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## Section 1 Contract

Plaza Home Mortgage, Inc.'s (PHM) Seller Guide, along with the Master Correspondent Loan Purchase Agreement (the "Agreement") governs the business relationship between PHM and the correspondent lender ("Seller"). This Seller Guide sets forth the terms and conditions for selling loans to PHM. Loans sold to PHM must conform to all requirements of the Agreement, program summaries, underwriting guidelines and this Seller Guide (together, the "Program Documents").

### 1.1 Seller Contractual Obligations

---

By signing the Agreement, Seller is bound by the requirements of the Program Documents. The Program Documents, subject to modification by PHM at its sole discretion, govern the sale of loans by Seller to PHM.

PHM maintains a contractual relationship with each Seller with which it does business. Failure of a Seller to perform obligations under the Program Documents constitutes a default and permits PHM to disqualify such Seller as an approved seller and permits PHM to terminate its relationship with that entity.

### 1.2 Rules of Interpretation

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#### Defined Terms; General Rules of Interpretation

Defined terms may be used in the singular or plural, as the context requires. Unless the context in which it is used otherwise clearly requires, the word "or" has the inclusive meaning represented by the phrase "and/or". The words "include", "includes" and "including" are deemed to be followed by the phrase "without limitation".

#### Headings for Convenience

All captions or paragraph headings in the Program Documents are for convenience only and in no way define, limit or describe the scope or intent of any provision in the Program Documents.

#### PHM's Sole Discretion

Whenever any provision of the Program Documents require or allow PHM to act in its discretion or to make a determination of fact or a decision to act, or to permit, approve, or deny another a party's action, such determination or decision shall be made in PHM's sole discretion.

#### PHM's Sole Opinion

Whenever any provision of the Program Documents require or allow PHM to make a determination of its opinion, such determination shall be made in PHM's sole opinion.

#### Updates and Amendments

PHM will update this Seller Guide from time to time to reflect changes in PHM's requirements and developments in PHM's Loan Programs. Each update will amend the Seller Guide. PHM will provide

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updates by means of a notice to Seller, as further described in the “Notice” section of this Seller Guide. The notice will explain the update and specify the effective date of the change.

#### Seller Guide Online

This Seller Guide, including all updates, is available to Sellers at <http://www.PHMhomemortgage.com/CorrespondentLending/>. In the event of any conflict between a hard copy of this Seller Guide and the online version of this Seller Guide, the online version will control.

---

### **1.3 Relationship of Parties Under This Seller Guide**

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Nothing in this Seller Guide, any related marketing or other materials creates or may be construed as permitting or obligating PHM to act as a financial or business advisor or consultant to Seller, as permitting or obligating PHM to control Seller or to conduct Seller's operations, as creating any fiduciary duty of the part of PHM to Seller, or as creating any joint venture, agency, partnership or other relationship between PHM and Seller. Seller acknowledges that it has had the opportunity to obtain the advice of experienced counsel of its own choosing in connection with the negotiation and execution of the Agreement as well as review of this Seller Guide. Seller further acknowledges that it is experienced with respect to the transactions contemplated by this Seller Guide and made its own independent decisions with respect to the Program Documents and any related transactions.

---

### **1.4 Power of Attorney**

---

Seller hereby constitutes PHM as attorney in fact for Seller, and in Seller's name and stead to endorse promissory notes from Seller to PHM, and execute assignments from Seller to PHM of mortgages, deeds of trust, deeds to secure debt and other security instruments securing said promissory notes for any mortgage loan sold by Seller to PHM, granting unto PHM full power and authority to do and perform each of the actions set out above as fully as Seller itself could or might do. Seller may only revoke this power of attorney in writing and only upon the expiration of 3 years from the effective date of the Agreement termination in accordance with the Agreement terms, and this power of attorney is a power coupled with an interest for such purposes.

---

### **1.5 Seller's Responsibility**

---

Seller is responsible for the performance of requirements and obligations contained in this Seller Guide, even if the requirement or obligation is performed by a third party.

---

### **1.6 Discretionary Relationship**

---

The relationship between PHM and Seller is a discretionary relationship. Seller is under no obligation to sell Loans to PHM and PHM is under no obligation to buy Loans from Seller unless Seller and PHM have entered into a separate binding commitment to sell and purchase specific Loans.

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### **1.7 Confidentiality**

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As a result of its relationship with PHM and access to the Program Documents, Seller will learn or have access to various trade secrets, confidential and proprietary methods, techniques, processes, applications, approaches, products, programs, policies, practices and procedures in various forms, which information is used or is useful in the conduct of PHM's business, including PHM's origination, purchase, sale and servicing of mortgage products (all such information is collectively referred to as "Confidential Information"). Seller acknowledges that such Confidential Information is the exclusive property of PHM.

Seller shall (1) protect such Confidential Information at least with the same degree of care that it uses to protect its confidential information, and (2) not, at any time, regardless of if, when, and how its relationship with PHM may terminate, directly or indirectly, disclose, publish, reveal, disseminate, or otherwise make available to anyone such Confidential Information, except to the extent required by applicable law. If Confidential Information required to be disclosed by Seller having authority to regulate or oversee any aspect of the Seller's business, Seller shall (a) formally request that such information be treated in confidence and (b) (i) provide PHM with written notice of the required disclosure promptly upon receipt of notice of the required disclosure, to the extent such notice is permitted by law, (ii) disclose only that portion of the Confidential Information that is legally required to be furnished, and (iii) coordinate with PHM in an effort to limit the nature and scope of such required disclosure.

## Section 2 Privacy of Consumer Financial Information

All capitalized terms used in this section and not otherwise defined shall have the meanings set forth in 12 C.F.R. Part 332 ("Privacy of Consumer Financial Information"), as amended from time to time (the "Privacy Regulation"), issued pursuant to Section 504 of the Gramm-Leach-Bliley Act (15 U.S.C. § 6801 et seq.).

### 2.1 Safeguards

---

Seller and PHM will maintain safeguards and take technical, physical and organizational precautions to ensure consumer information against destruction, loss, alteration, unauthorized access by or disclosure to third parties while in the possession or under the control of Seller, Seller agents, PHM or PHM agents. The objective of each such precaution will be to (i) ensure the security and confidentiality of Consumer Information, (ii) protect against any anticipated threats or hazards to the security or integrity of Consumer Information, and (iii) protect against unauthorized access to or use of Consumer Information that could result in substantial harm or inconvenience to any customer.

### 2.2 Unauthorized Assess to Consumer Information

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**Detection and Response to Security Breaches:** Seller and PHM will maintain sufficient procedures to detect and respond to any unauthorized possession, disclosure, use, or other security breaches involving Consumer Information.

**Notification of Unauthorized Access:** Seller and PHM will, as soon as reasonably practicable, notify the other party of any unauthorized or attempted possession, disclosure, use or knowledge of Consumer Information when it becomes aware of it, including any material breach or potential material breach of

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security, on a system, LAN or telecommunications network which contains or processes Consumer Information.

**Furnishing Details of Unauthorized Access:** Seller and PHM will, as soon as reasonably practicable, furnish to the other party full details of the unauthorized or attempted possession, disclosure, use or knowledge of Consumer Information, and use reasonable efforts to assist the other party in investigating or preventing the recurrence of any unauthorized or attempted possession, use or knowledge, of Consumer Information.

**Cooperation:** Seller and PHM will cooperate to correct any unauthorized possession, disclosure, use, or other security breaches, and in any litigation and investigation deemed necessary to protect Consumer Information.

**Recurrence:** Seller and PHM will use all reasonable efforts to prevent a recurrence of any unauthorized possession, use or knowledge of Consumer Information.

## 2.3 Confidentiality

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**Standard of Care:** Each Party will protect all Consumer Information with the same degree of care as it uses to avoid unauthorized use, disclosure, publication or dissemination of its own confidential information, but in no event, less than a commercially reasonable degree of care.

**Restricted Disclosure:** PHM and Seller may disclose Consumer Information to its agents, accountants, attorneys, and affiliates or subsidiaries (respectively, each party's "Third Party Recipients") if reasonably necessary in performing its duties. PHM and Seller agree that it will not disclose, release, or otherwise make available to any third party any Consumer Information without the other party's prior written consent; provided, however, that Seller and PHM are each responsible for any violation of these confidentiality obligations by its Third Party Recipients and will ensure that these individuals or entities are aware of these confidentiality obligations.

## Section 3 Seller Eligibility

PHM will approve its Sellers as "approved in good standing" at PHM's discretion. Sellers who are approved in good standing will be eligible to participate in PHM's loan programs. In order to become an approved seller, an applicant must, complete, at a minimum all of the following:

- Satisfy the PHM eligibility standards;
- Have its completed application approved by PHM; **AND**
- Execute the Agreement

In order to remain eligible to participate in PHM's loan programs, Seller must comply with all of the terms of the Program Documents as applicable.

**Note:** For Reverse Mortgage products, PHM Reverse Division will underwriter making final loan decision and prepare closing documents.

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### 3.1 Ineligible States

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Loans made in the following states are not eligible for purchase through the Correspondent channel:

- Mississippi
- West Virginia

Reverse Mortgage's ineligible states:

- Mississippi
- West Virginia
- Massachusetts
- North Carolina

### 3.2 Seller Obligations

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In order to remain eligible, Seller must be active with PHM in the preceding calendar year, maintain the initial standards or eligibility standards currently in effect, and comply with the continuing obligations as defined in the Program Documents, as applicable. In addition, at PHM's discretion, PHM reserves the right to amend any or all continuing eligibility standards for a Seller based upon factors including Seller's current financial strength, volume and performance, and license and background checks. PHM reserves the right to terminate the relationship with Seller at its sole discretion even if Seller is otherwise eligible.

### 3.3 Reporting Requirements

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#### Interim Financial Statements

On the date of the Agreement and each year afterwards, the Seller will give to PHM fiscal year-end audited financial statements and an Annual Certification in form and substance satisfactory to PHM certifying Seller's compliance with the terms of this Agreement. PHM may also require the Seller to provide interim financial statements. Seller shall immediately advise PHM of any material change in the Seller's circumstances, financial or otherwise, including, but not limited to, a change in the Seller's ownership.

#### Fidelity and Errors and Omissions Insurance

Seller must notify PHM if it receives notice from its insurer of intent to cancel, not renew, or otherwise modify Seller's coverage. This notification must be sent to PHM by registered mail at least 10 days before it becomes effective.

Seller must report to PHM all cases of material theft, embezzlement, or fraud and all claims made against the insurer within 10 days after the occurrence. If requested by PHM, Seller must provide current certificates of insurance outlining its fidelity and errors and omissions insurance.

#### Mailing Address

Submit all information required under the Reporting Requirements section above to:

Plaza Home Mortgage, Inc.  
Correspondent Approval Department  
4820 Eastgate Mall, Suite 100  
San Diego, CA 92121

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### 3.4 Audits and Inspections

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Seller agrees to allow PHM to conduct, audits or inspections at one or more of Seller's offices during normal business hours. At that time, Seller must provide the assistance of knowledgeable and responsible individuals and will grant PHM access to all books, records, and files pertaining to Seller's compliance with the Program Documents

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### 3.5 Disclosure of Information

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Upon the request of PHM, Seller shall disclose to PHM information relating to Seller's origination or servicing experience. Seller also consents to the disclosure by PHM of any such information to investors, rating agencies, credit enhancement providers, or any other entity that needs the information in connection with PHM's secondary marketing operation. Seller releases and agrees to hold harmless PHM and any insurer or other entity that discloses information as provided above from and against any claims or liabilities connected with such disclosure.

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### 3.6 Maintenance of Records

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Seller shall maintain adequate records of all loans submitted to PHM for purchase for such periods of time as may be necessary to comply with all applicable federal and state laws. In addition, Seller shall maintain each file for a period of 3 years from the date the loan is fully paid or, if the loan is accelerated, for at least 6 years from the date the loan is fully paid.

PHM has the right to examine any and all records that pertain to loans governed by the Agreement and the Program Documents. The records must include the individual loan file, any and all accounting reports associated with the loan; and any other reports, data, information and documentation that PHM in its discretion considers necessary to ensure that Seller is in compliance with PHM's requirements. Seller must satisfy a request for records within 15 days of the request. Seller must reproduce all records at its own expense, regardless of whether these records are maintained in paper or other format.

State and federal law recognize electronic images that meet certain standards as being equivalent to paper documents for legal purposes. PHM's requirements for document accessibility and retention apply equally to paper and electronic documents. Generally, the only documents associated with the origination and servicing of a mortgage that must be retained in paper format are the Security Instrument (and any related riders), any other document that changes the terms of the mortgage, the assignment for a MERS registered mortgage (when MERS is not named as nominee for the beneficiary), the unrecorded assignment of the mortgage to PHM (if the Security Instrument is not registered with MERS), and the Note and any related addenda. Seller is responsible for ensuring that any electronic documents it uses meet all legal standards and must have appropriate storage, retrieval, and back-up systems for such electronic documents. Upon request, Seller must provide PHM with information about the methods it uses for document and records storage and must convert the documents and records to a different format if requested by PHM.

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Seller shall maintain an individual loan file for each loan clearly marked with the PHM loan number and, for loans registered with MERS, the Mortgage Identification Number (MIN). Each file must contain all of the following:

- Copies of all documents delivered in their original form to PHM;
- Originals of all documents, and
- All other loan and related documents not required to be sent to PHM.

### **3.7 Notification of Changes in Seller Status**

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Seller must notify PHM prior to the occurrence of any of the following:

- Any change in Seller's business address and/or telephone number or change in company structure.
- Any material increases or decreases in capital, alteration of debt/equity ratios, or changes in management ordered or required by a regulatory authority supervising or licensing Seller.
- Resignation of any senior management overseeing the origination, processing, underwriting, closing, and if applicable, secondary marketing operations of Seller. Resumes of replacement personnel must be furnished within 30 days of such replacement.
- Entry of any court judgment or regulatory order in which Seller is or may be required to pay a claim or claims which may have a material adverse effect on Seller's financial condition.
- The winding up or dissolution of Seller's business.

When PHM receives this written notification, it will contact Seller if further documentation is required. PHM reserves the right to suspend further business with Seller while determining the impact of the change on Seller's qualifications. Failure to notify PHM of any such change may result in termination, disqualification, suspension, inactivation or other remedies available to PHM under the Program Documents.

### **3.8 Year End Reporting**

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Sellers are required to provide the 1098 to the borrower for pre-paid interest collected at closing as reflected on the final HUD-1 and for points paid by the borrower to the lender. PHM will only provide the 1098 for interest on payments received. If PHM purchases the loan at Original Balance, the seller is still responsible to report pre-paid interest collected at closing.

## **Section 4 Quality Control**

### **4.1 Internal Quality Control**

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Seller must maintain an internal quality control program to ensure:

- Accuracy of legal and origination documents
- Soundness of underwriting decisions, if applicable

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- Detection of fraud and misrepresentation
- Identification of systemic issues and their root causes
- Monitoring of corrective action plans
- Sound reporting procedures

The program must be supported by a written plan outlining the objectives and scope of the review and applicable policies and procedures. Upon request, Seller must have the ability to produce a copy of the Quality Control Summary report, as provided to Seller's senior management.

Seller must be knowledgeable of standard Agency and industry best practices regarding quality control requirements.

#### **4.1.1 Sampling**

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Seller's sampling process must include, but may not be limited to:

- Random and high risk targeted selection;
- Loans that experience serious delinquencies; and
- Post closing review process that takes into account Agency requirements

#### **4.1.2 Notice**

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If Seller becomes aware of any of the following occurring on a loan sold to PHM, Seller must give prompt written notice setting forth the details of the discovery and any supporting documentation.

- The loan becomes un-saleable;
- Material misrepresentation or fraudulent activity of any nature;
- A variance that could materially and adversely affect the interest of PHM;
- A defect that could trigger Seller's repurchase obligation

The written notice must be sent to:

PHM Home Mortgage, Inc.  
4820 Eastgate Mall, Suite 100  
San Diego, CA 92121  
Attn: Risk Management

#### **4.2 Best Practices for Quality Control**

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Each Seller is unique in size, distribution channels, target market, product mix, and other risk characteristics. It is important that Seller's quality control program and fraud controls be customized to be appropriate and effective for its specific situation. In addition to the other quality control requirements contained in the Program Documents, the following best practices are recommended for all Sellers:

- Seller's quality control staff is free from the influence of the production/origination, underwriting, and closing departments and reports directly to senior management.

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- Seller's employees receive appropriate background checks prior to being hired and are aware of Seller's code of conduct regarding fraud and appropriate handling of confidential consumer information. Employees and others have a means to report fraud and unethical behavior to Seller, which will be objectively investigated.
- Seller maintains an active focus on preventive controls, such as pre-funding quality assurance and fraud reviews, fraud awareness training, and document and appraisal procurement policies. **AND**
- Seller makes appropriate use of current technology and tools in protecting itself from fraud including, but not limited to independent sources of information about the mortgaged property including any additional sources of information to validate appraised values, direct verifications of Social Security Number and IRS information, income reasonability models, public records information on parties to transactions, fraud risk scoring models, and portfolio and pipeline analysis tools.

## Section 5 Representations, Warranties & Covenants Concerning Seller

Seller acknowledges that PHM has relied upon the accuracy, completeness and truth of Seller's representations, warranties, covenants, and upon Seller's compliance with the terms and conditions set forth in the Program Documents.

All representations, warranties, and covenants are absolute and Seller is fully liable for any breach of any representation, warranty or covenant regardless of whether it or PHM actually had, or reasonably could have been expected to obtain, knowledge of the facts giving rise to such breach of representation, warranty or covenant.

The representation, warranty or covenants pertaining to each loan are not affected by any investigation or review made by, or on behalf of, PHM except when expressly waived in writing by PHM. The representation, warranty or covenants pertaining to each loan are applicable regardless of whether Seller or a third party originated or serviced or performed any other actions with respect to the loan.

The representations and warranties:

- Apply to each loan in its entirety sold to PHM or referred to PHM for underwriting and closing.
- On loans closed in Seller's name and sold to PHM, are made as of the date the loan funded and continue after the purchase of the loan.
- On loans referred to PHM for underwriting and closing in the name of PHM, are made as of the date the loan closed and continue after the closing of the loan. **AND**
- Are for the benefit of PHM as well as the benefit of PHM's successors and assigns.

PHM reserves the right to require Seller to make additional representations, warranties or covenants in writing.

### 5.1 Due Organization, Good Standing

Seller is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation, and has all requisite power and authority to acquire, own and sell the loan.

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**5.2 Licensing**

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Seller, and/or officer, director or employee of seller, has all licenses necessary to carry out its business as currently being conducted and is licensed and qualified to transact business. Seller is in good standing under the laws of each state in which any Mortgaged Premises is located, or is otherwise exempt under applicable law from such licensing or qualification. No licenses or approvals obtained by Seller have been suspended or revoked by any court, administrative agency, arbitrator or governmental body and no proceedings are pending which might result in such suspension or revocation.

Refer to the [Mortgaged Premises](#) section of this document for more information on Mortgaged Premises.

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**5.3 Authority**

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Seller has full power and authority to execute, deliver and perform its obligations under the Program Documents, and to consummate all transactions contemplated therein. The execution, delivery and performance by Seller of the Agreement and the consummation by Seller of the transactions contemplated hereby have been duly authorized by all necessary actions on the part of Seller. The Agreement has been duly executed and delivered by Seller and upon the due authorization, execution and delivery by PHM, will constitute the valid and legally binding obligation of Seller enforceable against Seller in accordance with its terms. Enforceability may be limited by bankruptcy, reorganization, insolvency, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally, and by general principles of equity regardless of whether enforceability is considered in a proceeding in equity or at law.

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**5.4 No Bulk Transfer, Ordinary Course of Business**

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The transfer, assignment and conveyance of loans closed in Seller's name and sold to PHM, including the notes and the security instrument by Seller pursuant to this Seller Guide are in the ordinary course of Seller's business, and are not subject to bulk transfer or any similar statutory provisions in effect in any applicable jurisdiction.

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**5.5 No Conflicts**

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The execution, delivery and compliance with the Program Documents, will not conflict with or result in a breach of any of the terms, conditions or provisions of Seller's articles of incorporation, charter, bylaws, partnership agreement, or other organizational document, or violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or regulatory directive presently in effect having applicability to Seller.

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**5.6 Ability to Perform**

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Seller does not believe, nor does it have any cause or reason to believe, that it cannot perform each and every covenant contained in this Seller Guide. On loans closed in Seller's name and sold to PHM, the sale of the loans will not cause Seller to become insolvent and the sale of the loans is not undertaken with the intent to hinder, delay or defraud any of Seller's creditors.

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**5.7 No Litigation Pending**

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There is no litigation, suit, proceeding or investigation pending or, to the knowledge of Seller, threatened, or any order or decree outstanding, against Seller or any subsidiary of Seller, that either in any one instance or the aggregate may have a material adverse effect on the enforceability of the Program Documents, or the business, operations, financial condition of Seller, or result in any material liability on the part of Seller, or which would draw into question the validity or enforceability of the Program Documents, any loans, or of any action taken or to be taken in connection with Seller's obligations contemplated in the Program Documents, or which would be likely to impair materially Seller's ability to perform under the terms of the foregoing documents.

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**5.8 No Consent Required**

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No consent, approval, authority, or order of any court, governmental agency or body is required for the execution and performance by Seller of, or compliance by Seller with, any of the Program Documents or the consummation of any of the transactions contemplated by the Program Documents, or, if required, such unconditional approval has been obtained.

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**5.9 No Untrue Information**

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None of the Program Documents nor any statement, report, or other information or document provided or to be provided by Seller or another party on Seller's behalf pursuant to the Program Documents contains any untrue statement of material fact or omits to state a material fact necessary to make the statements contained therein not misleading. Seller meets PHM's Eligibility Standards and shall take all steps necessary to continue to meet such Eligibility Standards.

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**5.10 No Accrued Liabilities**

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There are no accrued liabilities of Seller, with respect to any of the loans, or circumstances under which any such accrued liabilities will arise against PHM, as successor to Seller's interest in and to the loans, with respect to any action or failure to act by Seller or any party involved in the originating or servicing of the loan.

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**5.11 Compliance with Laws**

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Seller has complied with, and has not violated any law, ordinance, requirement, regulation, rule or order applicable to its business or properties, the violation of which might adversely affect the operations or financial conditions of Seller, or the ability of Seller to consummate the transactions contemplated by the Program Documents.

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**5.12 Compliance with Program Documents**

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Seller has complied with all applicable provisions of the Program Documents, and will promptly notify PHM of any occurrence, act, or omission or regarding Seller, the loan, the mortgaged property or the borrower, which occurrence, act, or omission may materially affect Seller, the loan, the mortgaged property or the mortgagor.

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**5.13 No Defenses**

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Seller has no judgment, court order, claim, counterclaim, and defense, right of set-off or similar right against PHM. Furthermore, for each loan sold by Seller to PHM, Seller represents and warrants that there exists no condition or conditions which either individually or in the aggregate could give rise to a right of rescission, set-off, counter-claims or defenses to the Note or Deed of Trust/Mortgage securing the note.

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**5.14 Sale**

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On loans closed in Seller's name and sold to PHM, Seller will treat the sale of the loans to PHM as a sale of assets, and reflect it as such on its financial statements, tax returns and business records.

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**5.15 MERS**

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If Seller will close loans in Seller's name for sale to PHM, Seller is registered and in good standing with MERS and Seller must provide MERS number.

## **Section 6 Representations/Warranties by Seller Regarding Individual Loans**

Seller hereby makes the following representations, warranties, and covenants, and all other representations, warranties, and covenants found elsewhere in this Seller Guide to PHM as to each loan closed in Seller's name and sold to PHM.

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**6.1 Loan Eligibility**

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Each of the loans meet the applicable terms, criteria and requirements set forth in the Program Documents, and meet the requirements of PHM.

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**6.2 Accuracy of Information**

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All information relating to each loan is true, complete and accurate and there are no omissions of material facts and there exist no facts, the disclosure of which is necessary to make any representation or warranty not misleading. All information accurately reflects the information in the related loan file. There has been no fraud or misrepresentation by any party in the origination, underwriting or closing of a loan.

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**6.3 Loan Provisions**

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The provisions of the loan have not been impaired, waived, altered or modified in any respect, unless approved in writing by PHM, and, to the extent required, by the issuer of any related private mortgage insurance policy and title policy. No borrower has been released from its obligations under any loan except in connection with an assumption agreement that is part of the security instrument documents and complies with the requirements of this Seller Guide. The security instrument has not been satisfied, canceled or subordinated, in whole or in part, or rescinded, and the Mortgaged Premises has not been released from the lien of the security instrument, in whole or in part, nor has any instrument been executed that would affect any such release, cancellation, subordination or rescission. No person involved in the origination of the loan has entered into any agreement, formal or informal, including an agreement to refinance the loan as an inducement to enter into the loan.

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#### **6.4 Loan Documents**

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No action has been taken or failed to be taken by any party involved in the origination, servicing, assignment or sale of the loan that would affect the validity or enforceability of the loan or the interests therein. On loans closed in Seller's name and sold to PHM, all loan documents are genuine, have been completed, duly and properly executed, are in recordable form (if recording is required) and have been delivered in the form and manner specified in this Seller Guide, and each loan is the borrower's legal, valid and binding obligation enforceable in accordance with its terms. All originals and copies of such documents, materials, and other information required to be submitted to PHM have been so submitted, and are complete and accurate.

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#### **6.5 Completion of Improvements**

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Any and all requirements as to completion of any on site or off site improvements and as to disbursements of any escrow funds have been complied with unless a repair escrow has been established as permitted in this Seller Guide.

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#### **6.6 Sole Owner**

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On loans closed in Seller's name and sold to PHM, Seller has good title to and is the sole owner and owner of record of the loan, free and clear of any pledge, lien or assignment, except for the lien of a warehouse lender which has been disclosed to PHM together with instructions for paying off such lien with the proceeds of the funding of the loan, and Seller has full right to transfer, assign and sell the loan to PHM free and clear of any pledge, lien or assignment.

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#### **6.7 Compliance with Law**

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Each loan has been originated, closed, serviced and transferred in compliance with all applicable federal, state and local laws, regulations and orders, including usury laws, the Real Estate Settlement Procedures Act, the Fair Credit reporting Act, the Equal Credit Opportunity Act, the Truth-in-Lending Act, Loan Originator Compensation Rules, the Fair Housing Act, the Bank Secrecy Act, the National Flood Insurance Act, the Gramm-Leach-Bliley Act, the Electronic Signatures in Global and National Commerce Act (E-Sign) and the Uniform Electronic Transactions Act (UETA), and all other laws and regulations applicable to electronic records, electronic disclosures, and electronic signatures. All loan documents and all other documents relating to the loan comply with all applicable federal, state and local laws,

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regulations and orders. The loan documents accurately reflect the status of the loan with respect to all such laws or regulations.

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## 6.8 Hazard Insurance

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All improvements upon the Mortgaged Premises are insured by a qualified insurer (as determined by PHM at its sole discretion) against loss by fire and other hazards as required by this Seller Guide, with extended coverage and such other coverage as would be required by each of the GSEs for their purchase of the same loan.

Refer to the [Hazard Insurance](#) section of this Seller Guide for more detailed information.

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## 6.9 Flood Insurance

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To the extent required by the Flood Disaster Protection Act of 1973 and the 1994 National Flood Insurance Reform Act, each as amended, and their implementing regulations, the Mortgaged Premises is covered by a flood insurance policy which complies with such laws, and the borrower has been given all notices that may be required by such laws. The policies must contain a mortgage clause to PHM.

Refer to the [Flood Insurance Section](#) of this Seller Guide for more information.

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## 6.10 Obligation of Insurer

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Each insurance policy required under the terms of this Seller Guide is the valid and binding obligation of the insurer, has not been impaired, is in full force and effect, and all premiums due under the insurance policy have been paid. The security instrument requires the borrower to maintain all such insurance at the borrower's expense and, upon the borrower's failure to do so, authorizes the holder of the security instrument to obtain and maintain such insurance at the borrower's expense and to seek reimbursement from the borrower.

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## 6.11 Title Insurance

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Except for Iowa loans, for each loan, a policy of title insurance regarding the mortgaged premises, in the form and amount required by this Seller Guide, issued by a qualified title insurer, is effective as of the day the security instrument is recorded, is valid and binding, is in conformance with all agency guidelines and remains in full force and effect. If the loan is secured by real property located in Iowa, and an American Land Title Insurance (ALTA) policy of title insurance has not been provided, then a Title Guaranty Certificate issued by the Iowa Title Guaranty Division of the Iowa Finance Authority in the form and amount required by this Seller Guide, and effective as of the closing of such loan is valid and binding and remains in full force and effect.

Refer to the [Title Insurance](#) section of this Seller Guide for more information.

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## 6.12 Private Mortgage Insurance

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To the extent required by this Seller Guide and PHM's Underwriting Summaries and Standards, the principal balance of the loan is and will be insured as to payment defaults by a private mortgage insurance commitment issued by a qualified insurer. The private mortgage insurance commitment insures the originator of the loan and its successors and assigns. Such insurance policy is the valid and binding obligation of the insurer, has not been impaired, is in full force and effect, and all premiums due under the insurance policy have been paid. Seller has disclosed in separate writing to the borrower the terms and conditions that must be met prior to the private mortgage insurance policy being eligible for cancellation. Seller has taken all steps necessary to assign the private mortgage insurance policy to PHM, and is not aware of any reason the private mortgage insurance policy may not be assigned to PHM.

Refer to the [PMI](#) section of this Seller Guide for more detailed information.

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### 6.13 FHA, VA and RD (USDA) Loans

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With respect to each loan intended to be insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) or the USDA Rural Housing Department: (1) Seller is authorized under applicable FHA/VA/USDA regulations to originate an FHA, VA or USDA home mortgage loan; (2) has fully complied with all requirements, standards and guidelines under applicable FHA, VA or USDA regulations, as amended from time to time, and (3) has taken no action or failed to take any action, the effect of which would prevent it or PHM from obtaining a Mortgage Insurance Certificate issued by FHA or a VA Loan Guaranty Certificate issued by the VA or a Guaranty Certificate issued by the USDA which would at any time invalidate, in whole or in part, the FHA insurance or VA loan guaranty or USDA guaranty on any submitted FHA/VA/USDA loan application which is subsequently approved for purchase by PHM.

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### 6.14 MERS Assignment

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On loans closed in Seller's name and sold to PHM, for each loan registered with MERS, all rules and procedures of MERS have been complied with regarding the Security Instrument, and (i) if the Security Instrument relating to such loan identifies MERS as the original mortgagee of record, such Security Instrument provides that the Security Instrument is given to MERS solely as nominee for Seller and its successors and assigns and such Security Instrument has been properly executed, acknowledged, delivered and recorded in all places necessary to perfect the security interest on the mortgaged premises in favor of MERS, solely as nominee for Seller and its successors and assigns; or (ii) if MERS is not the original mortgagee of record, an assignment to MERS has been prepared, duly executed and recorded and the chain of assignments is complete and recorded from the original mortgagee to MERS.

Refer to the [MERS](#) section of this Seller Guide for more information.

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### 6.15 Loan Securitization

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Seller recognizes that it is PHM's intent to securitize some or all of the loans sold to PHM by Seller. Seller agrees to provide PHM with all information concerning Seller generally, and, if applicable, Seller's servicing experience, as PHM reasonably requests for inclusion in a prospectus or private placement memorandum published in connection with such securitization. Seller further agrees to cooperate fully with PHM, rating agencies, attorneys, bond insurers, purchasers of loans or any other parties that may be

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involved in the sale or securitization of any loan, including, without limitation, all cooperation as may be necessary in order to accommodate due diligence activity.

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**6.16 No Distribution Under the Securities Act**

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Neither Seller nor anyone acting on its behalf has offered, transferred, pledged, sold or otherwise disposed of the loan or any interest in the loan, or solicited any offer to buy or accept a transfer, pledge or other disposition of the loan, or any interest in the loan, or otherwise approached or negotiated with respect to the loan, or any interest in the loan, with any person in any manner, or made any general solicitation by means of general advertising or in any other manner, or taken any other action that would constitute a distribution of the loans under the Securities Act of 1933, as amended (the "Securities Act") or which would render the disposition of the loans a violation of Section 5 of the Securities Act or require registration pursuant thereto. The loans are not securities under any federal or state securities law or subject to regulation there under.

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**6.17 No Default**

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On loans closed in Seller's name and sold to PHM, there is no default, breach, violation or event of acceleration existing under the Security Instrument or the Note and there is no event that, with the passage of time or with notice and the expiration of any grace or cure period, would constitute a default, breach, violation or event permitting acceleration. Except as otherwise permitted in this Seller Guide or expressly waived in writing by PHM, the loan is current and not past due under its own terms. No such default, breach, violation or event of acceleration has been waived by any person involved in originating or servicing of the loan.

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**6.18 No Liens**

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There are no delinquent tax or delinquent assessment liens against the mortgaged premises, and there are no mechanic's liens or claims for work, labor or material or any other liens affecting the mortgaged premises, which are or may be a lien prior to, or equal with, the lien of the Security Instrument assigned to PHM, except those liens that are insured against by the policy of title insurance or Title Guaranty Certificate issued by the Iowa Title Guaranty Division.

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**6.19 No Redemption Period**

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The Mortgaged Premises are not subject to a redemption period by a previous owner under applicable state law.

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**6.20 No Defenses**

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The borrower has no right of rescission, set off, counterclaim or defense, nor will the operation of any of the terms of the Security Instrument, the Note, or any other loan document, or the exercise of any right there under, render the Security Instrument or the Note unenforceable, in whole or in part, or subject to any right of rescission, set off, counterclaim or defense, and no such right of rescission, set off, counterclaim or defense has been asserted with respect thereto.

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**6.21 No Damage**

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The mortgaged premises are not damaged by fire, earthquake, windstorm, flood or other casualty and are in good repair. There are no proceedings pending for the partial or total condemnation of the mortgage premises and Seller knows of nothing involving the condition of the mortgaged premises that could reasonably be expected to materially adversely affect the value or marketability of any mortgaged premises.

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**6.22 Security Instrument**

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On loans closed in Seller's name and sold to PHM, the Security Instrument contains customary and enforceable provisions such as to render the rights and remedies of the holder thereof adequate for the realization against the mortgaged premises of the benefits of the security provided thereby, including: (i) in the case of a Security Instrument designated as a deed of trust, by trustee's sale, and (ii) otherwise by judicial foreclosure or summary foreclosure if available. There is no homestead or other exemption available to the borrower that would interfere with the right to sell the mortgaged premises at a trustee's sale or the right to foreclose the Security Instrument, subject in each case to applicable federal and state laws and judicial precedents with respect to bankruptcy and right of redemption. If the Security Instrument constitutes a deed of trust, a trustee, authorized and duly qualified if required under applicable law to act as such, has been properly designated and currently so serves and is named in the Security Instrument, and there are no fees due the trustee.

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**6.23 Leasehold**

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Except as may be permitted under PHM's Underwriting Standards or this Seller Guide, the mortgaged premises are not subject to a Leasehold estate.

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**6.24 Acceleration**

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On loans closed in Seller's name and sold to PHM, the Security Instrument contains a customary provision for the acceleration of the payment of the unpaid principal balance of the loan in the event the Mortgaged Premises is sold without the prior consent of the mortgagee.

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**6.25 Full Disbursement**

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Except as may be permitted under this Seller Guide, on loans closed in Seller's name and sold to PHM, the proceeds of the loan have been fully disbursed and there is no requirement for future advances. All costs, fees and expenses incurred in making or closing the loan and the recording of the Security Instrument were paid or are in the process of being paid, and the borrower is not entitled to any refund of any amounts paid or due under the Note or Security Instrument.

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**6.26 Payment Forbearance or Future Refinancing**

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Seller has not made arrangements with any borrower for any payment forbearance or future refinancing with respect to any loan.

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**6.27 Appraisal and Value**

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On loans closed in Seller's name and sold to PHM, for each loan for which an appraisal is required or obtained under this Seller Guide, the appraisal was made by an appraiser who meets the minimum qualifications for appraisers as specified in this Seller Guide or program documents. For each loan, as of the funding date, the market value of the Mortgaged Premises is at least equal to the appraised value stated on the loan appraisal, or if an Automated Valuation Model (AVM) is permitted, the value on the AVM.

Refer to [Appraisal](#) section of this document for more information.

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**6.28 Appraiser Independence Requirements**

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Each appraisal conducted in connection with single-family loans, was obtained in compliance with the Appraiser Independence Requirements (AIR). On loans closed in Seller's name and sold to PHM, the lender on the Note must provide to the borrower a copy of all appraisal reports no less than 3 days prior to the closing of the loan.

Refer to the follow sections of this document for more information.

[Appraisal Delivery Requirements](#)  
[Appraisal Delivery Waivers](#)

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**6.29 Escrow**

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On loans closed in Seller's name and sold to PHM, any escrow arrangements established with respect to the loan are in compliance with all applicable local, state and federal laws and are in compliance with the terms of the Note. With respect to escrow deposits and escrow payments, if any, required pursuant to the loan documents, all such payments are in the possession of, or under the control of, Seller and there exist no deficiencies in connection therewith for which customary arrangements for repayment thereof have not been made. No escrow deposits or escrow payments or other charges or payments due to Seller by the borrower have been capitalized under the Security Instrument or the related Note and no such escrow deposits or escrow payments are being held by Seller for any work on a Mortgaged Premises that has not been completed.

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**6.30 Improvements within Boundaries**

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All improvements subject to the Security Instrument that were considered in determining the appraised value of the Mortgaged Premises lie wholly within the boundaries and building restriction lines of the Mortgaged Premises (and wholly within the project with respect to a condominium unit) and no improvements on adjoining properties encroach upon the Mortgaged Premises except those that are insured against by title insurance.

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**6.31 Mortgaged Premises**

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The Mortgaged Premises is located in the state identified in its Security Instrument documents and consists of a single parcel of real property with a detached single family residence erected thereon, or a townhouse (including a row house), or a two to four family dwelling, or an individual condominium unit in a condominium project, or an individual unit in a Planned Unit Development (PUD) or a de minimis Planned Unit Development; provided, however, that any condominium unit or Planned Unit Development shall conform with requirements acceptable under this Seller Guide regarding such dwellings.

