continuation of interest dividend income.
Stock Options & Restricted Stock Grants	• May not be used as qualifying income
Note Income	• A copy of the Note must document the amount, frequency and duration of payments • Regular receipt of note income for the past 12 months must be documented, and evidence of note income must be reflected on tax returns. • Verification that income is expected to continue for a minimum of three (3) years
Trust Income	• Income from trusts may be used if guaranteed and regular payments will continue for at least 3 years. o Regular receipt of trust income for the past 12 months must be documented. o A copy of the Trust Agreement or Trustee Statement showing: ▪ Total amount of borrower-designated trust funds ▪ Terms of payment ▪ Duration of trust ▪ Portion of income that is not taxable o Non-taxable trust income must include proof of distribution.

INCOME DOCUMENTATION REQUIREMENTS CONTINUED

Foreign Income	• W-2 forms or personal tax returns, including all schedules, for prior two years. • Year-to-date pay stub. • All income must be converted to U.S. currency.
Non-Taxable Income including child support, disability, foster care, military, etc.	• Documentation must be provided to support continuation of income for a minimum of three (3) years. • Income should be grossed up by 125% for income qualification purposes.
Trailing Co-borrowers	• Income from trailing co-borrowers will not be considered.

NON TAXABLE INCOME

- The amount of continuing tax savings attributed to regular income not subject to Federal taxes may be added to the borrower's gross income.
- The percentage of non-taxable income that may be added cannot exceed the appropriate tax rate for the income amount.
- Additional allowances for dependents are not acceptable.
    - Documentation Requirements:
        - Must document and support the amount of income grossed up for any nontaxable Income source; and
        - Should use the same tax rate the borrower used to calculate his/her income tax from the previous year.

Note: If the borrower is not required to file a Federal Tax Return, the grossed up tax rate to use is 25%

UNACCEPTABLE INCOME	• Unacceptable income sources include, but are not limited to, the following: o Any unverified source o Income that is temporary or a one-time occurrence o Rental income received from the borrower’s single family primary residence or second home. o Retained earnings o Education benefits o Allowance income
PROPERTY	• **<u>Eligible Property Types</u>** o 1-2 Unit Owner Occupied Properties o Low/Mid/High-Rise Condominiums, Fannie Mae Warrantable ▪ Warrantable Types S, T or U ▪ New condominium projects (Type R) with Condo Project Manager (“CPM”) approval ▪ Site (detached) Condos ▪ Limited Review is not eligible o Planned Unit Development (PUDs) o Properties with ≤ 10 acres ▪ Maximum 35% land to value ▪ No income producing attributes • **<u>Ineligible Property Types</u>** o 3-4 Unit Owner Occupied Properties o Second Homes o Unwarrantable or Limited Review Condominiums o Manufactured/Mobile homes o Modular homes o Condo-hotel units o Cooperatives (CO-OPs) o Unique properties o Log homes o Working farms, ranches or orchards

PROPERTY CONTINUED

- Mixed Use Properties
- Properties subject to oil or gas leases
- Properties with > 10 acres if property has acreage, appraiser must indicate total acreage. It is not acceptable to have property appraised with only 10 acres in order to meet eligibility.

APPRAISAL REQUIREMENTS

FIRST LIEN LOAN AMOUNT	APPRAISAL REQUIREMENT
Purchase Transactions	**Purchase Transactions**
≤ $1,000,000	One (1) Full Appraisal
> $1,000,000	One (1) Full Appraisal + Field Review [1]
Refinance Transactions	**Refinance Transactions**
≤ $1,000,000	One (1) Full Appraisal
> $1,000,000	One (1) Full Appraisal + Field Review [1]

1. Field reviews that come in lower than the Full Appraisal will require a second full appraisal completed by the field reviewer. (Lowest value will be used to base LTV). Field reviews must be ordered Provident Bank Appraisal Department.

- For properties purchased by seller of the property within 90 days of the fully executed purchase contract, additional requirements apply.
  - Second appraisal required
  - Property seller on the purchase contract is the owner of record
  - Increases in value should be documented with commentary from the appraiser recent paired sales.

