



WHOLESALE BROKER GUIDE

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# ALTLOAN WHOLESALE LENDING

*A DBA of*

**BM Real Estate Services, Inc.**

Revised September 16, 2020

## WHOLESALE BROKER GUIDE

- **DISCLAIMER:** *None of the information provided is intended to be legal advice in any context. ALTLoan ("ALTLOAN"), a dba of BM Real Estate Services, Inc. makes every effort to provide accurate information; however, ALTLOAN does not guaranty, warrant, insure or promise that it is correct; and any effort to blame ALTLOAN if this information proves to be incorrect will be vigorously defended. Information is intended for mortgage professionals only and not intended for public use or distribution. Terms and conditions of programs are subject to change at any time, with or without notice. Refer to ALTLOAN's Underwriting and Program Guidelines on [www.altloan.com](http://www.altloan.com) for loan specific details and all eligibility requirements.*

Equal Housing Lender. ALTLOAN is located at 5016 N. Parkway, Suite 200, Calabasas, CA 91302. ALTLOAN is a dba of BM Real Estate Services, Inc. a California Corporation licensed by the CA Bureau of Real Estate and operates with the following licenses: NMLS 10309 DRE 01273595. Refer to <https://nmlsconsumeraccess.org/> for additional state licenses.



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## **Section 1 - Introduction**

### **BM Real Estate Services, Inc. Wholesale Broker Platform**

ALTLoan ("ALTLOAN"), a dba of BM Real Estate Services, Inc. Wholesale Broker Guide ("Guide"), along with the Master Wholesale Broker Agreement (the "Agreement") governs the business relationship between ALTLOAN and the Broker. This Guide sets forth the terms and conditions for delivering loans to ALTLOAN. Loans delivered to ALTLOAN must conform to all requirements of the Agreement, program guidelines, underwriting guidelines and this Guide (together, the "Program Documents").

By signing the Agreement, Broker is bound by the requirements of the Program Documents. The Program Documents, subject to modification by ALTLOAN at its sole discretion, govern the Agreement and sale of loans by Broker to ALTLOAN. ALTLOAN maintains a contractual relationship with each Broker with which it does business. Failure of a Broker to perform obligations under the Program Documents constitutes a default and permits ALTLOAN to disqualify such Broker as an approved Broker and permits ALTLOAN to terminate its relationship with that entity.

### **General Rules of Interpretation**

Defined terms may be used in the singular or plural, as the context requires. Unless the context in which it is used otherwise clearly requires, the word "or" has the inclusive meaning represented by the phrase "and/or". The words "include", "includes" and "including" are deemed to be followed by the phrase "without limitation". All captions or paragraph headings in the Program Documents are for convenience only and in no way define, limit or describe the scope or intent of any provision in the Program Documents.

### **ALTLOAN's Sole Discretion and Opinion**

Whenever any provision of the Program Documents require or allow ALTLOAN to act in its discretion or to make a determination of fact or a decision to act, or to permit, approve, or deny another party's action, such determination or decision shall be made at ALTLOAN's sole discretion and its sole opinion.

### **Updates and Amendments**

ALTLOAN will update this Guide from time to time to reflect changes in ALTLOAN's requirements and developments in ALTLOAN's loan programs. Each update will amend the Guide. ALTLOAN will provide updates by means of a notice to the Broker, as further described in the "Notice" section of this Guide. The notice will explain the update and specify the effective date of the change.

This Guide, including all updates, is available to Brokers at: [www.altloan.com](http://www.altloan.com). In the event of any conflict between a hard copy of this Guide and the online version of this Guide, the online version will control.

### **Relationship of Parties: ALTLOAN and Broker Under This Guide**

Nothing in this Guide, any related marketing or other materials creates or may be construed as permitting or obligating ALTLOAN to act as a financial or business advisor or consultant to Broker, as permitting or obligating ALTLOAN to control Broker or to conduct Broker's operations, as creating any fiduciary duty of the part of ALTLOAN to Broker, or as creating any



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joint venture, agency, partnership or other relationship between ALTLOAN and Broker. Broker acknowledges that it has had the opportunity to obtain the advice of experienced counsel of its own choosing in connection with the negotiation and execution of the Agreement as well as review of this Guide. Broker further acknowledges that it is experienced with respect to the transactions contemplated by this Guide and made its own independent decisions with respect to the Program Documents and any related transactions.

The relationship between ALTLOAN and Broker is a discretionary relationship. Broker is under no obligation to deliver Loans to ALTLOAN and ALTLOAN is under no obligation to accept Loans from Broker unless Broker and ALTLOAN have entered into a separate binding commitment to deliver and accept specific Loans.

### **Power of Attorney**

Broker hereby constitutes ALTLOAN as attorney-in-fact for Broker, and in Broker's name and stead to endorse promissory notes from Broker to ALTLOAN, and execute assignments from Broker to ALTLOAN of mortgages, deeds of trust, deeds to secure debt and other security instruments securing said promissory notes for any mortgage loan closed or table funded by ALTLOAN in the name of the Broker, granting unto ALTLOAN full power and authority to do and perform each of the actions set out above as fully as Broker itself could or might do. Broker may only revoke this power of attorney in writing and only upon the expiration of 3 years from the effective date of the Agreement termination in accordance with the Agreement terms, and this power of attorney is a power coupled with an interest for such purposes.

### **Broker's Responsibility**

Broker is responsible for the performance of requirements and obligations contained in this Guide, even if the requirement or obligation is performed by a third party.

### **Confidentiality**

As a result of its relationship with ALTLOAN and access to the Program Documents, Broker will learn or have access to various trade secrets, confidential and proprietary methods, techniques, processes, applications, approaches, products, programs, policies, practices and procedures in various forms, which information is used or is useful in the conduct of ALTLOAN's business, including ALTLOAN's origination, sale and servicing of mortgage products (all such information is collectively referred to as "Confidential Information"). Broker acknowledges that such Confidential Information is the exclusive property of ALTLOAN.

Broker shall (1) protect such Confidential Information at least with the same degree of care that it uses to protect its confidential information, and (2) not, at any time, regardless of if, when, and how its relationship with ALTLOAN may terminate, directly or indirectly, disclose, publish, reveal, disseminate, or otherwise make available to anyone such Confidential Information, except to the extent required by applicable law. If Confidential Information is required to be disclosed pursuant to an authority to regulate or oversee any aspect of the Broker's business, Broker shall (a) formally request that such information be treated in confidence and (b) (i) provide ALTLOAN with written notice of the required disclosure promptly upon receipt of notice of the required disclosure, to the extent such notice is permitted by law, (ii) disclose only that portion of the Confidential Information that is legally required to be furnished, and (iii) coordinate with ALTLOAN in an effort to limit the nature and scope of such required disclosure.

## **Section 2 - Consumer Financial Privacy**

All capitalized terms used in this section and not otherwise defined shall have the meanings set forth in 12 C.F.R. Part 332 ("Privacy of Consumer Financial Information"), as amended from time to time (the "Privacy Regulation"), issued pursuant to Section 504 of the Gramm-Leach-Bliley Act (15 U.S.C. § 6801 et seq.).



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## **Safeguards**

Broker and ALTLOAN will maintain safeguards and take technical, physical and organizational precautions to ensure consumer information against destruction, loss, alteration, unauthorized access by or disclosure to third parties while in the possession or under the control of the Broker, Broker agents, ALTLOAN or ALTLOAN account executives. The objective of each such precaution will be to (i) ensure the security and confidentiality of Consumer Information, (ii) protect against any anticipated threats or hazards to the security or integrity of Consumer Information, and (iii) protect against unauthorized access to or use of Consumer Information that could result in substantial harm or inconvenience to any customer.

## **Unauthorized Access to Consumer Information**

Detection and Response to Security Breaches: Broker and ALTLOAN will maintain sufficient procedures to detect and respond to any unauthorized possession, disclosure, use, or other security breaches involving Consumer Information.

Broker and ALTLOAN will, as soon as reasonably practicable, notify the other party of any unauthorized or attempted possession, disclosure, use or knowledge of Consumer Information when it becomes aware of it, including any material breach or potential material breach of security, on a system, LAN or telecommunications network which contains or processes Consumer Information.

Broker and ALTLOAN will, as soon as reasonably practicable, furnish to the other party full details of the unauthorized or attempted possession, disclosure, use or knowledge of Consumer Information, and use reasonable efforts to assist the other party in investigating or preventing the recurrence of any unauthorized or attempted possession, use or knowledge of Consumer Information.

Broker and ALTLOAN will cooperate to correct any unauthorized possession, disclosure, use, or other security breaches, and in any litigation and investigation deemed necessary to protect Consumer Information.

Broker and ALTLOAN will use all reasonable efforts to prevent a recurrence of any unauthorized possession, use or knowledge of Consumer Information.

## **Confidentiality**

Each Party will protect all Consumer Information with the same degree of care as it uses to avoid unauthorized use, disclosure, publication or dissemination of its own confidential information, but in no event, less than a commercially reasonable degree of care.

ALTLOAN and Broker may disclose Consumer Information to its agents, marketing partners, accountants, attorneys, and affiliates or subsidiaries (respectively, each party's "Third Party Recipients") if reasonably necessary in performing its duties. ALTLOAN and Broker agree that it will not disclose, release, or otherwise make available to any third party any Consumer Information without the other party's prior written consent; provided however, that Broker and ALTLOAN are each responsible for any violation of these confidentiality obligations by its Third Party Recipients and will ensure that these individuals or entities are aware of these confidentiality obligations. ALTLOAN may share Consumer Information with Third Party Recipients who are obligated under a joint marketing agreement executed between the parties. However, such information may only be used for the purposes set forth in the joint marketing agreements and may not be used for any other purpose.

# **Section 3 - Broker Eligibility**



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ALTLOAN will approve its Brokers as “approved in good standing” at ALTLOAN’s discretion. Brokers who are approved in good standing will be eligible to participate in ALTLOAN’s loan programs. In order to become an approved broker, an applicant **must, complete**, at a minimum all of the following:

1. Meet ALTLOAN’s minimum eligibility standards
2. Complete application approved by ALTLOAN, at its sole discretion,
3. Maintain a minimum net worth of \$50,000, and
4. Fully executed Master Wholesale Broker Agreement (“Agreement”)

In order to remain eligible to participate in ALTLOAN’s loan programs, Broker must comply with all of the terms of the Program Documents as applicable.

### **Broker Obligations**

In order to remain eligible, Broker must be active with ALTLOAN in the preceding calendar year, maintain the initial standards or eligibility standards currently in effect, and comply with the continuing obligations as defined in the Program Documents, as applicable. In addition, at ALTLOAN’s discretion, ALTLOAN reserves the right to amend any or all continuing eligibility standards for a Broker based upon factors including Broker’s current financial strength, volume and performance, and license and background checks. ALTLOAN reserves the right to terminate the relationship with Broker at its sole discretion even if Broker is otherwise eligible, without notice.

### **Reporting Requirements**

ALTLOAN utilized Comergence for monitoring and tracking of Broker issues. Brokers agree to respond to ALTLOAN’s request for information to clear an “alert” from Comergence on the broker’s record. Some alerts will require ALTLOAN to suspend the Broker from lending operations until resolved.

### **Interim Financial Statements**

On the date of the Agreement and each year afterwards, the Broker may be required to give to ALTLOAN fiscal year-end financial statements and an Annual Certification in form and substance satisfactory to ALTLOAN certifying Broker’s compliance with the terms of this Agreement. ALTLOAN may also require the Broker to provide interim financial statements. Broker shall advise ALTLOAN of any material change in the Broker’s circumstances, financial or otherwise, including, but not limited to, a change in the Broker’s ownership within 5 business days.

Submit all information required under the Reporting Requirements section above to Comergence.

### **Audits and Inspections**

Broker agrees to allow ALTLOAN to conduct audits or inspection, upon no less than five (5) business days notice, at one or more of the Broker’s offices during normal business hours. At that time, Broker must provide the assistance of knowledgeable and responsible individuals and will grant ALTLOAN access to all books, records, and files pertaining to Broker’s compliance with the Program Documents.

### **Disclosure of Information**

Upon the request of ALTLOAN, Broker shall disclose to ALTLOAN information relating to Broker’s origination experience. Broker also consents to the disclosure by ALTLOAN of any such information to investors, rating agencies, credit enhancement providers, or any other entity that needs the information in connection with ALTLOAN’s secondary marketing operation.

Broker releases and agrees to hold harmless ALTLOAN and any insurer or other entity that discloses information as provided above from and against any claims or liabilities connected with such disclosure.

### **Maintenance of Records**

Broker shall maintain adequate records of all loans submitted to ALTLOAN for such periods of time as may be necessary to comply with all applicable federal and state laws. ALTLOAN has the right to examine any and all records that pertain to loans governed by the Agreement and the Program Documents. The records must include the individual loan file, any and all accounting reports associated with the loan and any other reports, data, information and documentation that ALTLOAN in its discretion considers necessary to ensure that Broker is in compliance with ALTLOAN's requirements. Broker must satisfy a request for records within 15 days of the request. Broker must reproduce all records at its own expense, regardless of whether these records are maintained in paper or other format.

State and federal law recognize electronic images that meet certain standards as being equivalent to paper documents for legal purposes. ALTLOAN's requirements for document accessibility and retention apply equally to paper and electronic documents. Broker is responsible for ensuring that any electronic documents it uses meet all legal standards and must have appropriate storage, retrieval, and back-up systems for such electronic documents. Upon request, Broker must provide ALTLOAN with information about the methods it uses for document and records storage and must convert the documents and records to a different format if requested by ALTLOAN.

Broker shall maintain an individual loan file for each loan delivered to ALTLOAN. Each file must contain all of the following:

- Copies of all documents delivered in their original form to ALTLOAN
- All other loan and related documents not required to be sent to ALTLOAN.

### **Notification of Changes in Broker Status**

Broker must notify ALTLOAN prior to the occurrence of any of the following:

- Any change in Broker's business address and/or telephone number or change in company structure.
- Any material increases or decreases in capital or changes in management ordered or required by a regulatory authority supervising or licensing Broker.
- Resignation of any senior management overseeing the origination or processing operations.
- Entry of any court judgment or regulatory order in which Broker is or may be required to pay a claim or claims which may have a material adverse effect on Broker's financial condition.
- The winding up or dissolution of Broker's business.

When ALTLOAN receives this written notification, it will contact Broker if further documentation is required. ALTLOAN reserves the right to suspend further business with Broker while determining the impact of the change on Broker's qualifications.

**Failure to notify ALTLOAN of any such change may result in termination, disqualification, suspension, inactivation or other remedies available to ALTLOAN under the Program Documents.**

## **Section 4 – Broker Representations, Warranties & Covenants**

Broker acknowledges that ALTLOAN has relied upon the accuracy, completeness and truth of Broker's representations, warranties, covenants, and upon Broker's compliance with the terms and conditions set forth in the Program Documents.

All representations, warranties, and covenants are absolute and Broker is fully liable for any breach of any representation, warranty or covenant regardless of whether it or ALTLOAN actually had, or reasonably could have been expected to obtain, knowledge of the facts giving rise to such breach of representation, warranty or covenant.

The representation, warranty or covenants pertaining to each loan are not affected by any investigation or review made by, or on behalf of, ALTLOAN except when expressly waived in writing by ALTLOAN. The representation, warranty or covenants pertaining to each loan are applicable regardless of whether Broker serviced or performed any other actions with respect to the loan.

The representations and warranties:

- Apply to each loan referred to ALTLOAN for underwriting and closing.
- Are for the benefit of ALTLOAN as well as the benefit of ALTLOAN's successors and assigns.

ALTLOAN reserves the right to require Broker to make additional representations, warranties or covenants in writing.

### **Licensing, Due Organization, Good Standing**

The Broker is and shall continue to be duly organized, validly existing and in good standing under the laws of the United States, and under the laws of each state in which the Broker is incorporated, chartered, organized and conducting business.

The Broker, and as applicable each employee, officer, Broker and agent:

- Has and shall continue to maintain all federal, state and local licenses, registrations and certifications necessary to carry on business;
- Is and shall continue to be licensed, qualified and in good standing under the laws of the United States and each state where a mortgaged property and/or borrower is located, as applicable;
- Will remain in good standing with state and federal authorities to the extent necessary to ensure enforceability of all Loans; and
- Has not taken into account any "de-minimus" licensing or registration exemptions to deliver any loans ALTLOAN.

The Broker has disclosed to ALTLOAN all final written reports, actions and sanctions of all federal and state agency and instrumentality reviews, investigations, examinations, audits, actions and sanctions undertaken or imposed within 2 years prior to the Agreement's effective date. Except as the Broker has disclosed to ALTLOAN and ALTLOAN has approved in writing, the Broker is not operating under any type of agreement or order (including, without limitation, a supervisory agreement, memorandum of understanding, cease and desist order, capital directive, supervisory directive, and consent decree) with or by any federal or state government agency, licensing, banking or regulatory authority, and the Broker is in compliance with any and all financial or regulatory standards imposed by any applicable regulatory authority.

### **Authority**

The Broker has and will maintain full corporate and partnership power and authority, as applicable, to execute and deliver the Program Documents and perform in accordance with its terms, and the Broker has taken all requisite corporate or partnership action to make the Program Documents valid, binding and enforceable upon the Broker in accordance with its terms, subject as to enforcement or remedies, to bankruptcy, insolvency, reorganization, receivership or other laws affecting creditors' rights generally from time to time in effect and general equity principles. The Broker is duly and validly authorized to execute and deliver all documents, instruments and agreements the Broker is required to execute and deliver under the terms of the Program Documents and to consummate the transactions contemplated by the Program Documents. The Program Documents and this Guide evidence the Broker's legal, valid, binding and enforceable obligations.

### **Ability to Perform**

The Broker has the ability to perform each and every obligation contained in, and to satisfy each and every requirement imposed on the Broker, in the Program Documents and this Guide and no offset, counterclaim, or defense exists to the Broker's full performance of the Program Documents and this Guide's requirements.

### **No Conflicts**

The Broker's execution and delivery of the Master Wholesale Broker Agreement, fulfillment of and compliance with the terms and conditions of the Program Documents will not conflict with or result in a breach of any terms, conditions, or provisions of the Broker's articles of incorporation, charter, by-laws, partnership agreement, or other organizational document, or of any legal restriction or regulatory directive or any agreement or instrument to which the Broker is now a party or by which it is bound; nor will such actions by the Broker constitute a default or result in an acceleration under any of the foregoing, result in the violation of any law, rule, regulation, order, judgment, or decree to which the Broker or any of its property is subject, impair the ability of ALTLOAN to realize on a Loan or impair its value.

### **No Defenses**

Broker has no judgment, court order, claim, counterclaim, and defense, right of set-off or similar right against ALTLOAN.

### **No Adverse Action**

There is no action, suit, proceeding, inquiry, review, audit or investigation pending or threatened by or against the Broker ("Adverse Action") that, either in any one instance or in the aggregate, could result in any material adverse change in the Broker's business, operations, financial condition, properties or assets or in any material liability on the Broker's part which would draw into question the validity or enforceability of the Program Documents, this Guide, any Loan, or any of the Broker's actions taken, or to be taken in connection therewith; or which would be likely to impair materially the Broker's ability to perform under the Program Documents or this Guide's terms. Broker shall advise ALTLOAN immediately, in writing, of any pending or threatened adverse action, or any pending or threatened action to revoke or limit any license, permit, authorization or approval issued or granted to the Broker by any federal, state or local government or quasi- governmental body, or any agency or instrumentality thereof, which is necessary for the Broker to conduct its business, or to impose any penalty or other disciplinary sanction on the Broker, or any other sanction that would materially affect the Broker's business.

### **No Consent Required**

The Broker's execution and performance of, and compliance with, the Program Documents and this Guide and consummation of any Program Documents transactions do not require the consent, approval, authority, or order of any court or governmental agency or body, or if required, the Broker has obtained such unconditional approval prior to the related Funding Date.

### **No Untrue Information**

The Broker's Application, the Program Documents, the promises, agreements, Representations and Warranties contained in this Guide and all other statements, reports, and documents the Broker furnished or will furnish pursuant to the Program Documents and this Guide contain no untrue statement of material fact nor do they fail to contain a material fact necessary to make the statements contained therein not misleading.

### **Origination**

The Loans have been legally, properly, prudently, and customarily originated in conformance with the highest standards of the residential mortgage origination business practices.

### **Compliance with Business and Property Laws**

Broker has complied with, and shall continue to comply with, and has not violated and shall not violate any law, ordinance, requirement, regulation, rule or order applicable to its business or properties, the violation of which might adversely affect the Broker's operations or financial conditions, or the ability of Broker to originate the transactions contemplated by the Program Documents and this Guide.

### **Compliance with Program Documents and Guide**

Broker has and will comply with, all applicable provisions of the Program Documents and this Guide and will promptly notify ALTLOAN of any occurrence, act, or omission or regarding Broker, the loan, the mortgaged property or the Mortgagor, which occurrence, act, or omission may materially affect Broker, the loan, the mortgaged property or the mortgagor.

## **Section 5 -Representations/Warranties Regarding Individual Loans**

Broker hereby makes the following representations, warranties, and covenants, and all other representations, warranties, and covenants found elsewhere in this Guide to ALTLOAN as to each loan.

### **Mortgage Loans as Described**

No document, report, data or material furnished to ALTLOAN relating to any Loan (including, without limitation, the Mortgagor's Loan application executed by the Mortgagor) in any Loan file, whether delivered in hard copy, electronically or otherwise, contains any untrue statement of fact or omits to state a fact necessary to make the statements contained in the Loan file not misleading.

### **No Redemption**

The Mortgaged Premises are not subject to a redemption period by a previous owner under applicable state law.

### **Appraiser Independence Requirements**

Each appraisal conducted in connection with single-family loans, must be obtained in compliance with the Appraiser Independence Requirements (AIR). Brokers must request appraisals through the [www.altloan.com](http://www.altloan.com) website.

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## **Origination Compliance**

The origination of the Loan was in compliance with, and to the extent that it is within the Broker's control will continue to be in compliance with:

- All applicable laws, rules, regulations, decrees, pronouncements, directives, orders, and contractual requirements with respect to the origination of each Loan;
- Any and all other applicable federal, state, county, municipal, or other local laws, including, without limitation, those laws relating to truth-in-lending, real estate settlement procedures act, consumer credit protection, usury limitations, fair housing, equal credit opportunity, collection practices, and real estate appraisals and valuations; and
- All applicable anti-money laundering laws and regulations, including but not limited to the Bank Secrecy Act and its subsequent revisions and enhancements, the Customer Identification Program requirements of the USA Patriot Act, Office of Foreign Assets Control requirements (collectively the "Anti-Money Laundering Laws"), and has established an anti-money laundering compliance program as required by the applicable Anti-Money Laundering Laws, and maintains, and will maintain, sufficient information to identify the applicable Mortgagor for purposes of the Anti-Money Laundering Laws.

