

3.0 Products

3.1 Products Offered

This product description describes product guidelines and requirements for the following Stockton Mortgage loan programs:

- Fully Amortizing Fixed Rate 15- and 30-year terms.
- Fully Amortizing 5yr/6m, 7yr/6m, and 10yr/6m SOFR ARM's.
 - 5yr/6m ARM qualified at the higher of the maximum potential Note rate after first adjustment or the fully indexed rate. The fully indexed rate is the sum of the index and the margin.
 - 7yr/6m and 10yr/6m ARM products must be qualified at the higher of the Note rate or the fully indexed rate.
- No Mortgage Insurance allowed.

3.2 ARM Parameters

- **5yr/6m SOFR ARM**

The interest rate will be fixed for an initial period of five (5) years (60 payments). The initial rate change will take place effective as of the sixty-first (61st) payment due date and on that day every 6 months thereafter, using the index figure in effect on the day that is 45 days before the interest rate adjustment date.

- **7yr/6m SOFR ARM**

The interest rate will be fixed for an initial period of seven (7) years (84 payments). The initial rate change will take place effective as of the eighty-fifth (85th) payment due date and on that day every 6 months thereafter, using the index figure in effect on the day that is 45 days before the interest rate adjustment date.

- **10yr/6m SOFR ARM**

The interest rate will be fixed for an initial period of ten (10) years (120 payments). The initial rate change will take place effective as of the one hundred and twenty first (121st) payment due date and on that day every 6 months thereafter, using the index figure in effect on the day that is 45 days before the interest rate adjustment date.

Index

30 Day Average SOFR Index as published by the New York Federal Reserve.

Margin

The margin that is available is:

- 2.75%

Interest Rate Caps

- 5yr/6m ARM - 2% / 1% / 5% (First, Periodic, Lifetime)
- 7yr/6m and 10yr/6m ARM - 5% / 1% / 5%

Interest Rate Floor

The floor is 2.75%.

3.3 Stockton Mortgage Jumbo Express Product Matrix

Stockton Mortgage Jumbo Express Program										
DU/LPA Approve/Accept Eligible or DU/LPA Approve/Accept Ineligible Due Only to Loan Amount or maximum LTV on cash-out refinances.										
FIXED RATE and FULLY AMORTIZING ARMs										
Purchase/Rate & Term Refinance					Cash-Out Refinance					
Occupancy	Number of Units	Maximum Loan Amount	Maximum LTV/CLTV	Minimum Credit Score	Occupancy	Number of Units	Maximum Loan Amount	Maximum LTV/CLTV	Minimum Credit Score	Maximum Cash-out
Primary	1 Unit	\$2,000,000	89.99/89.99%*	680	Primary	1 Unit	\$2,000,000	89.99/89.99%*	740	500K
		\$2,000,000	80%/80%	660			\$2,000,000	80%/80%	680	500K
		\$2,500,000	80%/80%	720			\$3,000,000	80%/80%	740	500K
		\$3,000,000	80%/80%	740						
	2 - 4 Units	\$2,000,000	80%/80%	700	2 - 4 Units	\$2,000,000	75%/75%	700	500K	
	2nd Home	1 Unit	\$2,000,000	89.99/89.99%*	680	2nd Home	1 Unit	\$2,000,000	75%/75%	700
\$2,000,000			80%/80%	660	\$3,000,000			75%/75%	740	500K
\$2,500,000			80%/80%	720						
\$3,000,000			80%/80%	740						
NOO	1 Unit	\$2,000,000	80%/80%	680	NOO	1 Unit	\$1,000,000	75%/75%	680	350K
		\$2,000,000	70%/70%	660			\$2,000,000	75%/75%	720	350K
		\$2,500,000	75%/75%	720			\$2,000,000	70%/70%	680	350K
NOO	2 - 4 Units	\$2,000,000	75%/75%	680	NOO	2 - 4 Units	\$1,000,000	70%/70%	680	350K
		\$2,000,000	65%/65%	660			\$2,000,000	70%/70%	720	350K
		\$2,500,000	70%/70%	720			\$2,000,000	65%/65%	680	350K

*30 year fixed rate only for LTV/CLTV greater than 80%.

