Conventional Lending Guide

Chapter 4 | Eligible Transactions

Occupancy Types

Cardinal originates mortgages secured by principal residences, second homes and investment properties. Refer to the product and program guidelines for the maximum LTV/CLTV/HCLTV ratios and credit score requirements.

Cardinal Overlays to agency guidelines are highlighted in our signature *Riptide* color, and are also listed in the corresponding Retail or TPO Product Overlay Matrix available on the HUB.

Principal Residence

A principal residence is a property that a borrower occupies as his/her primary residence. The property should be located in a reasonable proximity to the borrower's place of employment and suitable for year-round occupancy. The borrower should reside in the property the majority of the year and the borrower's documentation should indicate the borrower resides in the property.

- If there are multiple borrowers, one borrower needs to take title to and occupy the property
  - Refer to the Cosigners and Guarantors section of Chapter 5 | Borrower Eligibility for more information
- The borrower must occupy the subject property within 60 days of closing (purchase transactions)
- The borrower must intend to occupy the property for the 12 months following the closing
- 12 months must have elapsed since the acquisition of another principal residence deed of trust unless the servicer of that mortgage has agreed in a written format to an occupancy change
- If applicable, the borrower must designate the property as their homestead property

Military Owner Occupancy

Fannie Mae has updated the definition of principal residence to include a loan for a borrower who is a military service member currently on active duty and temporarily unable to occupy the home due to military service.

The temporary absence from the subject property must be verified by obtaining a copy of the borrower's military orders. The orders must evidence the borrower will be absent from the subject property as of the date the owner occupancy must be established as required by the security instrument.

Loans must be delivered with Special Feature Code 754.¶

Refinance Transactions

A mortgage will not qualify to be a principal residence unless at least one of the borrowers is, as of the Closing Date, occupying the mortgaged premises.

Family Advantage

- Parents and/or legal guardians may provide housing for their handicapped or disabled adult child if the child is unable to work or has insufficient income to qualify for a mortgage on their own, the parent and/or legal guardian does not have to occupy the property for it to be considered a primary residence:
    - The disabled adult child must be unable to work or do not have sufficient income or funds to qualify for a mortgage on his or her own. The parent(s) must provide a letter of explanation outlining the intent to purchase a home for their physically handicapped or developmentally disabled adult child who is financially limited.
    - Disabled adult child will occupy the subject property as his or her primary residence
    - Property is classified as a primary residence
    - Parent(s) (borrower) may already own their own primary residence
    - Parent(s) (borrower) may NOT occupy the subject property as a primary residence. Borrowers must qualify with their own primary residence housing obligation in addition to subject property PITIA

    - Assisting a disabled adult child has no distance requirements on where the adult child's primary residence is located

- Adult children may provide housing for parents if the parent is unable to work or does not have sufficient income to qualify for a mortgage on their own; the child does not have to occupy the property for it to be considered a primary residence
    - Adult children must provide a letter certifying that the parent will occupy the property as their primary residence. The letter must explain why the parents cannot afford the mortgage, either from lack of income or inability to work
    - Property is classified as a primary residence
    - Adult children (borrower) may already own their own primary residence
    - Adult children (borrower) may NOT occupy the subject property as a primary residence. We must qualify borrowers with their own primary residence housing obligation in addition to subject property PITIA.
    - The adult child must provide a signed occupancy affidavit before approval outlining the intent to purchase a home for financially limited parents.
- If the non-subject primary residence is a 2-4 unit dwelling, any rental income derived from the property is not eligible for consideration
- Occupancy and Financial Status Affidavit | Family Advantage has been created and is required to identify eligible occupancy parameters as a PTA document.
    - To process the AUS correctly, select “Yes” in the Declarations section for the question, “Does the Borrower intend to occupy the property as his/her primary residence?”When submitting loan information to Loan Product Advisor (LPA), also select “Primary Residence” for the “Intended Use of Property” field.

Second Home

A second home is a property that a borrower occupies for some portion of the year and does not own with the intent of generating income. In general, second homes are located in vacation areas and must be a reasonable distance from the borrower’s primary residence.

To be eligible for financing, the property must be:

- A 1-unit dwelling
- Suitable for year-round occupancy, except for secondary residence transactions using Freddie Mac Conventional findings products
    - A second home with seasonal limitations on year-round occupancy (e.g., lack of winter accessibility) is eligible for Freddie Mac provided the appraiser includes at least one comparable sale with similar seasonal limitations to demonstrate the marketability of the subject property
- Available for the borrower's exclusive use
- Located at a distance of no less than 25 miles from the borrower's primary residence
    - If the distance between locations is less than 25 miles, support for the reason to acquire and occupy the subject as a second home must be obtained. Acceptable reasons supporting occupancy could be residing close to family, resort location or special work requirements.

The property may not be:

- Subject to a rental pool or time-sharing agreement
- Under any agreement that gives a management company control over the property

Note: If rental income is identified from the property, the loan is eligible for delivery as a second home so long as the income is not used for qualification purposes and the income received is minimal (the rental periods of the home are infrequent).

Investment Property

An investment property is a property that is owned but not occupied by the borrower. The property may or may not generate income.

Escrow/Impound Waivers

Cardinal offers impound or escrow accounts for the payment of property taxes, hazard insurance, flood insurance, other required insurance, and mortgage insurance monthly premiums. Unless required by law, a borrower may exercise their right to waive escrow account establishment on a conventional loan if it meets certain provisions as outlined below. Pricing adjustments may apply on escrow waivers unless prohibited by state law.

- Impound or escrow accounts may be required based on Loan to Value, state regulations, or product guidelines.
- Impound or escrow account requirements may be investor-specific on conforming and non-conforming loans.
- The borrower's financial ability to manage the lump sum payments of property taxes, insurance premiums and other charges (as outlined in the Security Instrument) must be analyzed when an Escrow or Impound Waiver is requested.
- Cardinal offers partial escrow accounts for loans that do not require flood insurance (only property tax escrow or hazard insurance escrow).
- Escrow or Impound Waivers are not permitted on High Priced Mortgage Loans.
- Loans with a subject property located within a flood zone cannot waive establishing a flood insurance escrow account. For transactions that require flood insurance: the premiums related to the flood insurance *must be escrowed* - escrows for these premiums may not be waived, regardless of LTV. If flood insurance premiums are paid by a condominium association, homeowner's association, or other groups, no escrow is required.

Primary Residence	Secondary Residence	Investment Property
All states excluding California and New Mexico: less than or equal to (<=) 80% LTV Note: Escrow waivers are not allowed on Fannie Mae Home Ready and Freddie Mac Home Possible and HomeOne loans due to their LTV > 80%.	All states excluding California: less than or equal to (<=) 80% LTV	

<table>
<tr><td colspan="2">California: less than or equal to (<= 90% LTV)
The max LTV for waiving escrows in California is 89.99% of the appraised value for refinances
The maximum LTV for waiving escrows in California is 89.99% of the sales price for purchase transactions
If the loan has subordinate financing, the max CLTV for waiving escrows is 80% of the appraised value in California</td></tr>
<tr><td>New Mexico: Less than < 80%
The maximum LTV for waiving escrows in New Mexico is 79.99% of the sales price or appraised value.</td><td>New Mexico: less than or equal to (<= 80% LTV)</td></tr>
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A 25 bps pricing adjustment is applied for waiving tax escrows (NOT if waiving hazard insurance) in all states except NY & DC.

When an escrow account is established the following state requirements will be followed to establish the number of escrow account cushion months.

Escrow Cushion Months

If the state is:	Cushion month(s) is:
• Arizona • Vermont	Two
• Nevada • North Dakota	Zero
Montana	One
Any other state	Defined by the loan program configuration, but usually two months

Vesting

Cardinal provides transactions in which the ownership (vesting) is one of the following:

- A natural person, or
- An eligible revocable trust when the borrower is both the individual establishing the trust and the beneficiary of the trust

Vesting in an LLC

Cardinal prohibits vesting in the name of an LLC or partnership, even when the borrower(s) has an individual or joint ownership of 100%. If vesting is currently in the name of an LLC, ownership must be transferred out of the LLC and into the name of the individual borrower(s) and specific seasoning requirements of this ownership change must be evaluated.

Refer to the Cash-Out Refinance and Delayed Financing Exception sections for additional guidance.

Vesting out of a Trust

Seasoning requirements may be met when a borrower is added to title:

- Through a transfer from a trust, and
- The borrower was a beneficiary/creator of the trust prior to the transfer, and
- The transferring entity and/or borrower has had consecutive ownership (on title) for the required seasoning period prior to the transfer.

Loan Purpose

Purchase Transactions

A purchase money transaction is one where the proceeds of the loan are used to finance the acquisition of a property. Certain transactions will have differing eligibility requirements; refer to the sections below for more information.

The minimum borrower contribution requirements must be met, see the specific product guideline for requirements.

Proceeds may be used to:

- Finance the acquisition of a property
- Finance the acquisition and rehabilitation of a property
- Pay off the outstanding balance on an installment land contract (contract for deed)

Occupancy Changes

Cardinal Financial will closely evaluate transactions in which a borrower obtained financing within the last 12 months to determine if the underlying loan has occupancy requirements. If it is determined that the borrower obtained an owner occupied mortgage within the last 12 months and any applicable occupancy provisions imposed by the current lender will not have been satisfied at the time of closing on our new proposed owner occupied residence, Cardinal Financial will take steps to validate that the current lender has approved the occupancy change. Refer to Occupancy Changes in the Compliance Loan Exceptions Policy for additional requirements.

