FINANCING, CONVENTIONAL

PLAZA HOME MORTGAGE, INC.
Products ▪ Service ▪ Pricing ▪ Simplicity

Overview / General

Description of the financing requirements that apply to all Plaza Home Mortgage, Inc., Conventional Loan Programs. Generally, eligibility policies that vary from one Loan Program to another are described in our Program Guidelines.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

Related Bulletins

None at this time.

Determining Amount to be Financed

For any loan, the eligible amount of financing is determined by factors specific to that Loan, including, but not limited to: the type of financing, Loan-to-Value (LTV) ratio, loan amount, property type, and income determination.

Determining Value

First Mortgage Transaction Value

- Purchases
  - Value in a purchase transaction is generally defined as the lesser of the purchase price or appraised value of the subject property.
- Rate & Term Refinance
  - Value in rate and term refinance transactions is generally defined as the appraised value of the subject property.
- Cash-Out Refinance
  - Desktop Underwriter and Loan Prospector -Loans
  - Value in a cash-out refinance transaction is generally defined as the appraised value of the subject property regardless of how long the borrower has held title.
  - If the property has no lien(s) and has been owned less than 12 months, see, Continuity of Obligation for more information.

Conversion of Construction Financing to Permanent Mortgage

- Determine LTV/CLTV/HCLTV according to the transaction type and ownership seasoning established in the Permanent Financing for New Construction section in Transactions Chapter. Determine where to link.

Contract for Deed/Land Contracts

- Determine LTV/CLTV/HCLTV according to the type of contract and ownership seasoning established in the Contract for Deed/Land Contracts section in Transactions Guideline.

Calculating Loan-to-Value Ratios

Calculating Loan-to-Value Ratio. The LTV ratio is obtained by dividing the first mortgage amount by the value. See Determining Value section in this chapter.

Calculating the Combined Loan-to-Value (CLTV) Ratio

- The combined loan-to-value ratio is determined by dividing the sum of the unpaid principal balance of the first mortgage and the unpaid principal balance of all subordinate mortgages by the lesser of the sale price or appraised value. For HELOCs, including a frozen HELOC, use the maximum line amount to calculate the CLTV ratio. The full original recorded line amount must be used to determine the LTV/CLTV eligibility unless a modification/re-subordination agreement is recorded prior to or concurrently with the subject transaction. The following is required:
  - A copy of the line holder notification/modification and confirmation of the recorded line reduction is required, **AND**
  - Lien must be re-subordinated.

Calculation of the HCLTV Ratio

- For first mortgages that have subordinate financing under a HELOC, the underwriter must calculate the HCLTV ratio. This is determined by dividing the sum of the items listed below by the lesser of the sales price or appraised value of the property.
  - the original loan amount of the first mortgage,
  - the full amount of any HELOCs (whether or not funds have been drawn), and
  - the unpaid principal balance of all closed-end subordinate financing.
- For each subordinate liability, in order for the underwriter to accurately calculate the HCLTV ratio for eligibility and underwriting purposes, the lender must determine the maximum credit line for all HELOCs, if applicable, and the unpaid principal balance for all closed-end subordinate financing. If any subordinate financing is not shown on a credit report, the lender must obtain documentation from the borrower or creditor.
- If the borrower discloses, or the underwriter discovers, new (or increased) subordinate financing after the underwriting decision has been made, up to and concurrent with closing, the underwriter must re-underwrite the mortgage loan.
- All conventional loans with subordinating HELOCs are qualified and priced at the full line amount regardless of the draw amount. The CLTV and HCLTV are considered the same in these situations.

Subordinate Financing

Institutional subordinate financing is permitted in accordance with the requirements in this chapter. Private party or seller carry-back subordinate financing is not allowed. Any subordinate financing must be subordinate to the Plaza Home Mortgage, Inc., first mortgage and be recorded as such.

- Mortgages subject to secondary financing have guidelines for LTV/CLTV/HCLTV ratios, terms, and disclosures of the second mortgage. See PHMs Program Guidelines for LTV/CLTV/HCLTV.

