

Compliance | Loan Exception Policy

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Overview

The Loan Exception Policy helps our production and operations staff manage exceptions to Cardinal's established requirements, facilitate credit decisions on escalated loan file issues, and handle overrides and policy exceptions in a manner that ensures fair lending compliance. A loan review and possible exception occur when a loan transaction decision falls outside of lending policy. Loan Exceptions can be policy exceptions for underwriting (approval or denial) or Terms and Conditions (such as pricing).

Under the Equal Credit Opportunity Act (ECOA) and its implementing Regulation B, creditors may not discriminate against an applicant in any aspect of a credit transaction based on race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to contract), receipt of public assistance income, or exercise in good faith of any right under the Consumer Credit Protection Act. (12 CFR 1002.2(z), 1002.4(a)). Credit transactions encompass "every aspect of an applicant's dealings with a creditor regarding an application for credit or an existing extension of credit" and include "revocation, alteration, or termination of credit" and "collection procedures." (12 CFR 1002.2(m)). Regulation B also prohibits creditors from making any oral or written statements to applicants or prospective applicants that would discourage on a prohibited basis a reasonable person from making or pursuing an application.

This policy informs and empowers employees to ensure all applicants are treated fairly throughout requesting, considering, and deciding loan exceptions. The policy describes the circumstances under which exceptions are allowed, clarifies Cardinal's risk position and thresholds for each specific exception type, and outlines procedures and tolerances utilized to handle overrides and policy exceptions. Adherence to this policy will promote transparency, ensure consistency, and facilitate timely responses.

Additional processes covered in this policy include:

- **Documentation Requirements:** Documentation sufficient to explain the basis for each exception's specific circumstances. Retain all documentation required by this policy by following Cardinal's established [Document Retention Policy](#).
- **Staff Training, Enforcement, and Management Overview**

- Senior Management Oversight: Leadership must help establish clear accountability lines in the lending process by ensuring compliance with this policy. Such oversight must include processes for monitoring compliance and routine reporting of results to Senior Management

Scope

This policy outlines Cardinal's position on loan reviews and possible exceptions to published lending or compliance policies. This policy applies to all origination channels, including but not limited to wholesale, consumer direct, and retail branches.

- Approval of a loan exception does not guarantee approval of the loan
- The loan exception is for the individual loan requested and is not considered a blanket exception for multiple reasons
- The loan exception approval is valid for the lesser of the Loan Approval Credit Expiration date or 90 days

Loan Exception Categories

- Credit and Lending Policy Exceptions (Category 1)
- Pricing Exceptions (Category 2)
- Rush and Special Loan Handling (Category 3)
- Subservicing Oversight (Category 4)

Roles and Responsibilities

All Cardinal employees are responsible for maintaining Cardinal's zero-tolerance policy for any form of discrimination, abusive practice, deceptive practice, and predatory practice (See [Cardinal's Fair and Responsible Lending Policy](#)). More specifically, the credit management and underwriting teams' authorized designees will carry out the duties and responsibilities related to loan exceptions as outlined within the sections below and loan exception procedures. All requests for loan exceptions must be submitted using the processes outlined in the loan exception procedures.

Senior Management Oversight

Category	Executive Role
Credit and Lending Policy Exceptions	Chief of Credit Policy
Pricing Concessions	Vice President (VP) of Production or higher
Rush and Special Loan Handling	VP of Support
Subservicing Oversight	SVP of Capital Markets

Service Level

For the exception review, this will be defined within the procedure document for each exception type.

Requirements for Exceptions

Cardinal requires documentation for all lending and credit policy exceptions. All credit and lending policy exceptions must be approved by a Cardinal employee who possesses the proper authorization as described within the corresponding procedures.

Monitoring and Reporting

Activities covered by this policy will be subject to routine monitoring for compliance with the standards established for submitting and evaluating loan exception requests. The specific monitoring processes may vary depending on the type of loan exception and may require cross-departmental expertise. In conjunction with Cardinal's monthly quality control reporting, a report is produced containing all loan review exceptions and is reviewed as part of the routine credit management oversight process. The review will assess whether loan exceptions are applied consistently and within Cardinal's guidelines.

Loan Review Levels and Permissions

Permission	Action Description	Authorized Role
Reviews	<p>Displays the Reviews screen and Review Status. These users cannot:</p> <ul style="list-style-type: none"> • Edit • View notes 	<ul style="list-style-type: none"> • Team members with role addendum, "Loan Review"
Request Reviews	<p>Allows a user to see the Reviews screen and request a review.</p> <ul style="list-style-type: none"> • Transaction Review Appeal - <p>May also:</p> <ul style="list-style-type: none"> • Cancel a review up until the status is changed to Pending or Complete • Change the request reason until the status is set to Requested 	<ul style="list-style-type: none"> • Team members with role addendum, "Loan Review"
Review Notes	<p>Allows a user to see and add notes to the Reviews > Notes screen</p>	<p>Team members with role addendum, "Loan Review." Transaction review notes fulfilled by one of the following roles:</p> <ul style="list-style-type: none"> • Underwriting Managers • Underwriting Support Manager • Specially Designated Underwriters <ul style="list-style-type: none"> ○ Credit Manager I ○ Credit Manager II ○ Credit Manager III ○ Credit Manager IV
Review Decision	<p>Allows a user to edit the decision on a review request and view and add notes. Can set the status to:</p> <ul style="list-style-type: none"> • Mark Pending • Mark Complete <p>Can also change the request:</p> <ul style="list-style-type: none"> • Reason • Decision 	<p>Team members with the role of Credit Manager I, II, III, or IV fulfilled by one of the following roles:</p> <ul style="list-style-type: none"> • Underwriting Managers • Underwriting Support Manager • Specially Designated Underwriters • SVP Credit Policy

		<ul style="list-style-type: none"> Chief of Credit Policy or Designated Corporate Credit Delegated Representative
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Reporting

Reports are generated quarterly and reviewed by the Retail Finance Committee to determine if pricing exceptions are being applied consistently and within Cardinal’s guidelines. All reports will contain the following data related to pricing exceptions.