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**6.32 Valid and Perfected Lien, Priority**

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The Security Instrument is a valid, perfected and enforceable first priority lien on the Mortgaged Premises securing the borrowers' obligations under the Note subject only to:

- The lien of non-delinquent current real property taxes and assessments not yet due and payable.
- Covenants, conditions and restrictions, rights of way, easements and other matters of the public record as of the date of recording that are generally acceptable to Security Instrument lending institutions and either:
  - Are referred to or otherwise considered in the appraisal made for the originator of the loan; and
  - Do not adversely affect the appraised value of the Mortgaged Premises as set forth in such appraisal, other matters to which like properties are commonly subject that do not materially interfere with the benefits of the security intended to be provided by the Security Instrument or the use, enjoyment, value or marketability of the related Mortgaged Premises.

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**6.33 Environmental Hazards**

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There is no violation of any environmental law, rule or regulation with respect to the Mortgaged Premises, and there are no toxic materials or other environmental hazards on, in or that could affect the Mortgaged Premises. Neither Seller nor the related borrower has received any notice of any violation or potential violation of such laws.

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**6.34 No Bankruptcy**

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The borrower is not in bankruptcy.

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**6.35 No Adverse Origination Circumstances**

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The origination and servicing practices used by Seller with respect to the loan have been in all respects legal, proper, prudent and customary in the mortgage industry. There are no circumstances involving the loan Documents, the Mortgaged Premises, or the borrower's credit standing that could (i) cause private institutional investors to regard the loan as an unacceptable investment, (ii) cause the loan to become delinquent, or (iii) adversely affect the value or marketability of the Mortgaged Premises or the loan.

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**6.36 No Home Improvement Contractor**

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No home improvement contractor or dealer was involved as a third party originator of the loan or received compensation in any form from Seller.

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**6.37 Early Payment Default**

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Neither Seller, nor any third party acting on behalf of Seller, has made or will make a scheduled payment on the loan during the period during which the loan is subject to the remedies applicable for early payment default.

For more details on early payment defaults refer to the [Defaults and Remedies, Early Pay Off](#) section of this document.

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**6.38 Origination, Servicing**

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On loans closed in Seller's name and sold to PHM, the servicing of each loan is in accordance with the requirements of the Note and Security Instrument.

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**6.39 Electronic Loan Disclosures**

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If disclosures are required by law to be given to borrower(s) in connection with the origination of a mortgage loan and the disclosures are provided electronically, the disclosures were provided in compliance with the Electronic Signatures in Global and National Commerce Act (E-Sign) and all other laws and regulations applicable to electronic records and electronic disclosures. Borrowers have consented to receive the disclosures in accordance with the E-Sign Act. The borrower(s) have, by use of electronic means, either (i) affirmatively consented to use electronic records, or (ii) confirmed electronically consent that was oral or in writing. The affirmative consent process, including confirmation of prior non-electronic consent if applicable was accompanied by, or incorporates, a reasonable demonstration of the consumer's ability to receive electronic disclosures in the formats that will be used for delivering the required disclosures. Each loan file contains documentary evidence of the borrower's consent to receive disclosures electronically and hard copies of the disclosures provided electronically.

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**6.40 Fannie Mae Loan Quality Initiative**

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On loans eligible for sale to Fannie Mae or Freddie Mac closed in Seller's name and sold to PHM, each loan complies with Fannie Mae's Loan Quality Initiative requirements as described in Fannie Mae Lender Letter LL-2010-03 and Fannie Mae Announcements SEL-2010-01 and SEL 2010-03 and in any and all subsequent Fannie Mae Lender Letters and Selling Guide Announcements regarding the Loan Quality Initiative.

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**6.41 Occupancy**

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On loans closed in seller's name and sold to PHM, with respect to each loan, Seller gave due consideration to factors, including but not limited to, other real estate owned by the borrower, commuting distance to work, appraiser comments and notes, and any difference between the borrower's mailing address and the subject property address to evaluate whether the intended occupancy status of the property as represented by the borrower was reasonable. All owner occupied properties are lawfully occupied under applicable law by the owner within 60 days closing of the loan.

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#### 6.42 Third Party Originations

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On loans sold to PHM, each loan was originated by and closed in Seller's name.

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#### 6.43 Notary Requirements

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PHM will not purchase any loan that closes with a notary who is associated with the correspondent originator. Associations deemed inappropriate for a notary to have with the correspondent originator may include, but not limited to the following: any employee of the correspondent originator (e.g. processors, loan officers), any family member of one of the principal owners, anyone who is to receive funds other than a notary fee, based on the closing of the loan. Any closing that occurs using a notary associated with the correspondent originator will be not be eligible for purchase.

The Security Instrument and all applicable riders must be executed by the borrowers before a notary. The notary must sign the notary acknowledgment and the notary seal/stamp and expiration date must be affixed to each document as applicable. The notary date is used as the acknowledgment date of the Note and mortgage for compliance purposes. Notary acknowledgement must be clearly legible.

## Section 7 Responsible Lending Representations, Warranties, Covenants

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### 7.1 HOEPA/Section 32 Loans

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The Home Ownership and Equity Protection Act became law in 1994. This law addresses certain deceptive and unfair practices in home equity lending. It amends the Truth-in-Lending Act (TILA) and establishes requirements for certain loans with high-rates and/or high fees. The rules for these loans are contained in Section 32 of Regulation Z, which implements the TILA; therefore, these loans are often referred to as "Section 32 Mortgages". The purpose of this law is to protect consumers in high cost mortgages from predatory lending activities whereby creditors engage in a pattern or practice of lending based on the collateral value of a property without regard to the consumers ability to repay the loan. It also prevents deceptive and unfair practices in home equity lending.

A loan is covered by the Home Ownership and Equity Protection Act if it meets the following:

- The annual percentage rate (APR) exceeds, by more than 8 percentage points, the rates on Treasury securities of comparable maturity (10 percentage points for second liens). **OR**
- The total fees and points payable by the consumer at or before closing exceed the larger of \$400 or 8 percent of the total loan amount. This amount is adjusted annually by the Federal Reserve Board, based on changes in the Consumer Price Index.

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These rules primarily affect refinancing and home equity installment loans that also meet the definition of a high-rate or high-fee loan. These rules do not cover loans to purchase, initially construct a home, reverse mortgages, or to home equity lines of credit.

Loans that are covered by the Home Ownership Equity Protection Act are ineligible for purchase by PHM.

Sellers should refer to Reg Z and the Home Ownership and Equity Protection Act and their legal counsel for further information and interpretation.

**Note:** Reverse Mortgage's excluded

## 7.2 State and Local High Cost Loans

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A loan considered a "high-cost," "covered," "high-risk," "predatory" or any other similar designation under any state or local law in effect at the time of the closing of the loan if the law imposes greater restrictions or additional legal liability for residential mortgage loans with high interest rates, points and/or fees.

On loans eligible for sale to Fannie Mae or Freddie Mac, a high-cost loan is ineligible regardless of whether the applicable law has a cure provision, and regardless of any steps Seller takes to attempt to cure the loan. Such loan is subject to repurchase by the Seller.

In addition, Seller represents and warrants that:

- It has in place policies and procedures based on the requirements of each state and federal regulations to identify high cost loans to ensure that it does not inadvertently deliver an ineligible loan to PHM. **AND**
- No person, with the intent to avoid the application or evade the provisions of one of the laws identified above, divided a loan transaction into separate parts (by creating a concurrent subordinate lien or other wise) or performed any other subterfuge.

### State Higher-Priced Mortgage Loans (HPML)

For loans identified as HPML transactions, Sellers must include information containing the borrower interest rate set date. For acceptable methods for documenting the borrower interest rate set date refer to section [23.21 State and Federal Disclosures](#) of this document.

Plaza will purchase these loans in all states except: Connecticut, Maine as long as the requested docs above are provided.

### State Identified "Subprime Home Loans"

As determined by regulation established in each state, loans classified as "Subprime" loans are ineligible for sale to PHM. This includes but not limited to the states of New York and Minnesota.

## 7.3 Agency 5% Limit on Point and Fees

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### Limits on Loans Eligible for Sale to Fannie Mae or Freddie Mac:

Any loan eligible for sale to Fannie Mae or Freddie Mac, have the following restrictions:

- The total “points and fees” charged to the borrower, may not exceed the greater of 5% of the loan amount or \$1,000.00 **AND/OR**
- The APR or points and fees may not exceed prescribed HOEPA thresholds

Points and fees include origination fees, underwriting fees, finder’s fees and broker fees, charges imposed by the lender as a condition of making the loan. Up to 2 ***Bona Fide*** discount points may be excluded from the calculation.

### ***Bona Fide*** Discount Points

Discount points are bona fide if they (i) are knowingly paid by the borrower (as demonstrated by the discount points being fully disclosed to the borrower); (ii) are funded through any source for the purpose of reducing the interest rate on the mortgage; and (iii) result in a “meaningful reduction” (defined as a minimum of 25 basis points or ¼ of a point provided all other terms of the loan remain the same) of the interest rate that, prior to discount, was consistent with current market rates based on the credit characteristics of the mortgage.

Seller should consult with their legal counsel for further information and interpretation of Agency restrictions.

Any loan that fails to meet the Freddie Mac/Fannie Mae limitations on points and fees are ineligible for purchase by PHM.

## 7.4 Higher Priced Loans

On July 30, 2008, the Federal Reserve Board published a final rule amending Regulation Z. A highlight of the final rule is the creation of a new category of sub-prime loans called “higher-priced mortgage loans.” A higher-priced mortgage loan is defined by reference to an index called the “average prime offer rate.” A higher-priced mortgage loan will be one in which the APR exceeds the index by 1.5 percentage points or more for first-lien loans, 2.5 percentage points for Jumbo loans, as defined as loans that exceed the amount eligible for purchase by Freddie Mac, or 3.5 percentage points for junior liens.

The Bureau of Consumer Financial Protection (CFPB) issued a final rule amending Regulation Z (Truth-In-Lending Act). The rule implements statutory changes made by the Dodd-Frank Act that lengthen the time for which a mandatory escrow account established for a higher-priced mortgage loan must be maintained from one year after origination to at least five years on loan applications received by PHM on or after June 1, 2013. In addition, even after five years have elapsed, TILA section 129D (d) provides that an escrow account shall remain in existence unless and until the consumer is current on the obligation and has accrued sufficient equity in the dwelling securing the consumer credit transaction “so as to no longer be required to maintain private mortgage insurance”.

**Exemptions:** Reverse mortgages and home equity lines of credit are exempt. The following programs are **INELIGIBLE** if determined to be “Higher-Priced”:

- Adjustable Rate Mortgages (Conventional or Government)
- Jumbo loans
- VA IRRRL’s and FHA non-credit qualifying Streamline Refinance transactions\*

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**Note:** Loans that are determined to be Higher-Priced require documentation of ability to repay. Income and assets must be verified in accordance with FHA documentation requirements although the loan may otherwise still be classified and eligible as a streamline transaction.

### Purpose

The stated goals of the final rule are: (i) to protect consumers from unfair, deceptive and abusive lending and servicing practices; (ii) to improve mortgage advertising; and (iii) to provide consumers with disclosures early.

Higher-priced mortgage loans are subject to a number of restrictions and prohibitions, including but not limited to the following:

- The borrower's ability to repay the loan must be verified.
- The assets or income the Seller relied on in approving the loan must be verified using reasonable reliable third-party documentation.
- Prepayment penalties are prohibited entirely on any higher-priced mortgage loan where the payment can change during the first 4 years following consummation.
- Prepayment penalties are limited to 2 years on any higher-priced mortgage loan where the payment is fixed for at least the first 4 years following consummation. **AND**
- An escrow account for the payment of property taxes and homeowner's insurance must be established.

## 7.5 Prohibited Terms and Practices

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A loan may not violate any of the following prohibited terms and practices.

### Arbitration

No loan requires the borrower(s) to submit to arbitration to resolve any dispute arising out of or relating in any way to the loan transaction.

### Credit Insurance

No loan requires the borrower(s) to pay for a single-premium credit insurance policy, regardless of whether the premium is paid directly by the borrower or paid indirectly by financing the premium/fee into the mortgage amount. This prohibition includes mortgage insurance with credit insurance features where a single-premium for the credit insurance is paid by the Borrower either directly or indirectly by rolling the credit insurance single-premium into the cost of the mortgage insurance, regardless of whether or not it is identified as including a credit insurance premium. Insurance premiums calculated and paid on a monthly basis are not prohibited. Disclosures for the credit insurance policies must be written in clear and simple terms, and provided to the borrower in advance of the purchase of the applicable policy.

No loan includes a debt cancellation agreement.

### Increased Interest Rate upon Default

No loan includes language permitting an increase in the interest rate after default.

### Negative Amortization

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A loan which provides for deferred interest or negative amortization is not acceptable for purchase.

### **Steering**

Seller may not engage in a practice of “steering” a mortgage applicant to a loan with a higher interest rate and/or fees designed for less creditworthy borrowers when the borrower could qualify for a less costly loan with similar characteristics.

A borrower should be offered the best available loan for their credit and personal profile that the Seller offers.

### **Ability to Repay**

On loans that the Seller underwrites, Seller must confirm that, at the time of loan origination, the borrower has a reasonable ability to make the mortgage payments and is likely to do so in a manner that will enable him or her to successfully maintain homeownership.

### **Tangible Net Benefit**

Each non-purchase money first lien loan secured by a 1-4 family primary residence must provide a tangible net benefit to the borrower.

Each mortgage loan, the proceeds of which have been used to refinance a previous mortgage loan, offers a documented, demonstrable, tangible net benefit to the borrower.

### **Payments to Contractors**

All home improvement contract disbursements made from the loan proceeds must be made either:

- Payable to the borrower or jointly to the borrower and the contractor. OR
- Through a third party escrow agent pursuant to a written agreement signed by the borrower, the lender, and the contractor before the date of payment.

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## **7.6 Survival**

The representations, warranties, covenants and other obligations set forth in this Seller Guide shall survive the sale and delivery of the loan to PHM, the funding, and the assignment of PHM’s rights with respect to a loan, and will continue in full force and effect, notwithstanding any termination of the Agreement, this Seller Guide or the Program Documents, and shall inure to the benefit of PHM and its assigns, notwithstanding any restrictive or qualified endorsement on any Note or assignment or Security Instrument or PHM’s examination, or failure to examine any loan documents or Security Instrument files.

## **Section 8 Defaults and Remedies, Early Pay Off**

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### **8.1 Early Payment Default**

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Any one or more of the following events constitute an Event of Default:

- Seller has not complied with one or more of the requirements, terms or conditions, or has breached a representation, warranty or covenant, contained in this Seller Guide or in the Program Documents.
- Seller or any guarantor changes its name or its DBA without prior written notice to PHM.
- Seller or any guarantor consolidates, merges or enters into any analogous reorganization or transaction with any person without PHM's prior written consent.
- Any change in Seller's charter from federal to state or vice versa, if Seller is a bank, thrift, or savings and loan association, without PHM's prior written consent.
- Any conversion from one entity type to another (e.g. corporation to LLC) without PHM's prior written consent.
- Any guarantor revokes, purports to disavow or contests the validity or enforceability of its guaranty, or dies or becomes incapacitated.
- If seller or any guarantor undergoes a sale outside the ordinary course of business without PHM's prior written consent.
- Any changes in Seller's ownership whether by direct means, or indirect means, without prior written notice to PHM. Indirect means include any change in ownership of 50% or more of Seller's direct or indirect parent.
- The actual or impending insolvency of Seller or any guarantor.
- The filing of a voluntary petition by Seller or any guarantor, or an involuntary petition or other insolvency proceedings against Seller or any guarantor under the federal bankruptcy laws or under any state bankruptcy or insolvency laws.
- Any assumption of control of Seller by the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC) or other similar governmental entity.
- Seller or any guarantor admits in writing its insolvency or inability to pay debts.
- The appointment of trustee or receiver for Seller or any guarantor or their respective property.
- The execution by Seller or any guarantor of an assignment for the benefit of creditors.
- Any other change in the financial or organization status of Seller or any guarantor that PHM in its discretion believes could adversely affect PHM or any loans sold to PHM.
- Seller or any guarantor liquidates, winds up or dissolves.
- Seller ceases to engage in the business of originating, purchasing or servicing loans (as applicable).
- Seller or any guarantor sells, assigns, or transfers all or substantially all of Seller's business or assets.
- The placement of Seller on probation or restriction of its activities in any manner by a (a) federal or state government agency, including Freddie Mac, Fannie Mae, or HUD, or (b) MERS.
- PHM determines in its discretion that Seller's or any guarantor's actual and contingent obligations to PHM are disproportionate to its capital and assets.
- Seller's or any guarantor's failure to deliver any documents required by PHM.
- Seller's or any guarantor's misstatement or omission of any material fact on any application, certification or other document delivered to PHM.
- Seller's failure to repurchase any Loan within the required timeframe.
- Seller's inability to meet the approval standards of any insurer or other entity that provides insurance or credit enhancements in connection with the efforts of PHM to sell the loans based on the collateral value of the loans.
- Seller's failure to maintain a qualified loan origination, servicing and quality control staff, and acceptable ongoing quality control program adequate facilities and written policies and

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procedures to ensure the investment quality of loans sold to PHM or the adequacy of the servicing of servicing-retained loans purchased by PHM.

- Seller's failure to meet any prescribed eligibility test.
- Seller fails to obtain private mortgage insurance or a Mortgage Insurance Certificate issued by the Federal Housing Administration (FHA) as required in this Seller Guide, or a VA loan Guaranty Certificate issued by the Department of Veterans Affairs (VA) on VA loans, or the private mortgage insurance, or a guaranty certificate issued by the Rural Housing (USDA), a Mortgage Insurance Certificate or Loan Guaranty Certificate is subsequently deemed invalid or rescinded by the private mortgage insurance company, FHA, VA or USDA.

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## 8.2 Early Payment Default Defined

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On loans closed in Seller's name and sold to PHM, an Early Payment Default (EPD) occurs when (i) any of the first 4 payments due after purchase of the loan by PHM becomes 60 or more days delinquent; (ii) if the loan involves a HUD repossession without an appraisal, any of the first 12 payments become 90 or more days delinquent; (iii) if the loan involves a VA streamline refinance (IRRRL) securing property located in California and the Seller does not provide a valuation of the property, any of the first 24 payments becomes 90 days or more delinquent.

For purposes of this policy, a loan is considered 30 days delinquent if the payment has not been received and applied by the end of the day immediately preceding the loan's next due date. Receipt of payments originally due prior to the date on which PHM purchases the loan will not satisfy the EPD requirement.

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## 8.3 Early Payment Default Fee

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In lieu of Seller's obligation to repurchase resulting from an early payment default, PHM, at its sole and absolute discretion, may allow Seller to (i) pay PHM \$2500 for a loan, as reimbursement for administrative expenses; and (ii) return any premium over par paid to PHM in reference to such loan.

Seller must pay the fees outlined above within 20 days of written notice from PHM. Upon notice from PHM, Seller must wire the required funds to the address set out in the demand.

## Section 9 PHM Exclusionary List

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### 9.1 No Individuals or Businesses on the Exclusionary List

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Individuals and businesses on the PHM exclusionary list have played no role in the origination or sale of a loan to PHM. Excluded individuals and businesses may include any party who deals directly or indirectly with PHM who have a material influence on the mortgage origination, purchase, or servicing processes, including individuals in a management or supervisory position.

#### Parties Involved in the Origination of Loans

No person or entity on the PHM exclusionary list has played a role in the origination of the loan or in the underlying real estate transaction. Prohibited roles include, but are not limited to, borrowers, trustees on

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the deed, builders, developers, property sellers, loan officers, loan processors, underwriters, mortgage brokers, correspondents, mortgage service providers, appraisers, title insurers, real estate brokers and agents, closing or settlement agents, notaries and insurance agents.

### Parties Involved in the Sale of Loans to PHM

No person or entity on the PHM exclusionary list has played a role in the sale of a loan to PHM or the referral of a loan to PHM for underwriting. Prohibited roles in sales functions include, but are not limited to, parties involved in the delivery of loans to PHM. This prohibition includes both the party's own employees and any third parties to whom sales functions are outsourced or assigned.

### Confidentiality

Seller maintains the PHM exclusionary list and information contained on the PHM exclusionary list in a confidential manner. By accessing or using the PHM exclusionary list, Seller agrees to indemnify PHM for any loss, damage, or expense, including attorneys' fees, resulting from the Seller's failure to maintain the confidentiality of the PHM exclusionary list or information contained on the PHM exclusionary list. Seller uses the PHM exclusionary list only in connection with its responsibilities as a Seller of PHM.

### GSA, LDP and Freddie Mac Exclusionary List

PHM is prohibiting loans where any company or individuals who are material parties to the transaction listed on HUD's "Limited Denial Participation" list or the federal General Services Administration (GSA) excluded party list or the Freddie Mac exclusionary list. All lists must be checked for all parties to the transaction. If any of the names appear on either list, the loan is not eligible for purchase. This applies to all loans and is not limited to FHA and VA loans.

## 9.2 Prohibited Settlement Agents

Unless the Seller obtained prior approval from PHM, on loans sold to PHM:

- Seller has no ownership interest of any amount or nature in the title company, title agent, escrow company or other settlement agent closing the loan.
- No Principal of Seller has any ownership interest of any amount or nature in the title company, title agent, escrow company, or other settlement agent closing the loan.
- No Principal of Seller is related to the first degree by blood (including adoption) or marriage to a principal of the title company, title agent, escrow company, or other settlement agent closing the loan.

For purposes of this Section, a "Principal" of an entity is any person or entity that has:

- An ownership interest of more than 5%.
- Control, or power to vote 5% or more of the outstanding shares of any class of voting securities of the company, directly or indirectly or acting through one or more other persons;
- Control in any manner over the election of a majority of the directors, trustees, or general partners (or individuals exercising similar functions of the company). **OR**
- The power to exercise directly or indirectly, a controlling influence of the management or policies of the company.

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The “first degree of relationship” includes children and parents. A husband and wife are related in the first degree by marriage. For other relationships by marriage, the degree of relationship is the same as the degree of underlying relationship by blood. Example: John is Steve’s son and John and Steve are therefore first degree relatives by blood. John’s wife, Linda, is related to Steve in the first degree by marriage.

## Section 10 Loan Delivery

### 10.1 Seasoned Loans

Complete closed loan packages (Credit file, Closing file, and Note) must be purchased by PHM within the following time frames:

- Clients delivering loans using Non-Delegated underwriting (PHM issues Clear-to-Close) must have their loans purchased 30 days from the Note date.
- Clients with Conditional Delegated/Delegated underwriting approval must have loans purchased no later than 45 days from the Note date.

Loans that exceed these timeframes are classified as seasoned loans and are not eligible for purchase by PHM and will be returned to the correspondent. Loans that exceed 30 days may be subject to additional pricing. This applies to all loan programs and delivery types.

#### 10.1.1 Fee Schedule

National Correspondent (Funding /Underwriting Fee)		\$595
National Correspondent/Delegated (Funding)		\$295
Mini-Correspondent Standard Admin/Underwriting Fee		\$495
Mini-Correspondent FHA 203ks Admin/Underwriting Fee		\$600
Mini-Correspondent Funding Fee		\$135
National and Min-Correspondent	Non MERS transaction	\$ 25
National and Mini-Correspondent	Life of Loan Flood Certification	\$ 10 *

#### Notes:

- Flood Cert fee will not be charged if loan is delivered with a life of loan certification issued by Core Logic (formerly First American Flood).
- For Reverse Mortgage’s, see Reverse Mortgage Rate Sheet.

#### 10.1.2 Loans Purchased After the 14<sup>th</sup> of the Month

A minimum of 15 calendar days, prior to the first payment date, is required for there to be sufficient time for PHM’s loan servicing to set-up and issue the borrower the required “Hello Letter and Payment Statement”.

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- Loans purchase between the 1<sup>st</sup> and the 14<sup>th</sup> of the month will be purchased with the first payment due to PHM on the 1<sup>st</sup> of the following month (i.e. the first payment due to PHM on a loan purchased between June 1<sup>st</sup> and the 14<sup>th</sup> will be July 1<sup>st</sup>).
- Loans purchased on or after the 15<sup>th</sup> day of the month will be purchased with the first payment due to PHM on the 1<sup>st</sup> of the next following month (i.e. the first payment due to PHM on a loan purchased June 15<sup>th</sup> will be August 1<sup>st</sup>).
- Loans will be purchased at a reduced principal amount, adjusted based on when the first payment is due to PHM. The correspondent is required to collect payments due prior to the first payment date due to PHM. Adjustments for impound accounts based on payments made to the correspondent will be made, if applicable.

### 10.1.3 Prepaid Interest and First Payment Due Date Calculation

- The first payment date must be the first of the month. The first payment is due no later than 62 days after the final disbursement of the loan proceeds to the borrower.
- Prepaid interest is computed from the date for disbursement to seller, existing lien holder or borrower if no existing liens are paid through close, to the first of the following month, using a 365-day year for calculating per diem interest.
- Loans disbursing the second through the last day of the month will have a first payment of the 1<sup>st</sup> of the second month.  
**Example:** Disbursed April 3rd = first payment on June 1<sup>st</sup>
- Loans disbursing the first day of the month will have a first payment on the first day of the following month and will have no prepaid interest due.  
**Example:** Disbursed April 1<sup>st</sup> = first payment on May 1<sup>st</sup>
- Interest Credit Option:
  - Loans disbursed from the second to the seventh day of the month may use the interest credit option on all loans.
  - Interest Credit not allowed on FHA/VA ARM loans

MAXIMUM NUMBER OF DAYS INTEREST CREDIT DUE THE BORROWER		
Program	Purchase	Refinance
FHA Loans	7 days	7 days
FHA Streamlines	7 days	7 days
VA Loans	7 days	7 days
VA IRRRL's	7 days	7 days
Conforming and Non-Conforming Conventional Loans	7 days	7 days

- When closing a loan with an interest credit option complete the following:
  - Close and disburse on or before the seventh of the month.
  - Give clear instructions to the closing agent to label each fee the amount credited to the borrower on the HUD-1.  
**Example:** Disbursed April 7<sup>th</sup> = first payment May 1<sup>st</sup> with 7 days of interest credited to the borrower using a 365-day year for calculating per diem.

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- Indicate in the transfer of servicing letter, that the borrower must make their payments directly to Plaza Home Mortgage, Inc. using a copy of the transfer of servicing letter in lieu of first payment letter issued by Seller.
- Late fees incurred by the borrowers who are instructed to send their first payment to the Seller rather than directly to PHM will result in the fee being passed along to the Seller. Per RESPA guidelines, the borrower will not be penalized.

**Note:** Loans that close with per-diem interest collected greater than the disbursement date will be considered cash-out.

## 10.2 Interest Collected at Purchase

1<sup>st</sup> of the Month Due Date

Settlement Date	Day 1 -7 of the month Example: June 6 <sup>th</sup>	Day 8 to 31 of the month Example: June 17 <sup>th</sup>
Loan Due Date	Day 1 of the month Example: June 1 <sup>st</sup>	1 <sup>st</sup> of the month Example: June 1 <sup>st</sup>
Purchase Balance	Current Month Scheduled Example: June 1 <sup>st</sup>	Next month scheduled Example: July 1 <sup>st</sup>
Interest Accrued Calculation	Add accrued interest between day 1 of the month and day prior to funding Example: Add June 1 <sup>st</sup> to June 7 <sup>th</sup>	Deduct "pre-paid" interest for days between settlement date and month end Example: deduct June 17 <sup>th</sup> – June 30 <sup>th</sup>
Servicing Transfer	1 <sup>st</sup> of next month Example: July 1st	The 1 <sup>st</sup> of the following month Example: Aug. 1st
Next due to The PHM	Example: July 1 <sup>st</sup>	Example: Aug. 1st
Last Payment Collected by Seller	Example: June 1 <sup>st</sup> (due to seller)	Example: July 1 <sup>st</sup> (due to seller)

Interest must be collected in arrears. Interest must have been collected from the date of the Seller's disbursement, including the day of disbursement, through the last day of the month. PHM will accept loans closed with interest credit due to the borrower from the Seller.

For refinances, a Seller and borrower may agree to a per diem interest credit of up to 30 calendar days (up to the day prior to the first payment date) and have the mortgage payment begin the first of the succeeding month. A per diem interest credit may not result in cash back to the borrower.

### Notes:

- For FHA streamline and VA IRRRL transactions, the file must contain proof that the borrower made their mortgage payment prior to the month of disbursement of the loan.
- PHM will not allow a short first payment from the borrower.

### Late Fees

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It is Seller's responsibility to ensure that the mortgage or deed of trust (and related instruments) reflect a late charge of:

- 4 percent (4%) on Government Loans and USDA Rural Housing\*. **OR**
- 5 percent (5%) on Conventional Loans. **OR**
- Maximum allowed under State Law

\*Lenders that as a normal course of closing USDA loans charge a 5 percent (5%) late fee, this is acceptable.

Late fees to be assessed no later than 15 days from the due date unless either is not in accordance with applicable law.

### Prepayment Penalties

For loans that require prepayment penalties for the "early" repayment of the loan (in states where permitted), a completed Note Addendum (Prepayment Fee Clause) signed and dated by the applicant(s) must be attached with the Note. Strikeouts and corrective coverings (whiteouts) are not allowed on the Addendum.

Where state law prohibits prepayment penalties, the company is responsible for selecting a line of pricing or a mortgage loan product that does not require a prepayment penalty.

The requirement for a prepayment fee and the prepayment penalty terms are based on the product type, loan parameters, lien position and pricing.

## 10.3 Post Purchase / Trailing Documents

PHM requires all trailing docs to be received within 90 days of purchase.

- Trailing docs include but are not limited to the following:
  - Original recorded or county certified copy of the deed of trust/mortgage (if e-recorded, the e-recording information must be clearly stated on the doc or cover page)
  - Original recorded or county certified copy of the assignment (if applicable).
  - Final title policy
- Post purchase/trailing docs documentation should be sent to the following address:

Plaza Home Mortgage, Inc.  
Attn: Corporate Office – Final Docs  
4820 Eastgate Mall, Suite 100  
San Diego, CA 92121  
Phone: 858-346-1208  
Fax: 858-677-6741  
Email: [finaldocs@plazahomemortgage.com](mailto:finaldocs@plazahomemortgage.com)

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## Section 11 Terms of Use and Electronic Services

This Electronic Services Chapter sets out standards that apply to all PHM Loan Programs. Generally, requirements that vary from one loan program to another are described in our Program Summaries. In most cases, differences will not be referenced in this chapter.

### 11.1 Overview and Incorporation of Terms of Use

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PHM may require all Sellers who wish to use any of the electronic services, forms and/or materials to obtain a user ID and password for each of the Seller's individual users. Additionally, PHM may require Sellers to obtain an administrator user ID and issue user IDs and passwords to each of the Seller's individual users. PHM may make the forms, materials and/or one or more of the electronic services available through those user IDs, depending on the requests and needs of the Seller. From time to time, PHM may also make forms, materials and certain electronic services available via selected third party providers. A PHM user ID and password may or may not be required to access PHM's forms, materials and electronic services through these third parties, but the third party provider may require Sellers to obtain and use user IDs and passwords and to agree to terms and conditions of use.

### 11.2 General Terms and Conditions of Use

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#### Authorized Users

Seller may appoint authorized users to use the electronic services. Seller shall only appoint persons to be authorized users where you have determined that the person: (i) has a need to access the electronic services for the purposes set forth in this Seller Guide, and (ii) will be capable of complying with the applicable obligations set forth in this Seller Guide. Seller and its authorized users shall use the services strictly in compliance with this Seller Guide and with any user documentation and security guidelines that PHM may provide, either through the site or through other means. Seller shall be responsible for the acts or omissions of its authorized users using the products.

#### User Names/Passwords

Seller agrees that it is solely responsible for properly using and maintaining the security and confidentiality of any user name and/or password issued to Seller pursuant to this Seller Guide and any related agreement. Seller agrees not to permit unauthorized individuals to use any such user ID and/or password to access PHM's Pulse. Seller's authorized users may not share their user ID and/or password with anyone else or use any user ID for group purposes. Seller agrees to immediately notify PHM of any unauthorized use of any user ID or password or of any other breach of security. Seller agrees to ensure that Seller and Seller's authorized users will logoff from the site at the end of each session. Seller warrants that Seller will deactivate the user ID and password for each user who later is not an authorized user or in the event his or her employment role changes such that the user's access to the products is unnecessary or inappropriate. Seller shall be responsible for the acts or omissions of any user accessing the products through any user name and/or password issued to you or its authorized users even if such user is not a valid authorized user. Seller acknowledges and agrees that PHM shall have no obligation, other than confirming use of the correct password for a user ID, to identify, confirm or otherwise authenticate the authority of the end user using such user name even if PHM assists in the issuance of such user IDs.

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## Restrictions

Subject to the terms of this Seller Guide, Seller and Seller's authorized users may use, access, download and print the materials and forms and use and access the site and services for the purpose for which it is intended. Except as otherwise expressly permitted, Seller and Seller's authorized users may not modify, copy, distribute or create derivative works from the forms. Subject to the prior sentence, Seller and Seller's authorized users may not modify, copy, distribute, transmit, display, perform, reproduce, publish, license, create derivative works from, frame in another web page, use on any other web site, transfer or sell any information, software, lists of users, databases or other lists, products or services obtained on the Site. The foregoing prohibition expressly includes, but is not limited to, the practices of "screen scraping" or "database scraping" to obtain lists of users or other information. Unless the user was issued a password from either a secure or non-public area of the Site, Seller and Seller's authorized users agree not to access or attempt to access password protected information. No service bureau work, multiple-user license, or time-sharing arrangement is permitted, except as expressly authorized by PHM in writing. You shall not acquire any title, ownership or other rights, except for the express limited right to use the system under the terms of this Seller's Guide. Except as otherwise expressly permitted in this Seller Guide, Seller and Seller's authorized users may not provide access to any third party. Seller shall not permit consumers to use the system; provided that you may provide forms to consumers to the extent such forms, by its nature, are intended to be provided to consumers. Seller and Seller's authorized users shall comply with all applicable laws in the course and scope of Seller's and its authorized user's use of the system.

## Proprietary Rights and Data Rights

The site (including all materials on the site as well as the organization and layout of the site), services, materials and forms, including all copyrights, trademarks, trade names, trade secret or patent rights therein, are owned and copyrighted or licensed by PHM. Provided that PHM complies with the confidentiality provisions of this Seller Guide and all applicable laws, PHM may use and analyze all data generated from the use of the system to audit the use of the system, to operate and improve the system, and for any other purposes within PHM's ordinary business activities.

## Recordkeeping

The systems are not designed as, and are not intended to be used as a means for Seller to meet any record keeping requirements Seller may have under its applicable laws. Seller agrees that Seller shall implement and use, at Seller's own cost, whatever policies and data backup technologies and procedures Seller deems necessary for Seller's longer-term data storage needs.

## Termination

Either party may terminate this Systems Agreement or Seller's and its authorized users' right to use the system at any time with or without cause. Seller may terminate its (and its authorized users') right to use the system by giving notice of such to PHM, and such termination shall be effective at such time as PHM receives the notice. PHM may terminate Seller's (and Seller's authorized users') right to use the system at any time by giving notice of such to Seller, and such termination shall be effective at such time as Seller receive the notice, unless an alternative termination date is specified within such notice.

In the event Seller breaches any term or obligation within any of the Program Documents, Seller shall be deemed to have received such notice of termination at the same time as the breach.

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As of the effective time of termination, of Seller and Seller's authorized users' right to use the terminated system, PHM will disable Seller and Seller's authorized users' access to the terminated system (which PHM shall attempt to do with reasonable promptness). Seller and Seller's authorized users agree not to use or access terminated systems even if Seller and Seller's authorized users access to the terminated systems has not yet been disabled. All of Seller and Seller's authorized users obligations arising out of use of terminated systems which preceded the effective time of termination shall survive termination.

### Confidentiality

All Confidential Information disclosed by one party (a "Disclosing Party") to the other party (a "Receiving Party") shall be subject to the terms of this Section. For all such disclosed Confidential Information, the Receiving Party shall: (i) hold all of the Disclosing Party's Confidential Information in confidence; (ii) use reasonable efforts to maintain the confidentiality of the Disclosing Party's Confidential Information, which efforts shall accord the Disclosing Party's Confidential Information at least the same level of protection against unauthorized use and disclosure that the Receiving Party customarily accords to its own information of a similar nature, provided that the protection shall be at least commercially reasonable; (iii) implement reasonable administrative, physical, and technical safeguards designed to protect the security and integrity of Confidential Information disclosed by the other party against any anticipated threats or hazards to the security or integrity of Confidential Information; and (iv) use or permit the use of the Disclosing Party's Confidential Information solely in accordance with the Systems Agreement and the requirements of all its applicable laws.

The restrictions on use and disclosure set forth above shall not apply when, and to the extent that the Confidential Information: (i) is or becomes generally available to the public through no fault of the Receiving Party (or anyone acting on its behalf); (ii) was previously rightfully known to the Receiving Party free of any obligation to keep it confidential on behalf of the Disclosing Party; (iii) is subsequently disclosed to the Receiving Party by a third-party who may rightfully transfer and disclose the information without restriction and free of any obligation to keep it confidential; (iv) is independently developed by the Receiving Party or a third-party without reference to the Disclosing Party's Confidential Information, or (v) is required to be disclosed by the Receiving Party as a matter of law, provided that the Receiving Party (unless prohibited by law) uses all reasonable efforts to provide the Disclosing Party with at least ten days' prior notice of the disclosure and the Receiving Party discloses only that portion of the Confidential Information that is legally required to be furnished.

However, exemption (i) above shall not apply to any Confidential Information to the extent it is comprised of information that identifies a consumer or the consumer's personal information that may be protected under the Receiving Party's applicable laws. The burden of proof that Confidential Information falls into any one of the above exemptions will be borne by the Party claiming such exemptions.

### Liability Disclaimer

Seller acknowledges and agrees that Seller and Seller's authorized users use the system at its own risk. Neither PHM nor its suppliers or any of their officers, directors, or employees, agents, third party content providers, merchants, sponsors, or licensors or the like, warrant or represent that the system will be uninterrupted or error free; nor do they make any warranty or representation as to the results that may be obtained from the use of the system; or, as to the accuracy, reliability, or timeliness of any systems. PHM and their respective agents, employees, officers or directors assume no responsibility for any consequence relating directly or indirectly to Seller's use of the system or to any action or inaction that Seller takes based on the system.

### Indemnification

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Seller agrees to indemnify, defend and hold harmless PHM and/or suppliers from any liabilities, losses, claims, damages, fees, expenses, fines and other liabilities, including attorneys' fees, arising from or relating to (i) Seller and Seller's authorized user's use of the system; or (ii) Seller and Seller's authorized users breach or violation of the Systems Agreement.