State Specific Requirements – refer to our Geographic Restriction section for details relating to state specific subordinate financing requirements and restrictions.

- Texas Rate and Term Refinances Not Subject to Section 50(a)(6)
- If the first mortgage lien loan is a rate and term refinance in Texas and the first lien loan is being renewed and extended, a subordination agreement for a second lien on the property is not required unless the title company requires a subordination agreement in order to insure that the lien will remain in first lien position.

Requirements:

- The term of the 2nd may not be less than 5 years, unless the financing fully amortizes prior to that time.
- The loan terms of the 2nd must provide for regular payments of principal and interest or interest only.
- If the subordinate loan has a fixed rate, the terms may not be more than 2% below the market rate for Fannie Mae second mortgages at the time of origination. To locate the market rate, refer to the Historical Daily Yields under Reference Material on www.efanniemae.com
- With the exception of HELOCs, if the loan has a variable rate, the monthly payment must remain constant for each 12 month period over the term of the loan.

Restrictions:

- Seller carry-backs are not allowed.
- Community 2nd mortgages are not allowed. See Program Guidelines for exceptions.
- The subordinate mortgage may not have wraparound terms combining the indebtedness of the first mortgage with the subordinate mortgage.
- Subordinate mortgages with negative amortization are not allowed.
- Tax and judgment liens.
- Subordinate mortgages subject to an interest rate buy down plan.
- Subordinate mortgages that have a prepayment penalty except when the following apply:
  - The subordinate lien is a home equity line of credit.
  - A prepayment penalty, or flat fee, closure or early termination fee (not associated with a "no closing cost" option) does not exceed $500.
  - HELOCs or closed-end second mortgages that pay for some or all of the closing costs with terms that allow the lender to recoup the closing costs paid on behalf of the borrower if the HELOC or second mortgage pays off early, are not defined as a prepayment penalty and is acceptable for the purpose of subordinate financing.

Exception for Texas loans:

- Closed-end variable rate subordinate secondary financing, with a payment that is not constant for each 12 month period, is allowed for purchase & rate/term refinances.

Repayments for HELOCs

- The repayment terms must provide for regular monthly payments that require, at a minimum, the monthly interest due paid so that negative amortization will not occur.
- Ineligible Subordinate Financing.
- Desktop Underwriter and Loan Prospector Loans.

Subordinate Financing Terms. The terms of any subordinate financing must be fully disclosed, documented, and comply with the following:

- Desktop Underwriter, Loan Prospector and Loans
- Requires interest at a market rate (no more than 2 percent below the posted net yield in effect for second mortgages at the time of closing for closed end loans), although if provided by the property seller, may be at or below the market rate.
- Mortgage cannot have a maturity date or a balloon or call provision of less than 5 years from the Note date of the new mortgage, unless the junior lien is fully amortizing.
- Monthly payments on subordinate financing must be included in housing and debt ratio analysis.
- Scheduled payments under the secondary financing must be due on a regular, monthly basis.

Subordinate Financing Involving Graduated or Variable Payments

- Desktop Underwriter, Loan Prospector and Loans
- The monthly payment must remain constant for each 12-month period over the term of the subordinate mortgage, excluding HELOCs.
- The subordinate financing must fully amortize during its term, with the exception of employer subordinate financing that has deferred payments.

Employer Provided Subordinate Financing

- Subordinate financing received from the borrower's employer may be in the form of an unsecured loan or a mortgage loan and does not need to require regular payments of either principal and interest or interest only. A copy of the contract from the employer describing the terms of the financing is required. The financing may be structured in any of the following ways:
- Fully amortizing level monthly payments.
- Deferred payments for some period changing to fully amortizing level payments.
- Deferred payment over the entire term.
- Forgiveness of the debt over time.
- The financing terms must permit the borrower to continue making payments on

the loan in the event the borrower no longer works for the employer.

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