FREEDOM MORTGAGE®

WHOLESALE

Product Guide:

Freedom Mortgage HELOC

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Table of Contents

Change Comments 3
FRM Products 3
Amortization and Draw Periods 3
General Terms and Objectives 3
Draw Periods 3
First Mortgage Requirements 4
Loan Amount and LTVs 4
Secondary Financing 5
Sales Concession 6
Buydown 6
Geographic Restrictions 6
Eligible Properties 6
Ineligible Properties 6
Occupancy Eligibility 7
Borrower Eligibility 7
Purchase 8
Rate/Term Refinance 8
Cash Out Refinance 8
Texas HELOC, Section 50(a)(6) 8
Underwriting Section 9
Credit 9
Income 10
Ratios 11
Direct Debt Payoff 11
Property and Appraisal Requirements 12
Mortgage Insurance 13

Property Insurance 13
Title Requirements 13
Escrow Waiver 13
Origination Fee 13
e-Notary Process 14

Change Comments

Updated guidelines to expand the geographic eligibility.

This document is not all encompassing. It is a summary reference tool to be utilized in conjunction with agency guidelines and applicable Freedom Mortgage Corporation (FMC) credit and compliance policies. Where this document is silent, refer to agency guidelines.

All bolded and highlighted items are FMC overlays.

FRM Products

- Product codes are not applicable

Amortization and Draw Periods

- 10 year FRM, 3 year draw period
- 15 year FRM, 4 year draw period
- 20 year FRM, 4 year draw period
- 30 year FRM, 5 year draw period

General Terms and Objectives

- **HELOC product is not available to Non-Delegated Correspondent lenders at this time.**
- The Freedom Mortgage Second Lien HELOC program is designed to offer a value-added financial solution to allow borrowers to tap into their home equity (versus a cash out refinance), especially in a higher-rate environment.
- This HELOC is an open-end product where the full loan amount (minus the origination fee) will be 100% drawn at the time of origination (original closing).
    - The initial amount funded at origination will be based on a fixed rate; however, this product contains an additional draw feature.
    - If the borrower elects to make an additional draw, the interest rate for that draw will be set as of the date of the draw and will be based on an Index, which is the Prime Rate published in the Wall Street Journal for the calendar month preceding the date of the additional draw, plus a fixed margin.
    - Accordingly, the fixed rate for any additional draw may be higher than the fixed rate for the initial draw.
- The HELOC calculates interest using the daily simple interest (DSI) method. Interest accrues daily based on the outstanding principal balance.

Draw Periods

- 100% of the line must be drawn at the time of closing:
    - Additional draws are based on the credit limit (initial draw + applicable fees).
    - As the borrower pays down their line balance, the line is eligible to be redrawn up to 100% of the credit limit.
    - Additional draws must be a minimum of $500 ($4,000 for Texas) and the total outstanding balance may not exceed 100% of the credit limit. Refer to Geographic Restrictions for eligible states.
    - APR for additional draws is based on the prime index and the fixed margin rate specified in the HELOC agreement.
    - A rate floor and rate ceiling will be outlined in the HELOC agreement; the rate will always fall in-between these amounts.
    - There is one monthly payment and it may increase.
    - Borrower credit will not be re-run for the additional draws (i.e. no new hard credit pull will occur).
- Borrowers may repay the line after the initial disbursement without prepayment penalty; however, note the following:
    - Regular monthly payments are still required until any origination fee, notary fee, and accrued interest have been repaid.
    - With any future draws, the APR will be determined at the time of request; therefore, the rate may differ from the rate selected during the application process.
    - With any future draw requests, a new AVM will be run. If the value of the property has declined significantly below the appraised value at origination, the ability to obtain an additional draw will be suspended until the significant decline in value no longer exists.

First Mortgage Requirements

- 90 day seasoning required from date of purchase
- 45 day seasoning required from date of previous refinance (applies to any liens against the subject property)
- First lien may not contain any of the below attributes:
    - Negative amortization
    - Modification from original terms
    - No forbearance of missed payments or repayment plans within the most recent seven (7) years
    - Amortization terms greater than 30 years
    - Privately held mortgages
    - Land contracts
    - Balloon terms
    - Reverse Mortgage
    - Interest Only payments

Loan Amount and LTVs

- CLTV calculation used for purposes of the second lien mortgage is the original principal balance (loan amount) of the second lien mortgage plus the unpaid principal balance of the first lien mortgage as of the Note Date of the second lien mortgage, divided by the AVM value.
- Minimum line amount of $25,000 required; properties located in the state of Texas require a minimum line amount of $35,000. Refer to Geographic Restrictions for eligible states.