## **Location and Type of Property**

The property is located in the state identified in the Loan file and, unless otherwise provided for in the Program Documents, this Guide or any applicable Underwriting Guidelines, consists of a single parcel of real property with a single family residence erected thereon, or a 2-4 unit family dwelling, or an individual unit in a planned unit development (PUD), condominium project, or cooperative. No portion of the property is used for commercial purposes in such a manner that knowledgeable and sophisticated investors active in the residential secondary mortgage market would consider the property commercial, rather than residential property.

## **Origination Terms**

The person or entity originating the Loan, originated and processed the Loan in accordance with the Broker Agreement's and this Guide's terms and in accordance with the applicable Underwriting Guidelines in effect when the Loan was originated and processed.

## **Occupancy Certifications**

The mortgaged property is/will be lawfully occupied under applicable law and in accordance with the terms of the Note and Deed of Trust/Mortgage.

## **Mortgaged Property Undamaged/No Condemnation**

The property is undamaged by waste, fire, earthquake or earth movement, windstorm, flood, tornado, or other casualty so as to affect adversely the property's value as security for the Loan or the use for which the premises were intended. The property is in good repair. There are no condemnation proceedings by any federal, state, or local authority pending or, to the best of the Broker's knowledge, threatened against the property.

## **No Other Hazards**





## **WHOLESALE BROKER GUIDE**

To the best of the Broker's knowledge, the property is not exposed to Environmental Hazards which are not covered by fire and extended coverage insurance or other available insurance. Environmental Hazards refer to any natural or man-made characteristics that are present in, or affect, the property or neighborhood, including but not limited to, hazardous wastes, toxic substances, radon gas, asbestos-containing materials, urea-formaldehyde insulation, sulfur-containing drywall (also known as Chinese drywall).

### **No Planned Refinance**

With respect to each loan delivered by the Broker to ALTLOAN the Broker hereby certifies that:

The Broker and any of their affiliates have not agreed to and will not agree to a planned refinance. A planned refinance is a refinance of the loan at an interest rate which is less than the immediately preceding interest rate by less than the basis point decline in the market rate since the originator last refinanced the transaction.

### **Error or Fraud**

Neither the Mortgagor nor any other person or entity involved in the Loan transaction or its underwriting or documentation (including without limitation, any appraiser, broker, credit reporting agency, or other provider of information) has made any false representation and/or has failed to provide information that is true, complete and accurate in connection with such transaction whether or not the Broker was a party to or had knowledge of such misrepresentation or incorrect information, and no error, omission, misrepresentation, negligence, fraud or similar occurrence with respect to the Loan has taken place on the part of the Broker or any other party involved in the Loan's origination.

### **Adverse Selection**

The Broker used no adverse selection process or procedures in selecting the Loans to be delivered to ALTLOAN.

### **Predatory Lending/Home Ownership and Equity Protection Act/High Cost Loans**

No Mortgage Loan is subject to the provisions of the Home Ownership and Equity Protection Act (HOEPA) of 1994 as amended or is considered a "high cost", "covered" or "predatory" loan under any applicable state, federal, or local laws or ordinances.

### **Fair Lending/Equal Credit Opportunity Act**

To the best of Broker's knowledge, Broker and its originators have treated all borrowers in a fair and consistent manner. All borrowers have received the same level of assistance, on whether to apply for credit, how to best qualify for credit, how to resolve any issues relating to creditworthiness and other aspects in the credit extension process. Broker has complied with all provisions of the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act.

### **Fair Pricing Policy**

All mortgage loans comply with fair pricing policy and ALTLOAN's Wholesale Lock Policy.

### **Prohibited Practices**





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Broker and its originators have not engaged in any of the following practices with respect to loans delivered to ALTLOAN:

- Encouraging a borrower to default on an existing loan in connection with the refinance of all or part of the existing loan.
- Financing, directly or indirectly, premiums or fees for single premium credit life, disability or unemployment insurance products, or any other accident, loss-of income, life or health insurance, with the proceeds of the Mortgage Loan.
- Refinancing of a Special Subsidized Mortgage. A "Special Subsidized Mortgage" means a residential mortgage loan that is originated or subsidized by or through a state, local, or tribal government or nonprofit organization and that in some circumstances does not have to be completely repaid or requires only partial payments be made. Examples include, but are not limited to, a mortgage granted by organizations such as Habitat for Humanity or a local housing authority.
- Contracting for a prepayment penalty on any product or loan unless specifically allowed within ALTLOAN product guidelines.
- Payment to a home improvement contractor from the proceeds of the Mortgage Loan other than by a check made payable either to the consumer, or jointly to the consumer and the home improvement contractor, or through an independent third-party escrow agent.
- Payment of Mortgage Loan payments in advance from the loan proceeds.

### **Additional Broker Representations and Warranties Relating to Reverse Mortgages**

Broker agrees to comply with all applicable state and federal requirements, rules, and regulations regarding the origination of reverse mortgage loans. With regard to each reverse mortgage loan submitted to ALTLOAN, Broker has complied with each HUD requirement, rule, and regulation governing the origination of HECM of loans, including without limitation those governing borrower counseling requirements, and disclosures relating to the total annual loan cost, loan program comparisons, loan amortization schedules, ARM program disclosures, principal limit lock procedures, and a GFE of closing costs.

Broker agrees to fully cooperate with ALTLOAN to cure any deficiency required by HUD to be cured before it will issue a Mortgage Insurance Certificate for a HECM loan or required by one of ALTLOAN's investors before it will purchase any reverse mortgage loan. Broker's cooperation may include, without limitation, assistance with obtaining additional information from the borrower or third parties, explanation of document corrections to borrower, and assistance to borrowers with execution of corrected documents.

### **Responsible Lending/Benefit to Borrower/Capacity to Repay**

- Broker agrees to use best efforts to ensure that each loan offered to a borrower is consistent with his or her needs, objectives and financial situation.
- Each Mortgage Loan, the proceeds of which will be used to refinance a previous mortgage loan, offers a documented, demonstrable, tangible net economic benefit to the borrower.
- Appropriate assessment and documentation has been performed of the borrowers' capacity to repay each Mortgage Loan in accordance with its terms.
- Timely, sufficient and accurate information has been provided to borrowers concerning each Mortgage Loan's terms, costs, risks, and benefits.

### **Broker Compensation Policy**

ALTLOAN will compensate a broker in accordance with the Broker Compensation Policy, which can be found in the Wholesale Lock Policy.



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### **Loan Originator Compensation**

In compliance with the federal Truth-in-Lending Act (TILA), including 12 CFR 1026.36(d) and (f), as amended, Broker represents and warrants that, with respect to every Mortgage Loan:

- Neither Broker nor any other party has paid compensation to any loan originator based on a prohibited term (or proxy of a term) of the Mortgage Loan or multiple Mortgage Loans;
- If any Loan Originator has received non-deferred profits-based compensation, that amount does not exceed 10% of the Loan Originator's total compensation;
- Based upon information obtained from criminal background checks, credit reports and other sources, all Loan Originators meet all qualification requirements; and
- All loan originators have demonstrated financial responsibility, character and general fitness to warrant a determination that they will operate honestly, fairly and have received periodic training covering Federal and State law requirements that apply to their loan origination activities.

### **Third Party Processing Fees**

ALTLOAN will exclude bona fide fees paid to a third-party processing company from broker compensation as long as certain requirements are met.

- The processing company is not affiliated with the broker company.
- The loan processor is properly licensed as a mortgage loan originator and registered in the NMLS to perform processing services in the State where the property is located.
- The loan processing company is properly licensed and registered in the NMLS to perform processing services in the State where the property is located.
- The fee is properly disclosed and identified as paid to a third party that is not an affiliate.
- The fee is bona fide and reasonable.
- A copy of the invoice is provided in the loan file and matches the charge on the CD.

### **Private Transfer Fees**

No Conforming Loan is secured by property that is encumbered by or subject to a "private transfer fee" or "private transfer fee covenant", as those terms are defined by and prohibited by 12 C.F.R. Part 1228, as amended.

### **Document Signed Using E-Sign Technology**

The Broker hereby represents and warrants as to the individual Mortgage Loans that as of the origination date of any Mortgage Loan containing Electronic Application Documents signed via E-Sign Technology, the following statements are true:

The Electronic Application Documents and Broker's E-Sign Technology will fully comply with the signature, presentment, delivery, Loan file documentation and retention requirements of all applicable Federal and State laws and regulations.

Except as otherwise required by applicable law or regulation, Broker will undertake its best efforts to maintain its E-Sign Technology in accordance with the Standards and Procedures for electronic Records and Signatures (SPeRS) Version 1.0 (September 2003)



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The process and technology used by Broker results in an effective, valid and enforceable borrower signature on the Electronic Application Documents, including the Uniform Residential Mortgage Loan Application (Freddie Mac Form 65) for each of the Mortgage Loans, and complies with all applicable State and/or Federal laws, rules and regulations. The Broker and the Mortgage Loan comply with all eSignature and eDelivery requirements set forth in this Guide.

### **Ability to Repay and Qualified Mortgages (ATR/QM), Residual Income Evaluation**

At the time of origination, based on verifiable documentation, the Loan is a Qualified Mortgage (QM) as defined under the ATR provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which amended the TILA (Reg. Z), and the implementing regulations.

### **Points and Fees Limitation**

Total points and fees may not exceed 3% of the total loan amount or such different amount in accordance with the QM provisions of Regulation Z.

In order to comply with the High-Cost and ATR/QM Rules requirement and to accurately evaluate points and fees on all loans, ALTLOAN will require that a complete itemization of all points and fees be provided in the loan package.

### **Bona Fide Discount Points**

ALTLOAN will allow exclusion of eligible bona fide discount points from the total points and fees as provided for in the Consumer Financial Protection Bureau (CFPB), ATR/QM and High-Cost rules.

## **Section 6 Responsible Lending Representations, Warranties, Covenants**

### **HOEPA/Section 32 Loans**

HOEPA became law in 1994. This law addresses certain deceptive and unfair practices in home equity lending. It amends the TILA and establishes requirements for certain loans with high-rates and/or high fees. The rules for these loans are contained in Section 32 of Regulation Z, which implements the TILA; therefore, these loans are often referred to as "Section 32 Mortgages". The purpose of this law is to protect consumers in high cost mortgages from predatory lending activities whereby creditors engage in a pattern or practice of lending based on the collateral value of a property without regard to the consumers ability to repay the loan. It also prevents deceptive and unfair practices in home equity lending.

The following types of consumer credit transactions that are secured by a consumer's principal dwelling are subject to the HOEPA coverage. These types of transactions are:

- Purchase-money mortgages
- Refinances

### **Exempt Transactions**

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The 2013 HOEPA Rule exempts the following type of transactions from HOEPA coverage.

- Reverse mortgages

Lenders must apply the HOEPA coverage tests to determine if the transaction is a high-cost mortgage. There are two separate HOEPA coverage tests, based on:

- The transaction's annual percentage rate (APR)
- The amount of points and fees paid in connection with the transaction

### **APR Coverage Test**

First, determine if a transaction is a high-cost mortgage based on its Annual Percentage Rate (APR). A transaction is a high-cost mortgage if its APR (measured as of the date the interest rate for the transaction is set) exceeds the Average Prime Offer Rate (APOR) for a comparable transaction on that date by more than:

- 6.5 percentage points for first-lien transactions, generally
- 8.5 percentage points for first-lien transactions if the dwelling is personal property and the loan amount is less than \$50,000.

Calculate the APR used to determine if a transaction is a high-cost mortgage **differently** from the APR that is disclosed on the TILA disclosures.

For fixed-rate transactions, calculate the APR by using the interest rate in effect on the date the interest rate is set for the transaction.

For transactions where the interest rate varies with an index, use the greater of the introductory interest rate (if any) or the fully-indexed rate (i.e., the interest rate that results from adding the maximum margin permitted at any time during the term of the transaction to the value of the index rate in effect on the date the interest rate is set for the transaction).

### **Points and Fees Coverage Test**

Next, determine if a transaction is a high-cost mortgage based on the transaction's total points and fees. A transaction is a high-cost mortgage if its points and fees exceed the following thresholds:

5% of the total loan amount for a loan amount greater than or equal to \$21,980, but less than 65,939.  
8% of the total loan amount or \$1,029 (whichever is less) for a loan amount less than \$13,737.

The dollar figures are adjusted annually based on changes to the Consumer Price Index. The updated figures will be published each year in the commentary to Reg. Z and are effective beginning January 1 of each year.

To calculate points and fees for HOEPA coverage of closed-end credit transactions, use the same general approach used for calculating points and fees for QMs under the ATR/QM Standards under the TILA (Regulation Z).

Loans that are covered under the HOEPA are ineligible.

### **State and Local High Cost Loans**



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A loan considered a “high-cost,” “covered,” “high-risk,” “predatory” or any other similar designation under any state or local law in effect at the time of the closing of the loan if the law imposes greater restrictions or additional legal liability for residential mortgage loans with high interest rates, points and/or fees.

Broker represents and warrants that:

- No person, with the intent to avoid the application or evade the provisions of one of the laws identified above, divided a loan transaction into separate parts (by creating a concurrent subordinate lien or otherwise) or performed any other subterfuge.

### **State Higher-Priced Mortgage Loans (HPML)**

ALTLOAN will fund State HPML in all states

### **State Identified “Subprime Home Loans”**

As determined by regulation established in each state, loans classified as “Subprime” loans are ineligible.

### **Agency 5% Limit on Point and Fees Investment Properties**

Purchase and no-cash out transactions eligible for sale to Fannie Mae or Freddie Mac, have the following restrictions:

- The total “points and fees” charged to the borrower, may not exceed the greater of 5% of the loan amount or \$1,000.00, **and/or**
- The APR or points and fees may not exceed prescribed HOEPA thresholds.

Any loan that fails to meet the Freddie Mac/Fannie Mae limitations on points and fees is ineligible.

### **Higher Priced Loans**

On July 30, 2008, the Federal Reserve Board published a final rule amending Regulation Z. A highlight of the final rule is the creation of a new category of sub-prime loans called “higher-priced mortgage loans (HPML).” A HPML is defined by reference to an index called the “average prime offer rate.” A HPML will be one in which the APR exceeds the index by percentage points or more for first-lien loans, 2.5 percentage points for Jumbo loans, as defined as loans that exceed the amount eligible for purchase by Freddie Mac, or 3.5 percentage points for junior liens.

The CFPB issued a final rule amending TILA (Regulation Z). The rule implements statutory changes made by the Dodd- Frank Act that lengthen the time for which a mandatory escrow account established for a HPML must be maintained from 1 year after origination to at least 5 years on loan applications received by ALTLOAN on or after June 1, 2013. In addition, even after 5 years have elapsed, TILA section 129D (d) provides that an escrow account shall remain in existence unless and until the consumer is current on the obligation and has accrued sufficient equity in the dwelling securing the consumer credit transaction “so as to no longer be required to maintain private mortgage insurance”.

**Exemptions:** Reverse mortgages and home equity lines of credit are exempt. The following programs are **INELIGIBLE** if determined to be “Higher-Priced”:

- Adjustable Rate Mortgages (ARM) (Conventional or Government)
- Jumbo loans

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## **Prohibited Terms and Practices**

A loan may not violate any of the following prohibited terms and practices.

### **Arbitration**

No loan requires the borrower(s) to submit to arbitration to resolve any dispute arising out of or relating in any way to the loan transaction.

### **Credit Insurance**

No loan requires the borrower(s) to pay for a single-premium credit insurance policy, regardless of whether the premium is paid directly by the borrower or paid indirectly by financing the premium/fee into the mortgage amount. This prohibition includes mortgage insurance with credit insurance features where a single-premium for the credit insurance is paid by the Borrower either directly or indirectly by rolling the credit insurance single-premium into the cost of the mortgage insurance, regardless of whether or not it is identified as including a credit insurance premium. Insurance premiums calculated and paid on a monthly basis are not prohibited. Disclosures for the credit insurance policies must be written in clear and simple terms, and provided to the borrower in advance of the purchase of the applicable policy. No loan includes a debt cancellation agreement.

### **Steering**

Broker may not engage in a practice of “steering” a mortgage applicant to a loan with a higher interest rate and/or fees designed for less creditworthy borrowers when the borrower could qualify for a less costly loan with similar characteristics.

A borrower should be offered the best available loan for their credit and personal profile.

### **Tangible Net Benefit**

Each mortgage loan, the proceeds of which are to be used to refinance a previous mortgage loan, offers a documented, demonstrable, tangible net benefit to the borrower.

### **Survival**

The representations, warranties, covenants and other obligations set forth in this Guide shall survive the assignment of ALTLOAN’s rights with respect to a loan, and will continue in full force and effect, notwithstanding any termination of the Agreement, this Guide or the Program Documents, and shall inure to the benefit of ALTLOAN and its assigns.

## **Section 7- Defaults and Remedies, Early Pay Off**

### **Defaults**

Any one or more of the following events constitute an Event of Default:

- Broker has not complied with one or more of the requirements, terms or conditions, or has breached a representation, warranty or covenant, contained in this Guide or in the Program Documents.

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- Broker or any guarantor changes its name or its DBA without prior written notice to ALTLOAN.
  - Broker or any guarantor consolidates, merges or enters into any analogous reorganization or transaction with any person without prior written notice to ALTLOAN.
  - Any change in Broker's charter from federal to state or vice versa, if Broker is a bank, thrift, or savings and loan association, without prior written notice to ALTLOAN.
  - Any conversion from one entity type to another (e.g. corporation to LLC) without prior written notice to ALTLOAN.
  - Any guarantor revokes, purports to disavow or contests the validity or enforceability of its guaranty, or dies or becomes incapacitated.
  - If Broker or any guarantor undergoes a sale outside the ordinary course of business without ALTLOAN's prior written consent.
  - Any changes in Broker's ownership whether by direct means, or indirect means, without prior written notice to ALTLOAN. Indirect means include any change in ownership of 50% or more of Broker's direct or indirect parent.
  - The actual or impending insolvency of Broker or any guarantor.
  - The filing of a voluntary petition by Broker or any guarantor, or an involuntary petition or other insolvency proceedings against Broker or any guarantor under the federal bankruptcy laws or under any state bankruptcy or insolvency laws.
  - Any assumption of control of Broker by the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC) or other similar governmental entity
  - Broker or any guarantor admits in writing its insolvency or inability to pay debts.
  - The appointment of trustee or receiver for Broker or any guarantor or their respective property
  - The execution by Broker or any guarantor of an assignment for the benefit of creditors.
  - Any other change in the financial or organization status of Broker or any guarantor that ALTLOAN in its discretion believes could adversely affect ALTLOAN or any loans delivered to ALTLOAN.
  - Broker or any guarantor liquidates, winds up or dissolves.
  - Broker ceases to engage in the business of originating loans.
  - Broker or any guarantor sells, assigns, or transfers all or substantially all of Broker's business or assets.
  - The placement of Broker on probation or restriction of its activities in any manner by a (a) federal or state government agency, including Freddie Mac, Fannie Mae, or HUD.
  - Broker's or any guarantor's failure to deliver any documents required by ALTLOAN.
  - Broker's or any guarantor's misstatement or omission of any material fact on any application, certification or other document delivered to ALTLOAN.
  - Broker's failure to maintain a qualified loan origination staff, and acceptable ongoing quality control program, adequate facilities and written policies and procedures to ensure the investment quality of loans delivered to ALTLOAN.
  - Broker's failure to meet any prescribed eligibility test.

### **Early Pay Off and Premium Recapture**

With respect to any Loan that prepays in full on or prior to the borrower making **6 (six) scheduled monthly** mortgage payments following the related Closing Date, Lender may, in its sole discretion, subject to Applicable Requirements, require Broker to reimburse Lender all compensation received by Broker for such Loan. With respect to any Loan that prepays in full on or prior to the borrower making **6 (six) scheduled monthly** mortgage payments that has a pre-payment penalty associated with it, the Lender, at its sole discretion, may apply the amount of the prepayment penalty paid by the borrower to the early payoff fee and require the Broker to pay any short-fall. Payment by Broker to Lender shall be accomplished by wire transfer with **fifteen (15) business days** following receipt from Lender of written demand from Lender pursuant hereto. Any refund will comply with the loan originator compensation rules under the Truth in Lending Act, 12 C.F.R. § 1026.36(d) & (e), as may be amended from time to time. In the event the payoff is due to a refinance by the same Broker, and the new loan is delivered back to ALTLOAN, part or all of the above requirements may be waived upon the sole discretion of ALTLOAN. If payment is not timely received by ALTLOAN, the amount owing may be offset against any amount due Broker, or an affiliated Broker, as determined by ALTLOAN.

### **Early Default and Premium Recapture**

If any loan submitted by Broker to ALTLOAN shall be in default within one hundred eighty (180) days of the date the Mortgage Loan was consummated/funded, then Broker shall, within twenty (20) days after receipt of notice from ALTLOAN, reimburse the amount of any “service release premium” and/or “yield spread premium fee” (as those terms are defined for federal disclosure purposes) previously paid to Broker by ALTLOAN as compensation (full premium recapture) in addition to an administration fee of \$3,000.

### **Reverse Mortgage Early Payoff and Premium Recapture**

In the event that any reverse mortgage loan Substantially Prepays, Broker agrees to pay ALTLOAN a “Recapture Fee.” “Substantially Prepays” is defined as a Loan that within 6 months of closing of borrower(s) loan is paid down by:

- 20% (twenty percent) or more of its unpaid principal balance (“UPB”); **and/or**
- \$10,000

The Recapture Fee shall be the percentage of the unpaid principal balance that is prepaid, multiplied by the purchase price/premium paid by ALTLOAN to Broker for the subject loan. In the event more than 80% of the unpaid principal balance is prepaid within 6 months of closing, the Recapture Fee shall be 100% of the purchase price/premium paid by ALTLOAN to Broker for the subject loan.