### **Links to Third Party Sites**

The Site may contain hyperlinks to web sites operated by parties other than PHM. Inclusion of hyperlinks by PHM to other web sites does not imply any endorsement of the material on such web sites or any association with their operators, and Seller accesses and use such web sites, including the information, material, products and/or services therein, solely at Seller's own risk. Furthermore, because the terms of use on the Site are applicable only when Seller are on the Site, once linked to another web site, Seller should read that web site's terms of use before accessing that web site.

### **Marks/Logos**

Seller agrees not to display or use in any manner the marks/logos without the prior express written permission of PHM.

### **No Legal Advice**

PHM is not engaged in the practice of law, and the delivery of any information should not be interpreted as the offering of legal advice or opinion. If Seller desires to obtain an opinion concerning the legality of the information provided under the Systems Agreement, Seller should seek its own legal counsel.

### **Non-Waiver**

Any failure by PHM to promptly exercise any right under the Systems Agreement or any express waiver by PHM shall not create a continuing waiver or any expectation of non-enforcement.

### **Modifications**

PHM may modify this Seller Guide at any time upon notice to you and such modifications shall be effective upon notice except as otherwise set forth in the notice. PHM may notify Seller of any such modifications either by mail or e-mail notice to the primary contact in Seller's organization as shown on PHM's current records, or by posting such modifications on the Site, and Sellers continuing use of the system after Seller has been notified of such modifications shall constitute Seller's acceptance of the modifications.

### **Severability**

If any provision of the Agreement is declared invalid or unenforceable by a court of competition jurisdiction, the remaining provisions of the Agreement will remain in full force.

### **Pricing Functions Services**

If Seller accesses any register/pricing, and/or locking services (collectively "Pricing Functions"), then the following terms shall apply:

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- **Acknowledgement** - Seller acknowledges that: (i) the Pricing Functions are intended only for use as an estimate of a price as of a particular moment in time, and that neither Seller and Seller's authorized users should rely upon the Pricing Functions as a determination of an actual final price for a loan; and (ii) any output from the Pricing Functions does not reflect an offer by PHM to purchase a loan.
- **Limited Purposes** - Seller shall use the Pricing Functions solely for the purpose of making bona fide requests for price quotes, rate locks and registrations for loans that Seller intends to sell to PHM.

## Section 12 Loan Integrity

### 12.1 Communications Regarding Legal Issues and PHM Policies

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From time to time, PHM will alert its Sellers to important legal requirements related to the origination of mortgage loans. However, Seller should not rely upon PHM to inform them of the legal requirements applicable to the origination of mortgage loans. Instead, as described in the Eligibility section, the Representation, Warranties, and Covenants section, and other sections of this Guide, Seller must ensure that it is aware of, understands and implements all applicable federal, state and local laws.

PHM may also inform Sellers of its specific policies regarding certain laws, and may provide the above-described information regarding legal requirements or policies in this Seller Guide. Alternatively, PHM may provide the information through other means, including bulletins, communications, or compliance alerts, by whatever name or other communications. Regardless of the method of communication, Seller must comply with such policies.

### 12.2 Repurchase

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PHM has the right to demand that Seller repurchase a loan (and its servicing, if the loan was sold on a servicing-released basis) if an Event of Default has occurred with respect to a specific loan or, on certain loans if an Early Payment Default has occurred with respect to a specific loan.

PHM has the right to demand that the Seller repurchase a loan for any other failure to comply with the requirements of the Seller Guide including, but not limited to, Seller's Representations and Warranties with respect to fraud and misrepresentation and compliance with all laws.

If Seller discovers an Event of Default with respect to a loan, it must give PHM prompt written notice describing the breach. Upon receipt of this notice, PHM will review the materials and any additional information or documentation that Seller believes may influence PHM's decision to require Seller to repurchase the loan.

If PHM demands that Seller repurchase a loan, Seller agrees to repurchase the loan (and its servicing if the loan was sold servicing released) for the repurchase price within 20 days of receiving PHM's written demand.

If PHM determines in its discretion that repurchase of a loan and its servicing is not appropriate, Seller

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must pay PHM all losses, costs and expenses (including reasonable attorney's fees and enforcement costs) incurred by PHM and the loan's servicer as a result of the Event of Default.

PHM is not required to demand repurchase within any particular time, and may elect not to require immediate repurchase. However, any delay in making a repurchase demand does not constitute a waiver by PHM of any of its rights or remedies.

Upon Seller's satisfaction of its repurchase obligations, PHM will endorse the Note in blank and will deliver the Note and other pertinent loan documents that are in PHM's possession to Seller. If PHM has acquired title to any of the real property securing the loan pursuant to a foreclosure sale and has not disposed of such property, it will transfer such property to Seller on a "quit claim" basis, or if required by state law, a "warranty deed" basis.

### Repurchase Price

The Repurchase Price is the sum of the following amounts:

- The actual principal balance of the loan at the time of repurchase. If PHM purchased the loan at a discount, the repurchase price will be adjusted by subtracting from the actual principal balance the amount obtained by multiplying the discount percentage by the actual principal balance at the time of repurchase. If PHM purchased the loan at a premium, the repurchase price will be adjusted by adding to the actual principal balance the amount obtained by multiplying the premium percentage by the actual principal balance at the time of repurchase **PLUS**
- All accrued and unpaid interest on the loan through the last day of the month of the date of repurchase. **PLUS**
- All interest, principal and other advances made to investors and all out of pocket costs and expenses of any kind incurred by PHM and the primary Servicer in connection with the loan, including, but not limited to, advances for taxes or insurance, and repair, foreclosure and insurance costs and reasonable attorneys' fees. **PLUS**
- Cost of any transfer fees such as documentary stamp taxes, recording taxes, and transfer taxes. **PLUS**
- Any unpaid early payment Default fee due. **PLUS**
- Any additional amount that PHM is required to pay to repurchase the loan from any subsequent assignee. **MINUS**
- The net amount of any proceeds realized by the owner of the loan upon the final liquidation of the loan or the Mortgaged Premises to an unrelated third party.

## 12.3 Indemnification

Seller shall indemnify PHM from all liabilities, obligations, losses, damages, penalties, fines, forfeitures, court costs and reasonable attorneys' fees, judgments, suits and any other costs, fees and expenses, directly or indirectly resulting from or arising out of (i) an Event of Default, (ii) any litigation or governmental proceeding that alleges any violation of local, state or federal law or an event which, if true, would be an Event of Default, by Seller or any other party in connection with the origination of a loan or the servicing of a loan prior to the sale of servicing to PHM, (iii) any breach of a representation, warranty, or covenant made by PHM in reliance upon any representation, warranty, or covenant made by Seller, or (iv) PHM's enforcement of the Agreement, including this Seller Guide.

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Seller must reimburse PHM within 20 days of receiving PHM's demand for indemnification. Except for notices of demand for indemnification, PHM is not required to give Seller notice of any events that may trigger Seller's indemnification obligations. Seller and its counsel must cooperate with PHM in connection with the defense of any litigation or governmental proceeding involving a loan. PHM has the right to control any litigation or governmental proceeding related to a loan, including choosing defense counsel and making settlement decisions.

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#### 12.4 Set Off

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Upon any Event of Default PHM may, without prior notice to Seller, set off and apply all or any amounts owed by PHM to Seller (including the Purchase Price for any loan) against any repurchase, indemnification or other obligations owed by Seller to PHM. PHM will notify Seller within a reasonable time after any set off, provided, however that the failure of PHM to give such notification shall not affect the validity of the set off.

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#### 12.5 Suspension Inactivation or Termination

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Either party may terminate the Agreement and the Program Documents by giving the other party 5 days written notice. Provided that no Event of Default has occurred, the suspension, inactivation, or termination will not apply to any loans that have been registered with PHM before the effective date of the suspension, inactivation, or termination.

PHM may suspend, inactivate, or terminate the Agreement and the Program Documents and Seller's ability to sell loans to PHM immediately if PHM has cause to believe an Event of Default has occurred. PHM may refuse to register or fund any or all loans after the effective date of the suspension, inactivation, or termination.

Inactivation, suspension, and termination does not affect Seller's obligations with respect to loans already sold or referred for underwriting and closing to PHM.

### Section 13 Fraud

PHM, its investors and Sellers can experience substantial losses if either fraud or misrepresentation occurs on a loan. Fraud can occur with any type of loan. A common definition of fraud is an act of intentional misrepresentation, concealment or omission of the truth for the purpose of deception or manipulation with the intent of securing something by taking unfair advantage of another. PHM has a Zero Tolerance Policy on matters relating to fraud or misrepresentation.

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#### 13.1 Overview

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Today, most individuals have access to a personal computer and the Internet. With a simple click of a mouse, one can quickly and easily find personal information on an individual or a company, including financial statements, real property information, court records, and a myriad of other data. With the purchase of software, a scanner and a color printer, a thief can create documents and provide supporting

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information to create identities, employer documentation, appraisals, and a credit history to support a mortgage request.

Fraud perpetrators seek the path of least resistance, targeting those lenders with the weakest controls for detecting and preventing fraud. Financial institutions that fail to ensure adequate internal controls, fraud detection tools, staff training, business partner due diligence and quality control reviews risk becoming targets for organized mortgage fraud rings. High incidence of fraud in a financial institution's portfolio risks the company's reputation, raises its costs to sell in the secondary market, and could ultimately impact its viability. Financial institutions are obligated to their borrowers, shareholders, investors and the industry to manage fraud effectively.

Mortgage fraud is a serious issue for financial institutions. Institutions may recover only a portion of a mortgage if the property value is inflated or if the mortgage was provided to an unqualified borrower. High foreclosure costs, including unpaid back taxes and interest, liens for unpaid homeowner dues, brokers' commissions, reappraisals, rehabilitation costs, attorneys' fees, and other related expenses plague the industry. Foreclosure attorneys' fees in particular can be substantial.

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## 13.2 Types of Fraud

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A loan file can contain warning signs that point to irregularities in the information submitted by the borrower or other parties involved in the transaction. This information may not seem unusual when viewed separately, but a comparison may indicate a pattern of deception. Typically, there are two types of fraud involving real property:

### **Fraud for Property**

The borrower or other interested party misrepresents or omits information with the intent to deceive or mislead the lender into extending credit that would not likely be offered if the true facts were known or to obtain more favorable terms on the loan (but not to intentionally and significantly over encumber the property). However, there is intent to repay the loan as agreed. Participants usually involve the borrower and borrower's family members.

### **Fraud for Profit**

The borrower or other interested party enters into a transaction with the primary intention of creating inappropriate and significant financial gain (beyond just getting better pricing and terms for the loan), to the detriment of the lender. The borrower or other interested party does not intend that the loan be repaid as agreed, or the property has been significantly and intentionally overvalued and over encumbered or the lender's collateral interest in the subject property has been intentionally impaired or undermined. Participants may include multiple parties including the borrower, real estate agent, appraiser, loan officer, loan processor, underwriter, lender, closing attorney, or property management company.

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## 13.3 Fraud Indicators or Red Flags

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The presence of one or more fraud indicators, or red flags, is not absolute proof of a fraudulent loan, but when viewed as a whole, a pattern of deception may begin to emerge. To determine if a loan is fraudulent, PHM strongly encourages a review of all loan types for document-specific loan fraud indicators, or red flags that can identify irregularities in the information submitted by a borrower or other

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parties in the transaction. The following are some of the more common types of fraud, but should not be seen as a complete list.

### **Affinity Fraud**

Affinity fraud (similar to investment club schemes explained above) exploits the trust and friendship that exist in groups of people who have something in common. The fraudsters who promote affinity frauds frequently are, or pretend to be, members of the group, often preying on their own community of friends, family and co-workers. Affinity fraud has been found in many different types of groups such as religious, military, ethnic, professional, workplace, elderly and fitness/gym. Investment property schemes often take root from affinity groups. With affinity fraud, there is an immediate level of trust within the group. Some members may have invested and made high returns, becoming advocates for the scheme. Loyalty to the group may deter members from reporting schemes or monetary losses to authorities.

### **Air Loans**

An air loan is a loan to a straw or nonexistent buyer, on a nonexistent property. An example of an air loan would be a broker invents borrowers and properties, establishes accounts for payments, and maintains custodial accounts for escrows. They may set up an office with a bank of telephones, each one used as the employer, appraiser, credit agency, etc., for verification purposes.

- Air loans typically involve straw buyers - refer to straw buyer red flags.
- Unable to independently validate chain of title.
- Mortgage payments are made by an entity other than the borrower.
- No real estate agent is employed (fictitious transaction).

### **Builder Bailout**

A “builder bailout” occurs when the builder or developer moves property quickly in a depressed real estate market.

Potential indicators of builder bailouts include the following:

- The builder is willing to “do anything” to sell the property.
- Builder’s marketing material advertises rent credit to investors and/or payment credit.
- The borrower is barely qualified or unqualified.
- The sales price and appraised value are inflated.
- No-money-down sales are included.
- “Silent” or “concealed” second mortgages are involved.
- Significant incentives and/or concessions are offered.
- Sales price adjusted upwards.
- Questionable source of funds.
- Reference to unexplained payouts, inflated commissions or secondary financing on the HUD-1 Settlement Statement or purchase contract.
- Parties to the transaction are affiliated.

### **Buy and Bail**

The borrower is current on the mortgage, but the value of the home has fallen below the amount owed. The borrower continues to make payments on the home, while applying for a purchase money mortgage

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on another home that has been priced in alignment with today's prices. After the new property has been obtained, the buy and bail borrower will allow the first home to go to foreclosure.

Red flags common to this type of fraud are:

- The borrower will be a first time property owner (renting out the original property).
- The borrower has minimal or no equity in the original property.
- Inability to validate lease terms with the purported tenant.
- Purported tenant has a pre-existing relationship with the homeowner.

### Cash-Out Purchases

A cash-out purchase normally involves one closing and occurs when properties have been on the market an extended length of time and a desperate property seller is unable to find a qualified buyer. The property seller may be offered a way out of the situation with an offer that exceeds the selling price of the property and an agreement to make a refund to the buyer after closing. The appraisal is inflated and a straw buyer is used to purchase the property. The loan often goes into early payment default and ends in a foreclosure.

The following red flags may indicate a cash-out purchase:

- The home may have been on the market for an extended period of time.
- The appraisal may include red flags symptomatic of an inflated value.
- The preliminary HUD-1 Settlement Statement may already indicate a portion of the net proceeds going back to the borrower.
- Many of the same flags that accompany a traditional flip also apply: straw buyer, false source of funds and false occupancy.

### Condominium Conversion Bailouts

Condominium conversion bailout fraud commonly involves multiple parties who create and promote incentive packages, which are deliberately concealed from lenders. Inflated property values may also be part of this type of fraud, along with the masking of illegitimate cash disbursements on the settlement statement or failure to disclose them at all. As a condition of the sale, the buyer executes a purchase contract detailing the incentive package, which often includes substantial cash back to the borrower.

Red flags common to condominium conversion bailouts are:

- Out of state borrowers with strong credit scores.
- Excessive real estate fees.
- Large non-lien disbursements on the HUD-1 Settlement Statement.
- Large number of condominium conversions in a particular area.

### Double Escrows

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

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Example of typical double escrow: A buyer's offer is accepted to purchase a property for \$150,000. Before escrow closes, the buyer acts as the seller of the property and opens a second escrow using a "straw buyer" who purchases the same property for \$185,000. The straw buyer obtains a 90 percent loan. With the proceeds from the second escrow transaction, the first escrow closes concurrently with the second escrow, resulting in no exchange of money.

### Equity Skimming

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

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

### Foreclosure Bailout

A foreclosure bailout may be a refinance or purchase transaction when the true purpose of the loan is to bail out the property owner from an existing lien that is in foreclosure. These transactions can be structured as a refinance or a purchase. When structured as a refinance, title is transferred (or gifted) to a friend or family member who applies for a loan in his/her own name. When structured as a purchase, the borrower acts as a "straw buyer" for the true owners of the property. In this case, the sales price and appraisal may be inflated to support an artificially low LTV.

Indicators of a foreclosure bailout transaction are:

- **Purchase transaction**
  - Existing loan or lien on title is presently in default.
  - Borrower's mortgage loan is not rated on the credit report.
  - Gift equity or non-arms length purchase transaction.
  - Borrower is unable to clearly document the source of funds to close.
  - An "investment company" is somehow involved in the transaction.
  - There is an "unreasonable" proposed occupancy (for example, commuting distance) on the subject property.
- **Refinance transaction**
  - Borrower cannot verify "equitable interest".
  - The mortgage loan on title is not in the borrower's name.
  - The property is not in the borrower's name.
  - All loan file documentation (such as paystubs, W-2s, tax returns, bank statements, credit report address) indicate that the borrower is living at another address, but the loan as a refinance was presented as "owner-occupied".

### Foreclosure Rescue

A foreclosure specialist promises to assist the defaulted borrower in avoiding foreclosure. The specialist

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usually charges the borrower an up-front fee (HUD-approved counseling agencies do not charge) for services that are not delivered. These frauds usually further encumber the property and/or result in the homeowners losing title. The frauds always ultimately force the borrower into foreclosure status, but sometimes delay the servicer's ability to accomplish the foreclosure, through elaborate bankruptcy filings.

Red flags common to this type of fraud are:

- The borrower or current owner was:
  - Advised by a foreclosure specialist to avoid contact with their servicer.
  - Has paid someone to negotiate with the servicer on his or her behalf.
  - States that they are sending their mortgage payments to a third party.
  - Receives a purchase offer, which is greater than the listing price.
  - States that they will be renting back from new owner.
  - Quitclaimed (any portion of) title to a third party at the advice of a foreclosure specialist.

### Identity Theft

Identity fraud is the act of unlawfully using one or more pieces of another individual's personal identifying information. When identity theft is recognized during the mortgage loan process, it is recommended that third party documentation, such as a police report, letter from the borrower, previous year and current year tax returns & W2s and a letter from the IRS be provided to substantiate the fraud claim. In most instances, this involves the use of another person's Social Security number (SSN), or use of a fraudulent SSN. Red flags associated with identity theft are:

- SSN issued recently or death claim filed under Social Security.
- Borrower's name is not associated with SSN.
- The number of years employed is greater than the issue date of the SSN.
- Employment and/or addresses on credit report do not match borrower's application.
- Credit patterns are inconsistent with income, assets, age and education.
- Tax Identification numbers instead of Social Security numbers are used.
- Borrower lives out of the area and does not appear, based on the credit report, to have any tie to the area in which the subject property is located.

Another form of identify theft involves tax return fraud, which is the use of another person's name and SSN to file a tax return and obtain tax refund.

### Investment Club Schemes

Investment club schemes (also referred to as chunking) involve property sales pitched as investment opportunities to consumers who are promised improbably high returns and low risks. In some cases, the perpetrators charge membership fees to the victim-purchasers. In other cases, the victim-purchasers may not even realize that they will be personally responsible for repayment of the mortgages. In the initial phases of an investment club scheme, victim-purchasers may receive some of the promised financial benefit, as the perpetrator uses money received from new victim-purchasers to pay initial club members in order to elude detection and attract new investors. Typically, the fraud perpetrator purchases distressed properties at low prices, paying an appraiser to illegally inflate the value in order to deceive lenders into financing at, or above 100% of the value. The perpetrator convinces the purchaser that no (or minimal) down payment, cash incentives and/or a guaranteed return on their investment justify the sales price. As with flipping schemes, the perpetrator profits from the difference between the prices at which the perpetrator purchased the property and the new (inflated) loan amount. Frequently, perpetrators of these

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frauds market to purchasers who are distant from the properties, to facilitate deception about the condition and value of the properties.

Red flags common to this type of fraud are:

- No real estate agent is employed (club recruits buyers and/or non-arm's length transaction).
- Property was recently in foreclosure, or acquired at REO sale at a much lower sales price.
- Borrower may have paid a membership fee to participate in the club.
- First-time landlord, non-savvy investors.
- Property seller offers to manage these rental properties.
- Borrower may have been told that the property seller or the club would make mortgage payments.
- Borrower purchased multiple properties simultaneously, but did not disclose other loans in process to their lender (also known as shot gunning), watch for credit inquiries.
- The appraised value is fraudulently inflated (see appraisal red flags in this section).
- The borrower's signature may vary throughout the file.
- Multiple mortgage inquiries: The perpetrator guides the borrower to apply simultaneously for purchase money mortgages for multiple properties, withholding information about the other purchases from each lender.

### Power of Attorney

The use of a Power of Attorney (POA) means the principal will not actually sign the loan documents, therefore forming a risk that the principal may not be aware of the loan transaction or that the principal is a fictitious person. If any wrongdoing is suspected, investigate the circumstances to ensure use of the POA is legitimate before proceeding with the loan. The settlement agent must not act as the attorney-in-fact or sign documents on behalf of any party to the transaction.

Refer to the [Power of Attorney](#) section of this Seller Guide for more information.

### Property Flips

A transaction in which a property is purchased and resold quickly for a significant profit is commonly referred to as a flip. Property flipping becomes illegal when a home is purchased and resold within a short period at an artificially inflated value. The flip typically involves a fraudulent appraisal, which may falsely indicate that renovations were made to the home. Properties targeted for property flips generally include properties that can be acquired at lower prices than other properties in the same neighborhood and often include Real Estate Owned (REO) properties, properties subject to a short sale, other distressed properties or newly constructed properties where the builder or developer must liquidate housing inventory quickly. A property involved in a flip may be resold on the same day or within days, weeks or months of the purchase. In some cases, the seller of the property flip never holds title to the property, but instead sells or assigns their interest in a contract to purchase the property to a third party.

Property flips are not inherently illegal, and not all transactions involving a rapid purchase and resale are improper. Legitimate property flips are acceptable transactions. Some indications of property flips that may be legitimate include:

- Sales of properties by a Government Sponsored Enterprise (GSE) state or federally chartered financial institution, mortgage insurer, or federal state or local government agency.
- Property sales by employers or relocation agencies related to employee relocations.

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- Sales of properties that have been substantially improved by bona fide and verified renovations since the property was acquired by the property seller in which any increase in sales price over the property seller's acquisition costs is representative of the market given the improvements to the house.

Red flags common to property flipping are:

- Ownership changes two or more times in a brief period.
- Appreciation of the subject property exceeds that in the normal marketplace.
- The property seller recently acquired the property for a significantly lower price or there have been several transfers of the property according to the real estate tax assessment record.
- No real estate agent is employed (non arms-length transaction).
- Property was recently in foreclosure, or acquired at REO sale at a much lower sales price.
- Parties to the transaction are affiliated or related by birth or marriage.
- Owner listed on appraisal and/or title may not match the property seller on the sales contract.
- A quit claim deed is used right before or right after closing.
- Sales contract has unusually large earnest money deposit held by property seller.
- Unusual fees or credits are found on the HUD-1 Settlement Statement.
- Title commitment references other deeds to be recorded simultaneously.
- Property seller is a corporation (i.e. LLC).
- Comparable sales or listings used in the appraisal report are properties involving the same property seller and/or real estate broker as the subject property in an attempt to create an artificially inflated market.

### **Purchase Disguised as Refinance**

A purchase disguised as a refinance scheme is often used to disguise the borrower's equity contribution in the transaction, inflate the property value and close the loan as a refinance, providing cash out to the fraudster.

The following red flags may be present:

- Borrower does not hold title on the commitment.
- Recent transfers of the subject property - may have been flipped.
- Multiple investment properties purchased within a short time frame.

### **Rental Property**

#### **Income**

Red flags related to income include:

- Tax returns not signed or dated.
- Address discrepancies within the file.
- Discrepancies on a lease.
- Paid preparer signs taxpayer's copy of tax returns.
- Applicant reports substantial income but has not cash in bank.
- Excessive number of AUS submissions.
- A purchaser of an investment property does not own a residence.
- The rental income per the IRS tax transcripts deviates significantly from the other rental income documentation.

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- Borrower claims rental income on the loan application but amount conflicts with obtained documentation and/or the IRS tax transcripts.

## Occupancy

Red flags related to occupancy include:

- **Purchase Transactions**
  - Real estate listed on application, yet applicant is a renter.
  - Applicant intends to lease current residence.
  - Significant or unrealistic commute distance.
  - Applicant is downgrading from a larger or more expensive house.
  - Sales contract is subject to an existing lease.
  - Occupancy affidavits reflect applicant does not intent to occupy.
  - New homeowner's insurance is a rental policy (declarations page).
- **Refinance Transactions**
  - Rental property listed on application is more expensive than subject property.
  - Different mailing address on applicant's bank statements, pay advices, etc.
  - Different address reported on credit report.
  - Significant or unrealistic commute distance.
  - Appraisal reflects vacant or tenant occupancy.
  - Occupancy affidavits reflect applicant does not intend to occupy.
  - Homeowner's insurance is a rental policy (declarations page).
  - Reverse directory does not disclose subject property address.

## Short Sale Fraud

The borrower deliberately withholds mortgage payments, forcing the loan into default so that an accomplice can submit a straw short-sale offer at a purchase price less than the borrower's loan balance. The borrower deceives the servicer into believing that the straw short-sale offer is legitimate.

Red flags common to this type of fraud are:

- Sudden default, no workout discussions, and immediate offer at short sale price.
- Ambiguous or conflicting reasons for default.
- The mortgage delinquency is inconsistent with the borrower's spending, savings and other credit patterns.
- Short sale offer is from a related party.
- Short sale offering price is less than current market.
- Cash back at closing to the delinquent borrower, or other disbursements that have not been expressly approved by the servicer (sometimes disguised as repairs or other payouts).

## Shot Gunning

Shot gunning occurs when a fraud perpetrator simultaneously secures loans from multiple lenders, but does not disclose any of the other applications in process to the individual lender. Shot gunning can accompany several of the schemes covered in this section, such as property flipping and investment club schemes. In those cases, the perpetrator would not qualify for multiple purchase money mortgages and applies with various lenders but does not reveal the other applications to any given lender. Each lender simultaneously funds what it believes to be the only new mortgage loan. Until the loan closes, the only

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clues of this activity are credit bureau reported mortgage inquiries, which can be explained by the borrower as price and term comparison-shopping.

### Straw Borrower

A straw buyer is a person used to buy property in order to conceal the actual owner. The straw buyer does not intend to occupy the property or make payments and often deeds the property to the other individual immediately after closing. The straw buyer is usually compensated.

Participants in a straw borrower situation:

- Act as a substitute for the actual borrower.
- Use a quit claim deed either immediately before or soon after closing the loan.
- Represent investment property as owner-occupied or a second home.
- Sign on the actual borrower's behalf.

Red flags common to transactions with straw buyers are as follows:

- First-time home buyer, with substantial increase in housing expense.
  - Buyer does not intend to occupy - unrealistic commute, size or condition of property, etc.
  - No real estate agent is employed (non arm's-length transaction).
  - Power of Attorney may be used.
  - Boilerplate contract with limited insertions, not reflective of a true negotiation.
  - Income, savings and/or credit patterns are inconsistent with the borrower's overall profile.
  - High LTV, limited reserves and/or property seller-paid concessions.
  - Inconsistent signatures throughout the file.
  - Use of gift funds for down payment and/or closing costs, minimum borrower contribution
- Section 14 Risk Mitigation.

For all loan types and loan programs, a thorough review of specific loan documentation is essential to determine the validity of the information provided by the borrower and parties to the transaction.

## Section 14 Loan Documents

### 14.1 Loan Application

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Review the loan application for the following red flags:

- Inconsistent Social Security numbers from document to document.
- Invalid or recently issued Social Security number.
- Unsigned, undated, outdated and/or incomplete application
- Compare borrower's names and address with property seller's names and address (could be a straw buyer)
- Inadequate documentation to support required owner occupancy
- Borrower's signature is inconsistent throughout the loan file
- Borrower is buying investment property, but does not own current residence

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- Borrower is buying investment property as an out-of-state investor
- Number of years on the job/in that profession is inconsistent with borrower's age, years of education, borrower profile or type of employment
- Employer's telephone number is a cell phone
- Employer's address is a PO Box
- Employer/company name is similar to the borrower name
- Significant increase or unrealistic change commuting distance
- New housing not large enough to accommodate all occupants
- Buyer is downgrading from larger to smaller home
- Buyer currently resides in property and is purchasing it from the landlord
- Buyer intends to rent/sell current residence with no documentation
- Down payment is other than cash
- Borrower/co-borrower working for same employer, or is an employee of the property seller
- Same telephone number for home and business (may be self-employed)
- High income borrower has little or no personal property or minimal liquid assets
- New housing expense exceeds 150 percent of current housing expense
- Assets are not consistent with borrower's income
- Inappropriate salary with respect to loan amount
- Significant or contradictory changes from handwritten to typed loan application

## 14.2 Occupancy

For owner-occupied transactions containing address discrepancies, or red flags present that would imply occupancy other than indicated, the loan file must contain acceptable documentation to justify proceeding with the transaction. Documentation must be scrutinized to ensure reasonableness of the owner-occupancy status in order to proceed with the transaction.

Review the loan file for the following red flags:

- Purchase
  - A previous mortgage transaction within the past 12 months was also the purchase of a principal residence.
  - Hazard insurance policy indicates investment property when application states owner-occupied.
  - The mailing address on the insurance policy is different from the subject property, when the subject is represented as a primary residence.
  - Value of current residence exceeds subject property value when subject property is to be owner-occupied and current residence is to be investment property.
  - Commute distance from work and subject owner occupied property is excessive (acceptable explanation may be a virtual office).
  - Application is for a second home in area not typical for second home properties and/or not reasonable distance from current owner-occupied property.
  - The borrower profile does not make sense for occupancy in subject property (i.e., elderly borrower moving from current residence of many years to a much larger home).
  - There are duplicate applications with conflicting occupancy information.
  - Borrower owns numerous properties or has multiple mortgages shown on credit report and purchase of new primary residence appears unreasonable.
  - Request is for a second home, yet borrower already has a second home.

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- Purchases of a second home in the same location as the principal or current second home residence or investment property owned.
- New housing square footage/bedroom count is insufficient to accommodate.
- Refinance
  - Different address for paystubs, bank statements, or other financial documents when the loan is a refinance of an owner occupied property.
  - Application is a refinance of the primary residence but the home telephone number does not match the subject address.
  - Appraisal occupancy is different from the loan application (Appraisal indicates property is tenant occupied, but is stated as primary on the application).
  - Title commitment does not show homestead exemption on an owner-occupied refinance.

### 14.3 Social Security Numbers

For loans that receive Social Security number verification messages from AUS, validate the accuracy of the Social Security number by providing a copy of the verification provided from the Social Security Administration using Form SSA-89. Verification can also be obtained using the Form SSA-89 through third party vendors to satisfy this verification requirement. A copy of the Social Security Validation must be included in the loan file for purchase.

Review Social Security numbers for the following red flags:

- Inconsistent social security numbers provided during processing and underwriting the loan
- Invalid Numbers listed below (as of June 2009)

The first three digits are 000
The second two digits are 00
The last four digits are 0000
The first three digits are 666
The first three digits are 773 through 899
The first three digits are 900 through 999 (these are only issued occasionally)
Zeros in positions 4 and 5
Leading numbers of 74 or 79
Leading numbers of 8 or 9

**Note:** Effective June 25, 2011, the Social Security Administration began using a randomized approach of assigning Social Security numbers. It will no longer be possible to determine the place or approximate date of issuance simply by examining a number. The only way to conclusively determine if a SSN assigned after June 25, 2011 has been issued will be using a service that makes a direct inquiry into the Social Security Administration databases and systems.

### 14.4 Borrower Contact

- Phone number is invalid or has been disconnected
- Employer states the borrower does not work there or is out of the country for some time
- Caller gives information that is inconsistent with the application
- Borrower calls frequently for an application status

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- Inconsistent language/ability to communicate
- E-mail address is inconsistent with the borrower or borrower's employer
- Borrower discloses and unauthorized third party or broker

## 14.5 Credit Report

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Review the credit report for the following red flags:

- Credit report "warning" messages must be carefully reviewed
- Credit report lists an Also Known As (AKA) or Doing Business As (DBA) or name variances
- Nicknames that are unrelated to the borrower's name
- Age of accounts is inconsistent with the borrower's age
- Address history on in-house credit is inconsistent
- Trade lines were opened at the same time or opened recently
- Recently added as authorized user on several trade lines or numerous authorized user accounts
- Pattern of delinquencies that are inconsistent with credit explanations
- Undisclosed bankruptcies, foreclosures or debts
- Greater number of authorized user trade lines than traditional trade lines
- Contains authorized user accounts with trade line information inconsistent with the borrowers other accounts
- Recently originated loan has been refinanced
- All accounts have been recently paid in full
- Disputed accounts appear on the credit report (possible credit doctoring)
- Open credit obligation listed on the application but does not appear on the credit report
- Employment information and history varies from loan application and/or VOE
- High income borrower or borrower is over 25 years old lacks established credit or has inappropriate accounts
- Other sources show a variance in employment or residence data
- Social Security number is invalid, issued before the borrower was born, issued to a minor, is attributed to a deceased individual or the numbers vary, or the SSN differs from the SSN on the loan application
- Borrower has multiple Social Security numbers
- Multiple inquiries in a short time frame
- Recent (within two weeks) nonbank inquiries

## 14.6 Verifications of Rent

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Review verifications of rent for the following red flags:

- Lease period dates on the VOR do not correspond to the dates on the application
- Last name of the landlord on the lease is the same as the borrower
- The landlord shares the same address as the borrower
- The landlord's telephone number on the lease is invalid
- Rent on lease does not match the amount disclosed on the application
- Schedule E lists additional properties that are not on the loan application
- VOR is not in the name of the borrower

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- Any visible sign that suggests the document has been altered

#### 14.7 Assets

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Review the asset documentation (bank statements, verification of deposit) for the following red flags:

- Excessive balance in checking versus savings account
- Bank statements mailed to address other than the borrower's residence, such as a P.O. Box or relative's address
- Other names on the account with no explanation of why or backup documentation
- Check Social Security number against 1003, W-2s, 1040s
- Savings account with average two month balance exactly equal to present balance (no interest accumulation)
- Prepared/signed by originator before or on the same date as completed/signed by depository
- Large balances although the borrower has little or no interest income on tax returns
- Account balance is significantly higher than the average balance or no average balance indicated on the Verification of Employment
- Regular payroll deposits that do not agree with reported income
- Deposits that exceed the borrower's normal take-home pay
- Account numbers are inconsistent with the application
- Cash in bank not sufficient to close escrow
- New bank account opened within the past month
- Bank statements are from an unfamiliar financial institution, have suspicious logo or do not identify the name or address of the financial institution
- Round dollar amounts, especially on interest-bearing accounts
- Borrower has no bank account or bank account is not in borrower's name
- Significant changes in balance from prior two months of date of verification
- Gift is given by current or former occupant/owner of the subject property
- Type or handwriting identical throughout
- Document is not folded
- High income borrower with little or no cash
- Evidence of ink eradicator or use of "white-out", or other alterations made to the document
- Account was opened on a non-business day
- Verification of Deposit completed on a non-business day
- Addressed to a specific individual at the depository institution
- Assets used at closing/escrow not coming from a verified source
- Borrower is unable to clearly document the source of funds to close

#### 14.8 Verification of Employment (VOE)

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Review the Verification of Employment for the following red flags:

- Verification form is forwarded to a P.O. Box (may be acceptable with independent verification)
- Income is out of line with the borrower's occupation
- Property seller's address is the same as the employer's
- Year-to-date and/or past years income says see "W-2's and paystubs"

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- VOE is prepared/signed by originator on the same date as completed/signed by employer
- VOE is prepared by someone other than a representative of a payroll or human resources department or has a generic job title such as secretary, manager or general manager
- Person verifying employment appears to be a relative of the borrower (i.e. same last name)
- Illegible phone number or name of person signing the document
- Signature on the VOE reflects the same name as the borrower or other party affiliated with the transaction
- The date the VOE was signed is not reasonable for processing time (i.e. VOE mailed out of state is signed the day after it was printed)
- Salary is displayed in round dollar amounts
- VOE shows a company car allowance, yet applications shows an auto loan
- Employer uses mail drop or P.O. Box or personal residence for business address
- Borrower's profession changed from previous to current employer
- Dates of employment on the VOE do not match dates on the application
- Inappropriate verification sources (such as, secretary or relative) were used
- Amount of overtime equals or exceeds base pay
- Handwriting or type is inconsistent throughout the VOE
- Document is not folded (never mailed)
- Evidence of ink eradicator ("white out") or other alterations appears on VOE
- Name of employer is similar to name of borrower
- No employer address on VOE
- No indication the VOE was mailed or faxed to the employer
- Faxed VOE has unknown fax number (number other than employer)
- Business phone number is determined to be a cell phone and not appropriate for size of the company
- Type or handwriting is not identical throughout

## 14.9 Paystub

---

Review paystubs for the following red flags:

- Company name not imprinted
- Employer's address is missing, is a P.O. Box, or is different than provided by borrower
- Name of employer is similar to the borrower's name
- Employee or address name not printed
- Handwritten
- Contains misspellings
- Round dollar amounts
- Year-to-date totals are not accurate from paycheck to paycheck
- Date of pay period missing and/or inconsistent pay periods
- No withholding
- No check issue date
- Lacks current income breakdown or year-to-date
- Incorrect or inconsistent Social Security/Medicare deductions for level required
- Tax deduction not detailed (Social Security, Medicare, etc.)
- Paystub numbers are in sequential order or show the same check number repeatedly
- Evidence of ink eradicator (white out) or other alterations

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- Employee or employer name does not match the W-2, personal tax return or the loan application
- Social Security number differs from W-2 or personal tax return or other documentation
- Payroll deductions reveal additional liabilities not disclosed on loan application

#### 14.10 W-2

---

Review the W-2(s) for the following red flags:

- Invalid Employer Identification Number (format should be <xxxxxxxx>)
- Employer Identification number same as borrower's Social Security number
- Different type size or font within the form
- Handwritten
- Faxed document
- Inconsistencies in name spelling, address, employer's address, SSN, etc.
- Reported income does not match income reported on loan application or on the VOE
- Evidence of ink eradicator ("white out") or other alterations
- Incorrect withholding amounts (FICA and Medicare wages/taxes and local taxes exceed ceilings/set percentages)
- Taxes paid are lower compared to income stated on W-2
- Round dollar amounts
- No address or it is an incorrect address for the employee or employer
- Incorrect form provided. The borrower should provide "Copy C," unless the closing is prior to April 15

#### 14.11 Tax Returns

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Review tax returns for the following red flags:

- Handwritten by a paid preparer (call the preparer and verify the figures on the return)
- Paid preparer did not sign the income tax return or disclose their tax ID
- Different paid preparer used each year
- Paid preparer signs taxpayer's copy
- The file does not contain a copy of a signed, updated IRS Form 4506-T (Request for Transcript of Tax Return)
- Gross income on Schedule C does not agree with total income on 1099s
- No cost of goods "sold" shown on Schedule C for retail or similar type of business
- Borrower with substantial stock, bonds and/or saving cash in the bank shows little or no related interest income on Schedule B
- High tax bracket borrower does not use a professional tax preparer
- High tax bracket borrower with few or no deductions or tax shelters
- No deductions for taxes and licenses on Schedule C
- Schedule A shows unexplained real estate taxes paid for non-home owners
- Tax preparation fee is deducted on Schedule A (itemized deductions), but prior years return was prepared by borrower
- Tax returns are not signed or dated by the borrower

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- Name, Social Security number, address, or profession does not agree with the loan application
- Address and/or profession does not agree with other information submitted with the loan application
- No estimated tax payments by self-employed borrower (Schedule SE of IRS tax form 1040)
- Gross Income/wages on tax returns do not match W-2s or 1099s
- Tax return indicates self-employment for salaried borrower
- Self-employed borrower shows income as wages and salaries
- Income from S corporation does not match the personal return
- Income and/or deductions are even dollar amounts (\$100,000.00 vs. \$97,243.00)
- Unemployment compensation reported although the application does not disclose gaps in employment
- Type or handwriting varies within return
- Evidence of ink eradicator (“white out”) or other alterations
- Real estate taxes paid but no property owned according to the loan application
- No mortgage interest paid when borrower shows ownership of property (or vice versa)
- Additional properties listed on Schedule E but not shown on loan application
- Math errors and totals do not add up
- Tax return is incomplete (missing schedules, no occupation code on Schedule C, information missing, etc.)