Primary Residence				
Units	**Lien Position**	**Maximum Loan Amount**	**Maximum CLTV[1,2,3]**	**Minimum Credit Score**
1	2	$150,000	90%[4]	720
1	2	$150,000	85%	680
1	2	$125,000	80%	660
1	2	$125,000	75%	640
1	2	$150,000[5]	75%	640
1	2	$250,000	90%[4]	740
1	2	$350,000	85%	740
1	2	$400,000	80%	740
1	2	$400,000	85%	780
1	2	$750,000[6,7,8]	85%	780
1	2	$750,000[6,7]	80%	760
1	2	$750,000[6,7]	75%	740
1	2	$750,000[6,7]	70%	720
1	2	$750,000[6,7]	65%	700
1 - 2	2	$200,000	80%	680
1 - 2	2	$250,000	80%	700
1 - 2	2	$300,000	80%	720
1 - 2	2	$375,000	80%	740
1 - 2	2	$400,000	75%	740

[1] Maximum CLTV is also subject to FSD* (Forecast Standard Deviation) and product offering.
   a. FSD is a statistical measure used to assess the predicted accuracy of the AVM when estimating the property's value.
   b. FSD 14-20: Maximum CLTV 80% or as stated above for the given scenario
   c. FSD 21-25: Maximum CLTV 70% or as stated above for the given scenario

[2] Subject properties located in Texas or New York, maximum CLTV 80% or as stated above for the given scenario. Refer to Geographic Restrictions for eligible states.

[3] Subject properties located in Florida and property type is a Condo, maximum CLTV 70%. Refer to Geographic Restrictions for eligible states.

[4] CLTVs greater than 85% are subject to specific AVM requirements; refer to the Property and Appraisal Requirements for specific details.

[5] Borrowers with involuntary liens against the subject property are capped at a maximum loan amount of $125,000

[6] Borrowers eligible for $750,000 require a 24-month clean mortgage history and an established credit history.

[7] Loan amounts greater than $400,000 may only have one (1) outstanding lien against the subject property.

[8] Subject property must be a single-family residence with acreage not exceeding 5 acres.

Secondary Financing

- No more than two (2) mortgage liens on a single property permitted; the existing first lien and the Freedom Mortgage Second Lien. Additional liens, such as third liens or second liens held by other parties, are not permitted to remain on title.
- HUD partial claims are counted as a separate lien and the original loan amount used for CLTV calculations and to calculate DTI ratios.

Sales Concession

- Not applicable

Buydown

- Not permitted

Geographic Restrictions

- Eligible states include:
  - Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Montana, Nevada, New Jersey, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, Wisconsin, Wyoming.

Eligible Properties

- 1 Unit (Single Family), attached or detached
- PUD, attached or detached
- 2 Units
- Condominiums
  - Condominium questionnaire is not required

Ineligible Properties

- 3 – 4 Units
- Second Homes
- Investment Properties
- Cooperatives
- Commercially-zoned real estate
- Multi-family (5+) real estate
- Manufactured housing
- Timeshares
- Log Homes

- Houseboats
- Mixed-use properties
- Properties greater than 20 acres
- Properties with a Reverse Mortgage
- Properties purchased in the most recent 90 days
- Land Trusts
- Leaseholds
- Ground Lease

