

**A second mortgage program with two closing options:**

- **Simultaneous closing with a Flagstar 1<sup>st</sup> mortgage** [page 1]
- **Stand-alone second mortgage (ONLY AVAILABLE IF CURRENT 1<sup>ST</sup> MORTGAGE IS BEING SERVICED BY FLAGSTAR BANK.)** [page 4]

**Simultaneous Closing with a Flagstar 1<sup>st</sup> Mortgage**

**Full Documentation**

**PRIMARY RESIDENCE – PURCHASE & RATE/TERM REFINANCE**

Property Type	Maximum CLTV	Maximum Loan Amount	Minimum Credit Score
• 1- to 2-unit	80%	\$250,000	700
• PUD	70%	\$250,000	680

**PRIMARY RESIDENCE – CASH-OUT REFINANCE**

Property Type	Maximum CLTV	Maximum Loan Amount	Minimum Credit Score
• 1- to 2-unit	75%	\$250,000	720
• PUD			

**SECOND HOME – PURCHASE & RATE/TERM REFINANCE**

Property Type	Maximum CLTV	Maximum Loan Amount	Minimum Credit Score
• 1-unit	75%	\$250,000	700
• PUD	70%	\$250,000	680

**PROGRAM SUMMARY:** Fully disbursed second lien mortgage loan that closes simultaneously with a Flagstar Bank first mortgage. This product is not to be used as a bridge loan – see Bridge Loan program description (Doc. #r5608).

**ELIGIBLE BORROWERS:**

- Same as first mortgage product.
- Borrowers must be the same for both loans.

**INELIGIBLE BORROWERS:**

- Same as first mortgage product.

**TOTAL DEBT RATIO:** The maximum total debt ratio must not exceed 45%.

**APPRAISAL / PROPERTY VALUATION:**

Reduced appraisal options obtained with the first mortgage approval are not eligible. All loans with a simultaneous second require an interior and exterior appraisal on Form 1004 for 1-2 unit properties.

**SUBMISSION:**

**Submit the following for the second mortgage:**

- Loan application (Fannie Mae 1003).
- Underwriting transmittal (Fannie Mae 1008).
- Initial Truth-in-Lending Disclosure.
- Copy of Good Faith Estimate.

A second mortgage package that contains the documents listed above must be submitted at the same time as

the first mortgage package through the same underwriting channel. The remainder of the second mortgage underwriting file will be copied from the first mortgage-underwriting file; there is no need to send other documentation with the second mortgage package.

### UNDERWRITING:

All second mortgage loans must meet the parameters as set out in the first mortgage program description, except as modified below:

1. **Credit:**

- All second mortgage loans must meet the applicable credit score requirement as listed in the eligibility grid on page one (the credit score requirements of the first mortgage product DO NOT APPLY to the second mortgage).

2. **Maximum Debt Ratio:**

- The maximum total debt ratio must not exceed 45%.

3. **Employment/income verification:**

- Flagstar will use the same requirements for, and documentation submitted in, the first mortgage underwriting/credit package to document employment and income for the second mortgage.

4. **Assets:**

- Flagstar will use the same requirements for, and documentation submitted in, the first mortgage underwriting/credit package to document assets/reserves for the second mortgage, if applicable, except that the reserve requirement must include the qualifying payment for the second mortgage in the housing payment when calculating whether the first mortgage reserve requirement has been met.

5. **Non-arms length transactions:**

- Non-arms length transactions will follow the guidelines of the first mortgage product.

### TITLE INSURANCE:

Refer to the **Title Insurance** coverage requirements under **INSURANCE COVERAGE** below.

