

# Compass Bank

## Mortgage Financial Services

Compass Bank  
Mortgage Financial Services  
401 West Valley Avenue  
Birmingham, Alabama 35209

Compass Bank  
Mortgage Financial Services  
10060 Skinner Lake Drive  
Jacksonville, Florida 32246

Compass Bank  
Mortgage Financial Services  
2525 Ridgmar Boulevard  
Fort Worth, Texas 76116

## General Closing Instructions For Residential Home Loans

**Rule of Professional Conduct** – *You have been chosen to close a real estate mortgage transaction. It is understood that an attorney cannot represent the buyer, the seller, and the lender in the same real estate transaction. The closing attorney is expected to assist the lender with preparation of loan closing documents, title work and priority lien, and comply with the lenders' written closing instructions. If a conflict should arise between any of the parties involved in the closing, the lender should be notified prior to the closing of the loan. By accepting a closing package, the Settlement Agent agrees to receive communications from Compass Bank (which may include faxes, phone calls and emails) as necessary to conduct closing and post-closing activities.*

Compass Bank (hereinafter referred to as Lender) has established the following General Closing Instructions for the closing of residential mortgage loans.

**Each loan package will be accompanied by instructions specific to that transaction.** All closings are subject to the general requirements set forth herein. To the extent that the Specific Closing Instructions shall conflict with the general requirements, the Specific Closing Instructions shall control.

Except in the case of a refinance, each loan has been processed and approved based on terms outlined in a sales contract. ***If the borrower receives any credit from the seller which reduces the agreed sales price, or if the terms of the transaction differ from the terms described in the sales contract, you must notify Lender prior to closing.***

The following numbered paragraphs and headings are for your convenience in locating information quickly and conveniently. However, Lender requires that you are familiar with all the information and requirements set forth herein and shall close loans in the name of Lender accordingly. If you do have a question regarding these General Closing Instructions or the Specific Closing Instructions, please call the Compass Closer that is listed on your Specific Closing Instructions immediately and we will do our best to answer your questions or resolve any problems you may have with a particular loan closing.

### 1. CHECKS

**Checks to Lender, Other Parties (fees are net funded)**  
– As a general rule, Compass Bank will disburse to the Closing Agent net funds associated with the mortgage

closing. The net funding amount is calculated by subtracting discount points, origination and other fees, prepaid interest and tax and insurance escrows from the loan amount. In the event checks are necessary to cover fees, prepaid items, or other charges, these funds should be drawn on your Trust Account and made payable to Compass Bank. Lender will not accept a borrower's personal check for these items. **Checks payable to Lender must be returned in the closed package, NOT under separate cover.**

**Pay-Off Checks** – Do not include payoff checks for the Lender's construction loan or permanent loan in the closed loan package unless instructed to do so in the Specific Closing Instructions.

**Construction-Permanent Loans** – Money for the lot advances and construction disbursements will be available through the Compass Bank Construction Unit. If money is needed at closing, the Specific Instructions will reflect the name and phone number of the person disbursing the funds. See Specific Closing Instructions.

### 2. CLOSING, RECORDING AND DISBURSEMENT PROCEDURES

When Lender transmits closing instructions to you as an approved closing agent, Lender will require that you handle the closing of a first mortgage at no expense to Lender. **We further require that the loan be closed and disbursed on the same day** except when a customer has a right to rescind the transaction or if closing takes place late in the afternoon. Most loans will be funded by wire on the date of disbursement. You are responsible for requesting the wire by faxing or e-mailing your wiring instructions to the Compass Bank Closer indicated on our instructions on or before the

disbursement date. Please list the borrower's name, loan number and disbursement date on your instructions. ***Do not disburse loan proceeds until you are in a position to guarantee Lender an insured first mortgage lien.*** Closed loan packages must be sent to the Lender no more than the day following loan closing or disbursement, whichever is later. The package should be returned by certified mail, express mail, or any other carrier of your choice that can be traceable in case of loss. The address to which the package should be returned is as follows:

Compass Bank  
Mortgage Financial Services  
401 West Valley Avenue  
Birmingham, Alabama 35209  
ATTN: Post Closing Department  
AL BI HW PCL

***Failure to deliver the closed loan package on a timely basis may result in Lender's inability to meet an Investor's delivery deadline, requiring your financial reimbursement to Lender for any expenses or penalties.***

**Title must be held by natural persons. Any exceptions must be approved in writing by the Compass Bank Closer prior to closing.**

### **3. CLOSING BY MAIL**

Lender allows mail-away closings on a case by case basis to accommodate special circumstances, provided all documents are executed according to lender's closing instructions and according to state specific requirements.

### **4. COMPLETION OF DOCUMENTS**

Lender may complete all or parts of the closing documents transmitted with the Specific Closing Instructions. ***As allowed by state law, please complete the forms where we have not done so. We rely on the Settlement Agent to ensure that each form is fully and correctly completed, including but not limited to DATING forms as needed and fully completing the Right of Rescission, Note, Security Instrument, and any Riders.*** If you find that Lender has provided incomplete or incorrect information on any documents, please notify Lender promptly, and we will provide corrected documents or authorize you to complete a new document. The Settlement Agent agrees to assist the Lender in obtaining corrective documents from customer when requested.

### **5. COMPLIANCE WITH APPLICABLE FEDERAL, STATE OR MUNICIPAL LAWS AND ORDINANCES**

All statutes, laws, regulations and/or ordinances of the specific jurisdiction must be complied with as necessary to provide Lender with a valid first lien upon the

property given or conveyed as security for the loan. If the pending loan will be insured or guaranteed by the Federal Housing Administration (FHA) or the Veterans Administration (VA), the closing agent is required to comply with any additional instructions or requirements of the respective agency.

Within the framework of the real property and mortgage laws governing your state, Lender must be able to originate FHA and VA mortgages which can be government insured and/or guaranteed, and Conventional mortgages that will be acceptable to Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and other investors. All of these loans must be marketable in the secondary mortgage market.