Non-Arm's-Length Transactions

Non-arm's-length transactions are purchase transactions in which there is a personal or business relationship between the seller and the buyer of the property.

Eligible non-arm's length transactions include:

- Family sales or transfers
- Transfers from business to personal ownership
- Real estate, construction or mortgage professionals purchasing a primary residence while acting in a professional capacity on the transaction.

  Note: Company employees are prohibited from having multiple roles in a single loan transaction. Refer to Company | Outside Employment and Multiple Roles in a Transaction Policy for more details about our policy on dual capacity transactions.

Ineligible Non-Arm's-Length Transactions include:

Newly constructed second homes and investment properties where the borrower has a relationship or business affiliation with the builder, developer or seller of the property.

- A model-home leaseback to the builder is not eligible when the property will be retained as the model home for some period of time. This transaction would fall into a business affiliation with the builder (tenant / landlord).

Refinance transactions where the borrower purchased the property within the last six (6) months for cash (see Delayed Financing) are not eligible if the borrower has a relationship or business affiliation with the seller of the property.

Purchase of Pre-foreclosure and Short Sale Properties

Transactions where the borrower is purchasing a property currently in pre-foreclosure or when the sale of the property constitutes a short sale are permitted. There are no restrictions for non-arm's length transactions.

The borrower may pay additional fees, assessments, or payments in connection with acquiring the property that are typically paid by the seller or another party.

Examples of Allowable Fees:

- Short Sale Processing Fees (If any portion of this fee is paid by an interested party it must be treated as a sales concession)
- Payment to a subordinate lienholder
- Payment of delinquent taxes or HOA assessments

Required Documentation

- Written details of the additional fees, assessments or payments must be provided.
- Funds to cover any additional items must be documented.
- The servicer of the Seller's mortgage must be provided the written details of the additional fees, assessment or payments.
- All parties (buyer, seller, and servicer) must provide a written agreement of the final details of the transaction. Any form may be used but the "Request for Approval of Short Sale" or "Alternative Request for the Approval of Short Sale" is recommended. The expiration date of the agreement must be after the closing date.

- The settlement statement must include all fees, assessments and payments included in the transaction.

Third-Party Contracts

A third-party contract for additional work completed to the subject property may not be combined with the initial purchase contract resulting in one final sales price.

For example, a builder contract and a separate swimming pool contract (separate from the builder's contract) cannot be combined to be paid as one lump sum using proceeds from our loan.

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TBD

Refinances

A refinance is a transaction where the new mortgage pays off existing mortgage(s) on the subject property. Refinances are categorized as either Limited Cash-Out or Cash-Out depending on the debt being paid through the transaction.

Texas Section 50(a)(6) and (a)(4) Loans have specific guidelines in addition to the parameters below, refer to Chapter 15 Texas Section 50(a)(6) and (a)(4) for additional guidance.

Continuity of Obligation

Continuity of obligation occurs on a refinance transaction when at least one of the borrower(s) on the existing mortgage is also a borrower on the new refinance transaction secured by the subject property.

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For loans with TRID Application date on or after September 1, 2023:

- At least one borrower on the new loan must be an owner (on title) of the subject property at the time of the initial application. Exceptions are allowed if the lender documents:
    - the borrower acquired the property through an inheritance or was legally awarded the property (such as through a divorce, separation, or dissolution of a domestic partnership); or

- the property was previously owned by an *inter vivos* revocable trust and the borrower is the primary beneficiary of the trust

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When an existing Mortgage will be satisfied as a result of a refinance transaction, one of the following requirements must be met:

- At least one Borrower on the refinance Mortgage was a Borrower on the Mortgage being refinanced; or
- Where none of the borrowers on the mortgage being refinanced is a borrower on the new mortgage, the new borrower must:
  - Have held title to and resided in the Mortgaged Premises as a Primary Residence for the most recent 12-month period, and
  - Provide documentation evidencing that he or she has been making timely Mortgage payments on the Mortgage being refinanced for the most recent 12-month period; a timely payment history is required regardless of whether the new borrower is a related person; or
- At least one Borrower on the refinance Mortgage inherited or was legally awarded the Mortgaged Premises by a court in the case of divorce, separation or dissolution of a domestic partnership

Limited Cash-Out Refinance

Fannie Mae

Limited cash-out refinance transactions must meet the following requirements:

- The transaction is being used to pay off an existing first mortgage loan, regardless of age;
  - If the most recent transaction was a refinance mortgage that combined a first mortgage and a non-purchase subordinate mortgage into a new first mortgage within the last six (6) months, the Short-Term Refinance requirements *will not* apply

- The transaction is being used to pay off an existing HELOC in first-lien position regardless of draw history or length of time attached to the property in first-lien position by obtaining a new first mortgage loan secured by the same property;
- Only subordinate liens used to purchase the property may be paid off and included in the new mortgage. Exceptions are allowed for paying off a Property Assessed Clean Energy (PACE) loan or other debt (secured or unsecured) that was used solely for energy-related improvements. See B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties, for additional information;
- The subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan, and the borrowers must confirm their intent to occupy the subject property (for principal residence transactions).
- A transaction is not eligible as a limited cash-out refinance if the borrower completed a cash-out refinance transaction with a note date 30 days or less prior to the application date of a new refinance secured by the same property.

Eligible Transactions

The following are acceptable in conjunction with a FNMA limited cash-out refinance transaction:

- Modifying the interest rate and/or term for existing mortgages;
- Paying off the existing first mortgage, which may include additional amounts required to pay off the loan, such as
  - Prepayment penalties,
  - A deferred balance resulting from completion of a prior loss mitigation solution, and
  - Late fees
- Financing the payment of real estate taxes, closing costs, points, and prepaid items. With the exception of real estate taxes that are more than 60 days delinquent the borrower can include real estate taxes in the new loan amount as;
  - The real estate taxes must be paid in full through the transaction; and
  - Payment for the taxes must be disbursed to the taxing authority through the closing transaction, with no funds used for the taxes disbursed to the borrower

- Buying out a co-owner pursuant to an agreement;
- Paying off a subordinate mortgage lien (including prepayment penalties) used to purchase the subject property; when the subordinate loan is a Community Seconds, payoff may include any required payment of the share of appreciation due to the Community Seconds provider under the terms of the shared appreciation agreement. The lender must document that the entire amount of the subordinate financing was used to acquire the property;
- Paying off the unpaid principal balance of PACE loans and other debt used for energy-related improvements, described above;
- Paying off the most recent transaction that was a refinance mortgage which combined a first mortgage and a non-purchase subordinate mortgage into a new first mortgage

Short-Term Refinance (applicable to Fannie Mae Only)

A short-term refinance mortgage is a loan that combines a first mortgage and a non-purchase-money subordinate mortgage into a new first mortgage, or any refinance of that loan within six months of recording date to our new note date.

Although the current selling guide lists a short-term refinance mortgage as ineligible, recent communication from FNMA states this type of transaction loan is eligible as a limited cash-out refinance. Any DU message associated with the Short-Term Refinance requirement(s) may be disregarded.

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The following are acceptable in conjunction with a Freddie Mac no cash-out refinance transaction

- Pay off the first mortgage, regardless of its age, used to acquire the property. Payoff may include the principal and interest due, including a balance deferred under a loss mitigation plan, for the first mortgage
- Pay off any costs or fees associated with the satisfaction and release of the first mortgage (e.g., late fees, prepayment penalties, etc.)
- The transaction is being used to pay off an existing HELOC in first-lien position (regardless of draw history or length of time attached to the property, subject to 30-day seasoning period indicated below) by obtaining a new first mortgage loan secured by the same property;

- When paying off an existing Refinance Mortgage, the mortgage must have a Note Date no less than thirty days prior to the new Note Date of our transaction, as documented in the Mortgage file (e.g., on the credit report or the title commitment);
- Pay off any junior liens secured by the Mortgaged Premises that were used in their entirety to acquire the subject property;
- Pay related Closing Costs;
    - Prepaid real estate taxes are an allowable Closing Cost and may be paid from the proceeds of the refinance Mortgage
    - Financed real estate taxes that exceed the prepaid amount are not considered allowable Closing Costs and are subject to the maximum disbursement of cash-out proceeds up to the greater of 1% of the new refinance Mortgage or $2,000
        - An example of this may be taxes due on the property, which are not included in the prepaid amount or allowable escrow cushion
- Pay off the outstanding balance of a land contract or contract for deed in accordance with Freddie Mac requirements;
- Pay off a Property Assessed Clean Energy (PACE) or PACE-like obligation in accordance with Freddie Mac requirements;
- Pay off the existing Mortgage debt and finance energy and/or water efficiency improvements in accordance with Freddie Mac requirements.

In the event there are remaining proceeds from the "no cash-out" refinance Mortgage, after the proceeds are applied as described above:

- The Mortgage amount must be reduced
- The excess amount must be applied as a principal curtailment to the new refinance Mortgage at closing and must be clearly reflected on the Settlement/Closing Disclosure Statement

Texas Mechanic's Lien Contract

In order to refinance a mechanic's lien as a Rate and Term refinance in Texas, a Mechanic's Lien Contract (MLC), which is an agreement signed by the builder, the owner, and the owner's spouse **prior to**

commencement of construction, must have been recorded in the real property records; the title commitment would identify the MLC.

