



PRODUCT:  
E3 CODES:

PCM VA  
VA15 AND VA30

Primary Capital Mortgage guidelines have been created to provide direction and consistency in determining a credit decision. The intention of these guidelines is to describe the general underwriting philosophy of the company, however is not all inclusive of different situations that may arise from loan to loan. PCM strives to make solid underwriting decisions based on the quality of the loan, basing our underwriting decision on all aspects of the loan file (i.e. loan to value ratio, collateral value, credit history, assets, qualifying ratios, etc.). Although multiple risk factors are assessed, the underwriter will attempt to balance the evaluation between the borrower and the property & the borrower's ability to repay the loan provided.

PCM reserves the right to apply additional underwriting criteria depending on the overall risk of the loan file. Guides are subject to change without notice.

**Amortization:** 15/15 and 30/30

**Application Information:** Initial application/1003's must be fully completed to include a full 2 year employment and residence history, full asset, liability and REO disclosure. This includes automobiles, furniture & personal property, etc.

**Assets:** Documentation of assets will be based on AUS findings with the following additional requirements:

- A VOD must be accompanied by minimum 1 months complete bank statement or account history printout.
- All online or other activity printouts must clearly identify the borrower, the bank name and account number.
- Verification of full accounts numbers will be required if not found on full statements or printouts.
- Mutual funds, Stocks and Bonds must be discounted by 30% of the available balance.
- Retirement accounts must be discounted by 40% of the vested balance after loans. (See additional notes in the "Reserves" section)
- Deposits that are not verified from payroll, retirement, SSA, disability sources and that are deemed to be excessive must be documented with a satisfactory letter of explanation and supporting documentation. Factors in determining if a deposit is deemed to be excessive may include:
  - The borrower's income stream
  - The borrower's recent history of cash withdrawals
  - The borrower's typical deposit history and spending habits
  - The percentage of the deposit(s) in relation to the borrower's overall asset portfolio
- If credited at closing, all Earnest Money deposits must be documented with a copy of the canceled check and the bank statement reflecting the funds drawn from the borrower's account. Any large/non-payroll deposits must be documented in accordance with HUD and PCM guidelines.

**Credit Score:**

All loans must have a minimum **620\*** score for all borrowers regardless of AUS findings.

**\*720 score required for loans of \$417,000-\$650,000.**

**\*740 score required for loans in excess of \$650,000.**

In addition to score requirements, every borrower, regardless of AUS findings, must have a minimum of 3 valid trade lines reporting for a minimum of 12 months during the past 3 years. Alternate credit, Authorized User and Deferred Student Loans cannot be used to meet this requirement. VA Interest Rate Reduction Refinances are NOT exempt from this requirement.

No late mortgage payments in the past 12 months allowed- even with AUS Approval.

**Credit Requirements:**

Regardless of AUS approval, each file must meet the following additional credit criteria:

|                                       |  |
|---------------------------------------|--|
| <b>Mortgage/Housing</b>               | 0 x 30 in past 12 months<br>1 x 30 and 0 x 60 in past 13-24 months                                 |
| <b>Installment</b>                    | 0 x 30 in past 12 months<br>1 x 30 and 0 x 60 in past 13-24 months                                 |
| <b>Revolving</b>                      | 3 x 30 in past 12 months<br>5 x 30 and 2 x 60 in past 13-24 months                                 |
| <b>Chapter 7 Bankruptcy</b>           | Discharged 2 years   |
| <b>Chapter 13 Bankruptcy and CCCS</b> | 1 year in repayment plan<br>12 months timely payments<br>Court/CCCS approval to enter new mortgage |
| <b>Foreclosure<sup>1</sup></b>        | None in last 2 years   |

<sup>1</sup>If the foreclosure was on a property with a VA loan, the veteran may not have full entitlement available for the new loan. Verify sufficient remaining entitlement exists on the Certificate of Eligibility. Refer to "Entitlement" section.