#### 14.12 Phantom Employment, Credit, Income

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Phantom employment or income occurs when the credit file is developed through fraudulent means. The following scenarios describe common methods of falsifying employment or income:

- A co-worker or superior completes a Verification of Employment (VOE) with false information.
- A co-worker or superior acts as an authorized signer on a VOE.
- Verified employment is not consistent with employment reference on the credit report.
- The borrower may rent a post office box, or provide another address for his/her employer. When the VOE is mailed to the false address, someone who has been instructed on what information to provide to the requesting party then completes it.
- The borrower provides false telephone numbers for those lenders that perform telephone verifications.
- The borrower provides false tax returns, W-2s, and paystubs, all of which may be easily obtained through interested parties to the transaction.
- The borrower may use a fraudulent Social Security number on the original credit application. When the credit report is generated, it will reflect no credit, thereby effectively hiding the borrower’s poor credit history.
- The borrower may assume the identity of someone else.

#### 14.13 Cancelled Checks

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Review cancelled checks submitted as documentation for the following red flags:

- Encoding numbers are missing.
- Encoding numbers inconsistent with the date and amount of the check.

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- Misalignment in type or variation in font type.
- Check numbers and dates are not in numerical and chronological order.
- Bank account numbers on the checks are inconsistent with the application and asset verification.
- Any visible sign that suggests the document may have been altered or falsified including, but not limited to, misaligned text, variation in font type, or signs of information that has been cut and pasted.
- Earnest money deposit check is written on account that the application does not list.
- Money orders or several checks were used for deposit and they are not in sequential order.
- Check is dated prior to the sales contract execution date.

#### 14.14 Appraisal

Review the appraisal for the following red flags:

- Ordered by a party to the transaction other than the loan originator (such as a realtor, property seller, borrower)
- Property seller's name does not match the name on the title preliminary report or purchase agreement
- Borrower is not listed as the owner (non-borrowing owner)
- Ordered before sales contract written
- Photos do not match property description
- Photos of property taken from odd angles
- Photos show a For Sale sign in the yard for a refinance or a For Rent sign in the yard for a purchase
- Subject property has significant deferred maintenance
- Comparable sales not verified as recorded (data source MLS, sales office)
- Comparable sales have prior sales within the last 12 months with substantially different value
- All comparable sales are within the same neighborhood/subdivision and/or the same builder on new construction
- Comparables are older than six months in a market that has a faster marketing time
- All comparable sales are sourced from private sale transaction versus property sold through Multiple Listing Service (MLS), Clerks office, etc.
- Comparable sales are more than one mile away from subject property in an area where there are sufficient comparable sales closer to the subject property
- All comparable sales are adjusted in the same direction
- Overall adjustments are in excess of 25 percent without reasonable explanation
- Appraiser is on the exclusionary list, appraisal is not acceptable
- Appraiser name is the same as or similar to other parties engaged in the transaction
- Appraiser comments that the property has been listed for sale within the last 90 days
- Appraiser used incorrect, outdated or obsolete form
- Income approach not used on tenant occupied properties
- Tenant is shown as the occupant on an owner-occupied loan
- Occupant is shown as tenant or unknown on a primary or secondary home property
- Property ownership has been transferred within the last 120 days
- The property has been sold one or more times in the last 12 months
- The property's history shows recent sales within the year for a lower price
- Out-of-area or non-local appraiser

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**14.15 Sales Contract**

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Review the sales contract for the following red flags:

- The borrower is not shown as the purchaser of the subject property
- Names are deleted from or added to the contract
- The property seller is a party related to the transaction such as the realtor, employer, appraiser, relative, or broker
- Earnest money deposit consists of the entire down payment or is a large amount not customary with the size of the purchase
- Earnest money deposit is placed directly with the property seller and represents the entire down payment for the loan
- There is no earnest money deposit in the sales contract
- The earnest money deposit on the sales contract does not match the earnest money deposit on the loan application
- Earnest money deposit with a realtor who does not sign the contract and acknowledges receipt of funds
- Earnest money is deposited with unknown third party outside of the transaction
- Earnest money check is dated prior to the sales contract or much later than the sales contract date
- Sales price is substantially below or significantly higher than what is typical for the market
- There is no realtor involved
- Name and address on the earnest money deposit check do not match the borrower/buyer
- Purchase contract indicates it has been assigned or is contingent upon another party (i.e. property seller) purchasing the subject property first, such as the property seller
- Property seller or buyer is a corporation
- Property seller's name on the sales contract is not the owner's name on the appraisal
- Property seller's name on the sales contract is not the owner of the property per the title commitment
- The buyer's name on the sales contract is not the proposed insured per the title commitment
- Property seller's name listed on the contract is not consistent throughout or is not the same as the signature
- Sales contract references an addendum but the addendum was not provided
- Sales contract is dated after the date of the appraisal or after the date of the loan application
- Sales contract has no date
- Property seller concessions/contributions appear excessive and/or property seller is paying all of buyer's closing costs
- Property seller concessions/contributions do not match the details of transaction on the application
- Comments in appraisal indicate sales price is unreasonable for subject property
- Comments in appraisal indicate that sale of property is not an arm's length transaction

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**14.16 HUD-1 Settlement Statement**

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Review the HUD-1 Settlement Statement for the following red flags:

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- Mortgage being paid off is not listed on application or credit report
- Mortgage being paid off is not the mortgage of the borrower or the property seller Mortgages identified on the title commitment are not paid off
- Property seller's name on HUD-1 Settlement Statement is not consistent with property seller on sales contract, title commitment or appraisal
- Property seller changes on day of escrow or in closing process
- No money due from buyer
- Cash proceeds back to buyer on a purchase transaction
- Property seller pays no money at closing due to substantial earnest money deposit previously placed with property seller from the buyer with no earnest money deposit placed in escrow with the title agency
- Excessive sales concessions
- Discrepancies between the HUD-1 Settlement Statement and the escrow instructions such as different property seller name or variations in fees and/or payoffs
- No real estate commission paid, yet realtor is identified on sales contract
- Real estate commission paid when no realtor involved per sales contract
- Difference in sales price listed on sales contract and HUD-1 Settlement Statement
- Funds being disbursed to parties that were not identified as parties to the transaction
- Funds being disbursed to unidentified parties with name of party receiving funds not identified on HUD-1 Settlement Statement
- HUD-1 Settlement Statement indicates funds are being disbursed to a simultaneous escrow for the same property
- Earnest money deposit is excessive and is placed with property seller not passing through the escrow account with the closing agent
- Earnest money deposit with property seller represents entire borrower contribution to the transaction
- Earnest money deposit does not match the earnest money deposit on the sales contract and/or the application
- Title agency or closing attorney submits multiple HUD-1 Settlement Statements for approval and review with information on payoffs, property seller, monies due from buyer changing in various HUD-1 Settlement Statements
- Property seller contributions or property seller concessions are on HUD-1 Settlement Statement that are not in sales contract or on the application
- Property seller is a corporation
- Borrower has owned the property for a short period of time and is requesting cash-out of the transaction
- Seller side of the HUD-1 with any material non-transaction-related disbursement.
- Large, unexplained, payments to an HOA
- Loan balance on the title commitment does not make sense when compared to the payoff on the HUD-1
- A payoff is listed on the HUD-1 without a corresponding lien reflected on the title commitment
- Excessive closing costs are disclosed on the seller side of the transaction
- Payment to a company owned by a party involved in the transaction
- Transactions of \$5000 or more on the seller side of the HUD-1 are required to be explained and documented

#### 14.17 Preliminary Title Report

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Review the Preliminary Title Report for the following red flags:

- Prepared for or mailed to a party other than the originator
- Title work is prepared by a title company that is not closing the transaction
- Title company changes during the application process
- Title commitment references other deeds to be recorded simultaneously
- Delinquent property taxes tax liens or judgments on property
- Notice of default/foreclosure recorded
- Ownership of property has changed more than once in the last 120 days
- Property seller not on title (could indicate a double escrow)
- Borrower is not on title when transaction is a refinance
- Buyer is not listed as proposed insured
- Property seller is only on the title by rights under contract on a purchase transaction
- Realtor, appraiser, or other interested parties are in the chain of title
- Mortgages are being paid off that are not on the application or credit report
- Property mortgage history indicates significant differences in lien amounts

#### 14.18 Escrow/Closing Instructions

---

Review the Escrow/Closing Instructions for the following red flags:

- Reference to another (double) escrow/sale
- Power of Attorney being used with no explanation
- Unusual amendments to the original transaction
- Related parties in the transaction
- Demands being paid to undisclosed third party
- Cash is being paid to outside escrow to the property seller
- Odd amounts being paid as a deposit/down payment
- Buyer is required to use a specific broker/escrow company
- Borrower has right of assignment
- Sale is “subject to” property seller acquiring title

#### 19.14 Pre-Funding Due Diligence

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Pre-funding due diligence can be conducted at any point in the mortgage process prior to the disbursement of funds. Because it can greatly reduce exposure to fraud losses, pre-funding due diligence should be integrated into normal operating procedures. Ideally, this allows the identification of misrepresentations prior to the mortgage closing, thus mitigating the risk of loss, defaults and repurchases.

Pre-funding due diligence can be completed by the relationship manager, underwriter, credit risk department, or a pre-funding quality control department. Methods and levels of due diligence vary based on the perceived risk.

The most critical component in avoiding fraud is to know your customers, employees and business partners. Doing business with unscrupulous individuals or managers with questionable character will undoubtedly result in higher fraud losses.

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## Know Your Customer

Section 326 of the USA Patriot Act requires that financial institutions “know their customer” and take appropriate steps to verify the identity of account holders in order to make loans to and accept transactions from their customers.

Recommendations to enhance “Know Your Customer” processes are:

- Confirm the legal existence of a self-employed mortgage applicant by verifying registration with the applicable state Department of Corporations, licensing, bonding, or insurance agency. Searches can also be conducted through the Better Business Bureau and LexisNexis, which can also provide complaint information that may be helpful in determining whether an applicant is self-employed, but has not disclosed that fact.
- Use investigative search engines, such as LexisNexis and Accurint, which can provide additional information available through public records (judgments, tax liens, etc.).
- Conduct more extensive background checks for large or risky transactions using an external investigative company (or internal resources if available and they provide results equal to, or greater than, those available through a vendor).
- Subscribe to and review credit repository alerts, which can identify non-residential addresses, such as post office boxes, and incorrect, deceased or newly issued Social Security numbers.

## Know Your Documents

A secondary component of a pre-funding review is to know your documents. Making a sound underwriting decision means relying on the integrity of the documents provided. Therefore, close inspection of the documents for errors, omissions and misrepresentations, as well as an independent verification of the information contained in the documents, is essential. Below are additional ways to mitigate risk:

- Review databases such as the Mortgage Electronic Registration Service (MERS), prior to closing to detect undisclosed mortgages on the subject property or other properties.
- Use reverse phone directories to confirm that addresses and phone numbers match the information on the loan application.
- Review online county records and preliminary title reports for delinquent property taxes and IRS tax liens, as well as evidence that a party to the transaction has a current or a former interest in the property, or other related entities that had a former interest in the property; for example, the realtor, employer, or closing agent.
- Review all title work not prepared by the financial institution for discrepancies such as the subject property address, current vested title holder, proposed insured and loan amount, as well as recent transfers of title.
- Prior to disbursing funds, perform a review of the HUD-1 Settlement Statement to identify uncommon contributions and/or unusual payouts. Review both the borrower’s and seller’s side of the settlement statement.

### 14.20 Excessing Marketing Fees and Real Estate Sales Commissions

There is an 8% maximum real estate sales commission including; bonus, marketing, finders, referral, consulting or assignment fees. Commissions & auction fees when combined with other sales and marketing fees cannot exceed 12% of the sales price. Sales commissions greater than 8% (or 12% with

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auction fee) are considered a sales concession that must be subtracted from the sales price in order to determine the maximum LTV/CLTV for the transaction.

**Note:** The maximum real estate sales commission is maxed at 8% when combined with auction fees.

## Section 15 Flow Registration and Lock Commitments

### 15.1 Licensing

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PHM will not accept loans in states where Sellers are not properly licensed to conduct business. In the event that PHM does not have a Seller's current license or exemption on record, PHM can not accept loan registrations or locks. If any Seller license issues are under review, the Seller's loans will be placed in a pending status. To remove the loans from pending status the Seller must take the following steps:

- Seller must update all state licensing information by emailing state licensing and exemption information directly to PHM at [Correspondent.Approval@PHMhomemortgage.com](mailto:Correspondent.Approval@PHMhomemortgage.com).
- Once this information is received and the system has been updated to reflect the appropriate approval, the Seller must submit a new lock request to the Registration Desk at the prevailing loan rate. Rates effective on the original request date will not be honored.

### 15.2 Escrow Waivers

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When the Seller elects to waive escrows for property tax and/or hazard insurance, wind, earthquake, flood, and HO-6 on a loan, certain restrictions and price adjustments will apply. To be eligible to waive the property tax and/or homeowner's insurance escrow, the loan must meet program eligibility guidelines and qualifications. Check the current rate sheet for state specific information and adjustments. Property tax exemptions will be subject to all applicable price adjustments for non-escrowed loans.

### 15.3 Locked Loan Changes

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Refer to PHM's [Mini-Correspondent](#) or [National Correspondent](#) Lock Policies for information regarding changes on locked loans.

#### 15.3.1 Rate Lock Extensions

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Refer to PHM's Mini-Correspondent or National Correspondent Lock Policies for information regarding changes on rate lock extensions.

#### 15.3.2 Rate Lock/Commitment Expirations

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Refer to PHM's Mini-Correspondent or National Correspondent Lock Policies for information regarding changes on rate lock expirations.

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### 15.3.3 Intra-Day Pricing Changes

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Due to the volatile nature of the secondary market pricing, our pricing is subject to change at any time and without notice. PHM reserves the right to determine the standard used to establish the cutoff time for intra-day pricing changes.

#### Internet

When PHM is re-pricing or preparing new rate sheets, website transactions will be disabled.

#### Phone

Sellers that are in the PHM phone queue at the time of a re-price will typically be able to complete their registration, lock, or change requests as of the pricing in effect at the time they entered the phone queue. Sellers contacting the desk once re-pricing is in process will receive a message that PHM is currently going through a rate change and will be asked to call back after the new prices are posted.

#### E-mail

All registrations, changes, and other time-sensitive requests will be honored if received by PHM via email before the established rate change and are deemed complete. Pricing for loan registrations, changes or locks received after the price change has started will be subject to pricing as of the next available Rate sheet. PHM does not allow lock request via fax.

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### 15.3.4 Error Notification

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PHM will not be held responsible for incorrect registrations and/or loan lock errors. Errors, omissions, or mistakes that are reported to the Correspondent Registration/Lock Desk within 24 hours after the incident occurs will be considered on a case-by-case basis for correction without penalty. It is the Seller's responsibility to contact the PHM Registration/Lock Desk to report registration or lock-in issues or missing lock-in requests within 24 hours of the initial request. Any correction of errors or supplemental information for omissions after the 24-hour period will require that the loan be re-priced based on prevailing rates.

## Section 16 Commitment

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### 16.1 Commitment Defined

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A Rate Lock Commitment is an agreement whereby Seller commits to deliver a loan, as described in the Commitment Confirmation that is eligible for purchase under the terms of this Seller Guide. Seller must enter into a Commitment for each loan prior to delivering it to PHM. Depending on approval authorization, Sellers may enter into a Flow Commitment under either a Best Efforts or a Mandatory Delivery Commitment:

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## 16.2 Best Efforts Delivery Commitment

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A Best Efforts Delivery Commitment is a lock for a specific borrower with a specific property. Once the loan closes, Seller is required to deliver the loan and it becomes a Mandatory Delivery Commitment. If the loan does not close, Seller is typically not assessed a Pair-off Fee.

Under a Best Efforts Delivery Commitment, Seller commits to the following:

- Best efforts will be made to close the loan as described in the Commitment
- If closed the Seller will deliver the full credit and closing file in purchasable condition by the Delivery Expiration Date
- Although there may be no penalty charged on an individual loan if it does not close, PHM closely monitors pull-through ratios. Unacceptably low pull-through levels may impair Seller's ability to sell loans to PHM or maintain normal business relationships.

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## 16.3 Mandatory Delivery Commitment

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Under a Mandatory Delivery Commitment, Seller commits to deliver a loan to PHM that is eligible for purchase and that conforms to the terms described in the Commitment prior to the end of the commitment period. PHM will charge a Pair-off Fee to Seller if the committed amount is not delivered by the specified date.

Prior to entering into a Mandatory Delivery Commitment, Seller must first be approved and set up for this delivery option and must be closing in their own name and utilizing an approved warehouse line or their own funds. The interest rate on a Mandatory Delivery Commitment can only vary plus or minus 0.25% from the initial locked interest rate. A Mandatory Delivery Commitment is ineligible to be re-locked as a Best Efforts Delivery Commitment. However, at PHM's discretion, a loan that was previously committed under a Best Effort Delivery Commitment may be re-locked into a Mandatory Delivery Commitment provided that more than 30 days have lapsed since the initial lock expiration date. Once a loan is re-locked as a Mandatory Delivery Commitment, further extensions or changes in loan parameters are not permitted.

PHM offers the following Mandatory Delivery Commitment options:

- Flow - one loan per Commitment
- Bulk

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## 16.4 Additional Rules Applicable to Commitments

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Each lien position of a property may have no more than one Commitment outstanding at any one time with PHM.

- In the event that a duplicate lock is created, the loan will become subject to worse case pricing.
- Seller may not assign or transfer a Commitment, in whole or in part, without the prior express written consent of PHM.

**Note:** The term Commitment is not to be confused with other agreements or terminology that may be in effect between Seller and PHM (such as a master commitment or a forward commitment).



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## 16.5 Commitment Confirmation

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A Commitment Confirmation is PHM's written communication to the Seller confirming that the Seller's Commitment request is accepted and outlining the additional terms and conditions applicable to PHM's potential purchase of the loan.

If Seller delivers an eligible loan within the Commitment Period, and the loan conforms to PHM's Guidelines, the loan will be reviewed for potential purchase under the pricing and terms described in this Commitment Confirmation section.

After Seller has communicated a request to enter into a Commitment, the request is non-revocable by Seller. Once accepted or rejected, PHM will communicate its response and, if applicable, the terms of the Commitment including the price and the Commitment Period. PHM is not deemed to have accepted a request to enter into a Commitment until PHM has sent its written Commitment Confirmation to Seller. Although PHM will use commercially reasonable means to receive requests and send its responses for Commitments, PHM is not responsible for any failures of Seller to deliver or receive any such communications, and Seller acknowledges that PHM will act in reliance of a Commitment that it has accepted even if Seller does not receive the Commitment Confirmation. Sellers that wish to mitigate the risk of market shifting should use time-sensitive means of communication rather than means without immediate feedback (such as fax).

Seller also acknowledges that if PHM accepts a Commitment by voice (such as by telephone), the Commitment will remain subject to all terms and conditions shown in a subsequently delivered Commitment Confirmation.

Each Commitment Confirmation will provide PHM's applicable Commitment number and/or PHM loan number, which Seller must include in all future correspondence regarding such Commitment. Further, Seller acknowledges that prices in a Commitment Confirmation will be those applicable at the time PHM acknowledges they received a completed/acceptable request for a Commitment, and that PHM is not responsible for market changes or other re-pricing events that may have occurred between the time of Seller's request and PHM's receipt. PHM reserves the right to determine the standard used to ascertain the time such request is considered to be received.

The pricing provided on the Commitment Confirmation is subject to change. Changes, including but not limited to changes in loan characteristics, program eligibility, commitment terms and late fees will affect the final loan price. PHM reserves the right to modify and/or revise its Commitment Confirmation should any of the information submitted in the final loan package differ from the information provided during the Pricing Functions service or if the loan does not meet PHM's guidelines. A Commitment Confirmation does not constitute a loan decision/approval or a commitment to purchase a loan.

## Section 17 Withdrawing or Canceling Loans

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### 17.1 Withdrawing or Canceling Loans

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A Seller may request PHM to cancel or withdraw a loan. Once cancelled or withdrawn for any reason, the loan immediately ceases to be price or guideline protected. There can be no reinstatement of that specific loan number. Should Seller request a loan reinstatement and should PHM reinstate the loan, it will be re-registered and re-priced according to worse case pricing policies outlined in the Lock Policy. All extension fees remain with the loan. Cancellation may take place through the website or through the Registration or Lock Desk.

Seller is responsible for monitoring and ensuring that only authorized personnel make requests for cancellation.

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## 17.2 Cancellation of Best Efforts Delivery Commitments

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PHM monitors patterns to identify potential non-compliance with the Best Efforts Delivery Commitment policy. PHM reserves the right to contact the applicant or use other available means in the event of a cancellation, to confirm the status of the loan. In the event a loan is closed and delivered for purchase, and is subsequently withdrawn or deemed un-purchasable, PHM at its discretion will assess a pair-off or cancellation fee.

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## 17.3 Declined Loans

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In order to ensure PHM's ability to comply with the Home Mortgage Disclosure Act (HMDA) and the Equal Credit Opportunity Act (ECOA), all loans underwritten by PHM that result in the loan being declined will be declined regardless of lock expiration. The rate lock will be cancelled.

Resubmissions after the decline date will require a new registration and underwriting submission. The new loan will be subject to worse case pricing review if locked within 30 days after the previous rate lock was cancelled (regardless of when the loan was actually declined).

## Section 18 Underwriting Authority and Options

Seller underwriting authority is granted based on net worth requirements, experience, agency eligibility, and other criteria. Sellers can be approved for Delegated, Delegated Conditional, or Non-Delegated underwriting options. To learn more about the requirements for delegated underwriting approval contact a PHM Sales Associate.

Underwriting authority may be limited by product type, and, in some cases, PHM underwriting may be required, regardless of sellers underwriting approval authority.

### Notes:

- PHM requires all Elite Jumbo and FHA loans with credit scores below 640 to be prior approved and cleared to close by PHM regardless of delegation status.
- All Mini-Correspondents must submit loans as non-delegated, requiring loans to be underwritten, approved and cleared-to-close by PHM. Prior underwritten and closed transactions are not eligible.

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- PHM reserves the right to select loans for review of; employment, income, assets, credit and appraised value prior to being purchase.

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## 18.1 Using Desktop Underwriter or Loan Prospector Feedback Reports

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### Conforming (Agency) Loans

Process loans according to the findings report and submit a complete package for underwriting. Some products require either DU Findings or an LP Feedback Certificate. Verify further details in the product summary.

### Government

Loans underwritten by FHA TOTAL Scorecard that receive an Approve/Eligible or Accept may be processed according to the findings report. Loans receiving a “refer” recommendation should be underwritten to standard FHA underwriting requirements as per 4155.1 Rev 5. See the PHM FHA Underwriting Guidelines and FHA Product Summary for more details.

### AUS Tolerance

PHM requires the final AUS findings to be present in the loan file at the time of purchase. If the loan has been submitted through DU, LP or Total Scorecard, these agencies provided allowances for tolerances that PHM will honor in accordance with the appropriate guidelines. PHM does not allow for any tolerances on VA or USDA loans.

### Valid AUS

On loans approved through an AUS, PHM requires at the time of purchase an active and valid final AUS.

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## 18.2 Submitting Loans to PHM

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Ensure all of the following are complete prior to submitting loan to PHM:

- Register loan with PHM.
- If required, obtain Automated Underwriting System (AUS) recommendation.
- Process the loan file according to the findings and PHM’s Underwriting Guidelines and Summaries. For Delegated clients, the package must be complete before the loan is delivered to PHM underwriting.
- All loans submitted to PHM are first reviewed by the Loan Set-up Team to confirm file completeness. Loans missing documentation will be suspended. If file is still incomplete after 10 days from receipt, the file will be canceled.
- The loan decision will be updated and available on our website showing any cleared conditions.

A purchase Advice will be generated by PHM upon approval to purchase loan.

### Loan File Submission Policy - Non-Delegated Underwriting

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PHM requires the correspondent to submit a single loan file to PHM for review, evaluation and final underwriting decision. PHM will issue the cleared to close, at which time the loan can be scheduled to close.

### **Suspended and Denied Loans**

Loans that were locked and subsequently suspended or denied by PHM will be cancelled after 10 business days.

## Section 19 Insurance and Survey Requirements

The following sections define the insurance requirements that must be satisfied for loans offered for sale to PHM.

### 19.1 General Hazard Insurance Requirements

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#### Carrier

The hazard insurance policy for a property securing any first mortgage including blanket policies for condos and PUDs, must be underwritten by one of the following carriers:

#### An Insurer with an Acceptable Rating

- Carriers rated by A.M. Best Company
- “B” or better Financial Strength Rating and a Financial Size Category of a least “III” in Best’s Insurance Reports
- “A” or better Financial Strength Rating and a Financial Size Category of “VII” or better in Best’s Insurance Reports Non-US Edition

#### Carriers Rated by Demotech, Inc.

- “A” or better rating in Demotech’s Hazard Insurance Financial Stability Ratings

#### Carrier’s Rated by Standard and Poor’s

- “BBB” or Insurer Financial Strength Rating in Standard and Poor’s Ratings Direct Insurance Service

Insurers rated by more than one rating company need only meet one of the rating requirements.

#### An Insurer Covered by a Reinsurance Policy

- The reinsurance company must meet either one of the A.M. Best ratings or the Standard & Poor’s rating specified above.
- The primary insurer and the reinsurance company must be authorized (or licensed, if that is required) to transact business within the state where the property is located.
- The reinsurance agreement must have a “cut-through” endorsement that provides for the reinsurer to become immediately liable for 100% of any loss payable by the primary insurer in the event that the primary insurer becomes insolvent. The endorsement must be attached to each insurance policy that is covered by the reinsurance agreement.
- Both the primary insurer and the reinsuring company must execute an Assumption of Liability Endorsement Form 858 or any equivalent endorsement that provides for 100% reinsurance of the primary insurer’s policy and 90-day written notice of termination of the reinsurance arrangement. The endorsement must be attached to each insurance policy that is covered by the reinsurance agreement.
- A reinsurer can limit its coverage exposure by specifying a dollar limitation in the reinsurance endorsement. However, the insurance written under the policy cannot exceed that amount.

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### Other Acceptable Insurance Underwriters

A state insurance pool created by statutory authority to provide insurance for geographic areas or insurance lines which suffer from lack of voluntary market availability, if that is the only coverage that is available. Such pool may be designated as a property insurance plan, a Fair Access to Insurance Requirements (FAIR) plan, an underwriting association, a joint underwriting association or an insurance authority. The following are examples of such plans:

- Hawaii Property Insurance Association (HPA); and
- Florida Citizens Property Insurance Corporation

In addition, all insurance companies (insurers) and insurance companies which guarantee coverage provided by other insurance companies (reinsurers) must also be licensed or otherwise authorized by law to conduct business in the jurisdiction where the Mortgaged Premises are located.

### Assessments

Insurance contracts must provide that no assessment may be made against the lender or the servicer, or any subsequent assignees, and that any assessment made against other may not become a lien on the Mortgaged Premises superior to the lien of the lender or any subsequent assignee.

### Mortgagee Clause; Endorsement

The mortgagee clause on all first mortgage policies, binders, and certificates of insurance must show the lender as the mortgagee using the following language:

<Lender Name>, Its Successors and/or Assigns  
<Street Address>  
<City, State, Zip>

The mortgagee clause must provide that the insurer will notify the named mortgagee at least 10 days before cancellation of the policy.

### Borrower and Property Information

The following must be accurate:

- Name(s) or Borrower(s) agree with the Note.
- Property address agrees with Note/Security Instrument
- Mailing address is the same as the property address except on second homes and investment properties, it should agree with home address shown on FNMA 1003.

### Policy Term

The policy must be written for at least a 1 year term or be continuous until cancelled.

### Policy Effective Date

The policy effective date must be on or before the date the borrower's loan is funded.

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## Evidence of Insurance

At closing, the borrower must provide evidence that the property is covered by hazard insurance in one of the following forms:

- Hazard Insurance Policy;
- A Certificate of Insurance, Evidence of Insurance Form, Declaration Page, or Insurance Binder (temporary insurance contract) that contains at least the following information:
  - Name of insured (for condominiums and PUDs, the homeowners association is the named insured);
  - Name of mortgagee;
  - Property address, including zip code. A legal description must be shown for rural properties, condominiums, or other properties if the property address does not adequately define the location of the property. Example: Route 1, Box 5, is inadequate;
  - Mailing address, if different from property address (second homes and non-owner occupied investment property);
  - Type, amount and effective dates of coverage;
  - Deductible amount and coverage to which each such deductible applies;
  - Any endorsement or optional coverage obtained and made part of the original policy;
  - Insurer's agreement to provide at least 10 days' notice to the mortgagee (including any applicable PUD or condominium unit or ground lease community leasehold mortgagee) before cancellation of the policy; and
  - Signature of an authorized representative of the insurer, if required by law.

## Purchase Transactions

At closing, the borrower's must provide a paid receipt for the first year's premium.

## Refinance Transactions

If the insurance is due to expire within 90 days of closing, the borrower must submit a paid receipt for the next year's premium.

## Minimum Property Insurance Types and Amounts

### 1-4 Unit Properties:

#### Type of Coverage

At a minimum, the Mortgaged Premises must be protected against loss or damage from fire and other perils covered within the scope of the standard extended coverage endorsement. Correspondent Funding will not accept hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damage, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion. If any of these perils is excluded from the primary insurance policy, coverage of the excluded peril must be picked up through a secondary insurance policy.

#### Coverage Amount

The hazard insurance coverage must equal the lesser of the following:

- 100% of the insurable value of the improvements as established by the property insurer or

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- The unpaid principal balance of the first mortgage and the second mortgage loan amount, as long as it equals the minimum amount—80% of the insurable value of the improvements—required to compensate for damage or loss on a replacement cost basis

Seller must ensure that the Mortgaged Premises will be adequately covered even when vacant, and where necessary, must obtain a vacancy permit endorsement.

**Note:** Properties located in mudslide zones or sinkhole areas may require additional coverage.

### **Deductible**

The maximum allowable deductible is for all property types is 5% of the face amount of the insurance policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

### **Condominiums and PUDs**

#### **Type of Coverage**

This insurance policy must provide, at a minimum, fire and all other hazards that are normally covered by the standard extended coverage endorsement and all other perils customarily covered for similar types of projects, including those covered by the standard “all risk” endorsement.

#### **Condominium Requirements**

The condominium association must maintain a master of blanket type of insurance policy, with premiums that are paid as a common expense. The policy must cover all general and limited common elements normally included, such as fixtures, building service equipment, and common personal property and supplies belonging to the homeowners’ association. The policy also must cover fixtures, and other personal property inside individual units (e.g., stoves and refrigerators), whether or not the property is part of the common elements.

If the master or blanket policy does not provide interior unit coverage (replacement of improvements and betterment coverage to cover any improvements that the borrower may have made) the borrower must obtain an HO-6 Policy or “walls-in” coverage.

In addition, the hazard insurance policy should include the following provisions:

- Any Insurance Trust Agreement must be recognized
- The right to subrogation against unit owners must be waived
- The insurance must not be prejudiced by any acts or omissions of individual unit owners that are not under the control of the homeowners’ association
- The policy must be primary, even if a unit owners has other insurance that covers the same loss

**Note:** A Special Condominium Endorsement usually covers these four requirements.

#### **PUD Requirements**

The homeowners’ association must maintain a property insurance policy, with premiums being paid as a common expense. The policy must cover all of the common elements except for those that are normally

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excluded from coverage, such as land, foundation, excavations, etc. Fixtures and building service equipment that are considered part of the common elements, as well as common personal property and supplies, should be covered.

Individual insurance policies are also required for each unit in the PUD project. If the project's legal documents allow for blanket insurance policies to cover both the individual units and the common elements, a blanket policy is acceptable in lieu of the insurance for the unit.

### Impermissible Policies

The following are not permitted:

- A blanket policy that covers multiple unaffiliated condominium associations or projects
- A self insurance arrangement whereby the homeowners' association is self insured or has banded together with other unaffiliated associations to self insure all of the general and limited common elements of the various associations

### Coverage

Insurance must cover 100% of the current replacement cost of the project improvements including the individual unit in a condominium project. Coverage does not need to include land, foundations, excavations or other items that are usually excluded from insurance coverage. An insurance policy that includes either of the following endorsements ensures full insurable value replacement coverage:

- A Guaranteed Replacement Cost Endorsement (under which the insurer agrees to replaced the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance); or
- A Replacement Cost Endorsement (under which the insurer agrees to pay up to 100% of the property's insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).

### Deductible

For policies covering the common elements in a PUD project and for blanket policies covering condominium projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy.

For losses related to individual PUD units that are covered by the blanket policy for the project, the maximum deductible amount related to the individual unit should be not greater than 5% of the replacement cost of the unit. If however, the policy provides for a wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit.

### Special Endorsements

The following special endorsements are required:

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- An Inflation Guard Endorsement, when it can be obtained
- Building Ordinance or Law Endorsement, if the enforcement of any building, zoning, or land-use will result in loss or damage, increased cost of repairs or reconstruction, or additional demolition and removal costs. (The endorsement must provide for contingent liability from the operation of building law, demolition costs and increased costs of reconstruction).
- A Steam Boiler and Machinery Coverage Endorsement, if the project has central heating or cooling. This coverage should provide for the insurer's minimum liability per accident to at least equal the lesser of \$2 million or the insurable value any buildings housing the boiler or machinery

### Name of Insured

The policy must show the homeowners' association as the named insured. The named insured should be substantially similar to the following:

- "Association of Owners of the [name of condominium or PUD] for use and benefit of the individual owners" [designated by name, if required].

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## 19.2 Earthquake Insurance

PHM does not require earthquake insurance as a condition for purchase unless it is an agency requirement as listed in PHM's Program Summaries; however, if coverage is in place, the following applies:

### Mortgage Clause Endorsement

Seller must ensure that the earthquake insurance policy contains a standard mortgagee clause identifying the first or second mortgage interest, and for second mortgage loans, it does not replace the mortgagee clause pertaining to the first mortgage loan.

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## 19.3 Lava Zone Insurance

Properties located in Lava Zones 1 & 2 are not insurable with standard hazard insurance and therefore, are not eligible.

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## 19.4 Mine Subsidence Insurance (Pennsylvania only)

Mine subsidence insurance is required for Pennsylvania loans if RFG has notice that the property is undermined (tunnels). If notification has been received or if it has been determined that the property is undermined, Mine Subsidence Insurance is required.

- Homeowner insurance companies sell Mine Subsidence Insurance to homeowners and also have special access to the Pennsylvania Department of Environmental Resources website to determine if properties require mine subsidence insurance. Due to the unique nature of this type of transaction, all homeowner insurance companies may not have the special access for completing the determination process.

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- The Pennsylvania Department of Environmental Resources website at [www.pamsi.org](http://www.pamsi.org) does allow individuals to key in their address to determine if their property requires Mine Subsidence Insurance, but the turnaround time can range from two days to three weeks depending on the research required.

### Property Undermining Determination

To determine if the property is undermined, such information may be included in one of the following documents:

- Purchase Contract
- Appraisal
- Title Commitment

### Coverage

Mine Subsidence Insurance must equal 80% of the value of the structure or the maximum insurance available from the Pennsylvania Department of Environmental Protection. The maximum insurance available is \$250,000.

### Evidence of Insurance

Evidence of Mine Subsidence Insurance may be any the following:

- An original Hazard Insurance Policy that includes Mine Subsidence Insurance
- If the loan is a refinance, the original or a photocopy of an existing Mine Subsidence Insurance Policy from the Pennsylvania Department of Environmental Protection and an Assignment of Interest Endorsement form
- If the property is located in the Anthracite (hard coal) Region, an Assignment of Interest Endorsement form and a town map which has been marked with an X to show the location of the property
- If the property is located in the Bituminous (soft coal) Region, an Assignment

## 19.5 Flood Insurance

### Life of Loan Flood Certification

PHM requires that all loans submitted for funding contain a Standard Flood Hazard Determination Contract. All of the following guidelines must be met:

- Flood Cert must contain correct property address.
- The initial flood determination verifies whether the property lies in a Special Flood Hazard Area.
- The Life of Loan Monitoring Contract enables the investor to continue to track any changes in the property flood zone status over the life of the loan.
- PHM will net fund \$10 for a Life of Loan Flood Certification unless the Seller provides a Life of Loan Flood Certification in their name from Core Logic.