- Percent presence of an adjustment
- Amount of the adjustment
- Reason/justification for the adjustment
- Decision on a pricing exception request
- Decision-maker name, first and last
- Date of decision
- Requested date/time
- Requested by
- Status
- Completed date/time
- Completed by

Credit and Lending Policy Exceptions (Category 1)

A Loan Exception can be an exception to published credit or compliance policy. An example of a loan exception would be a FICO credit score that falls outside of our published policy and is variance to Cardinal overlays. The loan may still be saleable to the investors and agencies.

Compliance Policy Exceptions

Trust Vesting Policy Exception

Cardinal does not allow a borrower(s) to close in the name of a trust without prior approval from the Credit Management team. The closed loan file must retain a complete copy of all documents reviewed during the approval process. If the property is within a jurisdiction that requires a lender to review and rely on an abstract or summary of trust documents, a copy of the abstract or summary must also be in the file. Please see the [Trust Approval Checklist](#) for more information. Requests to close using a trust vesting are made within our system and do not require the remittance of a support ticket. The [Handling a Property in a Borrower Trust](#) outlines the process to ensure the appropriate steps are followed and approval is received.

If published Lending Guide requirements are met, closing within trust vesting is not considered an exception to published lending policy. If Lending Guide requirements are not met, exceptions to documentation standards constitute an exception and require a loan review.

Power of Attorney Policy Exception

Provided there is prior approval from the Credit Management Team, Cardinal will allow the use of a Power of Attorney (“POA”) to execute final closing documents related to certain loan products. The use of a Power of Attorney is not classified as an exception, rather, if the use case or document does not comply with Cardinal’s published lending guidelines related to the use of the Power of Attorney compliance, then, that use case is classified as an exception. For applications dated on or after **6/30/21**, the use of a Power of Attorney for our **Conventional** transactions is permitted when utilizing Fannie Mae (DU) only; the use of a Power of Attorney is not acceptable for loans underwritten utilizing Freddie Mac (LPA).

The title insurance provider must agree to permit the use of the POA and the closed loan file must retain a complete copy of all documents reviewed during the approval process. Upon review and approval of the proposed vesting, the Credit Management team or Underwriter will indicate the approval within our system of record by designating the Trust Approval fields that will be displayed for closing and underwriting. The request is made within our system and does not require the remittance of a support ticket. The process for ensuring the appropriate steps are followed and approval is received is outlined in the [Power of Attorney Procedure](#).

Please see the [Power of Attorney Checklist](#) for general, closing, and funding requirements.

Community Property Debt Lending Policy Exception

Cardinal will consider exceptions to government lending requirements that require the inclusion of non-borrowing spouse debts for some scenarios in which the subject property or borrower’s residence is located within a community property state and the subject property transaction involves a government loan program.

Subject Property State	Eligible for Spousal Debt Exception
Arizona	Yes
California	No
Idaho	Yes
Louisiana	Yes
Nevada	Yes
New Mexico	No
Texas	Yes
Washington	Yes
Wisconsin	Yes

Community Property State Exceptions

State	Exceptions
All Known Community Property States	<ul style="list-style-type: none"> • The subject transaction is FHA or USDA • The debt type requested for exclusion is installment or closed-end mortgage (revolving debt accounts are not eligible for exclusion) • The non-borrowing spouse holds the debt requested for exclusion, the couple does not jointly hold the debt, and there has been no agreement to hold jointly

	<ul style="list-style-type: none"> • The debt requested for exclusion was acquired before the date of the marriage in accordance with the state law’s classification of community debt considerations; and • The marriage certificate evidencing the spouse identified matches the marriage certificate and date of marriage, which precedes the effective date of any debt requested to be excluded <p>Note: Exceptions related to the marriage certificate do not apply to Louisiana.</p>
<p>The below state-specific exceptions are in addition to the above-listed exceptions.</p>	
Arizona	<p>The satisfaction of collections and judgments of non-applicant spouses, even if obtained post marriage to the borrower for FHA loans, is not required in the following circumstances:</p> <ul style="list-style-type: none"> • The non-applicant spouse is not contributing toward the down payment or costs on the transaction, including gift funds or any funds being remitted from a joint account. If any subject transaction funds are remitted by the spouse in the form of a gift or jointly held asset, all collections and judgments of the non-purchasing spouse are required to be paid in full before closing • The non-applicant spouse signs the Disclaimer Deed to prevent any judgments from attaching to the property. The execution of this document will be before the approval requirement • The non-applicant spouse may not be a titleholder
Idaho, Washington, Wisconsin	<ul style="list-style-type: none"> • Separate assets of the borrowing spouse must be used in the transaction
Louisiana	<ul style="list-style-type: none"> • The non-applicant spouse is permitted to sign or intervene in the mortgage to indicate his or her intention to waive homestead exemption rights <p>When the non-applicant spouse chooses to intervene in the mortgage to waive their homestead exemption rights, the following requirements must be met:</p> <ul style="list-style-type: none"> • A copy of the executed Intervention Affidavit must be provided before approval to evidence the waiver. The document is executed at the time of the execution of the sale’s contract and will be required before loan approval if spousal debts are required to be excluded. This document must be properly witnessed, notarized, and executed by the non-purchasing spouse. It must also be recorded with the mortgage (the local title agent should provide this affidavit)

	<ul style="list-style-type: none"> • A copy of the executed and recorded Separate Property Declaration & Acknowledgement Form must also be obtained before funding • By indicating that the subject transaction is receiving special handling related to the spousal waiver, a closing task and requirement will be created requiring the non-applicant spouse to execute the mortgage as the “intervener”
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Cardinal’s credit management will evaluate the subject property transaction and affix the borrower-level tag **Credit_Committee_spousal_debt** in conjunction with the review request. An Evidence of Credit Management document will generate evidence of our review and approval. Additionally, the credit committee team member will be responsible for reviewing the marriage certificate and attorney opinion letter smart documents, providing a decision within the documents, and ensuring the system of record is updated with the exclusion of the debts within liabilities with the reason “Exclude - Paid by Others Non-Employer.” Once this exclusion reason is indicated, it is critical that the credit management team member then waive the new smart document entitled “Credit Supplement | Excluded Account” for the respective excluded accounts. The notes on the waived debts should include, “Not required due to Credit Policy Exception due to State Law.”

