



IMPORTANT REMINDER

BULLETIN 26 10222026

Issued to: All Channels

Date: October 22nd, 2026

Subject: Introducing the 5% Prepayment Penalty for Non-QM Loans

Beginning today, you can now choose a second prepayment penalty type on Non-QM loans: **5% of principal**. It is the most widely used prepayment structure in the market, with about 30% market share, and it **prices better** than our current 6-month interest option for most prepayment terms.

The 5% penalty is a stronger penalty. The current 6-month interest option is still available. Nothing about it is changing.

Pricing Comparison

DSCR example: Price adjustments by prepayment term and penalty type. The new 5% option is shown in orange. The new penalty will also be available on Full/Alt Documentation. The Full/Alt Documentation has a different grid.

Prepayment Term	Min Price	Max Price	6-Month Interest (current)		5% of Principal (NEW)	
			State ≠ NJ	State = NJ	State ≠ NJ	State = NJ
60 Months PPP	96.000	104.000	0.625	0.250	1.000	0.500
48 Months PPP	96.000	103.500	0.375	0.125	0.625	0.250
36 Months PPP	96.000	103.300	0.000	-0.250	0.250	-0.125
24 Months PPP	96.000	103.000	-0.500	-0.625	-0.375	-0.625
12 Months PPP	96.000	101.800	-1.125	-1.250	-1.125	-1.250
No PPP	96.000	100.500	-1.625	-1.625	-1.625	-1.625

In New Jersey, the 24-month, 12-month and No PPP terms price the same under both types.

How the Two Penalty Types Compare

	6-Month Interest	5% of Principal (NEW)
How it's calculated	6 months of interest at the note rate on the amount prepaid	A flat 5% of the amount prepaid (or of the unpaid balance on a full payoff)
20% free prepayment	Yes: only the amount over 20% of the original balance (per 12 months) is charged	No: every dollar prepaid during the term is charged
Cost on a full payoff (% of loan amount)	About 3.0%–3.4% at 7.5%–8.5% note rates (6 months' interest on 80% of the balance)	5.0%
Depends on note rate?	Yes: a lower rate means a lower penalty	No: 5% regardless of rate
Sale or refinance	Charged	Charged
Casualty insurance / condemnation	Not charged	Not charged
Payoff in the 90 days before maturity	Not charged	No exemption
Payoff after default/acceleration	Charged	Charged

Borrower Example

Investment property, \$400,000 loan amount, 7.500% note rate, 36-month prepayment term, non-NJ. Interest-only for simplicity, so the balance stays at \$400,000.

Scenario 1: The borrower sells the property in month 18.

Full payoff, month 18	6-Month Interest	5% of Principal
Balance paid off	\$400,000	\$400,000
Less 20% free amount (\$400,000 × 20%)	(\$80,000)	n/a
Amount subject to penalty	\$320,000	\$400,000
Calculation	$\$320,000 \times 7.500\% \div 2$	$\$400,000 \times 5\%$
Prepayment penalty owed	\$12,000	\$20,000
Penalty as % of loan amount	3.0%	5.0%
Price improvement at lock (36-mo, non-NJ)	0.000 (base)	+0.250 = \$1,000

The 5% option gives the borrower \$1,000 in better pricing up front. If they sell or refinance during the term, they'll owe \$8,000 more in penalty.

Scenario 2: The borrower makes a \$60,000 principal curtailment in month 10.

Partial curtailment, \$60,000 in month 10	6-Month Interest	5% of Principal
Amount prepaid	\$60,000	\$60,000
Under the 20% (\$80,000) free amount?	Yes	Doesn't apply
Prepayment penalty owed	\$0	\$3,000

With 6-month interest, a borrower can prepay up to 20% of the original balance each year with no charge. With 5% of principal, every dollar prepaid during the term is charged.

Rule of thumb: on a full payoff, the 5% penalty costs more than 6-month interest at any note rate below 12.5%.

Product Setup: Three Products Instead of One

To roll out the 5% option, we've tripled our Non-QM products. Each product now comes in three versions, one for each prepayment penalty choice, No PPP, 6-Month Interest PPP and 5% of Principal.

Example using one product:

Product Name	Prepayment Penalty	Suffix
Sharp Advantage Full / Alt Doc 30 Year Fixed - No PPP	None	-No PPP
Sharp Advantage Full / Alt Doc 30 Year Fixed - 5% PPP	5% of Principal	- 5% PPP
Sharp Advantage Full / Alt Doc 30 Year Fixed - 6 mo PPP	6-Month Interest	- 6 mo PPP

What Loan Officers Need to Know

- **Loans locked prior to 10/22/2026:** All loans locked with prepayment penalty before 10/22/2026 will remain on the original product name.
- **Choose the prepayment penalty term.** The options are 0-5 years. If you choose 0, the product that returns will be our "No PPP" product.
- **Choose the prepayment penalty type by product.** Pick the product whose name matches the penalty. Make sure the right product is selected before you lock.

- **Explain the trade-off to the borrower.** Better pricing now means a higher cost if they sell, refinance or pay down principal during the term. Walk them through it, especially if they might exit early.
- **Closing documents follow your selection.** The 5% loans close with the 5% Prepayment Addendum to Note and the Prepayment Fee Rider to the Security Instrument.
- **State law still applies.** The borrower doesn't owe a prepayment fee where state or federal law prohibits one.

Please contact your Account Executive should you have any questions.

We appreciate your business!