### General Flood Insurance Requirements

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### Standard Flood Hazard Determination (SFHD)

Each loan delivered for purchase must include the Federal Emergency Management Agency (FEMA) Standard Flood Hazard Determination (FEMA Form 81-93) used in determining whether any of the improvements for a subject property are located within an identified “Special Flood Hazard Area” (SFHA). SFHAs are shaded on a Flood Hazard Boundary Map and designated on a Flood Insurance Rate Map. These areas are designated by the following symbols: A, AE, AH, AO, AR, A1-30, A-99, V, VE, VO, and V1-30.

Seller must ensure that there is no discrepancy between the flood hazard designation on the SFHD and the flood insurance policy if the flood insurance policy shows a lower risk zone than the SFHD, unless the discrepancy results from the application of the NFIP’s “Grandfather Rule.” For information on the “Grandfather Rule” see Question #71 in the Q&A’s issued by the federal banking regulators available at <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20090721a1.pdf>.

### Federally Available Flood Insurance

Flood insurance is generally required if any building, dwelling, structure, or improvement is located within an SFHA that has mandated flood insurance purchase requirements under the National Flood Insurance Program (NFIP) (unless the mortgage is an FHA Section 240 mortgage). If flood insurance is not available because a community does not participate in the National Flood Insurance Program (NFIP), PHM will not purchase loans secured by properties located in those areas.

### Location of Property within the SFHA

#### Principal Structure Located Within an SFHA

Flood insurance is required if any part of the principal structure is located within an SFHA. Flood insurance on detached buildings, such as stand-alone garages, sheds, or greenhouses, located within an SFHA is required if they serve as part of the security for the loan.

#### Principal Structure Not Located Within an SFHA

If the principal structure on a property is not located within a SFHA, flood insurance generally is not required even if another detached structure on the property is located within the SFHA. However, if the detached structure is attached to the land and serves as part of the security for the loan, flood insurance is required for the detached structure (and may be purchased through a separate policy on a general property insurance form), unless Seller determines that the principal structure represents sufficient security for the loan and releases the detached structure from the security. If buildings are “carved out” from the security, the property must be marketable in the event of foreclosure and the “carve out” must be permissible under local zoning rules.

### Waivers

PHM will waive flood insurance requirements if the borrower obtains a letter from FEMA stating that its maps have been amended so that the buildings securing the loan are no longer in an SFHA.

### Notice of Special Flood Hazards and Availability of Federal Disaster Relief Assistance

If any part of the principal structure is located within a Special Flood Hazard Area (SFHA), the loan file must include the Notice of Special Flood Hazards and Availability of Federal Disaster Relief Assistance

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that was provided to a borrower in accordance with the Flood Disaster Protection Act. The loan file must contain evidence that the borrower received the Notice of Special Flood Hazards (NSFH) no later than 10 days prior to closing unless the loan file documents why it was not feasible to meet that time frame. The Notice of Special Flood Hazards must be provided prior to the day of closing.

PHM recommends that the borrower receive the following additional information, or substantially similar information, either on the Notice of Special Flood Hazards or on a separate notice acknowledged by the borrower.

“If you obtain the minimum amount of flood insurance coverage identified in your Notice of Special Flood Hazards, you may not have sufficient coverage to rebuild or restore your home in the event of a catastrophic flood. You may be required to use your own cash reserves to make necessary repairs if the insurance is insufficient to fully repair your home. Your loan Servicer also has the right to require flood insurance coverage equal to the maximum amount available under the National Flood Insurance Program (NFIP), which is more than you are required to obtain at the closing of your loan.

You should carefully review your potential exposure to flood damage with your insurance provider and consider purchasing coverage equal to the maximum amount available under the National Flood Insurance Program (NFIP), which is the lesser of:

- The maximum limit available for the type of structure ;or
- The “insurable value” of the structure (the replacement cost value)”

### Flood Insurance Coverage

**Effective with Loans closed or purchased on and after November 15, 2013**, Plaza Home Mortgage, Inc., will require flood insurance coverage to be at the full replacement cost value or maximum available.

### Flood Insurance Coverage

The minimum amount of flood insurance coverage for individual insurance must be at least equal to the lesser of:

- 100% of the insurable value of the improvements (with losses to be paid on a replacement cost basis) as determined by the amount of insurance listed on the hazard policy **OR**
- NFIP maximum for the particular type of building.

NFIP Maximum as of September 3, 2013 for reference	
Building Type	NFIP Maximum
Single Family Dwelling (1-4 units)	\$250,000
Attached Condominiums & PUDs (covered by a blanket master insurance policy)	\$250,000 multiplied by the number of units in the building
Non-residential (pool houses, sheds, barns, etc.)	\$500,000

### Notes:

- A PUD unit is considered to be its own separate building, which requires its own separate flood insurance coverage unless covered by a blanket master insurance policy.
- Any flood insurance waiting period must have lapsed prior to being eligible for purchase.

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### Examples

The following table shows just a few examples of potential required flood coverage, based on the new requirement that flood insurance be the lesser of the amount of hazard dwelling coverage or the maximum available under the NFIP.

SFD	Dwelling Coverage at Full Insurable Value (as listed on Hazard policy)	Required Flood Coverage
<b>Example 1</b>	\$115,000 (Dwelling coverage)	\$115,000
<b>Example 2</b>	\$667,000 (Dwelling coverage)	\$250,000
<b>Example 3</b>	\$200,000 (Dwelling coverage) \$50,000 (Extended replacement cost)	\$200,000 <b>NOTE:</b> any amount of Extended Replacement Cost coverage listed (in this case, \$50,000) is not considered when calculating the required flood coverage.

Condo	# of Units	FEMA Maximum (\$250,000 x # of units)	Building Coverage (as listed on Hazard policy)	Required Flood Coverage or Gap coverage
<b>Example 1</b>	18	\$4,500,000	\$3,248,442	\$3,248,442 or \$180,469
<b>Example 2</b>	4	\$1,000,000	\$2,430,000	\$1,000,000 or \$250,000
<b>Example 3</b>	84	\$21,000,000	\$12,500,000	\$12,500,000 or \$148,810

### Flood Insurance Coverage Subject to Change Disclosure

To ensure borrowers are appropriately informed of the right of future mortgage servicers to adjust coverage, generic, non investor-specific flood coverage language is required to be incorporated into lender disclosures provided to the borrower at or before loan settlement. The required language must be placed within the lender's Notice of Special Flood Hazards (NSFH) and also be included in the lender's Servicing Disclosure Statement Notice as follows:

- We may assign, sell, or transfer the servicing of your mortgage loan. Your new lender/servicer may require more flood insurance coverage than the minimum amount that has been identified in your Notice of Special Flood Hazards (NSFH). The new lender/servicer may require coverage in an amount greater than the minimum, and has the right to require flood coverage at least equal to 100% of the insurable value (also known as replacement cost value) of the building(s) used as collateral to secure the loan or the maximum available under the National Flood Insurance Program (NFIP) for the particular type of building. You should review your exposure to flood damage with your insurance provider, as you may wish to increase your coverage above the minimum amount required at the time of closing your loan versus what subsequently the new lender/servicer may require.

### Acceptable Policies

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The flood insurance policy must be in the form of the standard policy issued under the NFIP. Policies that meet the NFIP requirements, such as those issued by licensed property and casualty insurance companies that are authorized to participate in the NFIP's "Write Your Own" program are acceptable.

### Multiple Structures

If multiple buildings securing the loan are located in an SFHA in a participating community, the seller must determine the amount of insurance required on each building and add these amounts together to determine the minimum amount of flood coverage. Each building securing a loan must be covered by separate policy. The amount of total required flood insurance can be allocated among the secured buildings in varying amounts, but all buildings in an SFHA must have some coverage.

### Policy Term

The policy must be written for at least a 1-year term.

### Policy Effective Date

The policy effective date must be on or before the date the borrower's loan is funded.

### Evidence of Insurance

At closing, the borrower must provide evidence that the property is covered by flood insurance in one of the following forms:

- Flood Insurance Policy;
- Declarations Page; or
- Copy of the Flood Insurance Application with a paid receipt for the first year's premium

### Escrow Policy

If a loan requires flood insurance and there are escrows for any other item, flood insurance must also be escrowed.

### Flood Insurance Coverage

#### 1-4 Unit Properties, individual PUD units, Detached Condominium units, Townhouses, and Row houses

#### Coverage Amount

The flood insurance coverage must equal the lesser of the following:

- The outstanding principal balance of the loan; or
- The maximum amount of insurance available under the NFIP, which is the lesser of:
  - The maximum limit available for the type of structure; or
  - The "insurable value" of the structure (the NFIP does not insure land; therefore land values are not included in the calculation of the insurable value)

### Deductible

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The maximum allowable deductible is the maximum deductible available from the NFIP (currently \$5,000).

## PUDS

### Coverage Amount for Individual PUD Unit

The coverage amount is the same as for other 1-4 unit properties

### Coverage Amount for PUD Project

The policy must cover any common elements buildings and any other common property located in an SFHA. The flood insurance coverage must equal the lesser of the following:

- 100% of the insurable value of the facilities; or
- The maximum coverage available under the appropriate NFIP Program

## Deductible

- **Individual Unit** - The maximum deductible available from the NFIP (currently \$5,000)
- **PUD Project** - The maximum deductible available from the NFIP (currently \$25,000)

## Condominiums

### Homeowners' Association

The condominium homeowners' owners must obtain an NFIP Residential Condominium Building Association Policy (RCBAP) with the following coverage:

### Building Coverage

Building coverage must equal the lesser of the following:

- 100% of the insurable value (replacement cost) of the building, including amounts to repair or replace the foundation and its supporting structure). **OR**
- The total number of units in the condominium building times \$250,000

### Contents Coverage

Contents coverage must equal the lesser of the following:

- 100% of the insurable value of all contents (including machinery and equipment that are not part of the building) that are owned in common by the association members; or
- The maximum amount of contents coverage sold by the NFIP for a condominium building

### Unit Owner's Coverage

Flood insurance is generally not required for individual condominium units. However, if a homeowners' association refuses to obtain a RCBAP policy or when the RCBAP policy does not comply with the



requirements above, the borrower must obtain a dwelling policy on the individual unit equal to the minimum amount of coverage for a 1-4 unit property as specified above.

### Deductible

- **Individual Unit (if required)** - The maximum deductible available from the NFIP (currently \$5,000)
- **Condominium Project** - The maximum deductible available from the NFIP (currently \$25,000)

### Properties Located in the Coastal Barrier Resources System or in an Otherwise Protected Area

Federal flood insurance may not be available for loans in the Coastal Barrier Resources System (CBRS) or Otherwise Protected Area (OPA), as defined by the Coastal Barrier Resources Act. Private flood insurance is acceptable for these loans. Coverage amounts and deductible must meet the requirements in this Chapter. The carrier must meet the minimum rating requirements for insurance underwriters specified in the Hazard Insurance Chapter.

## 19.6 Wind Storm Insurance

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Windstorm coverage is generally included under the standard extended coverage policy through an endorsement. If the policy excludes or limits the windstorm coverage, it is not acceptable. The borrower must obtain a separate policy or endorsement from another commercial insurer that, with the existing policy, provides adequate total coverage.

The maximum deductible for windstorm coverage is the highest of:

- 5% of the face amount of the policy
- \$2,000
- The maximum allowed under state law

## 19.7 Liability Insurance for PUDs and Condominiums

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### Minimum Property Insurance Types and Amounts

The insurance policy must contain a “severability of interest” endorsement, precluding the insurer from denying the claim of a condominium unit owner because of negligent acts of the homeowners’ association or other unit owners. If the policy does not include “severability of interest” in its terms, Correspondent Lending requires a specific endorsement to prevent the insurer from rejecting a unit owner’s claim due to negligent acts of the homeowners’ association or of other unit owners.

### Type of Coverage

The homeowners’ association must maintain a commercial general liability insurance policy for the entire project, including all common areas and elements, public ways, and any other areas that are under its supervision. The insurance must also cover commercial spaces that are owned by the homeowners’ association, even if they are leased to others. The commercial general liability insurance policy must provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project’s common areas and elements.

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The association must also maintain any additional coverage commonly required by private institutional mortgage investors for projects similar in construction, location, and use.

### **Coverage Amount**

Liability coverage must be for at least \$1 million per occurrence for personal injury and/or property damage and the coverage must provide for claim settlements on an occurrence basis.

### **Special Endorsements**

The insurance policy must contain a “severability of interest” endorsement, precluding the insurer from denying the claim of a condominium unit owner because of negligent acts of the homeowners’ association or other unit owners. If the policy does not include “severability of interest” in its terms, Correspondent Lending requires a specific endorsement to prevent the insurer from rejecting a unit owner’s claim due to negligent acts of the homeowners’ association or of other unit owners.

### **Cancellation/Modification Requirements**

The policy must provide for at least 10 days’ written notice to the homeowners’ association before the insurer can cancel or substantially modify it. For condominium projects, similar notice also must be given to each holder of a first mortgage or share loan on an individual unit in the project.

## **19.8 Fidelity or Employee Dishonesty Insurance for Condominiums**

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### **Projects Requiring Fidelity Insurance**

Fidelity insurance is required for condominium projects consisting of more than 20 units.

### **Minimum Property Insurance Types and Amounts**

#### **Type of Coverage**

The homeowners’ association must maintain a blanket fidelity or employee dishonesty insurance policy covering losses resulting from dishonest or fraudulent acts committed by the association’s directors, managers, trustees, employees or volunteers responsible for handling funds belong to or administered by the homeowners’ association. The policy must provide coverage for anyone who either handles or is responsible for funds that the homeowners’ association holds or administers, whether or not that individual receives compensation for services. A management agent that handles funds for the homeowners’ association should be covered by its own fidelity insurance policy, which must provide the same coverage required of the homeowners’ association.

If a condominium project is located in a state that requires the homeowners’ association to maintain fidelity or employee dishonesty insurance on terms different from Correspondent Funding’s, Correspondent Funding will accept those requirements in place of its own.

### **Coverage Amount**

Coverage must equal the maximum amount of funds held by the homeowners’ association at any one time while the policy is in force. A lower coverage limit is acceptable if the project’s legal documents

require the homeowners' association and any management firm to adhere to certain financial controls. However, in such case, the coverage limit must at least equal the sum of three months of assessments on all units in the condominium project. The financial controls must include at least one of the following:

- The condominium homeowners' association or its management firm maintains separate accounts for the operating budget and the reserve fund. The depository institution in which funds are deposited sends copies of the monthly account statements directly to the association.
- Separate records and accounts are maintained for each condominium homeowners' association or other community association using the management firm's services. The management firm does not have the authority to draw checks on or to transfer funds from the reserve fund of the condominium owners' association.
- Two or more members of the board of directors must sign any checks drawn on the reserve account.

### Name of Insured

The fidelity bond or insurance policy must name the homeowners' association as the insured, and premiums must be paid as a common expense by the association.

### Cancellation/Modification Requirements

The policy must provide that the insurer will notify the homeowners' association at least 10 days before cancellation or substantial modification of the policy.

## 19.9 Rent Loss Insurance

### Properties Requiring Rent Loss Insurance

Rent loss insurance is required on the following properties:

- Loans secured by 2-4 unit owner-occupied properties, when rental income from the subject property is used to qualify the borrower. **OR**
- Non-owner occupied investment properties when rental income from the subject property is used to qualify the borrower.

### Minimum Property Insurance Types and Amounts

#### Type of Coverage

Generally rent loss insurance pays the insured homeowner ("policyholder"):

- For rental income lost due to the insured property being rendered unable to rent by direct physical loss caused a peril such as fire, lightning, windstorm, hail, etc. on which hazard insurance is required and the property was covered by such insurance. **AND**
- Only for such time needed to repair or replace the property or 12 months, whichever is shorter. Some policies may not have a time limit, but may provide coverage for "the shortest time required to repair or replace the property" combined with a standard monetary limit of 10

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to 30 percent of the insurance maintained for direct physical loss to the “dwelling” on the insured property.

The insurance policy may have many different names, including “homeowners' policy,” “rental dwelling policy,” “apartment policy,” “landlord protector policy,” or “special form,” depending upon the company offering the policy and/or the jurisdiction in which the policy is offered. The rent loss insurance may be designated as “fair rental value” or “fair rental income” under the general heading of “loss of use” or “loss of rents.”

### Amount of Coverage

The rent loss insurance coverage must be equal to at least six months of gross monthly rent.

Generally, there is no additional charge to the policyholder for rent loss insurance that is provided as standard coverage under a property insurance policy. If the standard monetary limit for rent loss insurance applicable to the Mortgaged Premises is less than 6 months of gross rent, the borrower must pay to have the monetary limit for rent loss insurance increased to equal at least 6 months of gross rent for the Mortgaged Premises.

## 19.10 Mortgage Insurance

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If primary mortgage insurance is required by the Loan Program, as stated in PHM's Program Summaries, Seller must obtain a mortgage insurance commitment certificate from an MI Company that is acceptable to PHM. The primary mortgage insurance coverage must transfer to Seller and its successors and assigns and must protect the interest of PHM. Mortgage insurance coverage must not be subject to exclusions beyond those stated in the mortgage insurer's master policy.

An escrow/impound account must be established at closing for monthly payment of future premiums, unless a single premium was paid in full at closing or unless Seller obtained lender-paid mortgage insurance.

- The following companies are approved to insure mortgages to be sold to PHM:
  - Radian Guaranty, Inc.
  - Genworth Mortgage Insurance Corporation (GE)
  - Mortgage Guaranty Insurance Co. (MGIC)
  - Essent Guaranty Inc.
  - United Guaranty Residential Insurance Corporation (UGI)

All MI policies must be active at the time of purchase by PHM and next payment due to the MI company must be verifiable.

**Note:** Refer to Plaza's Program Summaries for specific MI requirements for each program type.

## 19.11 Single Premium Mortgage Insurance

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PHM accepts mortgage insurance premiums paid as a single premium. When financing the cost of the premium in the loan amount, the entire loan amount (inclusive of premium) is used to calculate the LTV ratio. The LTV cannot exceed the maximum LTV allowed for the Loan Program.

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### Lender Paid Mortgage Insurance (LPMI)

Lender paid mortgage insurance is eligible with the Conforming Programs only under the following circumstances:

- Single premium only
- No other LPMI options eligible

### Mortgage Insurance Premiums

PHM accepts mortgage insurance premiums scheduled to be paid on a monthly or annual basis.

The Seller is responsible for:

- Making the first payment to the MI company, for annual premiums due.
- The payment of all monthly premiums due the MI company, for all monthly loan payments collect by the seller.

Seller must provide PHM with the MI next payment due date. Any penalties or interest incurred as a result of non-payment or non-timely payments of MI are the responsibility of the Seller.

### HARP Escrows on Non-Delegated Loans

On all Mini-Corr transactions PHM requires at closing 2 months escrow to be established at closing for monthly payment of future premiums, unless a single premium was paid in full at closing or unless Seller obtained lender-paid mortgage insurance.

National Correspondent, policy must be active at the time of purchase by PHM and confirmation of when the next payment to the MI company must be provided to PHM. Seller is responsible for ensuring that all monthly payments due through the month of purchase are paid.

### Mortgage Insurance Coverage Requirements

As defined in PHM's Program Summaries or additional coverage if required by the approved MI company.

### Mortgage Insurance Requirements for Properties Located in New York

To ensure compliance with New York Insurance Law, use a LTV calculation based solely on the appraised value of the property to determine the MI requirement for loans secured by properties in the state of New York. If that LTV is  $\leq$  80%, the loan will not require mortgage insurance regardless of the LTV calculated using the sales price.

- To determine when MI is required on any loan transaction, calculate the loan to value (LTV) by dividing the loan amount by the appraised value, regardless of whether the sales price is higher or lower.
- If MI is required, the standard LTV calculation (loan amount divided by the lesser of the appraised value or sales price) must be used to determine the required percentage of coverage on purchase transactions.

### Examples of MI Calculations for New York Properties

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For all transactions and property types, determine whether MI is required by dividing the loan amount by the appraised value. If the loan to value (LTV) is greater than 80%, MI is required.

**Example:** The following LTV calculations are for the purpose of determining whether MI is required on New York loans.

Sales Price	Appraised Value	Loan Amount	LTV by Sales Price	LTV by Appraised Value	MI Required	Rationale
\$100,000.00	\$110,000.00	\$85,000.00	85%	77.27%	No	The LTV based on the appraised value is 80% or less. The LTV based on the sales price, although greater than 80%, is not a consideration.
\$110,000.00	\$100,000.00	\$85,000.00	77.27%	85%	Yes	The LTV based on the appraised value is greater than 80%. The LTV based on the sales price, although less than 80% is not a consideration.

### Florida 1% Hurricane Tax

Effective January 1, 2007, the state of Florida began adding an emergency assessment to property and casualty insurance premiums including mortgage insurance premiums. The assessment is an additional 1% of the premium collected on new policies for properties located in the state of Florida. Although it has been determined that there are no state or federal disclosure requirements, it is important to make sure the correct premium (including the assessment) is reflected in the borrower's payment.

The MI certificates will reflect this new assessment; however, it is reflected as a separate charge and not included in the standard MI rate. Users will need to modify the MI rate to include the 1% assessment using the following calculation:

- Total monthly MI premium (including assessment) x 12
- Divide this total number by the insured amount to get the revised factor

### PMI Drop Off in Payment Schedules

The Homeowners Protection Act sets out rules for termination of PMI insurance on residential home loans. It provides that the borrower may request PMI cancellation when the principal balance of the loan reaches 80% of the property's value and that the servicer must cancel PMI when the principal balance of the loan reaches 78% of the property's value.

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Because the reduction in principal balance to 78% of the property's value would rarely coincide exactly with the timing of the monthly payment, lenders cut off the MI payment just above the cancellation figure (i.e. 78.05%) or just below (i.e. 77.95%). The calculation of when the servicer must cancel PMI affects the payment schedule on the Truth in Lending disclosure. If the PMI payment is dropped just above the 78% LTV, the payment schedule will show 1 month (or more) fewer PMI payments than if the PMI payment is dropped just below the 78% LTV.

PHM audits the Truth in Lending disclosure on its purchased loans pre-fund or post-fund and reviews the payment schedule calculations.

Additional audits of the Truth in Lending disclosure payment schedule calculations will require that PMI payments must continue until the principal balance of the loan has reached 78% of the property value. Since the 78% does not coincide exactly with the timing of the monthly payment, this will mean the principal balance will actually be below 78% at the time that the PMI payments can be dropped.

### **Cancellation: Original Borrower**

The mortgage insurance must be canceled if either it is required by law or all of the following conditions are met and the borrower requests:

- Two years has elapsed since the origination of the Mortgage.
- The unpaid principal balance of the loan has been reduced to the LTV where mortgage insurance is not required under the Loan Programs, at the time the loan was purchased by PHM, where value is:
  - Based upon the original appraised value of the property, and the Servicer represents that the current value of the Mortgaged Premises is at least equal to the original appraised value. **OR**
  - Based upon a current appraised value (ordered by the Servicer from their approved appraiser list and paid for by the borrower). The applicable appraisal form must be used and it must have been performed within 120 days of the request for cancellation of the mortgage insurance. Under certain circumstances (based upon the structure of the pool a loan may be in), it may not be possible to cancel mortgage insurance on an individual loan where a new appraisal is used as the basis of determining the current LTV.
- The borrower's monthly installment of principal, interest, and escrow/Impound was never more than 30 days past due for the 12 months immediately preceding the date insurance cancellation is requested and no payment 60 days or more past due in the past 24 months.
- There was no other default under the terms of the loan at any time during the same 12-month period.

### **Calculation of PMI/MIP Payments**

For loans that include mortgage insurance (PMI/MIP), the amount of the PMI/MIP payment calculated is included in the finance charge and the payment stream that is shown on the TILA disclosure.

To calculate the amount of the monthly PMI payment on conventional loans, multiply the loan amount on the Note by the initial premium percentage rate from the PMI Certificate and divide the result by 12.

For HUD/FHA loans, the HUD required calculation must be used to determine the monthly MIP payments.

This is described at: <http://www.hud.gov/offices/hsg/comp/premiums/sfpcalc.cfm>

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PHM will not purchase loans where the lender has multiplied the loan amount by .5 and divided by 12 to calculate the MIP payment on FHA/HUD loans. If the .5 calculation is used instead of the calculation required by HUD on an FHA/HUD loan, the payment stream will be inaccurate. This practice is unacceptable.

PHM requires that the FHA/HUD MIP calculation be always used to determine the MIP payment on FHA/HUD loans.

### Notice Regarding PMI

Notices required under the Homeowners Protection Act (PMI Cancellation Act) are required, as applicable, for both Lender Paid MI and Borrower Paid MI:

- For Borrower Paid MI; the disclosure must contain the two dates informing the borrower when they can cancel their mortgage insurance. If loan is a balloon or an ARM, a disclosure is required but the dates are not required to be on the form.
- For Lender Paid MI; disclosure is required at time of loan commitment.

**Note:** Seller should refer to their legal counsel for further information to ensure compliance with the Homeowners Protection Act.

## 19.12 Title Insurance

Loans purchased by PHM must be covered by a mortgagee title insurance policy or other approved form of title evidence, which has been paid in full, is valid and binding, and remains in full force and effect. Title insurance must comply with the following requirements:

- The amount of coverage must be equal to the face value of the mortgage. Loans with either scheduled negative amortization, or the potential for it, require coverage that equals the original mortgage amount of the loan plus the maximum amount of potential negative amortization (as stated in the Note and/or rider). If an equivalent endorsement is obtained, it must provide protection in an amount sufficient to cover the mortgage amount, plus the maximum amount of negative amortization that is permitted in the Note and/or rider.
- All title Commitments and/or policies must be issued by an approved American Land Title Association (ALTA) insurance company. Prior to any loan disbursement, a marked-up title binder for an ALTA title policy, indicating PHM's proposed lien position is required. If proof of satisfaction/release is a condition for eliminating any liens on the title, copies of these documents must be retained with the title work.
- All judgments and liens must be paid off, subordinated, or insured over.
- Real estate taxes must reflect, "Not yet due and payable." On condominiums and Planned Unit Development (PUD), taxes can only be assessable against the subject unit and its undivided interest in the common areas and not the project as a whole.
- In purchase transactions, the home-seller must be the owner of record.

### Title Insurer

The title insurance policy must be issued by a title insurer who is acceptable to Fannie Mae or Freddie Mac, and who is qualified to do business in the state where the Mortgaged Premises is located.



## Form

The title insurance policy must be written on the current standard form required by ALTA or other form currently acceptable to Fannie Mae or Freddie Mac.

A master title insurance policy, evidenced by a certificate issued under a master policy in lieu of a separate policy for the loan, is also acceptable by providing a master title insurance policy; Seller represents and warrants the following:

- Seller has examined the title insurer's master policy documents and, based on this review and certifications from the title insurer, Seller has confirmed that the master policy provides at least the amount and scope of coverage given by the ALTA standard policy and that the master policy otherwise meets the requirements of this Title Insurance section.
- Seller has obtained from the title insurer a fully executed master title insurance policy issued in Seller's name.
- Master policy and certificates of title have been approved by the applicable state or (comparable) regulatory authorities and that the use of the master policy and certificates of title insurance will be valid in each jurisdiction concerned.
- Seller will cause the title insurer to replace the title insurance certificate with a full individual ALTA policy within 10 days notice from PHM.

PHM may refuse to accept the master title insurance policy of any title insurer.

For a loan secured by Mortgaged Premises located in the state of Iowa, PHM will accept an attorney's certificate of title in lieu of a title insurance policy, provided all the following conditions are met:

- The certificate must be addressed to Seller and all of its successors in interest as evidenced by the Note and Security Instrument.
- The certificate must be given by an attorney licensed to practice law in the state of Iowa, who is insured against malpractice for rendering certificates of title in an amount not less than the amount commonly written in the state of Iowa, taking into account the number of these certificates rendered by the attorney.
- The certificate must state: "We (I) agree to indemnify you and your successors in interest in the Security Instrument opined hereto, to the full extent of any loss attributable to a breach of our (my) duty to exercise reasonable care and skill in the examination of the title and the giving of this opinion."
- The certificate must not be subject to any exceptions, other than those permitted under the following Title Exceptions and Title Exception Warranties sections.

## Beneficiary

The protection and benefits from the title insurance policy must insure the lender and the mortgagee of the loan, including all successors and assigns. Where MERS is the original mortgagee, the title insurance policy must insure the lender, including all successors and assigns, and additionally name MERS as an insured.

## Effective Date

The effective date of the title insurance policy must be no earlier than the date on which the Security Instrument was recorded.

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## Lien Requirements

The title insurance policy must insure that the Security Instrument creates a valid first or second lien on the Mortgaged Premises.

The policy must list any lien for secondary financing and state that the lien is subordinate to the lien of the Security Instrument.

## Acceptable Minimum Coverage

The acceptable minimum title insurance coverage must at least equal the current principal balance of the loan. Loans with negative amortization must have title insurance coverage equal to the highest obtainable balance of the loan.

## Exceptions

The title insurance policy must not be subject to any exceptions, other than those permitted under the Title Exceptions and Title Exception Warranties sections.

## Required Endorsements

Each title insurance policy must contain the following endorsements or provide equivalent affirmative coverage, if applicable to the loan: ALTA Endorsement form 8.0 (CLTA 110.8) or 8.1 (CLTA 110.9); Environmental Protection Lien Endorsement is required for all loans originated after 12/1/87. ALTA form 8.0 must be included with the 1987 ALTA form of title insurance policy. ALTA form 8.1 must be included with the 1970 ALTA form of title insurance policy.

- ALTA Endorsement form 4 (CLTA 115.1): Condominium Endorsement is required for all loans secured by a condominium unit.
- ALTA Endorsement form 5 (CLTA 115.2): PUD Endorsement is required for all loans secured by a PUD unit.
- ALTA Endorsement form 6.0 (CLTA 11.5) or 6.1 (CLTA 111.6) or 6.2 (CLTA 111.8): Variable Rate Mortgage Endorsement is required for all ARM loans. ALTA form 6.0 or 6.1 is required for all ARM loans that do not provide for negative amortization. ALTA form 6.2 is required for ARM loans that do provide for negative amortization.
- Balloon Payment Loan Endorsement is required for all loans secured with a balloon option.
- CLTA Endorsement form 100 and form 116: Comprehensive Endorsement and a Location Endorsement are required for all loans in areas where surveys are not customary.
- CLTA Endorsement form 110.5: Modification of Mortgage Endorsement (bring-down endorsement) is required for all converted ARM Loans and all loans that have had the terms of the Security Instrument modified.

## Title Exceptions and Impediments

### Title Exceptions

The title to the Mortgaged Premises must be good, marketable, and free and clear of all encumbrances and prior liens. PHM will not purchase a loan secured by property that has an unacceptable title impediment, including unpaid real estate taxes and survey exceptions.

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## Minor Impediments to Title

Title for a property is acceptable even though it may be subject to the following conditions, which PHM considers minor impediments:

- Customary public utility subsurface easements, the location of which are fixed and can be verified, providing that the exercise of rights of easement will not interfere with the use and enjoyment of any present improvements on the Mortgaged Premises or proposed improvements upon which the appraisal or loan is based.
- Above-Surface public utility easements that extend along one or more property lines for distribution purposes or along the rear property line for drainage, as long as they do not extend more than 12 feet from the property lines and do not interfere with any of the buildings or improvements or with the use of the Mortgaged Premises itself.
- Any encroachment on an easement for public utilities by a garage or any other improvement, except those improvements that are attached to, or are a portion of the main dwelling structure, provided this encroachment does not interfere with the use of the easement or exercise of rights or repair and maintenance.
- Cost, minimum dwelling size, use, building materials or setback restrictions as long as its violation will not result in the forfeiture or reversion of the title or lien of any kind for damages, or have an adverse affect on the fair market value of the Mortgaged Premises.
- Mutual easement agreements that establish joint driveways or Party Walls constructed on the Mortgaged Premises and on an adjoining property, as long as all future owners have unlimited and unrestricted use of them.
- Encroachments of one foot or less on adjoining property by eaves or other overhanging projections or by driveways, as long as there is at least a 10 foot clearance between the buildings on the Mortgaged Premises and the property affected by the encroachments.
- Encroachments on the Mortgaged Premises by improvements on adjoining property where these encroachments:
  - Extend 1 foot or less over the property line of the Mortgaged Premises; and
  - Have a total area of 50 square feet or less; and
  - Do not touch any buildings; and
  - Do not interfere with the use of any improvements on the Mortgaged Premises or the use of the Mortgaged Premises not occupied by improvements.
- Encroachments on adjoining properties by hedges or removable fences.
- Outstanding oil, water, or mineral rights customarily waived by other lenders are acceptable, as long as they will not result in damage to the Mortgaged Premises or impair its use for residential purposes.
- Liens for real estate or ad valorem taxes and assessments not yet due and payable.

## Title Defect - Unexpired Redemption Periods

Certain state laws provide a “redemption period” after a foreclosure or tax sale has occurred. During the redemption period, the property may be reclaimed by the prior mortgagor or other party upon payment of all amounts owed. The length of the redemption period varies by state and does not expire automatically upon sale of the property to a new owner.

Properties with unexpired redemption periods have unacceptable title defects. If a loan is secured by a foreclosed property in a state where a redemption period is allowed, PHM will not purchase the loan or close the loan in the name of PHM if the loan is referred to PHM for underwriting and closing in the name of PHM until the redemption period has expired and the foreclosure sale has been confirmed. The

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purchase of additional insurance, a redemption bond or similar coverage during the redemption period does not remedy the title defect and the loan is ineligible for delivery to PHM.

### **Title Exception Warranties**

Loans with minor impediments to title (other than those listed in the Title Exceptions section of this Seller Guide) may be eligible for purchase by PHM. Seller warrants to PHM, however, that these impediments do not adversely affect the value, use, enjoyment, or marketability of the Mortgaged Premises. Seller agrees to indemnify PHM if PHM incurs a loss that can be attributed to the impediment(s).

To support the warranty stated above, PHM reserves the right, upon request, to receive from Seller:

- A statement from the appraiser, explaining the effect of the title exception on value, marketability, use and enjoyment of the Mortgaged Premises.
- Any additional documentation or information PHM deems necessary.

## **19.13 Survey Requirements**

### **Plat of Survey or Improvement Survey**

Seller must submit a plat of survey or improvement survey with the final loan documents it sends to PHM. In areas where surveys are not customary, the title insurance policy must ensure against loss or damage by any violation, variation, encroachment, or adverse circumstance that an accurate survey would have disclosed. Note that a survey is not required for condominium units.

The survey must be based on the results of an instrument survey performed, dated and certified by a licensed civil engineer or registered surveyor. The survey must have been performed, dated, and certified within 1 year from the date of issuance of the title insurance policy insuring a particular Mortgaged Premises. A survey more than 1 year old will be accepted, provided the survey has been recertified by a licensed civil engineer or a registered surveyor within the past year. The survey must be certified to Seller and the company furnishing the title insurance policy.

The survey must present the following information:

- The location by courses and distances of the plot covered by the Security Instrument; the relation of the point of beginning of the plot to the monument from which it is fixed; all easements adjacent to the plot; any established building line; the street or streets abutting the plot and the width.
- Any encroachments and the extent of any encroachments in terms of feet and inches upon the plot or any easement appurtenant to the plot.
- All structures and improvements on the plot with horizontal lengths on all sides; and the relation of the structure and improvements by distances to all boundary lines of the plot, easements, established building lines and street lines.

If the plot is described as being on a filed map, the survey must contain a legend relating the plot to the map on which it is shown. The survey must disclose and provide assurance that the improvements erected lie wholly within the boundaries of the plot and that no part of the improvements encroach upon or overhang an easement or right of way or upon the land of other sections, unless an affirmative title policy endorsement is obtained.

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The survey must also provide proof that the improvements are wholly within the established building restriction lines and that no adjoining structure encroaches upon the plot or upon any dominant easement appurtenant to the plot.

### Variations in Length of Property Lines

Variations between the property lines' length as shown on the appraisal and on the survey are acceptable as long as:

- The variance does not interfere with the current use of any of the improvements on the Mortgaged Premises
- The variance in the length of the front line is not deficient by more than 2%, and the variance in length of any other line is not deficient by more than 5%

PHM may choose to purchase loans with variations other than those stated above. In these cases, Seller must warrant that these variations will not adversely affect the value, use, enjoyment, and marketability of the Mortgaged Premises.

The appraiser must provide a statement about any other variations, explaining how they affect the Mortgaged Premises' value. If mortgage insurance is required, Seller must obtain a statement from its carrier, stating that the variance will not affect the insurability of the Mortgage.

## Section 20 Power of Attorney

### 20.1 Power of Attorney on Behalf of the Borrower

PHM will permit the use of a Power of Attorney (POA) to designate an attorney-in-fact/ agent to execute closing documents for individual borrowers in certain instances when a borrower is unable to execute closing documents.

The Power of Attorney must:

- Language must be specific to the transaction, meaning the POA document must identify the transaction and property (however, for soldiers on active duty, a standard military POA may be used instead of a POA that is specific to the transaction);
- The POA must be signed and dated prior to the Date of the Note;
- Be signed and dated by the party granting the power of attorney;
- Be signed by an appropriate "witness" (if required by state law);
- Be in effect on the date of the closing transaction;
- Be notarized;
- Recorded prior to closing or in correct sequence at time of recordation of all closing documents;
- No older than 6 months from the date of closing;
- Signed, dated and notarized on or prior to closing;
- Insured by the title company without exception to the POA;

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- The attorney-in-fact must be a co-borrower on the loan or a disinterested third party. For example, the attorney-in-fact cannot be a realtor, loan officer, employee of the company, a party to the transaction, or a title company employee.
- POA may not be used when title is taken in the name of a trust;
- The initial 1003 must be signed by the borrower(s) (or for active military borrower only, follow VA guidelines);
- If multiple borrowers exist on the loan, at least one borrower must signing the closing documents. (All borrowers cannot be represented by an attorney-in-fact on the same loan)
- Meet all state specific requirements.

A Durable Power of Attorney may be acceptable. A Durable POA allows a mentally competent person, called the "Principal", to authorize a second party, called the "Agent or Attorney in Fact", to act on his or her behalf, even if the Principal later becomes incapacitated. This particular form becomes effective upon disability or incapacity of the Principal. A Durable POA should always be notarized, especially if the Agent will be dealing with real property. Notarization allows the Durable POA to be recorded as a public record, if necessary.

Example of Acceptable Signature Line for all documents:

(Signature Line) \_\_\_\_\_  
 (Typed Name) John Doe by his Attorney in Fact Jane Doe  
 Jane Doe should sign as "John Doe by his Attorney in Fact Jane Doe."

Example of an Unacceptable Signature Line:

(Signature Line) \_\_\_\_\_  
 (Typed Name) John Doe  
 Signature as Jane Doe POA.

