Document is Not Legal or Compliance Advice
This document should not be construed as legal or compliance advice. FHMS encourages Brokers to consult with their legal and/or compliance counsel for any legal or compliance matters.

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1 INTRODUCTION

1.1 Purpose
The Wholesale Lending Division of First Heritage Mortgage Services (FHMS) closes loans from approved Brokers. This Wholesale Lending Broker Guide details the terms and conditions that govern Broker participation in the FHMS Wholesale Lending Program. Occasionally, FHMS communicates updates and revisions to this Guide through email communications and online bulletins located on the FHMS Web Site. Each bulletin will indicate its effective date. The basic terms and conditions of the Nonexclusive Loan Brokerage and Sales Agreement have been incorporated into this Guide, however in the event of a conflict with this document the Nonexclusive Loan Brokerage and Sales Agreement will govern.

1.2 Applicability
This Guide shall apply to Brokers in its entirety including all divisions, departments, subsidiaries, and affiliates.

1.3 Wholesale Lending
A Broker, as defined by FHMS, is an FHMS-approved mortgage lender that carries a Broker’s license and originates loans in the name of FHMS. The Broker then submits the loan to FHMS for review, underwriting, closing, and funding utilizing FHMS as the funding source.

1.4 Wholesale Loan Process
All Brokers should use this Guide to ensure that loans are prepared in accordance with FHMS requirements, thus increasing the chance of FHMS accepting, closing, and funding the loan. After Brokers create the loan, the loan package will proceed through the pipeline as follows:

- **Started** – Loan has either been registered or submitted through the FHMS Wholesale website.
- **Processing** – Brokers upload required documentation (Broker Full Package) for initial underwriting. The processor reviews the package to see if all documentation needed for a credit decision has been received. If it has, it will be submitted to underwriting. If documentation is missing, the processor will reach out to the Broker to advise what is still needed.
- **Submitted** – An FHMS underwriter reviews the Broker Full Package for a credit decision. The turn times are referenced on the FHMS Wholesale website.
- **Decisioned** – Broker is notified that the loan has been conditioned.
- **Resubmittal** – All prior-to-approval and prior-to-documents conditions have been received and completed.
- **Approved** – Loan is cleared for closing (Underwriter has cleared all outstanding prior to approval and prior to doc conditions).
- **Closing** – The loan rate is confirmed and locked and the required documents received (Quality Control (QC) audit reviews occur during this milestone).
- **Closing Package Sent** – FHMS sends the Closing Disclosure (CD) and closing documents to the title/escrow company and Borrower for signature.
- **Funding** – FHMS wires the funds to the title/escrow company.

2 GETTING STARTED

2.1 Overview
FHMS is in the business of providing the best possible service to its clients and customers. To begin a relationship with FHMS, Brokers can visit the FHMS Wholesale website and click GET APPROVED. This will take Brokers to the Comergence Compliance LLC website. There, a Broker can create a new account to get started. Brokers with existing accounts can go to the FHMS Wholesale website and click on LOG IN.
2.2 Approval

The following is an overview of documents necessary for Wholesale approval. These will be requested and maintained by Comergence as part of the approval process. For Wholesale Brokers, the following Initial Due Diligence process will be utilized:

- Prospective Wholesale Brokers will be required to apply for approval with FHMS through Comergence (a third party due diligence service provider).
- Comergence will confirm receipt of all required documents as follows:
  - Most recent financial statements
    - Minimum Requirements set by state of incorporation
  - Resumes of Key Management
  - Company Formation/Corporate By-laws
  - Corporate Resolutions
  - FHMS Nonexclusive Loan Brokerage Purchase and Sale Agreement (Broker Agreement)
  - FGMC Broker Statement of Compensation
  - IRS Form W-9
- Comergence will conduct the following due diligence on the company and its owners:
  - Office of Foreign Affairs Control (OFAC) Review
  - Licensing Review
  - Federal Criminal and Civil Records Review
  - Secretary of State Review
  - Bankruptcy, Judgments and Liens and Foreclosure Review
  - State and Local Criminal Records Review
  - Enforcement Actions Review of the following:
    - Mortgage and Financial Sanctions
    - Housing Urban Development Limited Denial Participation (HUD LDP)
    - System for Award Management (SAM)
    - Consumer Financial Protection Bureau (CFPB)
    - National Credit Union Administration (NCUA)
    - Federal Deposit Insurance Corporation (FDIC)
    - Office of the Comptroller of the Currency (OCC)
    - Federal Housing Finance Agency (FHFA)

2.3 WHOLESALE ELIGIBILITY

2.3.1 Overview

With respect to loans brokered to FHMS and in addition to the FHMS Nonexclusive Loan Brokerage and Sales Agreement and other legal agreements between FHMS and the Wholesale Broker, each Broker is bound by the provisions of this Guide.

2.3.2 Eligibility

The requirements stated below, unless waived by FHMS at its sole and absolute discretion, must be met by Brokers in order to be eligible for participation in the FHMS Wholesale Program. FHMS reserves the right, in its sole discretion, to determine whether a prospective Broker meets these eligibility requirements. Once approved, Brokers are required to maintain the eligibility requirements. If a Broker fails to maintain one or more of the eligibility requirements, FHMS may suspend closing mortgage loans from the Wholesale Broker and/or terminate its business relationship with the Broker.
2.3.3 Requirements
Brokers must follow the requirements listed below.

Experience
The Broker must have been an active originator of first lien, investment-quality residential mortgage loans using Fannie Mae’s Desktop Underwriter (DU) Automated Underwriting System (AUS) engine during the previous two years.

Facilities
The Broker must have adequate facilities with which to originate first lien residential mortgage loans.

Standards
- The Broker must follow generally accepted mortgage lending practices with respect to its mortgage loan origination activities.
- The Broker’s company must be an organization which is committed to, and engages in, responsible lending practices.

Legal Standing
- The Broker must be duly organized, validly existing, and in good standing under the laws of the jurisdiction of its organization and qualified to transact business and properly licensed in each jurisdiction where it originates or services mortgage loans.
- The Broker must be in good standing with all applicable regulatory authorities and not subject to any extraordinary supervision of its operations.
- The Broker must have the power and authority to enter into the FHMS Nonexclusive Loan Brokerage and Sales Agreement.
- The Broker’s compliance with the terms and conditions of the agreement, including the terms and conditions of this Guide, must not violate any of the provisions of its articles of incorporation, charter or bylaws or any other instrument relating to the conduct of the Broker’s business, the ownership of its property or any other agreement to which it is a party or by which it is bound.

Licensing
The Broker must possess and maintain all required licenses necessary to conduct its activities in each jurisdiction in which any mortgaged property is located or otherwise be exempt from such requirements.

2.3.4 Notification of Significant Changes
The Broker must send FHMS written notice of any contemplated major changes in its organization, including its notice copies of any filings with, or approvals from, its regulators. FHMS requires notice of, among other things, the following significant changes relating to the Broker:
- Any mergers, consolidations, or reorganizations.
- Any direct or indirect material change in ownership. An “indirect change in ownership” includes any change in the ownership of the Broker’s parent, any owner of the parent, or any beneficial owner of the Broker that does not own a direct interest in the Broker.
- Any change in corporate name.
- Any change from a federal charter to a state charter (or vice versa) if the Broker is a savings and loan association or a bank.
- Material changes in financial condition.
2.3.5 Changes to Corporate Authority and Banking Relationships
In the event that there is any change in corporate authority, the lender must immediately deliver to FHMS a replacement Corporate Resolution, which accurately reflects the corporate authorizations granted by the lender, or a Funding Instructions Notification which accurately describes the banking relationships in effect, as applicable.

FHMS will not recognize any changes in the Broker’s corporate authorizations or funding instructions until the replacement Corporate Resolution, or Funding Instructions Notification, as applicable, is received by FHMS.

2.3.6 Compliance Reporting Requirements
If the Broker is subject to the jurisdiction of any governmental agency or quasi-governmental agency, including but not limited to, state regulatory entities, the Consumer Financial Protection Bureau (CFPB), Fannie Mae, Freddie Mac, Department of Housing and Urban Development (HUD) or Federal Deposit Insurance Corporation (FDIC), FHMS may request copies of any audit reports issued by such agencies.

If any disciplinary action is taken by any such agency, including suspension or termination of the Broker’s selling or servicing rights, the Broker must notify FHMS within three (3) business days of such action. Any reports or notices to be delivered to FHMS pursuant to this section of the Guide must be delivered to the following address:

First Heritage Mortgage Services
Attn: Wholesale Lending
2655 Neshaminy Interplex Dr
Tevose, PA 19053

2.3.7 Periodic Reviews
FHMS will routinely review each Broker’s book of business to monitor performance. The reviews may include, but are not limited to, the following:

- Product mix
- Best-effort commitment pull-through rate
- Mark-to-Market (MTM) exposure
- Delinquency data
- HUD compare ratios
- Repurchase activity
- Defective delivery rate
- Number of Early Payment Default (EPD) loans
- Number of Early Payoffs (EPO) and overall portfolio turnover

2.3.8 Early Payoff Remedies
Consistent with the prepayment review process of the Agencies, FHMS routinely reviews each Broker’s portfolio of loans to monitor levels of prepayments. If such analysis identifies unusual prepayment behavior (as defined by one or more of the Agencies) by an FHMS Broker, the originating Broker or loan officer, FHMS may seek additional protections, including an extended EPO period on future fundings or disallowing loans to be submitted from identified Brokers or loan officers prior to funding any additional mortgage loans from a Broker. Further, if FHMS receives invoices from an investor due to unusual prepayment speeds, the cost (which may include an EPO recapture of all amounts paid in excess of the loan amount) will be passed on to, and be borne by, the Broker.

See the FHMS Nonexclusive Loan Brokerage and Sales Agreement regarding solicitation, Government-Sponsored Enterprise (GSE) eligible loans, and the GSE’s policy regarding prepayment behavior.
2.3.9 Audits
FHMS may audit the Broker’s mortgage loan origination operations and examine the books and records relating to any mortgage loan funded by the Broker to FHMS. The Broker will facilitate such audits and provide FHMS and its agents with access to the Broker’s offices, books and records at reasonable times during the Broker’s normal business hours.