Program Highlights - Refer to Guidelines for all Requirements. In addition, refer to the Jumbo Express Buyer Overlays effective on the lock date to confirm the loan remains eligible for the buyer on the lock confirmation if there are data changes after the initial lock that could impact eligibility. The overlays can be found in the Resource Center in the LoanExchange Portal.

Underwriting	AUS findings required with Approve/Accept Eligible or Approve/Accept Ineligible due only to loan amount or maximum LTV on cash-out refinances.
Minimum Loan Amount	\$1 over the current one-unit conforming loan limit regardless of the subject property county or number of units.
Fee Threshold (APR/APOR)	No higher priced covered transactions allowed. All loans must be QM Safe Harbor.
Income and Employment Documentation Requirements	Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/ Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed.
DTI	Maximum 45%.
Subordinate Financing	Allowed up to maximum CLTV per matrix. Must conform to Agency requirements. The CLTV should be calculated using the unpaid principal balance on all closed-end subordinate financing and the full amount of any HELOCs (whether or not funds have been drawn).
Reserves	Follow the <u>greater</u> of the AUS reserve requirements or below requirements. If AUS does not provide minimum reserve requirements follow below requirements; LTV/CLTV <=80% - Loan Amount <= \$1,000,000 - follow the AUS requirements. - Loan Amount > \$1,000,000 and <=\$2,000,000 - 3 months PITI reserves. - Loan Amount >\$2,000,000 and <=\$2,500,000 - 12 months PITI reserves. - Loan Amount >\$2,500,000 and <=\$3,000,000 - 18 months PITI reserves. Cash Out Refinance - Loan Amount >\$2,000,000 and <=\$2,500,000 - 18 months PITI reserves. LTV/CLTV >80% - 6 months PITI reserves.
Transaction:	
Interest Only	Not allowed.
Balloon	Not allowed.
MI	Not allowed.
Multiple Financed Properties	Follow AUS requirements.

Property:	
Eligible Property Types	Single Family, 2-4 Unit, PUD, Condo (Agency warrantable) and Co-op (NY five boroughs and Nassau, Suffolk, Rockland and Westchester counties).
Ineligible Property Types	Manufactured homes, unique properties, working farms, log homes and condo hotels.
Mixed Use	Not allowed.
Leasehold	Not allowed.
State Restrictions	Guam, Puerto Rico, and US Virgin Islands not allowed. Texas 50(a)(6) loans are ineligible. Hawaii lava zones 1-2 not allowed.
Appraisal Requirements	FNMA 2075/FHLMC 2070 not allowed in lieu of an appraisal. Property Inspection Waiver (PIW) not allowed. Follow the Third Party Appraisal Review requirements in Section 12.6 for loans with a collateral underwriter score greater than 2.5. Two full appraisals are required for loan amounts > \$1,500,000.
Borrower Eligibility:	
Borrowers	All borrowers must have a valid social security number.
Non-Occupant Co-Borrowers	Allowed per AUS.
Inter Vivos Revocable Trusts	Lender must warrant that the Mortgage and Trust documents meet Agency eligibility criteria including title and title insurance requirements, and applicable state laws that regulate the loan origination of inter vivos revocable trusts.
Credit:	
Minimum Credit Requirements	All borrowers must have a minimum of 2 credit scores. Qualifying FICO as per matrix. Borrowers with mortgage or rental history must have 0 x 30 lates in the past 24 months.
Verbal VOE	Salaried borrower - verbal VOE of current employment documented in writing is required to be obtained either no more than 10 business days prior to the Note Date, or after the Note Date but prior to purchase by Stockton Mortgage. Self-employed borrower - verify the existence of the borrower's business in writing either no more than 10 business days prior to the Note Date, or after the Note Date but prior to purchase by Stockton Mortgage.
4506 -C/Tax Transcripts	Signed 4506-C form required for all borrowers. Tax transcripts are required for income used for qualifying.
Seller Contributions	LTV between 75.01% - 89.99% max 6% contribution allowed. LTV ≤ 75% max 9% contribution allowed. NOO max 2% contribution max allowed.
Prepayment Penalty	Not allowed.
Age of Credit Documents	Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Service Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide
Fraud Report	FraudGuard report or similar must be included in each file submission. The report should include a comparison of all participant names against industry watch and exclusionary lists such as OFAC.
Escrow Holdback	Not allowed.