Written, signed explanations from the borrower will be required for minor derogatory credit in the past 2 years, and major derogatory credit (bankruptcy, foreclosure, liens, judgements, etc.) regardless of the age.

Complete bankruptcy petition and discharge will be required on all loans receiving a Refer rating, and may be required on loans receiving an Approve rating at the underwriter's discretion.

Borrowers with a short sale in the past two years would be eligible for financing provided they were current on the mortgage (in addition to being 0x30 in the most recent 12 months) and other installment debts at the time of the short sale, and the proceeds from the short sale will serve as payment in full. **However, borrowers are not eligible if they pursued a short sale agreement simply to take advantage of**

**declining market conditions and then purchase a similar or superior property at a reduced price within a reasonable commuting difference.** Borrowers that do not meet these requirements would be required to wait 2 years from the completion of the short sale to become eligible for new mortgage financing. Isolated collection accounts are not always required to be paid as a condition of loan approval. This will be reviewed on a case-by-case basis with heavy weight given to the overall payment history of the borrower. Any unpaid collections will be included in the debt ratio.

Borrowers with a history of collection accounts must have a satisfactory re-established credit history with a minimum of 12 months timely payment on all accounts. The 12 month period begins on the date the last derogatory account was paid in full.

Judgments and tax liens must be paid either prior to or at closing. Tax liens may remain in place if there is an established payment plan with a minimum of 12 months satisfactory payments. State tax liens must be subordinated to the new first mortgage lien.

Qualifying payments on all Equity lines will be based on 1% of the total line available regardless of balance, including those with 0 balance.

See "Qualifying Ratios" for additional credit requirements for borrowers located in a community property state.

#### **Documentation:**

Documentation required is determined by AUS findings. For manually underwritten loans, full or alternative documentation is required. Credit file documentation must be dated within 90 days of the note for existing properties and 120 days for newly constructed properties.

#### **Down Payment and Closing Costs:**

VA loans do not require a down payment.

All associated loan fees must be detailed at closing on an attachment to the 2010 HUD-1 Settlement Statement, itemizing the party responsible for paying each line item. Those fees deemed as unallowable by VA and charged to the Veteran may not exceed an aggregate total of 1% of the total loan amount (or 1% of the current principal balance on an IRRRL). **An ORIGINATION FEE may never be charged on any transaction.** PCM will allow a "Loan Fee" to be collected from the Veteran, which will be included in the aggregate total of 1% unallowable fees. Fees paid on behalf of the Veteran by a third party or seller are not subject to the 1% limitation. The items below are examples of fees that are considered unallowable and must be included in the 1% total. This list is not all inclusive.

- Appraisals not required by VA (does not include PCM required appraisal on IRRRL)
- Inspections (Pest Inspections must be paid by the seller/third party unless a refinance)
- Loan closing or settlement
- Document preparation
- Conveyance
- Settlement or attorney
- Photographs
- Interest rate lock-in
- Office expenses such as postage, telephone or copying
- Amortization schedules
- Escrow
- Notary
- Commitment, marketing or assignment
- Trustee
- Loan application, processing, administration, etc.
- Tax service

Only bona fide discount points due Primary Capital may be charged. Maximum financeable discount points on a refinance are 2%.

**Eligible Borrowers:**

Veteran or veteran and spouse. Joint loans made to two veterans, unless married, must be sent to VA for prior approval. Joint loans made to Veteran/Non-Veteran are ineligible.

A clear CAIVR number will be required for all borrowers on all transactions.

**Employment/Income:**

All Borrowers must be on their job a minimum of 30 days and have a paystub that reflects a minimum of 30 days earnings documented in loan file prior to loan closing. A written VOE may not be used in lieu of this requirement.

PCM will allow a borrower to close within 30 days of starting new job IF all of the following conditions are met:

1. Loan must be manually underwritten according to the FHA 4155 guidelines for projected income.
2. Borrower will have to provide paystubs to cover 30 days after closing (sign 1010) as this is required for VA Guaranty.
3. Acceptable new employment contract from employer with all conditions/contingencies met.
4. Borrower must be in position that is standard for having an employment contract – such as teacher, attorney, doctor, CPA, etc. This will NOT apply to those borrowers who are simply changing employers and/or relocating.