2.3.10 Broker Annual Recertification
Wholesale Brokers will have the following requirements for recertification:

- Existing Wholesale Brokers will be required to complete an annual Renewal Application through Comergence for continued approval with FHMS.
- Comergence will confirm receipt of all required documents as follows:
  - Interim financial statements
  - Resumes of Key Management (revised or additional) that differ from those previously provided to FHMS
  - Company Formation/Corporate Bylaws
  - Corporate Resolutions
  - FHMS Nonexclusive Loan Brokerage Purchase and Sale Agreement (Broker Agreement)
  - FHMS Broker Compensation Election
  - IRS Form W-9

- Comergence will conduct the following due diligence on the company and its owners:
  - Office of Foreign Affairs Control (OFAC) check
  - Licensing review
  - Federal Criminal and Civil Records check
  - Secretary of State check
  - Bankruptcy, Judgments and Liens and Foreclosure check
  - State and Local Criminal Records check
  - Enforcement Actions check of the following:
    - Mortgage and Financial Sanctions
    - Housing Urban Development Limited Denial Participation (HUD LDP)
    - System for Award Management (SAM)
    - Consumer Finance Protection Bureau (CFPB)
    - National Credit Union Administration (NCUA)
    - Federal Deposit Insurance Corporation (FDIC)
    - Office of the Comptroller of the Currency (OCC)
    - Federal Housing Finance Agency (FHFA)

*Wholesale Brokers that fail to provide necessary renewal documentation within thirty (30) days of their current renewal date will be suspended from locking any new loans. If the renewal does not get completed within ninety (90) days of their current renewal date, the relationship will be terminated and they will be required to complete the full approval process to be reinstated.*

2.3.11 Financial Statement Delivery Requirements
All Brokers are required to provide financials within 120 days of fiscal year end.
2.3.12 Loan Defects

Early Payment Default
Broker shall be obligated to repurchase the affected Mortgage Loan in accordance with the terms of their Nonexclusive Loan Brokerage and Sales Agreement and any addenda, upon the occurrence of one or more of the following circumstances (each, a “Repurchase Obligation”) affecting a Mortgage Loan:

- Where an Early Payment Default has occurred with respect to the Mortgage Loan;

  The Lender (FHMS) reserves the right to, in lieu of repurchase, recapture the Service Release Premium (SRP), an administrative fee of $3,000 and any estimated associated loss in respect to the Mortgage Loan.

2.4 VA Sponsorship

To deliver a VA Wholesale file, Brokers must designate FHMS as their sponsor annually. To initiate a first time VA Sponsorship request, the Wholesale Broker must send the FHMS VA Sponsorship Form along with a check for $100. If the Wholesale Broker is renewing from the previous year, the VA Sponsorship form is not required to accompany the check, however the check must be received by FHMS no later than December 31st of the most recently approved year or access to deliver VA Brokered loans will be restricted until receipt. For both first time requests and annual renewals, VA loan creation will be allowed within the loan delivery portal upon receipt of the check at FHMS.

2.5 Setup

Once FHMS has sent approval, the Wholesale Broker will go to the FHMS Wholesale website. Click on the GET APPROVED drop down on the menu bar and select Request Website Login. This is the first step in getting properly setup on the FHMS Web Portal. The FHMS Help Desk will set up individual users once the completed form has been received.

The Broker will be assigned an Account Executive (AE) in relation to the Comergerence application, as the main point of contact. If additional branches need separate delivery logins, they can be set up through the same process. If they are assigned a different AE, we can specify that AE on the setup form for that branch.

2.6 Resources

These important resources will provide Brokers with learning opportunities in order to quickly establish a working relationship with FHMS.

2.6.1 FHMS Wholesale Website

Access the FHMS Wholesale website at: www.Firstheritage.org/wholesale. Two important sections are highlighted below:

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<td>• NMLS Consumer Access</td>
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<tr>
<td>• FHA Case # Request</td>
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<td>• FHA Case # Transfer</td>
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<td>• FHA Case # Cancellation</td>
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<tr>
<td>• Helpful Links</td>
<td></td>
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<tr>
<td>• GUS Set Up</td>
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2.6.2 Portal Training
Brokers can contact their AE with questions or for more details on how to use the Wholesale Portal. Reference guides and video tutorials can be found under the “How to Guides” & “Online Training” tabs of our website. If a Broker encounters an issue or error when submitting a file, uploading conditions, or locking, the FHMS Help Desk is available for assistance by emailing submissionhelp@FHMS.com or calling 866.739.9200 Option #3.

2.6.3 Loan Submission
Submission and Condition instructions and Loan Submission Form:
- A completed FHMS Wholesale Disclosure Submission Form is required on all loan submissions.
- Instructions for submitting loans and uploading conditions to FHMS can be found here:
  - Loan Delivery Portal User Guide
  - If at any time there is an issue or error submitting a file, uploading conditions, or locking a loan, the FHMS Help Desk is available for assistance by emailing submissionhelp@FHMS.com.

2.6.4 Submitting Files to FGMC
Brokers are advised to provide the required documentation:

**Required documentation to accept application and disclose:**
- Completed FGMC Wholesale Disclosure Submission Form
- Submit your request for an LE within 2 business days of your application date, defined as when the six pieces of an application are received as per TRID.
- Completed loan application (1003) signed and dated by the broker.
  - If application was taken within 2 business days and a 1003 and LE has not been issued, then broker may elect to issue the 1003 to the applicant through FHMS's portal. However, if an application has been issued, it must be provided to FHMS.

**Required documentation needed for initial credit decision:**
- Borrower(s) Credit Authorization
- Credit Report(s)
- Assets (most recent bankstatement)
- Income (most recent paystub - W2 Employees, 1-year tax return for self-employed applicants, fixed income docs)
- Sales Contract, if applicable
The Broker will be responsible for including all documents. Incomplete mortgage loan files will lead to delayed turn times for disclosing, processing and or underwriting. If the package is not acceptable by the FHMS disclosure team, the file may be rejected and require resubmission.

**NOTE:** FHMS will accept a TBD purchase file (no property address identified) for review only. Be aware that documentation provided for initial underwriter review correlates to the conditions on the loan. The less documentation received, the more likely that conditions will result.

3 DELIVERY PROCEDURES
At this point, the Wholesale Broker has been approved, attended training for the FHMS Web Portal, and determined the best loan delivery option (such as importing a DU 3.2 file and uploading PDFs of the Credit, Income, Assets, Borrower Authorization and Purchase Contract, if applicable).
3.1 Ability to Repay and Qualified Mortgage Rule
FHMS complies with the Consumer Financial Protection Bureau’s (CFPB) Ability-to-Repay (ATR) and Qualified Mortgage (QM) Rule (“Rule”). FHMS requires Brokers to also comply with the Rule’s ATR and QM provisions. In accordance with the Rule, it is the policy of FHMS to ensure that the Broker makes a reasonable good faith ATR determination using verified and documented information.

FHMS requires Wholesale Brokers to ensure their compensation agreement does not exceed the QM points and fees loan amount threshold tiers set forth by the CFPB.

Eligible for Delivery to FHMS
FHMS will only close loans that meet the requirements for Qualified Mortgages under the Truth in Lending Act (TILA), including, but not limited to, ATR, maximum allowed points and fees, and prohibited loan features. FHMS will accept QMs that meet the TILA requirements for either Safe Harbor or Rebuttable Presumption QMs. Brokers should consult with their compliance and/or legal counsel for more information on compliance with the ATR-QM Rule.

3.2 Required Forms and Reference Data
All applicable forms can be found in the Resources tab under Forms on the FHMS Wholesale website.

3.3 Underwriting Conditions
All underwriting conditions, such as prior-to-approval and prior-to-docs, must be satisfied prior to loan closing.

When the loan is “Clear to Close” (CTC), the loan moves from the underwriter to the “Approval” milestone and then the closing process will take place.

- Wholesale brokers must complete and submit the Wholesale Initial Closing Disclosure Request Form.
  - Not permitted for construction or renovation loan products
- All brokered loans must close in the name of First Guaranty Mortgage Corporation.
  - Brokers are responsible for full compliance with the Real Estate Settlement Procedures Act (RESPA) and Truth-in-Lending Act (Reg “Z”) requirements.
  - Closing documents with whiteout, erasures or lift-off tape will not be accepted. If documents need correction, please contact FHMS’s Closing Department for further guidance.

Funding Procedures
Funds will be sent via wire to the title/escrow company and may not be disbursed until the loan has been closed per the closing instructions and all FHMS funding conditions have been met and verified. A funding number will be issued at that time.

3.4 Mortgagee Clause
Refer to the FHMS Mortgagee Clause form for state and agency specific variations.

Note: It is the Broker’s sole responsibility to ensure that all vendors are notified to change the mortgagee clause to:

First Guaranty Mortgage Corporation, ISAOA/ATIMA
C/O Flagstar Bank
Its successors and/or assigns
P.O. Box 7026
Troy, MI 48007-7026

3.5 HUD-1 Settlement Statement/Closing Disclosure
A completed and signed original/certified copy of the Final HUD-1 Settlement Statement or Closing Disclosure (for applications taken after 10/02/15) is required by FHMS, and must be included in the closing file prior to funding.
3.6 Tax Requirements
IRS Form 4506-T Requirements
Brokers are required to submit a borrower-signed Request for Transcript of Tax Return Form 4506-T signed and dated by each borrower prior to closing.

3.7 Escrow Waiver Fees
The Escrow Waiver Fee is a deduction from the base price of the loan. The Broker can refer to the Loan Pricing Adjustments (LPA) to determine any applicable escrow waiver fee. LPAs are listed on the FHMS Wholesale Rate Sheet.

3.8 Power of Attorney (POA)
All POAs must be reviewed and approved by FHMS prior to purchase/closing to ensure that legal, agency, and investor requirements are met.

POA Guidelines - General
- The POA must comply with state and federal laws.
- The POA must be durable (the POA survives the subsequent incapacity or disability of the principal).
- The POA should be specific to the transaction (e.g., should contain a description of the property).
- The POA must specifically authorize the actions necessary to close the loan, whether it is a purchase or refinance, and the terms of the loan cannot exceed the authority in the POA.
- The title/escrow company must always approve the POA as they are the party insuring the loan. The title company should review the POA to ensure it complies with state and local requirements regarding validity, signature and acknowledgment.
- The Final Title Policy must not contain any exceptions relating to the POA.
- The POA must be recorded with the Mortgage/Deed of Trust.
- A POA should only be used in extraordinary circumstances.
- A letter of explanation providing the reason for the necessity of the POA must be included in the loan file.
- The POA must be properly executed in accordance with the laws of the state in which the borrower executes it.
  o Examples of state law requirements, while not exhaustive, include:
    • Number of witnesses
    • Particular witness attestation language
    • Particular state notarial act requirements
    • Disinterested witness requirements, including whether notary can serve as witness
    • Specific language required to be included in the POA
    • State laws requiring itemized authorization by principal
    • That there is no order of conservatorship that conflicts with the authority of the POA
- Additional agency and investor guidelines must be met.
- Unless it is a proper military POA under Title 10 of the United States Code, POA signed outside of the United States must be acknowledged before the United States embassy or consulate.
  • Customer Identification Program requirements (CIP) must be completed before the borrower is unavailable when a power of attorney is used and cannot be completed by the person who is granted power of attorney authority. A copy of the completed PATRIOT Act Information Form, the borrower’s identification card/document and the completed power of attorney must be provided to FHMS before closing.
- Please note that, in addition to the specifications set out in this section, there may be additional requirements and conditions specified by applicable Agencies and Investors that will need to be fulfilled prior to the acceptance of a mortgage loan by FHMS with respect to proper execution of closing documents and/or the use of POAs and Trust authorizations as set out herein.
3.9 Trust Review Guidelines
FHMS may fund loans where the property is held in a revocable trust provided that the trust meets investor and FHMS guidelines. All trusts (where property is closing in a trust or the property is deeded out of the trust prior to closing) must be reviewed and approved by FHMS. At a minimum, FHMS will require a copy of the trust documents and the title commitment documents. In most cases, a current trust certification or affidavit which confirms the powers of the trustees and the continuing existence of the trust will also be required. Additional conditions may apply.