4.0 Regulatory Compliance

Seller must ensure that each loan delivered to Stockton Mortgage has been originated, closed, serviced and transferred in compliance with all applicable federal, state and local laws and regulations including without limitation the Ability to Repay (ATR) and the Qualified Mortgage (QM) rules effective 3/1/21, the TILA-RESPA Integrated Disclosure (TRID) rule effective 10/3/15 and the laws and regulations listed below. All loans must be designated Safe Harbor QM(APR/APOR) and Verification Safe Harbor QM as defined by § 1026.43.

- Regulation X - RESPA
- Regulation Z - Truth in Lending
- Regulation G - SAFE Act - Federal Licensing and Registration
- Regulation H- SAFE Act - State Licensing and Regulation
- Regulation V - Fair Credit Reporting
- Regulation B - Equal Credit Opportunity
- Regulation P - Privacy of Consumer Financial Information (GLB)
- USA Patriot Act
- Fair Housing Act
- Dodd-Frank Act
- Federal high cost loan regulations.
- State, local and county high cost and usury regulations.
- National Flood Insurance Act.

All applicable closing documentation and disclosures pertaining to the above regulations should be included in the closed file submission.

and unfreezes their credit after the original credit report was ordered, a new credit report must be obtained to reflect current updated information for evaluation.

- Credit rescoring is not permitted unless the rescore is correcting erroneous line items or disputed accounts.

See Stockton Mortgage loan product matrix in [Section 3.2](#) for minimum credit score

requirements. **8.3 Minimum Credit Requirements**

- Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Service Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed.

8.4 Mortgage/Rental History

- A minimum of twenty-four (24) months verified housing history is required with 0 x 30 payment history.
- For rental verification, a standard VOR completed by a professional management company or 24 months bank statements or canceled checks are required.
- Borrowers with no mortgage/rental history due to a residence scenario requiring no mortgage or rental payments are eligible with a satisfactory letter of explanation.
- If primary residence housing history reflects a forbearance arrangement, the payment history must reflect 0 x 30 in the most recent 24 months since exiting forbearance. The payment history must be provided by the lender/service.

8.5 Credit Inquiries

- All inquiries that have taken place within 120 days of the credit report date must be explained by the borrower and documented accordingly.
- Borrower must be qualified with any new debt.

8.6 Liens, Judgments and Collections

- Satisfactory explanation for any delinquent credit from the borrower is required.
- Borrower must pay off all delinquent credit that has the potential to impact lien position.

- Collection accounts or charged-off accounts do not need to be paid off if the balance of an individual account is less than \$1000.00 or if there are multiple accounts the total balance of all accounts cannot exceed \$2,500.00.

8.7 Foreclosure, Deed-In-Lieu of Foreclosure, Bankruptcy and Short Sales

- At least seven (7) years must have elapsed since bankruptcy discharge or dismissal, foreclosure, notice of default (NOD), short sale or deed-in-lieu measured from the date of completion to the date of application.

9.0 Employment and Income

Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed. The loan file should include an Income Analysis form detailing income calculations.

For information regarding employment and income requirements not addressed below please contact your Client Advocate or Underwriting for assistance.

9.1 Employment and Income Stability

Borrower(s) must have a minimum of two (2) years employment and income history on the 1003.

9.2 Income Documentation Requirements

Salaried Borrowers:

- Completed, signed and dated final Uniform Residential Mortgage Application. Most current form must be used.
- Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed.
- Signed IRS Form 4506C.

Salaried Borrowers with Commission/Bonus:

- Commission income must be documented with a written VOE breaking down the bonus or commission income for the past 2 years or a year-to-date paystub and W-2's supporting the income.

Verbal VOE - Current Employment:

- Verbal VOE of current employment documented in writing is required to be obtained either no more than ten (10) business days prior to the Note Date, or after the Note Date but prior to purchase by Stockton Mortgage. If the employer uses a third-party employment verification vendor, the verification must be obtained within the same time frame as the verbal VOE requirements above and the verification must evidence the information in the vendor's database was no more than 35 days old as of the Note Date.

Tax Transcripts:

- Tax transcripts are required to be obtained from the IRS only for income for years being used for qualification. Wage transcripts are acceptable for W-2 borrowers. Borrower pulled transcripts are not acceptable. The IRS transcripts and the supporting income documentation provided by the lender must be consistent.