If the builder is only filing a Mechanic's Lien Affidavit, which is a document signed only by the builder claiming that the builder has not been paid for materials furnished and services rendered, this would not create a valid lien on homestead. As a result, the only way to place a valid lien on a homestead to pay off the builder would be a TX50(a)(6) loan.

Ineligible Transactions

When the following conditions exist, the transaction is ineligible as a limited cash-out refinance and must be treated as a cash-out transaction:

- No outstanding first lien on the subject property;
- The proceeds are used to pay off a subordinate lien that was *not* used to purchase the property (other than the exceptions for paying off PACE loans described above);
- The borrower finances the payment of real estate taxes that are more than 60 days delinquent for the subject property in the loan amount
- The borrower is paying off consumer debt on the closing disclosure even if personal assets are documented to pay off the balances outside of the loan proceeds. If consumer debt needs to be paid off in order to qualify for the mortgage, the debt needs to be paid off and source of funds documented prior to closing.

New Subordinate Financing

- For both Fannie Mae and Freddie Mac transactions:
  - When a borrower obtains new subordinate financing with the refinancing of a First mortgage loan, and the borrower receives cash back from the new subordinate mortgage, the transaction may be treated as a Rate and Term refinance provided the First mortgage loan meets the eligibility criteria for a limited or no cash-out refinance transaction.
    - Example:

- The borrower is paying off an existing first lien mortgage in the amount of $500,000. Closing Costs and Prepaids are an additional $10,000 for a total amount due of $510,000.
- The borrower obtains a new first lien mortgage in the amount of $484,350 and a new subordinate second mortgage in the amount of $100,000.
- At settlement, the borrower is able to get cash back in the amount of $74,350 which are the funds remaining from the subordinate second mortgage.
- Since there was no cash back from the new first lien mortgage, the transaction may be considered a Rate and Term Refinance.
- In the instance that there was cash back from the new first lien mortgage, but it did not exceed the lesser of 2% of the new refinance loan amount or $2000 for DU transactions or up to the greater of 1% of the new refinance loan amount or $2000 for LPA transactions, the transaction may still be considered a Rate and Term Refinance.

Existing Subordinate Financing Being Paid Off

To treat a transaction as a limited cash-out refinance Cardinal requires that documentation be obtained proving that the subordinate financing was used to purchase the property.

- Provide a copy of the settlement statement or closing disclosure from the purchase of the property.
- If the first lien or subordinate lien is a HELOC, the settlement statement or closing disclosure must show the lien was fully disbursed at the time the property was purchased.
- A Loansafe report may also be utilized to validate that the subordinate lien was used to purchase the property.

Partial Claim

A partial claim is a subordinate lien resulting from deferred mortgage payments on a FHA first lien.

If it is documented that the partial claim was a result of the COVID-19 national emergency, our new transaction may be structured as a Limited or No cash-out Refinance when paying off the partial claim if the loan is out of forbearance and payment history requirements have been met.

Existing Subordinate Financing Not Being Paid Off

When a limited Cash-Out refinance is not paying off existing subordinate liens, the existing liens must be clearly subordinated to the new refinance mortgage. The new limited cash-out mortgage must meet Cardinal 's subordinate financing requirements.

Cash Back to the Borrower

Incidental cash to the borrower is allowed:

- DU: Cash back to the borrower not to exceed the lesser of $2000 or 2% of the principal balance of the new loan amount.
- LPA: Cash back to the borrower allowed up to the greater of 1% of the principal balance of the new loan amount or $2000.

Cardinal may refund the borrower for overpayment of fees and charges due to federal or state laws or regulations. Refunds such as these are not included in the maximum cashback limitation, provided:

- The Closing Disclosure clearly identifies the refund with a notation of the reason and the loan file includes documentation to support the amount and the reason for the refund.
- If the borrower receives more cash back than is permitted for a limited cash-out refinance, Cardinal may apply a curtailment to reduce the amount of cash back to the borrower to bring the loan into compliance with the maximum cash-back requirement; refer to the Principal Curtailment Policy below.

Cash-Out Refinance

A cash-out refinance transaction allows the borrower to pay off the existing mortgage(s) and/or other debts by obtaining a new mortgage on the same property, or allows the property owner to obtain a mortgage on a property that is currently owned free and clear.

The borrower may receive funds, either for debt payoff or cash in hand up to the maximum allowed by the product. Any refinance transaction that does not meet the requirements for a limited cash-out refinance is considered a cash-out refinance.

Seasoning

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- At least one borrower must be on title to the subject property for at least six months prior to the Note date (vs. disbursement date) of the new loan
- An existing first mortgage being paid off through our transaction must be 12 months old as measured from the Note date of the existing loan to the Note date of the new loan. This seasoning requirement does not apply:
  - To any existing subordinate lien(s) being paid off through the transaction, or
  - When buying out a co-owner pursuant to a legal agreement
- For DU loan casefiles, if the DTI ratio exceeds 45%, six months reserves are required

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- At least one borrower must be on title to the subject property for at least six months prior to the Note date of the new loan
- When proceeds of a cash-out refinance mortgage are used to pay off a first lien mortgage, the first lien mortgage being refinanced must be seasoned for at least 12 months (at least 12 months must have passed between the Note date of the mortgage being refinanced and the Note date of the cash-out refinance mortgage)
- The seasoning requirement does not apply when:
  - The cash-out refinance mortgage is a special purpose cash-out refinance mortgage
  - The first lien mortgage being refinanced is a Home Equity Line of Credit (HELOC)
  - The cash-out refinance mortgage is a Construction Conversion or Renovation Mortgage
  - The purpose of the cash-out refinance mortgage is to convert a Manufactured Home to legally classified real property under applicable State law
  - To any existing subordinate lien(s) being paid off through the transaction

Manufactured Housing

Fannie Mae

A cash-out refinance:

- Involves the payoff of an existing first lien mortgage secured by the manufactured home and land (or existing liens if the home and land were encumbered by separate first liens); or
- Enables the property owner to obtain a mortgage on a property that does not already have a mortgage lien against it, and permits the borrower to take equity out of the property in the form of mortgage proceeds that may be used for any purpose.

To be eligible for a cash-out refinance, the property must be a multi-width manufactured home (single-width are not permitted). The borrower must have owned both the manufactured home and land for at least 12 months preceding the date of the loan application.

The LTV, CLTV, and HCLTV ratios will be based on the current appraised value of the manufactured home and land.

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To be eligible for a cash-out refinance, the property must be a multi-width manufactured home (single-width are not permitted). The proceeds of a cash-out refinance transaction may be used to, but are not limited to:

- Pay off an existing Mortgage secured by the Manufactured Home and land;
- Pay off existing liens if the Manufactured Home and land are separately encumbered and the purpose of the cash-out refinance mortgage is to convert the Manufactured Home to legally classified real property under applicable State law
- When the purpose of the cash-out refinance Mortgage is to convert the Manufactured Home to legally classified real property, the Mortgage being refinanced does not need to be seasoned for at least 12 months
- Enable the Borrower to obtain a Mortgage on a property that is owned free and clear

For a cash-out refinance, the Borrower must have owned both the Manufactured Home and land for 12 months or more prior to the Note Date unless the property is owned free and clear. For a cash-out refinance Mortgage on a property owned free and clear, at least one Borrower must have been on the title to the subject property for at least six months prior to the Note Date.

The value for a cash-out refinance Mortgage is based on the current appraised value of the Manufactured Home and land.

Title Held by Limited Liability (LLC) or Limited Partnership (LP)

Fannie Mae

- If the property was owned prior to closing by a limited liability corporation (LLC) that is majority-owned or controlled by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower's six month ownership requirement. In order to close the refinance transaction, ownership must be transferred out of the LLC and into the name of the individual borrower(s). Ownership by any other entity, i.e. a Corporation, regardless of the borrower's percentage of ownership, is not permitted.