APPRAISAL REQUIREMENTS CONTINUED

- In addition to the following, refer to Fannie Mae guidelines for appraisal requirements:
  - Appraisals should not include comparables greater than six (6) months old at the time of underwriting review.
  - Properties with values significantly in excess of the predominant value of the subject property's market area may be ineligible.
  - Fannie Mae/Freddie Mac Forms 1004/70, 1025/72, 1073/465 or 2090 must be used.
  - Appraisals must be dated within 120 days of the Note date. After a 120 day period, a new appraisal is required (re-certification of value is not acceptable).
  - Escrow holdbacks are not allowed unless the holdback has been dispersed and a certification of completion has been issued prior to close by Provident Bank.
  - Appraisal(s) require evidence subject property is equipped with working carbon monoxide detectors.
  - When two appraisals are required, the following apply:
    - Appraisals must be completed by two independent companies.
    - The LTV will be determined by the lower of the two appraised values as long as the lower appraisal supports the value conclusion. The final inspection and/or recertification of value must be for the appraisal with the lower value.
    - The underwriter must review both appraisal reports and address any inconsistencies between the two reports and all discrepancies must be reconciled.

PROPERTIES AFFECTED BY DISASTER AREAS

- The FEMA Declared Disaster Area Policy applies to all areas eligible for Individual and/or Public Assistance due to a federal government disaster declaration.
  - Effective Date of Disaster Policy
  - The disaster-area policy becomes effective as of the incident period end date for the disaster/event. FEMA publishes the incident period along with the declaration date once the area is presidentially declared.
    - For example, refer to the following dates to understand when property re-inspection requirements apply:
      - ✓ Disaster Incident Period:
        - ➢ Begin Date: January 15
        - ➢ End Date: January 17

PROPERTIES AFFECTED BY DISASTER AREAS CONTINUED

        - ✓ Disaster Declaration Date: February 2
        - ✓ Effective Date for Disaster Procedures: January 17
    - ▪ Based on the dates noted in the above example, all appraisals performed on or before January 17 would require the appropriate re-inspection or review. Appraisals performed after January 17 would continue to require written certification by the appraiser that indicated whether the property was free from damage and whether the disaster had any effect on value or marketability. If there was damage, the extent of that damage needs to be addressed.
    - ▪ Appraisal and Re-Inspection Requirements
        - ✓ To ensure the property value has not been impacted by the disaster, a post disaster property re-inspections is required
        - ✓ Property is free from damage and the disaster had no effect on value or marketability.
        - ✓ If the re-inspection indicates damage, the extent of the damage must be addressed.
        - ✓ Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, or other post disaster inspection report, with photos of interior, exterior, and neighborhood.

- Standard Appraisal Performed After Incident Period End Date for Disaster
    - o Appraisal must include written certification by the appraiser that:
        - ▪ Property is free from damage and the disaster had no effect on value or marketability.
        - ▪ If the appraisal indicates damage, the extent of the damage must be addressed.
            - ✓ Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos of interior and exterior.
        - ▪ The appraisal must include a minimum of three comparable sales, post-disaster.
- **NOTE:** That FEMA makes updates to their state lists, so Underwriter should closely monitor FEMA's online reference at http://www.fema.gov/news/disasters.fema.

HERO/PACE	• Provident Bank will allow HERO/PACE or any energy efficient liens that are included in the property taxes to remain unsubordinated when doing a 5/1 and 7/1 ARM loan with the following requirements: o Maximum LTV 75% o Impounds required
SOLAR PANELS	• All Solar Leases and Power Purchase Agreements must be reviewed by the Underwriter o If the property owner is the owner of the solar panels, standard eligibility requirements apply (for example, appraisal, insurance and title o 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 an alternate source of electric power that meets community standards. For example, properties utilizing leased solar panels must also remain connected to traditional electrical power services to ensure uninterrupted access to electricity in the event the solar panels become non-functioning or are removed. ▪ The monthly lease payment must be included in the debt-to-income (DTI) ratio calculation unless the lease is structured to: ✓ Provide delivery of a specific amount of energy at a fixed payment during a given period, and ✓ Have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period. ✓ Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.