### **6. CONTINGENCIES**

Special instructions relating to contingencies for the specific loan transaction are included in the Specific Closing Instructions for each loan. Meeting all contingency requirements is vital to Lender's ability to obtain agency or investor approval and deliver the loan promptly. ***All contingencies must be met prior to closing.***

### **7. COPIES**

Copies of all loan documents **must be** given to the borrower. The closed loan package must consist of the original and required number of copies of each document as requested in the Specific Closing Instructions. **We strongly recommend that the closing agent also retain copies of loan documents for reference in case of questions or misplaced originals.**

### **8. EASEMENTS**

Easements contained in Schedule B of the title policy should be properly identified as to purpose and location on the property and checked against public records for any encroachment or violation. ***Any negative or adverse easements must be brought to Lender's attention prior to closing the loan.*** A copy of all easements excepted in the title policy is required as part of the closed loan package, except standard easements such as telephone and public utilities. (See "SURVEY" and "TITLE INSURANCE".) An ALTA 9 is required on any policy which contains exceptions to easements.

### **9. EQUAL OPPORTUNITY ACT (ECOA)**

ECOA provides that a lender may not require a spouse to obligate her/himself to repay the debt of a borrower; it also provides that a lender accept as a co-borrower any party who qualifies under the lender's income/credit criteria. ECOA permits a lender extending secured credit to require the signature(s) of any person(s) necessary to adequately secure the debt. This will include anyone who has any interest in the property arising out of conveyance, dower, marital rights or any other rights or

obligations based on laws of the state in which the property is located. Closing agents must ensure that all necessary signatures are obtained.

## 10. ESCROWS

**Taxes, Insurance** – The initial escrow deposits must be computed on the basis of actual insurance premiums, tax valuations, and rates. The closing agent must take into consideration expected increases in valuations and rates for any tax payments to be made in the 12 months beginning with the borrower's first payment date. For example, if the current tax value is on the basis of a vacant lot or partial completion of construction, but a tax payment based on 100% completion will be due in the 12-month period beginning with the borrower's first payment, the monthly escrow deposits should be based on 100% completion. Exact information will be provided on page 2 of the Specific Closing Instructions. The exact escrow information provided to you should be reflected on page two of the HUD-1 Settlement Statement. The second page of the HUD-1 Settlement Statement will indicate the amount of escrow deposits which should be collected and the aggregate adjustment that must be given. **The escrow section of the actual HUD-1 Settlement Statement, signed by the borrower(s), must reflect the information provided by the Lender. If you do not agree with the amounts Lender has provided, you must contact the Compass Closer.** Escrow may be waived by the Lender on certain loan types if the Loan-to-Value is 80% or less. All government loans and our affordable housing (CRA) loans require escrow. Please call our office if borrower(s) wish to waive escrow.

**Escrow for Completion of Improvements** – You must obtain prior approval from Lender in order to escrow funds necessary for completion of improvements. If approved, an escrow agreement provided by Compass Bank must be executed by all affected parties and included in the closed loan package. The escrow funds will be held by the closing agent. Once the improvements have been completed, the Loan Officer/Processor will contact the closing agent and authorize the release of funds.

## 11. FLOOD INSURANCE

Federal flood legislation states that a lender must require flood insurance on properties located in Special Flood Hazard Areas once such areas have been identified and coverage is available through community participation in the program. The legislation further states that lenders may not make federally-related loans on properties in Special Flood Hazard Areas if the community does not qualify for participation in the program within a specified period of time after flood areas are identified. Our compliance with this legislation is mandatory. We obtain a Federal Emergency Management Agency Standard Flood Hazard Determination form on all

properties that we finance. ***If Lender indicates that the property is a special flood hazard area, flood insurance is required.***

Lender must require flood insurance coverage for any improvements located in zone A or V. **The Federal Emergency Management Agency (FEMA) will not allow lenders to waive flood insurance due to elevation of the subject property.** (The elevation will be helpful to the insurance agent in determining the premium for the flood insurance.)

If the property is located in a Special Flood Hazard Area (zone A or V), Lender will require a copy of the application for flood insurance and the paid receipt for the first year's premium. Where flood insurance is required, names, address of property and loss payable clause should be the same as the hazard insurance policy. Flood insurance should be in the form of the standard policy issued by member of the National Flood Insurers Association. The **minimum amount of flood insurance** is the higher of (a) the unpaid balance of the mortgage up to 100% of replacement cost of the insurable improvements (land value is not insurable); or (b) 80% of the replacement cost of the insurable improvements. However, unless stated as a special contingency in the Specific Closing Instructions, coverage need not exceed the maximum insurance available under the appropriate National Flood Insurance Administration program. The maximum deductible is \$5,000.00. If flood insurance is necessary, an appropriate escrow must be set up if an escrow account for taxes and insurance is required. The closing agent is responsible for obtaining certification stating flood insurance is in effect (or copy of flood application and paid receipt) from the hazard insurance agent. If closing agent is unable to do this, **do not close the loan.** Call Lender for assistance.

## 12. HAZARD INSURANCE

**Evidence of Insurance** – The property secured by mortgage from Lender must maintain evidence of all required insurance coverages in one of the following forms:

- A signed original policy and applicable endorsements
- A copy of the signed original policy and applicable endorsements
- A signed certificate, evidence or declarations of insurance or binder where required by law showing at least the following information:
  1. Name insured and mortgagee
  2. Property address
  3. Type, amount and effective dates of coverage
  4. Deductible amount and coverage to which each such deductible applies
  5. Any endorsement or optional coverage

obtained and made part of the original policy

6. Insurer's agreement to provide at least 10 days' notice to the mortgagee before any reduction in coverage or cancellation of the policy

Lender also requires proof (paid receipt) that the first year's premium has been paid.