Lender Escrow Loan Policy Exception

Cardinal will consider a credit policy variance where specific branches are authorized to provide a lender-provided, unsecured, interest-free loan. Borrowers can establish a new escrow account in an amount not to exceed the current escrow balance on the existing mortgage for some branches, depending upon the financial status and approval from the Finance and Executive Team.

Properties where the subject transaction is **FHA** or **VA** financing and where the property is located within the following subject property states have been approved for this exception on non-interest charged loans. The mortgage servicing document verifying the current escrow balance, such as the current payoff demand or mortgage statement, should be saved as a PDF image to the respective smart documents for analysis. To ensure the transaction is correctly prepared for this exception type, a loan review must be submitted using the [Requesting a Loan Exception Review procedure](#). The Retail Operating Committee must approve the exception.

**Subject Property State
 Eligible for Lender Escrow Loan**

Alabama	Georgia	Maryland
Alaska	Hawaii	Massachusetts
Arizona	Idaho	Michigan
Arkansas	Illinois	Minnesota
California	Indiana	New Jersey
Colorado	Iowa	New York
Connecticut	Kansas	Texas
Delaware	Kentucky	Washington
D.C.	Louisiana	Wisconsin
Florida	Maine	

Mortgage Insurance Special Feature Policy Exception

Split Mortgage Insurance (MI) - Borrower Paid | Upfront and Monthly Option

Split Premium Mortgage Insurance is not currently supported as an automatic mortgage insurance option within Octane, and as such, this special feature is considered an exception. Before placing the loan review request for the special feature, a member of the sales or operations team must utilize a sign-in issued by Cardinal to obtain an accurate mortgage insurance quote from one of the following approved providers:

- Arch
- Essent
- Genworth
- Radian
- MGIC

The only available options for split premium mortgage insurance are single premiums paid in cash and monthly. Financed Split MI is not permitted.

Earliest Consummation Date Documentation Review

Cardinal does not waive any compliance-required waiting period(s). Should there be circumstances in which this practice would negatively affect a consumer, employees should work directly with SVP, Compliance to request an exception.

Exceptions related to the following are included within this topic:

- The date a document was received in the time zone of the location differs from the system of record
- Mode of document delivery is inconsistent with the designated method in Octane

Example: An e-transaction is noted as the designated method, but the borrower wet signs the documents.

The requirements for closing disclosure eligibility are referenced within the [Closing Disclosure Eligibility Criteria](#) procedure.

Title Holder and Vesting Exception

Cardinal requires all obligors to be listed as titleholders unless the obligor acts in a non-occupying co-borrower capacity.

All borrowers are required to be a titleholder if occupancy is primary and declaration L indicates Yes, unless the following apply:

- FHA special program is Hawaiian Homelands
- The subject property is located in New York or Delaware

If a non-occupant borrower wishes not to appear as a vested property owner and does not meet the criteria above, a lending policy exception is required. Non-occupant borrowers are credit applicants on a principal residence transaction who:

- Do not occupy the subject property
- May or may not have an ownership interest in the subject property as indicated on the title
- Sign the mortgage or deed of trust note

- Have joint liability for the note with the borrower(s)
- Do not have an interest in the property sales transaction, such as the property seller, the builder, or the real estate broker.

Closing Disclosure Minimum Requirement Policy Exception

The requirements for closing disclosure eligibility are referenced within the [Closing Disclosure Eligibility Criteria](#) procedure. Requests for Closing Disclosure eligibility to be met outside of this published policy require a loan review.

Material Property Address Change Policy Exception

Octane compares the street, city, state, and country of the addresses. It uses a heuristic (Levenshtein Distance) to determine if the address has changed enough to constitute a TRID address change. Related requirements are outlined in the [TRID Address Change](#) document. To determine if a borrower is the same person or is a new person, Octane relies on the [Borrower Same Person](#) test within Calculated Values | **OG.ATR/QM Test Policy Exception (Business Purpose Loan)**

Cardinal's calculation and handling of business purpose loans are outlined within [Calc | Ability to Repay \(ATR\) and Qualified Mortgage \(QM\)](#). Section 1026.3(a)(1) specifies that an extension of credit primarily for commercial or business purposes is exempt from Regulation Z. The Official Staff Interpretations regarding Section 1026.3(a)(1) clarify that credit extended to purchase, improve, or maintain non-owner occupied rental property is "deemed" to be for business purposes. Meaning, residential mortgage loans to be secured by non-owner occupied investment property are exempt from Regulation Z and the QM requirements of Regulation Z. Octane automatically identifies this type of loan as a business-purpose loan and marks the loan as QM exempt and a loan check will no longer fire to prevent the loan from moving forward. However, if a borrower has and/or will occupy the property for at least 14 days in one year (second home), a loan to be secured by such a property would not be deemed to be for a business purpose and is subject to the ATR Rule and QM test. Moreover, if loan proceeds are indicated to be used for consumer purposes, the loan no longer qualifies as a business-purpose loan eligible for the ATR Rule and QM test exception.

As a business transaction, these loans are not subject to TILA and RESPA. As such, Cardinal will still use the closing disclosure as our settlement form and will waive the seasoning requirements that apply to

non-business exceptions. In conjunction with this request, our support and closing team members are authorized to set the Earliest Consummation Date to the closing disclosure's delivery date, thus requiring no earliest consummation date seasoning handling.

Collateral Policy Exception Types

Freddie Mac Exceptions

Condo Project Advisor allows lenders to obtain loan-specific waivers in an Established Condominium Project. You may submit a condo waiver review if your transaction meets the criteria listed below. To prepare for your request, follow the steps outlined within the [Freddie Mac Condo Project Advisor Request Job Aid - Octane](#), which offers a step-by-step guide to remitting a request to our project standards team.