Broker shall pay to ALTLOAN the Recapture Fee within 10 calendar days of receipt of invoice from ALTLOAN. ALTLOAN may set-off such Recapture Fee against any other amounts due Broker. If ALTLOAN, in its sole discretion, elects to waive this Recapture Fee at any time, such waiver shall not be deemed a waiver of ALTLOAN’s right to enforce this provision with respect to any other loan.

## **Section 8 - Quality Control**

### **Internal Quality Control**

Broker must maintain an internal quality control program commensurate with the size of their business to ensure:

- Accuracy of legal and origination documents
- Detection of fraud and misrepresentation
- Identification of systemic issues and their root causes
- Monitoring of corrective action plans
- Sound reporting procedures

The program must be supported by a written plan outlining the objectives and scope of the review and applicable policies and procedures. Upon request, Broker must have the ability to produce a copy of the Quality Control Plan.

### **Required Notice**

If Broker becomes aware of the following occurring on a loan delivered to ALTLOAN, Broker must give prompt written notice setting forth the details of the discovery and any supporting documentation.

- Material misrepresentation or fraudulent activity of any nature.



The written notice must be sent within 5 business days to:

BM Real Estate Services, Inc. dba ALTLoan  
5016 N. Parkway Calabasas, Suite 200  
Calabasas, CA 91302  
Attn: Marc Shenkman, President/CEO

Along with an email to [TPO@altloan.com](mailto:TPO@altloan.com)

### **Best Practices for Quality Control**

Each Broker is unique in size, target market, product mix, and other risk characteristics. It is important that Broker's quality control program and fraud controls be customized to be appropriate and effective for its specific situation. In addition to the other quality control requirements contained in the Program Documents, the following best practices are recommended for all Brokers:

- Broker's quality control staff, if applicable, is free from the influence of the production/origination and reports directly to senior management;
- Broker's employees receive appropriate background checks prior to being hired and are aware of Broker's code of conduct regarding fraud and appropriate handling of confidential consumer information. Employees and others have a means to report fraud and unethical behavior to Broker, which will be objectively investigated;
- Broker maintains an active focus on preventive controls, such as fraud awareness training, and document procurement policies; and
- Broker makes appropriate use of current technology and tools in protecting itself from fraud including, but not limited to independent sources of information about the property.

## **Section 9 - Exclusionary Lists**

Individuals and businesses on the ALTLOAN exclusionary list have played no role in the origination or sale of a loan to ALTLOAN. Excluded individuals and businesses may include any party who deals directly or indirectly with ALTLOAN who have a material influence on the mortgage origination, including individuals in a management or supervisory position.

No person or entity on the ALTLOAN exclusionary list has played a role in the origination of the loan or in the underlying real estate transaction. Prohibited roles include, but are not limited to, borrowers, trustees on the deed, builders, developers, property Brokers, loan officers, loan processors, underwriters, mortgage brokers, correspondents, mortgage service providers, appraisers, title insurers, real estate brokers and agents, closing or settlement agents, notaries and insurance agents.

### **Confidentiality**

Broker maintains the ALTLOAN exclusionary list and information contained on the ALTLOAN exclusionary list in a confidential manner. By accessing or using the ALTLOAN exclusionary list, Broker agrees to indemnify ALTLOAN for any loss, damage, or expense, including attorneys' fees, resulting from the Broker's failure to maintain the confidentiality of the ALTLOAN exclusionary list or information contained on the ALTLOAN exclusionary list. Broker uses the ALTLOAN exclusionary list only in connection with its responsibilities as a Broker of ALTLOAN.



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## **GSA, LDP, Freddie Mac Exclusionary List and FHFA Suspended Counterparty Program List**

ALTLOAN is prohibiting loans where any company or individuals who are material parties to the transaction listed on HUD's "Limited Denial Participation" (LDP) list or the federal General Services Administration (GSA) excluded party list, FHFA Suspended Counterparty Program List or the Freddie Mac Exclusionary List. All lists must be checked for all parties to the transaction. If any of the names appear on either list, the loan is not eligible. This applies to all loans and is not limited to FHA and VA loans.

### **Prohibited Settlement Agents**

Unless the Broker obtained prior approval from ALTLOAN:

- Broker has no ownership interest of any amount or nature in the title company, title agent, escrow company or other settlement agent closing the loan.
- No Principal of Broker has any ownership interest of any amount or nature in the title company, title agent, escrow company, or other settlement agent closing the loan.
- No Principal of Broker is related to the first degree by blood (including adoption) or marriage to a principal of the title company, title agent, escrow company, or other settlement agent closing the loan.

For purposes of this Section, a "Principal" of an entity is any person or entity that:

- ALTLOAN uses the same definition for affiliate as outlined in the NMLS. If a company is required to disclose an affiliate in the NMLS, it should also be disclosed as an affiliate to ALTLOAN for purposes of points and fees calculation under the QM Rules.
- The "first degree of relationship" includes children and parents. A husband and wife are related in the first degree by marriage. For other relationships by marriage, the degree of relationship is the same as the degree of underlying relationship by blood. Example: Bryan is Marc's son and Bryan and Marc are therefore first-degree relatives by blood. Bryan's wife, Christine, is related to Marc in the first degree by marriage.

## **Section 10 - Terms of Use and Electronic Services**

This Electronic Services section sets out standards that apply to all ALTLOAN loan programs. Generally, requirements that vary from one loan program to another are described in ALTLOAN's program guidelines. In most cases, differences will not be referenced in this section.

ALTLOAN may require all Brokers who wish to use any of the electronic services, forms and/or materials to obtain a user ID and password for each of the Broker's individual users. Additionally, ALTLOAN may require Brokers to obtain an administrator user ID and issue user IDs and passwords to each of the Broker's individual users. ALTLOAN may make the forms, materials and/or one or more of the electronic services available through those user IDs, depending on the requests and needs of the Broker. From time to time, ALTLOAN may also make forms, materials and certain electronic services available via selected third-party providers. A ALTLOAN user ID and password may or may not be required to access ALTLOAN's forms, materials and electronic services through these third parties, but the third party provider may require Brokers to obtain and use user IDs and passwords and to agree to terms and conditions of use.

### **General Terms and Conditions of Use**



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Broker may appoint authorized users to use the electronic services. Broker shall only appoint persons to be authorized users where it has been determined that the person: (i) has a need to access the electronic services for the purposes set forth in this Guide, and (ii) will be capable of complying with the applicable obligations set forth in this Guide. Broker and its authorized users shall use the services strictly in compliance with this Guide and with any user documentation and

security guidelines that ALTLOAN may provide, either through the site or through other means. Broker shall be responsible for the acts or omissions of its authorized users using the products.

### **User Names/Passwords**

Broker agrees that it is solely responsible for properly using and maintaining the security and confidentiality of any user name and/or password issued to Broker pursuant to this Guide and any related agreement. Broker agrees not to permit unauthorized individuals to use any such user ID and/or password to access ALTLOAN's [www.altloan.com](http://www.altloan.com) website. Broker's authorized users may not share their user ID and/or password with anyone else or use any user ID for group purposes. Broker agrees to immediately notify ALTLOAN of any unauthorized use of any user ID or password or of any other breach of security. Broker agrees to ensure that Broker and Broker's authorized users will logoff from the site at the end of each session. Broker warrants that Broker will deactivate the user ID and password for each user who later is not an authorized user or in the event his or her employment role changes such that the user's access to the products is unnecessary or inappropriate.

Broker shall be responsible for the acts or omissions of any user accessing the products through any user name and/or password issued to the Broker or its authorized users even if such user is not a valid authorized user. Broker acknowledges and agrees that ALTLOAN shall have no obligation, other than confirming use of the correct password for a user ID, to identify, confirm or otherwise authenticate the authority of the end user using such user name even if ALTLOAN assists in the issuance of such user IDs.

### **Restrictions**

Subject to the terms of this Guide, Broker and Broker's authorized users may use, access, download and print the materials and forms and use and access the site and services for the purpose for which it is intended. Except as otherwise expressly permitted, Broker and Broker's authorized users may not modify, copy, distribute or create derivative works from the forms. Subject to the prior sentence, Broker and Broker's authorized users may not modify, copy, distribute, transmit, display, perform, reproduce, publish, license, create derivative works from, frame in another web page, use on any other web site, transfer or sell any information, software, lists of users, databases or other lists, products or services obtained on the Site. The foregoing prohibition expressly includes, but is not limited to, the practices of "screen scraping" or "database scraping" to obtain lists of users or other information. Unless the user was issued a password from either a secure or non-public area of the Site, Broker and Broker's authorized users agree not to access or attempt to access password protected information. No service bureau work, multiple-user license, or time-sharing arrangement is permitted, except as expressly authorized by ALTLOAN in writing. Broker shall not acquire any title, ownership or other rights, except for the express limited right to use the system under the terms of this Guide. Except as otherwise expressly permitted in this Guide, Broker and Broker's authorized users may not provide access to any third party. Broker shall not permit consumers to use the system, provided that Broker may provide forms to consumers to the extent such forms, by its nature, and are intended to be provided to consumers. Broker and Broker's authorized users shall comply with all applicable laws in the course and scope of Broker's and its authorized user's use of the system.

### **Proprietary Rights and Data Rights**

The site (including all materials on the site as well as the organization and layout of the site), services, materials and forms, including all copyrights, trademarks, trade names, trade secret or patent rights therein, are owned and copyrighted or



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licensed by ALTLOAN. Provided that Broker complies with the confidentiality provisions of this Guide and all applicable laws, ALTLOAN may use and analyze all data generated from the use of the system to audit the use of the system, to operate and improve the system, and for any other purposes within ALTLOAN's ordinary business activities.

The systems are not designed as, and are not intended to be used as a means for Broker to meet any recordkeeping requirements Broker may have under its applicable laws. Broker agrees that Broker shall implement and use, at Broker's own cost, whatever policies and data backup technologies and procedures Broker deems necessary for Broker's longer-term data storage needs.

### **Termination**

Either party may terminate this Systems Agreement or the Broker's authorized users' right to use the system at any time with or without cause. Broker may terminate authorized users' right to use the system by giving notice of such to ALTLOAN, and such termination shall be effective at such time as ALTLOAN receives the notice. ALTLOAN may terminate Broker's and Broker's authorized users' right to use the system at any time by giving notice of such to Broker, and such termination shall be effective at such time as Broker receives the notice, unless an alternative termination date is specified within such notice.

In the event Broker breaches any term or obligation within any of the Program Documents, Broker shall be deemed to have received such notice of termination at the same time as the breach.

As of the effective time of termination, of Broker and Broker's authorized users' right to use the terminated system, ALTLOAN will disable Broker and Broker's authorized users' access to the terminated system which ALTLOAN shall attempt to do with reasonable promptness. Broker and Broker's authorized users agree not to use or access terminated systems even if Broker and Broker's authorized users access to the terminated systems has not yet been disabled. All of Broker and Broker's authorized users obligations arising out of use of terminated systems which proceeded the effective time of termination shall survive termination.

### **Confidentiality**

All Confidential Information disclosed by one party (a "Disclosing Party") to the other party (a "Receiving Party") shall be subject to the terms of this section. For all such disclosed Confidential Information, the Receiving Party shall: (i) hold all of the Disclosing Party's Confidential Information in confidence; (ii) use reasonable efforts to maintain the confidentiality of the Disclosing Party's Confidential Information, which efforts shall accord the Disclosing Party's Confidential Information at least the same level of protection against unauthorized use and disclosure that the Receiving Party customarily accords to its own information of a similar nature, provided that the protection shall be at least commercially reasonable; (iii) implement reasonable administrative, physical, and technical safeguards designed to protect the security and integrity of Confidential Information disclosed by the other party against any anticipated threats or hazards to the security or integrity of Confidential Information; and (iv) use or permit the use of the Disclosing Party's Confidential Information solely in accordance with the Systems Agreement and the requirements of all its applicable laws.

The restrictions on use and disclosure set forth above shall not apply when, and to the extent that the Confidential Information: (i) is or becomes generally available to the public through no fault of the Receiving Party (or anyone acting on its behalf); (ii) was previously rightfully known to the Receiving Party free of any obligation to keep it confidential on behalf of the Disclosing Party; (iii) is subsequently disclosed to the Receiving Party by a third-party who may rightfully transfer and disclose the information without restriction and free of any obligation to keep it confidential; (iv) is independently developed by the Receiving Party or a third-party without reference to the Disclosing Party's Confidential Information, or (v) is required to be disclosed by the Receiving Party as a matter of law, provided that the Receiving Party unless prohibited by law, uses all reasonable efforts to provide the Disclosing Party with at least 10 days prior notice of the disclosure and the Receiving Party discloses only that portion of the Confidential Information that is legally required to be furnished.



However, exemption (i) above shall not apply to any Confidential Information to the extent it is comprised of information that identifies a consumer or the consumer's personal information that may be protected under the Receiving Party's applicable laws. The burden of proof that Confidential Information falls into any one of the above exemptions will be borne by the Party claiming such exemptions.

### **Liability Disclaimer**

Broker acknowledges and agrees that Broker and Broker's authorized user's use the system at its own risk. Neither ALTLOAN nor its suppliers or any of their officers, directors, or employees, agents, third party content providers, merchants, sponsors, or licensors or the like, warrant or represent that the system will be uninterrupted or error free. Nor do they make any warranty or representation as to the results that may be obtained from the use of the system or, as to the accuracy, reliability, or timeliness of any systems. ALTLOAN and their respective agents, employees, officers or directors assume no responsibility for any consequence relating directly or indirectly to Broker's use of the system or to any action or inaction that Broker takes based on the system.

### **Indemnification**

Broker agrees to indemnify, defend and hold harmless ALTLOAN and/or suppliers from any liabilities, losses, claims, damages, fees, expenses, fines and other liabilities, including attorneys' fees, arising from or relating to (i) Broker and Broker's authorized user's misuse of the system or (ii) Broker and Broker's authorized user's breach or violation of the Systems Agreement.

### **Links to Third Party Sites**

The Site may contain hyperlinks to web sites operated by parties other than ALTLOAN. Inclusion of hyperlinks by ALTLOAN to other web sites does not imply any endorsement of the material on such web sites or any association with their operators, and Broker accesses and use such web sites, including the information, material, products and/or services therein, solely at Broker's own risk. Furthermore, because the terms of use on the Site are applicable only when Broker is on the Site, once linked to another web site, Broker should read that web site's terms of use before accessing that web site.

### **Marks/Logos**

Broker agrees not to display or use in any manner the marks/logos without the prior express written permission of ALTLOAN.

### **No Legal Advice**

ALTLOAN is not engaged in the practice of law, and the delivery of any information should not be interpreted as the offering of legal advice or opinion. If Broker desires to obtain an opinion concerning the legality of the information provided under the Systems Agreement, Broker should seek its own legal counsel.

### **Non-Waiver**

Any failure by ALTLOAN to promptly exercise any right under the Systems Agreement or any express waiver by ALTLOAN shall not create a continuing waiver or any expectation of non-enforcement.

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## **Modifications**

ALTLOAN may modify this Guide at any time upon notice to the Broker and such modifications shall be effective upon notice except as otherwise set forth in the notice. ALTLOAN may notify Broker of any such modifications either by mail or e-mail notice to the primary contact in Broker's organization as shown on ALTLOAN's current records, or by posting such modifications on the Site, and Brokers continuing use of the system after Broker has been notified of such modifications shall constitute Broker's acceptance of the modifications.

## **Severability**

If any provision of the Agreement is declared invalid or unenforceable by a court of competition jurisdiction, the remaining provisions of the Agreement will remain in full force.

## **Pricing Functions Services**

If Broker accesses any register/pricing, and/or locking services (collectively "Pricing Functions"), then the following terms shall apply:

**Acknowledgement** - Broker acknowledges that: (i) the Pricing Functions are intended only for use as an estimate of a price as of a particular moment in time, and that neither Broker and Broker's authorized users should rely upon the Pricing Functions as a determination of an actual final price for a loan and (ii) any output from the Pricing Functions does not reflect an offer by ALTLOAN to purchase a loan.

**Limited Purposes** - Broker shall use the Pricing Functions solely for the purpose of making bona fide requests for price quotes, rate locks and registrations for loans that Broker intends to deliver to ALTLOAN.

# **Section 11 - Loan Integrity**

From time to time, ALTLOAN will alert its Brokers to important legal requirements related to the origination of mortgage loans. However, Broker should not rely upon ALTLOAN to inform them of the legal requirements applicable to the origination of mortgage loans. Instead, as described in the Eligibility, Representation, Warranties, and Covenants section, and other sections of this Guide, Broker must ensure that it is aware of, understands and implements all applicable federal, state and local laws.

ALTLOAN may also inform Brokers of its specific policies regarding certain laws, and may provide the above-described information regarding legal requirements or policies in this Guide. Alternatively, ALTLOAN may provide the information through other means, including bulletins, communications, or compliance alerts, by whatever name or other communications. Regardless of the method of communication, Broker must comply with such policies.

## **Indemnification**

Broker shall indemnify ALTLOAN from all liabilities, obligations, losses, damages, penalties, fines, forfeitures, court costs and reasonable attorneys' fees, judgments, suits and any other costs, fees and expenses, directly or indirectly resulting from or arising out of (i) an Event of Default, (ii) any litigation or governmental proceeding that alleges any violation of local, state or federal law or an event which, if true, would be an Event of Default, by Broker or any other party in connection with the origination of a loan, (iii) any breach of a representation, warranty, or covenant made by ALTLOAN in reliance upon any representation, warranty, or covenant made by Broker, or (iv) ALTLOAN's enforcement of the Agreement, including this Guide.

Broker must reimburse ALTLOAN within 20 days of receiving ALTLOAN's demand for indemnification. Except for notices of demand for indemnification, ALTLOAN is not required to give Broker notice of any events that may trigger Broker's indemnification obligations. Broker and its counsel must cooperate with ALTLOAN in connection with the defense of any litigation or governmental proceeding involving a loan. Broker has the right to control any litigation or governmental proceeding related to a loan, including choosing defense counsel and making settlement decisions, however ALTLOAN will have to approve any settlements being made indirectly on its behalf.

### **Set Off**

Upon any Event of Default ALTLOAN may, without prior notice to Broker, set off and apply all or any amounts owed by ALTLOAN to Broker. ALTLOAN will notify Broker within a reasonable time after any set off, provided, however that the failure of ALTLOAN to give such notification shall not affect the validity of the set off.

### **Suspension Inactivation or Termination**

Either party may terminate the Agreement and the Program Documents by giving the other party 5 days written notice. Provided that no Event of Default has occurred, the suspension, inactivation, or termination will not apply to any loans that have been registered with ALTLOAN before the effective date of the suspension, inactivation, or termination.

ALTLOAN may suspend, inactivate, or terminate the Agreement and the Program Documents and Broker's ability to submit loans to ALTLOAN immediately if ALTLOAN has cause to believe an Event of Default has occurred. ALTLOAN may refuse to register or fund any or all loans after the effective date of the suspension, inactivation, or termination.

Inactivation, suspension, and termination does not affect Broker's obligations with respect to loans already sold or referred for underwriting and closing to ALTLOAN.

## **Section 12 - Fraud**

ALTLOAN, its investors and Brokers can experience substantial losses if either fraud or misrepresentation occurs on a loan. Fraud can occur with any type of loan. A common definition of fraud is an act of intentional misrepresentation, concealment or omission of the truth for the purpose of deception or manipulation with the intent of securing something by taking unfair advantage of another. ALTLOAN has a Zero Tolerance Policy on matters relating to fraud or misrepresentation.

Today, most individuals have access to a personal computer and the Internet. With a simple click of a mouse, one can quickly and easily find personal information on an individual or a company, including financial statements, real property information, court records, and a myriad of other data. With the purchase of software, a scanner and a color printer, a thief can create documents and provide supporting information to create identities, employer documentation, appraisals, and a credit history to support a mortgage request.

Fraud perpetrators seek the path of least resistance, targeting those lenders with the weakest controls for detecting and preventing fraud. Financial institutions that fail to ensure adequate internal controls, fraud detection tools, staff training, business partner due diligence and quality control reviews risk becoming targets for organized mortgage fraud rings. High incidence of fraud in a financial institution's portfolio risks the company's reputation, raises its costs to sell in the secondary market, and could ultimately impact its viability. Financial institutions are obligated to their borrowers, shareholders, investors and the industry to manage fraud effectively.

Mortgage fraud is a serious issue for financial institutions. Institutions may recover only a portion of a mortgage if the property value is inflated or if the mortgage was provided to an unqualified borrower. High foreclosure costs, including unpaid back taxes and interest, liens for unpaid homeowner dues, brokers' commissions, reappraisals, rehabilitation costs,



attorneys' fees, and other related expenses plague the industry. Foreclosure attorneys' fees in particular can be substantial. Review Appendix A of this Guide for types of fraud and associated red flags.

## **Section 13 - Registration and Lock Commitments**

### **Licensing**

ALTLOAN will not accept loans in states where Brokers are not properly licensed to conduct business. In the event that ALTLOAN does not have a Broker's current license or exemption on record, ALTLOAN cannot accept loan registrations or locks. If any Broker license issues are under review, the Broker's loans will be placed in a pending status. To remove the loans from pending status the Broker must take the following steps:

Broker must update all state licensing information by emailing state licensing and exemption information directly to ALTLOAN at Comergence site.

Once this information is received and the system has been updated to reflect the appropriate approval, the Broker must submit a new lock request to the Registration Desk at the prevailing loan rate. Rates effective on the original request date will not be honored.

### **Escrow Waivers**

When the Broker elects to waive escrows for property tax and/or hazard insurance, wind, earthquake, flood, and HO-6 on a loan, certain restrictions and price adjustments will apply. To be eligible to waive the property tax and/or homeowner's insurance escrow, the loan must meet program eligibility guidelines and qualifications. Check the current rate sheet for state specific information and adjustments. Property tax exemptions will be subject to all applicable price adjustments for non-escrowed loans.

### **Locked Loan Changes, Extensions, Expirations**

Refer to ALTLOAN's Wholesale Lock Policies for information regarding changes on locked loans.

### **Intra-Day Pricing Changes**

Due to the volatile nature of the secondary market pricing, ALTLOAN's pricing is subject to change at any time and without notice. ALTLOAN reserves the right to determine the standard used to establish the cutoff time for intra-day pricing changes.

### **Internet**

When ALTLOAN is re-pricing or preparing new rate sheets, website rate lock transactions may be disabled.