**REFER TO THE PROGRAM GUIDELINES THAT APPLY TO ALL  
SECOND MORTGAGE LOANS BEGINNING ON PAGE 7.**

**Stand-Alone Second Mortgage (ONLY AVAILABLE IF CURRENT 1<sup>ST</sup> MORTGAGE IS BEING SERVICED BY FLAGSTAR BANK.)**

**Full Documentation**

**PRIMARY RESIDENCE – PURCHASE & RATE/TERM REFINANCE**

Property Type	Maximum CLTV	Maximum Loan Amount	Minimum Credit Score
<ul style="list-style-type: none"> <li>• 1- to 2-unit</li> <li>• PUD</li> </ul>	75%	\$250,000	720
	70%	\$250,000	700

**PRIMARY RESIDENCE – CASH-OUT REFINANCE**

Property Type	Maximum CLTV	Maximum Loan Amount	Minimum Credit Score
<ul style="list-style-type: none"> <li>• 1- to 2-unit</li> <li>• PUD</li> </ul>	70%	\$250,000	720

**SECOND HOME – PURCHASE & RATE/TERM REFINANCE**

Property Type	Maximum CLTV	Maximum Loan Amount	Minimum Credit Score
<ul style="list-style-type: none"> <li>• 1-unit</li> <li>• PUD</li> </ul>	70%	\$250,000	700

**PROGRAM SUMMARY:** Fully disbursed second lien mortgage loan to be used as a stand-alone second mortgage. This product is not to be used as a bridge.

**THIS PROGRAM CANNOT BE USED IN FIRST LIEN POSITION.**

**ELIGIBLE BORROWERS:**

- U.S. citizens
- Permanent resident aliens
- Non-permanent resident aliens (when borrowing with a U.S. citizen or permanent resident alien)
- Revocable living trusts – A complete copy of the Trust Agreement and an Attorney’s Opinion Letter are required as “prior to” conditions – see (Doc. #6126).

**INELIGIBLE BORROWERS:**

- Non-occupant co-borrowers.
- Non-revocable trusts – for fixed and balloon products.

**TOTAL DEBT RATIO:**

Must have a total debt ratio of 40% or less.

**APPRAISAL / PROPERTY VALUATION:**

- **1-unit properties:**
  - ✓ New Form 2055 with exterior inspection.
  - ✓ New Form 1004 (URAR).
  - ✓ Form 1004 (URAR) up to 12 months old with re-certification of value.
- **2-unit properties:**
  - ✓ New Form 1025.
  - ✓ Form 1025 up to 12 months old with re-certification of value.

Underwriter must order a property valuation from an automated valuation model (AVM) to support the value on the submitted appraisal.

### SUBMISSION:

#### Submit the following for the second mortgage:

- Loan application (Fannie Mae 1003)
- Underwriting transmittal (Fannie Mae 1008)
- Initial Truth-in-Lending Disclosure
- Copy of Good Faith Estimate
- Current credit report for all borrowers (see **UNDERWRITING** below for credit requirements)
- Copy of current first mortgage note (all pages, including signature page); if borrowers are not the same on the second mortgage as on the current first mortgage, we will require proof of ownership (e.g., legal & vesting information, title search, etc.).

Submission of other supporting documents such as 30 days current payroll check stubs, W-2s, other income verifications, property valuation/ appraisal, title search, etc., will help speed up the response time.

### UNDERWRITING:

All loans must meet the parameters as set out in Flagstar Bank's current Residential Underwriting Guidelines, except as modified below:

#### 1. **Credit:**

- All loans must meet valid credit score requirements as outlined in Doc. #6106.
- A credit report dated within 60 days of closing is required with a minimum of two repositories.
- Minimum four tradelines; one currently active and open for more than 12 months with a minimum high balance of \$1,000, regardless of credit score.
- Credit score for the file will be determined using the standard Agency method (file score is lowest individual score; individual borrower scores determined as the middle score for a three repository credit report or the lower score for a two repository credit report).
- Credit history must show 0x30 for all mortgages in last 24 months.
- Max \$25,000 loan if no significant prior major credit experience.
- Bankruptcies/CCCS – discharged at least four years with excellent re-established credit.
- Foreclosures/repossessions – not allowed.
- Collections or charge-offs less than 24 months old or over \$1,000 cumulative must be paid off prior to or at closing.
- Tax liens/judgments paid off at least 24 months prior to application.
- All credit must be current at time of underwriting.
- Borrowers can pay off debts to qualify; however, the debt must be paid in full and all remaining debt, except installment loans with 10 payments or less remaining, will be included in qualifying ratios; all debts to be paid off must be clearly identified on the HUD-1 settlement statement; lease payments and student loans will always be included in the debt ratio.