Occupancy Eligibility

- Primary Residence

Borrower Eligibility

- Eligible Borrowers include:
    - U.S. Citizens
    - Permanent Resident Borrowers
  - All borrowers must have a valid social security number and a valid U.S.-issued identification (ID).
    - Acceptable IDs include driver's license, state ID, Passport, Passport Card or Permanent Resident card.
  - Inter Vivos Revocable Trust
    - Review of the full Certificate of Trust is required
    - Not permitted in the state of New York. Refer to Geographic Restrictions for eligible states.
- Only one owner will apply and sign for the line of credit; however, any additional owners on the title are required to sign the mortgage documents.
- Spouses are required to sign when the subject property is located in a community property or homestead state. Such states require spouses to be added to the home equity line of credit to ensure awareness of the encumbrance; the additional signer's credit will not be pulled, and they are not financially responsible for the line.
- Power of Attorney (POAs) are not permitted
- Ineligible Borrowers include:
  - Non-Permanent Resident Borrowers
  - DACA recipients
  - Temporary Protected Status applicants
  - Foreign Nationals
  - Borrowers with diplomatic immunity
  - Borrowers with ownership in a federally illegal business
  - Borrowers working in the cannabis industry
  - Borrowers without a social security number or Borrowers with an ITIN
  - Asylee status (Asylum)
  - Irrevocable Trusts, Life Estates, Lady Bird Deeds or state equivalents, Blind Trusts

- Limited, General Partnerships and Corporations
- Land Trusts
- Borrowers less than 18 years old
- Non-occupant co-borrowers or co-signers
- Borrowers who are party to a lawsuit

Purchase

- Not permitted

Rate/Term Refinance

- Not permitted

Cash Out Refinance

- Permitted
  - The proceeds of the HELOC lien may be used for any purpose, including the payoff of certain debt. The system will indicate which debts may be available or unavailable for payoff.
  - If the first lien mortgage is subject to a Property Assessed Clean Energy (PACE) obligation that results in or provides superior lien priority to the first lien mortgage, the scenario is not permitted.

Texas HELOC, Section 50(a)(6)

- A 12-day cooling-off period is required prior to signing.
- Only an option of a 1.99% origination fee is available
- Minimum line amount is $35,000
- Maximum 80% CLTV is required per state law
- No more than one (1) unit permitted
- Subject property may not be subject to a cash out/home equity lien, open HELOC, or previous HELOC/home equity originated within the most recent 12 months.
- For Texas HELOCs, the borrower(s) are required to bring an electronic device to the notary appointment.
- The closing document package will be sent to the attorney's office for approval prior to the notary signing.
- All notary sessions must take place in a recording office
- Property condition report of greater than or equal to 'average' is required
- Refer to the Property and Appraisal section for additional valuation requirements on Texas transactions.
- Full title report is required in order to confirm both property and lien position information.
- No more than 10 acres

Underwriting Section

Eligible Transactions

- Stand-alone second lien

Ineligible Transactions

- Properties currently listed for sale
- Purchase or concurrent Refinances
- Bridge financing
- Renovation Loans (value based on future/incomplete improvements)
- Prepayment penalties are not permitted

Underwriting Requirements

- Loan must meet all eligibility parameters as detailed within the LTV and Loan Amount matrix
- Stand-alone second lien transactions only; simultaneous first and second lien transactions are not permitted.

Credit

Eligibility Criteria:

- No mortgage 30 or more days delinquent in the most recent 24 months
- No derogatory credit reported in the most recent six (6) months
- No non-medical collections with a balance greater than $500
- Excessive and recent inquiries will be closely reviewed
- No public record bankruptcy filed in the most recent five (5) years
- Borrower(s) with non-discharged/dismissed bankruptcy filings are not permitted
- No foreclosures in the most recent five (5) years

The following include examples of declination reasons that may indicate a borrower is exhibiting early signs of financial stress:

- For borrowers with a credit score less than 720 with the following:
  - 75% or greater of credit cards near or already maxed out,
  - Revolving credit covers two or less monthly payments, and
  - One or more new credit cards or personal finance accounts.
- For borrowers with a credit score less than 740 with the following:
  - Average credit card age is less than 24 months,
  - Three or less open tradelines, or
  - An authorized user ratio of greater than 30%.
- For borrowers with a credit score less than 780 with the following:
  - Two or more credit card inquiries,
  - One or more personal finance inquiries, and
  - Two or more credit velocity mismatch (speed of opening new accounts).

- Tradelines with Days Past Due (DPD):
  - Credit Score <680 with 30+ DPD in the most recent 24 months
  - Credit Score 680-779 with 60+ DPD in the most recent 24 months
  - Repeated delinquency events with one month or less between consecutive 30-180 days.