Freddie Mac Project Approval Exceptions

Eligible Waiver Request Types

Transactions for Freddie Mac that include exceptions for condominium projects may be requested for the following categories:

- **Delinquent Assessments** – condo projects where more than 15% of the total number of units are 60 or more days delinquent on HOA Assessment dues
- **Excessive Commercial Space** – condo projects with commercial and non-residential space exceeding 35% of the total project space square footage
- **Leased Amenities** – project in which the unit owners do not possess sole ownership of the Common Elements (referred to as “Leased Amenities” in Condo Project Advisor)
- **Pending Litigation** – condo projects with pending litigation (involving non-minor matters, etc.)
- **Project Occupancy (Investment Properties)** – condo projects where more than 50% of the project units are used as investment properties
- **Reserves** – condo project budgets with less than 10% replacement reserves

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- **Single Entity Ownership** – an individual/single entity (e.g., investment group, partnership, or corporation) owns more than a certain number of units in the condo project (example, 25% for projects that have 21 or more units)
 - **Existing Units** – an individual/single entity (e.g., investment group, partnership, or corporation) owns more than a certain number of units in the condo project (example, 25% for projects with 21 or more units).
 - **New Construction Units** – an individual/single entity (e.g., investment group, partnership, or corporation) owns more than a certain number of units in the condo project (example, 25% for projects with 21 or more units), and the following conditions are all met:
 - The developer retained those units for rental purposes
 - The developer has owned those units for a minimum of 10 years
 - The condominium project otherwise meets the completion and project control requirements to be classified as an Established Condominium Project

FHA Single-Unit Condominium Exception

HUD allows lenders to obtain loan-specific waivers in an Established Condominium Project entitled Single Unit Approval, which may be eligible for a unit in a condominium project that is not currently a HUD-approved project. Single-Unit Approval refers to the approval of a unit in a condominium project that is not an Approved Condominium Project. You may submit a condo waiver review if your transaction meets the criteria listed below. To prepare for your request, follow the [Processing an FHA Single Unit Approval Procedure](#) steps, which offer guidance for remitting a request to our project standards team.

Collateral Type Policy Exception

All exceptions to our published Product Snapshots and Lending Guide must be approved through a loan review, at which time the Lock Desk will allow a borrower to lock a loan that is outside of the published product-based lock standards.

Manufactured Housing Detitle Incomplete

All exceptions to our published Lending Guide, which requires all manufactured homes to have their certificate of title terminated when required in conjunction with state requirements and classified as real

property in advance of the settlement, must be approved through a loan review that determines the cause and scope of the expected delay related to the detitle process.

Appraisal Report Flawed and Tainted

Role of Support

Requests for appraisals to be classified as flawed and tainted are handled through the [Requesting a Loan Exception Review procedure](#). All requests are reviewed following our [Appraisal Policy](#) and this Loan Exception Policy.

Subsequent Appraisal Reports and Reconciling Multiple Opinions of Market Value

Conventional and Non-Conventional Loans

When an appraisal is claimed as flawed and tainted, the request for a second appraisal must be submitted through the loan review.

A second appraisal may not be ordered, obtained, used, or paid for in connection with Conventional and Non-Conventional loan transactions, unless:

- There is a reasonable basis to believe that the initial appraisal had a material deficiency or was flawed or tainted (see below), and such basis is clearly and appropriately noted in the Mortgage file or
- Such appraisal is done according to written, pre-established bona fide pre-funding or post-funding appraisal review, quality control processes, or underwriting guidelines, and so long as Cardinal adheres to a policy of selecting the most reliable appraisal rather than the appraisal that states the highest value or
- A second appraisal is required by law

If an appraisal is deemed flawed and tainted, the second appraisal must be ordered through a Cardinal-approved AMC that differs from the AMC that performed the first appraisal.

Flawed and Tainted Appraisal Characteristics

Examples of flawed and tainted appraisal characteristics include, but are not limited to:

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- Verifiable evidence that demonstrates material errors in the original appraisal is present which may have an impact on the opinion of value
 - Verifiable circumstances that may have tainted the appraisal process, for instance, conflicts of interest or undue influence
 - Failure to report readily observable defects that impact the health and safety of the occupants and/or structural soundness of the house
 - Fraudulent statements or conclusions when the Appraiser had reason to know or should have known that such statements or conclusions compromise the integrity, accuracy, and/or thoroughness of the appraisal submitted to the client
 - Additional evidence provided using verifiable, substantial sources which support that there may be a reasonable basis to believe the original appraisal was flawed or tainted to the extent that the assignment results were affected, such as:
 - Reliance upon outdated or dissimilar comparable sales when more recent and/or comparable sales were available as of the effective date of the appraisal
 - Distant comparable sales located in different markets when like-comparables are available in closer proximity to the subject

Government Loans

A credit exception is not required when requesting a second appraisal on government loans. Refer to the individual program guidelines for requirements.

Incomplete Repairs Requiring Escrow Holdback Policy Exception

Cardinal will consider the allowance of an escrow holdback to complete repairs. However, it will not permit holdbacks for incomplete items that adversely affect the property's health, safety, soundness, or structural integrity.

If Lending Guide requirements are met, closing with an escrow holdback is not considered an exception to published policy. If Lending Guide requirements are not met, exceptions to documentation standards constitute an exception and require a loan review.

Note: Escrow holdbacks are not permitted on Manufactured Homes.

Title Endorsements or Other Title Policy Exception

All exceptions to our published endorsement requirements, legal documents related to title policy impediments, or other exceptions to the final title policy must be approved through a loan review.

Credit Policy Exception

Credit Score Exception to Lending Policy

All exceptions to Cardinal's published Product Snapshots and the Lending Guide must be approved through a loan review, at which time the Lock Desk will allow a borrower to lock a loan that is outside of the published product-based lock standards.

Derogatory Credit Policy Exception

Extenuating circumstances are defined as non-recurring events beyond the borrower's control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations. Borrowers who experienced extenuating circumstances are subject to a reduced waiting period; however, they must meet stringent guidelines.

