

SELLER GUIDE



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Overview

The Stockton Mortgage Funding Seller Guide provides you with an overview of SMF's guidelines and the information you need to successfully deliver loans to Stockton Mortgage Funding. This document is for mortgage professionals only and is not intended for public use or distribution. While attorneys prepared the agreements referenced in this document, nothing in this guide represents legal or compliance advice by SMF. If a topic or regulatory requirement is not covered in this guide, please refer to the Agency, state, or federal guidelines.

Section 1 – Seller Requirements

1.1 Seller Requirements

Stockton Mortgage Funding requires all brokers and correspondents to comply with federal, state, local and municipal laws, ordinances, rules and regulations at all times and without limitation. Seller approval requirements are described elsewhere in this document. To maintain seller eligibility, brokers and correspondents must follow this guide's requirements, as applicable, and comply with all requirements of executed agreements.

1.2 Application

Stockton Mortgage Funding's Wholesale Application for brokers and its Correspondent Application for both delegated and non-delegated correspondents can be retrieved from SMF's website, www.stocktonmortgagefunding.com. Correspondents who also want to submit loans through SMF's wholesale channel must complete the Correspondent Addendum for Wholesale, which is located at the above website.

1.3 Bank Secrecy Act/Anti-Money Laundering

Stockton Mortgage Funding complies with the Bank Secrecy Act/Anti-Money Laundering (BSA/AML) requirements and requires approved Correspondents and Brokers to have an established BSA/AML program. Clients must identify and verify their borrower(s) and provide correct information to SMF.

1.4 Ability-To-Repay and Qualified Mortgages

All loans must comply with the Ability-To-Repay (ATR) and Qualified Mortgage (QM) standards as set forth under the Truth in Lending Act (TILA) or must be exempt from the rule. Correspondents conducting their own closings must certify that the loan does not have any risky features (such as a term greater than 30 years) and that the loan meets the QM points and fees test or is exempt from the requirements.

1.5 Fair Lending

Stockton Mortgage Funding (SMF) understands the importance of fair and responsible lending for our customers and communities. SMF serves all applicants without regard to age, color, race, religion, national origin, sex, sexual orientation, gender identity, disability, familial status, marital status, receipt of public assistance income, exercise of rights under the Consumer Credit Protection Act, or other prohibited basis that is identified with state, local and federal laws. SMF requires that all customers are to be treated fairly, regardless of the origination channel.

SMF requires all third-party originators (brokers and correspondents) adhere to all applicable state, local and federal fair and responsible lending laws and regulations, including, but not limited to, Equal Credit Opportunity Act (ECOA), the Fair Housing Act (FHA), the Home Mortgage Disclosure Act (HMDA), Fair Credit Reporting Act (FCRA), and Unfair, Deceptive, or Abusive Acts and Practices (UDAAP) rules.

1.6 High Cost Loan

Stockton Mortgage Funding will not purchase or originate any loans that are considered as “high-cost” as defined by the Home Ownership and Equity Protection Act (HOEPA) of 1994, specifically Section 32 of Regulation Z or similar loan under any state, federal or local law.

Higher Priced Mortgage Loans (HPML) will be purchased with no overlays.

1.7 Other Mortgage Related Regulations

Brokers and correspondents must fully comply with the implementing regulations of the Secure and Fair Enforcement for Mortgage Licensing (SAFE) Act, Real Estate Settlement Procedures Act (RESPA), the Loan Originator Compensation requirements under the Truth in Lending Act, Appraiser Independence Requirements (AIR), and the Flood Protection Act and National Flood Insurance Reform Act, as amended. Some of these regulations are mentioned elsewhere in this document.

1.8 Application Process

SMF will consider brokers and correspondents who submit a complete application package. Upon submission, the applicant will undergo due diligence and investigative processes.

1.9 Application Package

An application package consists of a thoroughly completed application, financial statements, management resumes, a W-9, business formation documents, corporate resolution or resolution type that is appropriate for the legal form of business, quality control plan, and quality control reports.

Correspondent applicants must also submit investor scorecards, proof of in-force fidelity bond and liability/errors and omissions insurance, and a Limited Irrevocable Power of Attorney.

Broker applicants must identify their use of third-party processors and submit detailed information about these third-parties.

1.10 Application Package Review

SMF will review and verify the information using various industry sources. This application package review process includes, but is not limited to, the activities that follow:

1) ensure the applicant signed the application and provided all requested information and submitted all required documentation; 2) assess financial statements to evaluate the appropriateness of scope and content, as well as financial condition; 3) obtain credit reports; 4) confirm registration and status with the Secretaries of State in which an applicant does business; 5) review the applicant and key personnel information on the Nationwide Mortgage Licensing System & Registry (NMLS); 6) compare the applicant and key personnel names to U.S. General Services Administration (GSA) Excluded Parties list, the Department of Housing and Urban Development (HUD) Limited Denial of Participation List, the Federal Housing Finance Agency (FHFA) Suspended Counterparty Program list, Freddie Mac Exclusionary List and other sources that may be necessary; 7) contact references; 8) obtain reports from the Mortgage Assets Research Institute (MARI) or similar source and Neighborhood Watch for background information.

1.11 Approval

Factors contributing to an applicant's approval include satisfactory background reviews, net worth, and length of time in business. SMF will issue a written letter of approval and counter-sign appropriate legal agreement(s) executed by the applicant—Non-Exclusive Broker Agreement for brokers; Purchase Agreement for non-delegated correspondents; Purchase Agreement and Delegated Underwriting Addendum for delegated correspondents.

Under no circumstances will SMF accept the registration of a new loan application, allow a rate lock, issue state or federal disclosures, and review or underwrite a loan without the full executed legal agreement(s) in place.