Self-Employed Borrowers:

- Borrowers with a 25 percent or greater ownership interest in a business are considered self-employed and will be evaluated as a self-employed borrower for underwriting purposes.
- Completed, signed and dated final Uniform Residential Mortgage Application. Most current form must be used.
- Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed.
- If the tax return for the previous tax year is not filed a 12-month P&L and balance sheet for this period is required.
- If the most recent year's tax returns have not been filed by the IRS deadline, an executed copy of the borrower's extension request for both personal and business tax returns must be provided.

- Signed IRS Form 4506C.

Additional Requirements for P&L, Balance Sheet, and Business Bank Statements for Self-Employment Income used to Qualify:

Lenders should apply due diligence and review the actions of the business and any impact the current economic environment has taken on the flow of income in order to determine if the borrower's income is stable and there is a reasonable expectation of continuance.

The underwriter must include comments/justification of their analysis to clearly explain their conclusion of the effect to the business. Due to the pandemic's continuing impact on businesses, lenders are now required to obtain the following documentation to support the decision that the self-employment income meets requirements:

- (1) An audited year-to-date P&L, no older than 60 days from the Note date, reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, and (2) a Balance Sheet; or
- (1) An unaudited year-to-date P&L, no older than 60 days from the Note date, signed by the borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, and (2) business bank statements from the most recent **three** months represented on the year-to-date P&L and (3) a Balance Sheet.
 - For example, the business bank statements should be from March through May 2021 for a year-to-date profit and loss statement dated through May 31, 2021.
 - The **three** most recent bank statements must support and/or not conflict with the information presented in the current year-to-date P&L statement. Otherwise, the lender must obtain additional statements or other documentation to support the information from the current year-to-date P&L statement.

Small Business Administration (SBA) Loans and Grants Requirements:

The existence of a Paycheck Protection Program (PPP) loan or any other similar COVID related loan or grant could be helpful information in analyzing the borrower's business.

PPP loan terms allow deferred payments for a specified period, no personal loan guarantee, and the potential for all or some portion of the loan to be forgiven. Therefore, a payment for the PPP loan does not need to be included in the borrower's liabilities at this time. Once it has been determined that any portion of the PPP loan must be repaid, follow the requirements of the "Employment and Income" and "Debts and Liabilities" sections of these guidelines.

Proceeds from the PPP loan must not be included as business income or assets.

PPP loan proceeds cannot be used for the subject transaction down payment, closing costs, prepaids or reserves.

Follow all requirements in this section for underwriting self-employed borrowers.

Business Verification:

- The lender must verify the existence of the borrower's business in writing either no more than ten (10) business days prior to the Note Date, or after the Note Date but prior to purchase by Stockton Mortgage. Methods of verifying the business include verification from a third party such as a CPA, regulatory agency or by an applicable licensing bureau. Internet listings are not an acceptable source of verification.

Tax Transcripts:

- Tax transcripts are required to be obtained from the IRS only for income for years being used for qualification. Borrower pulled transcripts are not acceptable. The IRS transcripts and the supporting income documentation provided by the lender must be consistent.

9.3 Other Income

For all other acceptable income sources.

- Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed.

9.4 Unacceptable Income

Unacceptable income sources include the following:

- Any source that cannot be verified.
- Restricted stock income (RSU).
- Income that is temporary.
- Rental Income (Boarder Income) received from the borrower's primary residence.
- Expense account payments.

- Retained earnings.
- Automobile allowances.

10.0 Debts and Liabilities

For information regarding the treatment of debts and liabilities not addressed below please contact your Client Advocate or Underwriting for assistance.

10.1 Debt-to-Income Ratio

The Debt-to-Income (DTI) ratio is based on the total of existing monthly liabilities and any planned future monthly liabilities divided by gross monthly income. Liabilities include but are not limited to all housing expenses, revolving debts, installment debts, other mortgages, rent, alimony, child support, and other consistent and recurring expenses. The seller must ensure that all liabilities are included in qualifying. Refer to the Product Matrix for the maximum allowable DTI.

10.2 Installment Debt

- Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed.

10.3 Revolving Debt

- Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed.

10.4 Home Equity Line of Credit (HELOC)

- For HELOC loans paid off at closing the line must be closed to any future draws. Requirement on title commitment for payoff and cancellation of HELOC is acceptable to document.

