

RESTRICTED USE PROGRAM

Originators must complete Flagstar's Construction Loan training course prior to originating any loans under this program. Originators will not be able to register construction transactions without having completed the course.

PRIMARY RESIDENCE – CONSTRUCTION/CONSTRUCTION-PERM				
Property Type	Maximum LTV	Maximum CLTV	Minimum Credit Score	Maximum Loan Amount
1-Unit PUD Site Condo	85%	Subordinate Financing Not Allowed	760	\$1,000,000
	80%		700	\$1,500,000
	75%		700	\$2,000,000
	70%		720	\$2,500,000
1-Unit, PUD	70%		740	\$3,000,000

SECOND HOME – CONSTRUCTION/CONSTRUCTION-PERM				
Property Type	Maximum LTV	Maximum CLTV	Minimum Credit Score	Maximum Loan Amount
1-Unit PUD Site Condo	75%	Subordinate Financing Not Allowed	720	\$1,000,000
	70%		720	\$1,500,000
	65%		720	\$2,000,000
	50%		720	\$2,500,000

PROGRAM SUMMARY

The Jumbo One-Close Construction ARM program, which is classified as a non-QM product, provides both construction and permanent financing for borrowers looking to build a new primary or second home. During construction, only payments of interest due on the amount drawn to-date are required along with monthly escrows (unless the loan has an escrow waiver). The note will be modified upon completion of improvements to a fully-amortized principal and interest payment. Soft costs (architectural, engineering and permit fees) may be financed. Closing costs may only be financed if the loan purpose type is considered a rate/term refinance as defined in the [Loan Registration](#) section. Full third-party builder contracts only. Teardowns and major renovations are eligible. All loans will be table-funded and must close in the name of Flagstar Bank, N.A.

PRODUCTS OFFERED

Product Name	Permanent Loan Term	Construction/ Interest-Only Period	Loan Term for Registration	ARM Discl.
<i>Jumbo One-Close Construction 7/6 SOFR ARM (12 months)</i>	360 mos.	12 mos.	372	3389
<i>Jumbo One-Close Construction 10/6 SOFR ARM (12 months)</i>	360 mos.	12 mos.	372	3392
<i>Jumbo One-Close Construction 7/6 SOFR ARM (18 months)</i>	360 mos.	18 mos.	378	3390
<i>Jumbo One-Close Construction 10/6 SOFR ARM (18 months)</i>	360 mos.	18 mos.	378	3393
<i>Jumbo One-Close Construction 7/6 SOFR ARM (24 months)</i>	360 mos.	24 mos.	384	3391
<i>Jumbo One-Close Construction 10/6 SOFR ARM (24 months)</i>	360 mos.	24 mos.	384	3394

CONSTRUCTION TERM AND PROJECT SIZE

For Jumbo One-Close Construction ARM products, the construction terms allowed are 12, 18 or 24 months.

The construction term for the loan is determined by the following:

- The builder contract will be reviewed to determine the construction term.
- If completion terms are not indicated in the contract, an amendment may be provided confirming the construction period.
- If completion terms are not indicated in the contract and no amendment is added, then project size will determine the construction period.
 - Project size is defined as soft and hard costs to complete construction. Price of land is not included in construction cost and therefore not in project size.
 - Construction terms by project size if not defined in the builder contract:

Minimum Project Size	Maximum Project Size	Eligible Construction Term
Up to	\$1,500,000	12, 18 or 24 months
\$1,500,001	\$2,000,000	18 or 24 months
\$2,000,001	And up	24 months

When builder contracts stipulate completion dates that do not correspond exactly with the 12, 18 or 24-month construction term options, then the following methodology applies:

- If the completion date is no more than two months greater than either the 12 or 18-month term, the borrower may elect to either round down or up in the construction term. (e.g., Construction period is 13-14 months, either the 12 month or 18-month construction period can be used.)
 - If the lower construction term is selected, the borrower will pay the \$1000/month extension fee for each additional month. (e.g., if construction period is 13-14 months and 12-month term is selected, borrower will pay \$1000 for each month over 12 months); or
 - Borrower selects the higher term pricing (e.g., if construction period is 13-14 months, may select the 18-month pricing in lieu of the extension fees)
- If the construction period is greater than two months from the offered 12 or 18-month construction terms, then the loan term must be rounded up. (e.g., construction period is 15 months, must round up to the 18-month construction term.)