1.12 Annual Recertification

SMF will require brokers and correspondents to complete a questionnaire and provide updated information each year. Failure to submit this documentation within the designated time will prevent the TPO from registering new loans. This prohibition will remain in place until the TPO submits the information. Failure to respond to SMF's recertification request may result in termination of the relationship.

Section 2 – Lock Policy

2.1 Rate Lock and Price Changes

All loans must be registered in Stockton Connect at <https://www.smfconnection.com> prior to locking. New loan locks must be requested electronically thru Stockton Connect. The client is responsible for assuring that the system is correct prior to pricing and locking the loan.

New loans may be locked, extensions negotiated, and re-locks completed from approximately 10:00 a.m. Eastern Standard Time until 7:00 p.m. Eastern Standard Time. Stockton Mortgage Funding reserves the right to change the quoted interest rate and price on all programs, at any time and without notice. In the event of a change in rate and price, Stockton Mortgage Funding may temporarily stop accepting locks.

2.2 Intra-day Price Changes

Stockton Mortgage Funding reserves the right to change the daily pricing at any time, without prior notification.

2.3 Price Adjustments

Pricing Adjustments are stated on the rate sheet and in the online pricing tool in Stockton Connect. These adjustments can change with little or no notice. If a loan is being extended or re-locked, the loan level pricing adjustments in effect at the date of the extension or re-lock will be applied.

2.4 Extensions

Extensions must be requested before a lock expires. An extension request must be submitted by calling the lock desk or sending an email to locks@stocktonmortgagefunding.com. The extension request must be made before 4:00 p.m. Eastern Standard Time on the date of expiration. Failure to request a timely extension may result in the loan being re-priced in accordance with the Re-pricing policy.

Loans must be closed and disbursed by the expiration date for Wholesale loans. Correspondent loans must be delivered to Stockton Mortgage Funding in a fundable form before the lock expiration date.

Loans may be extended twice up to a total of 30 days past the original expiration date. For instance, you cannot request a 7-day lock and then a subsequent 30-day lock.

All fees are cumulative. For instance, if your original lock has a .25% fee and you later extend the loan for 15 days, the loan will be charged .625%.

Costs for extensions:	<u>Days</u>	<u>Cost</u>
	7 days	.175%
	15 days	.375%
	30 days	.625%

2.5 Administration Fees

The following fees are required on a loan sold to Stockton Mortgage Funding. To include these fees in the pricing of the loan, the “Lender Fee Waiver” must be marked as “Yes” in Stockton Connect. If the “Lender Fee Waiver” is marked as no, the borrower will be charged the fee.

Delegated Correspondent Loans	
Administration Fee	\$495

Non-Delegated Correspondent Loans	
Administration Fee	\$795
Doc Prep Fee (closing)	\$175

Wholesale Loans	
Administration Fee (w/o initial Disclosures)	\$850
Administration Fee (with initial Disclosures)	\$995

Jumbo Loans (all channel types)	
Administration Fee	\$1,095

2.6 Repricing/Relocking Policy

Once a lock has expired, it must be re-locked prior to closing and/or delivery. ALL relocks are subject to a .25% relock fee. If a loan is relocked within 30 days, it is subject to worse-case repricing plus a .25% relock fee. Worse-case pricing is determined by comparing the original lock price to the current lock price. Locks that have been expired for 30 days or more will be priced at current pricing.

2.7 Delivery Policy

Closed loans packages must be delivered to Stockton Mortgage Funding fully disbursed on or before the rate lock expiration date. The original note and allonge must be received within 3 (three) business days of the receipt of the closed loan package. If Correspondents are unable to deliver loans within the lock frame, extensions are available and may be purchased by the correspondent prior to the expiration date. Once Stockton Mortgage Funding receives a loan, it is no longer eligible for a re-lock.

- Suspension Cure Period: If the delivered, closed loan is suspended, Stockton Mortgage Funding must receive those items needed to clear the suspension no later than the expiration date or three business days from the suspension date.

If the suspended items are not received within the later of the expiration date or three business days, the loan will incur penalty fees

The penalty fees will be 2.5 basis points (.025%) per calendar day for every calendar day beyond the suspension date until the suspense items have been received.

If loans cannot be cleared for purchase within 30 days of the suspension notice, Stockton Mortgage Funding is not obligated to purchase the loan and may return the loan to the Correspondent.

2.8 Program Changes

If a loan has been locked and needs to have changes made to the program, including changes to the term of the loan, the loan will be subject to worse-case pricing.

2.9 Seasoned Loans

Stockton Mortgage Funding will not purchase loans where more than 30 days have passed since the Note date.

2.10 Extended Rate Lock Policy

Stockton Mortgage Funding offers extended locks to a select number of clients for conventional loans. Loans may be locked for a maximum of 180 days with a charge of 1% of the loan amount. This 1% extended lock fee must be collected upfront and delivered to Stockton Mortgage Funding.

Pricing will be determined by adding .125% to the rate of a 45-day lock.

The upfront extended lock fee is non-refundable if the loan is canceled or denied. If the loan closes, the extended lock fee will be disclosed on the Closing Disclosure and shown as paid outside of closing.

Stockton Mortgage Funding must receive upfront extension fees within 7 calendar days of the lock in date. If the fee is not received within that time frame, the lock will be automatically canceled.

Checks for the upfront extended lock fee should be made payable to Stockton Mortgage Funding and be delivered to:

Stockton Mortgage Funding
Attn: Lock Desk
88 C. Michael Davenport Blvd, Ste 1
Frankfort, KY 40601

If the loan amount increases during the process of the loan by more than 10%, the additional upfront extension fee must be sent to Stockton Mortgage Funding.

Section 3 – Appraisal Requirements

3.1 Appraiser Independent Requirements

Stockton Mortgage Funding (SMF) requires that all appraisals be compliant with the guidelines as set out by the Appraiser Independence Requirements (AIR) developed by FNMA and FHLMC.