SOLAR PANELS CONTINUED

  - The lease or power purchase agreement must indicate that:
    - ✓ Any damage that occurs as a result of the installation, malfunction, manufacturing defect, or 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 or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home).
  - The owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy. As an alternative the underwriter may verify that the owner of the solar panels is not named a loss payee.
  - In the event of foreclosure:
    - ✓ Provident Bank may terminate the lease/agreement and require the third-party owner to remove the equipment;
    - ✓ Provident Bank has the right to become the beneficiary of the borrower's lease/agreement with third party without charge; or
    - ✓ Provident Bank 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.
- **Note:** Any lease/agreement in which Provident Bank 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 Provident Bank. In addition, Provident Bank 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 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 first lien position.

TITLE AND CLOSING	• Title Requirements: o The title insurance coverage must include an environmental protection lien endorsement (ALTA Endorsement 8.1-06 or equivalent state form provides the required coverage). o Applicable Endorsements Different property types (i.e. condos, PUDs) as well as different mortgage types (i.e. lease-holds) may require additional title policy endorsements. • Title Exceptions: o Provident Bank will not accept a mortgage secured by property that has an unacceptable title impediment, including unpaid real estate taxes and survey exceptions. o If surveys are not commonly required in particular jurisdictions, provide an ALTA 9 Endorsement. o If it is not customary in a particular area to supply either the survey or an endorsement, the title policy must not have a survey exception.
INTER VIVOS REVOCABLE TRUST CLOSING INSTRUCTIONS	• Each trustee and each individual establishing an **Inter Vivos Revocable Trust** whose income and assets are used to qualify for the mortgage must separately execute the note and any necessary addendum. • **Security instrument** o The trustee(s) of the inter vivos revocable trust also must execute the security instrument and any applicable rider (if used). o Each individual establishing the trust whose income and assets are used to qualify for the mortgage must acknowledge all of the terms and covenants in the security instrument and any necessary rider (if used), and must agree to be bound thereby, by placing his or her signature after a statement of acknowledgment on such documents. o Any other party that Fannie Mae requires to sign either the promissory note or the security instrument also must execute the applicable document(s).

INTER VIVOS REVOCABLE TRUST CLOSING INSTRUCTIONS CONTINUED

- **Revocable Trust Rider**
    - The use of a revocable trust rider avoids ambiguities for mortgages made to inter vivos revocable trusts by clarifying who is considered to be “the borrower” with respect to any given covenant in the security instrument.
    - If the mortgage is secured by a California property, the Underwriter should use Fannie Mae’s sample rider.
    - If the mortgage is secured by property located in another state, the Underwriter should use a rider that has been appropriately modified to reflect the requirements of that state (unless the Underwriter determines that use of Fannie Mae’s sample Revocable Trust Rider is appropriate for the specific state).
    - In lieu of a Revocable Trust Rider the Underwriter may either:
        - amend the security instrument to include appropriate definitions and language similar in substance to Fannie Mae’s sample rider, or
        - use the standard security instrument without such an amendment or the rider.
- **Hold Harmless**
    - For a mortgage secured by a property located in a state other than California, or in the case of a California property where the rider was not used, the Seller must hold RRAC harmless should foreclosure proceedings later have to be initiated to acquire the property and RRAC suffers a loss that relates either to the modifications the Seller made (or the inappropriate use of the FNMA sample rider) or to any ambiguity in the application of the covenants in the security instrument.
    - In such cases, the Seller must either repurchase the mortgage or the acquired property or make RRAC whole.