### **Phone**

Brokers that are in the ALTLOAN phone queue at the time of a re-price will typically be able to complete their registration, lock, or change requests as of the pricing in effect at the time they entered the phone queue. Brokers contacting the desk once re-pricing is in process will receive a message that ALTLOAN is currently going through a rate change and will be asked to call back after the new prices are posted.



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**E-mail**

All registrations, changes, and other time-sensitive requests will be honored if received by ALTLOAN via email before the established rate change and are deemed complete. Pricing for loan registrations, changes or locks received after the price change has started will be subject to pricing as of the next available Rate sheet. ALTLOAN does not allow lock request via fax.

**Error Notification**

ALTLOAN will not be held responsible for incorrect registrations and/or loan lock errors. Errors, omissions, or mistakes that are reported to the Lock Desk within 24 hours after the incident occurs will be considered on a case-by-case basis for correction without penalty. It is the Broker's responsibility to contact the ALTLOAN Lock Desk to report lock-in issues or missing lock-in requests within 24 hours of the initial request. Any correction of errors or supplemental information for omissions after the 24-hour period will require that the loan be re-priced based on prevailing rates.

**Rate Lock/File Submissions for Same Borrower**

In the event a file is submitted for review or a rate lock is submitted for the same borrower, the Director Wholesale Lending will determine which submission will be honored.

## **Section 14 - Submitting Loans**

For each and every loan application submitted or to be submitted by Broker to ALTLOAN for approval, Broker hereby agrees, prior to submission, to:

- Verify the veracity of the information submitted in the loan application, including, but not limited to, verifying the identity of the parties to the loan application, their SSNs, address, employment, assets and income;
- Obtain all necessary credit reports with respect to the potential borrowers from reputable independent credit reporting agencies;
- Verify that the procedures, eligibility requirements, forms and other aspects of the loan application are in accordance with the requirements of the Federal National Mortgage Association and/or Federal Home Loan Mortgage Corporation, and are in compliance with all applicable federal, state and local laws, rules, regulations and ordinances including, without limitation, the TILA, Regulation Z, the Real Estate Settlement Procedures Act, Regulation X, the Fair Credit Reporting Act, the Fair and Accurate Credit Transactions Act (FACTA), the Home Mortgage Disclosure Act, the Federal Housing Administrations (FHA's) Tiered Pricing Rule, and the Consumer Credit Protection Act. Broker agrees to include written evidence of such compliance with each loan application submitted to ALTLOAN by Broker;
- Make prompt, timely, full, accurate and truthful disclosure to ALTLOAN of all information and documentation that Broker may know, suspect or have notice of, relating to the application, the borrower(s), or the security for the loan, or that could affect or has affected the validity, collectability, collateral value, security or enforceability of any loan submitted by Broker for funding by ALTLOAN. Such obligation of Broker shall continue after the submission of the loan application to ALTLOAN; and
- Perform such other acts as would be reasonable or advisable under the circumstances to confirm the accuracy and authenticity of the application and the information provided therein and to ensure the absence of any fraud,

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misrepresentation, or erroneous statements in connection with such application on the part of the borrower(s) or any third party.

In addition to the foregoing, Broker agrees to promptly submit to ALTLOAN all information ALTLOAN may request from time to time with respect to an application. The contents of all loan applications and other information submitted to ALTLOAN shall become the property of ALTLOAN upon funding of the loan.

### **Withdrawing or Canceling Loans**

A Broker may request ALTLOAN to cancel or withdraw a loan. Once cancelled or withdrawn for any reason, the loan immediately ceases to be price or guideline protected. There can be no reinstatement of that specific loan number. Should Broker request a loan reinstatement and should ALTLOAN reinstate the loan, it will be re-registered and re-priced according to worst case pricing policies outlined in the Wholesale Lock Policy. All extension fees remain with the loan. Cancellation may take place through the website or through the Registration or Lock Desk.

Broker is responsible for monitoring and ensuring that only authorized personnel make requests for cancellation.

### **Declined Loans**

In order to ensure ALTLOAN's ability to comply with the HMDA and the ECOA, all loans underwritten by ALTLOAN that result in the loan being declined will be declined regardless of lock expiration. The rate lock will be cancelled.

Resubmissions after the decline date will require a new registration and underwriting submission. The new loan will be subject to worst case pricing review if locked within 30 days after the previous rate lock was cancelled regardless of when the loan was actually declined. ALTLOAN will send the applicant an Adverse Notice regarding the declination.

## **Section 15 - Insurance and Survey Requirements**

### **General Hazard Insurance Requirements**

The hazard insurance policy for a property securing any first mortgage including blanket policies for condos and PUDs, must be underwritten by one of the following carriers:

An Insurer with an Acceptable Rating by A.M. Best Company.

- "B" or better Financial Strength Rating and a Financial Size Category of a least "III" in Best's Insurance Reports.
- "A" or better Financial Strength Rating and a Financial Size Category of "VII" or better in Best's Insurance Reports Non-US Edition.

Carriers Rated by Demotech, Inc.

- "A" or better rating in Demotech's Hazard Insurance Financial Stability Ratings

Carrier's Rated by Standard and Poor's

- "BBB" or Insurer Financial Strength Rating in Standard and Poor's Ratings Direct Insurance Service
- Insurers rated by more than one rating company need only meet one of the rating requirements.

Other Acceptable Insurance Underwriters

A state insurance pool created by statutory authority to provide insurance for geographic areas or insurance lines which suffer from lack of voluntary market availability, if that is the only coverage that is available. Such pool may be designated



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as a property insurance plan, a Fair Access to Insurance Requirements (FAIR) plan, an underwriting association, a joint underwriting association or an insurance authority. The following is an example of such a plan:

- Florida Citizens Property Insurance Corporation

In addition, all insurance companies (insurers) and insurance companies which guarantee coverage provided by other insurance companies (reinsurers) must also be licensed or otherwise authorized by law to conduct business in the jurisdiction where the Mortgaged Premises are located.

### **Loss Payee**

All insurance is to show the following as the loss payee:

BM REAL ESTATE SERVICES INC. ISAOA  
5016 N. PARKWAY CALABASAS SUITE 200  
CALABASAS, CA 91302  
Loan #: \_\_\_\_\_

### **Assessments**

Insurance contracts must provide that no assessment may be made against the lender or the servicer, or any subsequent assignees, and that any assessment made against other may not become a lien on the Mortgaged Premises superior to the lien of the lender or any subsequent assignee.

### **Mortgagee Clause Endorsement**

The mortgagee clause on all first mortgage policies, binders, and certificates of insurance must show the lender as the mortgagee using the following language:

BM Real Estate Services, Inc.  
5016 N Parkway Calabasas, Suite 200  
Calabasas, CA 91302

### **Borrower and Property Information**

The following must be accurate:

- Name(s) or Borrower(s) agree with the Note.
- Property address agrees with Note/Security Instrument.
- Mailing address is the same as the property address except on second homes and investment properties.

### **Policy Term**

The policy must be written for at least a 1 year term or be continuous until cancelled.

### **Policy Effective Date**

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The policy effective date must be on or before the date the borrower's loan is funded.

### **Evidence of Insurance**

At closing, the borrower must provide evidence that the property is covered by hazard insurance in one of the following forms:

### **Hazard Insurance Policy**

A Certificate of Insurance, Evidence of Insurance Form, Declaration Page, or Insurance Binder (temporary insurance contract) that contains at least the following information:

- Name of insured (for condominiums and PUDs, the HOA is the named insured);
- Name of mortgagee;
- Property address, including zip code. A legal description must be shown for rural properties, condominiums, or other properties if the property address does not adequately define the location of the property. Example: Route 1, Box 5, is inadequate;
- Mailing address, if different from property address (second homes and non-owner occupied investment property);
- Type, amount and effective dates of coverage;
- Deductible amount and coverage to which each such deductible applies;
- Any endorsement or optional coverage obtained and made part of the original policy;
- Insurer's agreement to provide at least 10-days notice to the mortgagee including any applicable PUD or condominium unit or ground lease community leasehold mortgagee before cancellation of the policy; and
- Signature of an authorized representative of the insurer, if required by law.

#### **Purchase Transactions**

- At closing, the borrower's must provide a paid receipt for the first year's premium.

#### **Refinance Transactions**

- If the insurance is due to expire within 30 days of closing, the borrower must submit a paid receipt for the next year's premium.

### **Minimum Property Insurance Types and Amounts 1-4 Unit Properties**

At a minimum, the Mortgaged Premises must be protected against loss or damage from fire and other perils covered within the scope of the standard extended coverage endorsement. Correspondent Funding will not accept hazard insurance policies that limit or exclude from coverage in whole or in part windstorm, hurricane, hail damage, civil commotion including riots, smoke, hail, and damages caused by aircraft, vehicle, or explosion. If any of these perils is excluded from the primary insurance policy, coverage of the excluded peril must be picked up through a secondary insurance policy.

### **Coverage Amount**

The hazard insurance coverage must equal the lesser of the following:

- 100% of the insurable value of the improvements as established by the property insurer,
- OR

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- The unpaid principal balance of the first mortgage and the second mortgage loan amount, as long as it equals the minimum amount - 80% of the insurable value of the improvements - required to compensate for damage or loss on a replacement cost basis.

**Note:** Properties located in mudslide zones or sinkhole areas may require additional coverage.

### **Deductible**

The maximum allowable deductible is for all property types is 5% of the face amount of the insurance policy. When a policy provides for a separate wind-loss deductible either in the policy itself or in a separate endorsement, that deductible must be no greater than 5% of the face amount of the policy.

### **Condominiums and PUDs (Attached Units) Type of Coverage**

This insurance policy must provide, at a minimum, fire and all other hazards that are normally covered by the standard extended coverage endorsement and all other perils customarily covered for similar types of projects, including those covered by the standard "all risk" endorsement.

### **Condominium Requirements**

The condominium association must maintain a master of blanket type of insurance policy, with premiums that are paid as a common expense. The policy must cover all general and limited common elements normally included, such as fixtures, building service equipment, and common personal property and supplies belonging to the homeowners' association (HOA). The policy also must cover fixtures, and other personal property inside individual units (e.g., stoves and refrigerators), whether or not the property is part of the common elements.

If the master or blanket policy does not provide interior unit coverage, replacement of improvements and betterment coverage to cover any improvements that the borrower may have made, the borrower must obtain an HO-6 Policy or "walls-in" coverage.

- HO6 / Walls In - Condo/Attached PUD - minimum coverage is 20% of Appraised value and include betterments and improvements. Borrowers need to provide if the coverage is not sufficient from HOA insurance.

In addition, the hazard insurance policy should include the following provisions:

- Any Insurance Trust Agreement must be recognized.
- The right to subrogation against unit owners must be waived.
- The insurance must not be prejudiced by any acts or omissions of individual unit owners that are not under the control of the HOA.
- The policy must be primary, even if unit owners have other insurance that covers the same loss.

**Note:** A Special Condominium Endorsement usually covers the above four requirements.

### **PUD Requirements – Attached Units**

The HOA must maintain a property insurance policy, with premiums being paid as a common expense. The policy 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.

Individual insurance policies are also required for each unit in the PUD project. If the project's legal documents allow for blanket insurance policies to cover both the individual units and the common elements, a blanket policy is acceptable in lieu of the insurance for the unit.

If the HOA is the insured, a declaration page is required showing the number of units within the project, borrowers' names, subject unit, ALTLOAN's Loss Payee and subject loan number.

If the master or blanket policy does not provide interior unit coverage, replacement of improvements and betterment coverage to cover any improvements that the borrower may have made, the borrower must obtain an HO-6 Policy or "walls-in" coverage.

- HO6 / Walls In - Condo/Attached PUD - minimum coverage is 20% of Appraised value and include betterments and improvements. Borrowers need to provide if the coverage is not sufficient from HOA insurance.

### **Impermissible Policies**

The following are not permitted:

- A blanket policy that covers multiple unaffiliated condominium associations or projects.
- Self-insurance arrangements whereby the HOA is self-insured or has banded together with other unaffiliated associations to self-insure all of the general and limited common elements of the various associations.

### **Coverage**

Insurance must cover 100% of the current replacement cost of the project improvements including the individual unit in a condominium project. Coverage does not need to include land, foundations, excavations or other items that are usually excluded from insurance coverage. An insurance policy that includes either of the following endorsements ensures full insurable value replacement coverage:

- A Guaranteed Replacement Cost Endorsement under which the insurer agrees to replace the insurable property regardless of the cost and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement which waives the requirement for coinsurance; or
- A Replacement Cost Endorsement under which the insurer agrees to pay up to 100% of the property's insurable replacement cost, but no more and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement which waives the requirement for coinsurance.

### **Deductible**

For policies covering the common elements in a PUD project and for blanket policies covering condominium projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy.

For losses related to individual PUD units that are covered by the blanket policy for the project, the maximum deductible amount related to the individual unit should be not greater than 5% of the replacement cost of the unit. If however, the policy provides for a wind-loss deductible either in the policy itself or in a separate endorsement, that deductible must be no greater than 5% of the face amount of the policy.

For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement cost of the unit.

**NOTE:** Refer to the underwriting guidelines on [www.altloan.com](http://www.altloan.com) as some loan programs allow a cut off of \$10,000 for the maximum deductible if over the allowable percentage.

### **Special Endorsements**

The following special endorsements are required:

- An Inflation Guard Endorsement, when it can be obtained.
- Building Ordinance or Law Endorsement, if the enforcement of any building, zoning, or land-use will result in loss or damage, increased cost of repairs or reconstruction, or additional demolition and removal costs. The endorsement must provide for contingent liability from the operation of building law, demolition costs and increased costs of reconstruction.
- A Steam Boiler and Machinery Coverage Endorsement, if the project has central heating or cooling. This coverage should provide for the insurer's minimum liability per accident to at least equal the lesser of \$2 million or the insurable value any buildings housing the boiler or machinery.

### **Name of Insured**

The policy must show the HOA as the named insured. The named insured should be substantially similar to the following:

"Association of Owners of the [name of condominium or PUD] for use and benefit of the individual owners" [designated by name, if required].

### **Earthquake Insurance**

ALTLOAN does not require earthquake insurance unless it is an agency requirement as listed in ALTLOAN's program guidelines; however, if coverage is in place, the following applies:

### **Mortgage Clause Endorsement**

Broker must ensure that the earthquake insurance policy contains a standard mortgagee clause identifying the first or second mortgage interest, and for second mortgage loans, it does not replace the mortgagee clause pertaining to the first mortgage loan.

### **Lava Zone Insurance**

Properties located in Lava Zones 1 are not insurable with standard hazard insurance and therefore, **are not eligible**.

### **Mine Subsidence Insurance (Pennsylvania only)**

Mine Subsidence Insurance is required for Pennsylvania loans if RFG has notice that the property is undermined (tunnels). If notification has been received or if it has been determined that the property is undermined, Mine Subsidence Insurance is required.

Homeowner insurance companies sell Mine Subsidence Insurance to homeowners and also have special access to the Pennsylvania Department of Environmental Resources website to determine if properties require mine subsidence

insurance. Due to the unique nature of this type of transaction, all homeowner insurance companies may not have the special access for completing the determination process.

The Pennsylvania Department of Environmental Resources website at [www.pamsi.org](http://www.pamsi.org) does allow individuals to key in their address to determine if their property requires Mine Subsidence Insurance, but the turnaround time can range from 2 days to 3 weeks depending on the research required.

### **Property Undermining Determination**

To determine if the property is undermined, such information may be included in one of the following documents:

- Purchase Contract
- Appraisal
- Title Commitment

### **Coverage**

Mine Subsidence Insurance must equal 80% of the value of the structure or the maximum insurance available from the Pennsylvania Department of Environmental Protection. The maximum insurance available is \$250,000.

Evidence of Mine Subsidence Insurance may be any the following:

- An original Hazard Insurance Policy that includes Mine Subsidence Insurance.
- If the loan is a refinance, the original or a photocopy of an existing Mine Subsidence Insurance Policy from the Pennsylvania Department of Environmental Protection and an Assignment of Interest Endorsement form.
- If the property is located in the Anthracite (hard coal) Region, an Assignment of Interest Endorsement form and a town map which has been marked with an X to show the location of the property.
- If the property is located in the Bituminous (soft coal) Region, an Assignment.

### **Flood Insurance**

#### **General Flood Insurance Requirements Standard Flood Hazard Determination (SFHD) Federally Available Flood Insurance:**

Flood insurance is generally required if any building, dwelling, structure, or improvement is located within an Standard Flood Hazard Area (SFHA) that has mandated flood insurance purchase requirements under the NFIP unless the mortgage is an FHA Section 240 mortgage. If flood insurance is not available because a community does not participate in NFIP, ALTLOAN will not purchase loans secured by properties located in those areas.

#### **Location of Property within the SFHA Principal Structure Located Within an SFHA**

- Flood insurance is required if any part of the principal structure is located within an SFHA. Flood insurance on detached buildings, such as stand-alone garages, sheds, or greenhouses, located within an SFHA is required if they serve as part of the security for the loan.

#### **Principal Structure Not Located Within an SFHA**

- If the principal structure on a property is not located within a SFHA, flood insurance generally is not required even if another detached structure on the property is located within the SFHA. However, if the detached structure is attached to the land and serves as part of the security for the loan, flood insurance is required for the detached structure and may be purchased through a separate policy on a general property insurance form, unless ALTLOAN determines that the principal structure represents sufficient security for the loan and releases the detached structure from the security. If buildings are “carved out” from the security, the property must be marketable in the event of foreclosure and the “carve out” must be permissible under local zoning rules.



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### **Waivers**

ALTLOAN will waive flood insurance requirements if the borrower obtains a letter from Federal Emergency Management Agency (FEMA) stating that its maps have been amended so that the buildings securing the loan are no longer in an SFHA.

### **Notice of Special Flood Hazards and Availability of Federal Disaster Relief Assistance**

If any part of the principal structure is located within a SFHA, the loan file must include the Notice of Special Flood Hazards and Availability of Federal Disaster Relief Assistance that was provided to a borrower in accordance with the Flood Disaster Protection Act. The loan file must contain evidence that the borrower received the Notice of Special Flood Hazards (NSFH) no later than 10 days prior to closing unless the loan file documents why it was not feasible to meet that time frame. The NSFH must be provided prior to the day of closing.

### **Flood Insurance Coverage**

Flood insurance coverage in at least the minimum coverage required by the NFIP and in accordance with applicable government agency guidelines is required.

The minimum amount of flood insurance required by law is the lesser of the:

- Maximum amount of flood insurance coverage available per unit through the National Flood Insurance Program (NFIP) (currently \$250,000), or 100% of full replacement cost insuring the cost value of the dwelling and insurable improvements,
- Outstanding principal balance of the first lien loan, plus
- Unpaid principal balance of any other loan, and
- Total line of credit amount of any line of credit secured by the same property

### **Acceptable Policies**

The flood insurance policy must be in the form of the standard policy issued under the NFIP. Policies that meet the NFIP requirements, such as those issued by licensed property and casualty insurance companies that are authorized to participate in the NFIP's "Write Your Own" program are acceptable.

### **Multiple Structures**

If multiple buildings securing the loan are located in an SFHA in a participating community, the insurance agent must determine the amount of insurance required on each building and add these amounts together to determine the minimum amount of flood coverage. ***Each building securing(out-building) a loan must be covered by a separate policy.*** The amount of total required flood insurance can be allocated among the secured buildings in varying amounts, but all buildings in an SFHA must have some coverage.

- Out-building is any building permanently affixed to the land and having:
  - Two or more outside rigid walls,
  - A fully secured roof.

### **Policy Term**

The policy must be written for at least a 1 year term.

### **Policy Effective Date**

The policy effective date must be on or before the date the borrower's loan is funded.

### **Evidence of Insurance**

At closing, the borrower must provide evidence that the property is covered by flood insurance in one of the following forms:

- Flood Insurance Policy
- Declarations Page; o r
- Copy of the Flood Insurance Application with a paid receipt for the first year's premium.

### **Escrow Policy**

If a property requires flood insurance, an impound account must be set up for the loan, regardless of the loan to value.

### **Deductible**

The maximum allowable deductible is the maximum deductible available from the NFIP (currently \$5,000).

### **PUDS**

Coverage Amount for Individual detached PUD Unit is the same as for other 1-4 unit properties.

### **Coverage Amount for PUD Project**

The policy must cover any common elements buildings and any other common property located in an SFHA. The flood insurance coverage must equal the lesser of the following:

- 100% of the insurable value of the facilities; or
- The maximum coverage available under the appropriate NFIP Program

### **Deductible**

- **Individual Unit** - The maximum deductible available from the NFIP currently \$5,000.
- **PUD Project** - The maximum deductible available from the NFIP currently \$25,000.

### **Condominiums**

The condominium HOA must obtain an NFIP Residential Condominium Building Association Policy (RCBAP) with the following coverage's:

Building coverage must equal the lesser of the following:

- 100% of the insurable value replacement cost of the building, including amounts to repair or replace the foundation and its supporting structure; or
- The total number of units in the condominium building times \$250,000.

Contents coverage must equal the lesser of the following:

- 100% of the insurable value of all contents including machinery and equipment that are not part of the building, that are owned in common by the association members; or
- The maximum amount of contents coverage sold by the NFIP for a condominium building.

#### Unit Owner's Coverage

- Flood insurance is generally not required for individual condominium units. However, if a HOA refuses to obtain a RCBAP policy or when the RCBAP policy does not comply with the requirements above, the borrower must obtain a dwelling policy on the individual unit equal to the minimum amount of coverage for a 1-4 unit property as specified above.

#### **Deductible**

- **Individual Unit (if required)** - The maximum deductible available from the NFIP currently \$5,000.
- **Condominium Project** - The maximum deductible available from the NFIP currently \$25,000.

#### **Properties Located in the Coastal Barrier Resources System or in an Otherwise Protected Area**

Federal flood insurance may not be available for loans in the Coastal Barrier Resources System (CBRS) or Otherwise Protected Area (OPA), as defined by the Coastal Barrier Resources Act. Private flood insurance is acceptable for these loans. Coverage amounts and deductible must meet the requirements in this section. The carrier must meet the minimum rating requirements for insurance underwriters specified in the Hazard Insurance section.

#### **Wind Storm Insurance**

Windstorm coverage is generally included under the standard extended coverage policy through an endorsement. If the policy excludes or limits the windstorm coverage, it is not acceptable. The borrower must obtain a separate policy or endorsement from another commercial insurer that, with the existing policy, provides adequate total coverage.