Correspondents are required to assure that their processes for ordering appraisals maintain strict adherence to applicable compliance requirements. Brokers are required to utilize one of the Appraisal Management Companies (AMC's) as approved by Stockton Mortgage Funding.

3.2 Appraisal Delivery Requirements

The Equal Credit Opportunity Act requires the Broker/Correspondent/Lender to provide the borrower copies of all appraisals and/or written valuations promptly upon completion or no later than three days prior to the closing (consummation) of the loan, whichever is earlier. The borrower(s) may waive these rights no later than three days prior to closing.

Borrower(s) are not permitted to just acknowledge receipt of the appraisal at the time of the application.

The following is required to assure adherence to all disclosure requirements:

- Documentation must be delivered to show that the appraisal was delivered to the borrower within the specified time frame. Acceptable documentation depends on the appraisal's delivery method:
 - If delivered electronically, evidence that the borrower viewed the delivered appraisal at least three days prior to closing.
 - If mailed, a copy of the cover letter to show that the appraisal was mailed no later than 7 days prior to closing.
 - If hand delivered, a signed receipt for the copy of the appraisal at least three days prior to closing.
- If the borrower(s) elected to waive their rights to receive a copy of the appraisal at least three days prior to closing, an appraisal waiver form must be signed. The form cannot be signed at closing and must be signed no less than three days prior to closing.

3.3 Appraisal Transfers

SMF may accept an appraisal from a Correspondent and Broker that has been assigned by another lender under the following circumstances:

- A certification of AIR Compliance must accompany the appraisal.
- The SSR must be provided in compliance with UCDP.
- FHA appraisals must be ordered in compliance with HUD guidelines and therefore fall under the requirements for transferring appraisals.
- Conventional appraisals may only be transferred from a Federally regulated depository institution, such as a Bank.
- The appraisal **must** remain in the name of the other lender.

3.4 Property Inspection Waivers

SMF does participate in FNMA's Property Inspection Waiver (PIW) and FHLMC's Property Inspection Alternative (PIA). The automated underwriting systems (AUS) findings must indicate that the loan is eligible for the waiver to be eligible for purchase.

Section 4 – Credit Documentation

4.1 FACT Act

The Fair and Accurate Credit Transactions (FACT) Act requires that any borrower who has credit pulled receive a disclosure that includes the credit bureau information as well as the model used to determine the credit score for the borrower. SMF will require either:

- Evidence that the borrower has received the notice in the form of a copy of the disclosure signed by the borrower(s) OR
- Evidence that the credit bureau has sent the disclosure to the borrower as part of their normal procedures. This would be proven by a copy of the disclosure being included as part of the credit report.

4.2 Transcripts

Transcripts are required as follows:

IRS Transcripts are not required for W-2/salaried borrower(s) for Conventional Conforming, FHA and VA loans with the following exception:

- Income based programs, such as HomeReady and Home Possible.
- Borrower(s) who receive 25% or more of their income from commissions will require 1040 transcripts. (no longer required on Fannie Mae loans)
- If income is being grossed up (social security, etc.), a Wage and Income Transcript may be used in place of the 1040 transcripts to verify the income is non-taxable.
- Loans that have income sources verified by the 1040's (self-employed, rental income, capital gains, etc.) will require 1040 transcripts.
- Rural Housing loans will still require 1040 transcripts for the borrower(s) and all adult household members.

The number of years will be determined by the AUS findings. All manually underwritten files will require two years.

All files must have a completed, signed and dated 4506T submitted with the underwriting package. All loans require an IRS form 4506T be signed at closing.

Required documentation when most recent year transcripts are not available:

1. If transcripts are required but not available, the following documentation is required:

When the loan **closing** ON or AFTER April 15 and before October 15 and the income is NOT derived from self-employment:

- a. Tax returns filed but no transcripts are available (current year Transcripts will be required if the loan closes on or after June 15)

- Two previous years Transcripts
- Most recent year Transcripts showing “No Record of Return”.
- Most recent year W-2 Transcript
- Verification of refund or tax bill paid *(see below for specifics)

- b. Extension filed (current year Transcripts will be required if the loan closes on or after October 15)

- Copy of the extension
- Two previous years Transcripts
- Most recent year Transcript showing “No Record of Return”.
- Most recent year W-2 Transcript
- Cancelled check to the IRS or credit card statement reflecting the payment of anticipated tax obligations.

2. The borrower IS Self Employed, and the loan is closing ON or AFTER April 15 and before October 15:

- a. Tax returns have been filed but no transcripts are available and income from most recent year is NOT being used to qualify. (Most recent year Transcripts will be required if the loan closes on or after June 15)

- Two previous year Transcripts
- Most recent year Transcripts showing “No Record of Return.”
- Most recent W-2 transcript (if applicable)
- Copy of the most recent tax returns that were filed. Income must be similar to the previous years’ income, but it may not be used to qualify.
- Verification of refund or tax bill paid *(see below for specifics)

- b. Tax returns filed but no transcripts are available and income from most recent year IS being used to qualify.

- Most recent year Transcripts will be required.

3. Extension filed (Transcripts will be required if the loan closes on or after October 15)

- Copy of the extension

- Two previous years Transcripts
- Most recent year Transcript showing “No Record of Return”.
- Most recent year W-2 Transcript (if applicable)
- Cancelled check to the IRS or credit card statement reflecting the payment of anticipated tax obligations.

*In addition to the income documentation, one of the following tax validation requirements must be completed when taxes have been filed, but the most recent year tax transcripts are not yet available.