Please see Cardinal's [Significant Derogatory Credit Training](#) and Lending Guide for product-specific guidelines. There are no exceptions to the time frames outlined in the published policy. However, if a discrepancy exists related to whether extenuating circumstances meet the policy's standards, a loan review is required.

Loan to Value Policy Exception

All exceptions to our published Product Snapshots and Lending Guide must be approved through a loan review, at which time the Lock Desk will allow a borrower to lock a loan that is outside of the published product-based lock standards.

Manual Underwriting Exception

All exceptions to our published Product Snapshots and Lending Guide must be approved through a loan review, at which time the Lock Desk will allow a borrower to lock a loan that is outside of the published product-based lock standards.

Maximum Exposure Policy Exception

Cardinal limits its credit and risk exposure by defining the maximum number of originated transactions each borrower can possess. Cardinal will not approve and close loans for borrowers having excessive risk defined as follows:

- No more than six (6) loans with Cardinal, or
- No more than an aggregate loan amount greater than \$4,000,000 without an approved loan exception

The maximum number of loans and aggregate loan amount calculations include all of the following:

- Loans with Cardinal that are pending applications or are closed and pending a loan sale
- Loans that are closed and currently serviced by Cardinal

The maximum number of loans and aggregate loan amount calculations do **not** include all of the following:

- Loans closed with Cardinal, with servicing rights sold to another lender within the most recent 24 months. (e.g. loan was sold to Lakeview and the liability on the credit report shows the lender is Lakeview)

Minimum Loan Amount Policy Exception

All loan products, except FHA, require the following minimum loan amount:

- Retail: \$30,000
- Third-Party Originations: \$50,000

Cardinal will review exceptions to this policy if the request is submitted to Credit Management. Credit Committee. Historically, it has been difficult to pass high-cost tests and fund a profitable loan. Cardinal

does not have a minimum loan amount standard on FHA loan products. However, the loan must still meet all high-cost test standards.

Occupancy Policy Exception

Cardinal will closely evaluate transactions where a borrower obtained financing within the last 12 months to help determine if the underlying loan has occupancy requirements. A copy of the security instrument, or similar document reflecting any occupancy requirements, must be provided. The requirements outlined within individual product Lending Guide chapters apply 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.

Any exceptions to this published policy require a loan review.

Citizenship Policy Exception

Any exceptions to the published Citizenship Requirements located in Chapter 2 will require a loan review.

Deferred Action for Childhood Arrival | DACA

DACA is an acceptable citizenship classification for FHA, VA, and Fannie Mae Conventional products. Also, select community lending programs permit this classification. Refer to the individual product guidelines for more details. Exceptions to published guidelines are not permitted.

Income Policy Exception Types

Tax Documentation Exception

Income tax transcripts are required for some transactions and in the event an exception is requested related to tax transcript availability.

Refer to the Tax Documentation Policy located in [Chapter 2 | Documentation Standards](#) for more information. Any exception to this published policy requires a loan review.

Self-Employment Stability Policy Exception

All exceptions to our published Product Snapshots and Lending Guide must be approved through a loan review.

Debt to Income Ratio Policy Exception

All exceptions to our published Product Snapshots and Lending Guide must be approved through a loan review, at which time the Lock Desk will allow a borrower to lock a loan that is outside of the published product-based lock standards.

Future Earnings Policy Exception

All exceptions to our published Product Snapshots and Lending Guide must be approved through a loan review.

Job Duration Exception

All exceptions to our published Product Snapshots and Lending Guide must be approved through a loan review.

Pricing Concessions (Category 2)

All loans are priced for a reasonable profit margin. The pricing may be adjusted to account for different operating costs associated with Cardinal's origination channels and ensures we maintain a reasonable profit margin across the different channels or branches. Some of these operating costs may include the cost of branch location rent, the overhead for the location, and compensation for the employees of that channel or branch. Loan originators do not have any discretion in the initial pricing of a loan. The secondary department provides all pricing.

In addition to the loan pricing, there are lender fees associated with the loans. These fees are also based on a reasonable profit margin and can vary by origination channel. These differences are attributable to the cost of procuring the loan, channel overhead costs, and regional competitive differences. In order to match the consumer's fee naming expectations, these regional differences may show the fees under a different name. Cardinal considers the aggregate of lender fees, regardless of title, to determine if they are reasonable.

The loan concession calculation is documented in the [Calc | Lender Concession Totals](#).

Pricing Concession Reasons

Pricing concessions will not impact the loan originator's compensation on the loan, to support our compliance with Loan Originator Compensation Requirements under the Truth in Lending Act (Regulation Z). Pricing concessions can be requested for the following scenarios:

- Match competitor's price
- Poor customer service
- Operational errors (i.e., processing delays or other service issues)
- Avoid triggering "high cost," "higher-priced," or QM loan requirements
- To meet a tangible net benefit test
- Reward customer loyalty
- The borrower needs closing assistance

Lender concessions are concessions from the lender to the borrower, which may be offered for various reasons:

- Unspecified
- ATR/QM violation (ATR = Ability to Repay legislation / QM = Quality Mortgage legislation)
- Competitive Match
- Concessions Renegotiation
- Customer Experience
- Extension Cost
- Float-down - Long-Term Lock
- Float-down - Rate Increase Protection
- Issue at Funding
- Lead Source Change

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- Lock Transfer Fee/Adjustment
 - Midday Price Change
 - Operations Error
 - Originator Misquote/Error
 - Pre-Approval/Pre-Lock Concession
 - Program Change
 - Re-Lock Fee
 - Short to Close

Requirements and Request Process For Concessions

All pricing concessions must be approved and are governed by the steps outlined within the [Handling Lending Concessions](#) procedure.

Cardinal requires a valid business reason for specific approvals for all pricing concessions. The pricing concession requested must be placed in the loan origination system with the amount of the concession and the reason for the concession. The system will route the request to the appropriate approver of the concession.