The maximum deductible for windstorm coverage is the highest of:

- 5% of the face amount of the policy
- \$2,000
- The maximum allowed under statelaw.

#### **Liability Insurance for PUDs and Condominiums**

The HOA must maintain a commercial general liability insurance policy for the entire project, including all common areas and elements, public ways, and any other areas that are under its supervision. The insurance must also cover commercial spaces that are owned by the HOA, even if they are leased to others. The commercial general liability insurance policy must provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project's common areas and elements.

The association must also maintain any additional coverage commonly required by private institutional mortgage investors for projects similar in construction, location, and use.

#### **Coverage Amount**

Liability coverage must be for at least \$1 million per occurrence for personal injury and/or property damage and the coverage must provide for claim settlements on an occurrence basis. This coverage is not required for limited project review condos or established, attached PUD projects.

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### **Special Endorsements**

The insurance policy must contain a “severability of interest” endorsement, precluding the insurer from denying the claim of a condominium unit owner because of negligent acts of the HOA or other unit owners.

### **Cancellation/Modification Requirements**

The policy must provide for at least 10 days written notice to the HOA before the insurer can cancel or substantially modify it. For condominium projects, similar notice also must be given to each holder of a first mortgage or share loan on an individual unit in the project.

### **Fidelity or Employee Dishonesty Insurance for Condominiums**

Fidelity insurance is required for condominium projects consisting of more than 20 units.

### **Minimum Property Insurance Types and Amounts Type of Coverage**

The HOA must maintain a blanket fidelity or employee dishonesty insurance policy covering losses resulting from dishonest or fraudulent acts committed by the association’s directors, managers, trustees, employees or volunteers responsible for handling funds belonging to or administered by the HOA. The policy must provide coverage for anyone who either handles or is responsible for funds that the HOA holds or administers, whether or not that individual receives compensation for services. A management agent that handles funds for the HOA should be covered by its own fidelity insurance policy, which must provide the same coverage required of the HOA.

### **Coverage Amount**

Coverage must equal the maximum amount of funds held by the HOA at any one time while the policy is in force. A lower coverage limit is acceptable if the project’s legal documents require the HOA and any management firm to adhere to certain financial controls. However, in such case, the coverage limit must at least equal the sum of 3 months of assessments on all units in the condominium project. The financial controls must include at least one of the following:

- The condominium HOA or its management firm maintains separate accounts for the operating budget and the reserve fund. The depository institution in which funds are deposited sends copies of the monthly account statements directly to the association.
- Separate records and accounts are maintained for each condominium HOA or other community association using the management firm’s services. The management firm does not have the authority to draw checks on or to transfer funds from the reserve fund of the condominium owners’ association.
- Two or more members of the board of directors must sign any checks drawn on the reserve account.

### **Name of Insured**

The fidelity bond or insurance policy must name the HOA as the insured, and premiums must be paid as a common expense by the association.

### **Cancellation/Modification Requirements**

The policy must provide that the insurer will notify the HOA at least 10 days before cancellation or substantial modification of the policy.

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## **Mortgage Insurance (MI)**

If primary mortgage insurance is required by the loan program, as stated in ALTLOAN's program guidelines, an escrow/impound account must be established at closing for monthly payment of future premiums, unless a single premium is paid in full at closing or unless the loan was priced with lender-paid mortgage insurance.

**Note:** Refer to ALTLOAN's program guidelines for specific MI requirements for each program type.

## **Private Mortgage Insurance (PMI) Drop Off in Payment Schedules**

The Homeowner's Protection Act sets out rules for termination of PMI insurance on residential home loans. It provides that the borrower may request PMI cancellation when the principal balance of the loan reaches 80% of the property's value and that the servicer must cancel PMI when the principal balance of the loan reaches 78% of the property's value.

Because the reduction in principal balance to 78% of the property's value would rarely coincide exactly with the timing of the monthly payment, lenders cut off the MI payment just above the cancellation figure (i.e. 78.05%) or just below (i.e. 77.95%). The calculation of when the servicer must cancel PMI affects the payment schedule on the TIL disclosure. If the PMI payment is dropped just above the 78% LTV, the payment schedule will show 1 month or fewer PMI payments than if the PMI payment is dropped just below the 78% LTV.

Since the 78% does not coincide exactly with the timing of the monthly payment, this will mean the principal balance will actually be below 78% at the time that the PMI payments can be dropped.

## **Cancellation: Original Borrower**

The MI must be canceled if either it is required by law or all of the following conditions are met and the borrower requests:

2 years has elapsed since the origination of the Mortgage.

The unpaid principal balance of the loan has been reduced to the LTV where mortgage insurance is not required under the loan programs, at the time the loan was purchased by ALTLOAN, where value is:

- Based upon the original appraised value of the property, and the Servicer represents that the current value of the Mortgaged Premises is at least equal to the original appraised value; or
- Based upon a current appraised value ordered by the Servicer from their approved appraiser list and paid for by the borrower. The applicable appraisal form must be used and it must have been performed within 120 days of the request for cancellation of the MI. Under certain circumstances based upon the structure of the pool a loan may be in, it may not be possible to cancel MI on an individual loan where a new appraisal is used as the basis of determining the current LTV.
- The borrower's monthly installment of principal, interest, and escrow/Impound was never more than 30 days past due for the 12 months immediately preceding the date insurance cancellation is requested and no payment 60 days or more past due in the past 24 months.
- There was no other default under the terms of the loan at any time during the same 12-month period.

## **Title Insurance**

Title insurance must comply with the following requirements:

- The amount of coverage must be equal to the face value of the mortgage. Loans with either scheduled negative amortization, or the potential for it, require coverage that equals the original mortgage amount of the loan plus the maximum amount of potential negative amortization as stated in the Note and/or rider. If an equivalent



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endorsement is obtained, it must provide protection in an amount sufficient to cover the mortgage amount, plus the maximum amount of negative amortization that is permitted in the Note and/or rider.

- All title Commitments and/or policies must be issued by an approved American Land Title Association (ALTA) insurance company. Prior to any loan disbursement, a marked-up title binder for an ALTA title policy, indicating ALTLOAN's proposed lien position is required. If proof of satisfaction/release is a condition for eliminating any liens on the title, copies of these documents must be retained with the titlework.
- All judgments and liens must be paid off, subordinated, or insured over.
- Real estate taxes must reflect, "Not yet due and payable." On condominiums and PUD, taxes can only be assessable against the subject unit and its undivided interest in the common areas and not the project as a whole.
- In purchase transactions, the home seller must be the owner of record.

### **Title Insurer**

The title insurance policy must be issued by a title insurer who is acceptable to Fannie Mae or Freddie Mac, and who is qualified to do business in the state where the Mortgaged Premises is located.

### **Form**

The title insurance policy must be written on the current standard form required by ALTA or other form currently acceptable to Fannie Mae or Freddie Mac.

### **Short Form Title Policy**

Title insurance in the form of a Short-Form Residential Loan Policy is acceptable under the following conditions:

### **Eligible Property Types**

- Single Family
- Condominium
- PUD (Attached/Detached)
- 1-2 Units

**Note:** Title Insurers may have restrictions on issuance of the ALTA Short Form Policy in conjunction with an owner's policy.

### **Ineligible Transactions**

- Leasehold Properties require the use of a Standard ALTA Title Insurance Policy.
- Program Guideline restrictions – Refer to specific program guidelines

### **Requirements**

- The loan file must contain a copy of the Warranty or Grant Deed (existing or new, based upon loan purpose).
- Contains Property Address and Legal Description in Paragraph 4 of Schedule A.
- Contains evidence of current vesting.
- Contains a 24-month chain of title.



- Always includes ALTA Form 100, Comprehensive Endorsement Form 9 for affirmative coverage and ALTA 8.1 Environmental Lien Endorsement.

### **Policy Endorsement**

- All applicable ALTA endorsements are included.
- For Condominium use ALTA Endorsement Form 4-Condominium.
- For PUD use ALTA Endorsement Form 5-PUD.
- For an Adjustable Rate (ARM) Loan use ALTA Endorsement Form 6-Variable Rate.
- For Restrictions, Encroachments and Minerals, Form 9

### **Restrictions**

The standard ALTA Short Form Policy is NOT available in the following states:

- Iowa – Title insurance in the state of Iowa is issued by the Iowa Title Guaranty Division.
- Oregon – Standard ALTA Residential Loan Policy is required.
- Texas – Must use the TX Short Form Residential Loan Policy of Title Insurance and Addendum T-2R.
- ALTLOAN may refuse to accept the master title insurance policy of any title insurer.

For a loan secured by Mortgaged Premises located in the state of Iowa, ALTLOAN will accept an attorney's certificate of title in lieu of a title insurance policy, provided all the following conditions are met:

- The certificate must be addressed to ALTLOAN and all of its successors in interest as evidenced by the Note and Security Instrument.
- The certificate must be given by an attorney licensed to practice law in the state of Iowa, who is insured against malpractice for rendering certificates of title in an amount not less than the amount commonly written in the state of Iowa, taking into account the number of these certificates rendered by the attorney.
- The certificate must state: "We (I) agree to indemnify you and your successors in interest in the Security Instrument opinioned hereto, to the full extent of any loss attributable to a breach of our (my) duty to exercise reasonable care and skill in the examination of the title and the giving of this opinion."
- The certificate must not be subject to any exceptions, other than those permitted under the following Title Exceptions section.

### **Effective Date**

The effective date of the title insurance policy must be no earlier than the date on which the Security Instrument was recorded.

### **Lien Requirements**

The title insurance policy must insure that the Security Instrument creates a valid first or second lien on the Mortgaged Premises.

The policy must list any lien for secondary financing and state that the lien is subordinate to the lien of the Security Instrument.



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## **Acceptable Minimum Coverage**

The acceptable minimum title insurance coverage must at least equal the current principal balance of the loan.

## **Exceptions**

The title insurance policy must not be subject to any exceptions, other than those permitted under the Title Exceptions section.

## **Required Endorsements**

Each title insurance policy must contain the following endorsements or provide equivalent affirmative coverage, if applicable to the loan: ALTA Endorsement form 8.0 (CLTA 110.8) or 8.1 (CLTA 110.9), Environmental Protection Lien Endorsement is required for all loans originated after 12/1/87. ALTA form 8.0 must be included with the 1987 ALTA form of title insurance policy. ALTA form 8.1 must be included with the 1970 ALTA form of title insurance policy.

- ALTA Endorsement form 4 (CLTA 115.1). Condominium Endorsement is required for all loans secured by a condominium unit.
- ALTA Endorsement form 5 (CLTA 115.2). PUD Endorsement is required for all loans secured by a PUD unit.
- ALTA Endorsement form 6.0 (CLTA 11.5) or 6.1 (CLTA 111.6) or 6.2 (CLTA 111.8). Variable Rate Mortgage Endorsement is required for all ARM loans. ALTA form 6.0 or 6.1 is required for all ARM loans that do not provide for negative amortization. ALTA form 6.2 is required for ARM loans that do provide for negative amortization.
- Balloon Payment Loan Endorsement is required for all loans secured with a balloon option.
- CLTA Endorsement form 100 and form 116. Comprehensive Endorsement and a Location Endorsement are required for all loans in areas where surveys are not customary.
- CLTA Endorsement form 110.5. Modification of Mortgage Endorsement (bring-down endorsement) is required for all converted ARM Loans and all loans that have had the terms of the Security Instrument modified.

## **Title Exceptions and Impediments Title Exceptions**

The title to the Mortgaged Premises must be good, marketable, and free and clear of all encumbrances and prior liens. ALTLOAN will not purchase a loan secured by property that has an unacceptable title impediment, including unpaid real estate taxes and survey exceptions.

## **Minor Impediments to Title**

Title for a property is acceptable even though it may be subject to the following conditions, which ALTLOAN considers minor impediments:

- Customary public utility subsurface easements, the location of which are fixed and can be verified, providing that the exercise of rights of easement will not interfere with the use and enjoyment of any present improvements on the Mortgaged Premises or proposed improvements upon which the appraisal or loan is based.
- Above-Surface public utility easements that extend along one or more property lines for distribution purposes or along the rear property line for drainage, as long as they do not extend more than 12 feet from the property lines and do not interfere with any of the buildings or improvements or with the use of the Mortgaged Premises itself.
- Any encroachment on an easement for public utilities by a garage or any other improvement, except those improvements that are attached to, or are a portion of the main dwelling structure, provided this encroachment does not interfere with the use of the easement or exercise of rights or repair and maintenance.

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- Cost, minimum dwelling size, use, building materials or setback restrictions as long as its violation will not result in the forfeiture or reversion of the title or lien of any kind for damages, or have an adverse effect on the fair market value of the Mortgaged Premises.
  - Mutual easement agreements that establish joint driveways or Party Walls constructed on the Mortgaged Premises and on an adjoining property, as long as all future owners have unlimited and unrestricted use of them.
  - Encroachments of 1 foot or less on adjoining property by eaves or other overhanging projections or by driveways, as long as there is at least a 10 foot clearance between the buildings on the Mortgaged Premises and the property affected by the encroachments;
  - Encroachments on the Mortgaged Premises by improvements on adjoining property where these encroachments:
    - Extend 1 foot or less over the property line of the Mortgaged Premises; and
    - Have a total area of 50 square feet or less; and
    - Do not touch any buildings; and
    - Do not interfere with the use of any improvements on the Mortgaged Premises or the use of the Mortgaged Premises not occupied by improvements.
  - Encroachments on adjoining properties by hedges or removable fences.
  - Outstanding oil, water, or mineral rights customarily waived by other lenders are acceptable, as long as they will not result in damage to the Mortgaged Premises or impair its use for residential purposes.
  - Liens for real estate or ad valorem taxes and assessments not yet due and payable.

### **Title Defect - Unexpired Redemption Periods**

Certain state laws provide a “redemption period” after a foreclosure or tax sale has occurred. During the redemption period, the property may be reclaimed by the prior mortgagor or other party upon payment of all amounts owed. The length of the redemption period varies by state and does not expire automatically upon sale of the property to a new owner.

Properties with unexpired redemption periods have unacceptable title defects. If a loan is secured by a foreclosed property in a state where a redemption period is allowed, ALTLOAN will not close until the redemption period has expired and the foreclosure sale has been confirmed. The purchase of additional insurance, a redemption bond or similar coverage during the redemption period does not remedy the title defect and the loan is ineligible.

### **Survey Requirements**

Broker must submit a plat of survey or improvement survey with the title commitment it sends to ALTLOAN. In areas where surveys are not customary, the title insurance policy must ensure against loss or damage by any violation, variation, encroachment, or adverse circumstance that an accurate survey would have disclosed. Note that a survey is not required for condominium units.

The survey must be based on the results of an instrument survey performed, dated and certified by a licensed civil engineer or registered surveyor. The survey must have been performed, dated, and certified within 1 year from the date of issuance of the title insurance policy insuring a particular Mortgaged Premises. A survey more than 1 year old will be accepted, provided the survey has been recertified by a licensed civil engineer or a registered surveyor within the past year. The survey must be certified to ALTLOAN and the company furnishing the title insurance policy.

**The survey must present the following information:**

- The location by courses and distances of the plot covered by the Security Instrument. The relation of the point of beginning of the plot to the monument from which it is fixed. All easements adjacent to the plot, any established building line, the street or streets abutting the plot and the width.
- Any encroachments and the extent of any encroachments in terms of feet and inches upon the plot or any easement appurtenant to the plot.

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- All structures and improvements on the plot with horizontal lengths on all sides and the relation of the structure and improvements by distances to all boundary lines of the plot, easements, established building lines and street lines.

If the plot is described as being on a filed map, the survey must contain a legend relating the plot to the map on which it is shown. The survey must disclose and provide assurance that the improvements erected lie wholly within the boundaries of the plot and that no part of the improvements encroach upon or overhang an easement or right of way or upon the land of other sections, unless an affirmative title policy endorsement is obtained.

The survey must also provide proof that the improvements are wholly within the established building restriction lines and that no adjoining structure encroaches upon the plot or upon any dominant easement appurtenant to the plot.

### **Variations in Length of Property Lines**

Variations between the property lines' length as shown on the appraisal and on the survey are acceptable as long as:

The variance does not interfere with the current use of any of the improvements on the Mortgaged Premises.

The variance in the length of the front line is not deficient by more than 2%, and the variance in length of any other line is not deficient by more than 5%.

The appraiser must provide a statement about any other variations, explaining how they affect the Mortgaged Premises' value. If MI is required, ALTLOAN must obtain a statement from its carrier, stating that the variance will not affect the insurability of the Mortgage.

## **Section 16 – Power of Attorney**

ALTLOAN will permit the use of a Power of Attorney (POA) to designate an attorney-in-fact/ agent to execute closing documents for individual borrowers in certain instances when a borrower is unable to execute closing documents.

The POA language must be specific to the transaction, meaning the POA document must identify the transaction and property (however, for soldiers on active duty, a standard military POA may be used instead of a POA that is specific to the transaction).

Borrower(s) names must match exactly the title commitment vesting section.

- The POA must be signed and dated prior to the Date of the Note.
- Be signed and dated by the party granting the POA.
- Be signed by an appropriate "witness" (if required by state law).
- Be in effect on the date of the closing transaction.
- Be notarized
- Recorded prior to closing or in correct sequence at time of recordation of all closing documents.
- No older than 6 months from the date of closing.
- Insured by the title company without exception to the POA.
- The attorney-in-fact must be a co-borrower on the loan or a disinterested third party. For example, the attorney-in-fact cannot be a realtor, loan officer, employee of the company, a party to the transaction, or a title company employee.
- POA may not be used when title is taken in the name of a trust.

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- A POA may not be utilized in a Cash-Out Refinance Transaction. \*\*Exception: Military personnel, using a Military POA, deployed abroad where permitted by the applicable financing program. Proof must be submitted verifying deployment abroad.
  - POA for borrower in conservatorship is not allowed.
  - The initial 1003 must be signed by the borrower(s) or for active military borrower only, follow VA guidelines.
  - If multiple borrowers exist on the loan, at least one borrower must sign the closing documents. All borrowers cannot be represented by an attorney-in-fact on the same loan.
  - Meet all state specific requirements.

A Durable POA may be acceptable. Durable POA allows a mentally competent person, called the "Principal", to authorize a second party, called the "Agent or Attorney-in-Fact", to act on his or her behalf, even if the Principal later becomes incapacitated. This particular form becomes effective upon disability or incapacity of the Principal. A Durable POA should always be notarized, especially if the Agent will be dealing with real property. Notarization allows the Durable POA to be recorded as a public record, if necessary.

### **Reverse Mortgage POA**

Refer to program guidelines on [www.altloan.com](http://www.altloan.com)

Closing documents may be executed via a POA provided the following conditions are met:

- A separate POA is prepared and executed for each borrower not attending the closing.
- POA is specific or special to the transaction, is executed and notarized on or before date of closing and recorded or will be recorded with closing instruments before mortgage or deed of trust.
- The original or certified copy of a POA must be included in the closing package.
- The attorney-in-fact must execute all closing documents at settlement.

All POA signers must sign as follows:

**Example:** Jane Doe as attorney-in-fact for Jack Doe

### **Veterans Use of a POA**

Veterans who use General Military POA must include the "durable" language to be acceptable by ALTLOAN.

POA's on VA loans must meet all current VA requirements, including but not limited to all other POA requirements stated herein, as well as those additional requirements stated below.

- A POA may be used to make application for a VA loan.
- It must appear that the veteran intends to occupy the property upon his/her return from overseas service, or upon his/her termination from the Armed Forces.
- An immediate family member must occupy the property during the veterans' absence.
- A statement of intent to occupy the subject property as the veteran's primary residence must be included.
- The POA must include the following information:
  - The specific property address of the subject property.
  - The sales price of the subject property if used for a purchase, unless the veteran has signed the sales contract.
  - A statement authorizing use of all or a specific amount of entitlement, for purchase or refinance.
- If the veteran is currently in the Armed Forces, the commanding officer or other Armed Forces representative, as permitted by VA requirements, may attest to the veteran's signature.
- Obtain proof veteran is alive and not in a missing-in-action status, in accordance with current VA requirements.

## Section 17 - Trusts Vesting & Requirements

A "Living Trust" also called an "Inter-Vivos Revocable" trust is simply a trust one can create while alive, rather than a trust that is created upon one's death. In certain circumstances, a "Living Trust", will be acceptable as a borrower.

A Inter-Vivos or Living Trust is established when one person known as the grantor/trustor/settlor transfers legal title to certain assets to a second person known as trustee, in trust, who will hold and manage such assets for the benefit of a third person known as the beneficiary. In most cases, the grantor/trustor/settlor will be the same individual as the trustee and/or the beneficiary.

### **Definitions**

**Beneficiary:** The party that benefits from the property held by the living trust. For ALTLOAN's lending purposes, the primary beneficiary must be a grantor/trustor/settlor.

**Grantor/Trustor/Settlor:** The person(s) who established or created the living trust and contributed the property directly to the trust. The use of the term grantor, trustor, or settlor depends on the state where the living trust was created or originated.

**Trustee:** A person who holds or controls property and manages it for the benefit of another (the beneficiary). It is the person who according to the living trust agreement, has been granted the power to mortgage, buy or sell the subject property and administer the living trust. For ALTLOAN's lending purposes, the Trustee(s) must be or must include a grantor/trustor/settlor. An institutional trustee (i.e., bank, trust company or attorney) that customarily performs trust functions under the laws of the state may be a co-trustee

**Inter-Vivos Revocable Trust:** Inter-Vivos is the Latin term for "between the living." Therefore, it is a trust that an individual creates and which becomes effective during the creator's lifetime.

**Revocable:** A living trust is referred to as "revocable" when the grantor/trustor/settlor can change or cancel it at any time, for any reason, while she/he is living. This ability to revoke the living trust is important because it allows the grantor/trustor/settlor, who would otherwise own the property directly, to retain control of the property.

**Fictitious Trust:** A Fictitious Trust allows the property to record in a fictitious name, but allows the lender to have full knowledge of the underlying Grantors/Trustor/Settlor, also ALTLOAN's borrower.

**Irrevocable Trust:** An Irrevocable Trust is a permanent trust that cannot be altered, amended or revoked by the grantor/trustor/settlor, once it is created. Irrevocable Trusts are not eligible for financing at ALTLOAN.