Income

- Borrower(s) income will be verified automatically during the application process.
  - Multiple methods will be made available to verify and connect online accounts to link to income sources.
  - Spousal income must be verified for subject properties located in a community property and homestead states.
  - Inflow from all connected accounts will be used to analyze and verify the borrower(s) stated income. If any variance is identified, borrower(s) will have the option to connect additional accounts, provide additional information (e.g. pay stubs and tax returns), or select a lower line amount based on verified income.
  - Spousal income must be verified for subject properties located in a community property and homestead states.
    - Spouse's income may be included if the subject property is located in a community or marital income state.
      - AK, AL, AR, AZ, CA, CO, DC, FL, IA, ID, IL, KS, LA, MI, MN, MO, MS, MT, NC, ND, NE, NH, NJ, NM, NV, OH, OK, SC, SD, TN, TX, VT, WA, WI, WY.
    - No other individual may be included in the borrower's total annual income.
- Verification of employment will typically be performed automatically.
- Two (2) years of income history is used where available and stable; otherwise, the most recent year can be used.
- For wage earners, W-2 or paystubs may be used to verify employment and income; system will make determinations on when applicable.
- Optimizing W-2 income may be used in cases where the borrower is dependent on non-salary income (bonus, commission, etc.), has a new job, or current year history falls short.
- In all cases, the borrower must be actively employed or receiving retirement, VA or disability income.

<u>Methods to Verify Income</u>

- Checking/Savings Accounts
  - System linked to financial accounts
  - Calculates gross income
  - Accounts must have at least 85 days of account history
  - Business accounts may be used to calculate income, requires a minimum 680 credit score.
    - During the business income calculation process, borrowers are subject to a litigation search for both the LLC and the individual borrower. No open litigations are permitted or no closed cases within the most recent 18 months.

- Asset Accounts
  - System linked to financial accounts, such as savings accounts, retirement accounts (401k, IRA, Retirement and Roth), and investment accounts (brokerage, money market, and CDs)
  - Asset depletion may be automatically calculated if the borrower has connected an eligible asset account.
  - Borrowers under age 59.5 will be permitted to use 70% of the retirement assets.
- Paystubs
  - System linked to the borrower's payroll provider
  - Borrower must have credentials for their payroll provider
  - Borrower must have a minimum of three (3) paystubs, one of which is dated within five (5) weeks of the application start date.
- Tax Returns
  - System linked to the borrower's tax preparer
  - Borrower must have credentials for their tax preparer
  - If the borrower does not have a tax preparer, they must use an IRS.gov account for linking.
  - Borrower must provide their most recent tax year for verification
  - Self-employed borrowers must have specific verification logic.

Ratios

- CLTVs up to 85%: Maximum DTI Ratio: 50%
- CLTVs greater than 85%: Maximum DTI Ratio: 45%
- Loan amounts greater than $400,000 with a credit score less than 740: Maximum DTI Ratio: 45%
- Paying off debt to qualify using funds from the transaction may be permitted; refer to the Direct Debt Payoff section for details.
- Student loans with repayment information not provided on the credit report must qualify using 5% of the outstanding balance

Direct Debt Payoff

- The below requirements apply only when the borrower(s) is paying off debt in order to reduce their debt-to-income (DTI) ratios in order to qualify.
- Certain debts may be paid off using funds from the transaction to assist the borrower(s) with qualifying for the loan transaction.
- The system will indicate which debts may be available or unavailable for payoff. Unavailable debt accounts will provide a detailed explanation of why they do not qualify.
- When paying off Revolving Credit Accounts:
  - Note, the revolving accounts will not be closed by Freedom Mortgage.
  - If paying off revolving debt is required to meet qualifying ratios, the following are required:
    - Borrower must have a minimum 680 credit score

        - Accounts may not be in a charge-off status
        - The collective monthly payments may not represent more than 20% of the borrower's stated income
- Other eligible debts that may be considered for payoff to qualify include personal loans, auto loans, home improvements loans, and existing liens.
    - The payoff of any existing property liens is not available in the states of Delaware, Maryland, Hawaii, Idaho, Utah, Texas, and West Virginia.
    - The payoff of any existing property liens secured by Figure Lending requires a minimum of three (3) payments made. Payoff of a Figure Lending lien is not permitted in the following states regardless of seasoning: Maryland, Texas.
    - Refer to Geographic Restrictions for eligible states.
- NOTE: The multi-lien payoff feature has been temporarily suspended.