Range of discretion

Discretion is defined to exclude the correction of pricing errors/misquotes, Good Faith Estimate fee tolerance cures, and bona fide discount points.

Governance and Authority

Roles with access and available discretion for pricing concession requests include:

- Loan Officer
- Branch Manager
- Secondary Markets Department

- Compliance or Fair Lending Officer
- The company, Regional, or Divisional Production leaders

Roles with access and available discretion for pricing concession approvals include:

- Branch Manager
- Production Market Leader
- Secondary Markets Department
- Compliance or Fair Lending Officer
- The company, Regional, or Divisional Production leaders

Rush, Special Loan Handling, and Loan Priority Exceptions (Category 3)

Rush and Loan Priority Exception Reasons

Exceptions for rush and priority handling are related to exceptions requested on behalf of our production and operations teams when a request is made to prioritize a loan transaction(s). Typically, these include the following:

- Rush Identification and Assignments
- Queue Swapping

Rush and Loan Priority Permissions

Formal Rush Process

Each of Cardinal's Retail Divisional Production leaders has been provided the ability, within Octane, to "rush" a loan which they are to use sparingly, at their discretion, to meet business needs. Cardinal's Retail Divisional Production leaders have the authority to review requests for and approve these rush and loan priority exception requests.

Note: These expedited reviews can be utilized for initial or final underwriting (or both).

Queue Swap

The queue swap feature is used by reviewing the **Production | Underwriting Queue** report in Octane and determining which two loans require a swap. Once the loans have been identified, the Retail Production Divisional leaders or Support have the authority to swap the loans.

When a loan's position in a workflow queue has been swapped with another loan's position, an event describing the swap will appear in Activity. A notice is sent to both loans' originators.

Subservicing Oversight Exceptions (Category 4)

Subservicing Oversight exceptions are related to exceptions requested on behalf of our subservicing designee and require review and approval by an authorized team member of Cardinal. Subservicing exceptions can be requested for the following scenarios:

- Occupancy change for loans originated less than 12 months ago
- Assumption requests
- Modification requests
- Mortgage Insurance removal
- Escrow account removal
- Recast of loan terms
- Servicemembers Civil Relief Act (SCRA) protection

Occupancy Change Approval

If a borrower is purchasing a new primary residence and has not occupied their current residence for at least 12 months, or the underlying mortgage was obtained within the last 12 months, the underlying note and deed must be evaluated for any occupancy requirements. If it is determined that the borrower obtained an owner-occupied mortgage and note within the last 12 months and the 12 months occupancy provision will not have been satisfied by the time of closing on the new proposed owner-occupied residence, Cardinal requires that the current lender consent to the change of occupancy and include proof of the consent in the loan file.

1. The borrower should contact their servicer to notify them of the occupancy change and inquire what documentation is required.
2. The borrower should provide a detailed letter of explanation to their current servicer indicating the reason for the request and the life event that has prompted the occupancy status change.
3. If the property is part of an HOA, Cardinal will need the HOA's Covenants, Conditions, and Restrictions (CC&Rs) that stipulate the rental requirements, or a letter from the HOA agreeing to allow the occupancy status change.
4. Upon the previous servicer's approval of the occupancy status change, the previous servicer will provide the borrower written confirmation to be provided to the new lender (i.e., Cardinal). This will ensure that the borrower has complied with the terms of their current owner-occupied deed of trust prior to completing the proposed owner-occupied transaction. Upon approval of an occupancy change, the servicer will provide the borrower written notification of the approval or denial of the occupancy change request. This written correspondence must be uploaded to Letter of Explanation | Intent to Occupy.
5. The steps listed above apply even when Dovenmuehle / Cardinal is the servicer because Cardinal does not own the loan. Rather, Cardinal owns the servicing rights, and the servicer must evaluate such a request and keep a record of it for both the loan owner and the servicing rights owner.

12 Month Occupancy Determination (for Cardinal serviced loans)

1. Number of Days from Note Date on Existing Primary to Note Date on New Primary \leq 180
 - No Occupancy changes allowed
2. Number of Days from Note Date on Existing Primary to Note Date on New Primary $>$ 181 to 365
 - Must prove residence has been taken by day 60
 - Extenuating Circumstances
 - Military Orders
 - Death

- Employment Relocation/Employment Change
- Natural Disaster
- COVID
- All required documentation is provided to Cardinal Financial Company

Occupancy Change for Loans Originated Less than 12 Months Ago

If requesting an occupancy change, the borrower must submit a request to their current servicer for approval. The borrower should contact their servicer, notify them of the change, and inquire about what documentation is needed. Upon approval or denial of an occupancy change, the servicer will provide the borrower written notification, which must be uploaded to **Letter of Explanation | Intent to Occupy**. Before proceeding with the owner-occupied transaction, the underwriting or credit escalation team ensures that the borrower has complied with the terms of their current owner-occupied deed of trust.

To comply with the occupancy affidavit and deed of trust occupancy section, we must provide evidence that the servicer has approved the request, which applies even when Dovenmuehle / Cardinal is the servicer, as we do not own the loan but instead own the servicing rights. The servicer must evaluate such a request and keep a record of it for both the loan owner and the servicing rights owner.

The request must be submitted to the servicer in writing. It should include detailed information and documentation regarding the nature of the life event, change, or other motivational factors or circumstances leading to such an abrupt occupancy change request.

Contact Options

For borrowers who need an occupancy change with Cardinal's subservicer, Dovenmuehle, they would follow the enclosed steps and can expect a response within 30 days. Customers can direct requests to the following or can make the request online:

- Prepare a letter of explanation about the change of occupancy and life event that prompted the change of occupancy including loan number, property address, and borrower's phone and email.
- Provide any supporting documentation such as evidence of new child, expansion of the family, job relocation, change in employment or familial status, or any other documents supporting why

a change of occupancy is happening within 12 months of closing and the expected date of the occupancy change.

Phone: (877) 604-7294

Email: Custserve@yourmortgageonline.com

Fax: (847) 574-7654

Note: Once documentation is received a response/decision will be made within 30 days.