**Licensing of Insurer** – All insurers and re-insurers must be licensed, or otherwise authorized by law, to conduct business in the jurisdictions where the mortgaged premises are located.

**Assessments** – Insurance contracts must provide that no assessment may be made against the Lender and that any assessment made against others may not become a lien on the mortgaged premises superior to the outstanding liens.

**Rating of Insurer** – The required insurance must be provided by an insurance company that shows current rating meets the requirements below:

- For a company rated by A.M. **Best** Company
  - A minimum Financial Performance Index of 6 as reported in *Insurance Reports – Property/Casualty or Key Rating Guide – Property/Casualty*; or
  - A minimum rating of B/III as reported in *Insurance Reports – Property/Casualty or Key Rating Guide – Property/Casualty*; or
  - A minimum rating of A/VIII as reported in *Insurance Reports – International*
- For a company rated by **DEMOTECH, INC.**, a minimum rating of A as reported in *First Page/P&C Financial Stability Ratings*
- For a company rated by **Standard & Poor's** Corporation
  - A rating of BBBq as reported in *Insurer Solvency Review – Property /Casualty Edition*; or
  - A minimum rating of BBB as reported in *Insurer Solvency Review – Property /Casualty Edition*; or
  - A minimum rating of AAisi is as reported in *International Confidential Rating Service or International Solvency Reports Service*

**Mortgage Clause** – Unless otherwise instructed by Lender, the policy mortgagee clause must insure Lender as follows:

**Loans Closed for Compass Bank:**

Compass Bank  
Its Successors and/or Assigns, ATIMA

**Compass Bank Mortgage Financial Services – General Closing Instructions (4/2007)**

P.O. Box 200017  
Kennesaw, GA 30156-9246

**Coverage** – At a minimum, the insurable improvements on the mortgaged premises must be insured for loss or damage from fire and other perils covered within the scope of standard extended coverage. *We will not accept hazard insurance policies that limit or exclude from coverage (in whole or in part), windstorm, hurricane, hail damages, or any other perils that are normally included under an extended coverage endorsement. An additional endorsement for Sink Hole Coverage is required if exception is noted on Title.*

The insurance limits must at least equal the **higher** of

- The unpaid balance of the mortgage up to 100 percent of the replacement cost of the insurable improvements
- 80 percent of the full replacement cost of the insurable improvements

Deductibles may not exceed the higher of

- \$1,000 or 1% of the face amount of the policy

**PUDS** – If the individual units are covered by insurance purchased by their respective owners, the PUD homeowners association must maintain “all risk” coverage for common areas and property for 100 percent of their insurable value and providing for loss or damage settlement on a replacement cost basis. The association must also obtain any additional coverage commonly required by private mortgage investors for developments similar in construction, location and use, including the following where applicable and available:

- Agreed amount
- Demolition cost
- Increase cost of construction
- Boiler and machinery

The insurer's minimum liability per accident under boiler and machinery coverage must equal the insurable value of the building housing such boiler or machinery or \$2 million, whichever is less.

Deductibles may not exceed the lower of \$10,000 or 1 percent of the applicable amount of coverage. Funds for such deductibles must be included in the association's reserves and be so designated.

Lender will also accept blanket insurance covering all units in the PUD as well as insurable common areas and property, if called for in the PUD's constituent documents. Such coverage must meet the requirements applicable to each PUD unit and those applicable to insurance of common areas and property. Deductibles are allowed under this blanket coverage provided that the deductible for losses to an individual unit does not exceed the lower of \$1,000 or 1 percent of the unit's insurable value. Funds for any deductibles must be included in the association's reserves and be so designated. The PUD's insurance policy must name the

insured in substantially the same language indicated below:

Association of Owners of the ...Planned Unit Development for the use and benefit of the individual owners (designated by name).

**Condominiums** – The condominium owners association must maintain blanket “all risk” coverage for the following:

- General and limited common elements within the condominium
- Fixtures, machinery, equipment and supplies maintained for the service of the condominium
- Fixtures, improvements, alterations and equipment within the individual units

Coverage must be for 100 percent of the insurable value of the common elements or property described above and provide for loss or damage settlement on a replacement cost basis. The additional coverages required of PUD homeowners associations are also required of condominium owners associations where applicable and available. Deductibles may not exceed 5% of the applicable amount of coverage. Funds for such deductibles must be included in the association’s reserves and be so designated. The insurance policy of the condominium owners association must name the insured in substantially the same language indicated below:

Association of Owners of the .... Condominium for the use and benefit of the individual owners (designated by name).

If the mortgaged premises are in a condominium of detached units and the condominium constituent documents so permit, Lender will accept insurance for the mortgaged premises that meets the requirements of normal 1-4 unit properties. The condominium owners association must maintain all other applicable insurance coverages required in this condominium section.

**Liability Insurance for PUDs and Condominiums** – The PUD or condominium owners association must carry comprehensive general liability (CGL) insurance covering all common areas, common elements, commercial spaces and public ways in the PUD or condominium. If not already included in the terms of the CGL coverage, there must be a “severability of interest” endorsement precluding the insurer’s denial of a unit owner’s claim because of negligent acts by the association or other unit owners.

**Fidelity Insurance** – Fidelity insurance is required for all Class I, II, III Condominium Projects that consist of more than 20 units. Lender will accept coverage that meets the states’ statutory fidelity insurance requirements.

### **13. HUD-1 SETTLEMENT STATEMENT**

This form is comprised of Pages 1 and 2 with an

addendum and is required under the Real Estate Settlement Procedures Act (RESPA) and Regulation X. **Provisions pertinent to the use and completion of the HUD-1 Settlement Statement are set out in sections 3500.8 to 3500.10, inclusive, and Appendix A to part 3500. You are instructed to complete the HUD-1 Settlement Statement in accordance with the provisions of RESPA and Regulation X.**

All charges in connection with closing, including prepaid items and closing costs, must be included in the Loan Settlement Statement and must itemize all amounts paid, by whom, and to whom. The charges must agree with the sales contract and must be acceptable under FHA/VA regulations, if applicable. It is **not acceptable** to show costs paid on behalf of the borrower by another party (such as seller) as a lump-sum credit; page two of the HUD-1 must itemize which costs were paid by each party.

