

# PHH Mortgage Correspondent Lending

## FlexIQ Non-Agency Prepayment Penalty Guidance

### Flex IQ Non-Agency Product

This is intended to be a guide only and is not legal or compliance advice. This is not a commitment to lend or purchase. The seller is responsible for confirmation and adherence to all federal and state laws/compliance.

#### 1. Pre-Payment Penalty

Permitted on Non-Owner Occupied (Investment Properties) only and must meet all applicable federal and state laws, as well as the FlexIQ Non-Agency guidelines, to be eligible for purchase.

##### State Restrictions:

- Alaska, Kansas, Maryland, Minnesota, New Mexico, North Dakota not allowed.
- Illinois permitted when vesting in an S or C corporation. Prepayment penalties are prohibited on all other entities (individuals, LLCs, LLPs, trusts, etc.). If borrower is a natural person, prepayment penalty is prohibited when APR is greater than 8%. Prepay is allowed when APR is  $\leq$  8%.
- Michigan – allows a Flat prepayment penalty structure for 3 years at 1%/1%/1% of the amount of the amount prepaid.
- Mississippi – allows up to a maximum 5-year declining (Step Down) prepayment penalty structure that cannot exceed 5%/4%/3%/2%/1%.
- New Jersey permitted when vesting in an S or C corporation. Prepayment penalties are prohibited on all other entities (individuals, LLCs, LLPs, trusts, etc.).
- Ohio permitted with a Flat prepayment penalty structure up to 5 years and equal to 1% or less of the original principal amount. Loan amount must be  $\geq$  \$112,957 (for 2025). Loan amounts  $<$  \$112,957 permitted only on 3-4 units.
- Oregon – requires state specific disclosure in addition to the Note and Security Instrument Rider
- Pennsylvania loan amounts  $>$  \$319,777 (for 2025). Loan amounts  $\leq$  \$319,777 permitted only on 3-4 units.
- Rhode Island – allows a Flat 1-year prepayment penalty equal to 2% of the balance due.
- Washington permitted on Fixed rate loans

#### 2. Prepayment Structures

Acceptable prepayment penalty structures (when permitted by the PHH FlexIQ Non-Agency guidelines and all applicable laws and regulations) may include the following:

- **Six Months of Interest** – The prepayment charge must be equal to 6 months of

interest on the amount of the prepayment that exceeds 20% of the original principal balance. The charge applies to loans that pay off due to sale or refinance, or curtailments that exceed 20% of the original principal balance in a given 12-month time period.

- **Flat Prepay Structure – 2%, 3%, 4% or 5% Fixed Percentage** – The prepayment penalty charge must be no greater than 5% and no less than 2% flat prepayment over the life of the prepay penalty term charged to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance during the prepay period. Acceptable Flat structures include:
  - 5-year prepayment penalty at 5%/5%/5%/5%/5%
  - 4-year prepayment penalty at 4%/4%/4%/4%
  - 3-year prepayment penalty at 3%/3%/3%
  - 2-year prepayment penalty at 2%/2%
- **Step Down Prepay Structure** – The prepayment penalty charge % applies to any curtailment or the entire outstanding principal balance during the prepay period. The charge applies to loans that pay off due to sale or refinance during the prepay period. Acceptable Step Down structures include:
  - 5-year prepayment penalty at 5%/4%/3%/2%/1%
  - 4-year prepayment penalty at 4%/3%/2%/1%
  - 3-year prepayment penalty at 3%/2%/1%
  - 2-year prepayment penalty at 2%/1%
  - 1-year prepayment penalty at 2%

**Note:** Prepayment penalty pricing is based on tiers for DSCR transactions, refer to the current rate sheet.

### 3. FlexIQ Non-Agency Allowable Prepay Terms

Prepay Terms
No Prepayment
12 Months
24 Months
36 Months
48 Months
60 Months

**Note:** LLPAs apply, refer to current rate sheet.

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## FlexIQ Non-Agency Prepayment Penalty Examples

The following examples illustrate how the FlexIQ prepayment penalty structures may be reflected in the final closing packages. Clients should consult with their legal/compliance teams to verify adherence to all federal and state laws. Additionally, Clients must partner with their document providers and legal/compliance teams to ensure the prepayment penalty language aligns with the FlexIQ policy.

The prepayment penalty can be disclosed within the body of the Note or in a separate addendum to the Note. A separate prepayment penalty rider to the security instrument (Deed of Trust or Mortgage) is required.

### 1. Six Months of Interest

- *Within Note*

#### 4. **BORROWER'S RIGHT TO PREPAY; PREPAYMENT CHARGE**

I have the right to make payments of Principal at any time before they are due. A payment of Principal only is known as a "Prepayment." When I make a Prepayment, I will tell the Note Holder in writing that I am doing so. I may not designate a payment as a Prepayment if I have not made all the monthly payments due under the Note.

The Note Holder will use my Prepayments to reduce the amount of Principal that I owe under the Note. However, the Note Holder may apply my Prepayment to the accrued and unpaid interest on the Prepayment amount, before applying my Prepayment to reduce the Principal amount of the Note. If I make a partial Prepayment, there will be no changes in the due dates of my monthly payment unless the Note Holder agrees in writing to those changes.

If the Note contains provisions for a variable interest rate, my partial Prepayment may reduce the amount of my monthly payments after the first Change Date following my partial Prepayment. However, any reduction due to my partial Prepayment may be offset by an interest rate increase.

If within THIRTY-SIX ( 36 ) months from the date the Security Instrument is executed I make a full Prepayment or one or more partial Prepayments, and the total of all such Prepayments in any 12-month period exceeds TWENTY percent ( 20.000 %) of the original principal amount of the loan, I will pay a Prepayment charge in an amount equal to SIX ( 6 ) months' advance interest on the amount by which the total of my Prepayments within any 12-month period exceeds TWENTY percent ( 20.000 %) of the original principal amount of the loan.