**Blind Trusts:** A blind trust is an arrangement where financial holdings of a person are placed in the control of a fiduciary, typically to avoid a conflict of interest. Therefore, someone other than the borrower has control over the trust assets. Blind trusts are not eligible for financing at ALTLOAN.

**Life Estates:** A life estate is an estate whose duration is limited to the life of the party holding it, or some other person, and upon whose death the right reverts to the grantor/trustor/settlor of his heirs. Life estates are not eligible for financing at ALTLOAN.

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## **Eligibility Requirements**

**Eligible Borrower:** The borrower must be an individual(s). Normally, this is the grantor/trustor/settlor and the beneficiary of the trust.

**Property Type:** 1-4 units, owner-occupied (satisfied by Grantor/Trustor/Settlor and occupies the property), second homes and investments

**Type of Trust Allowed:** Inter-Vivos/Living Trusts are allowed. All Inter-Vivos/Living Trusts must be revocable.

## **Ineligible Trust:**

- Irrevocable Trust
- Blind Trusts
- Life Estates

## **Program Eligibility**

- Fixed and ARM Agency Loans
- Elite Jumbo
- FHA and VA
- Texas 50 (A)(6) are eligible

Refer to ALTLOAN's program guidelines for specific eligibility.

## **Restrictions**

HECM transactions in the state of Texas are not eligible to close with a Trust.

## **Required Documents**

The following are required:

- Complete copy of the Trust certified by the borrower to be accurate.
- Attorney Opinion letter from the borrower's attorney verifying **all of the following**:
  - The trust was validly created and duly exists under applicable law.
  - The trust is revocable.
  - The borrower is the grantor/trustor/settlor of the trust and the beneficiary of the trust.
  - The trust assets may be used as collateral for a loan.
  - The trustee is:
    - Duly qualified under applicable law to serve as trustee.
    - Is the borrower
    - Is the settler
    - Is fully authorized under the trust documents and applicable law to pledge or otherwise encumber the trust assets.
- Completed Living Trust Checklist.
- Inter-Vivos Revocable Trust Rider to the deed of trust/mortgage



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**Note:** If the borrower does not provide an opinion letter from their attorney, an Attorney Opinion Letter for California property loans may be requested through your Account Executive for the loan (typical cost of \$250).

**Note:** Trust Certificates completed by the title company are not allowed on HECM loans. HECM loans must have the Trust Documents and Attorney Opinion Letter.

### **Legal Title Requirements**

Title may be held in the following manner only:

- One or more borrowers with one living trust; or
- Two or more borrowers with separate living trusts; or
- As an individual not a party to the trust and in the name of the Trust or the Trustee.

### **Title Insurance**

The title insurance policy cannot list any exceptions arising from the trust ownership of the property.

### **Executing the Loan Documents**

Due to the multi capacity of parties involved in an Inter-Vivos revocable trust the loan documents must be executed by all required parties and in a set manner.

The following delineates who must sign the trust documents. Only the documents noted in the following tables need to be signed by the trust. All other loan documents may be signed as individual borrowers.

### **Document Signature Requirements: The Note**

- Each Trustee as individual or trustee of the trust (whether individual or corporate) must sign
- Each grantor/trustor/settlor whose income or assets were used to qualify for the loan, as an individual.
- Each individual, not a trustee whose income or assets were used to qualify for the loan.
- The date of the Trust must be reflected on the Note as part of the description below the trustee's signature, e.g. Jane Doe, Trustee of the Jane Doe Trust dated May 15, 2013.
- A Note with a Signature Addendum may be used if there is not enough space on the Note for the signatures of the trustee(s). The Note must clearly reference the existence of the Signature Addendum.
- Each Grantor/Trustor/Settlor (regardless of whether they are also signing as a trustee) must sign individually in the Borrower's signature lines on the Note itself; only the signature(s) of the trustee(s) may be included on the Signature Addendum. The Signature Addendum must comply with all applicable laws and must result in a properly signed and legally enforceable Note. The Signature Addendum must be:
  - Permanently affixed to the Note
  - Clearly identify the Note by referencing the following:
    - Name(s) of Borrower(s)
    - Note Date
    - Property address
    - Original principal balance of the Note

Refer to the Signature Requirements section within this Guide for signature examples.



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### **The Security Instrument and all Riders**

- Each trustee as trustee of the trust, whether individual or corporate.
- Each individual who is a borrower and/or has an interest in the property.

### **The Inter Vivos Revocable Trust Rider**

- Each trustee as trustee of the trust, whether individual or corporate.
- Each settlor whose income or assets were used to qualify for the loan, as an individual.
- Each individual that has an interest in the property.
- A Security Instrument Signature and Acknowledgement Form may be used if there is not enough space on the Security Instrument for the signatures of the Trustee(s). The Security Instrument Signature and Acknowledgement must be executed by the Trustee(s) on behalf of the trust, indicating the complete legal name of the trust, using the following format:

Refer to the Signature Requirements section within this Guide for signature examples. Below is an example of a notary acknowledgement for the Security Instrument:

Settlor of the John Adams Smith Trust under Trust Agreement date May 15, 2013, agrees that the term “Borrower” when used in this Security Instrument shall include the Settlor and the Settlor acknowledges and agrees to be bound by all of the terms and covenants contained in this Security Instrument and any Rider to this Security Instrument.

SETTLOR:

Christine Jones (SEAL)

(Acknowledgement by notary public)

The Inter Vivos Trust as Borrower Acknowledgement

Each grantor/trustor/settlor whose income or assets were used to qualify for the loan, as an individual.

### **Signature Requirements**

If a Note/Security Instrument is secured by a Mortgaged Premises held in a living trust (Inter Vivos or revocable), the Note **must be signed by the borrower(s) as individual(s) and as trustee(s) on behalf of the trust**. The Note/Security Instrument must clearly indicate the name of the trust on the signature page.

### **Trustees Use of POA**

Loan documents cannot be executed through the use of a POA.

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## Section 18 - Loan Documentation and Disclosure Requirements

### **Application (1003)**

All of the following guidelines on the 1003 must be met:

- ALTLOAN requires a completed fully executed 1003.
- Initial and final 1003s must be provided.
- Initial must be complete and signed by the loan officer, when applicable signed by the borrower(s).
- Final must be complete and signed by the borrower(s).
- All HMDA data must be completed.
- Loan originator's name and NMLS ID
- Company name and NMLS ID
- Either the branch or the company NMLS ID number may be reflected on the initial and final 1003.

### **Principal Curtailment Matrix**

ALTLOAN will allow Principal Curtailments under certain circumstances. Refer to ALTLOAN's Wholesale Lock Policy.

### **Escrows/Impounds**

#### **Establish Tax Due Date**

Tax due date is determined by using the Discount Date or Economic Loss date provided by each taxing authority, which represent payment dates most beneficial to the borrower. The settlement agent is to provide ALTLOAN with the next tax due dates for each loan submitted.

#### **Delinquent Taxes**

All delinquent taxes must be paid on or before the loan closing. Either a title binder showing these taxes as paid, or a paid receipt, must be included with the closing package.

#### **Escrows for New Construction to Permanent and Purchase Transactions**

To avoid "payment shock" Regulation X applies to escrows for new construction loans.

The Broker shall estimate the amount of escrow account items to be disbursed. In cases of new construction which has not been assessed at the time of closing, the Broker may base an estimate on the assessment of comparable residential properties in the market area. ALTLOAN must close the loan using the most accurate assessment of what the property taxes on the subject property will be once assessed by the local jurisdiction.

Note: Supplemental tax bills are not sent to lenders and are the sole responsibility of the borrower even if the loan is impounded. However, if ALTLOAN receives a request from the borrower to pay supplemental taxes from their impound account and provides a copy of the bill ALTLOAN will disburse it from escrow. The borrower would be responsible for any



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penalties incurred if the request is not received in a timely manner. Escrow shortages resulting from payment of supplemental taxes will result an escrow analysis and increased payment due from the borrower.

### **Insurance Policy**

Escrow accounts: The policy must have a remaining term of at least 120 days after closing. Escrow/impound accounts are not allowed on Reverse Mortgages.

Non-escrow accounts: The policy must have a remaining term of at least 30 days after closing. If the renewal insurance policy is not available, obtain one of the following:

- Temporary binder from the insurance company
- Offer of renewal from the insurance company
- Quote with underwriting approval from a new company

On an annual basis, each loan is reviewed according to assure compliance with the state requirements.

### **Loan Pricing**

For the purpose of pricing, loans with partial escrow accounts are classified as non-escrow accounts.

Example: Property taxes are escrowed and hazard insurance is not collected.

For additional information regarding pricing refer to the Wholesale Lock Policy.

### **Buydowns**

Note: Temporary Buydowns are unavailable at this time.

### **State and Federal Disclosures**

All disclosures must be in compliance with state, federal and local mortgage lending laws and regulations. ALTLOAN will issue its own set of regulatory disclosures to ensure accuracy and protect the borrower and ALTLOAN. All brokers are to issue a complete set of accurate disclosures.

ALTLOAN will accept loans in which borrowers received initial federal and state disclosures electronically according to the requirements outlined by the Electronic Signatures in Global and National Commerce (E-SIGN) Act of 2000. Refer to ALTLOAN's Electronic Delivery & Signature Policy, for more details; including ALTLOAN approved E-Delivery vendors.

### **Loan Estimate**

The Broker must provide an initial Loan Estimate (LE) disclosure, as applicable, to the borrower(s) as required by applicable federal, state or local law and Freddie Mac, Fannie Mae or other secondary market investors. As ALTLOAN will issue its own set of disclosures, the Broker is not required to indemnify ALTLOAN for any loss or costs incurred as a result of improper disclosure on the part of the Broker. ALTLOAN is buying consumer credit transactions therefore; business purpose exemptions are not applicable. Investment properties are included in this definition and therefore do not fall under the business purpose exception.

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**Loan Estimate:**

- The Loan Estimate (LE) and Settlement Services Provider (SSP) list
- All subsequent LEs in chronological order, including dates of issue.
- ALTLOAN will require valid change circumstance cover letters with each re-disclosed LE, fully documenting any changed circumstance that led to an increase in one or more fees or charges and the date of such changed circumstance.
- The LE must have all fields completed as prescribed by regulation.
- The LE for a purchase money transaction must have a quote for owner's title insurance.
- The LE must have a quote for the amount of transfer taxes the borrower is expected to pay by law or by custom.
- Brokers may not issue revised LEs after the loan has been submitted to ALTLOAN, but must notify ALTLOAN of any valid change of circumstance.

**ECOA Appraisal Delivery Requirements**

ALTLOAN provides a copy of any appraisal report(s) or written valuation(s) concerning the borrower's property promptly upon completion and in any event no less than 3 business days prior to the closing of the loan. Borrowers must receive a copy of the appraisal(s) or written valuations(s) at least 3 business days prior to closing or they may waive their right to receive a copy. The waiver must be obtained at least 3 business days prior to closing.

**ECOA Appraisal Delivery Waivers**

ALTLOAN allows waivers in certain circumstances. Appraisal delivery waivers are only to be used in the event that the timing of the appraisal completion conflicts with meeting the required delivery time frame based on the scheduled closing date. The practice of requiring a blanket waiver for the 3 business day delivery requirement on all loans is unacceptable. When the advance delivery requirement is waived by the borrower, a copy of the appraisal(s) or written valuation(s) is still required to be provided no later than closing (as defined in this Section). In all circumstances, the date and method of delivery of each appraisal to the borrower, even if delivered by hand at closing, must be documented in the delivered loan file. The waiver of the advance delivery of appraisals cannot be requested by the borrower at closing and must be acknowledged by the borrower at least 3 days prior to closing.

FOR CLERICAL ERRORS ONLY: A borrower may request a waiver anytime up to and including the date of consummation.

The ECOA provision allowing a consumer to waive the requirement that the appraisal copy be provided 3 business days before consummation does not apply to HPML. The consumer of an HPML may not waive the timing requirement to receive a copy of the appraisal.

**Eligible Borrowers**

Individual borrowers or qualified Inter-Vivos Trusts

**Appraisal**

Refer to ALTLOAN's program and underwriting guidelines for specific program requirement and required appraisal products.

**Credit Report**

A complete credit report is required on all loans. Refer to ALTLOAN's program and underwriting guidelines for specific requirements based on loan program.

### **Rescoring and Credit Repair**

ALTLOAN prohibits the use of credit repair vendors designed to help a borrower falsely repair their credit profile by intentionally manipulating data to improve their credit score for purposes of loan eligibility, pricing improvement, and/or creditworthiness.

Loans where the borrower utilizes:

- Credit monitoring services
- Fraud alerts
- Non-profit credit counseling services, OR
- Credit reporting agencies as defined by the Fair Credit Reporting Act are eligible for purchase.

ALTLOAN reserves the right to determine if the credit history and credit scores are legitimate, acceptable and meet guideline requirements. If usage of credit repair services is revealed at any time during the loan process, the loan will be deemed ineligible.

### **Tax Transcripts**

ALTLOAN requires the execution of the 4506-T and IRS W-2 or Tax Transcripts obtained on all loans prior to funding, with the exception of VA IRRRLS and non-credit qualifying Streamlines. Transcripts are required for all borrowers whose income is used in qualifying. Only the years of income used in qualifying the loan are required to be validated with transcripts.

### **Social Security Number Verification Form**

If verification with the SSA is required, the Authorization for the Social Security Administration to Release Social Security Number Verification, form SSA-89, must be completed by the borrower(s). This form can be found on the SSA website at <http://www.ssa.gov/cbsv/docs/FormSSA89.pdf>. ALTLOAN must receive the SSA's response directly through its vendor or the SSA.

### **Repair Escrow**

ALTLOAN will permit escrow accounts established for postponed improvements provided they comply with Fannie Mae, Freddie Mac, FHA or VA, whichever is appropriate. ALTLOAN does not hold or administer escrow holdbacks. Refer to FHA EEM and Repair Escrow Process and Procedures, FM-060 for details.

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## Section 19 – Loan Submission Packages

### **Standard Submission Package**

The following is not a complete list and ALTLOAN reserves the right to ask for additional documentation in order to process the loan. Refer to the underwriting and program guidelines on [www.altloan.com](http://www.altloan.com) to ensure ALL documents are included in the initial loan submission:

- 4506-T current form, must include ISAOA after third parties company name on line 5
- Loan Estimate of closing costs (initial and any re-disclosed)
- Fee Worksheet or Itemization
- Any re-disclosed LEs must have a corresponding COC
- Settlement Service Provider list
- Net Tangible Benefit worksheet (if applicable)
- Credit Authorization
- Credit Score Disclosure
- Tri-merge Credit Report
- Federal Equal Credit Opportunity Act Notice (ECOA)
- Preliminary Title Report
- Purchase agreement, all counter offers, if applicable
  - Termite inspection and other inspection reports as required by the purchase agreement, as applicable
- Loan Application (1003) (signed and dated by the loan originator and borrower accordingly)
- Income documentation – standard per program
- Asset documentation – standard per program
- Copy of existing property insurance – refinance
- Copy of trust agreement, if applicable
- Invoices for all third party services
- Loan Options Disclosure

### **VA Loans**

- VA Interest Rate Reduction Refinancing Worksheet (IRRRLs only)
- VA Loan Comparison (Old vs. New Worksheet) (IRRRLs only)
- Addendum to URLA (VA 26-1802a) all necessary fields must be complete.
- VA Federal Collection Policy Notice
- VA Child Care Statement (if applicable)
- VA Nearest Living Relative
- VA Rights of VA Loan Borrowers (active duty only)
- VA Counseling Checklist
- VA Assumption Notice for purchase only, aka Notice to Homeowner's Assumption of VAGuaranteed Mortgages or Rights of VA Loan Borrowers
- Amendatory Clause / VA Escape Clause for purchase only executed by all parties.

### **FHA Loans**

- CAIVRS Authorization
- Addendum to URLA (92900A) Informed Consumer Choice Disclosure



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- Important Notice to Homebuyers (92900B) (purchase only)
- Notice to Homeowners-Assumption of HUD/FHA Insured Mortgages
- Amendatory Clause executed by all parties (purchase only)
- Real Estate Certification executed by all parties (purchase only)
- For Your Protection, Get a Home Inspection (purchase only)

### **USDA Loans**

- All required USDA Program Documents/Disclosures.
- ARM or Fixed PMI disclosure, depending on program

# Document Control & Change History

## Document Control

Policy Name	Wholesale Broker Guide
Authorized Group Approvers	Marc Shenkman, Bryan Campbell, Anthony Amini, Shannon Millard
Policy Owner	Millard
Current Version	6
Last Revised/Effective Date	9/16/2020
Review Frequency	Annually
Groups Impacted	All employees, all Account Executives
Original Date	2017

## Change History

Date	Updated By	Version	Approved By	Approved Date	Description of Change
8/16/20	Millard	6	Shenkman, Campbell, Amini	8/16/20	Annual review and minor changes. Business restart 9/2020/
8/14/19	Millard	5	Shenkman, Campbell, Amini	8/14/19	Annual review and minor changes
11/28/17	Millard	4	Shenkman, Campbell, Amini	11/28/17	website
11/13/17	Millard	3	Shenkman, Campbell, Amini	11/13/17	Various updates
7/21/17	Millard	2	Shenkman, Campbell, Amini	7/21/17	Various updates
6/15/17	Millard	1	Shenkman, Campbell, Amini	6/15/17	New manual



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## Appendix A – Red Flag Fraud Review

### **Types of Fraud**

A loan file can contain warning signs that point to irregularities in the information submitted by the borrower or other parties involved in the transaction. This information may not seem unusual when viewed separately, but a comparison may indicate a pattern of deception. Typically, there are two types of fraud involving real property:

#### **Fraud for Property**

The borrower or other interested party misrepresents or omits information with the intent to deceive or mislead the lender into extending credit that would not likely be offered if the true facts were known or to obtain more favorable terms on the loan, but not to intentionally and significantly over encumber the property. However, there is intent to repay the loan as agreed. Participants usually involve the borrower and borrower's family members.

#### **Fraud for Profit**

The borrower or other interested party enters into a transaction with the primary intention of creating inappropriate and significant financial gain, beyond just getting better pricing and terms for the loan, to the detriment of the lender. The borrower or other interested party does not intend that the loan be repaid as agreed, or the property has been significantly and intentionally overvalued and over encumbered or the lender's collateral interest in the subject property has been intentionally impaired or undermined. Participants may include multiple parties including the borrower, real estate agent, appraiser, loan officer, loan processor, underwriter, lender, closing attorney, or property management company.

#### **Fraud Indicators or Red Flags**

The presence of one or more fraud indicators, or red flags, is not absolute proof of a fraudulent loan, but when viewed as a whole, a pattern of deception may begin to emerge. To determine if a loan is fraudulent, ALTLOAN strongly encourages a review of all loan types for document-specific loan fraud indicators, or red flags that can identify irregularities in the information submitted by a borrower or other parties in the transaction. The following are some of the more common types of fraud, but should not be seen as a complete list.

#### **Affinity Fraud**

Affinity fraud similar to investment club schemes explained above, exploits the trust and friendship that exist in groups of people who have something in common. The fraudsters who promote affinity frauds frequently are, or pretend to be, members of the group, often preying on their own community of friends, family and co-workers. Affinity fraud has been found in many different types of groups such as religious, military, ethnic, professional, workplace, elderly and fitness/gym. Investment property schemes often take root from affinity groups. With affinity fraud, there is an immediate level of trust within the group. Some members may have invested and made high returns, becoming advocates for the scheme. Loyalty to the group may deter members from reporting schemes or monetary losses to authorities.

#### **Air Loans**

An air loan is a loan to a straw or nonexistent buyer, on a nonexistent property. An example of an air loan would be a broker invents borrowers and properties, establishes accounts for payments, and maintains custodial accounts for escrows. They

may set up an office with a bank of telephones, each one used as the employer, appraiser, credit agency, etc., for verification purposes.

- Air loans typically involve straw buyers - refer to straw buyer red flags.
- Unable to independently validate chain of title.
- Mortgage payments are made by an entity other than the borrower.
- No real estate agent is employed (fictitious transaction).

### **Builder Bailout**

A “builder bailout” occurs when the builder or developer moves property quickly in a depressed real estate market. Potential indicators of builder bailouts include the following:

- The builder is willing to “do anything” to sell the property.
- Builder’s marketing material advertises rent credit to investors and/or payment credit.
- The borrower is barely qualified or unqualified.
- The sales price and appraised value are inflated.
- No-money-down sales are included.
- “Silent” or “concealed” second mortgages are involved.
- Significant incentives and/or concessions are offered.
- Sales price adjusted upwards.
- Questionable source of funds.
- Reference to unexplained payouts, inflated commissions or secondary financing on the Closing Disclosure or purchase contract.
- Parties to the transaction are affiliated.

### **Buy and Bail**

The borrower is current on the mortgage, but the value of the home has fallen below the amount owed. The borrower continues to make payments on the home, while applying for a purchase money mortgage on another home that has been priced in alignment with today’s prices. After the new property has been obtained, the buy and bail borrower will allow the first home to go to foreclosure.

Red flags common to this type of fraud are:

- The borrower will be a first time property owner renting out the original property.
- The borrower has minimal or no equity in the original property.
- Inability to validate lease terms with the purported tenant.
- Purported tenant has a pre-existing relationship with the homeowner.

### **Cash-Out Purchases**

A cash-out purchase normally involves one closing and occurs when properties have been on the market an extended length of time and a desperate property Broker is unable to find a qualified buyer. The property seller may be offered a way out of the situation with an offer that exceeds the selling price of the property and an agreement to make a refund to the buyer after closing. The appraisal is inflated and a straw buyer is used to purchase the property. The loan often goes into early payment default and ends in a foreclosure.

### **The following red flags may indicate a cash-out purchase:**

- The home may have been on the market for an extended period of time.

- 
- The appraisal may include red flags symptomatic of an inflated value.
  - The Loan Estimate or Closing Disclosure may already indicate a portion of the net proceeds going back to the borrower.
  - Many of the same flags that accompany a traditional flip also apply: straw buyer, false source of funds and false occupancy.

### **Condominium Conversion Bailouts**

Condominium conversion bailout fraud commonly involves multiple parties who create and promote incentive packages, which are deliberately concealed from lenders. Inflated property values may also be part of this type of fraud, along with the masking of illegitimate cash disbursements on the settlement statement or failure to disclose them at all. As a condition of the sale, the buyer executes a purchase contract detailing the incentive package, which often includes substantial cash back to the borrower.