TABLE-FUNDED STRUCTURE FOR ALL CONSTRUCTION LOANS

All loans close in the name of Flagstar Bank with the following requirements:

- Flagstar issues initial and all required additional Loan Estimates
- Each applicant must be provided the appropriate Construction-to-Permanent ARM Disclosure; see [Products Offered](#) table on page one.
- Flagstar underwrites all loans
- Flagstar issues all Closing Disclosures and Closing Packages
- Flagstar funds all loans

AMORTIZATION STRUCTURE

- Interest only payment due on outstanding principal balance during construction
- After construction, loan converts to permanent phase with fully amortized payment over 30 years.

LOAN REGISTRATION

- Purpose type – Two loan purpose types are available for use under specific circumstances based on the borrower’s ownership status of the lot at the time of application:
 - “Construction” purpose type when borrower is not the owner of record at time of loan application (purchase)
 - “Construction Permanent” purpose type when borrower is the owner of record, regardless of length of time owned or how title was acquired (rate/term refinance)
- Loan term selection per “Loan Term for Registration” in the [Products Offered](#) section above
- Year Built field should be completed with the *current* year (not the year construction will be completed)
- Select “Proposed” for the Building Status field
- Prior to selecting a product, the Construction Worksheet must be completed; the worksheet can be accessed in the Additional Loan Information section of the TPO website Loan Application screen

ADDITIONAL REGISTRATION STEPS FOR CONSTRUCTION PERMANENT (REFI) LOANS

Construction Permanent loans are treated as rate/term refinance transactions. Complete the following information in the TPO website Loan Application screen to ensure the loan is properly registered:

- Complete the Construction Worksheet found in the Additional Loan Information section
- Real Estate section:
 - Find or enter the subject property record:
 - For the Indicator field, select “SUBJECT OF LOAN”
 - For the Disposition field, select “RETAINED-WILL BECOME PRIMARY OR ADDITIONAL RESIDENCE”
 - Enter the estimated as-completed value in the Present Market Value field.
 - The Mortgage Lien Amount field will display only the value of the land; this will be updated once the Liabilities Section has been completed
- Liabilities section:
 - For the appropriate liability, enter the Builder’s Price to Build plus Unpaid Balance of Lot from the Construction Worksheet in the Balance field; the Mortgage Lien Amount field in the Real Estate section will update accordingly
 - Be sure “YES” is selected for the Paid By Close? slide
- Check the Details of Transaction section to verify that the Refinance field reflects the cost of construction + outstanding lot loan balance
- Click “Save Loan” to go to the Rates & Pricing screen to select the construction loan product

See [EXHIBIT A](#) for further detail.

LOAN AMOUNTS

MAXIMUM

Refer to eligibility grids above

MINIMUM

Conforming High Balance Plus \$1

ELIGIBLE PROPERTY TYPES

- 1-unit site-built homes
- Detached planned unit development (PUD)
- Site condominium (detached); must be fee simple interest for land and dwelling
- Modular homes
- **Teardowns** & major renovation
- Properties where construction has already begun.
 - Confirmation is required that Flagstar's first lien position is insurable by the title insurance provider for all construction completed prior to the closing of the loan.

QUALIFYING RATE

7/6 and 10/6 ARMs
Greater of note rate or fully indexed rate

QUALIFYING PAYMENT

Calculated using the Qualifying Rate above amortized over the 30-year permanent loan term.

QUALIFYING RATIOS

Maximum 45%

INTERESTED PARTY CONTRIBUTIONS

Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, or any other party with an interest in the real estate transaction. Interested party contributions may only be used for closing costs and prepaid expenses and may never be applied to any portion of the down payment.