**ALL SERVICE PROVIDERS MUST BE SHOWN ON PAGE TWO OF THE HUD-1, INCLUDING POC SERVICE PROVIDERS.** (Service provider names known to the Lender are shown on page 1 of the Specific Closing Instructions. **Do not** show Lender as a service provider unless instructed to do so by Lender.)

**Refinances** – There are provisions in the VA and FHA regulations which permit borrowers to refinance their loans for the sole purpose of reducing the interest rate on the loan, in which event the borrower is not permitted to receive any cash proceeds from the new loan. In addition, there may be circumstances on a conventional (FNMA/FHLMC/Private Investor) refinance in which the borrower is not permitted “equity takeout” or to derive cash proceeds for any reason. Please refer to the Specific Closing instructions or call Lender prior to closing if you find that the disbursement of loan proceeds will differ from that anticipated in the Specific Closing Instructions.

**Prepaid Items** – Prepaid items include but are not limited to initial escrow deposits for taxes and insurance, interim interest, first annual premium for hazard, flood, and any tax service fee or express mail fee, and private mortgage insurance, if applicable. Prepaid settlement costs must be paid by the purchaser of the property unless otherwise specified in the Specific Closing Instructions. All other charges incident to the loan closing, unless otherwise specified, are considered closing costs.

**FHA Loans** – FHA regulations require that the borrower must have cash equity in the security property. The equity may or may not include a portion of the closing costs, depending on the type of FHA loan. FHA regulations contemplate that the Seller will pay the sales or brokerage commissions, mortgage assignment or release fees, seller’s pro-rata share of taxes, and termite report.

On certain types of FHA loans, 100% of the mortgage insurance premiums may be financed or paid in cash at

closing (one-time MIP). The MIP will be net funded from the wire, check or direct deposit sent to the closing agent, if financed. HUD charges a late fee if the one-time MIP is not received by them within a 10 day period following closing. ***The closing agent is required to submit the closed loan package to Lender within 24 hours of closing. If Lender is required to pay late fees to HUD due to receiving the closed loan package late, the closing agent will be responsible for the payment of these fees.***

Mortgagees may charge and collect from mortgagors those customary and reasonable costs necessary to close the mortgage. Except for discount points, these fees may also be used to meet the homebuyer's minimum investment requirement. Due to existing requirements, **mortgagors cannot pay:**

Tax Service Fee

Normal Seller Expenses

Origination fee greater than 1 %

Mortgagees are also reminded that aggregate charges may not violate FHA's tiered pricing rules.

The seller's maximum contribution to the homebuyer's actual closing, prepaid expenses, discount points, and other financing concessions remains at 6% of the sales price. Seller contributions in excess of 6% will continue to require a dollar-for-dollar reduction to the mortgage.

The signature and date of the borrower(s), seller(s), and settlement agent, in addition to all certifications required by HUD or the Federal Housing Authority, is required on or attached to the HUD-1 Settlement Statement.

**VA Loans** – On the majority of VA loans, a VA funding fee will be required. The VA funding fee will be net funded from the wire, check or direct deposit sent to the closing agent, if financed. VA charges a late fee if the funding fee is not received by VA within a 15-day period following closing. ***The closing agent is required to submit the closed loan package to Lender within 24 hours of closing. If Lender is required to pay late fees to VA due to receiving the closed loan package late, the closing agent will be responsible for payment of these fees.***

VA regulations require that unless there has been specific approval by VA, certain costs may not be paid by the veteran. Examples of costs the veteran **may not** pay are: (non-inclusive)

- Underwriting/Commitment Fees
- Appraisal fee (except if veteran's name appears on the Certificate of Reasonable Value).
- Inspection fees for inspections made prior to date of Sales Contract (then limited to one – three if a proposed construction)
- Photo fees, repair inspections and any repairs required by pest inspection.

- Sales/Brokerage Commission
- Settlement or closing fee, document preparation, notary fees (items 1101, 1105, 1106 respectively on HUD-I).
- Recording fees for mortgage release, mortgage assignment
- Seller's pro-rata share of taxes for year in which loan is closed
- Charges for copying, mailing, long distance charges, etc.
- Tax Service Fee
- Attorney Fee cannot be shown on line 1107 or 1101. Attorney may charge a Title Search Fee on line 1103
- Termite Inspection (unless a refinance)

## 14. MANUFACTURED HOUSING

The land and improvements must be real estate under applicable law and the Mortgage must be evidenced by the appropriate FNMA/FHLMC Uniform Note and recorded FNMA/FHLMC Uniform Security Instrument. Other forms of security, such as a Uniform Commercial Code (UCC) filing, are required if necessary to ensure that the lien of the Mortgage covers all appliances, equipment and fixtures that are intended to be part of the Mortgaged Premises.

The Mortgaged Premises must be taxed as real estate by the jurisdiction where they are located if such taxation is permitted under State law as of the Origination Date.

The Mortgage must be covered under a standard real estate title insurance policy or attorney's title opinion or certificate that identifies the Manufactured Home as part of the real property and insures or indemnifies against any loss if the Manufactured Home is determined not to be part of the real property. ***ALTA 7 Title Endorsement is required. The Certificate of Title must be cancelled prior to loan closing.***

## 15. NAME AFFIDAVITS

From time to time variations in the borrower(s) name(s) will occur. If any such variations exist, a completed name affidavit must be executed by the borrower(s). Names and signatures in the Note and Security Instrument must be uniform in all instances. The closing agent should review all loan closing documents to determine there are no name variances.