- If the borrower is entitled to a refund, the IRS must verify the refund amount. The IRS can be contacted through <https://sa1.www4.irs.gov/irfof/lang/en/irfofgetstatus.jsp> or the IRS Teletax System by calling 1-800-829-4477, entering the social security number, filing status, and refund amount in whole dollars. You can also use the IRS tool, Where’s my refund.
- If the borrower owes taxes, the canceled check to the IRS must be provided, together with proof of source of funds, and must match the amount due on the tax return. If the borrower filed an extension, proof of the extension filing, cancelled check to the IRS or credit card statement reflecting payment of anticipated tax obligations, and the previous year’s available tax transcripts are required. Extensions must have been filed no later than the IRS published due dates for tax returns.

4.3 Geographic Restrictions

Stockton Mortgage Funding will purchase loans with subject properties in the following States:

Alabama	Florida	Georgia
Indiana	Kentucky	Michigan
Mississippi	North Carolina	Ohio
Pennsylvania	South Carolina	Tennessee
West Virginia		

4.4 Multiple Loans to One Borrower

SMF will purchase up to 4 loans from one borrower.

4.5 Private Mortgage Insurance

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Private Mortgage Insurance for conventional loans can be obtained from one of the following companies:

- ARCH Mortgage Insurance
- Essent Guaranty
- MGIC
- Radian
- National MI

Percentages of coverage must follow agency guidelines and are based upon the product and the loan to value (LTV).

Unacceptable PMI Types:

- Lender Paid Monthly
- Borrower Paid Annual
- Lender Paid Annual
- Reduced Coverage
- Split Premium

On Non-Delegated Correspondent and Wholesale Loans, SMF will select the PMI company and obtain the mortgage insurance for the file.

Section 5 – Delivery

5.1 Loan Delivery Procedure for Correspondent Files

The correspondent must deliver the closed loan package, in a fundable state, to Stockton Mortgage Funding no later than the expiration date. SMF will consider the loan delivered when the closed loan package is received. The original signed note and allonge must be received within three business days of the expiration date. Files received by 3:00 p.m. EST will be considered as received on that business day. Files received after that time will be considered as received on the next business day.

If the loan is a refinance, the lock expiration date must not expire before the disbursement date. The loan will not be considered as received until the disbursement date has passed.

5.2 Imaged file Delivery

It is preferred that the closed loan package be delivered electronically. SMF does not require that the original closing documents are delivered, apart from the note and allonge. The file should be scanned at a resolution no less than 300 dpi. There is no stacking order required.

On a non-delegated loan, the Closed loan packages should be sent to:
closing@stocktonmortgagefunding.com.

Wholesale closed loan packages should be sent to postclosing@smcapproved.com.

For a Delegated loan, the closing package should be uploaded to Stockton Connect. Please refer to the Delegated section of this guide for more information.

5.3 Delivered by Mail

If file delivery is by mail, SMF must receive it no later than 4:00 p.m. EST to be considered as received. Files received after 4:00 p.m. EST will be considered as being received on the next business day. Files sent by mail should be sent to the same address as the Note delivery requirements.

5.4 Note and Allonge

Except for mortgage loans with interest credit of up to seven (7) days, the first payment date on the Note must be due one full month after the last day of the month in which the loan is closed. Loans with payment dates more than 61 days from the Note date are not eligible for purchase.

The original Note and Allonge must be delivered and received no later than three (3) business days from the receipt of the imaged file. These must be received no later than 3:00 p.m. EST to be considered received on that business day.

The Allonge must contain the following information:

- Borrower(s) name exactly as it appears on the Note
- Property address
- Loan amount
- Note date

The Allonge must have an original signature from a member of the Correspondent that is listed on the Corporate Resolution and must be endorsed as follows:

PAY TO THE ORDER OF STOCKTON MORTGAGE CORPORATION WITHOUT RECOURSE.

Correspondents Name - Typed

BY: Signature of Authorized Agent

TITLE: Title of Authorized Agent – printed or typed

Both the signed Note and Allonge must be delivered to:

Stockton Mortgage
Attn: Collateral
88 C. Michael Davenport Blvd, Ste 1
Frankfort, KY 40601

5.5 Mortgage/Deed

A legible, certified copy of the original mortgage/deed is required to be reviewed by SMF prior to purchase. The signatures must match the vesting on the file, and any areas that require initials must be completed. No corrections or strikeouts are allowed. If there are riders to the mortgage/deed, they must be indicated as being attached to the mortgage/deed and a copy must be in the file.

5.6 Name Affidavit

Files that contain variations of the borrower(s) names or “also known as” names will require a signed and notarized Name Affidavit completed at the closing.

5.7 Escrow Account Policy

Stockton Mortgage Funding will require an escrow/impound account for property taxes, property insurance, property flood insurance and mortgage insurance premiums. Escrows may be waived under the following circumstances:

- Conventional Loans only
- LTV of equal to or lessor than 80%
- Borrower must sign an escrow waiver disclosure at closing

Regardless of whether escrows for taxes and insurance are waived, if the property has flood insurance, the flood insurance MUST be escrowed.

5.8 Required Cushion

SMF will require a two-month cushion for all escrow lines (except mortgage insurance premiums and private mortgage insurance but INCLUDING the annual fee on Rural Housing Loans) on all loans that require an escrow, unless prohibited by law.

5.9 Payment of Property Taxes and Property Insurance payable at closing

If property taxes and/or property insurance is due within 60 days of closing, they must be paid at the closing.

5.10 Hazard Insurance for 1-4 Family Residences (non-Condo)

Hazard insurance is required on all loans. The documentation must show the following:

- Effective dates
 - For a purchase transaction, the policy must be effective for 12 months from the closing date and a paid receipt must be in the file.
 - For refinance transactions, if the policy will expire within 60 days of the closing date, or within 30 days from the date SMF purchases the loan, it must be paid and renewed for a 12-month term.
- Amount of coverage (refer to Coverage Amounts below)
- Type of coverage
- The insured address must match the address as given on the Note.