If all of the above conditions (ie: 1-4) cannot be met, borrower will be required to start the new job and provide a paystub reflecting 30 days earnings prior to loan closing.

Regardless of start date, income from employment must be documented with pay stubs covering a consecutive 30 day period.

Verification of Self Employment must be documented with minimum 2 years full tax returns, signed by the borrower, along with a signed 4506t. Business Returns may be required (as determined by Underwriter or AUS). Third party verification of the business must be obtained within 30 days of closing. Verification may be from CPA, Regulatory Agency, or copy of current business license AND a verifiable phone listing and address for the business.

**Borrowers with an extended absence (6 months or more) must be back on the job a minimum of 6 months and have a documented prior 2 year work history in the same or similar line of work for income to be considered stable for qualifying.**

**Other sources of income (such as commission, bonus, overtime, etc.) must have a documented 2 year history of receipt as verified with tax returns, written VOE's and/or other documentation required to meet AUS findings.**

**Energy Efficient Mortgages (EEMs):**

The cost of energy efficient items up to \$6,000 may be added to the initial mortgage amount of any VA loan. VA only requires evidence of the actual cost and does not require additional appraisal valuation.

For improvements exceeding \$3,000, the increase in the principal and interest payment must not exceed the expected savings in utility costs for the average month.

The charge to the veteran's entitlement will be based on the loan amount before adding the energy improvement. The funding fee will be based on the total loan amount including energy improvements.

All repairs must be completed prior to closing. PCM will not escrow for any Energy Efficient repairs to be made after the loan has closed.

**Entitlement:**

Eligible veterans are given \$36,000 in "entitlement". The entitlement is used to guaranty VA loans. Entitlement benefits can be used more than once using remaining or restored Entitlement. The below schedule shows the required guaranty based on loan amount:

| <b>Loan Amount</b>    | <b>Loan Type</b> | <b>Maximum Guaranty<sup>2,3</sup></b>              |
|-----------------------|------------------|--|
| Up to \$45,000        | All              | 50% of the loan amount                             |
| \$45,001 to \$56,250  | All              | \$22,500   |
| \$56,251 to \$144,000 | All              | 40% of the loan amount, with a maximum of \$36,000 |

|                        |   |  |
|------------------------|---|--|
| Greater than \$144,000 | Purchase <sup>1</sup> or Cash-out Refinance | Up to an amount equal to 25% of the FNMA/FHLMC single family loan limit<br>\$36,000 on cash-out refinances |
|------------------------|---|--|

<sup>1</sup>Includes construction of single-family detached dwelling

<sup>2</sup>Minimum guaranty of 25% required on IRRRLs

<sup>3</sup>For purchases exceeding the current conforming loan limit, or cash out refinance transactions, 25% guaranty may be obtained through the borrower's down payment or equity in the home.

**Escrows:**

Required on all transactions.

**Funding Fee:**

A funding fee is charged on VA loans, unless the veteran is verified to be exempt from the fee. The exemption should be documented with a VA Form 26-8927. The following are exempt from the funding fee:

- Veterans receiving VA disability compensation of 10%+
- Surviving spouse receiving survivor's benefits with a Code 06
- Military retirees that have been rated as disabled by VA and have opted to receive military disability pay in lieu of VA compensation

The funding fee, or a portion thereof, may be financed as long as the total loan amount does not exceed the maximum loan limit.

| <b>Regular Military</b> |              |           |                             |
|-------------------------|--------------|-----------|-----------------------------|
| Transaction             | Down Payment | First Use | Subsequent Use <sup>1</sup> |
| Purchase                | 0.00-4.99%   | 2.15%     | 3.30%                       |
|                         | 5.00-9.99%   | 1.50%     | 1.50%                       |
|                         | 10.00%+      | 1.25%     | 1.25%                       |
| Cash-Out                | NA           | 2.15%     | 3.30%                       |