The review will include the following criteria:
- A complete copy of the trust including all referenced schedules and amendments except in those states where an executed Certificate of Trust is acceptable instead of the entire trust agreement. The trust should be signed, notarized, and dated by all applicable parties.
- Trust affidavit or Certificate of Trust signed by the trustees shortly before or at closing.
  - The individual(s) establishing the trust ("Grantor" or "Settlor") is alive at the time of loan application, and loan closing/funding.
  - The trust has been established in writing by a natural person and is to be effective during their lifetime. (The trust is not created in a will or codicil.)
- The Grantor(s) has the right to revoke or alter the trust.
- The primary beneficiary of the trust is the Grantor(s) (the interest and principal of the trust estate is applied for their benefit) and the mortgage has been underwritten as if the Grantor (or at least one of the Grantors) is the borrower (or the co-borrower, if there are additional individuals whose income or assets will be used to qualify for the mortgage).
- The loan applicant(s) are both the Grantor(s) and the trustee (or one of the co-trustees).
- The trustees must include at least one of the Grantors, if there are two or more, or an institutional trustee that customarily performs trust functions (i.e., a bank).
- The trustee(s) has the power to mortgage and borrow money.
  - The trust does not contain an unusual risk or impairment of the lender’s rights (i.e., distributions required to be made in specified amounts from other than net income).
  - The title must be vested: in the name of one trust; jointly in the trustee(s) of the inter vivos revocable trust and in the name(s) of an individual borrower(s); or in the trustee(s) name if more than one inter vivos revocable trust.
- The title policy assures full protection to the lender, its successors, and/or assigns, and must state that title to the property is vested in the trustee(s) of the trust. (It must not list any exceptions arising from the trust ownership of the property.)

The agency or investor signature requirements must be met. (See Signature Specifications.)
Trust documents must be provided to FHMS at least four days prior to CTC.

3.10 Signature Specifications
Signatures on all closing documents must meet the following specifications:
- Each borrower’s name and signature must be consistent on all closing documents, matching to the names appearing on the title insurance policy.
- Signatures must appear exactly as they are typed on the document. Each borrower’s signature must appear directly above his or her typed name in the signature portion of each signed document.
- If corrections to the documents are required, then ONLY strike-overs are permitted and any change must be initialed by each borrower.

Note: All loans will be reviewed for these signatures as stated above. See examples below.
First Heritage Mortgage Services

The preprinted signature should indicate that the borrower is signing through a **Power of Attorney (POA)** and preprinted signature should match the signature of the borrower.

*By way of example, the following is acceptable:*

- **Mary Jones, by John Smith attorney in fact**
  Mary Jones by John Smith attorney in fact

- **Mary Jones as attorney in fact for John Smith**
  Mary Jones by John Smith attorney in fact

*By way of example, the following is not acceptable:*

- **Mary Jones, by John Smith attorney in fact**
  Mary Jones

- **Mary Jones**
  Mary Jones by John Smith, attorney in fact

- **Mary Jones**
  Mary Jones, attorney in fact

The preprinted signature should indicate that the borrower is signing in their capacity as a **Trustee** and the preprinted signature should match the actual signature of the borrower.

*By way of example, the following is acceptable:*

**NOTE:**

- **Mary Jones, individually and as trustee of the Jones Family Trust**
  Mary Jones, individually and as trustee of the Jones Family Trust

**MORTGAGE/DEED OF TRUST:**

- **Mary Jones, trustee of the Jones Family Trust**
  Mary Jones, trustee of the Jones Family Trust

### 3.11 Title Insurance Specifications

The mortgage loan must be covered by an ALTA (American Land Title Association) lender’s title insurance policy or a title insurance policy which provides the same coverage as the equivalent ALTA form. The insurance policy must adhere to the following requirements:

- The policy must be issued by a title insurer, acceptable to the applicable Agency that is qualified to do business in the jurisdiction where the mortgaged property is located.
3.12 Private Mortgage Insurance
FHMS will order a commitment/policy from an Agency-approved private mortgage insurer prior to the mortgage loan closing for all loans requiring Private Mortgage Insurance (PMI).

Acceptable PMI Types
- Borrower Paid Monthly
- Borrower Paid Single Premium

Unacceptable PMI Types
- Lender Paid Monthly
- Lender Paid Single Premium
- Split Premium
- Financed
- Lender Paid Annual
- Borrower Paid Annual
- Reduced coverage
- Any MI type not listed as acceptable

3.13 Hazard Insurance
Hazard Insurance General Specifications:
TITLE INSURANCE POLICY - NAME OF INSURED
First Guaranty Mortgage Corporation, ISAOA/ATIMA

HAZARD INSURANCE POLICY - MORTGAGEE CLAUSE
FHA LOANS (Sponsor ID No. 7516800469)
First Guaranty Mortgage Corporation, ISAOA/ATIMA
C/O Flagstar Bank
Its successors and/or assigns
P.O. Box 7026
Troy, MI 48007-7026

VA LOANS (Sponsor ID No. 6852450000)
First Guaranty Mortgage Corporation, ISAOA/ATIMA
C/O Flagstar Bank
Its successors and/or assigns
P.O. Box 7026
Troy, MI 48007-7026

CONVENTIONAL & USDA LOANS
First Guaranty Mortgage Corporation, ISAOA/ATIMA
C/O Flagstar Bank
Its successors and/or assigns
P.O. Box 7026
Troy, MI 48007-7026

ADDITIONAL INFORMATION
Abbreviations: If an abbreviation is necessary, use the following only:
First Guaranty Mtg. Corp., ISAOA/ATIMA
For ND Loans name should be: First Guaranty Mortgage Corporation dba FHMS, ISAOA/ATIMA
For NY Loans name should be: FHMS In Lieu of True Corporate Name First Guaranty Mortgage Corporation, ISAOA/ATIMA
3.13.1 Types of Hazard Insurance Coverage

One-to-Four Family Residences
One-to-four family residences must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage should be of the type that provides for claims to be settled on a replacement cost basis. FHMS will not accept hazard insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement. Broker’s should advise borrowers that they may not obtain hazard insurance policies that include such limitations or exclusions—unless they are able to obtain a separate policy or endorsement from another commercial insurer that provides adequate coverage for the limited or excluded peril or from an insurance pool that the state has established to cover the limitations or exclusions.

PUD
Individual insurance policies are required on Planned Unit Development (PUD) units unless the PUD unit is covered under the project’s blanket policy and the PUD project’s constituent documents allow the individual PUD units to be included in the projects blanket policy. In addition, the homeowner association must maintain a policy which covers the common areas, fixtures, equipment, personal property and supplies of the project.

Condo
On a condominium unit, an individual hazard insurance policy is not required. Before delivering a mortgage loan to FHMS, the Broker must verify that coverage is in force for the entire project.

3.13.2 Amount of Hazard Insurance Coverage
For first lien home mortgages on 1-4 unit properties, the hazard insurance coverage must be equal to lesser of:
- 100% of the insurable value of the improvements—as established by the property insurer or
- Guaranteed Replacement Cost Endorsement, which provides that the insurer agrees to replace the insurable property, regardless of the cost or the Replacement Cost Endorsement or
- The unpaid principal balance of the mortgage, as long as it equals the minimum amount (80%) of the insurable value (total appraised value minus the estimated site value) required to compensate for damage or loss calculated on a replacement cost basis.

If the hazard insurance is not equal to at least one of the above minimum coverage amounts, then additional hazard coverage that meets the minimum coverage amounts must be obtained before the loan can be purchased.

If the estimated site value, opinion site value, or an appraisal addendum signed by the appraiser is not available on the appraisal, the documents below are acceptable in the following order:
1. Insurance value from the insurance agency.
2. Third party vendor may have been used by the vendor.
3. If the site value is not noted, the tax assessor value from the title policy/commitment or tax assessment form may be used for the calculation.

Hazard insurance policies that include optional coverage not required by FHMS are acceptable provided that FHMS is not obligated to renew any part of the coverage not required hereunder.

3.13.3 Hazard Insurance Deductible
The deductible for hazard policies must conform to investor guidelines unless otherwise specified below.
### 3.13.4 Additional Hazard Insurance Coverage

**PUD**

Requirements for 1-4 unit properties apply to similar residential properties within a PUD or a ground lease community. If the individual units are covered by insurance purchased by their respective owners or leasehold lessees, the PUD homeowner association or the fee simple landowner/lessor of the ground lease community must maintain “all risk” coverage for common areas and property for 100% of their insurable value and provide for loss or damage settlement on a replacement cost basis, unless the common elements have minimal or no value, then **coverage on the common elements will not be required**. The association or fee simple landowner/lessor must also obtain any additional coverage commonly required by private mortgage investors for developments similar in construction, location and use, including the following where applicable and available:

- Agreed amount
- Demolition cost
- Increased cost of construction
- Boiler and machinery

The insurer’s minimum liability per accident under boiler and machinery coverage must equal the insurable value of the building housing such boiler or machinery or $2 million, whichever is less.

FHMS will also accept blanket insurance covering all units in the PUD or ground lease community as well as insurable common areas and property, if called for in the PUD’s governing documents or in the lease. Such coverage must meet the requirements applicable to each PUD or ground lease community unit and those applicable to insurable common areas and property. Deductibles are allowed under this blanket coverage under the terms and conditions stipulated above.

The PUD or ground lease community fee simple owners’ insurance policy must name the insured in substantially the same language as follows: Association of the Owners of the Planned Unit Development for the use and benefit of the individual owners (designated by name, if required by law or the governing documents).

**Condominiums**

Condominiums must be covered by an insurance policy which protects against fire, and all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily insured against by similar types of projects, including those covered by the standard “all risk” endorsement. If the policy does not include an “all risk” endorsement, FHMS will accept a policy that includes the “broad form” covered causes of loss. The homeowner association must maintain the hazard insurance policies described in this Guide. Premiums with respect to such policies should be considered a common expense of the project.

Policies covering the common elements for a condominium project must cover all of the common elements except for those that are normally excluded from coverage, such as land, foundation, excavations, etc. Fixtures and building service equipment that are considered part of the common elements, as well as common personal property and supplies, should be covered. FHMS will accept such policies in satisfaction of the insurance specifications for the units, if the project’s legal documents allow for blanket insurance policies to cover both the individual units and common elements.