- Subordination of HELOC loans is permitted up to maximum CLTV per matrix. The CLTV should be calculated using the full amount of any HELOCs (whether or not funds have been drawn).

10.5 Pending Sale of Departing Residence or Conversion of Departing Residence to Investment Property

- Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed.

11.0 Assets and Source of Funds

For information regarding assets and source of funds not addressed below please contact your Client Advocate or Underwriting for assistance.

11.1 Source of Funds

- Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae guide or LPA and the aforementioned Freddie Mac guides the guide requirements must be followed.
- Gifts of equity are not allowed.

11.2 Cash Reserves

Follow the Product Matrix reserve requirements in [Section 3.3](#).

Reserves must be verified and comprised of liquid assets that borrower can readily access. Equity lines of credit, gift funds, business assets and cash out from the subject property on refinance transactions are not acceptable sources to meet the reserve requirement.

12.0 Property

12.1 Eligible Property Types

- 1-4 unit attached/detached owner-occupied and non-owner occupied properties.
- 1-unit second homes.
- Low/mid/high-rise new and established agency warrantable condominiums. Condominiums with HOA in litigation are ineligible. Minimum square footage 400.
- Planned Unit Development (PUD).
- Fannie Mae or Freddie Mac established warrantable cooperatives (co-ops) located in New York 5 boroughs and Nassau, Suffolk, Rockland and Westchester counties only.
 - Owner occupied and second home only.
 - All co-op projects require a full lender review and must consist of 5 or more units.
- Maximum lot size 20 acres. Properties with greater than 10 acres must have three comparables with similar acreage.

12.2 Ineligible Property Types

- Manufactured Homes
- Factory built housing
- Geodesic/Dome homes.
- Properties held as leasehold
- Condo hotel units
- Log homes
- Unwarrantable condominiums
- Timeshare units
- Unique properties

- Mixed use properties
- Commercially zoned properties.
- Agriculturally zoned properties (agricultural/residential eligible)
- Rural zoned properties
- Properties with an oil and gas lease
- Properties with more than 20 acres
- Working farms
- Properties located in Puerto Rico, Guam, and US Virgin Islands.

12.3 Declining Markets

- Reduce maximum LTV/CLTV by 10% for any property located in an area of declining property values as reported by appraiser.

12.4 Land-to-Value

The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. As amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the property.

12.5 Appraisal Requirements

- All appraisals must be completed on the most current Agency appraisal forms as stipulated in the Seller's Guide and conform to Agency appraisal practices.
- Property Inspection Waiver (PIW) not allowed.
- Properties must be appraised within the twelve months that precede the date of the Note and Mortgage.

- Two (2) full appraisals are required for loan amounts >\$1,500,000. LTV/CLTV will be based on the lower of the two values. All inconsistencies between the two appraisals must be addressed and reconciled.
- Appraisals transferred or assigned from another lender are not acceptable.
- Appraisals must not be over 120 days old from the date of the Note. If appraisal is over 120 days old a recertification of value needs to be performed.

12.6 Third Party Appraisal Review

- The seller must order a Collateral Desktop Analysis (CDA) from Clear Capital for each loan with a collateral underwriter score greater than 2.5.
- A copy of the appraisal desk review report should be submitted in the loan file. The review must not be over 120 days old from the date of the Note.
- If the desk review produces a value in excess of a 10% negative variance to the appraised value, the loan is not eligible for purchase; provided, the seller has the option to then ask the Exchange to order a Field Review to support the appraised value. If the field review also produces a value in excess of a 10% negative variance to the appraised value, then the loan will remain ineligible for purchase.
- All appraisals are reviewed for eligibility as well as value support. However, the use of an appraisal review product does not relieve the seller of its representations and warranties relating to the property and the appraisal including the underwriting thereof.

12.7 Properties Located in a Disaster Area

The following is required for properties located in a FEMA declared disaster zone to be eligible for purchase:

- If the property is in a zone where a Disaster End Date has been declared by FEMA, MAXEX will order a post disaster inspection prior to loan purchase to confirm the property value has not been impacted by the disaster.
- If the property is in a zone where a Disaster End Date has not been declared by FEMA, in addition to the above inspection requirement, a date and time stamped area map from a state or county agency or similar, showing the subject property in relation to the disaster area is required to evidence that the property is outside of current known fire boundaries.

