

Maximum Principal Reduction Policy

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SECTION 01

Introduction

It is the policy of Corva Lending to establish clear, consistent and compliant guidelines for applying Principal Reductions in refinance transactions. This policy ensures that all refinance loans processed or purchased by Corva Lending comply with applicable regulatory standards and industry best practices when the cash back to the borrower exceeds the allowable limits, requiring a Principal Reduction.

In those cases, this policy requires a Principal Reduction to bring the loan into compliance. It outlines the roles and responsibilities of every department involved, so the policy is applied consistently. It also sets out the responsibilities of Correspondent Sellers when submitting refinance loans for purchase.

SECTION 02

Scope

This policy applies to all refinance transactions processed or purchased by Corva Lending where the cash back to the borrower exceeds the maximum allowable amount, requiring a Principal Reduction. It applies to all loan programs, including but not limited to Fannie Mae, Freddie Mac, FHA, VA, USDA and Non-QM refinance loans.

It covers every department involved in the loan process — Underwriting, Closing, Post-Closing, Funding and Servicing — so the policy is applied consistently across all functions. Correspondent Sellers are also responsible for complying with Corva Lending's Maximum Principal Reduction Policy when submitting loans for purchase.

SECTION 03

Purpose

This policy ensures that all refinance transactions processed or purchased by Corva Lending comply with regulatory guidelines and industry standards when cash back to the borrower exceeds the allowable limits, requiring a Principal Reduction. It gives clear, consistent guidance for applying Principal Reductions in line with both internal risk management practices and external regulatory requirements.

KEY RULE

When cash back exceeds the allowable limits, the loan must be escalated to the appropriate manager for review and recalculation.

The policy also sets out the roles and responsibilities of Corva Lending's internal departments and Correspondent Sellers, and the importance of applying it uniformly across all loan programs. By following this policy, Corva Lending and its Correspondent Sellers ensure that all refinance loans meet compliance standards, minimize financial risk and maintain the integrity of the loan process.

SECTION 04

Definitions

TERM	DEFINITION
Excessive Cash Back	A borrower receives cash back at closing that exceeds the allowable limits set by the relevant loan program.
Cash-Out Refinance	A refinance in which the borrower replaces their existing mortgage with a new loan for a larger amount than the current balance. The difference between the new loan and the existing mortgage is provided to the borrower in cash.
Correspondent Seller	An entity that submits loans to Corva Lending for purchase, and which must follow Corva Lending's Maximum Principal Reduction Policy.
Maximum Cash Back to Borrower	The maximum amount of cash a borrower can receive in a refinance loan, as defined by the relevant loan program.
Principal Reduction	A decrease in the mortgage loan balance applied during settlement. It is used when the borrower would otherwise receive cash back above the maximum allowed for their loan program; the excess cash is applied as a principal reduction to bring the loan into compliance.

SECTION 05

Roles and Responsibilities

DEPARTMENT	RESPONSIBILITY
Underwriting	Notes the maximum allowable cash back on the loan approval for refinance transactions, and ensures all calculations align with program-specific limits.
Closing	Prepares the loan documents to reflect the correct Principal Reduction and ensures the refinance loan complies with this policy before finalizing.
Funding and Post-Closing	Reviews the Closing Disclosure (CD) or HUD-1 Settlement Statement to confirm the Principal Reduction was properly applied and the loan meets compliance standards.
Servicing	Ensures the Principal Reduction is accurately reflected in the servicing system and the correct terms are applied to the loan.
Purchaser	Reviews the CD or HUD-1 prepared by the Correspondent Seller to confirm the Principal Reduction was properly applied and the loan meets requirements.
Correspondent Sellers	Ensure any loans submitted to Corva Lending for purchase comply with this policy, including providing accurate documentation and following applicable program guidelines.

SECTION 06

Maximum Cash Back Limits and Principal Reduction Guidelines

A refinance has Excess Cash Back if the cash back to the borrower exceeds the maximum allowed for the relevant loan program.

Correspondent Sellers must ensure loans submitted for purchase fully comply with these guidelines. Any loan that exceeds the allowable cash back or Principal Reduction limits will not be purchased by Corva Lending.

The Principal Reduction must be shown on the Closing Disclosure in the **Payoffs and Payments** section, or on the HUD-1 Settlement Statement in **Section J** (or on an addendum noted in Section J).

Maximum Cash Back to Borrower by Loan Program

PROGRAM	MAXIMUM CASH BACK TO BORROWER
Fannie Mae	The lesser of 2% of the loan amount or \$2,000
Freddie Mac	The greater of 0.50% of the loan amount or \$2,000
FHA Rate/Term	Cash back cannot exceed \$500
FHA Streamline	\$0 at Underwriting; \$500 at Closing
VA IRRRL	\$0 at Underwriting; \$500 at Closing
Non-QM	Per program-specific guidelines
USDA Rate/Term	Cash back cannot exceed \$500
USDA Streamline	\$0
TX No Cash-Out	\$0

EXCESS CASH BACK

Must be applied as a Principal Reduction

MAXIMUM PRINCIPAL REDUCTION

\$2,000

SECTION 07

Escalation Process

- ▲ **Before closing:** When cash back to the borrower exceeds the maximum allowable limits, the loan must be returned to Underwriting to have the loan amount recalculated.
- ▲ **Correspondent loans** (Seller prepares the closing documents): If cash back exceeds the limits, it must be escalated to the Post-Closing Manager for review and resolution.

Any loan not in compliance with these guidelines will be delayed or deemed ineligible for purchase.

SECTION 08

Servicing Notification

When a Principal Reduction is applied to a loan, Servicing must be notified so the loan is documented and processed correctly. This ensures the loan terms are updated accurately and the adjustments are reflected in the servicing system and lock status.

WHO	WHEN TO NOTIFY SERVICING
Corva Lending Closing	Once the Principal Reduction is applied.
Corva Lending Purchaser	For Correspondent loans where the Seller prepares the closing documents: once the Principal Reduction is entered in MeridianLink (MLM).

SECTION 09

Monitoring and Enforcement

Corva Lending will periodically review how this policy is applied to ensure compliance across all departments involved in the loan process. Compliance officers will conduct **quarterly audits** to verify that Principal Reductions are applied correctly in refinance transactions. Any non-compliance will be addressed with appropriate corrective action, which may include retraining, process updates or disciplinary measures.

Correspondent Sellers must also ensure their internal processes and submissions comply with this policy, and may be subject to review and corrective action if discrepancies are found.