The “master” or “blanket” policy covering the common elements of a condominium project must cover all of the general and limited common elements that are normally included in coverage such as fixtures, building service equipment and common personal property and supplies belonging to the homeowner association.
First Heritage Mortgage Services

The policy must also insure fixtures, equipment, and other personal property inside individual units if they will be financed, whether or not the property is part of the common elements. The condominium owners’ association must maintain blanket “all risk” coverage for the following:

- General and limited common elements within the condominium project
- Fixtures, machinery, equipment and supplies maintained for the service for the condominium project
- Fixtures, improvements, alterations and equipment within the individual condominium units

Coverage must be for 100% of the insurable value of the common elements or property described above and provide for loss or damage settlement on a replacement cost basis. The additional coverage required for PUD homeowner associations is also required for condominium owner associations where applicable and available. The deductible for fire, water (not caused by flooding) or wind damage to the insured improvements (generally designated as “building” in the insurance policy) may not exceed 5% of the limit maintained for building coverage.

The insurance policy of the condominium owners’ association must name the insured in substantially the same language as follows: Association of Owners of the ________ Condominium for the use and benefit of the individual owners (designated by name, if required by law or the governing documents).

If the mortgaged premises are in a Detached Condominium Project and the condominium governing documents so permit, FHMS will accept insurance for the mortgaged premises that meets the requirements of 1-4-unit properties. The condominium unit owners’ association must maintain all other applicable insurance coverages required.

3.13.5 Special Endorsements

The following endorsements are required for PUD and condominium projects:

- Inflation Guard Endorsement, if available;
- Construction Code Endorsement, if there is a construction code provision that would require changes to undamaged portions of the subject project’s building(s) even when only a part of a building is destroyed by an insured hazard;
- Steam Boiler and Machinery Coverage Endorsement, if the project has central heating or cooling. The minimum coverage per accident must be at least equal to the lesser of $2 million or the insurable value of the building(s) containing the boiler or machinery. Separate stand-alone boiler and machinery coverage may be purchased in lieu of obtaining this endorsement.

In addition, policies covering a condominium project should provide that:

- Insurance trust agreements will be recognized;
- The right of subrogation against unit owners will be waived;
- The insurance will not be prejudiced by any acts or omissions of individual unit owners that are not under the control of the homeowner association; and
- The policy will be primary, even if a unit owner has other insurance that covers the same loss.

These provisions are usually covered by a Special Condominium Endorsement.

3.14 Flood Insurance

Prior to loan closing, a Flood Zone Determination Certification (FZD or Flood Cert) is required for each loan file. Flood insurance is required for any property located in a Special Flood Hazard Area (SFHA) which has federally mandated flood insurance purchase specifications. Properties located in SFHA designated by the symbols “A” and “V” on a Flood Insurance Rate Map (FIRM) require flood insurance.

3.14.1 Non-Participating Communities

FHMS does not close mortgages secured by properties which are determined to be in an SFHA and which are located in areas where the community does not participate in the National Flood Insurance Program.
3.14.2 Flood Determination Certification

If the property is located in an SFHA requiring flood insurance, the Broker must provide applicable flood insurance outlined in the terms above.

3.14.3 Required Documentation

Flood insurance generally should be in the form of the standard policy issued under the National Flood Insurance Program. The declaration page of a policy is acceptable evidence of flood insurance coverage.

If flood insurance is required, the mortgage loan must close with one of the following:

- A complete flood insurance policy containing a standard mortgagee clause which must read as described in the Guide.
- A complete application to the National Flood Insurance Program (NFIP) with evidence that the first year premium on the policy has been paid and an elevation certificate if the property was constructed after the date on the FIRM.

3.14.4 Elevation Certificate

A new elevation certificate may be obtained from a private engineer, architect, land surveyor, or a local community permit official who obtains the information by transcribing data from the building permit records provided that the data has been certified.

FHMS will accept the following alternative documentation:

- A copy of the property seller’s elevation certificate,
- A copy of the property seller’s flood insurance declaration page (provided the elevation information is on the declaration page), or
- A completed application to the NFIP with evidence that the first year premium on the policy has been paid, and a completed Flood Insurance Certification Form if the property was constructed before the FIRM date.

With respect to new construction, elevation information may be obtained from the city engineer or the developer’s site planning engineer. To determine whether a property was constructed before or after the FIRM date, consult the Community Status Book published by the NFIP.

3.14.5 Amount of Coverage

The amount of flood insurance required, regardless of property type, is the lesser of:

- The unpaid principal balance of the mortgage, or
- The maximum amount of coverage available under the NFIP for the type of improvements, or
- The replacement cost of the improvements.

Condominium and PUD Projects

The amount of condominium flood insurance coverage in a Master Policy is sufficient if:

- 80% of the replacement cost, or
- The maximum insurance available from NFIP per unit (which is currently $250,000).

For PUD units, a Master Policy must cover any common element buildings and any other common property located in an SFHA. The unit allocation from the Master Policy must meet the one- to four-unit coverage requirements. The same flood insurance for individual PUD units that is required for other one- to four-unit properties. A stand-alone dwelling policy may be maintained to meet these requirements.

If the coverage amount does not meet one of the above criteria, the borrower must obtain an individual dwelling policy to cover the deficiency.
3.14.6 Deductible Amount

Deductible amounts must meet the minimum applicable investor requirements. In addition to any flood insurance required with respect to a specific condominium or PUD unit, if any parts of a project’s common elements are in a Special Flood Hazard Area, the homeowner association must maintain a “master” or “blanket” policy of flood insurance and collect premiums from its members as it would any other common expense.

The specifications for condominiums and PUDs are:

- For PUD projects, the master policy should cover any common elements in the buildings and other common property.
- For Condominium projects, the policy should cover common elements in the buildings and any other common property. When the project consists of high-rise or other vertical buildings, the owner’s association must have a separate flood insurance policy for each building that contains dwelling units.

3.15 Disaster Policy

Disasters—including (but not limited to) earthquakes, fires, floods, hail, hurricanes, landslides, lightning, tornadoes—may impact a subject property adversely. While FEMA is the primary source for this information, it does not always issue declarations immediately following a disaster. Regardless of the issuance of a FEMA Disaster Notification, anyone with knowledge of potentially adverse conditions within the subject property should take action to ensure the property meets FHMS’s requirements. Potentially affected property should be evaluated for habitability, marketability and any adverse effect on valuation.

*Note: Specific policies may apply based on the exact type of disaster and may require its own certification form.*

3.15.1 Determining Affected Areas

FHMS will be aware of disasters within their lending area. Additionally, the Broker should use available contacts and resources to determine if a property has been impacted by a disaster and may require repairs. Any damage to the subject property will need to be repaired and property inspection completed to verify completion of repairs prior to funding the loan. FHMS reserves the right to request additional documentation as proof/certification of the properties habitability, marketability or value.

3.15.2 Escrow/Impound Accounts

FHMS will establish an escrow/impound account for each mortgage loan closed, except as outlined in PUD and Condos below.

- FHMS may not establish an escrow account for some conventional loans.
- Any property in an SFHA must have flood insurance escrowed.

*Note: The escrow/impound account must include a two-month escrow deposit for all items with the exception of mortgage insurance, in which no cushion is to be established (FHMS will follow any state requirements as well, including but not limited to, Vermont which only permits one month cushion for escrow accounts and North Dakota which does not permit a cushion for escrows at all).*

The following defines the premiums that may be paid from a FHMS Escrow/Impound account:

**Held and paid from the Escrow Account (as applicable):**

- Real estate taxes
- Hazard insurance premiums
- Flood insurance premiums
- Mortgage insurance premiums
Not held or paid from the Escrow Account:
- Ground rents
- Water or sewer taxes
- Homeowner association dues
- Fire hydrant taxes
- Refuse taxes
- Tax service fees
- Special assessments

PUD and Condos
Escrow/impound deposits are not required to cover hazard insurance premiums for individual condominium or PUD units if the project containing the unit is adequately covered by a blanket hazard insurance policy purchased by the homeowner association.

3.16 Servicing Information

Once FHMS funds the loan, the borrower(s) will receive information about future billing statements, payment details, etc.

Borrowers will remit first payment to:

Flagstar Bank  
PO Box 660263  
Dallas, TX 75266-0263

Overnight payments may be sent to:

Flagstar Bank  
1500 Dragon St. Suite A  
PO Box 660263  
Dallas, TX 75207

Note: If previous lender or Broker has received payment from the borrower, Broker should forward that payment to FHMS to ensure credit. Brokers can contact FHMS Servicing at servicing@FHMS.com.

Borrower general correspondence should be directed to:

Flagstar Bank  
Mail Stop E115-3  
5151 Corporate Drive  
Troy, MI 48098-2639

Note: Customer correspondence should not be included with payments.

Flagstar Customer Service contact information:
Toll free: 800-968-7700, Monday – Friday 7:30 AM to 8:00 PM (Eastern Time)  
Saturday 7:30 AM to 4:00 PM (Eastern Time)  
Website: https://www.flagstar.com
3.17 **Vendor Notifications**

Taxes
First Guaranty Mortgage Corporation
C/O Flagstar Bank
Its successors and/or assigns
P.O. Box 7026
Troy, MI 48007-7026

Insurers (Hazard, Flood, PMI)
First Guaranty Mortgage Corporation
C/O Flagstar Bank
Its successors and/or assigns
P.O. Box 7026
Troy, MI 48007-7026

3.18 **Wire Instructions**

Borrower payments must always be forwarded separately from settlement funds. Settlement funds include escrows, unapplied funds, tax contract fees, etc.). See the instructions above for borrower payments.

**FHMS does not permit netting of escrow or suspense funds**

FHMS Operating Acct.
BB&T: 8280 Greensboro Drive
ABA# 051404260
Account# 5136294964
ATTN: Servicing Dept.

All funds wired to FHMS must include the following:

Please send a notification email to servicing@FHMS.com referencing the total amount of the wire and the date sent. An electronic report providing loan level details for the wire amount must be provided. This report should be sent as an attachment to the wire notification email and include:

- Loan numbers
- Borrower name
- Loan level itemization of balances being transferred (escrow, restricted escrow, suspense, etc.)
4 WEB PORTAL INSTRUCTIONS

4.1 Registering a New Loan

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>In order to register a new loan, have the data file downloaded from your Loan Origination System (LOS). File format needs to be DU FNMA 3.2.</td>
</tr>
<tr>
<td>2</td>
<td>Open a web browser and go to <a href="http://www.FHMSwholesale.com">www.FHMSwholesale.com</a>. If using Internet Explorer, click <strong>TOOLS</strong> icon at the top of the screen, scroll down to <strong>Compatibility View Settings</strong>. A dialog box will come up, then click to <strong>ADD</strong> FHMSwholesale.com. Web address will move down to Compatibility View section. If using Google Chrome or Firefox, this step does not need to be completed.</td>
</tr>
<tr>
<td>3</td>
<td>Log in to the FHMS Web Portal using assigned log-in credentials previously provided. If you do not have credentials, submit a request through the TPO Site Access Request page.</td>
</tr>
<tr>
<td>4</td>
<td>Once you log in, you must repeat this step in order to prevent page errors. If using Internet Explorer, click <strong>TOOLS</strong> icon at the top of the screen, scroll down to <strong>Compatibility View Settings</strong>. A dialog box will come up, then click to <strong>ADD</strong> FHMSwholesale.com. Web address will move down to Compatibility View section.</td>
</tr>
<tr>
<td>5</td>
<td>From the Welcome page, click on the button for <strong>New Loan</strong>.</td>
</tr>
<tr>
<td>6</td>
<td>Then select the radio button for <strong>DU 3.2 File (*.fnm)</strong> and then click <strong>Next</strong>.</td>
</tr>
<tr>
<td>7</td>
<td>Select the <strong>Browse</strong> button on the DU Import Loan page. Then browse for the designated file, select, and then click <strong>Import</strong>.</td>
</tr>
<tr>
<td>8</td>
<td>On the 1003 page, click <strong>Save</strong>. When the Current loan has been saved, a message will be displayed stating the loan has been successfully registered.</td>
</tr>
</tbody>
</table>

**Note:** The loan is now visible in the Pipeline view accessed either by using the link labeled **Pipeline** or by returning to the Welcome Page and clicking on the **View Pipeline** button.