<sup>1</sup>The increased subsequent use fee is not applicable if prior use was for a manufactured home.

| <b>Reserves/National Guard</b> |              |           |                             |
|--------------------------------|--------------|-----------|-----------------------------|
| Transaction                    | Down Payment | First Use | Subsequent Use <sup>1</sup> |
| Purchase                       | 0.00-4.99%   | 2.40%     | 3.30%                       |
|                                | 5.00-9.99%   | 1.75%     | 1.75%                       |
|                                | 10.00%+      | 1.50%     | 1.50%                       |
| Cash-Out                       | NA           | 2.40%     | 3.30%                       |

<sup>1</sup>The increased subsequent use fee is not applicable if prior use was for a manufactured home.

**Geographic Restrictions:**

Cash-out transactions are not allowed in Texas.

**Maximum Loan Amount and LTV/CLTV:**

| <b>Primary Residence<sup>1</sup></b>        |                                    |            |             |                |
|---|------------------------------------|------------|-------------|----------------|
| <b>Transaction</b>                          | <b>Max Loan Amount<sup>3</sup></b> | <b>LTV</b> | <b>CLTV</b> | <b>Max Out</b> |
| Purchase<br>1-4 Unit                        | \$417,000                          | 100        | 100         | NA             |
| Cash-Out Refinance <sup>2</sup><br>1-4 Unit | \$144,000                          | 90         | 90          | No Limit       |

<sup>1</sup>For active duty veterans, properties occupied by spouse are considered primary residence.

<sup>2</sup>See "Refinances" for specifics.

<sup>3</sup>Loan amounts in excess of limit require down payment or equity for 25% guaranty and a minimum 720 credit score (\$417,000-\$650,000) or 740 (>\$650,000).

**Minimum Loan Amount:**

\$30,000

**Multiple Property Ownership:**

Borrowers may own up to 4 total properties including the subject (this condition applies to all properties, even if owned free and clear).

Borrowers owning a home secured by a VA mortgage may purchase another principal residence, without disposing of the present property. There must be sufficient remaining entitlement to cover the new mortgage, and the borrower must qualify with the outstanding debt.

If the borrower is converting a current principal residence to an investment property the following additional conditions will apply:

- 1) Both the current and proposed monthly housing expenses must be used for qualifying,
- 2) Rental income may not be used to offset the mortgage payment,
- 3) Evidence of cash reserves totaling 6 months PITI for both properties must be provided.

Exceptions to the above guidelines may be considered on a case by case basis if it is determined by the underwriter that the use of rental income meets VA guidelines (per the Lender Handbook) AND one of the two following conditions can be met:

- The veteran is relocating with a new employer, or is transferred by the current employer to an area not within a reasonable and locally recognized commuting distance, or
- There is documented evidence of at least 30% equity in the property as verified by a full appraisal performed by a PCM selected appraiser.

In instances where the borrower intends to sell their present home but it will not close before the purchase of the new principal residence occurs (or the property will be converted to a second home), PITI payments on both properties must be included for qualifying the borrower AND the following documentation must be obtained:

- 1) Cash reserves totaling at least 6 months PITI for both properties, OR
- 2) Cash reserves totaling at least 2 months PITI for both properties AND verification of at least 30% equity in the existing property as determined by an appraisal performed by a PCM selected appraiser.

**Occupancy:** Owner-occupied only on all transactions. Investment properties and second homes are not allowed.

Additionally, if the borrower has a previous mortgage transaction for a primary residence within the past 12 months, the borrower must provide reasonable documentation to justify the new transaction (i.e.: letter of explanation and other supporting documentation) and confirm their intent to occupy the subject property as their new primary residence.

**Non-Occupant Co-Borrower:** Non-occupant co-borrowers are not allowed.

**Power of Attorney:** **With the exception of active military borrowers, PCM will not allow the use of a Power of Attorney.**

**Property Type:** Eligible properties include single-family attached and detached, and VA approved condos.

2-4 Unit properties are acceptable only on loans less than \$417,000.