## 16. NOTE

**Format** – Unless specified differently in the Specific Closing Instructions, Lender will accept only the latest revised note forms issued by the respective governmental agencies, investors (FHA-VA-FHLMC-FNMA) or Lender. The loan amount, term, and interest rate cannot exceed the limits imposed by the governmental agency on their mortgage approval form and/or our Specific Closing Instructions. **The execution date must coincide**

**with that of the Security Instrument; and the alphabetical and numerical amounts, signatures, installments, and interest rate all must conform to those that appear in the Security Instrument.** You are responsible for checking the FHA/Direct Endorsement Approval for HUD/FHA Insured Mortgage and our Specific Closing Instructions sent with each case to ensure the terms of the Note do not exceed the limits set by the respective agency or by Lender.

All notes should be made payable to:

Compass Bank  
P.O. Box 13345  
Birmingham, Alabama 35202

**Maturity Date** – The maturity date of the Note must be the calendar month prior to the calendar month in which the first payment is due, related to the term of the loan involved. On FHA loans the term of the Note must be exactly as shown on the Direct Endorsement Approval for HUD/FHA Insured Mortgage, Form 92900-A. The FHA Case Number and Compass Loan Number must appear on both the Note and Security Instrument.

**Alterations, Corrections** – All alterations, lift-offs, corrections and erasures, if any, in the Note must be initialed by all borrowers.

**Named Borrowers** – Lender is extending credit to those listed in our Specific Closing Instructions as “Borrower(s)”, and only those so designated shall sign the note.

**Initial Monthly Payment Due Date** – On all loans, the first payment will be due on the first day of the second month following loan disbursement; i.e., date funds are disbursed. This may be a different date than the day of execution of the loan documents. Use the date of disbursement to calculate the initial monthly payment due date. For example, if disbursement of funds is any time in the month of June (except the 1<sup>st</sup> day of June), the first payment due date will be August 1<sup>st</sup>. Exception: If the loan disburses on the first day of the month, collect no interim interest and the first due date will be the first of the following month. For example, if disbursement of funds occurs on the first day of June, the first payment due date will be July 1<sup>st</sup>.

## 17. PUDS AND CONDOMINIUMS

Fee simple title to the common areas must be vested in the name of the Owners Association and not subject to any liens, including tax liens, statutory liens for labor or materials arising from an improvement on the common areas commenced prior to date of closing, or liens arising under or created by any document specifically referred to in Schedule B of the title policy.

Standard ALTA endorsements must be issued with the title policies on PUDs and Condominiums. Condominiums: ALTA Endorsement Form #4 (T28 for Texas), PUDs: ALTA Endorsement Form #5 (T17 For Texas).

When required by the Specific Closing Instructions the title policy issued on this loan must include additional affirmative coverage as follows:

- There is no limitation on mortgaging a unit to a mortgagee, institutional investor or Lender, or if there is a limitation, FHLMC, FNMA, mortgage bankers, and federally-insured institutions are included as approved mortgagees, institutional investors or lenders.
- The right of the unit owner to sell, lease, transfer, or otherwise convey his unit is not subject to any right of first refusal or similar restriction or if it is, the association must respond within 60 days or agree to a proposed sale or by providing a substitute purchaser; and which restriction in any event would not be applicable to a mortgagee who has acquired title by foreclosure or Deed-in-Lieu.

## 18. POWER OF ATTORNEY

No loan should close with Power of Attorney unless Lender gives prior approval. If Lender approves the use of a Power of Attorney, the following minimum requirement (plus any additional requirements necessary to satisfy Investors, FHA, or VA) must be met:

Power of Attorney form should be specific and grant the authority to endorse checks, purchase property, execute a note, and encumber real estate. On a VA loan, if the veteran is granting authority, it must give the power to use the veteran’s VA entitlement.

- Power of Attorney must be recorded prior to recording the Security Instrument.
- Closing attorney must provide evidence that borrower was alive as of date of closing. Example: On a VA loan, if veteran is in Service, a letter from his commanding officer or telegram or letter from veteran dated on closing date confirming veteran is alive. We suggest that the Red Cross is often the fastest means of obtaining such verification if the absent borrower is out of the country.
- All closing documents should be signed by Attorney-in-Fact in their own handwriting. Attorney-in-Fact should sign name of principal followed by signature of Attorney-in-Fact and so specify capacity.
- It is the closing agent’s responsibility to ensure that the POA also meets state and/or local laws.

## 19. REFINANCE

When required in the Specific Closing Instructions, it is the responsibility of the closing attorney to furnish Lender with proof that debts have been paid. Where paid receipts are not available at the time of closing, proof of payment may be provided by photocopies of the checks used to pay off required debts together with certification by the closing attorney/agent that said debts have been paid.

## 20. RIGHT OF RESCISSION

On those loans in which a security interest is taken in a consumer's primary residence, each consumer who has an ownership interest in the property has the right to rescind. Typical transactions which involve the right to rescind are refinances and those situations in which title to the primary residence is already in the consumer's name. Transactions which are exempt from rescission include loans made to finance the acquisition or initial construction of the primary residence. Refinances to pay out a Compass mortgage with no cash back (except an amount equal to items shown as POC on the Specific Closing Instructions) are also exempt from rescission, and there are several other narrow exemptions. You should receive the "Notice of the Right-to-Cancel" form in your closing package when applicable. If there is any question as to whether the loan is subject to rescission call Compass Closing for clarification prior to closing. **DO NOT CLOSE THE LOAN without giving the Notice when applicable. You will need to complete the dates and follow the instructions stated on the form. Each party with the right to rescind must receive two copies of the Notice.** Please follow these instructions carefully. **Lender will not waive the Right-to-Rescind.** Transaction date on Right-to-Cancel must agree with notary acknowledgement date on Security Instrument.