Red flags common to condominium conversion bailouts are:

- Out of state borrowers with strong credit scores
- Excessive real estate fees
- Large non-lien disbursements on the Loan Estimate or Closing Disclosure
- Large number of condominium conversions in a particular area

### **Double Escrows**

Double escrow transactions are not illegal however; they are considered high risk since they are often associated with no-money-down purchase transactions, and/or inflated property values. Double escrows are one of the methods used to avoid down payment requirements. Parties involved in property flipping schemes often use double escrows in the original acquisition of the property.

### **Equity Skimming**

Equity skimming involves investment property. The owner/investor collects the monthly rents and fails to make the mortgage payments. The investor usually obtains the property through a purchase transaction or an assumption.

If obtained through a purchase transaction, the investor generally executes a second trust deed to the property seller as the down payment, resulting in no cash investment in the property.

Once the property is assumed, the investor profits, by collecting rents during the time it takes the lien holder to complete the foreclosure process. Investors using this method frequently obtain several properties within a short period. The investor makes mortgage payments while acquiring other properties using the same scheme, before finally defaulting on the mortgage payments.

### **Foreclosure Bailout**

A foreclosure bailout may be a refinance or purchase transaction when the true purpose of the loan is to bail out the property owner from an existing lien that is in foreclosure. These transactions can be structured as a refinance or a purchase. When structured as a refinance, title is transferred or gifted to a friend or family member who applies for a loan in his/her own name. When structured as a purchase, the borrower acts as a “straw buyer” for the true owners of the property. In this case, the sales price and appraisal may be inflated to support an artificially low LTV.

Indicators of a foreclosure bailout transaction are:

#### Purchase Transaction

- Existing loan or lien on title is presently in default.
- Borrower's mortgage loan is not rated on the credit report.
- Gift equity or non-arms-length purchase transaction
- Borrower is unable to clearly document the source of funds to close.
- An "investment company" is somehow involved in the transaction.
- There is an "unreasonable" proposed occupancy (for example, commuting distance) on the subject property.

#### Refinance Transaction

- Borrower cannot verify "equitable interest".
- The mortgage loan on title is not in the borrower's name.
- The property is not in the borrower's name.
- All loan file documentation (such as paystubs, W-2s, tax returns, bank statements, credit report address) indicate that the borrower is living at another address, but the loan as a refinance was presented as "owner-occupied".

### **Foreclosure Rescue**

A foreclosure specialist promises to assist the defaulted borrower in avoiding foreclosure. The specialist usually charges the borrower an up-front fee (HUD-approved counseling agencies do not charge) for services that are not delivered. These frauds usually further encumber the property and/or result in the homeowners losing title. The frauds always ultimately force the borrower into foreclosure status, but sometimes delay the servicer's ability to accomplish the foreclosure, through elaborate bankruptcy filings.

Red flags common to this type of fraud are: The borrower or current owner was:

- Advised by a foreclosure specialist to avoid contact with their servicer.
- Has paid someone to negotiate with the servicer on his or her behalf.
- States that they are sending their mortgage payments to a third party.
- Receives a purchase offer, which is greater than the listing price.
- States that they will be renting back from new owner.
- Quitclaimed any portion of title to a third party at the advice of a foreclosure specialist.

### **Identity Theft**

Identity fraud is the act of unlawfully using one or more pieces of another individual's personal identifying information. When identity theft is recognized during the mortgage loan process, it is recommended that third party documentation, such as a police report, letter from the borrower, previous year and current year tax returns & W-2s and a letter from the IRS be provided to substantiate the fraud claim. In most instances, this involves the use of another person's Social Security number (SSN), or use of a fraudulent SSN. Red flags associated with identity theft are:

- SSN issued recently or death claim filed under Social Security.
- Borrower's name is not associated with SSN.
- The number of years employed is greater than the issue date of the SSN.
- Employment and/or addresses on credit report do not match borrower's application.
- Credit patterns are inconsistent with income, assets, age and education.
- Tax Identification numbers instead of Social Security numbers are used.
- Borrower lives out of the area and does not appear, based on the credit report, to have any tie to the area in which the subject property is located.

Another form of identity theft involves tax return fraud, which is the use of another person's name and SSN to file a tax return and obtain tax refund.

### **Investment Club Schemes**

Investment club schemes also referred to as chunking, involve property sales pitched as investment opportunities to consumers who are promised improbable high returns and low risks. In some cases, the perpetrators charge membership fees to the victim-purchasers. In other cases, the victim-purchasers may not even realize that they will be personally responsible for repayment of the mortgages. In the initial phases of an investment club scheme, victim-purchasers may receive some of the promised financial benefit, as the perpetrator uses money received from new victim-purchasers to pay initial club members in order to elude detection and attract new investors. Typically, the fraud perpetrator purchases distressed properties at low prices, paying an appraiser to illegally inflate the value in order to deceive lenders into financing at, or above 100% of the value. The perpetrator convinces the purchaser that no or minimal down payment, cash incentives and/or a guaranteed return on their investment justify the sales price. As with flipping schemes, the perpetrator profits from the difference between the prices at which the perpetrator purchased the property and the new (inflated) loan amount. Frequently, perpetrators of these frauds market to purchasers who are distant from the properties, to facilitate deception about the condition and value of the properties.

Red flags common to this type of fraud are:

- No real estate agent is employed (club recruits buyers and/or non-arm's length transaction).
- Property was recently in foreclosure, or acquired at Real Estate Owned (REO) sale at a much lower sales price.
- Borrower may have paid a membership fee to participate in the club.
- First-time landlord, non-savvy investors
- Property seller offers to manage these rental properties.
- Borrower may have been told that the property seller or the club would make mortgage payments.
- Borrower purchased multiple properties simultaneously, but did not disclose other loans in process to their lender, also known as shot gunning, watch for credit inquiries.
- The appraised value is fraudulently inflated (see appraisal red flags mentioned in this section).
- The borrower's signature may vary throughout the file.
- Multiple mortgage inquiries: The perpetrator guides the borrower to apply simultaneously for purchase money mortgages for multiple properties, withholding information about the other purchases from each lender.

### **Power of Attorney**

The use of a Power of Attorney (POA) means the principal will not actually sign the loan documents, therefore forming a risk that the principal may not be aware of the loan transaction or that the principal is a fictitious person. If any wrongdoing is suspected, investigate the circumstances to ensure use of the POA is legitimate before proceeding with the loan. The settlement agent must not act as the attorney-in-fact or sign documents on behalf of any party to the transaction.

### **Property Flips**

A transaction in which a property is purchased and resold quickly for a significant profit is commonly referred to as a flip. Property flipping becomes illegal when a home is purchased and resold within a short period at an artificially inflated value. The flip typically involves a fraudulent appraisal, which may falsely indicate that renovations were made to the home. Properties targeted for property flips generally include properties that can be acquired at lower prices than other properties in the same neighborhood and often include REO properties, properties subject to a short sale, other distressed properties or newly constructed properties where the builder or developer must liquidate housing inventory quickly. A property involved in a flip may be resold on the same day or within days, weeks or months of the purchase. In some cases, the seller

of the property flip never holds title to the property, but instead sells or assigns their interest in a contract to purchase the property to a third party.

Property flips are not inherently illegal, and not all transactions involving a rapid purchase and resale are improper. Legitimate property flips are acceptable transactions. Some indications of property flips that may be legitimate include:

- Sales of properties by a GSE state or federally chartered financial institution, mortgage insurer, or federal state or local government agency.
- Property sales by employers or relocation agencies related to employee relocations.
- Sales of properties that have been substantially improved by bona fide and verified renovations since the property was acquired by the property seller in which any increase in sales price over the property seller's acquisition costs is representative of the market given the improvements to the house.

Red flags common to property flipping are:

- Ownership changes two or more times in a brief period.
- Appreciation of the subject property exceeds that in the normal marketplace.
- The property seller recently acquired the property for a significantly lower price or there have been several transfers of the property according to the real estate tax assessment record.
- No real estate agent is employed (non arms-length transaction).
- Property was recently in foreclosure, or acquired at REO sale at a much lower sales price.
- Parties to the transaction are affiliated or related by birth or marriage.
- Owner listed on appraisal and/or title may not match the property seller on the sales contract.
- A quitclaim deed is used right before or right after closing.
- Sales contract has unusually large earnest money deposit held by property seller.
- Unusual fees or credits are found on the Closing Disclosure.
- Title commitment references other deeds to be recorded simultaneously.
- Property seller is a corporation (i.e. LLC).
- Comparable sales or listings used in the appraisal report are properties involving the same property seller and/or real estate broker as the subject property in an attempt to create an artificially inflated market.

### **Purchase Disguised as Refinance**

A purchase disguised as a refinance scheme is often used to disguise the borrower's equity contribution in the transaction, inflate the property value and close the loan as a refinance, providing cash out to the fraudster.

The following red flags may be present:

- Borrower does not hold title on the commitment.
- Recent transfers of the subject property may have been flipped.
- Multiple investment properties purchased within a short time frame.

### **Rental Property Income**

Red flags related to income include:

- Tax returns not signed or dated.
- Address discrepancies within the file
- Discrepancies on a lease
- Paid preparer signs taxpayer's copy of tax returns.
- Applicant reports substantial income but has not cash in bank.

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- Excessive number of Automated Underwriting Systems (AUS) submissions
  - A purchaser of an investment property does not own a residence.
  - The rental income per the IRS tax transcripts deviates significantly from the other rental income documentation.
  - Borrower claims rental income on the loan application but amount conflicts with obtained documentation and/or the IRS tax transcripts.

## **Occupancy**

Red flags related to occupancy include:

### Purchase Transactions

- Real estate listed on application, yet applicant is a renter.
- Applicant intends to lease current residence.
- Significant or unrealistic commute distance.
- Applicant is downgrading from a larger or more expensive house.
- Sales contract is subject to an existing lease.
- Occupancy affidavits reflect applicant does not intent to occupy.
- New homeowner's insurance is a rental policy (declaration's page).

## **Refinance Transactions**

- Rental property listed on application is more expensive than subject property.
- Different mailing address on applicant's bank statements, pay advices, etc.
- Different address reported on credit report.
- Significant or unrealistic commute distance
- Appraisal reflects vacant or tenant occupancy
- Occupancy affidavits reflect applicant does not intend to occupy.
- Homeowner's insurance is a rental policy (declaration's page).
- Reverse directory does not disclose subject property address.

## **Short Sale Fraud**

The borrower deliberately withholds mortgage payments, forcing the loan into default so that an accomplice can submit a straw short-sale offer at a purchase price less than the borrower's loan balance. The borrower deceives the servicer into believing that the straw short-sale offer is legitimate.

Red flags common to this type of fraud are:

- Sudden default, no workout discussions, and immediate offer at short sale price.
- Ambiguous or conflicting reasons for default.
- The mortgage delinquency is inconsistent with the borrower's spending, savings and other credit patterns.
- Short sale offer is from a related party.
- Short sale offering price is less than current market.
- Cash back at closing to the delinquent borrower, or other disbursements that have not been expressly approved by the servicer, sometimes disguised as repairs or other payouts.

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## **Shot Gunning**

Shot gunning occurs when a fraud perpetrator simultaneously secures loans from multiple lenders, but does not disclose any of the other applications in process to the individual lender. Shot gunning can accompany several of the schemes covered in this section, such as property flipping and investment club schemes. In those cases, the perpetrator would not qualify for multiple purchase money mortgages and applies with various lenders but does not reveal the other applications to any given lender. Each lender simultaneously funds what it believes to be the only new mortgage loan. Until the loan closes, the only clues of this activity are credit bureau reported mortgage inquiries, which can be explained by the borrower as price and term comparison-shopping.

## **Straw Borrower**

A straw buyer is a person used to buy property in order to conceal the actual owner. The straw buyer does not intend to occupy the property or make payments and often deeds the property to the other individual immediately after closing. The straw buyer is usually compensated. Participants in a straw borrower situation:

- Act as a substitute for the actual borrower
- Use a quit claim deed either immediately before or soon after closing the loan.
- Represent investment property as owner-occupied or a second home.
- Sign on the actual borrower's behalf.

## **Red flags common to transactions with straw buyers are as follows:**

- First-time home buyer, with substantial increase in housing expense.
- Buyer does not intend to occupy - unrealistic commute, size or condition of property, etc.
- No real estate agent is employed (non-arm's-length transaction).
- Power of Attorney may be used.
- Boilerplate contract with limited insertions, not reflective of a true negotiation.
- Income, savings and/or credit patterns are inconsistent with the borrower's overall profile.
- High LTV, limited reserves and/or property seller-paid concessions.
- Inconsistent signatures throughout the file.
- Use of gift funds for down payment and/or closing costs

For all loan types and loan programs, a thorough review of specific loan documentation is essential to determine the validity of the information provided by the borrower and parties to the transaction.

## **Loan Application**

Review the loan application for the following red flags:

- Inconsistent SSN from document to document.
- Invalid or recently issued SSN.
- Unsigned, undated, outdated and/or incomplete application.
- Compare borrower's names and address with property seller's names and address (could be a straw buyer).
- Inadequate documentation to support required owner occupancy.
- Borrower's signature is inconsistent throughout the loan file.
- Borrower is buying investment property, but does not own current residence.
- Borrower is buying investment property as an out-of-state investor.
- Number of years on the job/in that profession is inconsistent with borrower's age, years of education, borrower profile or type of employment.



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- Employer's telephone number is a cell phone.
  - Employer's address is a PO Box.
  - Employer/company name is similar to the borrower's name.
  - Significant increase or unrealistic change commuting distance.
  - New housing not large enough to accommodate all occupants.
  - Buyer is downgrading from larger to smaller home.
  - Buyer currently resides in property and is purchasing it from the landlord.
  - Buyer intends to rent/sell current residence with no documentation.
  - Down payment is other than cash.
  - Borrower/co-borrower working for same employer, or is an employee of the property seller.
  - Same telephone number for home and business (may be self-employed).
  - High income borrower has little or no personal property or minimal liquid assets.
  - New housing expense exceeds 150% of current housing expense.
  - Assets are not consistent with borrower's income.
  - Inappropriate salary with respect to loan amount.
  - Significant or contradictory changes from handwritten to typed loan application.

### **Occupancy**

For owner-occupied transactions containing address discrepancies, or red flags present that would imply occupancy other than indicated, the loan file must contain acceptable documentation to justify proceeding with the transaction. Documentation must be scrutinized to ensure reasonableness of the owner-occupancy status in order to proceed with the transaction.

Review the loan file for the following red flags:

#### **Purchase**

- A previous mortgage transaction within the past 12 months was also the purchase of a principal residence.
- Hazard insurance policy indicates investment property when application states owner-occupied.
- The mailing address on the insurance policy is different from the subject property, when the subject is represented as a primary residence.
- Value of current residence exceeds subject property value when subject property is to be owner-occupied and current residence is to be investment property.
- Commute distance from work and subject owner occupied property is excessive (acceptable explanation may be a virtual office).
- Application is for a second home in area not typical for second home properties and/or not reasonable distance from current owner-occupied property.
- The borrower profile does not make sense for occupancy in subject property (i.e., elderly borrower moving from current residence of many years to a much larger home).
- There are duplicate applications with conflicting occupancy information.
- Borrower owns numerous properties or has multiple mortgages shown on credit report and purchase of new primary residence appears unreasonable.
- Request is for a second home, yet borrower already has a second home.
- Purchases of a second home in the same location as the principal or current second home residence or investment property owned.
- New housing square footage/bedroom count is insufficient to accommodate.

#### **Refinance**

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- Different address for paystubs, bank statements, or other financial documents when the loan is a refinance of an owner occupied property.
  - Application is a refinance of the primary residence but the home telephone number does not match the subject address.
  - Appraisal occupancy is different from the loan application. Appraisal indicates property is tenant occupied, but is stated as primary on the application.
  - Title commitment does not show homestead exemption on an owner-occupied refinance.

### **Borrower Contact**

- Phone number is invalid or has been disconnected.
- Employer states the borrower does not work there or is out of the country for some time.
- Caller gives information that is inconsistent with the application.
- Borrower calls frequently for an application status.
- Inconsistent language/ability to communicate.
- E-mail address is inconsistent with the borrower or borrower's employer.
- Borrower discloses an unauthorized third party or broker.

### **Credit Report**

Review the credit report for the following red flags:

- Credit report "warning" messages must be carefully reviewed.
- Credit report lists an Also Known As (AKA) or Doing Business as (DBA) or name variances.
- Nicknames unrelated to the borrower's name.
- Age of accounts is inconsistent with the borrower's age.
- Address history on in-house credit is inconsistent.
- Trade lines were opened at the same time or opened recently.
- Recently added as authorized user on several trade lines or numerous authorized user accounts.
- Pattern of delinquencies that are inconsistent with credit explanations.
- Undisclosed bankruptcies, foreclosures or debts
- Greater number of authorized user trade lines than traditional trade lines
- Contains authorized user accounts with trade line information inconsistent with the borrowers other accounts.
- Recently originated loan has been refinanced.
- All accounts have been recently paid in full.
- Disputed accounts appear on the credit report (possible credit doctoring).
- Open credit obligation listed on the application but does not appear on the credit report.
- Employment information and history varies from loan application and/or VOE.
- High income borrower or borrower is over 25 years old lacks established credit or has inappropriate accounts.
- Other sources show a variance in employment or residence data.
- SSN is invalid, issued before the borrower was born, issued to a minor, is attributed to a deceased individual or the numbers vary, or the SSN differs from the SSN on the loan application.
- Borrower has multiple SSNs.
- Multiple inquiries in a short time frame
- Recent (within 2 weeks) nonbank inquiries

### **Verifications of Rent (VOR)**

Review verifications of rent for the following red flags:

- Lease period dates on the VOR do not correspond to the dates on the application.
- Last name of the landlord on the lease is the same as the borrower.
- The landlord shares the same address as the borrower.
- The landlord's telephone number on the lease is invalid.
- Rent on lease does not match the amount disclosed on the application.
- Schedule E lists additional properties that are not on the loan application.
- VOR is not in the name of the borrower.
- Any visible sign that suggests the document has been altered.

## **Assets**

Review the asset documentation (bank statements, verification of deposit) for the following red flags:

- Excessive balance in checking versus savings account
- Bank statements mailed to address other than the borrower's residence, such as a P.O. Box or relative's address.
- Other names on the account with no explanation of why or backup documentation
- Check SSN against 1003, W-2s, 1040s.
- Savings account with average 2 month balance exactly equal to present balance (no interest accumulation).
- Prepared/signed by originator before or on the same date as completed/signed by depository.
- Large balances although the borrower has little or no interest income on tax returns.
- Account balance is significantly higher than the average balance or no average balance indicated on the Verification of Employment (VOE).
- Regular payroll deposits that do not agree with reported income.
- Deposits that exceed the borrower's normal take-home pay.
- Account numbers are inconsistent with the application.
- Cash in bank not sufficient to close escrow.
- New bank account opened within the past month.
- Bank statements are from an unfamiliar financial institution, have suspicious logo or do not identify the name or address of the financial institution.
- Round dollar amounts, especially on interest-bearing accounts
- Borrower has no bank account or bank account is not in borrower's name.
- Significant changes in balance from prior 2 months of date of verification.
- Gift is given by current or former occupant/owner of the subject property.
- Type or handwriting identical throughout
- Document is not folded.
- High income borrower with little or no cash
- Evidence of ink eradicator or use of "white-out", or other alterations made to the document.
- Account was opened on a non-business day.
- Verification of Deposit (VOD) completed on a non-business day.
- Addressed to a specific individual at the depository institution.
- Assets used at closing/escrow not coming from a verified source.
- Borrower is unable to clearly document the source of funds to close.

## **Verification of Employment (VOE)**

Review the VOE for the following red flags:

- Verification form is forwarded to a P.O. Box may be acceptable with independent verification.
- Income is out of line with the borrower's occupation.

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- Property seller's address is the same as the employer's.
  - Year-to-date and/or past years income says see "W-2's and paystubs".
  - VOE is prepared/signed by originator on the same date as completed/signed by employer.
  - VOE is prepared by someone other than a representative of a payroll or human resources department or has a generic job title such as secretary, manager or general manager.
  - Person verifying employment appears to be a relative of the borrower (i.e., same last name).
  - Illegible phone number or name of person signing the document.
  - Signature on the VOE reflects the same name as the borrower or other party affiliated with the transaction.
  - The date the VOE was signed is not reasonable for processing time (i.e., VOE mailed out of state is signed the day after it was printed).
  - Salary is displayed in round dollar amounts.
  - VOE shows a company car allowance, yet applications shows an auto loan.
  - Employer uses mail drop or P.O. Box or personal residence for business address.
  - Borrower's profession changed from previous to current employer.
  - Dates of employment on the VOE do not match dates on the application.
  - Inappropriate verification sources such as, secretary or relative were used.
  - Amount of overtime equals or exceeds base pay.
  - Handwriting or type is inconsistent throughout the VOE.
  - Document is not folded (never mailed).
  - Evidence of ink eradicator ("white out") or other alterations appears on VOE.
  - Name of employer is similar to name of borrower.
  - No employer address on VOE.
  - No indication the VOE was mailed or faxed to the employer.
  - Faxed VOE has unknown fax number (number other than employer).
  - Business phone number is determined to be a cell phone and not appropriate for size of the company.
  - Type or handwriting is not identical throughout.

## **Paystub**

Review paystubs for the following red flags:

- Company name not imprinted.
- Employer's address is missing, is a P.O. Box, or is different than provided by borrower.
- Name of employer is similar to the borrower's name.
- Employee or address name not printed.
- Handwritten
- Contains misspellings
- Round dollar amounts
- Year-to-date totals are not accurate from paycheck to paycheck.
- Date of pay period missing and/or inconsistent pay periods.
- No withholding
- No check issue date
- Lacks current income breakdown or year-to-date
- Incorrect or inconsistent Social Security/Medicare deductions for level required.
- Tax deduction not detailed (Social Security, Medicare, etc.).
- Paystub numbers are in sequential order or show the same check number repeatedly.
- Evidence of ink eradicator (white out) or other alterations
- Employee or employer name does not match the W-2, personal tax return or the loan application.
- SSN differs from W-2 or personal tax return or other documentation.
- Payroll deductions reveal additional liabilities not disclosed on loan application.