CLTV/HCLTV	IPC Allowance
> 80%	3%
≤ 80%	6%

TAX AND INSURANCE ESCROW

Refer to [Non-Agency Underwriting Guidelines](#) guides for calculation method for qualifying taxes.

DRAWS/FEEES

Refer to the [Construction & Renovation Lending](#) for fee requirements.

CONSTRUCTION GUIDES

Refer to [Construction & Renovation Lending](#) for information about the construction lending process. Executed borrower acknowledgement must be in the loan file. The construction guide and supporting documentation can be under [Construction Forms](#) in the Seller's Guide.

Borrower and contractor must also be supplied with the appropriate State Statutory Form package and State Draw Requirement Letter. These can be found under [Construction Forms](#) in the Seller's Guide.

INSURANCE

See *Hazard Insurance Requirements*, [Doc. #4602](#) for insurance requirements during construction.

FILE SUBMISSION

BUILDER/PROJECT PACKAGE

Builder and project packages must be submitted to Granite Loan Management for review.

Builder/project packages must be submitted to:

Granite Loan Management, LLC
10770 Briarwood Ave., Suite 280
Centennial, CO 80112
Phone: (866) 380-9657
Fax: (800) 919-8912
Email: projects@graniteriskmanagement.com

CREDIT PACKAGE

Credit packages must be submitted to Underwriting through paperless loan submission and must include the executed Construction Guide Acknowledgement.

APPRAISAL

All appraisals must be ordered through the Flagstar TPO website from an approved Appraisal Management Company even if the customer has AIR Compliant status.

Loan Amount	Appraisal Requirement at Loan Origination
Up to \$2,000,000	One Full Appraisal
Greater than \$2,000,000	Two Full Appraisals

All loans require Certificate of Completion from the original appraiser(s) (1004-D/442), including interior and exterior photos of the finished property. An update of value is not required

UNDERWRITING

See below for product specific criteria. All additional guidelines not addressed below must meet the parameters documented in the [Non-Agency Underwriting Guidelines](#). Product specific criteria may vary from the guidelines only as indicated below.

All loans must be originated through a table-funded TPO transaction.

- All loans are underwritten by Flagstar
- Underwriting will review the contract to confirm the loan structure (construction period and related pricing) is supported by the contract or project size
- Fourth-party transactions are not eligible
- Project/builder will be reviewed by Granite Loan Management, LLC
- Cost to construct must be documented by fully executed “arm’s length” third-party builder contract.
- The LTV ratio will be calculated as follows:
 - Construction purpose type (borrower not owner of record of lot):
 - Divide loan amount by the lesser of the total acquisition cost (sum of the cost of construction plus the purchase price of the lot) **or** the as completed appraised value of the property (lot and improvements)

- Construction to Perm purpose type (borrower is owner of record):
 - Divide loan amount by the as completed appraised value of the property (lot and improvements)
- All payments made by the borrower directly to builder, or purchases of materials outside of the builder's contract, will not be considered in the total acquisition cost calculation
- If the lot was acquired within 120 days of loan application, acquisition funds must be documented
- Sweat equity will not be accepted
- \$2,000 or 2% cash back to borrower is not eligible on this program
- Interest Reserve Accounts to pay interest during the Construction Period are not eligible. Borrower must make an interest-only payment during the construction period

RESERVES

Occupancy	Loan Amount	Required Reserves ¹
Primary Residence	Up to \$1,000,000	9 months, verified PITI
	\$1,000,001 - \$1,500,000	21 months, verified PITI
	\$1,500,001 – program maximum	27 months, verified PITI
Second Home	Up to \$1,000,000	15 months, verified PITI
	\$1,000,001 - \$1,500,000	21 months, verified PITI
	\$1,500,001 – program maximum	27 months, verified PITI

1. When borrowers have financed properties in addition to the subject property, an additional 6 month's PITI reserves are required for each property.