## 21. SECONDARY FINANCING

Unless instructed to the contrary in the Specific Closing Instructions, the property shall not be placed as security for any secondary financing. **If you find that secondary financing is intended, do not close the loan. Call Lender for further instructions.**

## 22. SECURITY INSTRUMENT

Format – Unless specified differently in the Specific Closing Instructions, Lender will accept only the latest revised form of lien or Security Instrument issued by the respective governmental agencies, investors (FHA-VA-FNMA-FHLMC), or Lender. Closing agent must ensure that the Security Instrument is dated the same date as the Note.

**Trustees** – In states requiring a trustee to be named in the Security Instrument, the trustee(s) must be properly identified.

**Conformity in Execution** – The legal description, loan amounts, signatures, installment, interest rates, and date of execution all must conform to the documentation with reference to the specific loan.

**Recordable Acknowledgement** – The Security Instrument must be properly completed with date and County information and duly notarized or acknowledged as required by law in the jurisdiction in which the security property is located so that the original instrument can be properly recorded at the time and place required to create or perfect a valid first lien in favor of Lender.

The original Security Instrument must be recorded immediately after closing/disbursement and returned to Lender, as soon as it is available from the recorder's office.

All alterations, corrections, erasures, etc. to the Security Instrument must be initialed by the mortgagor(s).

A copy of the executed Security Instrument plus the original recording receipt must be submitted with the closing package to Lender.

- **Mortgagors** – All parties who have an interest in the security property must sign the Security Instrument. Such interest may include, for example, title or ownership interests, marital interests (dower or curtesy), or homestead. It is the responsibility of the closing agent to determine and obtain all signatures necessary to waive homestead rights and secure Lender's first lien position in the security property. Based on information given by the borrower(s), Lender believes the person(s) named in the Specific Closing Instructions as "Mortgagor(s)" are required to sign the Security Instrument. Lender has prepared the documents accordingly. **If your title search indicates that Lender has incorrect or incomplete information regarding mortgagors, please advise Lender prior to closing.**

**Legal Description** – When possible, a description by lot, block, and subdivision with reference to a recorded plat is preferable. If a metes and bounds description is used, it must be identical with that shown on the deed to the property. Where property address is required on the Security Instrument in the space following the legal description, enter the street address of the subject property. The address must be the same on Security Instrument and Note and be consistent throughout the closing documents.

## 23. SIGNING WITH MARK

If it should be necessary for borrower to sign with a mark, the signatures of two witnesses (with names of witnesses typed under their signatures) will be required.

## 24. SURVEY

Survey acceptable to the title company is required. There must be no exceptions as to matters of survey on the Final Title Policy

- **If a current survey is not obtained, please be sure that the borrower(s) is informed that neither the Lender nor the title company can be held responsible for any matters which a current survey would reveal.**
- **A foundation survey is required prior to the first construction or construction-permanent disbursement.**

Before closing and disbursement, a waiver must be obtained from FHA or VA or approval from Lender regarding any of the following (non-inclusive):

- Any discrepancy between actual legal description and the legal description furnished in the Specific Closing Instructions.
- Any reduction in lot size indicated on survey greater than 2% on the front lot line and 5% on the side and rear lot lines.
- Any violation of restrictive covenants, building set back lines shown on survey, or zoning ordinances and regulations.
- Any joint agreement not of record.
- Any encroachments from or onto the property, or any easement affecting the property.
- Any water system other than individual well, approved community or public.
- Any other exceptions such as rights-of-way, water courses, etc. to be shown as exceptions on the title insurance policy.

The borrower may be able to use an existing survey or such information or affidavits acceptable to the title company as long as the title company is willing to afford full coverage with no exceptions as to matters of survey. A copy of the existing survey plus other documentation required by the title company must be included in the closed loan package.

Some title companies will now give Lenders full survey coverage even without an existing survey. The borrower(s), however, have no coverage over matters of survey. In this case, Lender would prefer the borrower obtain a survey for their own protection. Any exception must be approved by Lender. If approved, borrower(s) must sign a statement acknowledging they are aware of the risk of not obtaining a survey and hold Lender harmless.

## 25. TAXES

All payments of real property taxes, special or supplemental assessments, must be current prior to closing the loan. **Taxes due within 60 days of closing must be collected and paid by the attorney. If the attorney is unable to pay, the amount due should be included in the closed package sent to Compass Bank.** Any exception in the title insurance policy regarding taxes, special or supplemental assessments, is acceptable only if "not yet Due and payable" is stated in the title policy. Adequate escrow funds must be established to ensure payment in full of all taxes and assessments by the due date (unless escrow is waived, which would be noted in the Specific Closing Instructions).

## 26. TAX INFORMATION SHEET

The Tax Information Sheet requires the following information (non-inclusive):

- **Permanent Tax Office Identifying Number** (Tax Code, TMS number, parcel or identifying number).
- Tax map, lot, and block must be shown exactly as listed on tax records.
- Property Address must be indicated.
- Sanitary district is to be listed only if assessment is to be paid from escrow.
- County and City taxing authorities must always be shown even though city taxes may not be applicable.
- Tax bills are obtained from information on this sheet. All information must be completed in full.
- **Estimated amount of tax bill and property value must be shown for current and following years. This is very important if the property is to be taxed for current year as a lot only.**
- Tax sheet must be signed by closing agent certifying due date and the date through which taxes have been paid.

## 27. TERMITE/INSECT INSPECTION

**A Soil Treatment Guaranty is required on new construction as required by state practice. (Currently Colorado and Texas do not require a Soil Treatment Guaranty.)** If a Wood Destroying Insect Information Report (Termite Report) is required, it is the closing agent's responsibility to determine that the report is completed properly and will be acceptable in all respects to VA, FHA, or the investor for the particular loan being closed. Borrower(s) must sign the report accepting and acknowledging receipt of the Termite Report. The form must be completed in detail and signed by the exterminator. The original must be forwarded to Lender in the closed loan package.