Subservicing Oversight

Cardinal's Servicing department is responsible for reviewing all subservicing or servicing exceptions and requests to ensure that the request decisions are provided in a timely fashion and that the exception reviews are provided fairly and consistently.

Review Process for Extenuating Circumstances

Cardinal requires documentation for all subservicing exceptions, and a designated Cardinal employee must approve all exceptions. Refer to the following table to view requirements related to each extenuating circumstance.

Extenuating Circumstances	Requirements
Military Orders	<ul style="list-style-type: none"> ● Detailed letter of explanation reviewed ● Copy of Military orders reviewed ● Listing contract for the existing property
Death	<ul style="list-style-type: none"> ● Detailed letter of explanation reviewed ● Death Certificate ● Listing contract for the existing property <ul style="list-style-type: none"> ○ Military Orders ○ Death ○ Employment Relocation ○ Natural Disaster ● All required documentation is provided to Cardinal Financial Company

<p>Employment Relocation/Employment Change</p>	<ul style="list-style-type: none"> ● Detailed letter of explanation reviewed ● Employer letter advising of relocation or acceptance letter from the new employer ● Listing contract for the existing property
<p>Natural Disaster</p>	<ul style="list-style-type: none"> ● Detailed letter of explanation reviewed ● Review of the natural disaster area ● Listing contract for the existing property ● All required documentation is provided to Cardinal Financial Company
<p>Special Considerations: COVID</p>	<ul style="list-style-type: none"> ● Detailed letter of explanation reviewed ● Listing contract for the existing property ● External: Cardinal determines that space and location issues are considered severe enough to warrant a property change. ● Internal: If an Occupancy Change request is based on location or insufficient space to adhere to local COVID-related demands, then the new property must be compared to the old property to determine suitability. ● Facts and features: <ul style="list-style-type: none"> ○ Type ○ Year built ○ Heating ○ Cooling ○ Parking ○ HOA ○ Lot ● Interior details: <ul style="list-style-type: none"> ○ Bedrooms and bathrooms ○ Flooring ○ Heating ○ Cooling ○ Appliances

	<ul style="list-style-type: none"> ○ Other interior features ● Property Details: <ul style="list-style-type: none"> ○ Parking ○ Accessibility ○ Property ○ Lot size ● Construction details: <ul style="list-style-type: none"> ○ Type and style ○ Material Information ○ Condition ● Utilities/Green Energy Details: <ul style="list-style-type: none"> ○ Utilities ● Community and neighborhood details: <ul style="list-style-type: none"> ○ Security ○ Location ○ HOA ● HOA and financial details: <ul style="list-style-type: none"> ○ HOA ○ Other financial information ● Other Facts: <ul style="list-style-type: none"> ○ Interior Features ○ Lot features ○ Power production type ○ Current use ○ Possible use ○ Inclusions ○ Best property use ○ Special listing conditions ○ LMS status ● Review of new property <ul style="list-style-type: none"> ○ Facts and features: <ul style="list-style-type: none"> ■ Type ■ Year built
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	<ul style="list-style-type: none"> ■ Heating ■ Cooling ■ Parking ■ HOA ■ Lot ○ Interior details: <ul style="list-style-type: none"> ■ Bedrooms and bathrooms ■ Flooring ■ Heating ■ Cooling ■ Appliances ■ Other interior features ○ Property Details: <ul style="list-style-type: none"> ■ Parking ■ Accessibility ■ Property ■ Lot size ○ Construction details: <ul style="list-style-type: none"> ■ Type and style ■ Material Information ■ Condition ○ Utilities/Green Energy Details: <ul style="list-style-type: none"> ■ Utilities ○ Community and neighborhood details: <ul style="list-style-type: none"> ■ Security ■ Location ■ HOA ○ HOA and financial details: <ul style="list-style-type: none"> ■ HOA ■ Other financial information ○ Other Facts: <ul style="list-style-type: none"> ■ Interior Features ■ Lot features
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	<ul style="list-style-type: none"> ■ Power production type ■ Current use ■ Possible use ■ Inclusions ■ Special listing conditions ■ LMS status
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References

Reference List
Calc Disclosure Triggers
Calc Lender Concession Totals
Calc TRID Significant Disclosure
Compliance Fair and Responsible Lending Policy
Closing Disclosure Eligibility Criteria
Company Mortgage Assumption Policy
Company PMI Removal Policy
Completing a Loan Exception Review
Compliance Document Retention Policy
Filing an Appraisal Dispute
Freddie Mac Condo Project Advisor Request Job Aid - Octane
General Escrow Information Procedure
Handling a Property in a Borrower Trust Procedure
Handling Lender Concessions Procedure
Loan Reviews
Power of Attorney Procedure
Power of Attorney Checklist

Processing an FHA Single Unit Approval Procedure
Recast Procedure
Requesting a Loan Exception Review
Significant Derogatory Credit Training
Trust Approval Checklist

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
1.18.22	V8	Annual recertification with full review. Updated procedure to align with current process.	Erica Price Ellen Clayson
10.20.21	V7	Removed cash-out as an ineligible transaction type for escrow holdbacks	Kristen Bellon
8.19.21	V6	Added section Flawed and Tainted Appraisals which provides additional guidance on what may constitute a flawed and tainted appraisal report	Kristen Bellon
7.16.21	V5	Updated Maximum Exposure Criteria and various other pricing exception components, also updated several outdated resource links	Erica Price
6.16.21	V4	Updated Power of Attorney Policy Exception section to clarify that the use of a Power of Attorney for our transaction is only eligible with the use of Fannie Mae (DU) for applications on or after June 30th, 2021	Kristen Bellon
5.21.21	V3	Added the following subsections related to Subservicing Oversight Exceptions (Category 4) <ul style="list-style-type: none"> ● Occupancy Change Approval ● 12 Month Occupancy Note (for Cardinal serviced loans) ● Contact Options ● Review Process for Extenuating Circumstances 	Erica Price
4.13.21	V2	Complete rewrite to align with current policy guidelines	Erica Price