For scenarios not addressed in this section please contact your Client Advocate or Underwriting for assistance.

13.0 Additional Loan Attributes and Policies

13.1 Subordinate Financing

- Allowed up to maximum CLTV per matrix. Secondary financing terms must conform to Agency guidelines.
- The CLTV should be calculated using the unpaid principal balance on all closed-end subordinate financing and the full amount of any HELOCs (whether or not funds have been drawn).

13.2 Chain of Title

- All transactions require a minimum twelve (12) month chain of title.

13.3 Balloon Mortgage

- Balloon mortgages are not eligible for purchase.

13.4 Recasting/Re-amortizing

- Recasting or re-amortized transactions are not eligible for purchase.

13.5 Temporary Buydown

- Temporary buydown mortgage loans are not eligible for purchase.

13.6 Prepayment Penalty

- Mortgage loans with prepayment penalties are not eligible for purchase.

13.7 Interested Party Contributions

Interested party contributions include funds contributed by the property seller, builder, developer, real estate agent or any other party with an interest in the real estate transaction. Interested party contributions may only be used for closing costs and prepaid expenses.

- LTV between 75.01% - 89.99% max 6% contribution allowed.
- LTV ≤ 75% max 9% contribution allowed.
- Non-owner occupied properties max 2% contribution allowed.

13.8 Seller Concessions/Contribution

- Seller contributions in excess of the interested party contribution limits or contributions not being used for prepaid expenses or closing costs are considered seller concessions. The amount of the seller concession must be deducted from the purchase price and appraised value to determine the LTV.

13.9 HERO/PACE/Solar Panels

- Any item that that will include a UCC associated with the property and/or will create an easement on title is ineligible.
- Payoff of a HERO lien is considered cash-out.

13.10 Hazard Insurance

- Properties where the insurance coverage on the declaration page does not cover the loan amount must have a cost estimate from the insurance company or agent evidencing the property is insured for its replacement cost.
- Hazard insurance must have the same inception date as the date of disbursement on purchase money mortgages. This may be documented with a post-closing Closing Disclosure or the correction of the inception date on the hazard policy.

13.11 Escrows

- Escrow accounts may be created for funds collected by the originator to pay taxes, hazard insurance, flood insurance, special assessments, water, sewer, and other items as applicable.
- All applicable loans must adhere to HFIAA regarding mandatory flood insurance escrow requirements for properties located in a Special Flood Hazard Area.
- Escrow holdbacks are not allowed.

- Section [7.8](#) (Non-Arm's Length Transaction) - If a direct relationship exists between or among the parties, the transaction is non-arm's length and the related loan is not eligible for purchase. See section for full requirements.
- Section [8.4](#) (Mortgage/Rental History)
 - A minimum of twenty-four (24) months verified housing history is required with 0 x 30 payment history.
 - If primary residence housing history reflects a forbearance arrangement, the payment history must reflect 0 x 30 in the most recent 24 months since exiting forbearance. The payment history must be provided by the lender/servicer.
 - For rental verification, a standard VOR completed by a professional management company or 24 months bank statements or canceled checks are required.
- Section [8.6](#) (Liens, Judgments and Collections) - Requirements for the treatment of liens, judgements, and collections. See section for full requirements.
- Section [8.7](#) (Credit Events) - At least seven (7) years must have elapsed since bankruptcy discharge or dismissal, foreclosure, notice of default (NOD), short sale or deed-in-lieu measured from the date of completion to the date of application.
- Section [9.2](#) (Income Documentation Requirements)
 - Business Verification: the lender must verify the existence of the borrower's business in writing either no more than ten (10) business days prior to the Note Date, or after the Note Date but prior to purchase by Stockton Mortgage. Internet listings are not an acceptable source of verification.
 - Tax transcripts are required to be obtained from the IRS only for income for years being used for qualification.
- Section [9.10](#) (Unacceptable Income)
 - Refer to section for overlays.
- Section [11.1](#) (Source of Funds) Gifts of equity are ineligible.
- Section [11.2](#) (Cash Reserves) - The greater of the AUS reserve requirements or the reserve requirements in the Product Matrix are required. If AUS does not provide reserve requirements follow the Product Matrix reserve requirements. Business assets are not an acceptable source to meet the reserve requirements.
- Section [12.0](#) (Property) - Refer to section for overlays for the following:
 - Eligible properties
 - Ineligible properties
 - Minimum square footage
 - Appraisal requirements (PIW not allowed; Two appraisals required for loan amounts > \$1,500,000)