If active termite infestation is indicated, the property must be treated prior to closing. A qualified building expert must also inspect the home for any structural damage. If the Structural Report shows only cosmetic damage, the loan may then close. If the Structural Report shows any structural damage, that damage must be repaired prior to closing. *Escrow for damage is not allowed.*

If prior infestation with no current activity is present, treatment is not required; however, the home must still be evaluated by a qualified building expert and any structural damage repaired prior to closing. *Escrow for damage is not allowed.*

If the Termite Report indicates water damage, the home must be evaluated by a qualified building expert and any structural damage repaired prior to closing. The cause of the water damage (for instance, a water leak, faulty gutters) must also be repaired prior to closing to prevent further damage.

The closing agent should contact the Lender if there is any question concerning damage or infestation.

## 28. TITLE INSURANCE

It is the responsibility of the closing agent to determine, prior to closing, that the title policy requirements set forth below can be met. Failure to meet these requirements may render the loan unsaleable. **If the title policy can not be issued in accordance with these requirements DO NOT CLOSE THE LOAN.** Call Lender prior to closing.

**Coverage** – The policy must insure that the title is generally acceptable and that the Security Instrument constitutes a valid first lien on the borrower's fee simple estate in the mortgaged premises. The title policy must also list any subordinate liens and state that they are subordinate to Lender's first mortgage lien.

**Format/evidence of Insurance – Lender will accept only the American Land Title Association (ALTA) Loan Policy – 1992 (or latest revision) with the ALTA Form 8.1, Environmental Protection Lien insurance policy for a first mortgage that is closed for us must be written by a title insurance company Endorsement included (T36 in Texas).**

**Issuing Company** – As of March 1, 1995, each title that had at least one of the following ratings at the time the mortgage was closed:

- A Financial Stability Rating of "S" (Strong) or better or a "Statutory Accounting Rating" or "C" (Average) or better from Demotech, Inc.;
- A "BBB" or better rating from Duff and Phelps Credit Rating Company;

- A "C" or better from LACE Financial Corporation;
- A "Baa" or better rating from Moody's Investors Service; or
- A "BBB" or better rating from Standard and Poor's, Inc.

**Closing Agent must ensure that policy is written through a title company which has issued an Insured Closing Indemnification Agreement to Lender.**

**Effective Date/Effective Period** – The effective date of the title insurance policy may be no earlier than the later of the date of final disbursement of loan proceeds or the date of mortgage recordation. The policy shall be in effect during the entire life of the loan. **This includes our Construction-Permanent loan. The Modification Agreement executed when the house is completed is not recorded and therefore title insurance is not updated at that time. The closing agent must order title policy at the original Construction-Permanent closing that will be in effect during the entire life of the loan.** It is acceptable to Lender for the title policy to show an exception as to matters of survey *for a Construction-Permanent* loan if no materials have been taken to the lot and no labor performed. Our Construction-Permanent department will have this exception deleted after the foundation of the new house has been completed. Lender does require a Flood Certification on all loans. See "FLOOD INSURANCE".

**Name of Insured** – Unless otherwise advised by Lender the title insurance policy must insure Lender as follows:

**Compass Bank, it's successors and/or assigns**

FHA Loans:

**Compass Bank and/or Secretary of Housing and Urban Development, their successors and/or assigns**

VA Loans:

**Compass Bank and/or Administrator of Veterans Affairs, their successors and/or assigns**

**Amount of Insurance** – The amount of title insurance coverage must at least equal the original principal amount of the mortgage. If the principal amount of the loan can be increased (Construction-Permanent), the title insurance must cover the maximum possible increase.

**Final Certificate** – Any exception to be shown on the title policy *not listed* as an acceptable title exception below should be discussed and approved by Lender prior to closing. Closing agent should request a final title policy immediately after recording the Security Instrument and forward final title policy to Lender. The final certificate should not be delayed pending receipt of "satisfied" papers from a holder of a prior mortgage. The title insurance company will normally issue the title

policy without exception if the closing agent furnishes evidence of payment in full from the previous mortgage holder. **Any delay in receiving the mortgagee title insurance policy subsequent to closing can cause failure to meet delivery dates to investors and costly penalties.** Lender does accept title insurance in the form of a “certificate of Title Insurance” or a “short-Form Title Policy” under our master policy with the majority of the major title insurance companies. Please inquire with the title insurance company to request a “Certificate of Title Insurance” or a “Short-Form Title Policy” if available.

### **Special Title Coverage Requirements**

Any charges for title endorsements must be detailed on the HUD-1:

- Environmental Lien Protection (all loans) – ALTA 8.1 endorsement (T36 in Texas)
- PUD units – ALTA 5 endorsement (T17 in Texas)
- Condominium – ALTA 4 endorsement (T28 in Texas)
- Adjustable Rate Mortgages – ALTA 6 endorsement (T33 in Texas)
- Negative Amortization – ALTA 6.2 endorsement (T31.1 in Texas)
- Leasehold Estate – ALTA Leasehold policy (T5 in Texas)
- Manufactured Housing Unit – ALTA 7 endorsement (T31 in Texas)
- Restrictive Covenants/Easement/Mineral Rights (all loans) – ALTA 9 endorsement (T19 in Texas)
- Texas Equities - T42 and T42.1
- **Construction-Permanent Loans Only:** The Lender requires affirmative coverage on any exception taken to mechanic or materialmen liens. Also, all title policies must contain a pending disbursement clause exception. A title update will be required with each construction disbursement.

**Assignment and Endorsement** – Subsequent to closing, Lender may request you to obtain a title policy endorsement and/or the recording of an assignment of mortgage to a permanent investor. It is important that these instruments be processed and returned immediately after receipt of Lender’s request.