- If the property was purchased for cash within the last six months, refer to the Delayed Financing Exception Policy below

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- For cases in which title to the property is held by a limited liability company (LLC) or limited partnership (LP), the time the property was titled in the name of the LLC or LP may be included in the six-month requirement provided:
  - At least one Borrower must have been the majority owner or had control of the LLC or LP since the date the property was acquired by the LLC or LP, and
  - Title must be transferred from the LLC or LP into the Borrower's name on or before the Note Date
- If the property was purchased for cash within the last six months, refer to the Delayed Financing Exception Policy below

Acceptable Uses

- Paying off the unpaid principal balance of the existing first mortgage

- Financing the payment of closing costs, points and prepaid items. The borrower can include real estate taxes in the new loan amount

- Paying off any subordinate mortgage lien
- Taking equity out of the subject property for any purpose
- The subject property must not be currently listed for sale. It must be taken off the market on or before the Note date of the new mortgage loan, and the borrower must confirm their intent to occupy the subject property (for principal residence transactions)

Ineligible Transactions

- The mortgage is subject to a temporary interest rate buydown
- A portion of the proceeds is being used to pay off the outstanding balance on an installment land contract
- The new loan is paying off taxes that are more than 60 days delinquent and no escrow account is being established unless prohibited by state law
- The property has a Property Assessed Clean Energy (PACE) loan and the borrowers are unwilling to pay it off
- Non-occupant co-borrower on a cash-out refinance transaction; all borrowers must occupy the mortgaged premises when the mortgage is a cash-out refinance mortgage secured by a primary residence

Student Loan Cash-Out Refinance

The payoff of only student loans through a refinance transaction may be treated as a rate and term refinance loan when the loan is processed through Desktop Underwriter (DU) for conventional transactions. The borrower may pay off one or more student loans without the loan being considered cash-out if the following conditions are met:

- At least one student loan must be paid through the refinance
- Proceeds must be paid directly to the student loan servicer at closing
- The borrower must be responsible for the student loans paid through the transaction
- The loans must be paid in full, partial payments are not allowed

- The loan must be processed through DU and the standard cash-out eligibility requirements for LTV/CLTV/HCLTV apply
    - DU cannot specifically identify these transactions but will issue a message when it appears that only subject property liens and student loans are marked to be paid at closing.
- The transaction must also payoff a first mortgage lien and can include the payoff of:
    - A purchase money second
    - An existing HELOC that is a first mortgage lien or purchase money second
- Maximum cash to the borrower is the lesser of 2% or $2,000 over and above the student loan payoff amounts
- The property may not be listed for sale at the time of application or funding
- Payoff of delinquent property taxes is not allowed
- All other standard cash-out refinance requirements apply

Leasehold Mortgages and Cooperative Share Loans

Freddie Mac only:

- For cases in which the property is a leasehold estate, at least one Borrower must have been lessee on the ground lease or lease agreement of the subject leasehold estate for at least six months.
- For cases in which the property is a Cooperative Unit, at least one Borrower must have held Cooperative Shares corresponding to the Cooperative Unit that is the subject of the Cooperative Share Loan for at least six months.

Delayed Financing Exception

Borrowers who purchased the subject property without financing within the last six months are eligible for a cash-out refinance if all of the following requirements are met:

- The original purchase was an arms-length transaction;

- The borrower(s) may have initially purchased the property as one of the following:
  - A natural person;
  - An eligible inter-vivos revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust;
  - An eligible land trust when the borrower is the beneficiary of the land trust; or
  - FNMA: An LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%
  - Freddie Mac: Acquisition by an LLC is not permitted on Delayed Financing
- The original purchase transaction is documented by a settlement statement, which confirms that no mortgage financing was used to obtain the subject property;
  - A recorded trustee's deed (or similar alternative) confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at time of sale
- The preliminary title search confirms there are no liens on the subject property;
- If loan proceeds were used to purchase the property, the new loan settlement statement must clearly demonstrate the payoff or paydown of the loan(s) that were used in conjunction with the original acquisition. Any remaining payment obligations must be included in the borrower’s debt to income ratios;
- The new loan can be no more than the actual documented investment in purchasing the property plus the financing of closing costs, prepaids and points on the new mortgage loan;
- Funds received as a gift in conjunction with the acquisition of the subject property may not be reimbursed with proceeds from our transaction;
- Texas 50 (a)(6) permitted;
- All other cash-out requirements and product requirements must be met

The source of funds for original acquisition must be documented in accordance with Required Documentation as outlined below.

Manufactured Housing

Fannie Mae

Fannie Mae will permit a shortened seasoning period according to Delayed Financing Exception guidelines for a manufactured home; the 12-month manufactured home guideline for a cash-out refinance transaction is not required when all Delayed Financing guidelines are met.

DU will reflect the appropriate messaging when a manufactured home is input as a cash-out refinance:

> *The borrower must have owned both the manufactured home and the land for at least 12 months preceding the loan application in order for this cash-out refinance transaction to be eligible for delivery to Fannie Mae (unless eligible under the delayed financing exception) - message ID 1959.*

Freddie Mac

Freddie Mac requires adherence to manufactured housing seasoning requirements of 12-months for a cash-out refinance transaction; an exception for a shorter seasoning period allowed with Delayed Financing is not permitted.

Required Documentation

Proof of funds used to purchase the property is required on all delayed financing transactions and standard asset due diligence requirements need to be met including:

- Two months bank statements evidencing sufficient liquid funds to complete the original property acquisition that immediately precede the date of purchase
- Explanation and/or proof of the source of large deposits will be required
- Proof of liquidation into a bank account or settlement agent required
- Copies of any note or financing agreement for secured or unsecured funds used for the original acquisition of the property
- Final settlement statement(s) if the proceeds from the sale of real estate were used in the acquisition

- The refinance loan amount may not be more than the actual cost of acquiring the property defined as sales price evidenced on the settlement statement for the original acquisition plus the financing of closing costs, prepaid fees, and points on the new mortgage loan

Refinance to Buy Out an Owner's Interest

Fannie Mae

A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out refinance if the secured property was jointly owned for at least 12 months preceding the disbursement date of the new mortgage loan.

All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction. Except in the case of recent inheritance of the subject property, documentation must be provided to indicate that the security property was jointly owned by all parties for at least 12 months preceding the disbursement date of the new mortgage loan.

Borrowers who acquire sole ownership of the property may not receive any of the proceeds from the refinancing. The party buying out the other party's interest must be able to qualify for the mortgage pursuant to Fannie Mae's underwriting guidelines.

Freddie Mac

A cash-out refinance Mortgage where the owner of a property uses the proceeds of the refinance transaction to buy out the equity of a co-owner is a special purpose cash-out refinance Mortgage and must meet the applicable requirements for a Cash-out Refinance Mortgage.

The loan amount of a special purpose cash-out refinance Mortgage is limited to amounts used to buy out the equity of the co-owner, which may include:

- Paying off the first Mortgage, regardless of age
- Paying off junior liens secured by the Mortgaged Premises
- Paying related Closing Costs

In addition, the following conditions must be met:

- The Borrower and the co-owner receiving the buy-out proceeds must have jointly owned the property for a minimum of 12 months prior to the initial loan application (parties who inherited an interest in the property are exempt from this requirement)

- The Borrower and the co-owner receiving the buy-out proceeds must provide evidence that they occupied the subject property as their Primary Residence (parties who inherited an interest in the property are exempt from this requirement)

- The Borrower and the co-owner receiving the buy-out proceeds must provide a written agreement, signed by all parties, stating the terms of the property transfer and the disposition of the proceeds from the refinancing transaction

- The Borrower who retains sole ownership of the property may not receive any of the proceeds from the refinance transaction

Special Documentation Requirements

The following must be retained in the mortgage file:

- Documentation evidencing that the Borrower and the co-owner jointly occupied the Mortgaged Premises as their Primary Residence, if applicable
- A copy of the written agreement stating the terms of property transfer and the disposition of the refinance proceeds

Installment Land Contracts

Installment Land Contracts also known as contract or bond for deed are treated differently depending on the date the contract was executed.

Requirements

- A fully executed copy of the installment land contract

- The payment history on land contracts will be evaluated as a mortgage history.

Purchase Money

Payoff of an Installment land contract (also known as contract or bond for deed) that was executed within 12 months of a loan application will be considered a purchase money mortgage.

The LTV is determined by dividing the new loan amount by the lesser of the purchase price indicated in the land contract plus any documented improvements or the appraised value.

Costs that may be added to the purchase price to determine the LTV include:

- Rehabilitation costs
- Renovations
- Energy conservation improvements

Documentation must be obtained that clearly outlines the improvements and payment for those items to include them in the LTV calculation.

Limited Cash- Out

Installment land contracts executed more than 12 months before the date of application may be treated as limited cash-out transactions. The appraised value is used to calculate the LTV of the subject property.

Ineligible Transactions

Cash-Out Refinances

Consolidation, Extension and Modification Agreement (NY CEMA)

Sellers often document refinance Mortgages secured by property located in New York State using a New York Consolidation, Extension and Modification Agreement (the “NY CEMA”). The NY CEMA combines into one set of rights and obligations all the promises and agreements stated in existing Notes and Mortgages secured by the Mortgaged Premises, including, if new funds are advanced to the Borrower at the time of the consolidation, a new Note and Mortgage. The result is that the Borrower has one consolidated loan obligation that is paid in accordance with the terms of the NY CEMA.

Required Documentation

The following documentation must be provided:

- NY Consolidation, Extension and Modification Agreement (Form 3172)
- Original Note(s) – Original documents signed by the borrower
- Gap Note and Gap Mortgage, if applicable
- Consolidated Note – Original documents signed by the borrower
- Exhibit A – Listing of all Notes & Mortgages being consolidated, extended and modified
- Exhibit B – Legal description of the subject property
- Exhibit C – Copy of the consolidated Note
- Exhibit D – Copy of the consolidated Mortgage

These transactions require delivery of the existing Note and Mortgage secured by the Mortgaged Premises to the new Document Custodian. In some cases, these documents cannot be obtained and a Loan Note Guarantee will be provided. If the existing Note and Mortgage cannot be provided, and only a Loan Note Guarantee can be offered, the transaction is ineligible for financing through Cardinal.

Two-Closing Construction Transactions

The refinance of an existing construction loan into permanent financing can be closed as either:

- A limited cash-out refinance
- A cash-out refinance if the borrower has held legal title to the lot for at least six months prior to the permanent mortgage
- Note: mortgage loans secured by units in a co-op project or attached units in a condo project are not eligible for construction-to-permanent financing.