#### 2. **Maximum Debt Ratio:**

- Must not exceed a 40% debt ratio.

#### 3. **Employment/income verification:**

- All borrowers require a verbal VOE prior to closing.
- Salaried borrowers require minimum of 30 days recent paycheck stub showing year to date information and the most recent year's W-2.
- Self-employed or commissioned income requires last year's completed and signed tax returns and all applicable schedules along with a signed 4506T.
- Trailing co-borrower income is not allowed.

4. **Assets:**

- Reserves, exclusive of cash-out, must be equal to at least two months PITI.
- Must be borrower's own funds; seasoned for two months.

5. **Combined loan-to-value (CLTV) ratios:**

- For properties with less than 12 months of ownership, CLTV will be calculated off the lesser of the appraised value or the sales price; must document the value of any improvements to the property to be added to the sales price.

6. Second mortgage loans may not be used to payoff a land contract.

7. Proof that taxes are current (first mortgage escrow statement, paid receipt, title report, etc.) is required prior to closing (at closing for purchase money loans).

**CLOSING PROCESS:**

**Stand-alone Second Mortgage loans**

Closings for stand-alone second mortgage loans are accomplished via a closing services vendor with whom Flagstar Bank has contracted. This very convenient service is required for all stand-alone transactions. Please refer to Doc. #4635 for information regarding this service and the available service providers.

**TITLE INSURANCE:**

Refer to the **Title Insurance** coverage requirements under **INSURANCE COVERAGES** below.

**REFER TO THE PROGRAM GUIDELINES THAT APPLY TO ALL  
SECOND MORTGAGE LOANS BEGINNING ON PAGE 7.**

**THE GUIDELINES ON THE FOLLOWING PAGES APPLY TO ALL SECOND MORTGAGE LOANS, UNLESS STATED OTHERWISE.**

**PRODUCTS OFFERED:**

Products	Amortization Term
• 5-year fixed-rate	5 years
• 10-year fixed-rate	10 year
• 15-year fixed-rate	15 years
• 20-year fixed-rate	20 years
• 30 due in 15 balloon	30 years (Balloon payment after 15 yrs)

**ELIGIBLE PROPERTIES:**

- 1- to 2-unit properties.
- Planned unit developments (PUDs).
- Modular homes.

**INELIGIBLE PROPERTIES:**

- Manufactured/mobile homes (single- or double-wide).
- Properties over ten (10) acres (eligible only for simultaneous closing with a Flagstar 1<sup>st</sup> mortgage).
- Rural properties (eligible only for simultaneous closing with a Flagstar 1<sup>st</sup> mortgage).
- Property under construction at time of loan closing.
- 3- to 4-unit properties.
- Condominiums.

**MINIMUM LOAN AMOUNT:**                 \$5,000.

**CASH-OUT:**

Purpose of cash-out must be stated on the 1003. Flagstar Bank reserves the right to limit cash-out on any loan, particularly those that show recent derogatory credit, high revolving debt, large recent increases in debt load or limited employment or income stability.

**QUALIFYING RATE:**                         Start rate.

**DISCLOSURES:**

At time of application, borrowers must be given the following:

- Good Faith Estimate
- Truth-in-Lending Disclosure
- Privacy Act Notice

**INELIGIBLE FIRST LIENS:**

***Second Mortgage loans may NOT close behind these ineligible first lien types either simultaneously or as stand-alone transactions:***

- Any loan where the first mortgage received an Expanded Approval Level 2 or 3 (EA2 or EA3) response from Desktop Underwriter (DU) or a Caution response from Loan Prospector (LP), even if the first mortgage is approvable through manual underwriting despite such an AUS response.

- Balloon mortgage loans if the balloon expires prior to the end of the second mortgage term; an exception may be granted if the customer executes an Indemnification Agreement at closing acknowledging that Flagstar has no requirement to release or subordinate the second mortgage when the first mortgage balloon is due.
- Privately held mortgage loans.
- State- or locally-sponsored mortgage loan programs (MSHDA, etc.).
- Guaranteed Rural Housing mortgage loans.
- Land Contracts or Contracts for Deed.
- Reverse mortgage loans.
- Negative amortization loans.
- Graduated payment or growing equity mortgage loans (GPM/GEM).