4.2 Uploading Scanned, Imaged File

Once the loan is registered, the file needs to be uploaded to the FHMS Web Portal.

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>To upload the loan file, locate the loan in the <strong>Pipeline View</strong>, and click the <strong>View/Edit</strong> button on the right.</td>
</tr>
<tr>
<td>2</td>
<td>On the Loan Details page, click on the <strong>Submit Loan</strong> button to the left under the green <strong>Loan Action</strong> list.</td>
</tr>
<tr>
<td>3</td>
<td>To attach the loan file, scroll down to <strong>Required Documents</strong> section, <strong>Broker - Full Package</strong> folder.</td>
</tr>
<tr>
<td>4</td>
<td>To upload the file, click on <strong>Add File</strong>. A dialog box will appear. Click the <strong>Browse</strong> button and located the file that needs to be uploaded to the Web Portal. Then click the <strong>Upload File</strong> button. The uploaded file will appear in the <strong>Broker Full Package</strong> section.</td>
</tr>
</tbody>
</table>

**Note:** Files can vary in size. For instance, higher resolution files and/or lots of graphics can increase file size. FHMS’s Web Portal will allow an upload of up to 15 megabytes (MB) per upload. If the upload exceeds 15 MB, the file will need to be split into sections smaller than 15 MB each prior to attempting an upload. Upload any additional documents by repeating Step 4 until all documents have been uploaded. |
| 5    | Once the complete file has been uploaded, click the **Submit Loan** button at the bottom of the page. |

**Note:** Once the loan is successfully submitted, the Loan Details page will be displayed with the highlighted message “The loan has been submitted.”
4.3 How to Check for and Upload Conditions

Once the file has been reviewed by the FHMS underwriter, the status will change to **Decisioned**.

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>To access the Loan Details page, click on the <strong>View/Edit</strong> link from the Pipeline View.</td>
</tr>
</tbody>
</table>
| 2    | On the Loan Details page, click on the **Conditions & Documents** tab:  
|      | • Under the **Documents** section, locate the **Broker Conditions Submission** folder.  
|      | • Click on **ADD FILE** to the far right to upload any/all condition documents. |

*The designated underwriter will then be automatically notified via email that condition documents have been uploaded and are ready for review.*

**Note:** If possible, upload all conditions to FHMS at the same time. However, if satisfying some of the conditions will take much longer than others, documents can be uploaded separately as they are prepared.

**General Information**

The **FHA Case Assignments** document provides information related to **FHA Connection**. FHMS ID Numbers:

- FHA ID Number is **7516800469**
- VA ID Number is **6852450000**
- MERS ID is **1000314**
- NMLS Number is **2917**

Once a loan is fully submitted into the FHMS pipeline, the loan will be routed to the Setup Department. The system milestone will show as **STARTED**. Once the setup is complete and file disclosed, it will then be put into the **IN PROCESSING** milestone to be reviewed for minimum documentation needed for a credit decision. If FHMS is missing any documentation needed for a credit decision, the processing staff will reach out to the client to ask for the documentation. Simultaneously, a Notice of Incomplete Application will be sent to the applicant advising what is needed. If all documentation is provided, the file moves to the underwriting queue in the **SUBMITTAL** milestone.

**Turn Times**

Wholesale setup and underwriting turn times can be found on the **FHMS Wholesale website Turn Time Tracker**.

**Decisioned Loans**

Once the loan is decisioned, the review/approval will be uploaded to the FHMS Web Portal for retrieval any time. The milestone will show as **DECISIONED**. A “Welcome Email” will be sent from the processor to the client with the approval attached and information about the process going forward.

When the Broker uploads conditions, the processor will review and attach to the corresponding loan folder in Encompass. An updated approval will not be sent to the Broker unless an item that is considered “Critical” (Appraisal, change in income, etc.) is provided. Once all conditions have been met, they will be resubmitted to the underwriter to review for a Clear to Close (CTC). The milestone then changes from **DECISIONED** to **RESUBMITTAL**.
5 CONSTRUCTION/RENOVATION PROCEDURES

Prior to originating a construction or renovation mortgage, brokers are required to submit a request to their account executive. The account executive will then register the broker for training. At the conclusion of the training, the broker will be authorized to originate construction and renovation mortgages for submission to FHMS.

5.1 Loan Products

FHMS finances the construction or renovation of a residential stick build, modular or manufactured home using one of the following programs:

- 1X Close Construction to Permanent loan:
  - VA, FHA and Conventional Financing
  - **Note:** FHMS will not allow transactions where borrowers pay their own interest during the construction phase. All transactions must include builder paid interest until the home is complete and the loan is converted to permanent financing.
  - **Note:** All 1X Close Stick Build and Modular transactions must include a construction contingency reserve equal to no less than 5% of the construction costs. Manufactured Homes, due to the reduced variability of construction and reduced time frames may be structured with a contingency of no less than $3,000. Any waivers or reductions of this reserve account must be approved by National Director of Construction/Renovation Fulfillment (Program Director).
    - Unused contingency funds will be applied to the outstanding loan balance at the time of modification

- FHA 203(K) Home Renovation Program
  - Limited 203(K) program also available for project amounts <$35,000

- Fannie Mae HomeStyle Renovation

5.2 Loan Fulfillment

Construction loans follow the **standard workflow for processing, underwriting and closing** paired up with specialty reviews conducted by the Project and Builder Review teams.

5.3 Processing & Underwriting

The Processing and Underwriting functions live within their respective channels of origination as well as their own management hierarchy. These functions run parallel with the specialty reviews of the Construction Fulfillment teams.

5.4 Construction Resource Team (CRT)

A Construction Resource Specialist is assigned to each 1x Close transaction that is submitted to FHMS for approval. Their responsibilities include the following:

- Completing all 1x Close loan scenarios and loan structuring using FHMS’s Loan Builder worksheet.
- Monitoring their pipeline of assigned 1x Close loans to ensure that all construction and builder-related matters are addressed timely.
- Expediting the submission and clearing of Project Review as well as Builder Acceptance while the processing staff works with Broker to clear the standard credit conditions.
- Communicate with all interested parties on the construction-specific items needed to clear the loan.
### CRT Initial Review

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
</table>
| 1    | Upon each loan receiving a Conditional approval from underwriting, the CRT analyzes 1x Close loan files (except for TBDs) for the following:  
  - Validation that all required contracts, exhibits and disclosures have been included in the loan submission.  
  - Review of the construction contract/cost breakdown to ensure that all applicable costs have been taken into account within the loan structure.  
  - Validation that the appropriate loan builder worksheet was completed and uploaded.  
  - Validation of the loan amount and structure. |
| 2    | Resource Specialist determines if the minimum requirements for project review submission are present (Loan Builder worksheet matching the approved loan amount, all contracts and the line item cost breakdown).  
  - If Yes, the Resource Specialist will submit the loan to the Project Review Team for full analysis and conditions.  
  - If No, the Resource Specialist will document and request the missing items that are needed from the Broker without submitting to the Project Review Team.  
  **Note:** These are the minimum requirements to initiate project review. The full scope of items to be reviewed are covered in the Project Review section of this document. |
| 3    | Upon completion of the initial review, the Resource Specialist will notify the Broker (and processor) via phone call and email of any missing CONSTRUCTION items that will need to be provided and whether or not the loan was submitted for full project review. |

### CRT Conditions Review Process

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Processor receives conditions as evidenced by the presence of a “First TPO Docs Ready Date” populated on the pipeline views for a given loan record.</td>
</tr>
<tr>
<td>2</td>
<td>Processor splits and places construction conditions in the appropriate efolders based on the construction indexing guide which has been provided to each processor.</td>
</tr>
<tr>
<td>3</td>
<td>Processor will check the “CRT Pre-Submission Review Ordered” box within the FHMS Construction-Renovation Fulfillment form in Encompass sending the loan to the assigned Resource Specialist’s queue for review.</td>
</tr>
</tbody>
</table>
| 4    | Resource Specialist will review the construction items received and determine if they are sufficient to submit/re-submit to the Project Review Team for clearance.  
  - If Yes, the Resource Specialist will un-check the CRT Pre-submission box and submit for project review.  
  - If No, the Resource Specialist will un-check the CRT Pre-submission box and notify the processor and client that the items received were not accurate or sufficient to send back to the Project Review Team. |

### 5.5 Builder Acceptance

If the Builder review has not occurred prior to the loan reaching the CRT, then the Builder is reviewed, upon receipt of the Builder Profile, to ensure the financial capacity and the business experience to complete the proposed construction correctly and on time.

**Note:** Builder acceptance remains valid unless there are 12 months or more of construction inactivity with the builder. For those builders that are added to FHMS’s accepted database, FHMS reserves the right to request updated financial information to ensure that each builder continues to meet eligibility requirements. FHMS will not allow self-builds or sweat equity. FHMS reserves the right to revoke builder acceptance based on a builder’s poor performance or failure to meet contractual obligations for FHMS and/or the customer.
### Builder Review Process

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
</table>
| 1    | The Builder Acceptance Reviewer obtains the following from the originator, client or builder:  
- FHMS Builder Profile form. On this form, the builder provides references and other information.  
- Copy of general contractor’s license (if state required).  
- Copy of general liability insurance. Declarations page must reflect a minimum coverage amount of $1,000,000.  
- Copy of worker’s compensation insurance (if the builder employs their own workers).  
- Financials to determine builder’s financial capacity and stability.  
  - **Note:** Specific to the review of the balance sheet, FHMS will look for no less than $25,000 cash on hand or 10% of the proposed construction budget. Will accept the lesser of the two.  
  - **Note:** Financials are not required for Manufactured builders or dealers.  
- Builder Reviewer to obtain copy of LexisNexis report or personal credit report (if no return on LexisNexis for business) to examine the builder’s credit history.  
  - **Note:** Derogatory credit information must be examined closely and addressed by the builder. A history of derogatory credit activity poses a significant risk to FHMS and must be reviewed by Senior Management to determine eligibility.  
  - **Note:** In addition to the standard LexisNexis report, FHMS will also run a criminal background check for Builders who are Schedule C/Sole Proprietors as well as other builders whose profile may raise concerns.  |
| 2    | The builder profile is reviewed to confirm evidence of the builder’s experience in completing residential construction projects that are comparable to projects that they are proposing to build for FHMS customers.  |
| 3    | A combination of at least 5 trade & project references are contacted (via phone or e-mail) to confirm a satisfactory pay history (as defined by the interviewed vendors) and construction results that met the expectations of the interviewed clients. If there are any records of slow payments on trades or significant unsatisfactory client experience, an explanation is to be provided by the builder and reviewed by management prior to issuing acceptance for the project.  |
| 4    | If accepted, the builder’s name will be added to FHMS’s Accepted Builder List housed within FHMS’s Construction Loan Management (CLM) vendor.  |

### Declinations and Exceptions – Builder Acceptance

Any builders that are not accepted by FHMS will receive second level review by Program Director, before final declination is conveyed, to ensure that all aspects of the profile have been carefully examined and FHMS can attest that the Company’s decision was based on a thorough analysis of all risk factors.