Two-Closing construction to permanent loans are subject to the applicable limited cash-out and cash-out maximum LTV, CLTV, HCLTV ratios and product parameters.

Principal Curtailment Policy

A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the mortgage loan. There are circumstances that arise during the loan process that cause excessive cash back to the borrower or that affect the maximum loan amount calculation for certain programs. The most common circumstances are an excess of seller and/or lender credits and borrowers receiving excess cash back than is permitted for a limited / rate term refinance.

Premium Pricing

- Premium pricing refers to situations when a borrower selects a higher interest rate on a loan in exchange for a lender credit. The lender credit cannot be used to fund any portion of the borrower's down payment, and should not exceed the amount needed to offset the borrower's closing costs.
- Any excess lender credit required to be returned to the borrower in accordance with applicable regulatory requirements is considered an overpayment of fees and charges and may be applied as a principal curtailment or returned in cash to the borrower.

In these situations, and under certain circumstances, a principal reduction may be allowed to cure the specific issue. Principal Curtailments are also known as Principal Reductions for the purpose of this policy.

- Fannie Mae:
    - The maximum amount of the curtailment cannot exceed the *lesser of* $2,500 or 2% of the original loan amount for the subject loan, excluding any allowable cash-back to the borrower per the Fannie Mae selling guide.
- Freddie Mac:
    - The maximum amount of the curtailment cannot exceed the *greater of* $2,000 or 1% of the original loan amount for the subject loan, excluding any allowable cash-back to the borrower per the Freddie Mac selling guide.

For curtailments made at the time of closing, the amount must be clearly documented on the settlement statement / CD.

LTV, CLTV, HCLTV and Subordinate Financing

Loan to Value (LTV) Ratios

The maximum Loan to Value (LTV) for any transaction is based on credit score, the type of product, the number of units and the occupancy of the subject property. Refer to the product snapshots for specific eligibility.

The table below details the requirements for calculating LTV ratios for a first mortgage transaction. The results of the calculation must be shortened to two decimal places, then rounded up to the nearest whole percent. For example:

- 94.01% is 95%
- 80.001% is 80%

Type of Transaction	Calculation of the LTV Ratio
Purchase money transactions	Divide the loan amount by the property value. (The property value is the lower of the sales price or the decisioned appraised value.)
Refinance transactions	Divide the loan amount by the property value. (The property value is the decisioned appraised value.)
Co-op share loans	See the Co-op Snapshots for details
Mortgages with financed mortgage insurance	Divide the loan amount plus the financed mortgage insurance by the property value. (The property value is the lower of the sales price or the decisioned appraised value.)

Note: the LTV ratio calculations shown above may differ for certain mortgage loans. See Installment Land Contract Requirements and Appraised Value Considerations.

Value Determination for Manufactured Housing

Refer to the below chart for value determination of a Manufactured Home. For property requirements related to Manufactured Housing, refer to Chapter 10 Property and Appraisal Requirements.

Fannie Mae

<table>
<tr><th>If Transaction Type Is:</th><th>The Value Used to Determine LTV is:</th></tr>
<tr><td>Purchase:
Newly built Manufactured Home never occupied and not affixed to a permanent foundation</td><td>The lower of:
The purchase price of the MH, plus
the lowest sales price at which the land was sold during that 12 month period if the land was purchased in the 12 months preceding the loan application date; or
the current appraised value of the land if the land was purchased more than 12 months preceding the loan application date
Or
The “as completed” appraised value of the MH and land</td></tr>
<tr><td>Manufactured Home Subdivision Development</td><td>In cases where a manufactured home is being sold to a consumer by a builder, developer, or manufacturer acting as a developer as part of a new or existing manufactured home subdivision, the LTV ratio (and CLTV/HCLTV ratio, if applicable) for a loan secured by an existing manufactured home will be based on the lower of:
The sales price of the MH and land; or
The current appraised value of the MH and land</td></tr>
</table>

<table>
<tr><td>All Other Transactions</td><td>The LTV ratio (and CLTV/HCLTV ratio, if applicable) for a loan secured by an existing MH will be based on the lowest of:

The sales price of the MH and land;
The current appraised value of the MH and land; or
If the MH was built in the 12 months preceding the loan application date, the lowest price at which the home was previously sold during that 12-month period, plus the lower of:

The current appraised value of the land, or
The lowest price at which the land was sold during that 12-month period (if there was such a sale)

</td></tr>
<tr><td>Limited Cash-Out Refinance Transaction

Limited cash-out refinance transactions may involve the following scenarios:

Payoff of an existing personal property lien on a new MH (or an existing lien on the home and a mortgage on the land if encumbered by separate liens), or
Payoff of a first lien mortgage secured by an existing MH and land (or existing mortgages for the home and land if encumbered by separate liens).
</td><td>The maximum LTV ratio (and CLTV ratio, if applicable) for a limited cash-out refinance transaction for a loan secured by a MH and land will be based on the lower of:

The current appraised value of the MH and land; or
If the MH was owned by the borrower for less than 12 months on the loan application date and:

If the home and land are secured by separate liens, the lowest price at which the home was previously sold during that 12-month period plus the lower of the current appraised value of the land, or the lowest sales price at which the land was sold during that 12-month period (if there was such a sale);
If the home and land are secured by a single lien, the lowest price at which the home and land were previously sold during that 12-month period

</td></tr>
</table>

Cash-out Refinance: Requires ownership of MH and land by the borrower(s) for a minimum of 12 months before application.	The current appraised value of MH and land

Freddie Mac

<table>
<tr><th>If Transaction Type Is:</th><th>The Value Used to Determine LTV is:</th></tr>
<tr><td>Purchase:
Newly built MH, never occupied and not affixed to a permanent foundation at the time of loan application</td><td>The lower of:

The purchase price of the MH and Land, or
The purchase price of the MH, and

If the land was purchased by the borrower(s) less than 12 months before application, use the lowest price at which the land sold during that 12-month period, or
If the land was purchased by the borrower(s) 12 months or more before application, use the current appraised value of the land; or

Current appraised value of MH and land
</td></tr>
<tr><td>Purchase:
Existing and affixed to a permanent foundation before the application date.
Note: Purchase transactions of previously owned MH that are not affixed to a permanent foundation at the time of loan application are not permitted.</td><td>If affixed to a permanent foundation more than 12 months before application, the lower of:

The sum of the purchase price of the MH and the land, or
The current appraised value of the MH and land, or
If the MH was affixed to a permanent foundation less than 12 months prior to the application date, the lowest price at which the MH was previously sold during that 12-month period, and the lower of:

Current appraised value of land, or
Lowest price at which the land was sold during that previous 12-month period (if applicable)

</td></tr>
</table>

Existing Manufactured Home in a new or existing Manufactured Home Subdivision	The LTV ratio (and TLTV/HTLTV ratio, if applicable) for a purchase transaction Mortgage secured by an existing Manufactured Home that is permanently affixed to its foundation, if the Manufactured Home is sold by a builder or a developer, or a manufacturer acting as a developer, as part of a new or existing Manufactured Home subdivision, is based on the value calculated as the lower of: • The purchase price of the Manufactured Home and land, or • The current appraised value of the Manufactured Home and land
"No Cash-out" Refinance	The LTV ratio (and TLTV/HTLTV ratio, if applicable) for a "no cash-out" refinance transaction, including a Construction Conversion Mortgage, is based on the current appraised value of the Manufactured Home and land.
Cash-out Refinance: Requires ownership of MH and land by the borrower(s) for a minimum of 12 months before application.	The current appraised value of MH and land

Sales Price and Appraised Value Used by Cardinal's Loan Origination System

Cardinal's loan origination system uses the information on the loan application to obtain the sales price and appraised value used in the LTV, CLTV and HCLTV ratios.

Original loan amount = The loan amount for the transaction

The sales price is the sum of:

- Purchase price (the sales price for purchase transactions, or the cost of construction for construction transactions), plus
- Alterations, improvements, repairs (for HomeStyle Renovation transactions, the cost of alterations, improvements, or repairs)

- For construction transactions, the cost or value of the land if the borrower acquired the lot separately
- Minus any excess interested party contributions or sales concessions.

Appraised value = Decisioned Appraised Value as assigned by the underwriter.

Calculation of the CLTV Ratio

For first mortgage loans that are subject to subordinate financing both the LTV ratio and the CLTV ratio must be calculated.

The CLTV ratio is determined by dividing the sum of the items listed below by the lesser of the sales price or appraised value of the property.

- The original loan amount of the first mortgage,
- The drawn portion (outstanding principal balance) of a HELOC, and if applicable
- The unpaid principal balance of all closed-end subordinate financing

If the borrower discloses, or the Cardinal discovers, new (or increased) subordinate financing after the underwriting decision has been made, up to and concurrent with closing, the underwriter must re-underwrite the mortgage loan.

Calculation of the HCLTV Ratio

For first mortgages that have subordinate financing under a HELOC, the underwriter must also determine the HCLTV ratio. This is determined by dividing the sum of the items listed below by the lesser of the sales price or appraised value of the property.

- The original loan amount of the first mortgage,
- The full amount of any HELOCs (whether or not funds have been drawn), and
- The unpaid principal balance (UPB) of all closed-end subordinate financing.

For each subordinate liability, in order for the underwriter to accurately determine the HCLTV ratio for eligibility and underwriting purposes, the underwriter must determine the maximum credit line for all HELOCs, if applicable, and the unpaid principal balance for all closed-end subordinate financing.