- Third-party appraisal review process.
- Properties located in FEMA declared disaster areas.
- Section [12.1](#) (Eligible Property Types) - Condos in litigation are ineligible.
- Section [12.3](#) (Declining Markets) - Reduce maximum LTV/CLTV by 10% for any property located in an area of declining property values as reported by appraiser.
- Section [13.0](#) (Additional Loan Attributes and Policies) - Refer to section.
- Section [13.9](#) (HERO) - Payoff of a HERO lien is considered cash-out.
- FraudGuard report or similar must be included in each file submission. The report should include a comparison of all participant names against industry watch and exclusionary lists such as OFAC.

Appendix B - Business Purpose & Occupancy Affidavit (the "Affidavit")

LOAN NO: _____ (the "Loan")

BORROWER(S) NAME: _____

BORROWER(S) ADDRESS: _____

PROPERTY ADDRESS: _____ (the "Property")

I, the undersigned borrower(s), hereby declare that the following is true and correct:

1. **I have applied for this Loan and am seeking financing for the Property, subject to the terms and conditions of certain documentation related to the Loan (the "Loan Documents"), for business purposes only.** I do not intend to use the proceeds of the Loan for personal, family, or household purposes.
2. **The proceeds of the Loan will be used to purchase, improve, or maintain the Property.** If I have not executed a lease with a tenant (or tenants) at or before closing of the Loan, I intend to, and will use commercially reasonable methods and effort to obtain a tenant (or tenants) for the Property following closing of the Loan.
3. **Neither I nor any family member intend or expect to occupy the Property at any time. I will not, under any circumstances, occupy the Property at any time while the Loan remains outstanding.** In addition, I will not claim the Property as my primary or secondary residence for any purposes for the duration of my Loan. I now reside, and for the duration of my Loan will continue to reside, elsewhere.
4. **I understand that Lender originating the Loan in reliance upon this Affidavit.** If this Affidavit is not true and correct, and in consideration of Lender making the Loan, I agree to indemnify Lender and its agents, affiliates, subsidiaries, parent companies, successors and assigns and hold them harmless from and against any and all loss, damage, liability or expense, including costs and reasonable attorneys' fees, which they may incur as a result of or in connection with my misrepresentation. I further understand that any misrepresentation in this Affidavit will constitute an event of default under the terms of this Loan and the related Loan Documents, and may result in the immediate acceleration of my debt and the institution of foreclosure proceedings, eviction, and any other remedies allowable by law.
5. **I understand that the agreements and covenants contained herein shall survive the closing of the Loan.**
6. **I understand that, based on the contents of this Affidavit, the Loan is a business-purpose loan secured by non- owner-occupied real property.** I understand that this means that the Loan may not be subject to the requirements of certain federal and state consumer protection, mortgage lending, or other laws, including but not limited to the provisions of the Truth in Lending Act (15 U.S.C. § 1601 et seq.), Real Estate Settlement Procedures Act (12 U.S.C. § 2601 et seq.), Gramm-Leach Bliley Act (15 U.S.C. §§ 6802-6809), Secure and Fair Enforcement Mortgage Licensing Act (12 U.S.C. § 5101 et seq.), and Homeowners Protection Act (12 U.S.C. § 4901 et seq.), and that my ability to avail myself of protections offered under federal and state laws for consumer-purpose residential mortgage loans may be limited.
7. **I understand that any false statements, misrepresentations, or material omissions I make in this Affidavit may result in civil and criminal penalties.**

[Signature Page Follows]

Initial(s):	The Property is not and will not be occupied by me or any family member, or if Borrower is an entity, any member or owner of the Borrower entity.

Borrower(s) / Borrowing Entity Members:

[_____]

By: _____
 Name: _____
 Title: _____
 Date: _____

[_____]

By: _____
 Name: _____
 Title: _____
 Date: _____

ACKNOWLEDGMENT

State of _____)
 County of _____)

On _____ before me, _____ (insert name and title of the officer) 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(ies), and that by his/her/their signature(s) 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 _____ (Seal)