- Named insured must include at least one of the borrowers on the Note.
- The policy must have coverage for loss or damage by fire or other hazard and may need to cover additional hazards, such as windstorm, hurricane, hail damages or other perils that normally are included under an extended coverage endorsement.

PUD – individual insurance policies on Planned Unit Developments (PUD) are required unless the PUD is covered under the project’s blanket policy and the project’s documents allow the individual PUD units to be covered in the blanket policy. In those cases, the homeowner’s association must also maintain a policy that covers the common areas, including the fixtures, personal property, equipment and supplies, unless the common elements have no value. It may be necessary for the borrower to obtain H-06 insurance to cover the walls in if the blanket policy does not cover these items.

Coverage Amounts

The minimum coverage amount must be equal to the lesser amount of:

- 100% of the insurable value of the improvements as established by the property insurer, unless otherwise restricted by state law; **OR**
- Guaranteed Replacement Cost, with evidence that the additional coverage covers the loan amount; **OR**
- The combined unpaid principal balance of the mortgage amount as long as it equals 80% of the insurable value of improvements.

In the cases where the insurable value is being used and it is less than the principal balance with no guaranteed replacement cost that covers the principal balance, SMF will require a copy of the Replacement Cost Estimator (RCE) and a letter from the insurance agent (on letterhead) that the dwelling coverage on the policy is the maximum they will insure.

Deductible

The hazard insurance deductible may not exceed 5% of the dwelling coverage unless state law requires a higher maximum. Rural Housing loans should have a maximum deductible which does not exceed the greater of a \$1,000 or 1% of the policy coverage.

Loss Payee

For Wholesale loans, the Loss Payee on the declarations page must be shown as follows:

Stockton Mortgage Corporation, ISAOA, ATIMA
88 C Michael Davenport Blvd, Suite 1
Frankfort, KY 40601

Correspondents should have the Loss Payee for their company listed on the hazard insurance policy. This will be transferred at the time the loan is purchased by SMF.

5.11 Condo Hazard Insurance

If the property is a condominium, the hazard insurance must cover the buildings and all structures as well as all common elements. If the homeowners' association does not cover "walls in" in the master policy, the homeowner will be required to obtain HO-6 insurance.

Refer to the Agency guidelines for the coverage amounts, documentation requirements and deductibles.

5.12 Flood Insurance Requirements

SMF requires flood insurance on any loan secured by improved real estate located in an area that has been identified by FEMA as located in a special flood hazard area, which requires flood insurance under the National Flood Insurance Program (NFIP).

Coverage requirements must, at a minimum, meet the federal requirements for flood insurance. Typically, this coverage is the lower of 100% of the replacement or the insurable value of the improvements based upon the hazard insurance policy or the maximum limit of coverage that is made available by NFIP, or the unpaid principal balance.

An escrow account for the payment of the flood insurance must be established. This is a requirement even if the borrower has waived the escrow for property taxes and property insurance.

SMF will NOT allow flood insurance from a private flood insurer.

Notice to Borrower

The "Notice of Special Flood Hazards" disclosure must be delivered to the borrower(s) within a reasonable timeframe after the determination that the property is in a special flood hazard area and Flood Insurance is required. This form must be signed and retained in the file.

Coverage

The minimum amount of flood insurance is determined by the National Flood Insurance Program (NFIP).

For 1-4 family units, including individual PUDs, detached individual condominiums, townhouses or row houses, the minimum amount of flood insurance is the lower of:

- 100% of the replacement cost of the dwelling, based upon the hazard insurance policy (Dwelling coverage A);
- The maximum insurance available from the NFIP; (which is currently \$250,000) **OR**
- The unpaid principal balance of the mortgage.

For attached condominiums or PUD's, stand-alone flood insurance policies are not acceptable, and the property must be covered by the master condominium flood insurance policy. Refer to Agency and NFIP guidelines for the coverage amounts, documentation requirements and deductibles.

For FHA and VA loans, the Condominium's Homeowners Association, and NOT the borrower must be responsible for obtaining and maintaining flood insurance.

5.13 Disaster Policy

The Federal Emergency Management Agency (FEMA) will announce declared major disasters and emergencies, however, it does not always issue these declarations immediately following a disaster. Regardless of the timing of the declaration, anyone with knowledge of a potential adverse condition within the subject property area are required to act to assure the property meets the requirements for purchase. It is the Correspondent's responsibility to be aware of any disasters within their lending area. In the event of a major disaster, the information can be obtained at <http://www.fema.gov/> or by calling the local FEMA office.

If a property has been impacted by a disaster, it may require repairs. The property must be inspected to assure there is no damage or reduction in value or marketability prior to the funding of a loan. Any damage to the subject property will need to be repaired and the property re-inspected to verify the completion of the repairs.

For properties in impacted counties with appraisals completed prior to the disaster end date (as per the FEMA Declaration), Stockton Mortgage Funding will require a post disaster inspection confirming the property was not ecoaly affected by the disaster. The following options for inspections are required if the disaster occurred on or after the appraisal completion date:

- Appraisal Update and/or Completion Report (1004D) completed by the original appraiser, when possible, OR
- If the property has a property inspection waiver (PIW), a Property Inspection Report (Form 2075) may be utilized. The loan must also be re-submitted to DU to assure that the loan is still eligible for a PIW. If not, a full appraisal is required.

All inspection types must have at least the following:

- Full color exterior photos of the subject property, evidencing no damage.
- Address verification (photo of the house number and street sign)
- The appraiser or inspector certifying that the subject property is free from damage and is in the same condition, or better since the original inspection.
- If applicable, the appraiser/inspector must reference any adverse conditions in the area that could negatively affect habitability, value or marketability.
- The date of the inspection to show that it was inspected after the end of the disaster.