If any subordinate financing is not shown on a credit report, the underwriter must obtain documentation from the borrower or creditor.

If the borrower discloses, or the Cardinal discovers, new (or increased) subordinate financing after the underwriting decision has been made, up to and concurrent with closing, the underwriter must re-underwrite the mortgage loan.

Permanently Modified HELOC's

If the underwriter determines the HELOC has been permanently modified and the outstanding Unpaid Balance is less than the permanently modified HELOC, the underwriter must use the modified HELOC amount in calculating the HCLTV ratio for eligibility purposes.

The underwriter must obtain appropriate documentation that the HELOC has been permanently modified and include this documentation in the loan file.

If the outstanding Unpaid Balance is greater than the permanently modified HELOC, the underwriter must use the outstanding UPB to calculate the HCLTV ratio for eligibility purposes and obtain appropriate documentation and include that documentation in the loan file.

In no case may the CLTV ratio exceed the HCLTV ratio.

Subordinate Financing

Cardinal originates first mortgage loans that are subject to subordinate financing. Subordinate liens must be recorded and clearly subordinate to Cardinal's first mortgage. The existence of a subordinate lien must be disclosed to the appraiser and the Mortgage Insurance Provider. The terms of the secondary financing that must be disclosed include, but are not limited to, the Note Rate and the institution or individual providing the financing. In all cases, the LTV, CLTV, and HCLTV ratios must meet the product guidelines.

Except for some specific "affordable seconds", the terms of the secondary financing must not permit the provider or another party to share in the appreciation of the property (equity sharing).

Cardinal does not offer second liens (subordinate financing) but will allow a borrower to close a subordinate lien with another institution concurrently with their Cardinal first mortgage.

FNMA

The below requirements apply to both new and existing subordinate financing.

Acceptable Subordinate Financing Types

- Variable payment mortgages that comply with the details below.
- Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur.
- Mortgages with deferred payments in connection with employer subordinate financing that comply with the details below.
- Mortgage terms that require interest at a market rate.

Unacceptable Subordinate Financing Types

- Mortgages with negative amortization
- Financing with a balloon payment where the balloon payment is due in less than five years
- Equity sharing secondary financing
- Seller financing with an interest rate more than 2% below current standard rates for 2nd mortgages
    - If the rate is more than 2% below the current market rates, the financing must be considered a seller concession and deducted from the purchase price.

Note: Employer financing may be acceptable with negative amortization or balloon repayment terms, see the section below for specific guidelines.

Eligible Variable Payment Terms for Subordinate Financing

Fannie Mae permits variable payments for subordinate financing if the following provisions are met:

- With the exception of HELOCs, when the repayment terms provide for a variable interest rate, the monthly payment must remain constant for each 12-month period over the term of the subordinate lien mortgage. (For HELOCs, the monthly payment does not have to remain constant.)

- The monthly payments for all subordinate liens must cover at least the interest due so that negative amortization does not occur (with the exception of employer subordinate financing that has deferred payments).

Employer Subordinate Financing

Financing provided by the borrower's employer does not have to require regular payments of principal and interest or interest only. The following are acceptable terms:

- Fully amortizing level monthly payments
- Deferred payments for a period of time, changing to fully amortizing level payments
- Deferred payments over the entire term
- Forgiveness of debt over time
- The terms may require full repayment of the debt if the borrower's employment is terminated before the maturity date of the subordinate financing.

Freddie Mac

New Subordinate Financing

Secondary or subordinate financing originated concurrently with the First Lien (i.e. first lien and the junior lien are originated on the same day) must meet the following requirements:

Maturity date	The maturity date or amortization basis of the junior lien must not be less than five (5) years after the Note Date of the first lien, unless the junior lien is fully amortizing or a Home Equity Line of Credit (HELOC). In addition, the junior lien must not contain a call provision within the five-year period, unless it is a HELOC.
Scheduled payments	The terms of the secondary financing must provide for regular monthly payments sufficient to meet the interest due; interest may not accrue.

Documentation Requirements	• Copy of the Note or other evidence of subordinate lien terms, • Settlement / Closing Disclosure Statement or an alternative form required by law that evidences the fees and costs paid by the borrower at closing in connection with the secondary financing, • For HELOCs, the HELOC agreement that indicates all fees and costs paid by the borrower at closing, and the maximum permitted credit advance.

Existing Subordinate Financing

For refinance transactions in which the subordinate financing is not paid off from the proceeds of the transaction, the following documentation is required:

- Evidence of subordination of outstanding secondary financing, and
- Evidence that the junior lien has scheduled payments sufficient to meet the interest due

Re-subordination Requirements

If the subordinate financing is not being paid off in conjunction with the refinance transaction Cardinal requires that a subordination agreement be executed by the lender and recorded at the time of closing unless state law permits subordinate financing to remain in the same subordinate lien position established with the prior first mortgage that is being refinanced.

Required Documentation

- Copy of the note, home equity line agreement, direct verification from a lender or estimated closing disclosure (if concurrent financing) which includes:
  - Original balance or outstanding balance (if concurrent financing)
  - Maximum credit line available
  - Interest rate
  - Payment amount

- Variable or fixed payments and terms
- Fully amortizing, interest-only or other payment terms
- Verify subordination financing does not contain negative amortization (with the exception of employer subordinate financing that has deferred payments)

Multiple Financed Properties

Fannie Mae

If the borrower is financing a second home or investment property that is underwritten through DU and the borrower will have one to six financed properties, Fannie Mae's standard eligibility policies apply (for example, LTV ratios and minimum credit scores).

If the borrower will have seven to ten financed properties, the mortgage loan must have a minimum representative credit score of 720; all other standard eligibility policies apply.

DU will determine the reserve requirements based on the overall risk assessment of the loan, the minimum reserve requirement that may be required for the transaction, and whether the borrower has multiple financed properties. If a borrower has multiple financed properties and is financing a second home or investment property, DU will base the reserve calculations for the other financed properties on the number of financed properties determined by DU. Refer to the Calculation of Reserves for Multiple Financed Properties below for additional details.

Calculation of Reserves for Multiple Financed Properties

If the borrower owns other financed properties, additional reserves must be calculated and documented for financed properties other than the subject property and the borrower's principal residence. The other financed properties' reserves amount must be determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for mortgages and HELOCs on these other financed properties.

The percentages are based on the number of financed properties:

- 2% of the aggregate UPB if the borrower has one to four financed properties,
- 4% of the aggregate UPB if the borrower has five to six financed properties, or

- 6% of the aggregate UPB if the borrower has seven to ten financed properties The aggregate UPB calculation does not include the mortgages and HELOCs that are on:
- the subject property,
- the borrower's principal residence,
- properties that are sold or pending sale, and
- accounts that will be paid by closing (or omitted in DU on the online loan application)

Simultaneous Second Home or Investment Property Transactions

If processing multiple second home or investment property applications simultaneously, the same assets may be used to satisfy the reserve requirements for both mortgage applications. Reserves are not cumulative for multiple applications.

Example: Two concurrent refinance applications are being processed for two investment properties owned by the borrower. The application for property A requires reserves of $5,000. The application for property B requires reserves of $10,000. Because the reserves are covering the same properties, the lender does not have to verify $15,000 in reserves, but only those required per each application.

Examples of Reserves Calculations

The following tables contain examples of reserves calculations for borrowers with multiple financed properties.

Example 1: Three Financed Properties

Occupancy	**Outstanding UPB**	**Monthly PITIA**	**Reserves Calculations**	
Subject: Second Home	$78,750	$776	2 Months PITIA =	$1,552
Principal	$0	$179	N/A	$0
Investor	*$87,550*	$787	$230,050 x 2% =	$4,601

Investor	*$142,500*	$905		
	$230,050		**Total =**	**$6,153**

Example 2: Six Financed Properties

Occupancy	**Outstanding UPB**	**Monthly PITIA**	**Reserves Calculations**	
Subject: Investor	$78,750	$776	Six Months PITIA =	$4,656
Principal	$133,000	$946	N/A	$0
Investor	*$87,550*	$787	$345,030 x 4% =	$13,801
Investor	*$142,500*	$905		
Investor	*$84,950*	$722		
Investor	*$30,030*	$412		
	$345,030		**Total =**	**$18,457**

Example 3: Eight Financed Properties (DU ONLY)

Occupancy	**Outstanding UPB**	**Monthly PITIA**	**Reserves Calculations**	
Subject: Investor	$78,750	$776	6 Months PITIA =	$4,656

Principal	$133,000	$946	N/A	$0
Investor	*$87,550*	$787	$629,530 x 6% =	$37,772
Investor	*$142,500*	$905		
Investor	*$84,950*	$722		
Investor	*$30,030*	$412		
Second Home	*$124,500*	$837		
Investor	*$160,000*	$1,283		
	$629,530		**Total =**	**$42,427**

Freddie Mac

Each Borrower individually and all Borrowers collectively must not be obligated on (e.g., Notes, land contracts and/or any other debt or obligation) more than ten 1-4 unit financed properties, including the subject property and the Borrower's Primary Residence, provided that, when the number of 1-4 unit financed properties (including the subject property and the Borrower's Primary Residence) is greater than six, the Mortgage must:

- Be a Loan Product Advisor® Mortgage with a Risk Class of Accept, and
- Have a minimum Indicator Score of 720

Reserve Requirements

Mortgages secured by second homes and Investment Properties require the following additional reserves.