New construction properties must be built by a VA approved builder.

Ineligible properties include manufactured homes, condotels, leaseholds, mixed-use properties, **properties subject to a right of redemption**, unique properties and working farms.

**Appraisal requirements:** PCM is a LAPP lender. All appraisals on properties that are newly constructed builder foreclosures or foreclosures where the lender has an interest or relationship with the seller, must be ordered as "IND" through VA's TAS (The Appraisal System). Appraisals on these properties will be reviewed and approved with the NOV (Notice of Value) issued directly by VA. All other properties are to be ordered as "LAPP" with appraisal review and NOV to be issued by PCM.

Loans in excess of \$650,000 will require an additional PCM Investor review prior to closing.

**Qualifying Ratios:**

**Maximum DTI is 50% regardless of AUS findings.**

For manually underwritten loans, the maximum qualifying ratio is 41%. This ratio may only be exceeded if there are verifiable compensating factors and/or the verified residual income is at least 120% of the required amount.

Non-taxable income may be "grossed-up" for debt ratio qualifying purposes only. The gross-up percentage that may be used is based on the veteran's tax bracket. Generally, 115% may be used with no further documentation.

Student loans may be omitted if verified to be deferred a minimum of 12 months from the Note date.

Installment debts with less than 10 months remaining are not automatically excluded from qualifying ratios. Exceptions to omit the debt are determined on a case by case basis and require compensating factors to consider omission.

For properties located in community property states, the debt of a non-purchasing spouse must be included in qualifying ratios as verified by a triple merge credit report. The non-purchasing spouse does not have to meet PCM credit score requirements. Judgments and/or tax liens belonging solely to the non-purchasing spouse do not have to be re-paid as a condition of loan approval, but must have an established payment arrangement and the payment included in qualifying the borrower. If a payment arrangement is not in place, 5% of the outstanding balance will be used for qualifying. In addition, an attorney opinion letter must be obtained to certify the borrower is not liable for the debt and that the judgment and/or lien cannot be placed against our borrower or the subject property.

Monthly maintenance and utility fees are not included in the monthly debt ratio but are considered in the residual income calculation.

**Refinances:**

All VA refinances are considered cash-out refinances, regardless of any cash received by the Veteran at closing. VA to VA cash out refinances must reflect true cash out to borrower and must have acknowledgment from Veteran he is aware of higher funding fee assessed on cash out transactions (as compared to VA Rollover).

For payoff of construction loans, the balance of the loan includes the balance of construction financing and any applicable lot loans. A final inspection and a certification of occupancy are required. A VOM and canceled checks covering the last 12 months (or total months line has been opened if less) verifying timely payments will be required.

Qualifying payments on all Equity lines will be based on 1% of the total line available regardless of balance, including those with 0 balance. (Note: Refer to LTV/CLTV chart for limitations on subordinate financing)

To be eligible for refinancing when there will be a short pay off, borrowers must be current on the mortgage being refinanced (in addition to being 0x30 in the most recent 12 months) and meet one or both of the following conditions:

- Demonstrate that there is insufficient equity in the home based on its current appraised value, and/or
- Verify a reduction in income that affects the borrower's capacity to repay the existing debt against the property

Recently listed properties are ineligible for refinances unless the listing was withdrawn (or expired) prior to the date of application. Cash out refinances on recently listed properties will be limited to 70% of the lesser of the last list price or current value unless a minimum of 6 months has passed from the withdrawal or expiration date.

**Net Tangible Benefit:**

All refinances, with the exception of the payoff of a construction loan, must meet Primary Capital's Net Tangible Benefit requirements. For requirements please go to our website at [www.pcmexpress.com](http://www.pcmexpress.com).

**Reserves:**

Not required on loans less than \$417,000 unless necessary to maintain AUS approval or to meet underwriter manual underwriting requirements.

Loan amounts from \$417,001-\$650,000 require 6 months PITI reserves.

Loan amounts exceeding \$650,000 require 12 months PITI reserves.