INTER VIVOS REVOCABLE TRUST CLOSING INSTRUCTIONS CONTINUED

- **Signature Requirements**
  - Signature Requirements for Notes and Mortgages involving Inter Vivos Revocable Trusts can be found in the FNMA or FHLMC Seller Guides. These include the form of signature for the trustee(s) and the statement of acknowledgment for each individual establishing the trust whose income or assets are used to qualify for the mortgage.
  - If vesting is held in the name of an inter vivos revocable trust, a Trust Rider applicable to the state of origination should be executed by the designated trustee and acknowledged by each individual establishing the trust whose income and assets are used to qualify for the mortgage (i.e. the borrowers(s).

POWER OF ATTORNEY PER FANNIE MAE GUIDELINES

- Overview
  - Except as provided below, an attorney-in-fact or agent under a power of attorney may sign the security instrument and/or note, as long as the lender obtains a copy of the applicable power of attorney. In jurisdictions where a power of attorney used for a signature on a security instrument must be recorded with the security instrument, the lender must ensure that recordation has been effected. The name(s) on the power of attorney must match the name(s) of the person on the affected loan document, and the power of attorney must be dated such that it was valid at the time the affected loan document was executed.
  - The power of attorney must be notarized and, unless otherwise required by applicable law, must reference the address of the subject property. If applicable law requires an original power of attorney for enforcement or foreclosure purposes, an original (rather than a copy) must be forwarded to the document custodian.
- Allowable Attorneys-in-Fact or Agents Under a Power of Attorney
  - Except as otherwise required by applicable law, or unless they are the borrower's relative, none of the following persons connected to the transaction shall sign the security instrument or note as the attorney-in-fact or agent under a power of attorney:
    - the lender;
    - any affiliate of the lender;
    - any employee of the lender or any other affiliate of the lender;
    - the loan originator;
    - the employer of the loan originator;
    - any employee of the employer of the loan originator;

POWER OF ATTORNEY REQUIREMENTS PER FANNIE MAE GUIDELINES CONTINUED

- the title insurance company providing the title insurance policy or any affiliate of such title insurance company (including,
- but not limited to, the title agency closing the loan), or any employee of either such title insurance company or any
- such affiliate; or
- any real estate agent with a financial interest in the transaction or any person affiliated with such real estate agent.

- As used herein, the borrower’s relative includes any person defined as a relative in this Guide, or a person who is a fiancé, fiancée, or domestic partner of the borrower.
- For refinance transactions, an individual who would otherwise be prohibited from serving as an attorney-in-fact or agent under the restrictions above may execute the required loan documents on behalf of the borrower(s), provided all of the following conditions are met:
  - The attorney-in-fact or agent is not an employee of the lender.
  - The power of attorney expressly states an intention to secure a loan not to exceed a stated amount from a named lender on a specific property.
  - The power of attorney expressly authorizes the attorney-in-fact or agent to execute the required loan documents on behalf of a borrower only if the borrower has, to the satisfaction of the attorney-in fact or agent in a recorded, interactive session conducted via the Internet, both
    - confirmed his or her identity; and
    - reaffirmed, after an opportunity to review the required loan documents, his or her agreement to the terms and conditions of the required loan documents evidencing such transaction and to the execution of such required loan by such attorney-in-fact or agent.

POWER OF ATTORNEY REQUIREMENTS PER FANNIE MAE GUIDELINES CONTINUED

- Restrictions on the Use of a Power of Attorney
    - Except as required by applicable law, a power of attorney may not be utilized to sign a security instrument or note if either (or both) of the following applies:
        - No other borrower executes such loan document in person in the presence of a notary public. Exceptions: A power of
        - attorney may be utilized to sign such loan document for each borrower:
            - ✓ as permitted in connection with a refinance transaction conducted in a recorded, interactive session on the Internet
            - ✓ as described above in Allowable Attorneys-in-Fact or Agents Under a Power of Attorney; or as long as the attorney-in-fact or agent under the power of attorney is either the borrower's attorney-at-law or the borrower's relative.
- Additional Requirements:
    - If a power of attorney is used because the lender determines such use is required by applicable law, the lender must include in the mortgage loan file a written statement that explains the circumstances. Such statement must be provided to the document custodian with the power of attorney.