**Certification** – An individual closing agent may not certify to the title or handle the closing of his/her own loan.

### **ACCEPTABLE TITLE EXCEPTIONS:**

**(Non-inclusive)**

Customary **public utility subsurface easements** as long

as they do not extend under any buildings or other improvements, that were in place and completely covered when the mortgage was originated;

**Above-surface public utility easements** that extend along one or more of the property lines for distribution purposes or along the rear property line for drainage, as long as they do not extend more than 12 feet from the property lines and do not interfere with any of the buildings or improvements or with the use of the property itself;

**Mutual easements** for joint driveways and party walls must be recorded, provide unlimited use without restrictions, specify obligations of parties as to maintenance, and must be binding upon all heirs and assigns. (A copy of the recorded agreement must be included in the closed loan package.);

NOTE: Any easements or rights of way, either recorded or unrecorded, must be specifically identified as to location and purpose. If you are unable to provide this service because the easement(s) is non-specific, please have the title company provide affirmative coverage against loss. If any easement adversely affects the property, also provide affirmative title coverage against loss. **Provide lender with a copy of all easements to be accepted in the title policy.**

**Ad valorem real property taxes** which the policy states are a lien but “not yet due and payable”.

**Restrictive covenants** and conditions, and cost, minimum dwelling size, or set back restrictions, as long as their violation will not result in a forfeiture or reversion of title or a lien of any kind for damages, or have an adverse affect on the fair market value of the property. The title policy must state that the restrictions have not been violated and insure that future violations will not cause a forfeiture or reversion of title. If violated, the title policy must affirmatively insure against any loss or damage.

**Encroachments** of one foot or less on adjoining property by eaves or other overhanging projections or by driveways, as long as there is at least a ten-foot clearance between the buildings on the security property and the property line affected by the encroachment;

**Encroachments** on adjoining properties by hedges or removable fences;

NOTE: Express affirmative coverage against “any loss or damage” is required in connection with each exception to any and all minor encroachments, violations, of restrictions, common walls, overhangs of eaves, porches, decks, roofs, etc. (In ordering the title policy, you should specifically request that the title

company provide affirmative coverage.) **If the main body of the house or improvements encroach upon adjoining property, do not close the loan even if affirmative coverage is available. Call Lender prior to closing.**

**Outstanding oil, water, or mineral rights** as long as they do not materially alter the contour of the property or impair its value or usefulness for its intended purposes. The policy must affirmatively insure that the exercise of such rights will not result in damage to the property or impairment of the use of the property for residential purposes.

**Variations between the appraisal report** and the records of possession regarding the length of the property lines, as long as the variations do not interfere with the current use of the improvements and are within an acceptable range (for front property lines, a 2% variation is acceptable; for all other property lines, 5% is acceptable.)

**Rights of lawful parties in possession**, as long as such rights do not include the right of first refusal to purchase the property. No right of parties in possession (including the term of a tenant's lease) may have a duration of more than two years. The title policy must affirmatively insure as to the above facts. Any other exceptions regarding rights of parties in possession for recorded or unrecorded leases are generally unacceptable unless prior approval is obtained from Lender and the tenant's rights or lease is fully subordinated to the mortgage and the title policy affords affirmative coverage against all loss or damage occasioned by exercise of any rights under the lease.

**Minor discrepancies in the description of the area**, as long as the policy provides affirmative title insurance against all loss or damage resulting from the discrepancies.

**Right of Redemption**, as long as the redemption period is completed. If the redemption period is less than one year, an Indemnification Bond for the remainder of the period should be provided.

## 29. TRUTH-IN-LENDING

All closings are subject to compliance with the Truth-in-Lending Act and Regulation Z. Closing agents are expected to be familiar with Regulation Z so they may discuss any disclosures with the borrowers, if necessary.

***DO NOT CLOSE THE LOAN without obtaining a signed Federal Truth-in-Lending Disclosure.***

The Federal Truth-in-Lending Disclosure Statement will not be sent to the closing agent with the Specific Closing Instructions and other required documents (Closing

Package) until a final HUD-1 is faxed to our Closing Department for review and approval. At that time, a final Truth-in-Lending Disclosure Statement will be sent to the closing agent for the customers to sign. This form is prepared based on our best knowledge of the anticipated closing date. An updated TIL form is not required **unless** the closing fees listed in our Specific Closing Instructions are not collected in the exact amount or paid by the party specified. **If the fee amount or the party responsible for payment of the fee changes from our instructions, you must contact our office for an updated Federal Truth-in-Lending Disclosure Statement.**

When required, the closing agent must have the borrowers sign and date two copies of the disclosure statements prior to the execution of any other documents, and return one to us with the closing documents. An original must be given to the borrowers. **The statement should not be altered or used in preparation of closing documents.**

## 30. WARRANTY OR COMPLETION OF CONSTRUCTION

If FHA or VA approves plans and specifications prior to beginning of construction and inspects property during construction, then Warranty of Completion of Construction in Substantial Conformity with Approved Plans and Specifications will be required. The name of the builder should be entered in the Warranty form.

## 31. CONSTRUCTION OR CONSTRUCTION-PERMANENT LOANS

**Construction Loan Agreement** – will be required on all construction or construction-permanent loans. This agreement contains special conditions applicable to the construction phase of the loan. The borrower should sign the document at closing. A signed copy of this agreement must be included in the Closed Loan Package.

**Escrows and Interim Interest** – will not be collected at closing. If the loan will have an escrow account, the escrow account will be established when the loan modifies to a permanent loan. Interest will be billed to the borrower each month based on the construction draws taken.

**Flood Insurance** – if the “Special Contingencies” in the Specific Instructions indicated flood insurance is required, it must be obtained at closing.

**Title Insurance** – will be required on all construction or construction-permanent loans. The Lender will accept an exception as to matters of survey. Our Construction-Permanent department will obtain an endorsement from the title company when the foundation survey has been completed.