ESCROW ACCOUNT POLICY

Franklin American MORTGAGE COMPANY

Correspondent Lending

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POLICY STATEMENT

It is the policy of Franklin American Mortgage Company (FAMC) to follow escrow requirements as set forth in RESPA, the Truth in Lending Act, the Dodd-Frank Wall Street reform and Consumer Financial Protection Bureau, other applicable law, and as may be defined by any future legislative changes.

ESCROW COLLECTED AT CLOSING

The Seller must use the aggregate accounting method for escrow account calculation. Adequate funds must be calculated and collected at closing to pay property taxes, property insurance premiums, mortgage insurance premiums, and any other premiums due during the escrow account computation year.

ESCROW ACCOUNT WAIVERS

The requirement for an escrow account for the payment of property taxes and property insurance may be waived in whole or in part (partial waiver) if all of the following conditions are met:

- Borrower(s) must sign an Escrow Waiver Agreement;
- Eligible on Conventional loans only;
- Loan-to-Value (LTV) ratio must not exceed 80.00% (except in the state of California in which the LTV must not exceed 89.99%).

Qualifying conventional loans with a full escrow waiver are subject to a .25 price adjustment for non-CA properties or a .15 price adjustment for CA properties. Qualifying conventional loans with a partial escrow waiver are subject to a .125 price adjustment. Partial escrow waivers are those loans where only property insurance escrow is waived.

CUSHIONS

FAMC requires a two-month cushion be collected in escrow, unless prohibited by state law.

INITIAL ESCROW ACCOUNT STATEMENT

If an escrow account is established, FAMC requires a copy of the disclosed Initial Escrow Account Statement. The statement shall include the amount of the borrower's monthly mortgage payment and the portion of the monthly payment going into the escrow account and shall itemize the estimated taxes, insurance premiums, and other charges that are anticipated to be paid from the escrow account during the escrow account computation year and the anticipated disbursement dates of those charges.

NOTE: The starting balance disclosed on the Initial Escrow Account Statement should reflect the balance of escrows collected at closing so that an accurate computation of the running balance for the account is indicated.

ELECTIVE ESCROW ACCOUNTS

FAMC does not accept escrows for any elective insurance. Elective insurance is any coverage not required by state law or Agency guidelines. This includes escrows for flood insurance policies on properties which are not designated to be in a Special Flood Hazard Area (SFHA).

ESCROW NET FUNDED FROM PURCHASE WIRE

The following amounts will be net funded from the purchase wire proceeds, except for escrow payments that are the Seller's responsibility per FAMC policy:

- Escrows deposited with the Seller;
- Escrows included in any payments made to the Seller.

RESPONSIBILITY FOR PAYMENT OF TAXES, PROPERTY INSURANCE, AND MORTGAGE INSURANCE

For all loans with established escrow accounts, the Seller is responsible for the payment of taxes and insurance premiums that become due within 30 days of the FAMC purchase date.

The Seller is responsible to make payments collected from the borrowers for all taxes with discount dates and delinquent dates that fall within 30 days of the FAMC purchase date. Payment of base tax rates and/or tax penalties incurred due to delinquent taxes or as a result of incorrect tax information provided to FAMC is the responsibility of the Seller.

The Seller is responsible for the remittance of all mortgage insurance premiums including:

- Up-front mortgage insurance premiums,
- Premiums due prior to the first payment due date,
- Monthly mortgage insurance premiums included in payments collected by the lender, and
- Monthly mortgage insurance premiums on any loan where the payment due date is within 15 calendar days of the FAMC purchase date.

Escrow for the monthly mortgage insurance premium *will not* be net funded on:

- Loans amortized at the time of purchase, or
- On those loans where the payment due date is within 15 calendar days of the FAMC purchase date.

In both scenarios, the Seller is responsible to make the necessary premium payment to the mortgage insurer.

Penalties or interest incurred due to non-payment or non-timely payment of mortgage insurance premiums are the responsibility of the Seller.

CONSTRUCTION LOANS/PURCHASES AND FIRST YEAR TAXES

With new construction and purchases, tax payments may rise after the first year which can result in payment shock for the borrower. With construction loans the first-year tax bill may be on land only, but subsequent bills will be based on the improved value of the property. With purchases the first-year tax bill may be calculated with the tax rate of the previous owner, but subsequent bills will be based on the current tax rate. This can create a shortage in the escrow account.

To avoid payment shock and ensure that borrowers qualify not only for their mortgage payment, but escrows as well, loans must be underwritten using a reasonable estimate of the real estate taxes based on the market value of the land and completed improvements. The value is obtained from the local tax assessor's office and is used to calculate escrow payments for the borrower and to be figured into overall ratios.

The taxes collected at the time of closing to establish an escrow account must also be based on a reasonable estimate of real estate taxes based on the market value of the land and completed improvements.

Special Assessments

A levied special assessment that places a lien against the property which is superior to that of the mortgage lien must be paid in full at closing, unless the borrower is assuming the assessment. An escrow account must be established for assumed assessments.

- If a pending special assessment is to be assumed by the borrower, the monthly escrow will be established when the assessment is levied and becomes part of the general tax bill. No escrow is required to be collected at closing.
- If a pending special assessment is not assumable, or will not be assumed, an amount equal to one and one-half times the estimated amount of the assessment must be collected and held in escrow by the closing agent. Once the assessment is levied, the closing agent must pay it in full to prevent a lien on the property.

Homeowner's Association Dues/Ground Rents

All delinquent ground rents must be paid by the seller in full. Such payment should be made prior to, or at closing. All leasehold and ground rent agreements must be in compliance with either FNMA, FHLMC, HUD, VA, or USDA guidelines, as applicable.

FHA Loans - Escrow Netting and Escrow Transfers

As documented in the Code of Federal Regulations (CFR) Title 24 202.5(d), a lender is prohibited from using escrow funds for any purpose other than that for which they were received.

FHA has not authorized the use of escrow funds for purposes other than those stated in the Code of Federal Regulations. FHA mandates that a reduction of loan principal is not an eligible purpose for the use of escrow funds and lenders with an existing loan shall not apply escrow funds to reduce the outstanding loan balance of the payoff amount.

Additionally, FHA has indicated that a lender who is servicing the loan and refinancing the borrower to a new loan may not transfer the borrower's escrow account from the old loan to the new loan.

FAMC will not purchase FHA loans in which escrow netting or escrow transfers have occurred.