CONTINGENCY RESERVES

- **NEW CONSTRUCTION:** All new construction properties require 5% contingency funds based on the total cost of improvements, excluding the cost/value of the land. The contingency may only be waived if the borrower can document 10% additional reserves after the down payment.
- **RENOVATION:** All renovation loans require a contingency reserve equal to at least 10% of the cost of renovations and must be included in the cost breakdown

MORTGAGE INSURANCE

Not required

FLOOD INSURANCE

A flood policy is required for any loan in a flood zone.

- The full policy must be issued prior to building vertically
- This may take up to 30 days for the agent to provide
- No exceptions will be issued

TITLE INSURANCE

Long-form title insurance must be obtained for all construction loans; short-form title policies are not acceptable.

Title updates are required at the time of each draw. Ensure when you request your title quote that the title company understands the quote is for a construction loan. Long-form title is required, and the title quote must include the cost of endorsements required with each draw.

For properties located in Illinois, all title commitments, updates and final policies must be provided by:

- First American Title
- Fidelity National Title
- Chicago Title
- Attorneys Title Guaranty

For a smoother draw process with your construction loans you may wish to use one of these companies in all eligible states.

EXTENSIONS OF CONSTRUCTION PERIOD

Extensions may be granted, pursuant to a change order, if Lender reasonably believes work will not be done by the scheduled completion date. Maximum extension period is six whole months (extensions will not be granted for partial months). Flagstar Bank will charge a Construction Extension Fee of \$1,000 per month if the construction is not completed by the pre-determined completion date.

INTEREST RATE MODIFICATION REQUESTS

During times of improved market rates available at the completion of construction, an interest rate modification may be eligible by request. Modifications must be requested prior to conversion of the loan to the fully amortized period. Contact the Construction Department for the current policy as project nears completion of construction.

STATE ELIGIBILITY

State/Territory	Restriction
Puerto Rico	Not eligible
Virgin Islands	Not eligible

ADJUSTABLE-RATE DETAILS

Interest Rate	7/6: Initial – 5% up/down; Subsequent – 1% up/down; Lifetime – 5% up
Adjustment Caps	10/6: Initial – 5% up/down; Subsequent – 1% up/down; Lifetime – 5% up
Margin	See Price Indication Sheet
Index	30-Day Average SOFR (Secured Overnight Financing Rate)
Interest Rate Floor	The interest rate floor is equal to the Margin
Change Dates	7/6: The first change date is the 84th permanent payment due date (i.e., the 84th payment after the loan has converted to the permanent phase)
	10/6: The first change date is the 120th permanent payment due date (i.e., the 120th payment after the loan has converted to the permanent phase)
	Subsequent change dates will occur every six months thereafter
Conversion Option	None
Assumption	Subject to conditions, fees and rate adjustment
Negative Amortization	None

PREPAYMENT PENALTY

None

CLOSING DOCUMENTATION

Interim interest is not collected at closing. Loans closing within the first seven days of the month cannot be closed with an interest credit.

Maximum draw request from builder at closing is capped at 10% or \$100,000 of the total cost to build, whichever is less. No further draws can occur until closing package has been received and post-closed by Flagstar Bank (usually 10 business days).

ALL LOANS

- Fannie Mae/Freddie Mac Uniform Security Instrument, 3000-series
- Fannie Mae/Freddie Mac Multistate Adjustable-Rate Note, Form #3442
- Fannie Mae/Freddie Mac Multistate Adjustable-Rate Rider, Form #3142
- Fannie Mae multi-state Construction Loan Agreement, Form #3735
- Fannie Mae multi-state Construction Loan Addendum to Note, Form #3736
- Fannie Mae multi-state Construction Loan Rider to Security Instrument, Form #3737
- Standard title commitment with all applicable endorsements

IF APPLICABLE

- Fannie Mae/Freddie Mac multi-state Condo Rider, Form #3140
- Fannie Mae/Freddie Mac multi-state PUD Rider, Form #3150
- Fannie Mae/Freddie Mac multi-state Second Home Rider, Form #3890

LENDER/SELLER CREDITS

Lender/seller credits must be itemized when requesting funds.