If the loan type for the subject property is a VA loan, VA will also require a Certification by the Correspondent and the Veteran as well as additional remarks on the VA Loan Summary Sheet (VA Form 26-0286). Please refer to the VA Guidance on Natural Disasters policy.

Stockton Mortgage Funding does not have the responsibility to provide notification of disaster areas. If at any time after purchase SMF or a subsequent investor determines that the subject property was damaged and not in fully marketable condition at the time of the sale, the loan is subject to repurchase.

5.14 Escrow Holdbacks

An Escrow Holdback account is an escrow account set up to fund the completion of improvements that are not completed by the closing date.

SMF typically requires that the improvements to the subject property be completed prior to closing. Escrow holdback accounts are not generally acceptable.

5.15 Power of Attorney (POA)

Stockton Mortgage Funding does not typically accept a Power of Attorney for closing documents. For files where the borrower(s) signed the initial disclosures electronically, a Power of Attorney is never allowed. Stockton Mortgage Funding must approve the use of a POA for non-delegated and wholesale loans.

If a POA has been approved by SMF to be used at closing, the following requirements must be met:

- At least one Borrower must be at the closing unless a face-to-face interview for ALL borrowers was conducted at application.
- The loan can NEVER be a cash-out refinance or Investment property.
- The POA must be specific to the subject property transaction and cannot be used for the application or other credit purposes. It must be in force and effective on the date of closing, be durable, be revoked in writing or has a specific expiration date, which is on or after the closing date. It must also specifically authorize the actions necessary to close the loan, whether it is a purchase or refinance and the terms of the loan. The POA cannot be an interested party to the transaction (realtor, seller, etc.)
- The grantor's (Borrower's) name must appear exactly as it will appear on all closing documents.
- The title company must insure the Lender is in first lien position without an exception for the POA.
- The POA must be recorded prior to the closing documents, but never more than 120 days prior to closing.
- The POA must sign the borrower's name with "as attorney-in-fact" following the name. (i.e. Mickey Mouse by Minnie Mouse, as attorney-in-fact) In the case of initials, the POA

must initial the borrower's initials, POA initial underneath and with "as attorney-in-fact" following the initials. (i.e. MM by MM, as attorney-in-fact)

- Must comply with all federal laws and laws of the state in which the borrower executes it.

A written and signed letter of explanation from the borrower granting the POA providing the reason for the necessity of the POA must be included in the loan file.

NOTE: The VA has very specific requirements for loans closed using a POA. Any VA loans closed with a POA must adhere to VA's policies, including an Alive and Well certification.

5.16 Principal Reduction Policy

Stockton Mortgage Funding will allow a principal reduction on a closing disclosure not to exceed \$1,000. For Correspondent loans, the Purchase Advice will be reduced by the principal reduction shown on the Final Closing Disclosure.

5.17 Interest Credit

SMF will accept loans closed with an interest credit for both purchases and refinances with a maximum of 7 days credit on all loan types.

5.18 Per Diem Interest

Per diem interest is calculated at 365 days for all loans.

5.19 Taxes

The Correspondent is responsible for assuring that any tax bill due within 45 days of SMF purchasing the loan have been paid. These must be paid and disbursed on the Closing Disclosure, or evidence of the property tax payment must be submitted with the file at the time of delivery.

5.20 Title Commitment/Binder

Stockton Mortgage Funding requires a signed, completed Title Commitment be included in the file. The commitment must contain the following:

- Have an effective date no older than 45 days at the Note Date.
- Include a 12-month chain of title, 24 if the loan is a jumbo.
- Coverage amount must equal the total Loan Amount.
- Any exceptions being made to the Title Policy.
- The Lender must be the name of the insured.

- A list of the ALTA policies that will be included with the Title Commitment. At a minimum, the following endorsements are required by SMF if appropriate for the property and program type:
 - ALTA Form 4 – Condominium Endorsement
 - ALTA Form 5 – PUD Endorsement
 - ALTA Form 6 – ARM Endorsement
 - ALTA Form 8.1 – Environmental Lien Protection (required on all loans)
 - ALTA Form 7 – Manufactured Home Endorsement
 - ALTA Form 9 – Restrictions, Encroachments (required on all loans)
 - Any State specific required endorsements

Stockton Mortgage Funding requires that any survey exception be removed from the final title policy. If the title company requires a new survey to delete the exception, then SMF will require that one be obtained.

Stockton Mortgage Funding requires a Closing Protection Letter (CPL) dated within forty-five (45) days of the Note.

5.21 Electronic Signature

Stockton Mortgage Funding will accept a loan with the initial disclosures signed electronically, provided the file is compliant with state and federal regulations, complies with the Electronic Signatures in Global and National Commerce Act (ESIGN) and the Uniform Electronic Transaction Act (UETA) and subject to the requirements of the federal housing agencies and government sponsored enterprises. SMF will require a copy of the eConsent and electronic delivery certification (event log) be included in the file.

Loans that have been electronically signed are not allowed to have any of the borrower(s) signatures on the closing documents signed with a Power of Attorney. SMF does not allow any of the closing documents to be signed electronically.

Electronic signatures may not be allowed on some state and federal documents, for instance, the Social Security Administration (SSA) does not allow electronic signatures, therefore the SSA-89 form (if required) will need to be wet signed.

5.22 Closing Disclosures

Stockton Mortgage Funding requires that all Closing Disclosures comply with all state and federal regulations. Loans closed with title insurance or by a settlement agent that appear on any Exclusionary List are not eligible for purchase by SMF, without exception.

For loans with a seller, the disbursements on the Sellers Closing Disclosure must match the Borrowers Closing Disclosure.

5.23 Closed Loan Review

Stockton Mortgage Funding will perform a review of the file to assure that all documentation is present, correct and complete. The complete credit and closing package, including all disclosures, Loan Estimates and Closing Disclosures must be included in the file.