Any exceptions or waivers of standard requirements must be approved by Program Director. If such an exception is made, Director will need to provide a formal write-up detailing the nature of the exception and the offsetting factors that were used to support the decision. This write-up will be added to the Builder’s record housed with the CLM vendor.

### 5.6 Project Review

#### Term Limits and Restrictions

For Stick Built construction only, FHMS will limit the maximum allowable number of active projects at any given point in time by a single builder to no more than three projects. Any requests to exceed this limit must be reviewed and approved by Program Director.

Depending on the type of construction, FHMS will limit the maximum allowable construction term as follows:

- **Stick Built** = 270 Days from initial disbursement
- **Modular** = 240 Days from initial disbursement
- **Manufactured** = 150 Days from initial disbursement
FHMS will not allow self-builds, self-help during construction or give value to any previously performed sweat equity done by the borrowers.

### Project Review Process

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Construction Resource Specialist checks the Project Review Requested box within the FHMS Construction-Renovation Fulfillment form to send the loan to the Project Review Team’s queue.</td>
</tr>
</tbody>
</table>
| 2 | The Project Review Team will analyze the following:  
  - Purchase contract (if applicable) and Construction Contract  
    - The reviewer looks for any red flags such as:  
      - Evidence of self-help.  
      - Variable costs.  
      - Contractor not matching the Builder that has been accepted by Builder Acceptance.  
      - Undefined or completion dates that exceed FHMS guidelines for the project type.  
      - Builder requiring that any aspects of completion be the responsibility of the borrower.  
  - Confirm that loan structure and cost breakdown match the most recent Loan Builder worksheet as well as Underwriting approval.  
  - Confirm that all necessary fees have been accounted for and captured within the contracts.  
  - Verify that all applicable disclosures and exhibits have been executed and completed correctly.  
  - Review appraisal, plans & specs to verify the project has been examined and evaluated by appraiser.  
  - Confirm that the home will be placed within the allowable distances to utilities as dictated by agency, Housing and Urban Development (HUD) and Veterans Affairs (VA) guidelines. |
| 3 | Upon completion of their review, the Project Reviewer will update the remaining construction conditions within the Project Review Summary document and Encompass. |
| 4 | The Resource Specialist assigned to each loan will be responsible for forwarding the updated Construction Conditions list to the Broker. They will also contact the Broker to go over the remaining items needed. |
| 5 | When construction conditions are received, the Construction Resource specialist will check the Project Review Re-Submitted box within the FHMS Construction-Renovation Fulfillment form to send the loan back to the Project Review Team’s queue. |
| 6 | Upon clearing of all construction conditions, the Project Reviewer will check the Project Review Cleared box within the FHMS Construction-Renovation Fulfillment form. |

### 5.7 Draw Administration

A Draw Administrator (DA) is assigned to each loan prior to closing. At that time, the DA conducts a welcome call with the builder and borrower to make introductions and set expectations for the administration of the project. The DA will generate/manage the project draw schedule as well as monitor all aspects of the transaction until conversion to permanent. The DA’s oversight includes:

- Monitoring the progress of construction.
- Making contact with borrowers and builders no less than every 30 days to ensure project remains active.
- Setting up and monitoring Draw Warnings to ensure that the proper insurance policies are obtained if they were not collected at closing; such as Flood and Builder’s Risk.
- Monitoring borrower and builder insurance levels and policy expirations.
- Monitoring permits and licenses along with their expirations.
- Monitoring funds advanced relative to work completed.
- Monitoring the status of title and FHMS’s appropriate lien position throughout construction.
- Monitoring loan payment activity (borrower or builder paid) during construction.
- Coordinating the conversion or modification to permanent loan.
### Processing the First Draw (1x Close)

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Draw request received from builder.</td>
</tr>
<tr>
<td>2</td>
<td>Draw Administrator (DA) reviews the signed draw schedule. DA examines the details of the request as well as signature matches for borrower and builder.</td>
</tr>
<tr>
<td>3</td>
<td>Property inspection is ordered by DA through CLM vendor.</td>
</tr>
<tr>
<td>4</td>
<td>Title endorsement/title update is requested from title/escrow company by DA.</td>
</tr>
<tr>
<td>5</td>
<td>Builder submits wall check (aka foundation survey), building permit and signed lien waiver.</td>
</tr>
<tr>
<td>6</td>
<td>All above documentation is received and reviewed by DA. DA also checks payment activity to confirm loan is current.</td>
</tr>
<tr>
<td>7</td>
<td>If all is found to be acceptable, DA releases the wire.</td>
</tr>
</tbody>
</table>

### Processing an Interim Draw (1x Close)

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Draw request received from builder.</td>
</tr>
<tr>
<td>2</td>
<td>DA reviews the signed draw schedule. DA examines the details of the request as well as signature matches for borrower and builder.</td>
</tr>
<tr>
<td>3</td>
<td>DA orders property inspection through CLM vendor as well as title endorsement/run down from title company.</td>
</tr>
<tr>
<td>4</td>
<td>Builder provides signed lien waiver.</td>
</tr>
<tr>
<td>5</td>
<td>All above documentation is received and reviewed by DA. DA also checks payment activity to confirm loan is current.</td>
</tr>
<tr>
<td>6</td>
<td>After all is found to be acceptable, DA releases the wire.</td>
</tr>
</tbody>
</table>

### Processing a Final Draw (1x Close)

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Draw request received from builder.</td>
</tr>
<tr>
<td>2</td>
<td>Draw Administrator reviews the signed draw schedule. DA examines the details of the request as well as signature matches for borrower and builder.</td>
</tr>
<tr>
<td>3</td>
<td>DA orders property inspection through CLM vendor as well as title endorsement/run down, to reflect the final loan amount and the absence of mechanic’s liens, from title/escrow company. Also sends final lien waiver and modification agreement to builder for execution.</td>
</tr>
<tr>
<td>4</td>
<td>Builder provides signed Final Lien Waiver, Final Survey and Certificate of Occupancy.</td>
</tr>
<tr>
<td>5</td>
<td>Borrower provides Hazard Insurance certificate and paid receipt for property.</td>
</tr>
<tr>
<td>6</td>
<td>All above documentation is received and reviewed by DA. DA also checks payment activity to confirm loan is current.</td>
</tr>
<tr>
<td>7</td>
<td>After all is found to be acceptable, DA orders the wire and converts loan to permanent.</td>
</tr>
</tbody>
</table>
Converting to Permanent – 1x Close Loans

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>As part of processing the final draw, the DA generates the modification agreement and sends it to the borrower for execution by all parties.</td>
</tr>
<tr>
<td>2</td>
<td>For loans with builder paid interest, the DA calculates the portion of the unused interest to be paid back to the builder as part of the final draw.</td>
</tr>
<tr>
<td>3</td>
<td>The signed modification agreement is received by the DA and given to FHMS Mortgage Electronic Registration System (MERS) rep for execution.</td>
</tr>
<tr>
<td>4</td>
<td>Fully executed modification agreement is sent to the title/escrow company for recording.</td>
</tr>
<tr>
<td>5</td>
<td>Outstanding investor credit line is settled.</td>
</tr>
<tr>
<td>6</td>
<td>Funds Sent Date is entered by the DA to indicate loan has been converted to permanent.</td>
</tr>
<tr>
<td>7</td>
<td>Funds Sent Date triggers the loan to be boarded to servicing vendor.</td>
</tr>
</tbody>
</table>

Processing a Renovation Draw Request

For Renovation loans, the following are required to process a draw request:

**Signatures:**
- Draw Request Form – Full 203K
- Final Disbursement Request Form – Limited 203K
- Renovation Loan Disbursement Form – HomeStyle

**Permits:**
- All permits must be received with or before the first draw request (or verification that none are required).
- To reimburse a contractor for permits, a receipt must be provided (if the permit itself does not serve as one).
- The same rule applies if the homeowner paid for the permit and wants to be reimbursed.

**Photos:**
- Photos of completed work are required with every draw/inspection.
- No funds will be released if photos are not provided.

Construction Completion – 203k Renovation Escrow Closeout

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Final draw request is processed by the Draw Administrator.</td>
</tr>
<tr>
<td>2</td>
<td>DA confirms that the loan has been insured. Information is stored within the Encompass loan record – MIC Date Month data field.</td>
</tr>
<tr>
<td>3</td>
<td>Upon verification and receipt of inspection as well as other required docs, DA sends final escrow disbursement request to Flagstar indicating that the escrow should now be zeroed out as well as indicating what, if any, funds should be applied to the principal balance.</td>
</tr>
<tr>
<td>4</td>
<td>DA completes FHA close out certification in FHA Connection following the steps outlined within FHA Connection itself.</td>
</tr>
<tr>
<td>5</td>
<td>Close-out certificate is uploaded by DA into Encompass Escrow/Closing efolder.</td>
</tr>
</tbody>
</table>
Construction Completion – HomeStyle Renovation Escrow Closeout

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Final draw request is processed by the Draw Administrator.</td>
</tr>
<tr>
<td>2</td>
<td>Fannie Mae HomeStyle completion certificate (Form 1036) is provided by the inspector.</td>
</tr>
<tr>
<td>3</td>
<td>DA confirms that Completion certificate is signed by Inspector, Builder and Homeowner.</td>
</tr>
<tr>
<td>4</td>
<td>Completion certificate is uploaded by DA into Encompass Escrow/Closing efolder.</td>
</tr>
<tr>
<td>5</td>
<td>Upon verification and receipt of inspection as well as other required docs, DA sends final escrow disbursement request to Flagstar indicating that the escrow should now be zeroed out as well as indicating what, if any, funds should be applied to the principal balance.</td>
</tr>
</tbody>
</table>

5.8 Escalations/Problem Resolution

During the construction phase of these loans, it is possible for issues to arise with the project, the builder, the customer or all of the above. For that reason, FHMS Draw Administrators are given strict parameters, as well as system tools, to ensure active monitoring of projects and engagement with all parties as soon as potential concerns are identified. Quick resolution helps to limit FHMS’s exposure and potential financial losses.