Number of Financed Properties	Additional Required Reserves for Second Home or Investment Properties

When each Borrower individually, and all Borrowers collectively, are obligated on one to six financed properties, including the subject property and the Borrower's Primary Residence	Two months of the monthly payment amount on each additional second home and/or 1-4 unit Investment Property that is financed and on which the Borrower is obligated
When each Borrower individually, and all Borrowers collectively, are obligated on seven to 10 financed properties, including the subject property and the Borrower's Primary Residence	Eight months of the monthly payment amount on each additional second home and/or 1-4 unit Investment Property that is financed and on which the Borrower is obligated

For Loan Product Advisor Mortgages, the additional required reserves stated in the chart above are included in the amount of reserves required to be verified on the Feedback Certificate.

Temporary Buydown

A temporary buydown allows borrowers to reduce their effective monthly payment for a limited period of time through a temporary buydown of the interest rate.

- The effective interest rate that a borrower pays during the early years of the mortgage is reduced as a result of the deposit of a lump sum of money (sometimes called a "subsidy") into a buydown account. A portion of the subsidy is released each month to reduce the borrower's payments.
- The buydown funds may be provided by various parties, including the borrower, the lender, the property seller, or other interested parties to the transaction.

General Requirements for Temporary Interest Rate Buydown Plans - Standard Conforming

- Buydown program is "3-2-1"
    - Interest rate for the first year is 3% lower than the Note rate
    - Interest rate for the second year is 2% lower than the Note rate
    - Interest rate for the third year is 1% lower than the Note rate
    - Interest rate for the remaining years is the Note rate
- Buydown program is "2-1"
    - Interest rate for the first year is 2% lower than the Note rate

- Interest rate for the second year is 1% lower than the Note rate
- Interest rate for the remaining years is the Note rate

- Buydown program is "1-1"
  - Interest rate for the first year is 1% lower than the Note rate
  - Interest rate for the second year is 1% lower than the Note rate
  - Interest rate for the remaining years is the Note rate
- Buydown program is "1-0"
  - Interest rate for the first year is 1% lower than the Note rate
  - Interest rate for the remaining years is the Note rate
- The actual note rate and monthly payment that the borrower is obligated to pay is never actually reduced, and the full rate and payment must be reflected on the mortgage documents.
- At the end of the buydown period, the buydown funds collected at closing will have been exhausted, and the buydown period ends.
- Allowed on fixed-rate mortgages
- Primary residence 1-4 unit dwelling
- Manufactured Homes
- Cooperatives (FNMA)
- Second home
- Purchase or rate/ term refinance
- Ineligible for Manufactured Housing when the loan is underwritten using Freddie Mac/LPA
- Rate increase will not exceed 1% per year
- The mortgage instruments must reflect the permanent payment terms rather than the terms of the buydown plan

Additional Requirements for Temporary Interest Rate Buydown Plans - Home Ready Conforming

- Allowed on fixed-rate mortgages
- Primary residence 1-4 unit dwelling
- Purchase transaction only

Additional Requirements for Temporary Interest Rate Buydown Plans - Home Possible

- Allowed on fixed-rate mortgages

- Primary residence 1-2 unit dwelling
- Purchase or rate/ term refinance
- Ineligible for Manufactured Housing

Buydown Funds Provided by Interested Parties to the Transaction

- When the source of the buydown funds is an interested party, the Interest Party Contribution limits will apply

Lender-Funded Buydowns

- If the buydown is funded by the lender as part of the pricing on the loan, the buydown agreement must require that the funds in the buydown account be transferred to the new servicer if the mortgage is subsequently transferred.
- Not eligible on rate and term refinance transactions for Freddie Mac

Buydown Agreements

- The buydown agreement must provide that the borrower is not relieved of his/her obligation to make the mortgage payments required by the terms of the Note
- The buydown agreement may include an option for the buydown funds to be returned to the borrower or to the lender, if it funded the buydown, if the mortgage is paid off before all of the funds have been applied.

Qualifying the Borrower

- The borrower is qualified based on the Note rate without any consideration of the bought-down rate

Terms of the Buydown

- The buydown plan provides for increases of not more than 1% in the interest rate paid in each 12-month interval

Buydown Funds

- Funds for buydown accounts must be deposited into custodial bank accounts
- The buydown funds are applied toward payments as they come due under the Note

- Buydown funds are not refundable unless the mortgage is paid off before all funds have been applied
- Buydown funds cannot be used to pay past-due payments

Private Transfer Fees

Background

The Federal Housing Finance Agency (FHFA) issued a final rule on July 16th, 2012, 12 CFR § 1228, restricting Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) (collectively the entities) from dealing in mortgages on properties encumbered by certain types of private transfer fee covenants and in certain related securities. This rule was intended to protect the entities from exposure to mortgages with certain features that may impair their value and increase risk to the financial safety and soundness of the entities.

Senior Management Position

Cardinal Financial Company, Limited Partnership ("Cardinal"), will comply with the standards set by the FHFA and will ensure processes are established to detect any Private Transfer Fee associated with a transaction, determine if those fees are allowed under the entities delivery standards and protect the interest of Cardinal accordingly.

Scope

This policy applies to mortgages originated on or after July 16, 2012 that are encumbered by Private Transfer Tax Covenants created on or after February 8, 2011.

Important Definitions

Adjacent or contiguous property - Property that borders the burdened community, provided that such adjacent or contiguous property may be separated from the burdened community by public right of way.

Burdened community - A community comprising all of the parcels or interests in real property encumbered by a single private transfer fee covenant or a series of separate private transfer fee covenants that require payment of private transfer fees to the same entity to be used for the same purposes.

Covered association - A nonprofit mandatory membership organization comprising owners of homes, condominiums, cooperatives, manufactured homes, or any interest in real property, created pursuant to a declaration, covenant or other applicable law; or an organization described in section 501(c)(3) or section 501(c)(4) of the Internal Revenue Code. A covered association may include master and sub-associations, each of which is also a covered association.

Direct benefit - The proceeds of a private transfer fee are used exclusively to support maintenance and improvements to encumbered properties, and acquisition, improvement, administration, and maintenance of property owned by the covered association of which the owners of the burdened property are members and used primarily for their benefit. Direct benefit also includes cultural, educational, charitable, recreational, environmental, conservation or other similar activities that—

1. Are conducted in or protect the burdened community or adjacent or contiguous property, or
2. Are conducted on other property that is used primarily by residents of the burdened community.

Enterprises - Collectively, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

Excepted transfer fee covenant - A private transfer fee covenant that requires payment of a private transfer fee to a covered association and limits the use of such transfer fees exclusively to purposes which provide a direct benefit to the real property encumbered by the private transfer fee covenants.

Originate – A loan that has funded, in Cardinal's name and has a legally binding agreement establishing mortgage terms.

Private transfer fee - A transfer fee, including a charge or payment, imposed by a covenant, restriction, or other similar document and required to be paid in connection with or as a result of a transfer of title to real estate, and payable on a continuing basis each time a property is transferred (except for transfers specifically excepted) for a period of time or indefinitely. A private transfer fee does not include fees, charges, payments, or other obligations—

1. Imposed by or payable to the Federal government or a State or local government; or
2. That defray actual costs of the transfer of the property, including transfer of membership in the relevant covered association.

Private transfer fee covenant - A covenant that:

1. Purports to run with the land or to bind current owners of, and successors in title to, such real property; and
2. Obligates a transferee or transferor of all or part of the property to pay a private transfer fee upon transfer of an interest in all or part of the property, or in consideration for permitting such transfer how citation box.

Private transfer fee obligation - An encumbrance on real property, created by a declaration, covenant, or any contractual agreement that requires the payment of a transfer fee upon the sale of the property

Regulated entities - The Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Banks.

Transfer - With respect to real property, the sale, gift, grant, conveyance, assignment, inheritance, or other transfer of an interest in the real property.

Company Policy

Cardinal will not originate or otherwise deal in any mortgage on a property encumbered by Private Transfer Fee Covenants unless such covenants are permitted by the Private Transfer Fee Regulations.

Permitted Transfer Fee Covenants

Before Cardinal will originate a loan on a property encumbered by Private Transfer Fee Covenants, it will validate those covenants meet the following FNMA/Freddie Mac exception standard: Private transfer fees paid to homeowner associations, condominiums, cooperatives, and certain tax-exempt organizations that use private transfer fee proceeds to provide a Direct Benefit the property.

Minimum Standards

Cardinal established processes within Operations to identify if a property is subject to any Private Transfer Fees. The following minimum standards will apply:

- Review of all property-related file documents for reported instances
- Method to review for excepted instances
    - Approved excepted instances must have a documentation trail and secondary approval by the Chief of Mortgage Operations

- Disclosure execution on purchase transactions signed at minimum by all parties to the purchase contract attesting to the presence of any instances
- Enhanced review of any property Adjacent or contiguous to a known Burdened Community

Cardinal will not allow any income associated with revenue gained from an established Private Transfer Fee Obligation to be used for qualifying purposes on an Originated loan.