If documentation is incorrect or missing, a Post Closing Suspense will be issued and sent to the Correspondent lender via e-mail. SMF must receive the suspended items within the lock expiration date or within 3 business days of the suspense.

If the suspended items are not received within the later of the expiration date or three business days, the loan will incur penalty fees. The penalty fees will be 25 basis points (.025%) per calendar day for every calendar day beyond the suspension date until the suspense items have been received.

If loans cannot be cleared for purchase within 30 days of the suspension notice, Stockton Mortgage Funding is not obligated to purchase the loan and may return the loan to the Correspondent.

If the loan has no deficiencies, a Purchase Advice will be issued, and the wire will be sent to the Correspondent.

5.24 Mortgage Assignment thru MERS

The loan must close on a MERS mortgage and the Correspondent is responsible to register the loan thru the Mortgage Electronic Registration Services, Inc. (MERS) system and complete a TOS/TOB transaction within 5 days of purchase.

A TOS/TOB should be completed in MERS as follows:

- Investor: 1002742 Stockton Mortgage
- Servicer: 1002742 Stockton Mortgage
- SubServicer: leave blank
- Originator: (Your Company)

5.25 Transfer of Servicing

Correspondents are required to provide the borrower(s) with a Notice of Transfer of Servicing Disclosure upon the sale of the loan. The Correspondent must instruct the borrower(s) to forward their payments to:

Stockton Mortgage Funding
88 C. Michael Davenport Blvd, Ste 1
Frankfort, KY 40601

5.26 Final Docs

Final documents (recorded Mortgage/Deed, Final Title Policy, etc.) must be delivered to SMF within 90 calendar days of the closing of the loan. The documents must be sent to:

Stockton Mortgage Funding
Attn: Collateral
88 C. Michael Davenport Blvd, Ste 1
Frankfort, KY 40601

If any of the final documents require correction, SMF requires that the corrected document be received within 30 days of the initial notice.

Section 6 – Disclosure Requirements

This section is intended to provide guidance on some of Stockton Mortgage Funding’s requirements for Disclosures. This is not an all-inclusive list of disclosures and is not meant to be legal or compliance advice of the requirements or laws.

6.1 State Specific Disclosures

The Correspondent or Broker is required to have all state specific required disclosures signed by the borrower(s) and supplied in the file.

6.2 Homeownership Counseling Disclosure

The Homeownership Counseling Disclosure must be delivered to the borrower within three (3) days of application. SMF will require evidence of the delivery as well as a copy of the list of counseling companies. Evidence of delivery can be in the form of a signed receipt, a signature on the Homeownership Counseling Disclosure itself, or the electronic delivery certification (event log) if the file is esigned by the borrower(s).

6.3 Your Home Loan Toolkit

The Your Home Loan Toolkit must be delivered to the borrower within three (3) days of application. SMF will require evidence of delivery. Evidence can be in the form of a signed receipt or the electronic delivery certification (event log) if the file is esigned by the borrower(s).

6.4 Affiliated Business Agreement

If the Correspondent or Broker has an affiliated business and the borrower(s) are referred to the affiliated business or are required to use their services, the borrower(s) must be provided an Affiliated Business Agreement (ABA) within three (3) days of referral by telephone or immediately if the referral is made face to face or by electronic media.

6.5 Settlement Service Providers List (SSPL)

If the Correspondent or Broker allow the borrower(s) to shop for required services, a Settlement Service Providers List (SSPL) must be supplied to the borrower(s). The SSPL must provide a minimum of one (1) service provider for each “shoppable” service. If the service provider is an affiliate of the Correspondent or Broker, a non-affiliated service provider must also be provided.

If no service providers are listed, then it is assumed the borrower(s) could not shop for services and the fees will be limited by specific fee tolerances. If the borrower(s) do not choose a service provider listed on the SSPL, the fee tolerances do not apply for that particular service’s fee.

6.6 Intent to Proceed

After the borrower(s) have received the Loan Estimate, a signed and dated Intent to Proceed must be obtained and retained in the file.

6.7 Loan Estimates

A Non-Delegated Correspondent is responsible for issuing all Loan Estimates (LE) to the borrower(s) as well as all Change of Circumstances (COC) LE's. All Loan Estimates must be supplied to Stockton Mortgage Funding before or no later than at the same time an Early Closing Disclosure is requested. These will be reviewed to determine that the loan meets all federal requirements for LE disclosures.

For Wholesale loans, SMF prefers to issue the initial LE, but will accept a loan if the Broker prepares the FLOAT Loan Estimate. If the FLOAT LE is issued by the Broker, it cannot have a lender name nor loan number on the form. Having these completed could mean that the loan is rejected for being non-compliant. Stockton Mortgage Funding must prepare all LOCKED LE's and any Change of Circumstances. The Broker may NOT prepare any Loan Estimates after the initial FLOAT LE.

6.8 Changed Circumstance

Once the applicants have signed the Intent to Proceed, the charges on the LE are binding, unless there is a valid change of circumstance. These are defined as:

- Acts of God, war, disaster or another emergency;
- Change or inaccurate information provided by the borrower after the issuance of the Loan Estimate such as credit quality, loan amount or property value;
- New information not previously relied upon (i.e. additional people on title); and
- Other circumstances not previously known (i.e. boundary disputes, flood zone).

If there is a valid change in circumstance and the cost will be charged to the borrower(s), a new Loan Estimate must be provided within three (3) business days of the change. Failure to issue a COC LE within the three (3) business days will result in the fee being un-allowed and a tolerance cure being required.

The changed circumstance must be clearly documented with a Change Circumstance worksheet. The worksheet must be included in the file with the COC Loan Estimates.

Please refer to federal guidelines for further information.