Property and Appraisal Requirements

- Internally (third-party) issued AVM; full appraisal is not required for loan amount sup to $400,000.
    - For CLTVs greater than 85%, a second AVM to support the property valuation will be ordered from a different provider than was utilized on the first AVM.
    - If either AVM has a FSD score greater than 13, the CLTV must be reduced to 85% or less.
- If the loan does not receive an AVM option, then a BPO order option will be made available.
    - The borrower will be given the option of selecting a BPO offering; if the borrower(s) elects the BPO option, a fee will be added to the loan at closing.
        - BPO fee if $180 and is not paid out-of-pocket. The fee will be added to the total loan amount and calculated as part of the borrower's monthly payments after funding.
    - Borrower(s) will receive an email notification upon completion of the BPO.
        - The BPO order option will be labeled as a "residential evaluation report"; recommend using this term when describing to the borrower(s).
    - Final loan offers will be calculated based on the BPO evaluation.
    - The BPO order process can take up to 1 to 3 business days from date of order.
- For loan amounts greater than $400,000, a Full Appraisal is required.
    - The Appraisal Underwriting Risk Analyzer (AURA) Report Qualify Score must be equal to or greater than 8.5; otherwise, the appraisal will be escalated for review.
    - Appraisal must be completed "As-Is".
    - A "Subject-To" status will require a final 1004D showing all subject-to conditions have been remediated.
    - Property Condition Ratings of C1-C4 are required.
    - FSD is set to 1.
- Texas Specific Appraisal Requirements
    - Texas HELOC requires a CAPE condition report (via Cape Analytics) greater than or equal to 'average' in order to proceed.
    - This BPO order is at no cost to the borrower.
    - Eligibility is based on this full report.

    - Refer to Geographic Restrictions for eligible states.
- Survey is not required
- Subject properties located in a Natural Disaster Area:
    - If the subject property is located in an area impacted by a significant disaster and there is a high likelihood that FEMA will declare it a major disaster area where individual assistance is granted, the following is required:
        - Post Disaster Inspection is required during and after the disaster incident period end date.
        - If damage is assessed in an amount equal to or less than $1,000, the application may proceed; otherwise, a declination will be issued.
            - NOTE: Subject properties with previous damage assessment greater than $1,000 due to a natural disaster within the most recent six (6) months are not eligible.
        - All in-progress applications on properties located in impacted areas will be identified and will not be permitted to close until an inspection of the property has been completed.
        - All new applications on properties in impacted areas will require an inspection of the property.

Mortgage Insurance

- Not applicable

Property Insurance

- Verification of property insurance is not required for second lien position HELOCs

Title Requirements

- Stewart Instant Title will be issued for initial review in the application process
    - If Freedom Mortgage discovers in the course of processing the application that the Borrower was added to title in the most recent 90 days, the property was held in an unsupported ownership type in the most recent 90 days, or is made aware of reverse mortgage on the subject property, the borrower will be considered ineligible.
- A final Stewart Full Property Report will be issued during the final underwriting stages
- Recording fees are considered a borrower paid fee; amounts vary by state.

Escrow Waiver

- Not applicable

Origination Fee

- Variable origination fees are offered to allow borrowers the opportunity to customize a financial solution.
- The origination fee is a one-time fee that may be selected by the borrower during the prequalification process.
    - If an origination fee is selected, it is added as a part of the total line amount to avoid paying the fee upfront; instead, it is paid off over time as part of the regular monthly payments on the line of credit.
- Note, a higher origination fee may reduce the APR and monthly payment but will increase the total line of credit amount.

e-Notary Process

- Borrowers can connect with the e-Notary through a video conference by logging into their customer dashboard and selecting "Talk to a notary"
    - Requires a device with a camera and microphone
- e-Notaries are available Monday-Saturday (excluding major holidays) from 7 AM–5 PM Pacific Time. If the borrower applies after hours, they will have the option to schedule an appointment during business hours.
- For counties that require a "wet ink signature" for recording purposes, a signing appointment will be arranged with the vendor at a date, time, and location of the borrower's choosing.
- Any additional signer identified during the application process will be required to log in and complete a separate e-Notary session.
    - After completing the online application, all borrowers will receive an invitation email to schedule a signing session.
- Not eligible in the state of Texas.

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