FHMS’s approach consists of the following:

- The Draw Administrators are required to keep detailed notes in CLM vendor platform with respect to project activity and any aspects that could be a potential issue as the project progresses.
- Draw Administrators engage with builders and clients from the start of the project and through completion. For wholesale loans, welcome calls are conducted prior to closing. This helps to ensure that all parties have the same understanding and that expectations are established up front.
- Draw Administrators are required to maintain detailed notes on each file and communicate with builders at least every 15 days to maintain frequent dialogue with all parties.

5.9 Servicing

1x Close Loans

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Once the loan is modified and converted to permanent, the loan is moved to FGMC’s servicing vendor.</td>
</tr>
<tr>
<td>2</td>
<td>A Welcome Call is made to the customer by FGMC’s Servicing Department.</td>
</tr>
<tr>
<td>3</td>
<td>The servicing vendor also conducts a Welcome Call to the customer to discuss payment and servicing details with the client.</td>
</tr>
</tbody>
</table>
6 CREDIT PARAMETERS

6.1 Overview
As outlined in the Nonexclusive Loan Brokerage and Sales Agreement, loans funded to FHMS are bound by the provisions in this Guide.

6.2 Product Options
Refer to Product Option Guides for details on each FHMS product.

6.3 Conventional AUS Requirements
Loan Product Advisor is not currently available through the FHMS Wholesale Portal. Please select LP on the submission sheet under the AUS section. FHMS will perform the LP submission to Underwriting. For LP submissions, the following credit report vendors will be utilized without the need to obtain new credit (unless the credit report is expired upon submission):

- CBC Innovis
- Equifax
- Credit Plus
- FactualData
- CIS
- Avantus

If one of the above referenced credit vendors is not utilized, Brokers may elect (on the Wholesale Submission form) to authorize FHMS to obtain a credit report from one of the above referenced, approved credit report vendors.

7 APPRAISAL REQUIREMENTS

Overview
FHMS will order appraisal reports following internal appraisal management policies. Brokers will order VA Appraisal through the VA Portal using their own VA ID# as originating entity with FHMS as Sponsoring Lender.

Each appraisal report submitted to FHMS requires the individual appraiser to fully comply with all Uniform Standards of Professional Appraisal Practice (USPAP), Financial Institutions Reform Recovery and Enforcement Act (FIRREA) appraisal regulatory standards, and the Federal Housing Finance Agency (FHFA) which issued the Appraiser Independence Requirements (AIR). Additionally, all reports must meet all minimum appraisal requirements as set forth by the secondary market, including Government-Sponsored Enterprises (GSEs), Federal Housing Administration (FHA) and Department of Veterans Affairs (VA). The appraisal will be ordered through one of FHMS’s approved Appraisal Management Companies.

7.1 Appraisal Transfers
The requirements for the transfer of an appraisal vary depending on the product type, as follows:
7.1.1 Conventional Appraisal Transfer Requirements

- FHMS must receive the original PDF and XML File
- Appraisal Invoice and AIR Certificate
- UCDP SSR results for both FNMA and FHLMC
- Appraiser must not be on an investor, agency, or FHMS exclusion list
- Lender/Client name on the transferred appraisal must not be the same name as the Broker submitting the loan.
- Appraisal must not come from an AMC affiliated with the broker. The AMC must comply with all components of AIR.
- The appraisal will be rejected by FHMS if there are any corrections needed. A new appraisal will need to be ordered through one of FHMS’s recognized AMCs.
- Underwriter must review appraisal in its entirety and approve the transferred appraisal. It must be accepted without further requirements for an addendum(s) or additional comp(s). Otherwise the transfer appraisal will be rejected.
- When an appraisal update is required, the applicable FHMS AMC must be perform the update.

Under the Uniform Standards of Professional Appraisal Practice (USPAP), an appraiser cannot re-address or transfer an appraisal report to another party once the report has been prepared and delivered to a client. The appraiser may not alter the title page, transmittal letter, client name or the identity of the intended user of the appraisal report. The appraiser may not make any changes or provide additional information as it relates to the appraisal.

7.1.2 FHA Appraisal Transfer Requirements

FHA appraisals are associated with an FHA case number and on assignment, must be transferred to FHMS. FHA appraisals must comply with FHA guidelines for appraisal portability and must have been ordered by an approved HUD Lender. The appraiser must be listed on FHA’s Approved Appraiser roster as provided by HUD. All of the above transferred appraisal Conventional requirements apply with the exception of SSR results. A new appraisal can only be ordered according to the HUD Handbook 4000.1.

Note: Effective for all loans with FHA case numbers assigned on or after June 27, 2016, appraisal reports must be submitted through the Electronic Appraisal Delivery (EAD) Portal. FHA Transferred appraisals will require a copy of the XML from the current lender in order for FHMS to upload into the EAD portal. The original lender must first transfer the case number to FHMS in FHA Connection (FHAC) before FHMS will be able to submit the appraisal into the EAD portal. Upon completion of the case transfer and allowing for an overnight update in FHAC, FHMS can proceed with submitting the appraisal so the case transfer information can be updated into the EAD portal.

7.1.3 VA Appraisal Transfer Requirements

VA appraisals are tied to the VA case number that was ordered by another Lender Appraisal Processing Program (LAPP) Lender and must follow VA appraisal portability requirements. The VA case number must be re-assigned to FHMS. The Notice of Value (NOV) is not transferable and must be reissued by FHMS Staff Appraisal Reviewer (SAR) underwriter within 5 business days of FHMS’s receipt of the re-assigned VA appraisal. Second appraisals are not allowed by VA and may not be charged to the Veteran.
7.1.4 USDA Appraisal Transfer Requirements

An appraisal ordered by another lender for the applicant can be transferred to the lender who will complete the purchase transaction. The initial lender must agree to the transfer of the report. A letter from the initial lender who ordered the appraisal report must be retained in the permanent loan file as evidence the lender transferred the report to the lender completing the purchase transaction. The receiving lender must assume full responsibility for the integrity, accuracy, and thoroughness of the appraisal report including the methods that the original lender used to acquire the appraisal. The appraisal report must be no older than 150 days at loan closing to be valid.

8 COMMITMENT POLICY/LOAN LOCKS

All loans are required to be locked prior to authorization to clear a loan for closing. Loan files that are not locked and/or have a lock expired at the time of review will receive a condition indicating the loan must be locked. This condition must be satisfied before FHMS will clear the loan for purchase.

8.1 Overview

All Brokers have the ability to submit locks, extensions, and change requests by utilizing the Lock Forms on the Forms section of the FHMS Wholesale website or contact their AE. Assistance with the online portal or the locking process can also be obtained by emailing submissionhelp@FHMS.com. For detailed instructions, Brokers can reference Wholesale Locking and Change Request Manual and/or Wholesale Lock Policy located under the How to Guides on the FHMS Wholesale website.

The FHMS Lock Desk is open until 7:00 PM ET for Conforming products and Non-Conforming products. Lock requests received after 7:00 PM ET will be processed the following business day once pricing is made available. Pricing is made available every morning once Rate Sheets have been updated and sent. Pricing is updated between 9:45 AM and 10:30 AM ET every business day. Pricing may also be updated throughout the day as needed and new Rate Sheets will be sent out. FHMS does not offer overnight price protection.

Note: Wholesale Brokers may access historical pricing via the FHMS online locking system if available, but it is the responsibility of the Broker to keep historical records of FHMS rate sheets and lock confirmations.

Off-sheet pricing requests, transactions requiring a manual lock request, or locks done via FHMS extended lock option need to be submitted by emailing wslocks@FHMS.com.

8.2 Best Efforts Locks

A Best Efforts Lock is an agreement between FHMS and the Broker for the origination and closing of a specified, eligible mortgage loan by a specific date and for a specific price. Brokers commit to providing their best effort to broker this loan to FHMS. A Best Efforts Lock is borrower and property specific. Choosing this option means that the Broker will not incur borrower-driven fallout risk prior to the loan closing. Things to remember:

- For loans that do not close, Brokers may cancel the lock.
- For Re-Locks, Brokers are obligated to perform within the Re-Lock terms of the Lock Policy.

8.3 1x Close Construction to Permanent Programs

Programs available are:

- HomeSweetHome – VA 1x Close Construction to Permanent
- H.O.M.E. – FHA 1x Close Construction to Permanent
- Welcome Home – Conventional 1x Close Construction to Permanent

For Construction to Permanent Loan Programs for homes requiring >60 days’ build time, FHMS offers two interest rate options. Loan must be locked under one of the two prior to closing, which includes the Cap and Float Down Lock Option and Extended Lock Option.
8.4 Loan Registration
All loans must be registered prior to requesting a lock. For more information, refer to the How to Guides page of the website.

8.4.1 Lock Confirmations
Lock confirmations are sent automatically via email to the Broker upon FHMS confirming a lock was requested through FHMS’s online locking system. All lock confirmations will be sent to the email assigned to the User during the online Web Portal setup. If a lock confirmation is not received upon locking a loan online, the Broker should email wslocks@FHMS.com to ensure that FHMS has the most recent contact email on file.

In addition, all lock confirmations for loans that are locked online may be retrieved at any time after a loan is locked by the Broker. For instructions on how to retrieve lock confirmations online, contact the assigned AE.

Lock confirmations for all manual requests will be sent via email by the FHMS Lock Desk within 24 hours of request.

8.4.2 Administration Fee
FHMS charges an administration fee of $899 for all products in all states, which may be ‘bought out’ in the pricing engine on the TPO Web Portal. Exceptions to the administration fee are as follows:

- North Carolina, New Jersey, and Iowa—the administration fee will not be charged for any products
- California
  - VA IRRRL & FHA Streamlines: $495
  - All other products: $999
- VA IRRRLs & FHA Streamlines (in all other states): $495

Additional fees can be found on the FHMS Wholesale Fees Document.

8.4.3 Off-Sheet Pricing Request
Requests for off-sheet pricing must be submitted to wslock@FHMS.com no later than 4:00 PM ET and confirmed with FHMS no later than 5:00 PM ET.

8.4.4 Duplicate Locks
Brokers must monitor their pipeline to prevent duplicate loans and double locks (same borrower, same property address, etc.). A lock commitment is associated with one specific physical address. If a property address changes, a new lock is required and will not be considered a duplicate lock.