6.9 Credit Denials

When Stockton Mortgage Funding denies a loan, you will be notified, and a credit denial will be issued. On Wholesale loans, SMF will send the denial to the borrower(s). For Non-Delegated Correspondent loans, SMF will send the denial reasons to the Loan Officer and Processor listed on the file. The Correspondent is responsible for sending a compliant denial letter to the borrower(s). A Delegated Correspondent is responsible for issuing compliant adverse actions to the borrower(s) and reporting the loan on their HMDA LAR, if applicable.

Section 7 – Delegated Correspondents

In addition to the requirements listed above, Delegated Correspondents must also follow these guidelines:

7.1 Imaged File Delivery

For a Delegated loan, the closing package should be uploaded to Stockton Connect utilizing the document labeled *3. Close Loan Package – Purchase Review. The credit package must be uploaded in the *1. UW Submission document folder. An email must then be sent to smfpostclosing@stocktonmortgagefunding.com to advise that a package has been uploaded.

7.2 Uniform Closing Disclosure (UCD)

The Uniform Closing Disclosure is a dataset that allows the information on the Closing Disclosure to be communicated electronically and is required for Fannie Mae and Freddie Mac loans. This is a component of both Fannie Mae's and Freddie Mac's Uniform Mortgage Data Program (UMDP).

For all loans submitted to Stockton Mortgage Funding under the Delegated Correspondent program, the following is required:

- The UCD XML file must be submitted to both GSE's and the UCD Findings report (for Fannie Mae Loans) and the Loan Closing Advisor Feedback Certificate (for Freddie Loans) must be delivered on all closed loans. Neither report can have a red critical error or fatal warning message.
- The Final Closing Disclosure must be included in the submission to the GSE's.
- If the Final Closing Disclosure is changed for any reason after submission, the Correspondent will be required to resubmit the file to the GSE's and provide the updated Findings report and Feedback Certificate to SMF.

7.3 Universal Loan ID (ULI)

The Universal Loan ID is a unique identifier that is required under the 2018 HMDA reporting guidelines. It begins with the lenders Legal Entity Identifier (LEI), followed up by up to twenty-three (23) additional characters to identify the covered loan and ends with a two (2) character check digit. Delegated Correspondents must submit the ULI with the loan package for purchase. NOTE: Please do not use special characters in your loan numbers.

7.4 Upfront Mortgage Insurance Premium and VA Funding Fee

It is the Delegated Correspondents responsibility to remit the Upfront Mortgage Insurance Premium (UFMIP) and VA Funding Fee (VAFF) to the agencies within 10 days of closing. Stockton Mortgage Funding will require documented evidence of the payment with the closing package or prior to purchase.

On an FHA loan, the monthly Mortgage Insurance Premium (MIP) must be paid thru the month that SMF purchases the loan. If the loan is purchased prior to the first payment date, SMF will be responsible for all monthly MIP payments on the loan.

7.5 FHA Mortgage Record Change

Delegated Correspondents are responsible for completing the Mortgage Record Change to Stockton Mortgage Corporation in FHA Connection. Mortgage Record Changes must be completed within 15 days from the date of the purchase of the loan.

Stockton Mortgage Corporation's FHA ID number is 1798700004.

7.6 USDA Mortgage Record Change

When there are any changes to the Servicer on a USDA mortgage loan, USDA must be notified of the change. The Delegated Correspondent is responsible to provide USDA with a Notice of Sale (Form RD 3555-11) naming Stockton Mortgage Corporation as the new Holder and Servicer. This must be completed within 15 days of the transfer. Below is the information needed to transfer the servicing:

Stockton Mortgage Corporation
tax ID 61-1392032
Agency assigned branch #001
88 C Michael Davenport Blvd, Ste 1
Frankfort, KY 40601

7.7 Insuring

This proprietary information is meant for instructional purposes only and for use by industry professionals. None of the information is intended to be legal or compliance advice. Stockton Mortgage Funding NMLS 8259.

Delegated Correspondents are responsible for ensuring that FHA loans are insured. A printed copy of the Mortgage Insurance Certificate (MIC) must be delivered to SMF within 60 days of the note date.

VA loans require a copy of the Loan Guaranty Certificate (LGC) be sent to SMF within 30 days of the note date.

For a USDA loan, the Loan Note Guarantee (LNG) must be delivered to SMF within 60 days of the note date.

If the loan is a conventional and has Mortgage Insurance (MI), the Delegated Correspondent is responsible for ensuring the MI has been activated with the Private Mortgage Insurance company.

7.8 Bailee Letters

If a third party holds an interest to any loan delivered to Stockton Mortgage Funding, a Bailee Letter must be delivered with each file and must be included with the original Note and Allonge. The Bailee letter should include:

- Correspondent name
- Loan Number
- Principal Balance
- Wiring instructions

The loan will not be purchased without a valid Bailee Letter and correct original Note and Allonge.

7.9 MERS

For Delegated Correspondents who are MERS Members, the loan must close on a MERS mortgage and the Correspondent is responsible for registering the loan thru the Mortgage Electronic Registration Services, Inc. (MERS) system prior to funding by SMF. A Transfer of Servicing/Transfer of Benefit (TOS/TOB) must be initiated to Stockton Mortgage Corporation prior to the purchase by SMF.

A TOS/TOB should be completed in MERS as follows:

- Investor: 1002742 Stockton Mortgage
- Servicer: 1002742 Stockton Mortgage
- SubServicer: leave blank
- Originator: (Your Company)

Non-MERS members: Stockton Mortgage Funding will not accept loans from Delegated Correspondents that are Non-MERS members.

7.10 Mortgage Purchase

When the Delegated Correspondent has successfully delivered a file to SMF, a thorough review will be performed, which includes an examination of compliance, documentation and verification of adherence to all applicable federal, state and agency regulatory requirements as well as all underwriting requirements.

If a loan is missing documentation or needs correction, a Purchase Suspense will be issued to the Delegated Correspondent.