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## **W-2**

Review the W-2(s) for the following red flags:

- Invalid Employer Identification Number (format should be <xxxxxxxx>).
- Employer Identification number same as borrower's SSN.
- Different type size or font within the form
- Handwritten
- Faxed document
- Inconsistencies in name spelling, address, employer's address, SSN, etc.
- Reported income does not match income reported on loan application or on the VOE.
- Evidence of ink eradicator ("white out") or other alterations.
- Incorrect withholding amounts (FICA and Medicare wages/taxes and local taxes exceed ceilings/set percentages)
- Taxes paid are lower compared to income stated on the W-2.
- Round dollar amounts
- No address or it is an incorrect address for the employee or employer.
- Incorrect form provided. The borrower should provide "Copy C," unless the closing is prior to April 15<sup>th</sup>.

## **Tax Returns**

Review tax returns for the following red flags:

- Handwritten by a paid preparer (call the preparer and verify the figures on the return).
- Paid preparer did not sign the income tax return or disclose their tax ID.
- Different paid preparer used each year.
- Paid preparer signs taxpayer's copy.
- The file does not contain a copy of a signed, updated IRS Form 4506-T (Request for Transcript of Tax Return).
- Gross income on Schedule C does not agree with total income on 1099s.
- No cost of goods "sold" shown on Schedule C for retail or similar type of business.
- Borrower with substantial stock, bonds and/or saving cash in the bank shows little or no related interest income on Schedule B.
- High tax bracket borrower does not use a professional tax preparer.
- High tax bracket borrower with few or no deductions or tax shelters
- No deductions for taxes and licenses on Schedule C
- Schedule A shows unexplained real estate taxes paid for non-homeowners.
- Tax preparation fee is deducted on Schedule A (itemized deductions), but prior years return was prepared by borrower.
- Tax returns are not signed or dated by the borrower.
- Name, SSN, address, or profession does not agree with the loan application.
- Address and/or profession do not agree with other information submitted with the loan application.
- No estimated tax payments by self-employed borrower (Schedule SE of IRS tax form 1040).
- Gross Income/wages on tax returns do not match W-2s or 1099s.
- Tax return indicates self-employment for salaried borrower.
- Self-employed borrower shows income as wages and salaries.
- Income from S-corporation does not match the personal return.
- Income and/or deductions are even dollar amounts (\$100,000.00 vs. \$97,243.00).
- Unemployment compensation reported although the application does not disclose gaps in employment.
- Type or handwriting varies within return.

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- Evidence of ink eradicator ("white out") or other alterations.
  - Real estate taxes paid but no property owned according to the loan application.
  - No mortgage interest paid when borrower shows ownership of property (or vice versa).
  - Additional properties listed on Schedule E but not shown on loan application.
  - Math errors and totals do not add up.
  - Tax return is incomplete (missing schedules, no occupation code on Schedule C, information missing, etc.).

### **Phantom Employment, Credit, Income**

Phantom employment or income occurs when the credit file is developed through fraudulent means. The following scenarios describe common methods of falsifying employment or income:

- A co-worker or superior completes a VOE with false information.
- A co-worker or superior acts as an authorized signer on a VOE.
- Verified employment is not consistent with employment reference on the credit report.
- The borrower may rent a post office box, or provide another address for his/her employer. When the VOE is mailed to the false address, someone who has been instructed on what information to provide to the requesting party then completes it.
- The borrower provides false telephone numbers for those lenders that perform telephone verifications.
- The borrower provides false tax returns, W-2s, and paystubs, all of which may be easily obtained through interested parties to the transaction.
- The borrower may use a fraudulent SSN on the original credit application. When the credit report is generated, it will reflect no credit, thereby effectively hiding the borrower's poor credit history.
- The borrower may assume the identity of someone else.

### **Cancelled Checks**

Review cancelled checks submitted as documentation for the following red flags:

- Encoding numbers are missing.
- Encoding numbers inconsistent with the date and amount of the check.
- Misalignment in type or variation in font type
- Check numbers and dates are not in numerical and chronological order.
- Bank account numbers on the checks are inconsistent with the application and asset verification.
- Any visible sign that suggests the document may have been altered or falsified including, but not limited to, misaligned text, variation in font type, or signs of information that has been cut and pasted.
- Earnest money deposit check is written on account that the application does not list.
- Money orders or several checks were used for deposit and they are not in sequential order.
- Check is dated prior to the sales contract execution date.

### **Appraisal**

Review the appraisal for the following red flags:

- Ordered by a party to the transaction other than the loan originator, such as a realtor, property seller, and borrower.
- Property seller's name does not match the name on the title preliminary report or purchase agreement.
- Borrower is not listed as the owner (non-borrowing owner).
- Ordered before sales contract written.
- Photos do not match property description.

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- Photos of property taken from odd angles.
  - Photos show a 'For Sale' sign in the yard for a refinance or a 'For Rent' sign in the yard for a purchase.
  - Subject property has significant deferred maintenance.
  - Comparable sales not verified as recorded (data source Multiple Listing Service (MLS), sales office).
  - Comparable sales have prior sales within the last 12 months with substantially different value.
  - All comparable sales are within the same neighborhood/subdivision and/or the same builder on new construction.
  - Comparables are older than 6 months in a market that has a faster marketing time.
  - All comparable sales are sourced from private sale transaction versus property sold through MLS, Clerk's office, etc.
  - Comparable sales are more than one mile away from subject property in an area where there are sufficient comparable sales closer to the subject property.
  - All comparable sales are adjusted in the same direction.
  - Overall adjustments are in excess of 25% without reasonable explanation.
  - Appraiser is on the exclusionary list, appraisal is not acceptable.
  - Appraiser name is the same as or similar to other parties engaged in the transaction.
  - Appraiser comments that the property has been listed for sale within the last 90 days.
  - Appraiser used incorrect, outdated or obsolete form.
  - Income approach not used on tenant occupied properties.
  - Tenant is shown as the occupant on an owner-occupied loan.
  - Occupant is shown as tenant or unknown on a primary or secondary home property.
  - Property ownership has been transferred within the last 120 days.
  - The property has been sold one or more times in the last 12 months.
  - The property's history shows recent sales within the year for a lower price.
  - Out-of-area or non-local appraiser

## **Sales Contract**

Review the sales contract for the following red flags:

- The borrower is not shown as the purchaser of the subject property.
- Names are deleted from or added to the contract.
- The property seller is a party related to the transaction such as the realtor, employer, appraiser, relative, or broker.
- Earnest money deposit consists of the entire down payment or is a large amount not customary with the size of the purchase.
- Earnest money deposit is placed directly with the property seller and represents the entire down payment for the loan.
- There is no earnest money deposit in the sales contract.
- The earnest money deposit on the sales contract does not match the earnest money deposit on the loan application.
- Earnest money deposit with a realtor who does not sign the contract and acknowledges receipt of funds.
- Earnest money is deposited with unknown third party outside of the transaction.
- Earnest money check is dated prior to the sales contract or much later than the sales contract date.
- Sales price is substantially below or significantly higher than what is typical for the market.
- There is no realtor involved.
- Name and address on the earnest money deposit check do not match the borrower/buyer.
- Purchase contract indicates it has been assigned or is contingent upon another party (i.e. property seller) purchasing the subject property first, such as the property seller.
- Property seller or buyer is a corporation.
- Property seller's name on the sales contract is not the owner's name on the appraisal.
- Property seller's name on the sales contract is not the owner of the property per the title commitment.
- The buyer's name on the sales contract is not the proposed insured per the title commitment.
- Property seller's name listed on the contract is not consistent throughout or is not the same as the signature.

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- Sales contract references an addendum but the addendum was not provided.
  - Sales contract is dated after the date of the appraisal or after the date of the loan application.
  - Sales contract has no date.
  - Property seller concessions/contributions appear excessive and/or property seller is paying all of buyer's closing costs.
  - Property seller concessions/contributions do not match the details of transaction on the application.
  - Comments in appraisal indicate sales price is unreasonable for subject property.
  - Comments in appraisal indicate that sale of property is not an arm's length transaction.

### **Preliminary Title Report**

- Review the Preliminary Title Report for the following red flags:
- Prepared for or mailed to a party other than the originator.
- Title work is prepared by a title company that is not closing the transaction.
- Title company changes during the application process.
- Title commitment references other deeds to be recorded simultaneously.
- Delinquent property taxes tax liens or judgments on property.
- Notice of default/foreclosure recorded.
- Ownership of property has changed more than once in the last 120 days.
- Property seller is not on title (could indicate a double escrow).
- Borrower is not on title when transaction is a refinance.
- Buyer is not listed as proposed insured.
- Property seller is only on the title by rights under contract on a purchase transaction.
- Realtor, appraiser, or other interested parties are in the chain of title.
- Mortgages are being paid off that are not on the application or credit report.
- Property mortgage history indicates significant differences in lien amounts.

### **Escrow/Closing Instructions**

Review the Escrow/Closing Instructions for the following red flags:

- Reference to another (double) escrow/sale
- Power of Attorney being used with no explanation.
- Unusual amendments to the original transaction
- Related parties in the transaction
- Demands being paid to undisclosed third party.
- Cash is being paid to outside escrow to the property seller.
- Odd amounts being paid as a deposit/down payment.
- Buyer is required to use a specific broker/escrow company.
- Borrower has right of assignment.
- Sale is "subject to" property seller acquiring title.



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## Appendix B - Natural Disasters

### **Federal Emergency Management Agency (FEMA)**

FEMA responds when:

- A disaster overwhelms a state's resources; and.
- When a state's governor requests FEMA's assistance.

When a specific county and/or independent city becomes a Federally Declared Disaster Area, FEMA designates if the area is eligible for federal aid assistance for:

- Individuals – individuals and households
- Public Sectors – state/local governments and certain private non-profit organizations

When natural disasters occur e.g., hurricanes, tropical storms, tornadoes, steps must be taken to assure that the “security” on each loan is protected. A re-inspection or inspection will be required on all properties located in the Federally Declared Disaster Areas if the value of the property was determined prior to the date of the natural disaster. These requirements apply to all loans regardless of processing style or appraisal requirements. Wholesale Lending Operations will issue a memorandum citing the Federally Declared Disasters Areas and the application date, to help determine which loans must follow this policy.

Note: ALTLOAN may define an area as a declared disaster area even if FEMA has not issued an official declaration, at its sole discretion.

### **Disaster Policy Classifications**

#### **Standard Procedures**

These areas are subject to the least restrictive requirements as they are:

- Impacted by the disaster, but the impact is not considered widespread throughout the area or zipcode.
- Identified as having homes that may be damaged by wind or rain-related issues, some areas of flooding or environmental concerns.
- Identified to have no expected problems for the area and its local economy from a recovery perspective.

Expanded Procedures may be implemented for up to a year after a disaster.

These areas are subject to the most restrictive requirements as they are:

- Substantially impacted by the disaster.
- Determined to have, with respect to hurricanes, notable amounts of flooding and environmental concerns.
- Identified due to concern that the local economy will suffer to the point that the housing values and area employment may be impacted.

#### **Effective Date of Disaster Policy**



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The disaster area policy becomes effective as of the incident period for the disaster/event. FEMA publishes the incident period, including the end date, along with the declaration date once the area is presidentially declared.

Counties eligible for individual assistance must follow the Standard Procedures of this Natural Disaster Policy.

### **Standard Procedures**

Properties located in a Federally Declared disaster area will not be permitted to close without prior review and sign-off of the inspection or re-inspection notice by the Underwriter.

<b><i>Conventional</i></b>	<b><i>Standard Procedures</i></b>
Standard Appraisal was performed <i>On or Before</i> Disaster Incident Date	<p>Property must be re-inspected by the original appraiser or acceptable inspection source such as, nationally recognized field company or local professional licensed inspector.</p> <p>A Property Inspection or Disaster Inspection is required. The appraiser/ property inspector must provide the following commentary/evidence:</p> <p>Property is free from damage and the disaster had no effect on the value or marketability, provide exterior photos.</p> <p>If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <p>Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</p>
DU/LP was issued <i>Prior To</i> Disaster Incident Date and returned non-standard appraisal finding	<p>Non-standard appraisals are not allowed and a full appraisal is required prior to the loan being eligible to close.</p> <p>The appraisal must show the property is free from damage.</p> <p>Preferable, all comparables should be post-disaster, however, if sufficient comparables are not available, the appraiser must provide current photos of the subject property and comparables. Multiple Listing Service (MLS) photos or photos used for previous appraisals are not acceptable.</p> <p>If the appraisal indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <p>Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</p> <p>Note: The following are classified as non-standard appraisals: Property Valuation Update 1004D, PIW/PFW, HVE, 1075, 2055, 2075 and 2095)</p>



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<b>Conventional</b>	<b>Standard Procedures</b>
Standard Appraisal performed <i>After</i> Disaster Incident Date	<p>When an appraisal was completed after the disaster incident, it must reflect the following:</p> <p>The appraisal must show the property is free from damage. Preferable, all comparables should be post-disaster, however, if sufficient comparables are not available, the appraiser must provide current photos of the subject property and comparables. MLS photos or photos used for previous appraisals are not acceptable.</p> <p>If the appraisal indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <p>Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</p>
DU/LP was issued After the Disaster Incident Date and returned non-standard appraisal finding	<p>Non-standard appraisals are not allowed for 90 days after the disaster end date and a full appraisal is required.</p> <p>The appraisal must show the property is free from damage. Preferable, all comparables should be post-disaster, however, if sufficient comparables are not available, the appraiser must provide current photos of the subject property and comparables. MLS photos or photos used for previous appraisals are not acceptable.</p> <p>If the appraisal indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <p>Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</p> <p>Note: The following are classified as non-standard appraisals: Property Valuation Update 1004D, PIW/PFW, HVE, 1075, 2055, 2075 and 2095)</p>
Fannie Mae DURP	See below:
Appraisals performed Prior To the Disaster Incident Date	<p>Property must be re-inspected by the original appraiser or acceptable inspection source such as a nationally recognized field company or local professional licensed inspector.</p> <p>A Property Inspection or Disaster Inspection is required. The appraiser/ property inspector must provide the following commentary/evidence:</p> <p>Property is free from damage and the disaster had no effect on the value or marketability, provide exterior photos.</p> <p>If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <p>Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</p> <p>Note: If an appraisal was performed after the disaster incident date and no damage is noted, no further action is required. If the appraisal does indicate damage, completion of repairs is required as evidenced with Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</p>



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<b>Conventional</b>	<b>Standard Procedures</b>
DU returned PIW/PFW Prior To or for up to 90 days After the disaster end date	<p>Loans approved with a PIW/PFW before and up to 90 days after the disaster end date the following is required:</p> <p>Property Inspection or Disaster Inspection Inspector to indicate if the property is free from damage and the disaster had no effect on the value or marketability and provide exterior photos.</p> <p>If the inspection/re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <p>Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</p>
Freddie Mac LPRR	See below:
Appraisals performed Prior To the Disaster Incident Date	<p>Property must be re-inspected by the original appraiser or acceptable inspection source such as a nationally recognized field company or local professional licensed inspector.</p> <p>A Property Inspection or Disaster Inspection is required. The appraiser/ property inspector must provide the following commentary/evidence:</p> <p>Property is free from damage and the disaster had no effect on the value or marketability and provide exterior photos.</p> <p>If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <p>Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</p> <p>Note: If an appraisal was performed after the disaster incident date and no damage is noted, no further action is required. If the appraisal does indicate damage, completion of repairs is required as evidenced with Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</p>
LP returned HVE Prior To or for up to 90-days After the disaster end date.	<p>Loans approved with a HVE before and up to 90 days after the disaster end date the following is required:</p> <p>Property Inspection or Disaster Inspection Inspector to indicate if the property is free from damage and the disaster had no effect on the value or marketability and provide exterior photos.</p> <p>If the inspection/re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <p>Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</p>
FHA/Rural Housing	See below:



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<b>Conventional</b>	<b>Standard Procedures</b>
Appraisal Inspection completed Prior To the Disaster Incident Date	<p>Property must be re-inspected by the original appraiser or any licensed FHA roster appraiser. The appraiser must include the following:</p> <p>Interior/Exterior inspection with photos.</p> <p>A statement as to the dwelling habitability.</p> <p>Property is free from damage and has not sustained any flooding and/or windstorm damage.</p> <p>A statement as to whether sustained damage is above or below \$5000.</p> <p>If the re-inspection indicates damage below \$5000 and the property is habitable, must meet one of the following prior to closing the loan:</p> <p>A re-inspection showing that repairs have been completed, OR</p> <p>Established repair escrow, refer to ALTLOAN's policy for Repairs Escrows.</p> <p>If the re-inspection indicates damage above \$5000 or the property is not habitable, the following must be met prior to closing the loan:</p> <p>An interior/exterior re-inspection showing that the repairs have been completed.</p> <p>Appraiser must state that the property is habitable.</p>
Appraisal Inspection completed On or After Disaster Incident End Date	<p>Full appraisal with interior/exterior inspection required. Appraiser must address the physical condition of the site and improvements as well as the impact of any damages to the property value and marketability if the inspection occurs within 90 days of the incident end period.</p> <p>The appraiser must include the following:</p> <p>Interior/Exterior inspection with photos</p> <p>A statement as to the dwelling habitability.</p> <p>Property is free from damage and has not sustained any flooding and/or windstorm damage.</p> <p>A statement as to whether sustained damage is above or below \$5000.</p> <p>If the inspection indicates damage below \$5000 and the property is habitable, must meet one of the following prior to closing the loan:</p> <p>A re-inspection showing that repairs have been completed. OR</p> <p>Established repair escrow, refer to ALTLOAN's policy for Repairs Escrows.</p> <p>If the inspection indicates damage above \$5000 or the property is not habitable, the following must be met prior to closing the loan:</p> <p>An interior/exterior re-inspection showing that the repairs have been completed.</p> <p>Appraiser must state that the property is habitable.</p>



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<b>Conventional</b>	<b>Standard Procedures</b>
FHA Limited without Appraisal Transaction	<p>Exterior inspection performed by an FHA approved appraiser or compliance inspector is required if the disaster occurs prior to closing or the disaster end date occurred within the 90 days prior to the application date.</p> <p>Appraiser or inspector must address the physical condition of the site and improvements as well as the impact of any damages to marketability.</p> <p>The following is required:</p> <p>Property inspection or Disaster Certification Inspection Inspector to indicate if the property is free from damage.</p> <p>If the inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by:</p> <p>Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to the closing of the loan.</p>

<b>VA</b>	<b>Non IRRRL Transactions</b>	<b>VA IRRRL Transactions (with or without appraisal)</b>
Appraisal Inspection completed <i>Before</i> Disaster Incident Period End Date	<p>Exterior inspection performed by a VA approved appraiser is required.</p> <p>Appraiser must address the physical condition of the site and improvements as well as the impact of any damages to the property value and marketability and if damage is noted an interior inspection must also be performed.</p> <p>Veteran to complete and sign the Veteran Disaster Certification prior to disbursement of funds.</p>	<p>Exterior inspection with photos performed by a licensed appraiser or a professional licensed inspector is required.</p> <p>Appraiser/inspector must address the physical condition of the site and improvements as well as the impact of any damages to the property and marketability and if damage is noted an interior inspection must also be performed.</p> <p>Veteran to complete and sign the Veteran Disaster Certification prior to disbursement of funds.</p>
Appraisal inspection completed <i>After</i> Disaster Incident Date and within 90 days from the disaster occurrence	<p>Full appraisal with interior and exterior inspection required. Appraiser must address the physical condition of the site and improvements as well as the impact of any damages to the property value and marketability if the inspection occurs within the 90 days of the disaster end period.</p> <p>Veteran to complete and sign the Veteran Disaster Certification prior to disbursement of funds.</p>	<p>Exterior inspection with photos performed by a licensed appraiser or a professional licensed inspector is required.</p> <p>Appraiser/inspector must address the physical condition of the site and improvements as well as the impact of any damages to the property and marketability and if damage is noted an interior inspection must also be performed.</p> <p>Veteran to complete and sign the Veteran Disaster Certification prior to disbursement of funds.</p>
Initial loan application dated between 91-365 days from the disaster end date	Veteran to complete and sign the Veteran Disaster Certification prior to closing.	Veteran to complete and sign the Veteran Disaster Certification prior to closing.

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## **Inspections**

The property inspection should be performed by the original appraiser, whenever possible. The Broker is to order an inspection through ALTLOAN's website, [www.altloan.com](http://www.altloan.com). If the original appraiser is not available, another licensed appraiser is acceptable. The individual who performs the inspection should review the original appraisal report and be able to certify that the personal inspection of the property and neighborhood revealed no indication of significant disaster related damages. The inspector must address the physical condition of the site and improvements as well as the impact of the damages to the property value and marketability. If the condition of the property is acceptable, ALTLOAN will accept the value conclusion made prior to the disaster.

## **Written Inspection Certification Statement**

ALTLOAN requires a written statement from all parties that perform property inspections, including the appraiser. The certification should be on company letterhead, bearing an original signature. The statement is required to contain text similar to:

*"Having reviewed the original appraisal report and personally inspected the exterior of the property located at (subject address) and surrounding neighborhood on (date), I hereby certify that, to the best of my knowledge and belief, the inspection revealed no indications of moderate to significant physical damage to the property or neighborhood, needed repairs to the site or the improvements other than those that were noted in the original appraisal report and that the marketability and value of the property has not been adversely affected. [This inspector did not previously inspect this property for purposes of a real estate appraisal.] [This inspector did previously inspect this property for the purposes of a real estate appraisal and the condition of the interior is assumed the same as that noted in the original appraisal report.]"*

## **Property Damage**

### **Properties with Significant Damage**

If the property was significantly damaged and/or the damage affects the structural integrity or livability of the property, the property must be re-inspected by a qualified home inspector, architect or engineer to assess the nature and degree of the damage, if the original re-inspection was performed by an appraiser. A significantly damaged property must be repaired before the loan is closed, as determined by a qualified home inspector, architect or engineer. A final 1004 will be required after completion of repairs.

### **Properties with Minor Damage**

ALTLOAN will not require a property with minor damage that does not affect the structural integrity or livability of the property to be repaired before closing the loan, as long as an adequate escrow holdback is arranged to guarantee the completion of the repairs. Appropriate steps must be taken to assure that accurate assessments of the costs are obtained for repairing the damages.

Conventional: Escrow holdback must be 150% of the estimate provided by the appraiser, architect, engineer or home inspector for all damages. A final 1004D will be required after completion of repairs.

FHA, VA or Rural Housing: Escrow holdback must be 110% of the estimate provided by the appraiser, architect, engineer or home inspector for all damages. A final 1004D will be required after completion of repairs.