In the event that the Broker locks a loan with the same property address more than once, the following procedures will apply:

<table>
<thead>
<tr>
<th>If two loans are registered and locked with same borrower/property address and...</th>
<th>Then the...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Both loans have locks that are active,</td>
<td>Original loan will remain active and FHMS will apply worst case pricing between the two locks. The second loan will be canceled and will count against the Broker’s fallout percentage.</td>
</tr>
<tr>
<td>The original loan is canceled and a new loan, with the same property address, is locked ≤ 30 days from the cancellation date,</td>
<td>Worst case pricing will apply, in addition to all previous relock and extension fees. The second loan will be canceled and will count against the Broker’s fallout percentage.</td>
</tr>
</tbody>
</table>

8.4.5 Fallout
FHMS will monitor the Broker’s fallout percentages. FHMS will contact any Broker with excessive fallout percentages (typically over 20%) and provide a Broker Scorecard when applicable.
8.4.6 Lock Periods
The standard lock periods include 15, 30, 45, and 60 days. Extended locks are available; see the Extended Lock Option in this Guide for more information. Remember that before a lock can be tracked and confirmed from FHMS’s system, the loan must be registered in the portal.

8.4.7 Lock Expiration Date
When the initial lock expiration date falls on a weekend or holiday, the lock expiration date is automatically moved to the next business day.

8.4.8 Lock Extensions
Brokers may request an extension on or before the lock expiration date. If a lock is expired, an extension may not be requested and the loan must be re-locked. When requesting an extension before the lock expiration date, the request may only be submitted and will only be granted by FHMS when the loan is within 15 days of lock expiration. For example, if a loan is locked on the 1st of the month for 30 days, then an extension can be submitted any day after the 16th of that same month.

The number of days selected for extension will be added to the expiration date. Lock extension days are available in 7-, 15-, or 30-day increments at the extension price listed on the FHMS Wholesale Rate Sheet or 30 days on Wholesale 1x Close Rate Sheet. See below for the maximum number of extensions and the total maximum of extension days.

<table>
<thead>
<tr>
<th></th>
<th>Conforming</th>
<th>1x Close</th>
</tr>
</thead>
<tbody>
<tr>
<td>Max extension requests</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Max extension days</td>
<td>45</td>
<td>60</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Extension Days</th>
<th>Extension Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 Days</td>
<td>(.125)</td>
</tr>
<tr>
<td>15 Days</td>
<td>(.250)</td>
</tr>
<tr>
<td>30 Days</td>
<td>(.500)</td>
</tr>
</tbody>
</table>

8.4.9 Relocks
Relocks may only be submitted on expired locks. If a loan has been expired for at least 30 days, then it is considered a new lock and pricing will be based on current market. Loans that have been expired for less than 30 days can be relocked for 15 or 30 days. Relocks for loans expired for less than 30 days are subject to worse case pricing plus previous extensions and applicable relock fees shown on daily rate sheet. Loans may only be relocked one time.

If at the time of relock the rate has increased, the worst of pricing between existing price and current price on the new rate lock will apply.

If at the time of relock the product is changed, the worst of pricing between the existing price on the original product and the current price on the new product will apply. The price may not improve regardless of product change.
8.4.10 Renegotiations

Brokers may submit a Renegotiation Request from the time the first Rate Sheet is generated until 4:00 PM ET to wslock@FHMS.com. Brokers are responsible for calculating the renegotiated gross price using the Renegotiated Price Calculation below. The renegotiation price is based on the FHMS Wholesale Rate Sheet that is in effect when the request is received. Requests received after 4:00 PM ET will not be processed and a new request must be submitted the next business day within the renegotiation hours listed in this policy.

Renegotiated rate must result in a minimum of 0.25 improvement in rate to the borrower. Only one renegotiation is permitted per loan and product changes are only permitted if requested at the same time of the renegotiation. The final pricing for the renegotiated product and/or rate cannot exceed the final pricing from the original product and rate. Relocked loans are not eligible for renegotiation.

Conforming Renegotiation Price Calculation:

\[
\text{Current 60-day Base Price} + \text{Renegotiation fee (-0.25)} +/-. \text{Current day price adjustments} - \text{Prior extension fees} = \text{Renegotiated Gross Price}
\]

8.4.11 Extended Lock Option

FHMS offers extended lock options to Brokers. Upfront pricing for extended locks is outlined on the FHMS Wholesale Rate Sheet. Brokers must use 60-day pricing when requesting extended locks. The adjustments listed on the Rate Sheet under the Extended Lock Option tab will be in addition to all other adjustments.

Note: All loans in the “Approval” Milestone or later will receive a free lock extension to allow for funding.
9 DEFINITIONS
The following terms are defined as set forth below:

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALTA</td>
<td>The American Land Title Association or any successor thereto.</td>
</tr>
<tr>
<td>Appraised Value</td>
<td>The value set forth in an appraisal made by a Qualified Appraiser in connection with the origination of the related Mortgage Loan.</td>
</tr>
<tr>
<td>Approved Flood Policy Insurer</td>
<td>A nationally recognized flood insurer approved by Fannie Mae, Ginnie Mae and HUD, or other insurer as may be approved by Purchaser from time to time.</td>
</tr>
<tr>
<td>Business Day</td>
<td>Any day other than (i) a Saturday or Sunday, or (ii) a day on which banking and savings and loan institutions in the Commonwealth of Virginia are authorized or obligated by law or executive order to be closed.</td>
</tr>
<tr>
<td>Escrow Payments</td>
<td>With respect to any Mortgage Loan, the amounts constituting ground rents, taxes, assessments, water rates, sewer rents, municipal charges, mortgage insurance premiums, fire and hazard insurance premiums, condominium charges, and any other payments required to be escrowed by the Mortgagor with the mortgagee pursuant to the Mortgage or any other document.</td>
</tr>
<tr>
<td>Fannie Mae</td>
<td>The Federal National Mortgage Association or any successor thereto.</td>
</tr>
<tr>
<td>FHA</td>
<td>The Federal Housing Administration, or any successor thereto.</td>
</tr>
<tr>
<td>Freddie Mac</td>
<td>The Federal Home Loan Mortgage Corporation, or any successor thereto.</td>
</tr>
<tr>
<td>Ginnie Mae</td>
<td>The Government National Mortgage Association or any successor thereto.</td>
</tr>
<tr>
<td>HUD</td>
<td>US Department of Housing and Urban Development.</td>
</tr>
<tr>
<td>MERS</td>
<td>Mortgage Electronic Registration Systems, Inc. or any successor thereto.</td>
</tr>
<tr>
<td>MERS Mortgage Loan</td>
<td>Any Mortgage Loan registered with MERS on the MERS System.</td>
</tr>
<tr>
<td>MERS System</td>
<td>The system of recording transfers of mortgages electronically maintained by MERS.</td>
</tr>
<tr>
<td>Mortgage</td>
<td>The mortgage, deed or other instrument securing a Mortgage Note, which creates a first or second lien, as applicable, on an unsubordinated estate in fee simple in real property securing the Mortgage Note.</td>
</tr>
<tr>
<td>Mortgage File</td>
<td>The items pertaining to a particular Mortgage Loan referred to in annexed hereto, and any additional documents required to be added to the Mortgage File pursuant to this Agreement.</td>
</tr>
<tr>
<td>Person</td>
<td>Any individual, corporation, limited liability company, limited liability partnership, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof.</td>
</tr>
<tr>
<td>Qualified Appraiser</td>
<td>An appraiser, duly appointed by the Seller, who had no interest, direct or indirect, in the Mortgaged Property or in any loan made on the security thereof, and whose compensation is not affected by the approval or disapproval of the Mortgage Loan, and such appraiser and the appraisal made by such appraiser both satisfy the applicable Underwriting Guides.</td>
</tr>
<tr>
<td>Underwriting Guides</td>
<td>The eligibility requirements established by any applicable agencies, including but not limited to, FHA, Fannie Mae, Freddie Mac, Ginnie Mae, VA and/or USDA, as identified by the Purchaser and that must be satisfied by a Mortgage Loan originator to sell Mortgage Loans to the Purchaser. Includes the underwriting guidelines and specifications that a Mortgage Loan must meet, and the requirements that it must satisfy, to qualify for the Purchaser’s program of Mortgage Loan purchases, as such requirements and specifications may be revised, supplemented or replaced from time to time.</td>
</tr>
</tbody>
</table>
Appendix A: Minimum Net Worth
The table below is current as of August, 2017, however Brokers must verify all licensing requirements with the appropriate state regulatory agency. FHMS makes no representation as to whether the information contained below is accurate or current. Current information can be found via NMLS' Resource Center: http://mortgage.nationwidelicensingsystem.org/slr/Pages/default.aspx

<table>
<thead>
<tr>
<th>State</th>
<th>Agency</th>
<th>License Type</th>
<th>Net Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>AK</td>
<td>AK</td>
<td>Mortgage Broker/Lender License</td>
<td>$0</td>
</tr>
<tr>
<td>AL</td>
<td>AL</td>
<td>Mortgage Brokers License</td>
<td>$0</td>
</tr>
<tr>
<td>AR</td>
<td>AR</td>
<td>Combination Mortgage Banker-Broker Servicer License</td>
<td>$1</td>
</tr>
<tr>
<td>AZ</td>
<td>AZ</td>
<td>Commercial Mortgage Broker License</td>
<td>$0</td>
</tr>
<tr>
<td>CA</td>
<td>CA-BRE</td>
<td>Real Estate Broker License Endorsement</td>
<td>$50,000</td>
</tr>
<tr>
<td>CA</td>
<td>CA-DBO</td>
<td>Residential Mortgage Lending Act License</td>
<td>$250,000</td>
</tr>
<tr>
<td>CO</td>
<td>CO</td>
<td>Mortgage Company Registration</td>
<td>$0</td>
</tr>
<tr>
<td>CT</td>
<td>CT</td>
<td>Mortgage Broker License</td>
<td>$25,000</td>
</tr>
<tr>
<td>DC</td>
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<td>$0</td>
</tr>
<tr>
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</tr>
<tr>
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<td>$1</td>
</tr>
<tr>
<td>GA</td>
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<td>Mortgage Broker/Processor License</td>
<td>$0</td>
</tr>
<tr>
<td>GU</td>
<td>GU</td>
<td>Residential Mortgage Lender License</td>
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<td>Mortgage Loan Originator Company License</td>
<td>$0</td>
</tr>
<tr>
<td>IA</td>
<td>IA</td>
<td>Mortgage Broker License</td>
<td>$0</td>
</tr>
<tr>
<td>ID</td>
<td>ID</td>
<td>Mortgage Broker/Lender License</td>
<td>$0</td>
</tr>
<tr>
<td>IL</td>
<td>IL</td>
<td>Residential Mortgage License (brokering or processing, with Illinois office)</td>
<td>$150,000</td>
</tr>
<tr>
<td>IN</td>
<td>IN-SOS</td>
<td>Loan Broker License</td>
<td>$25,000 for each licensed location</td>
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<tr>
<td>KS</td>
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<tr>
<td>State</td>
<td>Agency</td>
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</tr>
<tr>
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<td>--------</td>
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<td>-----------</td>
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<td>NH</td>
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<tr>
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<td>PA</td>
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<td>Mortgage Broker (Corretaje de Préstamos)</td>
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</tr>
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</tr>
<tr>
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<td>WY</td>
<td>Mortgage Broker License</td>
<td>$25,000</td>
</tr>
</tbody>
</table>