*Retirement funds that can only be liquidated upon retirement or termination may not be used for reserves. Only 60% of vested balance may be used once account is confirmed acceptable for use.*

**Residual Income Requirements:**

Residual income is the remaining monthly income after all monthly debts are paid. Non-taxable income may not be "grossed-up" to meet this requirement.

Monthly maintenance and utility fees must be deducted as a monthly debt for the residual income calculation. The cost of these items is calculated at \$.14/square foot of the subject property.

All members of the household must be considered when determining family size. This includes the veteran's spouse (if not a borrower) and any individuals that depend on the veteran for support (fiancé, children, other adults without income sources, etc.). Certification of household size may be required upon underwriter review of credit documents.

The residual income varies by region and by loan amount. The residual income may be reduced by 5% for active duty veterans.

| <b>Regions<sup>1</sup></b> |   |   |  |
|----------------------------|---|---|--|
| Midwest                    | Missouri<br>Ohio                                      |   |  |
| South                      | Alabama<br>Arkansas<br>Georgia<br>Florida<br>Kentucky | Maryland<br>Mississippi<br>North Carolina<br>Oklahoma | South Carolina<br>Tennessee<br>Texas<br>Virginia |
| West                       | Colorado<br>Montana                                   |   |  |

1. The above listed states are the states in which Primary Capital currently lends.

| <b>For loan amounts to \$79,999</b> |   |         |        |        |
|-------------------------------------|---|---------|--------|--------|
| Family Size                         | Northeast   | Midwest | South  | West   |
| 1                                   | \$390   | \$382   | \$382  | \$425  |
| 2                                   | \$654   | \$641   | \$641  | \$713  |
| 3                                   | \$788   | \$772   | \$772  | \$859  |
| 4                                   | \$888   | \$868   | \$868  | \$967  |
| 5                                   | \$921   | \$902   | \$902  | \$1004 |
| over 5                              | Add \$75 for each additional member up to a family of 7 |         |        |        |
| <b>For loan amounts \$80,000+</b>   |   |         |        |        |
| Family Size                         | Northeast   | Midwest | South  | West   |
| 1                                   | \$450   | \$441   | \$441  | \$491  |
| 2                                   | \$755   | \$738   | \$738  | \$823  |
| 3                                   | \$909   | \$889   | \$889  | \$990  |
| 4                                   | \$1025  | \$1003  | \$1003 | \$1117 |
| 5                                   | \$1062  | \$1039  | \$1039 | \$1158 |
| over 5                              | Add \$75 for each additional member up to a family of 7 |         |        |        |

**Seller Concessions:**

The seller may pay for all closing costs and bona fide discount points. Additionally, the seller may contribute up to 4% concessions. Concessions include items such as the Funding Fee, prepaid escrows for taxes and insurance, debt payoff for the borrower, furniture and decorating allowance.

**Temporary Buy-downs:**

Temporary buy-downs are allowed on purchase transactions with a 30 year term. Either a 2-1-0 or a 1-1-0 is allowed. Qualifying is based on the note rate.

Buy-down fees cannot be charged to the borrower but the fees can be paid by the lender or seller. Seller funded buy-downs are included in the maximum seller concessions of 6%.

**Underwriting:**

All loans will be scored through an Automated Underwriting system (DU). AUS findings will be used for reduced documentation only. All files must otherwise meet PCM and VA underwriting guidelines. Loans in excess of \$417,000 may not use AUS findings for reduced documentation and must document income and assets according to the VA handbook.

Loans underwritten by Primary Capital must be closed and funded by Primary Capital. Correspondent transactions require PCM approval.

The following loans must be sent to VA for underwriting:

- Joint loans with someone other than veteran's spouse (**NOTE: 25% Guaranty required, may require additional down payment**)
- Veterans receiving non-service connected VA pension
- Veterans that are rated incompetent
- Sale of property in which PCM has stake or interest
- Cases where occupancy is questionable
- IRRRLs which are one or more months in arrears