### PROPERTY VALUES

Flagstar Bank's declining market policy will apply, however, the 5% LTV reduction will not be imposed. The comparable sales provided by the appraiser for the properties located within a declining market should be dated within the prior three to six months. Comparable sales outside of the six-month maximum timeframe will not be acceptable. Refer to *Defining Declining Markets* (Doc. #6141) for further information. Any loans falling outside of the guidelines listed above will be subject to the underwriter's discretion.

### INSURANCE COVERAGES:

#### Mortgage Insurance

Mortgage insurance is not required for second mortgage loans.

#### Title Insurance

##### ➤ Simultaneous closings with a Flagstar 1<sup>st</sup> mortgage:

- The first mortgage title report will be used to verify lien position.

##### ➤ Stand-alone closings:

- Stand-alone Second Mortgage loans do not require title work.

#### Hazard Insurance

Refer to Doc. #4602 for hazard insurance guidelines. Refer to Doc. #3620 for endorsement requirements.

#### Flood Certificate / Flood Insurance

A Flood Certificate must be obtained prior to closing, including for those loans closing simultaneously with a first mortgage. Each mortgage on the subject property is required to have a separate flood certificate.

Refer to Doc. #4603 for flood insurance guidelines. Refer to Doc. #3620 for endorsement requirements.

### STATE ELIGIBILITY:

Available In The Following States With Restrictions	
State	Restriction
Texas	Purchase money and rate/term refinances only; no cash-out refinances
Puerto Rico	Ineligible
US Virgin Islands	Ineligible

### PREPAYMENT PENALTY:

Loans are available with or without a prepayment penalty in many states. See price indication sheets for pricing, and refer to the *Flagstar Prepayment Penalty Matrix* for state-specific prepayment penalty information.

All loans with a prepayment penalty must submit a signed, state-specific *Prepayment Penalty Disclosure* (Doc. #3870-series).

### **CLOSING DOCUMENTATION:**

Closing documents may be prepared using Flagstar's **Web-Based Closing Docs (WBCD)** service available on Loantrac.

*Closing documents for loans closing in a revocable trust must be prepared through a third-party document preparation vendor (they cannot be prepared through WBCD).*

#### **Fixed-rate loans**

- Fannie Mae Second Mortgage/Deed of Trust, 3800-series.
- Fannie Mae multi-state Second Mortgage Note, or state-specific version, 3900-series.
- *Borrower Affidavit as to Other Liens* (Doc. #3252).

#### **30 due in 15 balloon loans**

- Fannie Mae Second Mortgage/Deed of Trust, 3800-series.
- Second Mortgage Balloon Note.
- *Borrower Affidavit as to Other Liens* (Doc. #3252).

#### **If applicable**

- Fannie Mae/Freddie Mac multi-state PUD Rider, Form #3150.
- Fannie Mae/Freddie Mac multi-state 1-4 Family Rider, Form #3170, (required for all loans secured by 2-unit primary residences).
- Fannie Mae/Freddie Mac multi-state Second Home Rider, Form #3890.
- Addendum to Note for prepayment penalty (using proper penalty verbiage outlined on the Prepayment Penalty Matrix).
- Indemnification Agreement (if an exception was approved allowing a second mortgage to close behind a balloon first mortgage with a balloon maturity date earlier than the second mortgage maturity date).

### **SECTION 32:**

**FLAGSTAR BANK WILL NOT PURCHASE ANY SECTION 32 LOANS OR LOANS THAT EXCEED SPECIFIC FEDERAL, STATE OR LOCAL REGULATIONS.**

### **POWER OF ATTORNEY:**

Powers of Attorney will **ONLY** be acceptable for purchase money transactions and *bona fide* rate/term refinance transactions where the second mortgage is used to pay only outstanding mortgage debt on the subject property along with closing costs and prepaid expenses. The Power of Attorney must be specific to the loan being closed. All borrowers must have signed the original loan application (Fannie Mae 1003).

### **ESCROWS:**

Escrows for taxes and insurance are not allowed for second mortgages. However, all housing expenses, including property taxes, homeowner's insurance, association fees, etc., must be documented and included in the debt ratio calculation.