References

Reference List
B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties
Chapter 15 Texas Section 50(a)(6) & (a)(4)
Compliance Loan Exception Policy

Revision History

Revision History is to be used as a reference only and will only provide a summary of document changes. For complete versioning, refer to the Google Docs versioning functionality, which is the system of record. Versioning has been captured as of 10.1.20.

Date	Version	Description	Approver
3.18.24	V32	Indicated Cardinal Overlays to agency guidelines by highlighting text in our signature *Riptide* color. Overlays correspond to Cardinal Retail Overlay or TPO Overlay Matrix	Kristen Bellon
2.5.24	V31	Added Non-occupant co-borrower on a cash-out refinance transaction for Freddie Mac loans as an Ineligible Transaction; clarified all borrowers must occupy the mortgaged premises when the mortgage is a cash-out refinance mortgage secured by a primary residence	Kristen Bellon
9.19.23	V30	Updated cash-out refinance guidance related to seasoning requirements and vesting in an LLC or LP for Freddie Mac transactions	Kristen Bellon

9.19.23	-	Updated guidance for Freddie Mac Cash-out Refinance mortgages secured by manufactured housing to state one borrower must be on title to the subject property for at least 6 months for properties owned free and clear	Kristen Bellon
9.15.23	V29	Updated Freddie Mac requirements concerning the allowable use of proceeds from a "no cash-out" refinance to specify that the payoff of the existing first mortgage may include a balance deferred under a loss mitigation plan and any costs or fees associated with the satisfaction and release of the first mortgage, such as late fees and prepayment penalties	Kristen Bellon
8.18.23	V28	Updated Temporary Interest Buydowns to permit manufactured homes for FNMA/DU loans	Kristen Bellon
8.4.23	V27	Updated Second Home section to specify if the distance between locations is less than 25 miles (previously 50), support for the reason to acquire and occupy the subject as a second home must be obtained	Kristen Bellon
8.1.23	V26	Updated Continuity of Obligation section to specify for FNMA loans with TRID Application Date on or after September 1, 2023, at least one borrower on the new loan must be an owner (on title) of the subject property at the time of the initial application	Kristen Bellon
6.22.23	V25	Updated guidance for Fannie Mae Limited Cash-out to include the payoff of any deferred balance from a prior loss mitigation, and shared appreciation associated with a subordinate community lending second mortgage	Kristen Bellon
6.7.23	V24	Added clarification in eligible non-arm's length transactions regarding company employees being prohibited from having multiple roles in a single loan transaction. Added clarification that model-home leaseback to the builder is an ineligible non-arm's length transaction.	Ellen Clayson
3.31.23	V23	Removed guidance that non-arm's length transactions are ineligible when the borrower is purchasing a property currently in pre-foreclosure, or when the sale of the property constitutes a short sale	Kristen Bellon

3.16.23	V22	Added minimum distance requirement between primary residence and second home	Kristen Bellon
2.8.23	V21	Added additional guidance for Fannie Mae Cash Out refinance transactions effective for Note dates on or after 4/1/23, when proceeds of a cash-out refinance Mortgage are used to pay off a First Lien Mortgage, the First Lien Mortgage being refinanced must be seasoned for at least 12 months	Kristen Bellon
2.6.23	V20	Added Value Determination for Manufactured Housing section	Kristen Bellon
1.9.23	V19	Added Temporary Buydown for 1-1 plan	Ellen Clayson
12.19.22	V18	Added additional guidance for Freddie Mac Cashout refinance transactions effective for Mortgages with Funding dates on or after 2/15/2023, when proceeds of a cash-out refinance Mortgage are used to pay off a First Lien Mortgage, the First Lien Mortgage being refinanced must be seasoned for at least 12 months	Kristen Bellon
12.9.22	V17	Added Temporary Buydown for Home Ready and Home Possible & different terms of 3-2-1, 2-1 and 1-0	Ellen Clayson
9.14.22	V16	Added Temporary Buydown section	Ellen Clayson
6.29.22	V15	Revised Continuity of Obligation section for Freddie Mac transactions	Kristen Bellon
2.28.22	V14	Added that the borrower's financial ability to manage the lump sum payments of property taxes, insurance premiums and other charges must be analyzed when an Escrow or Impound Waiver is requested	Kristen Bellon
2.28.22	V13	Added guidance for Manufactured Housing under Delayed Financing Exception	Kristen Bellon
2.8.22	V12	Clarified seasoning requirements for cash-out refinance on a manufactured home that the borrower must have owned both the manufactured home and	Kristen Bellon

		land for at least 12 months preceding the date of the loan application	
1.5.22	V11	Updated the Refinance to Buy Out an Owner's Interest section to show differences between FNMA and Freddie Mac	Kristen Bellon
12.13.21	V10	Immaterial changes. Corrected grammar and formatting to align with company standards	-
12.1.21	V9	Added Escrow/Impound Waivers section	Kristen Bellon
9.20.21	V8	Added Private Transfer Fees section	Kristen Bellon
9.3.21	V7	Clarified a Texas (a)(6) is eligible under the Delayed Financing Exception rule	Kristen Bellon
8.23.21	V6	Added guidance for FNMA Limited Cash-out that effective for all refinance transactions with application dates on or after Sep. 1, 2021, a transaction is not eligible as a limited cash-out refinance if the borrower completed a cash-out refinance transaction with a note date 30 days or less prior to the application date of a new refinance secured by the same property	Kristen Bellon
8.5.21	V5	Added 30-day seasoning requirement for Freddie Mac No Cash-out Refinance Transactions	Kristen Bellon
8.5.21	V4	Aligned Freddie Mac and FNMA Cash-out Refinance Transaction waiting periods for a property owned by a Limited Liability Corporation (LLC) or Limited Partnership	Kristen Bellon
5.5.21	V3	Revised guidance for Partial Claim subordinate financing	Kristen Bellon
2.2.21	V2	Added Ineligible Transaction for Limited Cash-Out Refinance stating that payoff of consumer debt cannot be completed on the subject transaction closing disclosure	Ellen Clayson
1.21.21	V1	Added guidance for Partial Claim subordinate financing	Kristen Bellon
11.12.20		Added Vesting section and provided clarification surrounding acceptable vesting	Kristen Bellon
11.10.20		Modified requirements for allowable documentation on CEMA loans	Kristen Bellon
11.3.20		Added guidance for CEMA loans and requirement for a Lost Note Affidavit when the original Note and Mortgage cannot be obtained from the current servicer	Kristen Bellon
9.10.20		Added cash-out requirements for leasehold estates and	Kristen Bellon

		Cooperative Units	
9.1.20		Clarified which conditions would render a transaction ineligible as a limited or no cash-out refinance	Kristen Bellon
8.14.20		Added Occupancy Changes section providing guidance for transactions in which a borrower obtained financing within the last 12 months to determine if the underlying mortgage has occupancy requirements	Ellen Clayson
8.10.20		Updated Subordinate Financing section with requirements for FNMA and Freddie Mac. Clarified differences for Existing and New subordinate financing for Freddie Mac transactions	Ellen Clayson
7.27.20		Updated requirement that a FNMA Limited Cash-Out refinance is no longer required to be structured as a Cash-Out refinance when paying off an existing first lien mortgage used to combine a first mortgage and a non-purchase money subordinate mortgage within the most recent six months	Ellen Clayson
7.2020		Clarified that a mortgage will not qualify to be a principal residence unless at least one of the borrowers is, as of the Closing Date, occupying the mortgaged premises	Ellen Clayson
6.2020		Added that borrowers are no longer required to establish an escrow account when non-delinquent taxes are financed as part of the loan amount on a limited cash-out transaction	Ellen Clayson
6.2020		Updated Cash-out Refinance requirements to clarify ownership by the borrower’s LLC may be counted towards the 6 month seasoning requirement for FNMA only	Ellen Clayson
5.2020		Updated Delayed Financing Exception section adding that the property may have been purchased by the borrower’s LLC for FNMA transactions only	Ellen Clayson
5.2020		Clarified Equity Sharing subordinate financing is not eligible	Ellen Clayson
5.2020		Added Multiple Financed Properties section	Ellen Clayson
4.2020		Clarified that Short-Term Refinance only applied to Fannie Mae loan programs	Ellen Clayson
4.2020		Clarified paying off a First Lien HELOC is considered a Rate and Term refinance	Ellen Clayson
3.2020		Added instructions for AUS input when utilizing the Family Advantage	Kristen Bellon

2.2020		Updated Limited Cash-out Refinance section with Freddie Mac requirements allowing proceeds to be used to pay down a junior lien	Ellen Clayson
9.2019		Formatted to Remove any Government Loan Product Entries	Ellen Clayson
9.2019		Clarified guidelines when a new subordinate financing is added to a refinance transaction	Ellen Clayson
9.2019		Added Continuity of Obligation Requirements	Ellen Clayson
8.2019		Added Principal Curtailment Policy for both Fannie Mae and Freddie Mac loan products	Ellen Clayson
7.2019		Added Freddie Mac Second Home Year-Round Usage	Ellen Clayson
5.2019		Clarified Maximum Cash Back to Borrower on a Limited Cash-Out Transaction	Ellen Clayson
4.2019		Clarified Limited Cash-Out Requirements	Erica Price
12.2018		Documentation requirement for non-arm's length transaction	Erica Price
3.2018		Added bullet point for Cash Back to the borrower	
1.2018		Clarification interested party buyout	Erica Price
9.2017		Initial Approval	Erica Price