11.2.20	V1	Added Lost Note Affidavit section	Kristen Bellon
8.13.20	-	Added requirements for owner occupied transactions when another owner occupancy transaction occurred within the most recent 12 months	Ellen Clayson
6.30.20	-	<ul style="list-style-type: none"> Clarified that a repair escrow may not be established on manufactured homes Clarified that Short Form Trust documents provided in the state of Hawaii do not require an Attorney Opinion Letter 	Kristen Bellon
6.23.20	-	Added Leased Amenities to the list of categories for which a Freddie Mac Condo Eligibility Waiver may be requested	Erica Price
5.22.20	-	Added Escrow Holdback guidelines for Conventional, FHA and VA loans	Kristen Bellon
2.24.20	-	Revised AIG and general trust requirements related to Attorney Opinion Letter	Erica Price
2.10.20	-	Added an exception for the state of Delaware to the requirement that all borrowers be title holders when occupancy is a primary residence	Erica Price
2.3.20	-	Added DACA eligible Community Lending products	Erica Price
1.20.20	-	Updated Section 2.1.1 Deferred Action for Childhood Arrival (DACA) to include additional acceptable MI Providers	Erica Price
12.12.19	-	Added section 5 Second Appraisals outlining when a second appraisal may be ordered on Conforming and Non Conforming Loans	Ellen Clayson
11.27.19	-	Clarified that Credit Committee approval is not required for extenuating circumstances on Government loans	EllenClayson
11.5.19	-	Added Idaho as an eligible state for Spousal Debt Exception	Ellen Clayson
10.21.19	-	Clarified Credit Committee approval is not required for extenuating Circumstances.	Erica Price
9.24.19	-	Added Clarification for FHA Section 203(b) with Repair Escrow for HUD REO Properties	Ellen Clayson
9.18.19	-	Added Arizona and Louisiana Special Handling Requirements	Ellen Clayson
8.9.19	-	Added recent technology update which permits borrowers in New York to not have to vest.	Erica Price
7.16.19	-	Added AZ to Table for Community Property Debt Exclusions 2.11 as NO	Ellen Clayson

7.15.19	-	Revised Process for Requesting Trust or POA Approvals as they are now done within Octane and do not require a Support Ticket	Erica Price
6.18.19	-	Removed Freddie Mac from being eligible for 2.10.1 Deferred Action for Childhood Arrival DACA	Ellen Clayson
6.3.19	-	Added section 2.5.1 Trust Documents, clarified 2.5.2 Attorney Opinion Letter, removed 2.5.2 Trust Documents	Ellen Clayson
5.29.19	-	Clarified 5.4 Recast	Erica Price
5.20.19	-	Added clarification to 2.11 Community Property Debt Inclusion Exception regarding date the debt was incurred	Ellen Clayson
5.17.19	-	Added table for states with Eligible for Spousal Debt Exceptions 2.11 Community Property Debt Inclusion Exception and added NV to list of eligible states	Erica Price
4.30.19	-	Clarified 2.11 Community Property Debt Inclusion Exception - Subject property transactions located within TX are eligible for consideration	Ellen Clayson
4.29.19	-	Clarified 2.11 Community Property Debt Inclusion Exception - Subject property transactions located within TX are eligible for consideration, clarified 3.6 Qualified Mortgage Exemption for Non Owner Occupied	Erica Price
4.22.19	-	Clarified Section 1: Overview of Credit Exceptions and Underwriting Scenario Support, clarified 1.1.1 How to Request a Credit Exception, clarified 1.4 How do I use this Service?, clarified 2.10.1 Deferred Action for Childhood Arrival DACA, added 2.11 Community Property Debt Inclusion Exception, removed 3.6 Qualified Mortgage Exemption for Non Owner Occupied	Erica Price
4.18.19	-	Added section 3.6 Qualified Mortgage Exemption for Non Owner Occupied	Erica Price
4.17.19	-	<ul style="list-style-type: none"> • Clarified mortgage insurance quote in section 2.9.1 Split Mortgage Insurance(MI) - Borrower Paid Upfront and Monthly Option • Clarified mortgage insurance quote in section 2.9.1 Split Mortgage Insurance(MI) - Borrower Paid Upfront and Monthly Option 	Erica Price
4.12.19	-	Added section 2.9.1 Split Mortgage Insurance(MI) - Borrower Paid Upfront and Monthly Option	Erica Price

4.11.19	-	Added section 2.9 Mortgage Insurance Special Use Cases	Erica Price
3.27.19	-	Clarified 2.2.1 Requirements for a FICO Exception	Erica Price
3.22.19	-	Clarified 3.5 Property Address Errors Related to Required Disclosure, added section 3.6 Qualified Mortgage Exemption for Non Owner Occupied, updated 5.5 Occupancy Change Borrower Procedures	Erica Price
3.15.20	-	Added section 2.5.3 Ineligible Transaction Types for Trust Vesting/Settlement	Erica Price
3.11.20	-	Updated Overview	Erica Price
3.6.19	-	Section 2.9 renamed "Project Approvals", 2.9.1 renamed Freddie Mac Exceptions, 2.9.2 renamed VA Approvals	Erica Price
2.25.19	-	Added clarification to 2.1 Manual Underwriting Exceptions	Erica Price
2.19.19	-	Added section 2.10 Citizenship Exceptions	Erica Price
2.12.19	-	Updated Links in Overview	Erica Price
2.8.19	-	Added section 2.9 Condo Exceptions	Erica Price
1.9.19	-	Added section 2.8 FHA Exceptions Related to Water Systems	Erica Price
1.8.19	-	Clarified first bullet 2.4 Extenuating Circumstances Exceptions, clarified section 5.4 Recast, 5.5 Occupancy Change Borrower Procedures Written Approval of Occupancy Change Required from current servicer changed to "No"	Erica Price
12.17.18	-	Updated Section 1 Header	Erica Price
11.12.18	-	Clarified section 4.1 Appraised Value Disputes	Erica Price
11.8.18	-	Document Created and Migrated from Previous Underwriting Exception Policy	Erica Price