## 20.2 Reverse Mortgage POA

Refer to program guidelines in the [Reverse Mortgage Underwriting Manual](#).

Closing documents may be executed via a Power of Attorney (POA) provided the following conditions are met:

- A separate POA is prepared and executed for each borrower not attending the closing.
  - POA is specific or special to the transaction, is executed and notarized on or before date of closing and recorded or will be recorded with closing instruments before mortgage or deed of trust.
  - The original or certified copy of a POA must be included in the closing package.
  - The attorney-in-fact must execute all closing documents at settlement.
  - All POA signers must sign as follows:  
**Example:** John Smith as attorney in fact for Jane Smith

## 20.3 Veterans Use of a POA

Veterans who use General Military Power of Attorney (POA) must include the "durable" language to be

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acceptable by PHM.

- POA's on VA loans must meet all current VA requirements, including but not limited to all other POA requirements stated herein, as well as those additional requirements stated below.
- A POA may be used to make application for a VA loan.
- It must appear that the veteran intends to occupy the property upon his/her return from overseas service, or upon his/her termination from the Armed Forces.
  - An immediate family member must occupy the property during the veterans' absence;
  - A statement of intent to occupy the subject property as the veteran's primary residence must be included.
  - The POA must include the following information:
    - The specific property address of the subject property;
    - The sales price of the subject property if used for a purchase, unless the veteran has signed the sales contract;
    - A statement authorizing use of all or a specific amount of entitlement, for purchase or refinance;
    - If the veteran is currently in the Armed Forces, the commanding officer or other Armed Forces representative, as permitted by VA requirements, may attest to the veteran's signature.
    - Obtain proof veteran is alive and not in a missing-in-action status, in accordance with current VA requirements.

## Section 21 Living Trust Policy

### Overview

A "Living Trust" also called an "Inter Vivos Revocable" trust is simply a trust one can create while alive, rather than a trust that is created upon one's death. In certain circumstances, a "Living Trust", will be acceptable as a borrower.

A Inter Vivos or Living Trust is established when one person known as the settlor/grantor transfers legal title to certain assets to a second person known as trustee, in trust, who will hold and manage such assets for the benefit of a third person known as the beneficiary. In most cases, the grantor will be the same individual as the trustee and/or the beneficiary.

### Definitions

- **Beneficiary:** The party that benefits from the property held by the living trust. The primary beneficiary must be a grantor/trustor/settlor.
- **Grantor/Trustor/Settlor:** The person(s) who established or created the living trust and contributed the property directly to the trust. The use of the term grantor, trustor, or settlor depends on the state where the living trust was created or originated.
- **Trustee:** A person who holds or controls property and manages it for the benefit of another (the beneficiary). Under a living trust the person who according to the living trust agreement, has been granted the power to mortgage the subject property and administer the living trust. The trustee(s) must be or must include a grantor/trustor/settlor, or an institutional trustee (i.e.,

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bank, trust company or attorney) that customarily performs trust functions under the laws of the state.

- **Inter Vivos Revocable Trust:** Inter Vivos is the Latin term for "between the living." Therefore, it is a trust that an individual creates and which becomes effective during the creator's lifetime, but which can be changed or canceled at any time for any reason during his/her lifetime.
- **Revocable:** A living trust is referred to as "revocable" when the grantor/trustor/settlor can change or cancel it at any time, for any reason, while s/he is living. This ability to revoke the living trust is important because it allows the grantor/trustor/settlor, who would otherwise own the property directly, to retain control of the property.
- **Irrevocable Trust:** An Irrevocable Trust is a permanent trust that cannot be altered, amended or revoked by the trustor, once it is created. Irrevocable Trusts are not eligible for financing.
- **Blind Trusts:** A blind trust is an arrangement where financial holdings of a person are placed in the control of a fiduciary, typically to avoid a conflict of interest. Therefore, someone other than the borrower has control over the trust assets. Blind trusts are not eligible for financing.
- **Life Estates:** A life estate is an estate whose duration is limited to the life of the party holding it, or some other person, upon whose death the right reverts to the grantor or his heirs. Life estates are not eligible for financing.

### Eligibility Requirements

**Eligible Borrower:** The borrower must be an individual(s). Normally, this is the settlor and the beneficiary of the trust.

**Property Type:** 1-4 units; owner-occupied, second homes and investments

**Type of Trust Allowed:** Inter Vivos/Living Trusts are allowed. All inter vivos/living trusts must be revocable.

### Ineligible Trust:

- Irrevocable Trust
- Blind Trusts
- Life Estates

### Program Eligibility

- Fixed and Arm Agency Loans
- Elite Jumbo
- FHA and VA
- Texas 50 (A)(6) are eligible

Refer to PHM's Program Guidelines for specific eligibility.

### Restrictions

HECM transactions in the state of Texas and not eligible to close with a Trust.

### Reviewing the Trust

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When considering a loan secured by property that will be titled in the name of an Inter Vivos/Living Trust or trustee, the trust agreement must be reviewed to determine the validity of the trust. The reviewer is responsible for using the PHM [Living Trust Checklist, FM-073](#). The trust must meet all the following:

- The trust must comply with local state regulations.
- Created by one natural person or jointly by more than one individual. This person is known as the “Settlor”, “Trustor”, or “Grantor”. Trusts created by corporations or other legal entities are unacceptable
- The trust must be established by a written document during the lifetime of the individual establishing the trust to be effective during his or her lifetime.
- The trust must be one in which the individual establishing the trust has reserved to himself or herself the right to revoke the trust during his or her lifetime.
- The primary beneficiary of the trust must be the individual establishing the trust. If more than one individual establishes the trust 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 trust documents must name one or more trustees to hold legal title to and manage the property that has been placed in the trust. The trustees must include either the individual establishing the trust (or at least one of the individuals, if there is more than one) or an institutional trustee that customarily performs trust functions in (and is authorized to act as trustee under the laws of) the relevant state.
- The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) that are the “borrower(s)” under the mortgage note.
- The title insurance policy must assure full title protection and must state that title to the security property is vested in the trustee(s) on the trust. It must not list any exceptions with respect to the trustee(s) holding title to the security property or to the trust.
- The mortgage must be underwritten as if the individual (or at least one of the individuals if there is more than one) were the borrower (or the co-borrower, if there are additional individuals whose income or assets will be used to qualify).
- Each trustee and each individual establishing the trust must execute the mortgage note and any necessary addendum. The trustee(s) of the trust must also execute the security instrument and any applicable rider.
- Each individual establishing the trust whose income or assets were used to qualify must acknowledge all of the terms and covenants in the security instrument and any necessary rider and agree to be bound thereby placing his or her signature after a statement of acknowledgement on such documents.
- HECM Loans Only - The full title to the secured property must be vested in the trust. There may be no other owners. The title insurance policy must assure full title protection to the lender and must state that title to the secured property is vested in the trustee(s). It must not list any exceptions with respect to the trustee(s) holding title to the security property or to the trust.

## Required Documents

The following are required:

- Complete copy of the Trust certified by the borrower to be accurate;
- Attorney Opinion letter from the borrower’s attorney verifying all of the following:
  - The trust was validly created and is duly existing under applicable law,

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- The trust is revocable,
- The borrower is the settler of the trust and the beneficiary of the trust,
- The trust assets may be used as collateral for a loan,
- The trustee is:
  - Duly qualified under applicable law to serve as trustee,
  - Is the borrower,
  - Is the settler,
  - Is fully authorized under the trust documents and applicable law to pledge or otherwise encumber the trust assets
- Complete Trust Checklist;
- Inter Vivos Revocable Trust Rider to the deed of trust/mortgage.

### Exception for Trust Certificate Authorized States

In lieu of the Attorney's Opinion letter and copies of Trust documents a title company Trust Certification is acceptable for the following states:

Alabama	Washington D.C.	Michigan	New Hampshire	Pennsylvania	Utah
Arizona	Idaho	Minnesota	New Mexico	South Carolina	Vermont
Arkansas	Iowa	Missouri	North Carolina	South Dakota	Virginia
California	Kansas	Nebraska	Ohio	Tennessee	Wyoming
Delaware	Maine	Nevada	Oregon	Texas	

The same terms and conditions apply as shown above for the Attorney Opinion letter.

**Note:** Trust Certificates completed by the title company are not allowed on HECM loans. HECM loans must have the Trust Documents and Attorney Opinion Letter.

### Legal Title Requirements

Title may be held in the following manner only:

- One or more borrowers with one living trust, or
- Two or more borrowers with separate living trusts, or
- As an individual (not a party to the trust) and in the name of the Trust or the Trustee.

### Title Insurance

The title insurance policy cannot list any exceptions arising from the trust ownership of the property.

### Executing the Loan Documents

Due to the multi capacity of parties involved in an inter vivos revocable trust the loan documents must be executed by all required parties and in a set manner.

The following delineates who must sign the trust documents. Only the documents noted in the following tables need to be signed by the trust. All other loan documents may be signed as individual borrowers.

### Document Signature Requirements

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### The Note

- Each Trustee as trustee of the trust, whether individual or corporate.
- Each Settlor whose income or assets were used to qualify for the loan, as an individual.
- Each individual, not a trustee whose income or assets were used to qualify for the loan.
- The date of the Trust must be reflected on the Note as part of the description below the trustee's signature, e.g. Jane Doe, Trustee of the Jane Doe Trust dated April 1, 2000
- All borrowers must sign as both the trustee and as an individual.

### The Deed of Trust/Mortgage and all Riders

- Each trustee as trustee of the trust, whether individual or corporate.
- Each individual that has an interest in the property.

### The Inter Vivos Revocable Trust Rider

- Each trustee as trustee of the trust, whether individual or corporate.
- Each settlor whose income or assets were used to qualify for the loan, as an individual.
- Each individual that has an interest in the property.

### The Inter Vivos Trust as Borrower Acknowledgement

Each settlor whose income or assets were used to qualify for the loan, as an individual.

### Signature Requirements

If a Note is secured by a Mortgaged Premises held in a living trust (inter vivos or revocable), the Note must be signed by the borrower(s) as individual(s) and as trustee(s) on behalf of the trust. The Note must clearly indicate the name of the trust on the signature page.

**Note:** The signature page of the note must clearly indicate the name of the trust.

Acceptable Signature for Note	
Signature	<u>John A Smith</u>
Typed Name	John Adams Smith, Individually and as Trustee of the John Adams Smith Trust
One signature used to indicate that the signatory is executing the document individually and as trustee.	
Signature	<u>John A Smith</u>
Typed Name	John Adams Smith
Signature	<u>John A Smith</u>
Typed Name	John Adams Smith, Trustee of the John Adams Smith Trust
Borrower executed the Note with one signature, John A Smith, as individual and one signature as trustee.	
Signature	<u>John A Smith</u>

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Typed Name	John Adams Smith
Signature	<u>John A Smith, Trustee of the John Adams Smith Trust</u>
Typed Name	John Adams Smith, Trustee of the John Adams Smith Trust
Borrower executed the Note with one signature as individual, John A Smith and one signature as trustee, John A Smith, Trustee of the John Adams Smith Trust.	

#### Unacceptable Signature for Note

Signature	<u>John A Smith</u>
Typed Name	John Adams Smith
Signature	<u>John A Smith, Trustee</u>
Typed Name	John Adams Smith, Trustee of the John Adams Smith Trust
Borrower executed the Note with one signature as individual, John A Smith and one signature as trustee, John A Smith, Trustee, however, the name of the trust was omitted from the signature line. If borrower chooses to sign using the 'trustee' verbiage, he/she must sign with full name of the trust. (see example directly above).	

### Trustees Use of Power of Attorney

Loan documents cannot be executed through the use of a power of attorney.

## Section 22 Government Loan Insurance and Transfer

### 22.1 FHA Up Front Mortgage Insurance Premium (UFMIP)

It is the seller responsibility to remit the UFMIP to FHA within 10 days of closing. PHM requires documented evidence of payment with the closing package delivered to PHM. Files submitted for review without evidence the FHA UFMIP has been paid will result in pre-purchase suspense condition.

- Reverse Mortgages
  - PHM will remit Reverse Mortgage UFMIP directly to HUD on Seller.
  - PHM will net the UFMIP amount from the wire upon purchase of the loan.

### 22.2 FHA Monthly Mortgage Insurance Premium (MIP)

On Government loans, the first premium due to HUD on the monthly MIP is due with the first loan payment. The Seller is responsible for payment of the monthly MIP, from the initial MIP payment through the month that PHM purchases the loan. If the mortgage loan is purchased prior to the first payment due date, PHM will be responsible for all monthly MIP payments on the mortgage loan.

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**Note:** Any penalties or interest incurred as a result of non-payment, or untimely payment, of MIP prior to the first payment due from PHM are the responsibility of the Seller.

### Example 1

The mortgage lender "Seller" closed the mortgage loan on February 1, with the first loan payment due on the note on March 1. PHM purchases the mortgage loan on March 20. Seller is responsible for the payment of the March MIP installment. PHM will pay the April installment.

### Example 2

The mortgage lender "Seller" closed the mortgage loan on September 1, with the first loan payment due on the Note on October 1. PHM purchases the mortgage loan on February 20. Seller is responsible for all MIP premiums due from September 1 to February 1. PHM assumes responsibility for making the MIP payment with the March installment.

## 22.3 FHA Holder / Servicer Transfer

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Seller is responsible for Mortgage Record Change to PHM in FHA Connection. To report servicer/holder transfer seller must log in to FHA Connection to complete transfer. To get to the Mortgage Record Changes menu, sign on to the FHA Connection site and follow this menu path:

- Single Family FHA>Single Family Servicing>Mortgage Record Changes.
- On the Mortgage Record Changes menu, click Servicer/Holder Transfer (HUD form 92080).
- The servicer/holder page appears.
- To complete the transfer enter the following:
  - FHA Case using this format "123-4567890", including the dash.
  - Enter original mortgage amount including UFMIP, do not enter \$ sign or comma.
  - Enter the first 5 digits of PHM lender ID (17101) into Holding Mortgagee and New Servicing Mortgagee field.
  - Enter date of transfer.
  - PHM will review FHA Connection monthly to ensure the transfer is complete.
  - If transfer is not complete, PHM will provide seller a report of loans requiring transfer.
  - All transfers must be complete within 15 days of purchase.

## 22.4 FHA and VA Loan Insuring

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PHM will be responsible for insuring both FHA and VA loans on behalf of the Seller, unless the seller is an Unconditional Lender with Direct Endorsement status and does not show PHM as the Sponsor/Agent in FHA connection, or if seller is a VA Automatic lender using their own approved VA underwriter. All loans delivered for purchase must include all FHA/VA forms required to insure the loan in the file and evidence that the FHA UFMIP or VAFF payments have been made.

If the seller is to insure the loan, they must provide evidence the loan has been insured and/or case binder received by HUD within 15 days of disbursement date on final HUD-I closing statement. Loans are subject to re-purchase by Seller or pre-purchase suspense if not insured within 15 days of

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disbursement. Seller must provide written explanation to PHM Insuring Dept. for all loans not insured within 15 days of disbursement.

### Reverse Mortgages

- PHM will always act as the sponsor in FHA Connection

## 22.5 Electronic Delivery of the MIC/LGC/LNG

Sellers are required to provide an electronic version of the applicable FHA Mortgage Insurance Certificate (MIC), VA Loan Guarantee Certificate (LGC), USDA Loan Note Guarantee (LNG). The Seller is required to retain the hardcopy "original" of the certificate. PHM or a subsequent investor retains the right to require evidence of receipt.

If the document is to be delivered post purchase, the Seller must email all electronic copies of the applicable MIC/LGC/LNG to PHM at [GovInsuringDept@plazahomemortgage.com](mailto:GovInsuringDept@plazahomemortgage.com).

- Reference the Borrower Name, PHM Loan Number and the Document Name (i.e. MIC, LGC or LNG) in the Subject line of the email.

FHA - Mortgage Insurance Certificate (MIC) – No later than 45 days after loan closing/disbursement

VA - Loan Guarantee Certificate (LGC) – No later than 45 days after loan closing/disbursement

USDA - Loan Note Guarantee (LNG) – No later than 45 days after loan closing/disbursement

## Section 23 Loan Documentation and Closing Requirements

This chapter contains documentation requirements for the Legal, Servicing, and Collateral review completed on loans purchased by PHM.

### 23.1 Standard Loan Closing Documents

Standard closing documents to meet secondary market requirements must be used by the Seller when delivering loans for purchase by PHM. The most current state specific Security Instrument should be used with all appropriate riders, as referenced on the last page of the instrument along with the most current multi-state or state specific note.

Sellers must use mortgage documents for conventional and government loan products that are correct for the specific state and/or local jurisdiction, lien type and property type. The most current version of all appropriate forms should be used. It is recommended that forms and documents are reviewed by Seller's legal counsel for compliance with all applicable laws.

Attorney firms and document vendors which have PHM, set up as an investor include, however may not be limited to the following companies:

- Pierson & Patterson LLC
- Black, Mann & Graham LLP

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- Robertson & Anschutz
- McGlinchey Stafford PLLC
- LSSI
- DocuTech Corp.
- Doc Magic
- IDS

### Document Matrix

Product	Note	Riders and Addenda	Product Disclosures
Agency 10, 15, 20, 25, 30	FNMA/FHLMC form 3200 or state specific version	As applicable	
30 Year Fixed w/10 Year	FNMA/FHLMC form 3271 or state specific version	As applicable	
Agency 3/1, 5/1, 7/1, 10/1 ARM	3/1 ARM: FNMA form 3526 5/1, 7/1, 10/1 ARM: FNMA form 3528	3/1 Rider: FNMA form 3189 5/1, 7/1, 10/1 Rider: FNMA 3187	Applicable ARM Disclosure
Agency 3/1, 5/1, 7/1, 10/1 Interest Only ARM	3/1 IO ARM: FNMA form 3537 5/1, 7/1 IO ARM: FNMA form 3535 10/1 IO ARM: FNMA form 3530	3/1 IO Rider: FNMA form 3155 5/1, 7/1 IO Rider: FNMA form 3153 10/1 IO Rider: FNMA form 3187	Applicable Interest Only ARM Disclosure
FHA 15, 20, 25, 30	FHA Fixed Rate Note	As applicable	
FHA 1/1, 3/1, 5/1 ARM	FHA Adjustable Rate Note	FHA Multi-state ARM Rider	Applicable ARM Disclosure
VA 15, 20, 25, 30 Fixed	FNMA/FHLMC form 3200 or state specific version	Multi-state VA Guaranteed Loan	
VA 3/1, 5/1 ARM	Multi-state Adjustable Rate Note	Multi-state Adjustable Rate Rider	Applicable ARM Disclosure
Miscellaneous Multi-state Riders		PUD Rider: Form 3140 Condominium Rider: Form 3150 1-4 Family Rider: Form 3170	

### 23.2 Application (1003)

All of the following guidelines on the 1003 must be met:

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- PHM requires a completed fully executed 1003
- Initial and final 1003s must be provided
  - Initial must be complete and signed by the loan officer, when applicable signed by the borrower(s)
  - Final must be complete and signed by the borrower(s)
  - All HMDA data must be completed

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### 23.3 HMDA

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The Home Mortgage Disclosure Act (HMDA) was enacted by Congress in 1975 and is implemented by the Federal Reserve Board's Regulation C. This regulation provides the public and regulatory agencies with loan data that can be used, among other things, to assist:

- In determining whether financial institutions are serving the housing needs of their communities; and
- In identifying possible discriminatory lending patterns.

Lenders must report the following data:

- Home purchase loans, home improvement loans, and refinancing loans that they originate or purchase, or for which they receive applications (application date, action taken and date of that action, loan amount, loan type and purpose, and if the loan is sold, type of purchaser)
- Each applicant or borrower (ethnicity, race, sex and income)
- Each property (location and occupancy status)
- Rate spread if over certain thresholds, HOEPA status, and loan status

Additional details can be obtained by reviewing "A Guide to HMDA Reporting-Getting it Right" at <http://www.ffiec.gov/hmda>.

The following scenarios illustrate whether PHM or Seller have HMDA reporting responsibilities:

- Closed Loan - Delegated & Conditional Delegated Correspondent:
  - Seller takes the application and underwrites and makes the final loan decision prior to closing, PHM purchases the loan.
  - HMDA action: the correspondent reports the loan as an origination on its LAR and PHM reports the loan as Code 6, "Loan purchased by your institution"
- Closed Loan – Non-Delegated Correspondent:
  - Seller takes the application; PHM underwrites the loan and makes the final loan decision prior to closing, and PHM subsequently purchases the loan.
  - HMDA action: PHM reports the loan as an origination on the LAR. Seller is not required to file a report.

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### 23.4 Note

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#### General

- An original Note is always required.



- PHM does not accept lost note affidavits.
- An original Note with white-out will not be accepted, and the borrower must initial any cross outs on Note.
- Closing date needs to match closing date on the Security Instrument.
- The Note must have a lender name completed.
- First payment on Note must be the first of the month
  - If first payment date to PHM is 3 or more payments from 1st payment due date on Note a pay history is required.
- Note form must be correct according to the product & state. If the form is incorrect, a new Note is required.
  - Refer to <http://www.efanniemae.com/> for state and product specific Note forms.
- If loan is a FHA Loan, case number is required to be on the Note.
- On all loans eligible for sale to Fannie Mae or Freddie Mac, the tagline that identifies the instrument as a Uniform Instrument must remain part of the document and be included on each page.
  - The tagline requirements do not apply to FHA or VA loans.

### Corrective Note

When a revised original Note needs to be signed by the borrower, PHM will not accept Notes marked as 'duplicate original', 'corrected copy', 'replacement note' or similar, even if there is an original signature, or if the words 'duplicate original', 'corrected copy', or 'replacement note' are crossed through with or without initials.

### Allonges/Endorsements to the Note

- Must have complete endorsement chain ending with PHM
- Correspondent name on the face of the note must be the exact name of the Correspondent in the endorsement language
- DBA's - whenever the lender's name on the Note does not match the lender's name on the endorsement exactly PHM will accept a Corporate Name Trade Certification to purchase the loan
- Officer's name and title must be typed under signature line of Allonge/Endorsement
- Allonge is an attachment to the Note with the endorsement information. It must include the following loan specific information:
  - Loan number
  - Borrower(s) name(s)
  - Property address
  - Note/loan date
  - Note/loan amount
- If you sign a Corporate Resolution with PHM, PHM will have the ability to make any corrections to endorsements from you the Correspondent to PHM prior to purchase on your behalf.

Example of a Corporate Endorsement:

Pay to the order of Plaza Home Mortgage, Inc. without recourse  
 \_\_\_\_\_ (Correspondent Name)  
 By: \_\_\_\_\_ (Signature of Officer)  
 Name: \_\_\_\_\_ (Printed)

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Title: \_\_\_\_\_ (Printed)

## 23.5 ARM Loans & Interest Only Loans

### Interest Rate Change Date FHA & VA Loans

The change dates on FHA and VA ARM loans are determined by the month loan is purchased by PHM, the term of the adjustable period and the first payment date of the loan. Loans delivered to Plaza must reflect the accurate interest rate change date as defined in the chart below:

ARM CHANGE DATE CHART		
Month Purchased by PHM	Initial Interest Adjustment Month	Initial Rate Adjustment Month
January	April	May
February	April	May
March	July	August
April	July	August
May	July	August
June	October	November
July	October	November
August	October	November
September	January	February
October	January	February
November	January	February
December	April	May

### Interest Change Date

Add the date the 1st scheduled interest rate change will take place. This date is found on both the Note and ARM Rider.

- If incorrect on Note, need new Note executed by borrower
- If incorrect on ARM Rider, need new rider executed by borrower and a Letter of Intent to re-record mortgage or deed of trust with corrected rider

Initial Caps, Lifetime Caps, Margin - Refer to ARM documents for correct Caps and Margin for each ARM product see specific form located under PHM [Forms](#).

➤ Example of correct adjustments assuming an Initial Rate of 5.25 and Margin of 2.75 for a 3/1 ARM Conforming – Product 199 (Initial Adj 2%, Annual Adj 2%, Life Cap 6%)

The Interest Rate I am required to pay at the first Change Date will not be greater than **7.25%** or less than **3.25%**. Thereafter, my adjustable interest rate will ~~never~~ never be increased or decreased on any single Change Date by more than **two percentage points** from the rate of interest I have been paying for the preceding 12 months. My Interest Rate will never be greater than **11.25%**.

If Caps and/or Margin are incorrect on Note, need new Note executed by borrower

- If Caps and Margin are incorrect on Rider, new Rider executed by borrower and Letter of Intent to record Mtg/DOT is required

- If caps and/or margin are incorrect on Note, a new Note must be executed by the borrower.
- If caps and margin are incorrect on rider, a new rider must be executed by borrower and a Letter of Intent to record mortgage or deed of trust is required.

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ARM Disclosure - check for appropriate disclosure according to ARM product

- Disclosure must be provided to the borrower within 72 hours of their initial application.
- Documentation of the Index value and Index date used for the final TIL must be provided.

### Sample ARM Disclosures

[Conventional 3-1 ARM Disclosure](#)  
[Conventional 5-1 ARM Disclosure](#)  
[Conventional 7-1 ARM Disclosure](#)  
[Conventional 10-1 ARM Disclosure](#)  
[FHA 3-1 ARM Disclosure](#)  
[FHA 5-1 ARM Disclosure](#)  
[VA 3-1 ARM Disclosure](#)  
[VA 5-1 ARM Disclosure](#)

### Interest-Only Products

For fixed-rate interest-only products, the Note must have interest-only payment for 120 months and P&I Payment.

For ARM interest-only products, the interest-only period must show as 3,5, 7, or 10 years, as applicable and Note must have interest-only payment.

## 23.6 Name Affidavit

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A Name Affidavit will be required only in situations where the borrower did not sign the Note or mortgage exactly as typed or when the borrower is on title differently from the note and mortgage. Example: middle initial is included on Note but borrower did not sign with initial on Note and/or borrower is in title under maiden name and is refinancing as a married person.

## 23.7 Security Instrument

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All of the following guidelines for the Security Instrument must be met:

- Must be stamped "True and Certified Copy of the Original sent for Recordation." The stamp must be initialed by the individual stamping the document.
- If any information on the Security Instrument is incorrect, the errors must be corrected and the Security Instrument re-recorded. PHM will require a copy of the instrument with corrections and letter of intent to re-record prior to funding of loan.
- Changes on the Security Instrument that affect the terms of the loan (e.g., loan amount and maturity date) must be initialed by borrower and a letter of intent to rerecord must be received prior to funding of loan.
- If the loan is a FHA Loan the case number must be listed on Security Instrument
- On all loans eligible for sale to Fannie Mae or Freddie Mac, the tagline that identifies the instrument as a Uniform Instrument must remain part of the document and be included on each page.
- The tagline requirements do not apply to FHA or VA loans.

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- A MOM Security Instrument must have 18 digit min #

If Correspondent's Org ID, and MIN # is incorrect or missing, Seller may take one of the following actions to correct:

- Execute a Mortgagee's Affidavit to be recorded
- In CA only - an assignment from MERS to MERS may be recorded to correct the MIN#
- Execute Mortgage Modification to be recorded
- Correct the mortgage and re-record
- MERS will not accept a Security Instrument with PHM's Org ID and MIN # on the document

The following person(s) must sign the Security Instrument and any riders to the Security Instrument:

- Each person who has an ownership interest in the security property (an individual on title), regardless if the person's income is used in qualifying for the loan.
- The spouse or domestic partner of any person who has an ownership interest in the property, if his or her signature is necessary under applicable state law to waive any property right he or she has by virtue of being the owner's spouse or domestic partner.
- PHM will accept short form security instruments for properties that are located in the following states:
  - Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Idaho, Kentucky, Maine, Maryland, Nebraska, Nevada, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, Tennessee, Texas, Utah, Washington, Wisconsin and Wyoming
- At closing the borrower signs a short form security instrument that contains the specifics of the transaction, such as closing date, loan amount, maturity date, property address, and any applicable riders, but incorporates the details of a master mortgage only by reference.
- The short form Security Instrument must reference the master form that has been previously recorded and must state the following:
  - The master form instrument was recorded in the county in which the subject mortgage is offered for record;
  - The date when the master form instrument was recorded;
  - The book and page where the master form instrument was recorded; and
  - A copy of the master form instrument was provided to the person executing the Security Instrument.

## 23.8 Security Instrument Riders

Check that appropriate riders are attached and signed. If a rider is not signed at closing, borrower(s) must execute the applicable riders and Security instrument with rider attached must be re-recorded.

Multistate Planned Unit Development (PUD) Rider (Form 3150)

[https://www.fanniemae.com/content/legal\\_form/3150.pdf](https://www.fanniemae.com/content/legal_form/3150.pdf)

- If appraisal states that the property is a PUD, a signed PUD rider must be attached to the Security Instrument.
- Special rider must be used for Texas Section 50(a) (6) mortgages that are secured by units in a PUD project.
- If PUD rider was signed and property is a single family, this is acceptable.

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- Required for all conventional loans and VA loans when the FNMA/FHLMC form is used.
- The Project Name must be filled in. Check Project Name against appraisal and title.
- Complete and correct Legal Description. If Project Name is incomplete or incorrect, obtain a completed or corrected copy along with a Letter of Intent to rerecord the Security Instrument.

Multistate Condominium Rider (Form 3140) [https://www.fanniemae.com/content/legal\\_form/3150.pdf](https://www.fanniemae.com/content/legal_form/3150.pdf)

- If appraisal states that the property is a condominium, a signed condominium rider must be attached to the Security Instrument.
- Special rider must be used for Texas Section 50(a) (6) mortgages that are secured by units in a condominium project.
- If condominium rider was signed and property is a single family detached, the condo rider must be removed from the Security Instrument and the Security Instrument must be re-recorded.
- Required for all conventional loans and VA loans when the FNMA/FHLMC form is used.
- The Project Name must be filled in. Check Project Name against Appraisal and Title / complete and correct Legal Description. If Project Name is incomplete or incorrect, need completed or corrected copy along with a Letter of Intent to rerecord the Security Instrument.

Multistate Balloon Rider (Form 3180) <http://federaltitle.com/documents/riders/Balloon.pdf>

- If loan is a balloon loan, a signed Multistate Balloon Rider must be attached to the Security Instrument.
- If loan is not a Balloon, rider must be removed from Security Instrument and the Security Instrument must be re-recorded.

Applicable Multistate Adjustable Rate Rider (and, if applicable, an addendum to the Rider)

- There are a number of different versions of this rider, based on the applicable ARM plan or index.
- A special ARM Rider is required for Texas Section 50(a) (6) adjustable-rate loans.

Multistate Second Home Rider (Form 3890) <http://www.pdfFiller.com/37681-3890-Form-3890--Multistate-Second-Home-Rider---Freddie-Mac-Freddie-Mac-Forms-and-Applications>

- Required for a loan secured by a second home.
- If loan is not a second home, rider must be removed from the Security Instrument and the Security Instrument must be re-recorded.

Multistate 1-4 Family Rider (Form 3170) [https://www.fanniemae.com/content/legal\\_form/3170.pdf](https://www.fanniemae.com/content/legal_form/3170.pdf)

- Required for loan secured by a 1-4 unit investment property or a 2-4 unit principal residence.
- Rider is not required on FHA loans.

VA Assumption Rider

- Required on all VA loans if these clauses are not incorporated in the body of the Security Instrument: Acceleration clause; Funding Fee clause; Processing Charge clause; and Indemnity Liability Assumption clause.

#### Revocable Trust Rider

- May be used to amend security instruments for loans with *inter vivos* (living trust) trust borrowers.
- Fannie Mae has developed a sample rider for mortgages that are made to *inter vivos* trust borrowers and are secured by California properties.

#### A Rider that includes a cross-default provision

- Must be used to amend security instruments for loans secured by leasehold estates so that a default on the lease is a default on the mortgage. Fannie Mae does not publish a standard rider that includes this provision.
- On all loans eligible for sale to Fannie Mae or Freddie Mac, the tagline that identifies the instrument as a Uniform Instrument must remain part of the document and be included on each page.
- The tagline requirements do not apply to FHA or VA loans

### 23.9 Marital Rights: Non-Borrowing Spouses

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If a loan is subject to rescission under the Truth-in-Lending Act, the following person(s) must receive the Truth-in-Lending Disclosure and two copies of the Notice of Right to Cancel:

- Each person who has an ownership interest in the security property (an individual on title), even if the person's income is not used in qualifying for the loan.
- The spouse or domestic partner of any person who has an ownership interest in the property, if his or her signature is necessary under applicable state law to waive any property right he or she has by virtue of being the owner's spouse or domestic partner.
- Loans delivered to PHM where the property is located in a community property, homestead, or dower/curtesy state must contain the following documentation:
  - A properly completed Notice of Right to Cancel and mortgage/deed of trust signed and dated by all vested individuals and any non-vested, non-borrowing spouse; or
  - A properly completed Notice of Right to Cancel and mortgage/deed of trust signed and dated by all vested individuals and a completed copy of a recorded quit claim deed, spousal waiver, or warranty deed, showing the non-vested spouse no longer has an interest in the property.

The loan file must contain evidentiary documentation of receipt of the Truth-in-Lending Disclosure and two copies of the Notice of Right to Cancel by the required person(s). Evidence of delivery is not sufficient.

### 23.10 Intervening Assignments

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If Intervening Security Instrument is on MERS form or assigned to MERS, then an Intervening Assignment is not required.

- Must be stamped "True and Certified Copy of the Original sent for Recordation". The stamp must be initialed by the individual stamping the document.

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If there is an Assignment of Deed of Trust, the Trustee must be the same as on the Deed of Trust

- The Assignment Note date must match the closing date on both the Note and the Security Instrument
- Borrower name must match the borrower name on the Security Instrument
- Assignment must reference the property address or complete and correct legal description or Security Instrument recording information
- Lender name must match Security Instrument exactly

### 23.11 Mortgage Electronic Registration System, Inc. (MERS) Assignments

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PHM prefers that Sellers utilize MERS to transfer ownership and servicing to PHM thereby eliminating the need for recording a paper assignment. Sellers that utilize MERS are required to be a lite or general member with MERS and must comply with the following:

- MOM documents that are in compliance with MERS document requirements.
- Loans should be registered on the MERS system within 24 hours of closing.
- The Seller must complete the following step in order to transfer ownership (Transfer of Beneficial Rights – “TOB”) and servicing rights (Transfer of Servicing Rights – “TOS”) to PHM. (Org ID 1001098)
- Seller must create a TOS/TOB batch on the MERS system within 2 business days of purchase.

For information on MERS membership, visit their website at <http://www.mersinc.org/>.

### 23.12 Non-MERS Member Selling Closed Loans

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- Sellers that are non-MERS members cannot draw docs on MOM docs. Sellers are required to execute and record an assignment transferring the loan to MERS.
- To prepare an assignment, assign to “Mortgage Electronic Registration Systems, Inc.” and include the following information:
  - MERS address
  - MERS phone number 1-888 679-6377
  - 18-digit MIN number (PHM will provide the Seller with a PHM MIN#)
  - [See exhibit F for assignment example.](#)
- A copy of the executed assignment to be delivered with the closing package.
- PHM will register the loan with MERS as a non-MOM loan. (within 2 business days of purchase)
- The recorded assignment to be delivered to PHM within 90 days of PHM purchasing the loan.

### 23.13 HUD-1 Settlement Statement

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A final HUD-1 is required for all loans. All of the following guidelines must be met:

- Must include borrowers; name property address and loan amount.
- States that may close in escrow are Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, Utah and Washington

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- Supporting documents must be provided for any charges or payoffs on the HUD-1 in excess of \$5000 regardless of who is pay for the charge.
- Refer to PHM's Program Guidelines for the max allowable cash-out by product.
- For properties located in Texas, refer to PHM's [Texas Home Equity 50 \(A\)\(6\)](#) guidelines.
- If escrows are collected on the HUD-1, PHM will net escrows from the Purchase Advice.
- For principal reductions, refer to the Principal Curtailment Matrix section of this Seller Guide for specific guidelines.

### 23.14 Principal Curtailment Matrix

PHM will allow Principal Curtailments under certain circumstances as described in the matrix below. Loans that don't meet the requirements below may not be eligible for purchase by PHM.