EXHIBIT A

When registering a Construction to Permanent loan, after completing the Additional Loan Information section, some of the information must be manually entered into the Real Estate and Liabilities sections. The estimated "As completed" appraised value must be entered as the Present Market Value on the Real Estate screen. The Unpaid Balance of Lot plus Builder's Price to Build from the Construction worksheet is entered in the Liabilities balance field and marked as Paid by Close.

Additional Loan Information

✓ -

Construction Worksheet

Section A. Land Value

PURCHASE PRICE OF LOT \$ 50,000.00	ACQUIRED SEPARATELY	YES NO	APPLICABLE LAND VALUE \$ 50,000.00	FOUNDATION COMPLETE No ▾	PROPERTY LOCATION PLATTED ▾
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Section B. Construction Costs & Improvements

BUILDER'S PRICE TO BUILD \$ 350,000.00	INSPECTIONS 1	COST OF INSPECTION \$ 175.00	INSPECTION TOTAL \$ 175.00	TITLE UPDATES 1
COST OF UPDATE \$ 175.00	TITLE TOTAL \$ 175.00	REQUESTED DRAWS 0		

OTHER Granite Loan Management	TOTAL \$ 1,600.00
OTHER #2 Survey	TOTAL \$ 750.00
OTHER #3 Enter Description	TOTAL \$ 0.00
OTHER #4 Enter Description	TOTAL \$ 0.00
OTHER #5 Enter Description	TOTAL \$ 0.00

TOTAL CONSTRUCTION COSTS
\$ 352,700.00

Section C. Loan Amount

TOTAL ACQUISITION COST \$ 402,700.00	ESTIMATED APPRAISAL \$ 400,000.00	LESSER OF ACQUISITION COST \$ 400,000.00	BASE LOAN AMOUNT \$ 300,000.00	CLTV 75.00
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Real Estate
✓ -

JOHN HOMEOWNER

Property

INDICATOR SUBJECT OF LOAN	PROPERTY ADDRESS 5151 Corporate Drive	PROPERTY ZIP CODE 48098	PROPERTY CITY Troy	PROPERTY STATE MICHIGAN
USE A NET RENTAL? YES NO	IS PROPERTY FREE AND CLEAR? YES NO	DISPOSITION RETAINED-WILL BECOME PRIM/	PROPERTY TYPE SINGLE FAMILY	PRESENT MARKET VALUE \$ 400,000.00
MORTGAGE LIEN AMOUNT \$ 400,000.00	MORTGAGE PAYMENT \$ 1,100.00	GROSS RENTAL INCOME \$ 0.00	VACANCY / EXPENSE PERCENTAGE 0	INSURANCE, MAINTENANCE, TAXES \$ 0.00
NET RENTAL INCOME \$ 0.00				

Liabilities
✓ -

JOHN HOMEOWNER

Liability

PAID BY CLOSE ? YES NO	USE NET RENTAL / SUBJECT NET CASH YES NO	ACCOUNT TYPE CONVENTIONAL REAL ESTATE	ASSOCIATED PROPERTY 5151 Corporate Drive	INSTALMENT SUB TYPE -SELECT-
MORTGAGE TYPE -SELECT-	ORIGINAL LOAN PURPOSE -SELECT-	MONTHLY PAYMENT \$ 1,100.00	BALANCE \$ 400,000.00	PURCHASE SECOND MONEY -SELECT-
CREDITOR NAME Enter name	CREDITOR ACCOUNT NUMBER Enter account number	CREDITOR ADDRESS Enter address	CREDITOR ZIP CODE Enter zip code	CREDITOR CITY Enter city
CREDITOR STATE -SELECT-	REASON FOR OMISSION -SELECT-	MONTHS LEFT TO PAY 364		