- *As Addendum to Note*

#### 4. **BORROWER'S RIGHT TO PREPAY**

I have the right to make payments of principal at any time before they are due. A payment of principal only is known as a "Prepayment." When I make a Prepayment, I will notify the Note Holder in writing that I am doing so. I may not designate a payment as a Prepayment if I have not made all the Monthly Payments then due under this Note.

I may make a full Prepayment or partial Prepayments without paying a Prepayment charge. The Note Holder will use my Prepayments to reduce the amount of Principal that I owe under this Note. However, the Note Holder may apply my Prepayment to the accrued and unpaid interest on the Prepayment amount, before applying my Prepayment to reduce the Principal amount of the Note. If I make a partial Prepayment, there will be no changes in the due date or in the amount of my Monthly Payment unless the Note Holder agrees in writing to those changes. **THIS SECTION IS SUPERSEDED BY THE ADDENDUM ATTACHED HERETO AND MADE A PART HEREOF.**

**PREPAYMENT ADDENDUM TO NOTE  
(Multi-State)**

This Prepayment Addendum to Note ("Addendum") is made this **15th** day of **December, 2025** and is incorporated into and shall be deemed to amend and supplement the Note of the same date (the "Note") given by the undersigned (the "Borrower") to evidence Borrower's indebtedness to **ABC Mortgage Company, LLC, a Limited Liability Corporation**

(the "Lender"), which indebtedness is secured by a Mortgage, Deed of Trust or Security Deed (the "Security Instrument") of the same date and covering the property described in the Security Instrument and located at **112233 Main St, Dallas, TX 75241**

(the "Property").

**ADDITIONAL COVENANTS.** Notwithstanding anything to the contrary set forth in the Note or Security Instrument, Borrower and Lender further covenant, and agree, that the provisions of the section of the Note titled **BORROWER'S RIGHT TO PREPAY** are amended to read as follows:

Subject to the prepayment charge provided below, I have the right to make payments of principal at any time before they are due. A payment of principal only is known as a "prepayment." A "full prepayment" is the prepayment of the entire unpaid principal due under the Note. A payment of only part of the unpaid principal is known as a "partial prepayment." When I make a prepayment, I will tell the Note Holder in writing that I am doing so. I may not designate a payment as a prepayment if I have not made all the monthly payments due under the Note.

If, within the first **12** month(s) beginning with the date I execute the Note (the "Penalty Period"), I make a full prepayment, or partial prepayment in any twelve (12)-month period that exceeds 20% of the original principal loan amount, I will pay a prepayment charge as consideration for the Note Holder's acceptance of such prepayment. The prepayment charge will equal the amount of interest that would accrue during a six (6)-month period on the amount prepaid that exceeds 20% of the original principal balance of the Note, calculated at the rate of interest in effect under the terms of the Note at the time of the prepayment, unless otherwise prohibited by applicable law or regulation. No prepayment charge will be assessed for any prepayment occurring after the Penalty Period.

## 2. Flat Prepay

- **3% Fixed Percentage**

**IN THE EVENT BORROWER PREPAYS ALL OR ANY PORTION OF THIS NOTE, OR THE LOAN EVIDENCED HEREBY, EXCEPT SCHEDULED MONTHLY INTEREST PAYMENTS, ON OR BEFORE THE DATE OF REGULARLY SCHEDULED PAYMENT 37, THE PREPAYMENT CHANGE WILL BE EQUAL TO THREE (3%) PERCENT OF THE ORIGINAL PRINCIPAL BALANCE. THE CHARGE APPLIES TO LOANS THAT PAYOFF OR REFINANCE.**

- **5% Fixed Percentage**

4.1, to the extent such prepayment premium does not exceed the Maximum Interest Rate.

**4.1.5** Except as provided in Section 4.1.6, a prepayment premium shall be due and payable by Borrower in connection with any prepayment of principal under this Note if Borrower prepays this Note in whole or in part within **60** months of the date of the Note ("Prepayment Period"). The prepayment premium shall be **five percent (5%)** of the amount of principal being prepaid for any prepayments occurring during the Prepayment Period.

### 3. Step Down

- *5%/4%/3%/2%/1% Step Down*

**5. Prepayment of the Indebtedness.** If Borrower makes any prepayment of principal owing under this Note, in whole or in part, on or before the five-year anniversary of the Closing Date (as defined in the Loan Agreement), Borrower shall pay Holder a prepayment premium ("Prepayment Premium") as follows: (i) for any principal prepayment made on or prior to the one-year anniversary of the Closing Date, the Prepayment Premium shall equal five percent (5.0%) of the amount prepaid; (ii) for any principal prepayment made after the one-year anniversary of the Closing Date, but on or before the two-year anniversary of the Closing Date, the Prepayment Premium shall equal four percent (4.0%) of the amount prepaid; (iii) for any principal prepayment made after the two-year anniversary of the Closing Date, but on or before the three-year anniversary of the Closing Date, the Prepayment Premium shall equal three percent (3.0%) of the amount prepaid; (iv) for any principal prepayment made after the three-year anniversary of the Closing Date, but on or before the four-year anniversary of the Closing Date, the Prepayment Premium shall equal two percent (2.0%) of the amount prepaid; and (v) for any principal prepayment made after the four-year anniversary of the Closing Date, but on or before the five-year anniversary of the Closing Date, the Prepayment Premium shall equal one percent (1.0%) of the amount prepaid. For purposes of this Section 5, the term "Prepayment" includes any payment or other reduction of the