Product	Excess YSP (When Principal Curtailment is due to excess credit from the Interest Rate)	Excess Loan Amount (When Principal Curtailment due to Excess Loan Amount)	Excess Credits (When principal curtailment is due to seller, lender or other 3 <sup>rd</sup> party credits)	Process Steps (Documenting the Principal Curtailment)
<b>Conventional</b>	<p><b>Lender Paid:</b> Eligible up to \$2,000 or \$4,000 if loan &gt; \$350k*</p> <p><b>Borrower Paid:</b> Not eligible for excess YSP.</p> <p><i>Amounts exceeding these guidelines, the file must be documented with proof the borrower was not eligible for a lower interest rate.</i></p>	<p><b>Purchase: Not eligible</b></p> <p>Refinance: Eligible up to the amount of one "PI" principal and interest payment on the new loan.</p> <p>May not be greater than \$2,500 or 2% of the original loan amount for the subject loan).</p> <p>** *LTV violations cannot be cured with a principal curtailment***</p>	<p>Eligible only for seller to borrower pro-rations, (i.e.: HOA or taxes).</p> <p>Reminder: Excess seller credits that are not pro-rations or lender credits may never be applied as a principal curtailment.</p>	<p>Principal Curtailment must be documented on the Final HUD-1. If not on the Final HUD-1, it is acceptable to be documented in the closing package.*</p> <p>Provide a copy of the check/wire being applied and copy of the pay history must be in the loan file.</p> <p><b>Freddie Mac LPRR and Jumbo Loans –</b> Principal Curtailment <u>must</u> be documented on the Final HUD-1.</p>
<b>FHA</b>	<p><b>Lender Paid:</b> Eligible up to \$2,000 or \$4,000 if loan &gt; \$350k*</p> <p><b>Borrower Paid:</b> Not eligible for excess YSP.</p> <p><i>Amounts exceeding these guidelines, the</i></p>	<p><b>Purchase: Not eligible</b></p> <p>Refinance: Eligible up to the amount of one "PI" principal and interest payment on the new loan.</p>	<p>Eligible only for seller to borrower pro-rations, (i.e.: HOA or taxes).</p> <p>Reminder: Excess seller credits that are</p>	<p>Principal Curtailment must be documented on the Final HUD-1. If not on the Final HUD-1, it is acceptable to be documented in the closing package.</p>

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	<i>file must be documented with proof the borrower was not eligible for a lower interest rate.</i>		not pro-rations or lender credits may never be applied as a principal curtailment.	Provide a copy of the check/wire being applied and copy of the pay history must be in the loan file. In both cases must be reflected in FHA Connection at the time the loan is insured..
<b>VA</b>	<p><b>Lender Paid:</b> Eligible up to \$2,000 or \$4,000 if loan &gt; \$350k</p> <p><b>Borrower Paid:</b> Not eligible for excess YSP.</p> <p><i>Amounts exceeding these guidelines, the file must be documented with proof the borrower was not eligible for a lower interest rate.</i></p>	<p><b>Purchase: Not eligible</b></p> <p><b>Refinance:</b> Eligible up to the amount of one "PI" principal and interest payment on the new loan.</p>	<p>Eligible only for seller to borrower pro-rations, (i.e.: HOA or taxes).</p> <p>Reminder: Excess seller credits that are not pro-rations or lender credits may never be applied as a principal curtailment.</p>	<p>Principal Curtailment must be documented on the Final HUD-I. If not on the Final HUD-I, it is acceptable to be documented in the closing package.</p> <p>Provide a copy of the check/wire being applied and copy of the pay history must be in the loan file.</p>
<b>Rural Housing</b>	<p><b>Lender Paid:</b> Eligible up to \$2,000 or \$4,000 if loan &gt; \$350k*</p> <p><b>Borrower Paid:</b> Not eligible for excess YSP.</p> <p><i>Amounts exceeding these guidelines, the file must be documented with proof the borrower was not eligible for a lower interest rate.</i></p>	<p><b>Purchase: Not eligible</b></p> <p><b>Refinance:</b> Eligible up to the amount of one "PI" principal and interest payment on the new loan.</p>	<p>Eligible only for seller to borrower pro-rations, (i.e.: HOA or taxes).</p> <p>Reminder: Excess seller credits that are not pro-rations or lender credits may never be applied as a principal curtailment.</p>	<p>Principal Curtailment must be documented on the Final HUD-I. If not on the Final HUD-I, it is acceptable to be documented in the closing package; copy of the check/wire being applied as a part of the pay history and LOE must be in the loan file.</p> <p>Provide a copy of the check/wire being applied and copy of the pay history must be in the loan file.</p>

\* Excessive YSP - For premium credits exceeding these thresholds, evidence that the next lower pricing option would require the borrower to pay closing costs out of pocket must be documented in the file (GFE, pricing/rate sheet, etc.). If the borrower was not provided with the best rate, the loan is not eligible for purchased by PHM.

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**Notes:**

- Correspondent Transactions are all classified as Lender Paid Transactions
- If the program permits, the borrower may also receive cash back within program guidelines in addition to the amount of the curtailment. Please check the product summary for cash back eligibility criteria. The cash back may not be from the premium pricing credit

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**23.15 Escrows/Impounds**

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**Property Taxes**

Seller is required to pay tax installments in compliance with RESPA regulations.

**Establish Tax Due Date**

Tax due date is determined by using the Discount Date or Economic Loss date provided by each taxing authority, which represent payment dates most beneficial to the borrower. The Seller is to provide PHM with the next tax due dates for each loan submitted.

**Delinquent Taxes**

All delinquent taxes must be paid on or before the loan closing. Either a title binder showing these taxes as paid, or a paid receipt, must be included with the closing package.

**Seller Responsible Period**

Seller is responsible for the payment of all tax payments due up to 30 days after the wire purchase date; also known as the Seller Responsibility Period. If any payments due, within the Seller Responsibility Period, which have not been paid by the Seller as of the purchase date of the loan, PHM will apply funds escrowed for that purpose to pay the bill on the Seller's behalf. Any penalties or interest incurred will be billed to the Seller. If PHM pays delinquent taxes, due during the Seller Responsibility Period which are not paid at closing or included in the initial escrow disclosure, Seller will be responsible for base tax, penalties and interest charged by the taxing jurisdiction.

**Escrows for New Construction to Permanent and Purchase Transactions**

To avoid "payment shock" Regulation X applies to escrows for new construction loans.

The Seller shall estimate the amount of escrow account items to be disbursed. In cases of new construction which has not been assessed at the time of closing, the seller may base an estimate on the assessment of comparable residential properties in the market area. The Seller must close the loan using the most accurate assessment of what the property taxes on the subject property will be once assessed by the local jurisdiction.

**Note:** Supplemental tax bills are not sent to lenders and are the sole responsibility of the borrower even if the loan is impounded. However, if PHM receives a request from the borrower to pay supplemental taxes from their impound account and provides a copy of the bill we will disburse it from escrow. The borrower would be responsible for any penalties incurred if the request is not received in a timely manner. Escrow shortages resulting from payment of supplemental taxes will result in an escrow analysis and increased payment due from the borrower.

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## Insurance Policy

**Escrow accounts:** the policy must have a remaining term of at least 120 days after closing. Escrow/impound accounts are not allowed on Reverse Mortgages.

**Non-escrow accounts:** the policy must have a remaining term of at least 90 days after closing. If the renewal insurance policy is not available, obtain one of the following:

- Temporary binder from the insurance company
- Offer of renewal from the insurance company
- Quote with underwriting approval from a new company

**Note:** Any bills paid prior to settlement must have a paid receipt at settlement for proof of payment. Seller will be billed for any tax penalties that accrue. If bills are not available, the title policy must reflect taxes as being paid current.

Shortages or surpluses in the escrow account that are equal to or greater than \$300.00 and payment changes equal to or greater than \$25.00, contact PHM for directions to correct.

On an annual basis, each loan is reviewed according to assure compliance with the state requirements.

## Initial Escrow/Impound Statement

- Initial escrow statements are required on all loans in which escrows/impounds are being held by the servicer.
- Flood insurance must be escrowed for if there are escrows for any other item.
- If loan has MI, monthly MI must be on Initial Escrow Account Disclosure and amount match MI cert.
- A 2 month cushion should be used in the initial escrow statement unless state regulations specify differently.

At the time of settlement, if the file contains escrows, the borrower must be provided with an initial escrow statement which contains the following information:

- Amount of the total monthly payment
- Portion of monthly payment that is being placed into the borrowers' escrow account
- Itemize the estimated charges such as school taxes, city taxes, insurance premiums, etc. that is expected to be paid during the next escrow computation year. Include the description of the item, due date, term and disbursement amount.
- Running Trial Balance which reflects the estimated activity in the escrow account during the next 12 months.
- Starting Reserves (inclusive of the Initial PMI premium amount); escrow disbursements prior to the 1st Pay Date; interim/added assessment; Total Reserves to be collected at Closing and Target Balance.
- For loans with monthly FHA/MIP insurance, the MIP amount is NOT included in the calculation of the target balance/cushion.

## Loan Pricing

For the purpose of pricing, loans with partial escrow accounts are classified as non-escrow accounts.

**Example:** property taxes are escrowed and hazard insurance is not collected.

For additional information regarding pricing, please contact your Sale Executive.

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### 23.16 Escrow Waiver Policy

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If loan has no escrows collected there should be an Escrow Waiver in the file. The following can be used as an escrow waiver:

- Escrow Waiver form
- Payment Letter signed by borrowers showing no escrows with payment
- A blank signed Initial Escrow Account Disclosure Statement

PHM will consider escrows waived if only homeowners/hazard insurance, wind, earthquake, flood, and HO-6 are being escrowed on the HUD-1.

If a loan requires flood insurance and is escrowed for any other item, escrows must be collected for flood insurance. This is a federal requirement.

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### 23.17 Buydowns

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**Note:** Temporary Buydowns are unavailable at this time

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### 23.18 Tax Certificate

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A completed tax certificate must be in the file. If there is not a completed tax certificate, tax information provided within the Title Commitment or Policy is acceptable.

Tax Authorization form is required in NJ, PA, NY or IL.

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### 23.19 Government Loans

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#### FHA Loan

At the time of purchase, PHM requires the file to contain proof from FHA Connection of the following:

- Case Number Assignment
- Verification of Borrowers names (matching the Note)
- Verification of Property address (matching the Note)
- Sellers who are responsible for insuring their FHA loans must verify that the Term, Maturity Date, Original Loan Amount and ADP codes in FHA Connection are correct.

For more information refer to section [Government Loan Insurance and Transfer](#).

#### VA Loans

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The following documents are required on all VA Loans:

- Copy of VA Funding Fee receipt – required even if borrower is exempt from VA Funding Fee
  - Receipt must indicate Processed and not Pending
- VA case number must be consistent throughout the file

For more information refer to section [Government Loan Insurance and Transfer](#).

### USDA Rural Housing (RHS) Guaranteed Loan Program

Standard Fannie Mae/Freddie Mac conventional or FHA loan documents are allowed. Additionally, the following RHS documents are required.

- Required Forms:
  - Request for Single Family Housing Loan Guarantee (Form 1980-21)  
<http://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/RD1980-21.PDF>
  - Conditional Commitment for Single Family Housing Loan Guarantee (Form 1980-18) with completed Lender Certification  
<http://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/RD1980-18.PDF>
  - Guaranteed Loan Closing Report (Form 1980-19)  
<http://forms.sc.egov.usda.gov/efcommon/eFileServices/eFormsAdmin/RD1980-0019.pdf>
  - Original Loan Note Guarantee (Form 1980-17)  
<http://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/RD1980-17.PDF>
  - Certificate of Completion, if applicable
    - Servicing lender and transfer information
    - The following information must be entered onto form and submitted to RHS upon guarantee.

Seller is required to provide the Original Loan Note Guarantee (Form 1980-17)  
<http://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/RD1980-17.PDF>, within 30 days of purchase to PHM.

<b>Lender Tax Identification Number:</b>	33-0941669
<b>Agency Assigned Branch Number:</b>	001
<b>Address: City, State and Zip:</b>	4820 Eastgate Mall, Suite 100 San Diego, CA 92121

### 23.20 Right of Rescission

Use the rescission form that most accurately describes what is happening in the transaction:

- H-9 Rescission Model Form (refinancing with original creditor) - applies when a creditor that has a prior lien on the borrower's home extends additional credit that is also secured by the home.
- H-8 Rescission Model Form (general) - applies to a loan from a creditor with no prior lien on the borrower's home.

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- Right of rescission documents must be signed and dated by all borrowers and all parties on title.
- Right of rescission should be signed and dated the same day as TIL and Security Instrument was notarized.
- New rescission must be issued if cancellation date is not within 3 full days after date of the TIL, and Security Instrument notarized date.
- If Rescission is not signed by all applicable parties, if dates are missing or incomplete or if the borrowers did not receive a full 3 days - PHM will suspend for a new rescission period to be opened and disclosed to the borrower(s). The new rescission notice must have current dates.
- Waivers of rescission period are not permitted.

### 23.21 State and Federal Disclosures

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All disclosures must be in compliance with state, federal and local mortgage lending laws and regulations.

PHM will accept loans for funding/purchase, in which borrowers received initial federal and state disclosures electronically according to the requirements outlined by the Electronic Signatures in Global and National Commerce (E-SIGN) Act of 2000. This also applies to FHA loans as long as the initial disclosures are not required as part of the insuring process.

#### The Home Ownership and Equity Protection Act (HOEPA)

The Home Ownership and Equity Protection Act (HOEPA) require specific interest rate data for higher-priced mortgage loans (HPML) to be reported to HMDA and the agencies. To ensure compliance, PHM will require documentation of the borrower interest rate set date. To comply with this requirement, include one of the following in the loan file labeled as "HPML Interest Rate Set Date."

- A screen print of a populated FFIEC rate spread calculator from website at <http://www.ffiec.gov/ratespread/newcalc.aspx>, or
- A lock agreement with the borrower that includes the borrower's last name, property address and last date the interest rate was set with the borrower prior to consummation

Refer to the [Higher Priced Loans](#) section of this document for more information.

For the purpose of Federal Disclosures, loans purchased by PHM are considered consumer credit transactions. Investment properties are included in this definition and therefore do not fall under the business purpose exception.

The Seller is required to indemnify PHM for any loss or costs incurred as a result of improper disclosure on the part of the Seller.

### 23.22 Truth-In-Lending

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Seller must provide the borrower with Truth-In-Lending disclosures to the borrower(s) as required by applicable federal, state or local law and Freddie Mac, Fannie Mae or other secondary market investors. The Seller is required to indemnify PHM for any loss or costs incurred as a result of improper disclosure on the part of the Seller. PHM is buying consumer credit transactions;

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therefore, business purpose exemptions are not applicable. Investment properties are included in this definition and therefore do not fall under the business purpose exception.

**Initial Truth-in-lending:**

- The initial Truth-in-Lending (TIL) including date of issue.
- Any subsequently Truth-in-lending disclosures issued, including date of issue must be provided.

**Final Truth-in-Lending:**

- PHM requires the final Truth-In-Lending disclosure be signed by the Borrower at closing and included in the Closed Loan Package for purchase.
- An accurate Interest Rate and Payment Summary table is required.
- Demand Assumption section must be completed, when applicable to the program.
- Regulation Z provides finance charge tolerances for legal accuracy. Tolerances for the finance charge in closed-end transaction are considered accurate if:
  - The disclosed finance charge does not vary from the actual finance charge by more than \$100, **OR**
  - The disclosed finance charge is greater than the actual finance charge.
- Special rules apply to the finance charge tolerances if the (closed-end credit) rescindable mortgage transaction is involved in foreclosure action.
  - The disclosed finance charge is considered accurate if it does not vary from the actual finance charge by more than \$35.
  - Overstatements are not considered violations.
- The disclosed APR on a closed-end transaction is accurate for:
  - Regular transactions (which include any single advance transaction with equal payments and equal payment periods, or an irregular first payment period or a first or last irregular payment), if it is within one-eighth of 1 percentage point of the APR calculated under Regulation Z (section 226.22(a)(2)).
  - Irregular transactions (which include multiple advance transactions and other transactions not considered regular), if it is within one-quarter of 1 percentage point of the APR calculated under Regulation Z (section 226.22(a)(3)).
  - An itemization of loan costs paid by third parties, if any costs are excluded from finance charge calculations.

**Notice of Right to Cancel:**

The rescission notice, when applicable, signed and dated by all borrowers and, on rescindable loans, by all non-borrowing homeowners.

**Lender Credits****Lender Credits Exceeding Pre-Paid Finance Charges**

PHM considers the final TIL inaccurate, and the loan ineligible for purchase (unless cured), if the Finance Charge, APR and Amount Financed are based on pre-paid finance charges in an amount less than zero.

In order to cure the above issue, PHM will require a corrected TIL, evidence of refund of any under disclosed finance charges and, if applicable, a new right of rescission is given to the borrower(s).

PHM will consider the final TIL accurate (subject to other accuracy requirements) if the lender calculates the Finance Charge, APR and Amount Financed based on pre-paid finance charges equal to or greater than zero.

Excess lender credits should not be factored into the TIL disclosures, or at the very least should be limited to the actual amount of pre-paid finance charges that apply. When pre-paid finance charges are expressed as an amount less than zero the operative math (loan amount – prepaid finance charges) results in an Amount Financed greater than the loan amount that the borrower is obligated to repay.

**Note:** During a post-purchase review process, PHM will compare the final TIL Disclosure/Itemization of Amount Financed to the actual fees collected per the HUD-1. If the comparison results in the identification of understated finance charges, the Regulation Z violation will be required to be cured.

### 23.23 Good Faith Estimate

The Seller must provide an initial Good Faith Estimate (GFE) disclosure to the borrower(s) as required by applicable federal, state or local law and Freddie Mac, Fannie Mae or other secondary market investors. The Seller is required to indemnify PHM for any loss or costs incurred as a result of improper disclosure on the part of the Seller. PHM is buying consumer credit transactions; therefore, business purpose exemptions are not applicable. Investment properties are included in this definition and therefore do not fall under the business purpose exception.

#### Initial Good Faith Estimate:

- The initial Good Faith Estimate (GFE) and Settlement Services Provider (SSP) list.
- All subsequent GFEs in chronological order, including dates of issue. The final GFE must be clearly marked or identifiable as “Final”.
- PHM will require valid change circumstance cover letters with each redisclosed GFE, fully documenting any changed circumstance that led to an increase in one or more fees or charges and the date of such changed circumstance. Additionally, the last disclosed GFE must be equal or greater than the final loan terms to include rate and loan amount.
- The GFE must have all fields completed with a zero, N/A or a dollar figure.
- The GFE for a purchase money transaction must have a quote for owner’s title insurance.
- The GFE must have a quote for the amount of transfer taxes the borrower is expected to pay by law or by custom (amounts paid by seller need not be disclosed).
- The final GFE must be provided to the borrower least one day prior to closing.

### 23.24 Closing Instructions

For conventional conforming loans located in an escrow state, escrow/closing instructions signed by borrower and Seller or a signed Estimated HUD-1 is required.

On correspondent loans, the seller's closing instructions must include specific instructions to the closing agent to confirm the identity of the borrowers.

The following documents may be used by the closing agent to certify the borrower's identity:

- **U.S. Person:**

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- Valid state driver's license (photo)
- Valid state non-driver's license (photo)
- Work ID (photo)
- Student photo ID
- Military photo
- Military dependents' photo ID
- Department of Public Welfare photo ID
- Medicare card
- U.S. Passport (photo)
- **Non-U.S. Person:**
  - Non-U.S. passport (photo)
  - Resident alien card

PHM does not require this documentation to be in the loan.

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### 23.25 Wire Instructions/Bailee Letter

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#### Bailee Requirements

- A bailee will be used between the seller's warehouse bank and PHM. Seller will deliver the original collateral package to PHM's designated warehouse bank prior to purchase of the loan. Seller must provide complete wire instructions as set forth below. An authorized representative of the Seller must sign the wire instructions.
- The bailee and/or security release and wire instruction form must contain the following:
  - Seller's name
  - Mortgage loan number
  - Plaza Home Mortgage, Inc., as purchaser
  - Principal balance of the loan
  - Exact wire instructions
  - Authorized signature
  - If a security release is provided instead of a Bailee, the release must indicate that the correspondent releases their interest in the collateral in return for loan proceeds.
  - No funds will be wired without either a Bailee or security release along with wire instructions.

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### 23.26 W-9 Form

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W-9 forms must be completed correctly, including identifying the appropriate federal tax classification and signed by the primary borrower.

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### 23.27 4506-T Form

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A 4506-T is required to be signed by all borrowers, at closing, whose income is used in the qualifying of the loan. Not required on VA IRRRL or non-credit qualifying FHA Streamline Refinance transactions.

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### 23.28 Appraisal Delivery Requirements

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PHM requires that borrowers are provided a copy of any appraisal report concerning the borrower's property promptly upon completion and in any event no less than three days prior to the closing of the loan. Borrowers must receive a copy of the appraisal(s) at least 3 business days prior to closing or they may waive their right to receive a copy. The waiver must be obtained at least three business days prior to closing. Evidence of compliance with the appraisal delivery requirements is required.

#### Confirmation of Delivery of the Appraisal

Either one or both of the following is acceptable as evidence of compliance with the appraisal delivery requirements:

- Documentation in the loan file indicating the date and method of delivery of the appraisal to the borrower and supporting that the appraisal was received by the borrower at least three business days prior to closing unless a waiver is provided. Acceptable evidence of delivery include:
  - A copy of the E-Delivery receipt confirmation. (delivery through a document delivery system company or email confirmation is acceptable verification of delivery).
- A copy of dated cover letter to borrower (on Sellers letterhead). An acknowledgement of receipt of the appraisal signed by all borrowers at or before closing. The acknowledgement must include the following:
  - The names of the borrowers
  - The subject property address
  - A statement that the borrower received the appraisal at least 3 business days prior to closing. Must be signed and dated by all borrowers. POA signature is acceptable if other documents were executed in the manner and it is properly documented.

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### 23.29 Appraisal Delivery Waivers

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Appraisal delivery waivers are only to be used in the event that the timing of the appraisal completion conflicts with meeting the required delivery time frame based on the scheduled closing date. The practice of requiring a blanket waiver for the 3 business day delivery requirement on all loans is unacceptable. When the advance delivery requirement is waived by the borrower, a copy of the appraisal is still required to be provided no later than closing (as defined in this Section). In all circumstances, the date and method of delivery of each appraisal to the borrower, even if delivered by hand at closing, must be documented in the delivered loan file. The waiver of the advance delivery of appraisals cannot be requested by the borrower at closing and must be acknowledged by the borrower at least 3 days prior to closing.

Samples of Appraisal Report Delivery Disclosure, Appraisal Deliver Letter to Borrower, Borrower Acknowledgement of Appraisal Delivery and Appraisal Delivery Waiver are available in the Exhibit section of this Seller Guide.

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### 23.30 Signatures on Loan Documents

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All loan documents must be signed exactly as the borrower(s) name(s) appear below the signature lines.

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If loan documents are not signed as stated, the borrower(s) may be required to resign the documents.

### Over signing or Undersigning Documents

Borrowers may "over-sign" or "under-sign" their names.

- Over-signing occurs when something is included in the borrower's signature that does not appear in the typed or printed name on the Note and/or in our system of record. Suffixes such as "MD", "PhD", "Sr.", "Jr." are not required to be certified, and may be considered over-signing.
- Under-signing occurs when the borrower's signature does not contain elements such as a middle name or initial that is included in the typed or printed name on the Note and/or in our system of record.

The following are examples of variations in the borrower's signature:

<p>Signature <u>John A Smith</u>            Typed Name John Adams Smith</p> <p>Signature is undersigned but does not conflict with the typed name.</p> <p>This is acceptable only if the signature is identified on the Signature/Name Affidavit as a variation of the borrower's typed name. For example, the aka would show John A Smith as a variation.</p>
<p>Signature <u>John Smith</u>            Typed Name John Adams Smith</p> <p>Signature is undersigned but does not conflict with the typed name.</p> <p>This is acceptable only if the signature is identified on the Signature/Name Affidavit as a variation of the borrower's typed name. For example, the aka would show John Smith as a variation.</p>
<p>Signature <u>John Adams Smith</u>            Typed Name John A Smith</p> <p>Signature is over-signed but does not conflict with the typed name. This is acceptable.</p>
<p>Signature <u>John R Smith</u>            Typed Name John Adams Smith</p> <p>Signature conflicts with the typed name. This is acceptable only if the signature is identified on the Signature/Name Affidavit as a variation of the borrower's typed name. For example, the aka would show John R Smith as a variation.</p>
<p>Signature <u>John Allen Smith</u>            Typed Name John Adams Smith</p> <p>Signature conflicts with the typed name. This is acceptable only if the signature is identified</p>

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on the Signature/Name Affidavit as a variation of the borrower's typed name. For example, the aka would show John Allen Smith as a variation.

### Illegible Signature and Signature Contradictions

A signature affidavit or name affidavit is a notarized document that is required when the borrower's signature contradicts or is not consistent with a typed or printed name below the signature line on the Note or in our system of record.

If a signature affidavit is used, the signature on the affidavit must closely resemble the signature on the Note.

A borrower's illegible signature is acceptable if the typed or printed name on the Note and the borrower's name our system of record match.

May be Acceptable	May be Acceptable
Signature <u>X</u> Typed Name John Adams Smith  A Signature Affidavit or Name Affidavit must be signed showing that 'X' is John Adams Smith's legal signature.	Signature <input type="text"/> Typed Name John Adams Smith  A Signature Affidavit or Name Affidavit must be signed showing that <input type="text"/> is John Adams Smith's legal signature.

### Signature by a Trustee

If a Note is secured by a Mortgaged Premises held in a living trust (inter vivos or revocable), the Note must be signed by the borrower(s) as individual(s) and as trustee(s) on behalf of the trust. The Note must clearly indicate the name of the trust on the signature page.

**Note:** The signature page of the note must clearly indicate the name of the trust

Acceptable Signature for Note
Signature <u>John A Smith</u> Typed Name John Adams Smith, Individually and as Trustee of the John Adams Smith Trust  One signature used to indicate that the signatory is executing the document individually and as trustee.
Signature <u>John A Smith</u> Typed Name John Adams Smith  Signature <u>John A Smith</u> Typed Name John Adams Smith, Trustee of the John Adams Smith Trust  Borrower executed the Note with one signature, John A Smith, as individual and one signature as trustee.

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Signature John A Smith  
 Typed Name John Adams Smith

Signature John A Smith, Trustee of the John Adams Smith Trust  
 Typed Name John Adams Smith, Trustee of the John Adams Smith Trust

Borrower executed the Note with one signature as individual, John A Smith and one signature as trustee, John A Smith, Trustee of the John Adams Smith Trust.

#### Unacceptable Signature for Note

Signature John A Smith  
 Typed Name John Adams Smith

Signature John A Smith, Trustee  
 Typed Name John Adams Smith, Trustee of the John Adams Smith Trust

Borrower executed the Note with one signature as individual, John A Smith and one signature as trustee, John A Smith, Trustee, however, the name of the trust was omitted from the signature line. If borrower chooses to sign using the 'trustee' verbiage, he/she must sign with full name of the trust. (see example directly above).

#### Signature by a Conservator or Guardian

A conservator is someone who has been given authority over the affairs of an individual deemed to be legally incompetent. If a conservator signs a Note as borrower, then a copy of the court document that appoints that person as conservator for the borrower must be included with the Note.

#### Acceptable Signature

John A. Smith, D.S.W., Public Guardian, as Conservator of the Person and Estate of Jane Doe, Conservatee.

If the vesting name is "John A. Smith, an unmarried man" and Jane Doe is the conservatee, she signs on the borrower signature line as "John A. Smith by Jane Doe, as Conservatee.

#### Signature as Power of Attorney

If the Note is executed on behalf of the borrower by an attorney-in-fact pursuant to a Power of Attorney (POA), it must be clear that the Note has been signed by an attorney-in-fact.

Acceptable	Not Acceptable
<p>Signature <u>Jane Signatory, Attorney in fact for John Adams Smith</u>            Typed Name John Adams Smith</p> <p>The signature indicates that Jane Signatory is executing the document under a POA from John Adams Smith.</p>	<p>Signature <u>Jane Signatory</u>            Typed Name John Adams Smith</p> <p>This manner of signature is not a preferred method of executing a document under a POA, since it is not clear why or under what authority Jane Signatory is executing the</p>

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document.
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### 23.31 State Specific

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#### New York State Consolidation and Extension Modification Agreement (CEMA)

The State of New York charges a mortgage recording tax whenever a new mortgage or refinance is recorded. To reduce tax liabilities to borrowers, refinances can be transacted by consolidating, extending and modifying the existing loan. Using this method, the borrower pays the recording tax only on any “new money” added to the original loan. In order to accomplish this, instead of the existing liens being paid off, they are effectively assigned and transferred to the new lender who consolidates, extends and modifies the term and structure of the existing loan(s), hence the name CEMA into new documents. Such CEMA activity could encompass multiple loans concurrently, as well as historically. It could be rolling a first and second lien together into a CEMA; it could also be a string of repeat refinances, such that the CEMA is actually modifying numerous liens. This string will continue until such time as there is a new transaction that does not utilize the CEMA process. In addition to refinance transactions, the state of New York allows purchases to be structured as CEMA transactions; however PHM does not allow purchase transaction CEMA loans.

#### Ineligible Loan Programs

The following loan programs are ineligible for a CEMA transaction:

- VA loans
- USDA

#### Eligible Borrowers

Individual borrowers or qualified InterVivos Trusts

#### Closing and Closing Attorneys

Refer to Plaza’s [New York CEMA Guidelines](#) for further information.

PHM requires all CEMA transactions to be closed by one of PHM’s CEMA approved attorneys:

- Robert Reda PC  
One Executive Boulevard, Suite 201  
Suffern, NY 10901  
Contact: Suzanne or Cindy  
845-357-5555  
[docs@redalaw.com](mailto:docs@redalaw.com)
- David M. Gladstone P.C.  
One Barker Avenue  
White Plains, NY 10601-1517  
[david@attorneygladstone.com](mailto:david@attorneygladstone.com)  
(914) 328-9666 phone  
(914) 328-7842 fax Additional Contact Information  
Ellen Marcus  
(914) 328-9666

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- Schell & Schell P.C.  
200 Perinton Hills Office Park, Ste 280  
[Georgejr@Schelllaw.com](mailto:Georgejr@Schelllaw.com)  
Fairport, NY 14450  
(585) 377-2682 phone  
(585) 377-2999 fax
- Abrams Garfinkel, Margolis Bergson, LLP –Manhattan office  
1430 Broadway, 17<sup>th</sup> Floor  
New York, NY 10018  
[info@agmblaw.com](mailto:info@agmblaw.com) This e-mail address is being protected from spambots. You need JavaScript enabled to view it  
212-201-1170 phone  
212-201-1171 fax
- Abrams Garfinkel, Margolis Bergson, LLP – Great Neck office  
98 Cuttermill Road, Suite 298N  
Great Neck, NY 11021  
[info@agmblaw.com](mailto:info@agmblaw.com)  
516-794-5310 phone  
516-570-6277 fax
- Ackerman & Felber, LLP  
6901 Jericho Pike Suite 2111  
Syosset, NY 11791  
[Gregory@ackermanfelberlaw.com](mailto:Gregory@ackermanfelberlaw.com)  
516-877-1500 phone  
516-877-1514 fax
- Favata & Wallace, LLP  
229 Seventh Street, Suite 300  
Garden City, New York 11530  
[fwoffice@aol.com](mailto:fwoffice@aol.com)  
516-742-9494 phone  
516-742-7088 fax

#### Non-Approved CEMA Attorney's or Firms:

For loans not closed by one of PHM's CEMA approved attorney, prior to purchase the following legal review is required:

- Pre-purchase legal review of all CEMA documents by the Law Office of Robert Reda PC.
  - Correspondent must include a check for \$250 payable to Robert Reda PC. in order to complete the legal review,
  - Include a cover letter requesting a CEMA review be completed as part of the pre-purchase review for PHM,
  - Submit all required CEMA documentation for legal review.
- The CEMA package must be sent for legal review prior to the loan being reviewed for purchase by PHM.

Once legal review is completed and CEMA is approved, include the following documents in the loan file for review by PHM prior to purchase:

- All CEMA documents

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- Copy of the legal review approval notice from the review attorney Rob Reda PC,

### Lost Note Affidavits

Lost Note Affidavits (LNAs) are only allowed on Conventional agency loans. For all government loans, including FHA loans, LNA's are never allowed nor will an exception be granted.

### CEMA Agreements

Loans must include an appropriate and completed Consolidation, Extension, and Modification Agreement. Use the Fannie Mae/Freddie Mac-approved agreement (Form 3172,) for all loans and all programs. For FHA loans you may use the Fannie Mae/Freddie Mac form; however it must include the comment "Modified for Federal Housing Administration".

Refinances with New Money:

- For refinances with cash-out or financed closing costs, a new Note (Gap Note) and Mortgage (Gap Mortgage) in the amount of the new money must be completed and provided along with the Consolidated, Extension, and Modification Agreement. The term "new money" as it applies to mortgage recording tax must not be confused with the underwriting criteria of a cash-out or rate & term refinance. It is common to have a rate & term refinance with "new money".
- FHA Loans: Refer to the HUD Mortgagee Letter 2008-26 for additional instructions.
- For CEMA refinances of a FHA loan, a new Note is required for the loan amount, regardless of whether there is new money, as well as an FHA Consolidation, Extension, and Modification Agreement.
- If the borrowers receive new money, a Note and Mortgage in the amount of the new money must also be completed, along with a consolidated Note including outstanding balances.

Steps for a CEMA Loan (compiled by closing agent):

Step	Action	
Section(s)	Complete the appropriate Consolidation, Extension, and Modification Agreement. If using the Fannie Mae/Freddie Mac Agreement - Form 3172, be sure to include the following:	
1	A, B and C	Appropriate dates and names of the parties involved in the refinance transaction.
	D	A description of each mortgage to be modified that is currently a lien on the property being refinanced. Note: If refinancing with new money: <ul style="list-style-type: none"> <li>• Identify the existing notes and mortgages of record pertaining to the old debt.</li> </ul> Identify the Note for the new money to be advanced at closing. Identify the new Mortgage given to secure the amount of the new indebtedness.
	F	Dates of the original Notes securing the unpaid mortgage listed in Section D, including additional information if refinancing with new money.
	G	Address of the property being refinanced.

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	Subsection I	The total unpaid principal balance of the outstanding Notes in the first blank of this subsection. Note: Insert the same amount in Subsection IV-1. “Zero” in the second blank of this subsection, since no new money has been advanced. If refinancing with new money, insert the amount the new indebtedness.
	Subsection IV	The interest rate and payment information of the refinance.
<b>2</b>		Obtain borrowers’ signature on the Consolidation, Extension and Modification Agreement and ensure it is notarized.
<b>3</b>		If the amount of the new loan exceeds the outstanding principal balance because of cash out or financed closing costs, prepare a new Note and Mortgage in the amount of the new money.
<b>4</b>		FHA loans only: Complete a new Note and Mortgage for the full new loan amount, including applicable riders. Note: If there is no new money, complete only a new Note.
<b>5</b>		Obtain the following exhibits and attach them to the Consolidation, Extension and Modification Agreement <ul style="list-style-type: none"> <li>• If refinancing with new money, the new Note and Mortgage in the amount of the new money. Originals of prior Notes and copies of Mortgages.</li> <li>• FHA loans: New Note (and Mortgage, if applicable), and applicable riders for the full loan amount.</li> <li>• Legal description of the subject property.</li> <li>• Adjustable Rate Rider, if applicable and any/all other applicable riders. Original consolidated Note.</li> <li>• Original Assignments.</li> <li>• Original Endorsement Allonges.</li> </ul> Terms of the security instrument that the borrower must comply with going forward or a blank copy of the standard mortgage, whichever is applicable.
<b>6</b>		Prepare (or have legal counsel prepare) two duplicate copies of the §255 Affidavit. Note: The §255 Affidavit must be filed even though no new money is exchanged to claim the mortgage tax exemption of the amount of the outstanding principal indebtedness.

### Texas Home Equity Section 50(a)(6)

Refer to Plaza’s [Texas Home Equity 50 \(A\)\(6\)Guidelines](#) for more detailed information.

## Section 24 203K Streamline Transactions

### 24.1 Final Disbursement

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Sellers are responsible for the initial disbursement at closing, PHM will administer the final disbursement. Loan is not eligible for final disbursement by PHM until the loan is purchased.

Once the loan is purchased, PHM will provide the borrower with a 203K Welcome Package providing them details on next steps. Typically, final disbursement will be made within 15 days of the following:

- Receipt of all final documentation,
- Final inspection has been approved, **AND**
- Verification that there are no additional liens on the property

To calculate the proper disbursement of funds to each contractor, the DE underwriter should refer to the [FHA 203K Streamline Disbursement Guide, FM-052](#).

### 24.2 Documentation

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In addition to all the required FHA underwriting documentation, the following information is required to be in the loan package at the time of purchase:

- FHA Connection Case Number Assignment - 203K Processing Type, 203KS as Inspector
- Contractor Documentation:
  - License, bond, insurance
  - Work history letter/resume and references
  - Current completed and signed IRS Form W-9 for each contractor
- Complete and signed IRS Form W-9 for each contractor working on the project. (Common error causing delay in purchasing are inaccurate TIN numbers for contactors)
  - [Resource – IRS Backup Withholding For Missing and Incorrect Name/TIN\(s\)](#)
- Completed Homeowner/Contractor Agreement.
- If applicable, a fully executed Self-Help Agreement.
- 203(k) Streamline Maximum Mortgage Worksheet completed by the DE underwriter
- 203(k) Borrower acknowledgement

### 24.3 Underwriting Guidelines

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Refer to Plaza's [FHA 203K Streamline Program Guidelines](#).

## Section 25 Credit and Collateral Review

Non-Delegated Sellers must have all loans underwritten and cleared by PHM prior to closing.

Delegated and Conditionally Delegated Sellers; PHM will randomly select loans prior to funding and review them to ensure they meet our underwriting guidelines as stated in PHM Program Guidelines and Underwriting Summaries. These reviews may be targeted to a specific area of review (such as collateral) or may be a full underwriting review of the loan file. The review may include re-verification of loan information which may include (but not limited to): income and employment, assets, property information and valuation, borrowers identify, as well as public records information. These reviews will be used to determine:

- Complete loan file and all underwriting disclosures provided (as required by product)
- Soundness of underwriting decisions
- Detection of fraud and misrepresentation

PHM will use fraud detection tools to screen every loan prior to purchase.

### 25.1 Underwriting Approval and Automated Underwriting Requirements

Delegated and Conditionally Delegated Sellers: Every loan file submitted to PHM must include a valid AUS or signed underwriting approval that matches the terms of the loan.

- 1008 (not required if approved through AUS)
- HUD 92900-LT properly completed
- VA Loan Analysis or Interest Rate Reduction Refinance Loan Worksheet
- Correspondent's own approval form with conditions

Non-Delegated Sellers must have an underwriting approval from a PHM underwriter, which is labeled "clear to close" and all "At Closing" conditions must be provided. All Governments loans must have an underwriting approval signed off by a PHM underwriter.

- Approval must not be expired.
- Prior to Purchase conditions must be in file. Underwriting conditions must be cleared prior to closing.
- Loans submitted for purchase without conditions being cleared may be rejected for purchase.

Regardless of Delegation status, all documents in the loan file must match the AUS or when manually underwritten the loan decision by the underwriter. Credit documents cannot have expired at the time of closing.

### 25.2 Condo/PUD Warranty

All loans with condo and PUD projects must be warranted to PHM and must have the completed warranty form included in the file.

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## 25.3 Appraisal

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PHM will accept an original or a black & white copy of an appraisal with legible photos. Refer to PHM's Program Guidelines and Underwriting Standards for specific program requirement and required appraisal products.

For all loans purchased by PHM, with or without an appraisal, if a loan is purchased greater than 60 days past the Note date, a re-cert of value will be required.

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### 25.3.1 Uniform Collateral Data Portal SM (UCDPSM) Documentation

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The following UCDP requirements apply to conventional, conforming loans:

- Sellers or their designated agents are required to submit appraisal data files to both Fannie Mae and Freddie Mac prior to loan purchase by PHM. Submission to only one Agency will not be sufficient for PHM to purchase the loan.
- Successful UCDP submission status (displayed in the "Document File Status" field of the UCDP Submission Summary Report (SSR) is required for loan purchase.

Sellers must provide PHM the final UCDP Submission Summary Report (SSR) from each Agency (based on the final version of the appraisal), regardless of the final Document File Status.

Additional information regarding UCDP requirements and registering with each agency can be found at the following website:

Fannie Mae - <https://www.fanniemae.com/singlefamily/uniform-collateral-data-portal>

Freddie Mac - [http://www.freddiemac.com/sell/secmktg/uniform\\_collateral\\_data\\_portal.html](http://www.freddiemac.com/sell/secmktg/uniform_collateral_data_portal.html)

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## 25.4 Verification of Employment

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All loan files must contain a Verbal Verification of Employment (VVOE) for each borrower whose income was used to qualify the loan. The only exception to this is VA IRRLs. If borrower is in the military a military Leave and Earnings Statement dated within 30 days of close is acceptable in lieu of a verbal verification. VVOE must have the following information:

- Must be dated within 10 business days of closing and 30 days for self-employed borrowers
- Borrower's employment status and job title
- Name, phone number, and title of individual contact at employer
- Name of the employer contacted
- Name and title of associate contacting employer from Lender

As part of PHM's due-diligence, a verbal verification of employment may be performed on loans prior to purchase to confirm the borrower is still employed as the file was underwritten, approved and closed. Change in employment status will make the loan ineligible for purchase.

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## 25.5 Credit Report

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A complete credit report is required on all loans. Refer to Plaza's Program Guidelines and Underwriting Summaries for specific requirements based on loan program.

Credit Alerts: If there are fraud or identity alerts on credit report an identity verification form is required to be completed by the underwriter validating that they spoke directly with the borrower. Sellers may use PHM's [Underwriter Fraud Alert Certification, FM-014](#).

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### 25.5.1 Rescoring and Credit Repair

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PHM prohibits the use of credit repair vendors designed to help a borrower falsely repair their credit profile by intentionally manipulating data to improve their credit score for purposes of loan eligibility, pricing improvement, and/or creditworthiness.

Loans where the borrower utilizes:

- Credit monitoring services
- Fraud alerts
- Non-profit credit counseling services, **OR**
- Credit reporting agencies as defined by the Fair Credit Reporting Act are eligible for purchase by Wells Fargo Funding.

PHM reserves the right to determine if the credit history and credit scores are legitimate, acceptable and meet guideline requirements. If usage of credit repair services is revealed at any time during the loan process, the Loan will be deemed ineligible.

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### 25.6 Tax Transcripts

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PHM requires the execution of the 4506-T and IRS Tax Transcripts obtained on all loans prior to purchase, with the exception of VA IRRRLS and non-credit qualifying Streamlines. Transcripts are required for all borrowers whose income is used in qualifying. Only the years of income used in qualifying the loan are required to be validated with transcripts. PHM's preferred vendor is ID Check Direct.

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### 25.7 Income Calculation Worksheet

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The Income Calculation Worksheet is used to help the reviewer determine stable monthly income for qualification. The worksheet is not intended to capture all underwriting requirements and documentation standards but will help the reviewer consider income trends and document how the income was calculated. Sellers are responsible for reviewing guidelines and documentation to access whether income is reasonable and properly documented. The Underwriting Guidelines and Product Summaries provide detailed information on income documentation and standards.

The worksheet will provide a total of all income considered on the worksheet. Comments on the worksheet can be included to show how income was calculated or to identify unique notes specific to the calculation of income.

All loans submitted to PHM for purchase must include an income calculation breakdown. It may be defined on the 1008 or on a separate worksheet. Sellers may use the worksheet provided in PHM's

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Forms Library or a comparable worksheet to document income. It must be detailed and clearly document how income was calculated.

Refer to Plaza's [Income Worksheet](#) for more details.

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## 25.8 Social Security Number Verification Form

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Fannie Mae has made changes to the Potential Red Flag messages that are issued when a Social Security Number provided on the loan application appears to be invalid. The messages have been updated to require additional verification to confirm the accuracy of the Social Security Number and will now specify the following verification requirements:

- The SSN accuracy must be confirmed, and if incorrect, the SSN must be updated and the loan case file resubmitted to DU. If the SSN is determined to be correct, it must be verified directly with the SSA (direct validation by a third party is acceptable), and the loan must be delivered with SFC 162. If the SSN cannot be validated with the SSA, the loan is not eligible for delivery to Fannie Mae.
- If verification with the Social Security Administration is required, the Authorization for the Social Security Administration to Release Social Security Number Verification form SSA-89 must be completed by the borrower(s). This form can be found on the Social Security administration website at <http://www.ssa.gov/cbsv/docs/FormSSA89.pdf>
- The completed form as well as the Social Security Administration's response must be retained in the loan file when submitting to PHM for purchase.

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## 25.9 Sellers in FHA Test Case Phase with HUD

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- PHM will purchase loans from sellers in Test Case Phase with HUD.
- All test case loans must have FHA's approval prior to being sold to PHM. Include FHA's Firm Commitment Letter with the loan files sent for purchase.
- FHA Case Number must be consistent on all documents in the file
- The following documents are a sample of some of the documents required by HUD and may not represent all HUD's documents.
  - HUD form 9200-A, Addendums to Application must be completed, signed and dated as required by all appropriate parties
  - Amendatory Language Clause – can be separate form or part of sales contract
    - Required on all purchase transactions
    - Must be signed and dated by all borrowers and sellers
    - If Seller is HUD or a financial institution/bank, then this for is not required
    - Value Section must be completed
    - Language may be included in the sales contract
  - Real Estate Certification - Can be on separate form or part of Amendatory Language Clause form or part of sales contract
    - Required on all purchase transactions
    - If seller is HUD or a financial institution/bank, then this for is not required
    - Must be signed and dated by all borrowers, sellers and agent – agent signature not required if real estate not involved and date is only required if there is a date field
    - If seller is HUD or a financial institution/bank, then this for is not required
    - Language may be included in the sales contract

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- Signed and Dated Notice to Homebuyer 92900B– required on all loans except Streamline Refinances
- Informed Consumer Choice Disclosure
- For the homebuyer’s protection – get a home inspection or acknowledgement of receipt
  - Only required on purchases- n/a for new construction
  - If language is in the sales contract this is acceptable in place of the form
- Conditional Commitment 92800.5B – required on all loans with an appraisal
  - Underwriter name and CHUMS ID number required
- Certificate of Occupancy – required in purchase only owner occupied properties that are not new construction
- Termite Certification – required when the appraisal asks for one
  - Not required on streamlines
  - Signed by buyer’s and seller’s
- Evidence of SS Number – SS card, paystubs, W2’s, rapid reporting, tax transcripts
- HUD-1 FHA Addendum required
  - Required on all purchase transactions
  - Must be signed and dated by all borrowers, sellers and the closing agent
  - Not required if the seller is HUD or a financial institution/bank

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## 25.10 Repair Escrow

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PHM will permit escrow accounts established by the Seller for postponed improvements providing they comply with Fannie Mae, Freddie Mac, FHA or VA, whichever is appropriate. PHM does not hold or administer escrow holdbacks. The following is provided as guidance for the Seller to establishing and administering escrow.

If the Seller establishes an escrow for completion of improvements or repairs, the Seller warrants that these improvements or repairs will be completed within the time period required by the underwriter and in a skillful manner, regardless of any actions taken or not taken by the property seller, the borrower or any other party in the transaction. Breach of this warranty will require the Seller to repurchase the Loan.

It will be the Seller’s responsibility to monitor and disburse the funds in escrow and provide PHM with a clear final inspection. The final inspection should be sent to Plaza Servicing at <http://www.plazahomemortgage.com/customerservice/>

### Structural Repairs

Structural repairs are always considered major and should not be included in an escrow. The value of the incomplete items must not exceed 10% of the value of the property. The appraiser must confirm that the cost estimate of the repairs is reasonable.

It is necessary for the borrower(s) to sign a Hold Harmless letter if a repair escrow is established.

**Note:** PHM does not permit the escrowing of repairs for the roof or health and safety issues.

### Dollar Amount of Escrow Repair/Holdback

A minimum of 1½ times the cost of the repair or improvement must be held in escrow.

### Completion Date

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The completion date must be within a reasonable timeframe:

- 90 days for minor repairs/ interior
- 180 days for weather related items/ exterior

### Existing Homes Escrow Waiver Requirements

If the repair is minor in nature (e.g., deferred maintenance) and an escrow account is not established, the appraiser must deduct the value of improvement or repair from the appraised value and the adjusted value must then be used to calculate the LTV. The property, in “AS IS” condition, cannot affect livability or the health and safety of the occupants. The Borrowers are required to sign the Property Repairs Notice/Release Form.

### New Construction Escrow Exceptions

There are times when it is acceptable to allow less than 150% of the cost of repairs to be held in escrow. The following are procedures for establishing an escrow account for less than 150% of the cost of the repairs or completion.

### Commercial Letter of Credit or Surety Bond in Lieu of a Cash Escrow

It is acceptable to allow the builder to present a Commercial Letter of Credit or a Surety Bond in lieu of a cash escrow. In this case, the Letter of Credit or Bond need only be for the actual amount of repair or improvement

### Funds Held by a Third Party

A title company or any other outside party may hold the escrow funds for new construction loans. The request for release of funds is sent directly to the title Company and not Corporate Accounting.

Escrows should not be transferred to PHM, as PHM will not hold escrows and monitor repairs. The correspondent is responsible to ensure all repairs are completed in accordance with PHM policies.

### Escrows for Swimming Pools

Escrow holdbacks for swimming pools are acceptable under the following parameters:

- The amount of the escrow must not represent more than 15% of the value of the property. If the pool exceeds 15% of the property’s value.
- The pool must be completed within 75 days of closing.
- Minimum escrow of 1.5 times the cost of the pool must be established.

**Important Notice:** It is acceptable to permit a swimming pool contract from a third party and include the cost when calculating the sales price. In addition, that value of the pool should also be included in the appraised value.



## Section 26 National Disasters

### 26.1 Federal Emergency Management Agency (FEMA)

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The Federal Emergency Management Agency responds when:

- A disaster overwhelms a state's resources; and
- When a state's governor requests FEMA's assistance.

When a specific county and/or independent city becomes a Federally Declared Disaster Area, FEMA designates if the area is eligible for federal aid assistance for:

- Individuals – individuals and households
- Public Sectors – state/ local governments and certain private non-profit organizations

When natural disasters occur (e.g., hurricanes, tropical storms, tornadoes) steps must be taken to assure that the “security” on each loan is protected. A re-inspection or inspection will be required on all properties located in the Federally Declared Disaster Areas if the value of the property was determined prior to the date of the natural disaster. These requirements apply to all loans regardless of processing style or appraisal requirements. Lending Operations will issue a memorandum citing the Federally Declared Disasters Areas and the application date, to help determine which loans must follow this policy.

**Note:** PHM may define an area as a declared disaster area even if FEMA has not issued an official declaration.

### 26.2 Disaster Policy Classifications

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#### Standard Procedures

These areas are subject to the least restrictive requirements as they are:

- Impacted by the disaster, but the impact is not considered widespread throughout the area or zip code.
- Identified as having homes that may be damaged by wind or rain-related issues, some areas of flooding or environmental concerns.
- Identified to have no expected problems for the area and its local economy from a recovery perspective.

#### Expanded Procedures may be implemented for up to a year after a disaster.

These areas are subject to the most restrictive requirements as they are:

- Substantially impacted by the disaster
- Determined to have, with respect to hurricanes, notable amounts of flooding and environmental concerns
- Identified due to concern that the local economy will suffer to the point that the housing values and area employment may be impacted

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Corporate Operations will notify associates if there is a need to initiate expanded procedures due to the impact of a disaster. Generally, standard procedures should be followed unless otherwise notified.

### Effective Date of Disaster Policy

The disaster-area policy becomes effective as of the incident period for the disaster/event. FEMA publishes the incident period, including the end date, along with the declaration date once the area is presidentially declared.

Counties eligible for individual assistance must follow the Standard Procedures of this Natural Disaster Policy.

## 26.3 Procedures

Properties located in a Federally Declared disaster area will not be permitted to close without prior review and sign-off of the inspection or re-inspection notice by the Underwriter.

**Note:** The Underwriter must make the inspection or re-inspection a condition of the loan closing.

Conventional	Standard Procedures
<b>Standard Appraisal was performed On or Before Disaster Incident Date</b>	Property must be re-inspected by the original appraiser or acceptable inspection source (such as, nationally recognized field company or local professional licensed inspector).
	<p>A Property Inspection or Disaster Inspection is required. The appraiser/property inspector must provide the following commentary/evidence:</p> <ul style="list-style-type: none"> <li>• Property is free from damage and the disaster had no effect on the value or marketability and provide exterior photo.</li> </ul> <p>If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <ul style="list-style-type: none"> <li>• Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</li> </ul>
<b>DU/LP was issued Prior To Disaster Incident Date and returned non-standard appraisal finding.</b>	<p>Non-standard appraisals are not allowed and a full appraisal is required prior to the loan being eligible to close.</p> <ul style="list-style-type: none"> <li>• The appraisal must show the property is free from damage.</li> <li>• Preferable, all comparables should be post-disaster; however, if sufficient comparables are not available, the appraiser must provide current photos of the subject property and comparables. Multiple Listing Service (MLS) photos or photos used for previous appraisals are not acceptable.</li> </ul> <p>If the appraisal indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <ul style="list-style-type: none"> <li>• Form 1004D/442, Appraisal Update and/or Completion Report, with</li> </ul>

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	<p>photos, prior to the closing of the loan.</p> <p><b>Note:</b> The following are classified as non-standard appraisals; Property Valuation Update 1004D, PIW/PFW, HVE, 1075, 2055, 2075 and 2095)</p>
<b>Standard Appraisal performed After Disaster Incident Date</b>	<p>When an appraisals was completed after the disaster incident, it must reflect the following:</p> <ul style="list-style-type: none"> <li>• The appraisal must show the property is free from damage.</li> <li>• Preferable, all comparables should be post-disaster; however, if sufficient comparables are not available, the appraiser must provide current photos of the subject property and comparables. Multiple Listing Service (MLS) photos or photos used for previous appraisals are not acceptable.</li> </ul> <p>If the appraisal indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <ul style="list-style-type: none"> <li>• Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</li> </ul>
<b>DU/LP was issued After the Disaster Incident Date and returned non-standard appraisal finding.</b>	<p>Non-standard appraisals are not allowed for 90 days after the disaster end date and a full appraisal is required.</p> <ul style="list-style-type: none"> <li>• The appraisal must show the property is free from damage.</li> <li>• Preferable, all comparables should be post-disaster; however, if sufficient comparables are not available, the appraiser must provide current photos of the subject property and comparables. Multiple Listing Service (MLS) photos or photos used for previous appraisals are not acceptable.</li> </ul> <p>If the appraisal indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <ul style="list-style-type: none"> <li>• Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</li> </ul> <p><b>Note:</b> The following are classified as non-standard appraisals; Property Valuation Update 1004D, PIW/PFW, HVE, 1075, 2055, 2075 and 2095)</p>
<b>Fannie Mae DURP</b>	

<b>Appraisals performed <i>Prior To</i> the Disaster Incident Date</b>	<p>Property must be re-inspected by the original appraiser or acceptable inspection source (such as, nationally recognized field company or local professional licensed inspector).</p> <p>A Property Inspection or Disaster Inspection is required. The appraiser/property inspector must provide the following commentary/evidence:</p> <ul style="list-style-type: none"> <li>Property is free from damage and the disaster had no effect on the value or marketability and provide exterior photo.</li> </ul> <p>If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <ul style="list-style-type: none"> <li>Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</li> </ul> <p><b>Note:</b> If an appraisal was performed after the disaster incident date and no damage is noted, no further action is required. If the appraisal does indicate damage, completion of repairs is required as evidenced with Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</p>
<b>DU returned PIW/PFW <i>Prior To</i> or for up to 90-days <i>After</i> the disaster end date.</b>	<p>Loans approved with a PIW/PFW before and up to 90 days after the disaster end date the following is required:</p> <ul style="list-style-type: none"> <li>Property inspection or Disaster Inspection;</li> <li>Inspector to indicate if the property is free from damage and the disaster had no effect on the value or marketability and provide exterior photo.</li> </ul> <p>If the inspection/re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <ul style="list-style-type: none"> <li>Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</li> </ul>
<b>Freddie Mac LPRR</b>	
<b>Appraisals performed <i>Prior To</i> the Disaster Incident Date</b>	<p>Property must be re-inspected by the original appraiser or acceptable inspection source (such as, nationally recognized field company or local professional licensed inspector).</p> <p>A Property Inspection or Disaster Inspection is required. The appraiser/property inspector must provide the following commentary/evidence:</p> <ul style="list-style-type: none"> <li>Property is free from damage and the disaster had no effect on the value or marketability and provide exterior photo.</li> </ul> <p>If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <ul style="list-style-type: none"> <li>Form 1004D/442, Appraisal Update and/or Completion Report, with</li> </ul>

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	<p>photos, prior to the closing of the loan.</p> <p><b>Note:</b> If an appraisal was performed after the disaster incident date and no damage is noted, no further action is required. If the appraisal does indicate damage, completion of repairs is required as evidenced with Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</p>
<b>LP returned HVE Prior To or for up to 90-days After the disaster end date.</b>	<p>Loans approved with a HVE before and up to 90 days after the disaster end date the following is required:</p> <ul style="list-style-type: none"> <li>• Property inspection or Disaster Inspection;</li> <li>• Inspector to indicate if the property is free from damage and the disaster had no effect on the value or marketability and provide exterior photo.</li> </ul> <p>If the inspection/re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <ul style="list-style-type: none"> <li>• Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</li> </ul>
<b>Homepath</b>	
<b>No appraisal required.</b>	A property inspection is required for 90-days after the end date of the disaster. (A full appraisal is not required)
<b>FHA/Rural Housing</b>	
<b>Appraisal Inspection completed Prior To the Disaster Incident Date.</b>	<p>Property must be re-inspected by the original appraiser or any licensed FHA roster appraiser.</p> <p>The appraiser must include the following:</p> <ul style="list-style-type: none"> <li>• Interior/Exterior inspection with photos;</li> <li>• A statement as to the dwelling habitability;</li> <li>• Property is free from damage and has not sustained any flooding and/or windstorm damage;</li> <li>• A statement as to whether sustained damage is above or below \$5000.</li> </ul> <p>If the re-inspection indicates damage below \$5000 and the property is habitable, must meet one of the following prior to closing the loan:</p> <ul style="list-style-type: none"> <li>• A re-inspection showing that repairs have been completed, or</li> <li>• Established repair escrow (Refer to PHM's policy for Repairs Escrows).</li> </ul> <p>If the re-inspection indicates damage above \$5000 or the property is not habitable, the following must be meet prior to closing the loan:</p> <ul style="list-style-type: none"> <li>• An interior/exterior re-inspection showing that the repairs have been completed.</li> <li>• Appraiser must state that the property is habitable.</li> </ul>
<b>Appraisal Inspection completed On or After Disaster</b>	Full appraisal with interior/exterior inspection required. Appraiser must address the physical condition of the site and improvements as well as the impact of any damages to the property value and marketability if the

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<p><b>Incident End Date.</b></p>	<p>inspection occurs within 90 days of the incident end period.</p> <p>The appraiser must include the following:</p> <ul style="list-style-type: none"> <li>• Interior/Exterior inspection with photos;</li> <li>• A statement as to the dwelling habitability;</li> <li>• Property is free from damage and has not sustained any flooding and/or windstorm damage;</li> <li>• A statement as to whether sustained damage is above or below \$5000.</li> </ul> <p>If the inspection indicates damage below \$5000 and the property is habitable, must meet one of the following prior to closing the loan:</p> <ul style="list-style-type: none"> <li>• A re-inspection showing that repairs have been completed, or</li> <li>• Established repair escrow (Refer to PHM's policy for Repairs Escrows).</li> </ul> <p>If the inspection indicates damage above \$5000 or the property is not habitable, the following must be meet prior to closing the loan:</p> <ul style="list-style-type: none"> <li>• An interior/exterior re-inspection showing that the repairs have been completed. Appraiser must state that the property is habitable.</li> </ul>	
<p><b>FHA Streamline without Appraisal Transaction</b></p>	<p>Exterior inspection performed by an FHA approved appraiser or compliance inspector is required if the disaster occurs prior to closing or the disaster end date occurred within the 90 days prior to the application date.</p> <p>Appraiser or inspector must address the physical condition of the site and improvements as well as the impact of any damages to marketability. The following is required:</p> <ul style="list-style-type: none"> <li>• Property inspection or Disaster Certification Inspection;</li> <li>• Inspector to indicate if the property is free from damage.</li> </ul> <p>If the inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <ul style="list-style-type: none"> <li>• Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</li> </ul>	
<p><b>VA</b></p>	<p><b>Non IRRRL Transactions</b></p>	<p><b>VA IRRRL Transactions (with or without appraisal)</b></p>
<p><b>Appraisal Inspection completed Before Disaster Incident Period End Date</b></p>	<p>Exterior inspection performed by a VA-approved appraiser is required. Appraiser must address the physical condition of the site and improvements as well as the impact of any damages to the property value and marketability and if damage is noted an interior inspection must also be performed.</p> <p>Veteran to complete and sign the Veteran Disaster Certification prior to</p>	<p>Exterior inspection, with photos performed by a licensed appraiser or a professional licensed inspector is required. Appraiser/inspector must address the physical condition of the site and improvements as well as the impact of any damages to the property and marketability and if damage is noted an interior inspection must also be performed.</p> <p>Veteran to complete and sign the</p>



	disbursement of funds.	Veteran Disaster Certification prior to disbursement of funds.
<b>Appraisal inspection completed After Disaster Incident Date and within 90 days from the disaster occurrence</b>	Full appraisal with interior and exterior inspection required. Appraiser must address the physical condition of the site and improvements as well as the impact of any damages to the property value and marketability if the inspection occurs within the 90-days of the disaster end period.  Veteran to complete and sign the Veteran Disaster Certification prior to disbursement of funds.	Exterior inspection, with photos performed by a licensed appraiser or a professional licensed inspector is required. Appraiser/inspector must address the physical condition of the site and improvements as well as the impact of any damages to the property and marketability and if damage is noted an interior inspection must also be performed.  Veteran to complete and sign the Veteran Disaster Certification prior to disbursement of funds.
<b>Initial loan application dated between 91 - 365 days from the disaster end date.</b>	Veteran to complete and sign the Veteran Disaster Certification prior to closing.	Veteran to complete and sign the Veteran Disaster Certification prior to closing.

## 26.4 Inspections

The property inspection should be performed by the original appraiser, whenever possible. If the original appraiser is not available, another licensed appraiser is acceptable. The individual who performs the inspection should review the original appraisal report and be able to certify that the personal inspection of the property and neighborhood revealed no indication of significant disaster related damages. The inspector must address the physical condition of the site and improvements as well as the impact of the damages to the property value and marketability. If the condition of the property is acceptable, we will accept the value conclusion made prior to the disaster.

### Written Inspection Certification Statement

PHM requires a written statement from all parties that perform property inspections, including the appraiser. The certification should be on company letterhead, bearing an original signature. The statement is required to contain text similar to:

*“Having reviewed the original appraisal report and personally inspected the exterior of the property located at (subject address) and surrounding neighborhood on (date), I hereby certify that, to the best of my knowledge and belief, the inspection revealed no indications of moderate to significant physical damage to the property or neighborhood, needed repairs to the site or the improvements other than those that were noted in the original appraisal report and that the marketability and value of the property has not been adversely affected.*

- *This inspector did not previously inspect this property for purposes of a real estate appraisal.*
- *This inspector did previously inspect this property for the purposes of a real estate appraisal and the condition of the interior is assumed the same as that noted in the original appraisal report.”*

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## Property Damage

### Properties with Significant Damage

If the property was significantly damaged and/or the damage affects the structural integrity or livability of the property, the property must be re-inspected by a qualified home inspector, architect or engineer to assess the nature and degree of the damage, if the original re-inspection was performed by an appraiser. A significantly damaged property must be repaired before the loan is closed, as determined by a qualified home inspector, architect or engineer. A final 1004 will be required after completion of repairs.

### Properties with Minor Damage

PHM will not require a property with minor damage that does not affect the structural integrity or livability of the property to be repaired before closing the loan, as long as an adequate escrow holdback is arranged to guarantee the completion of the repairs. Appropriate steps must be taken to assure that accurate assessments of the costs are obtained for repairing the damages.

- Conventional: Escrow holdback must be 150% of the estimate provided by the appraiser, architect, engineer or home inspector for all damages. A final 1004 D will be required after completion of repairs.
- FHA, VA or Rural Housing: Escrow holdback must be 110% of the estimate provided by the appraiser, architect, engineer or home inspector for all damages. A final 1004 D will be required after completion of repairs.

## Section 27 Required Documents

### 27.1 Standard Closing Package

The following docs are to be included along with the standard Closing Package Documents (the following is not a complete list and PHM reserves the right to ask for additional documentation):

**Note:** PHM does not have a required stacking order.

- Bailee Letter or WH Bank Wire Instructions
- Note
- Deed of Trust/Mortgage (certified copy)
- Deed of Trust/Mortgage Riders (if applicable)
- Grant/Warranty Deed/Quitclaim Deed (if applicable)
- Final HUD (with any applicable HUD addendums)
- Escrow Instructions (If applicable)
- Notice of Right to Cancel (if applicable)
- Final TIL
- Initial Escrow Account Disclosure (if applicable)
- First Payment Letter
- Signature and/or AKA Affidavit
- Lock Confirmation between Correspondent and the Borrower

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- W-9
- 4506-T - current form, must include ISAOA after third parties company name on line 5
- Tax Information Sheet
- Hazard Insurance (Mortgagee Clause must be in Correspondent's name with ISAOA verbiage)
- Flood Cert (our preferred vendor is Core Logic)
- Loan must be registered with MERS (If you are not a MERS member, a MIN # will be assigned and a MERS Assignment must be completed)
- Settlement Service Provider list
- Net Tangible Benefit worksheet (If Applicable)
- Credit Score Disclosure
- Privacy Disclosure
- Federal Equal Credit Opportunity Act Notice (ECOA)
- Occupancy Cert
- Borrower Acknowledgement of Appraisal Delivery (to be signed and dated by the borrower)
- Appraisal (reflecting the correspondent at the lender, unless an acceptable transferred appraisal in accordance with PHM's Appraisal Policy)
- Appraisal Invoice (must include an invoice date)
- Preliminary Title Report
- Property Inspection Waiver (if applicable) signed/dated by borrower (Final DU must show the PIW special feature code)
- Final 1003 (signed and dated by the borrower accordingly)
- All GFEs (initial and re-disclosed)
- All Change of Circumstance forms (all re-disclosed GFEs must have a corresponding COC)
- All TILs (initial and re-disclosed)
- Conventional Loans with MI - Proof of MI Certificate Activation (n/a for LPMI)

## 27.2 VA Loans

- VA Funding Fee Receipt (Please print from the VAFF website "Search Payment Requests" screen. Status must show "Settled" or "Exempt")
- HUD line 801 and 1101 Itemization
- VA Loan Analysis (VA 26-6393) (n/a for IRRRLs)
- VA Interest Rate Reduction Refinancing Worksheet (IRRRLs only)
- VA Loan Comparison (Old vs. New Worksheet) (IRRRLs only)
- CAIVRS authorization
- VA Case # Assignment
- Report and Certification of Loan Disbursement (VA 26-1820) (all necessary fields must be complete) (Final signed copy)
- Addendum to URLA (VA 26-1802a) (all necessary fields must be complete)(Final signed copy)
- VA Lender Cert
- VA Federal Collection Policy Notice
- VA Child Care Statement (if applicable)
- VA Nearest Living Relative
- VA Rights of VA Loan Borrowers (active duty only)
- VA Counseling Checklist

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- VA Assumption Notice for purchase only (AKA: Notice to Homeowners Assumption of VA Guaranteed Mortgages or Rights of VA Loan Borrowers)
- Amendatory Clause / VA Escape Clause for purchase only (executed by all parties)

### 27.3 FHA Loans

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- FHA Upfront Fee Receipt
- FHA Streamline - UFMIP Credit must show on the HUD (if applicable)
- 92900 LT
- FHA Case # Assignment (borrower's name must match exactly to the Note)
- Final HUD FHA Addendum
- FHA Connection Appraisal Logging screen
- CAIVRS Authorization
- Conditional Commitment/Direct Endorsement of Appraised Value
- Addendum to URLA (92900A) with Direct Endorsement Approval (all necessary fields must be complete) (Final signed copy)
- Informed Consumer Choice Disclosure
- Important Notice to Homebuyers (92900B) (purchase only)
- Notice to Homeowners-Assumption of HUD/FHA Insured Mortgages
- Amendatory Clause (executed by all parties)(purchase only)
- Real Estate Certification (executed by all parties)(purchase only)
- For Your Protection, Get a Home Inspection (purchase only)

### 27.4 USDA Loans

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- Collected Impounds on the Final HUD must include 2 months of Mortgage Insurance.
- Guarantee Fee Cashiers Check must match UFMIP amount.
- Request for Single Family Housing Loan Guarantee must be provided on all USDA loans,
- Conditional Commitment for Single Family Housing Loan Guarantee must be provided on all USDA loans.
- Guaranteed Loan Closing Report must be provided on all USDA loans.
- Guaranteed Rural Housing Lender Record Change must be provided on all USDA loans.
- All required USDA Program Documents/Disclosures
- ARM or Fixed PMI disclosure, depending on program

## Exhibits

### A - Appraisal Report Deliver Disclosure

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#### Exhibit A Appraisal Report Deliver Disclosure

Date:  
Loan No:  
Borrower Name:  
Property Address:  
City, State, Zip:

#### Appraisal Report Delivery Disclosure

If we used an appraisal report in connection with your mortgage loan application, you are entitled to receive a copy of the appraisal report at least three business days prior to your loan closing.

While we try to provide you with the appraisal in a timely manner, there may be times when it is not feasible. In that case, if you wish to exercise the three business day review, you must tell your loan processor at least 24 hours prior to the scheduled closing date to delay your loan closing. When you do not properly notify us, or when you execute closing documents, you will be deemed to have waived this requirement. We will still provide you with a copy of the appraisal no later than loan closing.

You will not be required to pay an additional amount to us to receive a copy of the appraisal report.

Any appraisal report used in connection with your loan application was prepared solely for our use in evaluating a request for an extension of credit. The appraisal should not be relied upon by any other person or entity. We make no express or implied representation or warranty of any kind, and we expressly disclaim any liability to any person or entity with respect to the property valuation.

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**B - Appraisal Delivery Letter to Borrower**

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**Exhibit B  
Appraisal Delivery Letter to Borrower**

Date:

Lender Name

Lender Address

Borrower Name

Borrower Street Address

Borrower City, State, and Zip

Method of Delivery: 1st Class Mail, Overnight Delivery, Email, Facsimile, etc.

Dear Borrower:

In compliance with the Fannie Mae, Freddie Mac, HUD and Dodd-Frank Act Appraisal Independence Requirements (AIRs), enclosed is a copy of the appraisal report(s) or valuation that may be used in connection with your current loan application.

To comply with our lending policies, we may provide you with multiple appraisal reports for the following reasons: 1) our underwriting policies require more than one appraisal to evaluate your loan application; 2) our appraisal quality process produced a review appraisal report in addition to the originally ordered appraisal report; or 3) we received a request for reconsideration of value from you or on your behalf resulting in a new appraisal report or a revised value on your originally ordered appraisal report.

Please note that at this time we may not have fully determined the acceptability of the enclosed appraisal(s) or valuation for use in connection with your loan application.

The appraisal(s) or valuation used in connection with your loan application was or were prepared solely for our use in evaluating your loan application. The appraisal(s) or valuation should not be relied upon by any other person or entity. We make no express or implied representation or warranty of any kind, and we expressly disclaim any liability to any person or entity with respect to the appraisal(s) or valuation.

Please also be advised that an appraiser must follow certain professional appraisal standards and is not allowed to discuss the appraisal(s) or valuation with you or provide a copy directly to you.

If we used an appraisal report(s) or valuation in connection with your mortgage loan application you are entitled to receive a copy of the appraisal report(s) or valuation at least three business days prior to your loan closing.

While we try to provide you with the appraisal report(s) or valuation in a timely manner, there may be times when it is not feasible. In that case, if you wish to exercise your right to waive the three business day review, you must execute the waiver from at least three business days prior to loan closing. We will still provide you with a copy of the appraisal report(s) or valuation no later than loan closing.

You will not be required to pay an additional amount to us to receive a copy of the appraisal report.

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**C - Borrower Acknowledgement of Appraisal Deliver**

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**Exhibit C  
Borrower Acknowledgement of Appraisal Deliver**

Date:  
Loan #:  
Lender:  
Borrower:  
Property Address:

You are entitled to receive a copy of any appraisal report that is obtained on your behalf, concerning your subject property, at least three business days prior to the closing of your loan. A copy of any and all such appraisal reports (“appraisal report”) should have already been delivered to you, allowing you at least three business days to review it prior to the closing of your loan.

If you wish to proceed with the loan closing, by signing you acknowledge either:

- 1) Your receipt of the appraisal report three or more business days prior to your loan closing, or, alternatively,
- 2) That you previously had waived your right to review the appraisal report three or more business days prior to the closing of your loan.

\_\_\_\_\_  
Borrower

\_\_\_\_\_  
Date

\_\_\_\_\_  
Borrower

\_\_\_\_\_  
Date

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**D - Lender Acknowledgement**

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**Exhibit D  
Lender Acknowledgement**

Date:

Borrower(s) Name:

Property Address:

City, State, Zip:

Lender acknowledges that it complies with all Fannie Mae, Freddie Mac, HUD and Dodd-Frank Appraiser Independence Requirements (“AIRs”) that are effective 4/1/11. The Lender has developed and implemented the structure, policies and procedures required in order to ensure that all residential mortgage loans are in compliance with the AIRs, and that all appraisals used for those mortgages, were obtained in a manner consistent with the AIR requirements. Specifically, in addition to the above acknowledgment, as to this Loan, Lender acknowledges adherence to the following statements:

- No mortgage broker that originates mortgage loans on behalf of Lender (“Mortgage Broker”) and no member of Lender’s sales or loan production staff, as well as any other member of Lender’s staff who is likewise prohibited under the AIRs, played any role in selecting, retaining, recommending, or influencing the selection of an appraiser.
- No Mortgage Broker and no member of Lender’s sales or loan production staff, as well as any other member of Lender’s staff who is likewise prohibited under the AIRs, had any substantive communications with an appraiser or a designated and authorized appraisal management company (“AMC”) of Lender relating to or having an impact on valuation, including ordering the appraisal, managing the appraisal assignment, or disputing any aspect of an appraisal.
- Lender has not provided a list of approved appraisers or AMCs to a Mortgage Broker or any member of Lender’s sales or loan production staff, including any member of Lender’s staff who is likewise prohibited under the AIRs. Lender has not allowed a Mortgage Broker to select a Lender designated or authorized AMC or an appraiser. However, a Lender may direct a Mortgage Broker to contact a single AMC, to initiate a request for an appraisal, provided that Lender has specifically authorized and designated the single AMC to act on its behalf and not on behalf of the Mortgage Broker.
- The appraiser was engaged directly by the Lender through its designated and authorized AMC.
- The Lender certifies that neither the appraiser nor the AMC have any Financial or other interest in the property or credit transaction.
- No Mortgage Broker, borrower, property seller, or real estate agent compensated in any manner, the appraiser.
- Lender’s name appears on the appraisal as the Lender/Seller.
- Lender has provided to the borrower a copy of any and all appraisals that were used to establish value for lending purposes in connection with the underwriting of the loan not less than three (3) business days prior to the loan closing, whether or not credit was granted or denied
- Lender maintains in the loan file a copy of the dated appraisal report and cover letter, including the method of delivery and date of delivery.

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This Acknowledgment by Lender as to the above-referenced Loan is a certification, representation and warranty of Lender and is incorporated into the Loan Purchase Agreement and Seller's Guide, effective as of the date specified below.

Acknowledgment By:

\_\_\_\_\_  
Lender Name

\_\_\_\_\_  
(Signature) Duly authorized Officer or Manager of Lender

\_\_\_\_\_  
Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

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E - Appraisal Delivery Waiver

Exhibit E  
Appraisal Delivery Waiver

Lender Name:  
Lender Address:  
Borrower Name:  
Borrower Street Address:  
Borrower City, State, and Zip:  
Date:

Dear Borrower,

The GSE Appraisal Independence Requirements (AIRs) and the Dodd-Frank Act provide that you receive a copy of any appraisal report(s) upon completion but in any event no less than three (3) business days prior to the closing of the loan. This is an important right as it allows you the time to review the appraisal report(s) that are being used in connection with your loan application. The closing of your loan cannot take place for a minimum of three (3) business days from the date you received the last report. If the loan closing has already been arranged, it may have to be rescheduled to allow for this time frame.

The AIRs also allow you to waive this three-day requirement, however, if you elect to waive your right, the waiver must be executed no less than three (3) business days prior to loan closing.

If you wish to waive your right to review your appraisal report(s) at least three (3) business days prior to loan closing, please sign and date below:

\_\_\_\_\_  
Borrower Date

\_\_\_\_\_  
Borrower Date

\_\_\_\_\_  
Borrower Date

\_\_\_\_\_  
Borrower Date



**F - MERS Assignment Example**

**RECORDING REQUESTED BY:**

XYZ Company

**WHEN RECORDED MAIL TO:**

XYZ Company

SPACE ABOVE THIS LINE FOR RECORDER'S USE

**Assignment of MORTGAGE/DEED OF TRUST**

**Loan # 3591108016**

Min # 100109800002046762  
888-679-6377

MERS Phone- 1-

**FOR VALUE RECEIVED, XYZ Company**, its successors and assigns, hereby assigns and transfers to **Mortgage Electronic Registration Systems, Inc.**, its successors and assigns P.O. Box 2026, Flint Michigan 48501-2026, all its right, title and interest in and to a certain mortgage executed by **Borrower(s)** to **XYZ Company**. and bearing the date of the \_\_\_\_\_ day of \_\_\_\_\_ A.D. in the office of the Recorder of \_\_\_\_\_ County, State of \_\_\_\_\_ at book \_\_\_\_\_ pages \_\_\_\_\_ And recorded as instrument No. \_\_\_\_\_ on \_\_\_\_\_

See attached for legal description

**XYZ Company**

By \_\_\_\_\_  
**Signor and Title**

**Document prepared by:**

XYZ Company

STATE OF:

COUNTY OF:

On \_\_\_\_\_, before me, \_\_\_\_\_, personally appeared \_\_\_\_\_ who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity, and that by his/her/their signature on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the state of \_\_\_\_\_ that the foregoing paragraph is true and correct.

WITNESS my hand and official seal,

Signature \_\_\_\_\_

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