Business Purpose Licensing & Prepayment Penalty Restrictions

TPO Clients may originate Business Purpose Loans unless otherwise noted below.

AK	No license required to originate / state requires a business license for tax purposes.
AZ	A separate Commercial license is required to broker or lend on commercial property (not 1–4 family).
CA	The Broker/Lender Company must be licensed on Business Purpose loans; the individual MLO is not required to be licensed in California on Business Purpose Loans.
ID	License required.
MN	License required.
ND	License required.
NV	License required.
OR	License required.
TN	Lender: License required for interest rates ≥ 9.5%. Broker: No license required.
UT	License required.
VT	License required.

NQMF may impose a PPP on Business Purpose Loans unless otherwise noted below.

AK	Prepayment Penalty Prohibited.
IL	Outside of Cook County: Permitted if the APR is < 8%, regardless of loan purpose. Cook County: Permitted if the APR is < 8% AND the loan amount is > $250,000.
MD	(i) May be imposed only on prepayments made within 3 years from the date the loan is made; and (ii) may not exceed an amount equal to 2 months' advance interest on the aggregate amount of all prepayments made in any 12-month period in excess of one-third of the amount of the original loan.
MI	Prohibited after 3 years from date of the loan for a business purpose loan that secures a Single-Family Dwelling unit. PPP may not exceed 1% of the prepayment amount made (Mich. Comp. Laws Ann. Sect. 438.31c(1c)(2)(c)).
MN	Prepayment Penalty Prohibited.
MS	Permitted only when declining PPP.
NH	Prepayment Penalty permitted only if the Addendum to the Note states the terms of the PPP in Bold Font.
NJ	Permitted on 1–4 family only when closing in an LLC, S-Corp or C-Corp. Permitted on all Multi (5–8 Unit) Transactions.
NM	Prepayment Penalty Prohibited.

OH	Permitted on loan amounts ≥ $116,356. Penalties on 1–2-unit properties cannot exceed 1% of the loan balance during the 1st five years. Penalties on 3-unit properties or greater with loan amounts greater than $116,356: a 5% max prepay per year for up to 5 years is allowed.
OR	If a loan agreement provides for a penalty to be charged for repaying the loan prior to the date provided for repayment, the loan agreement shall contain in at least 10-point bold or underlined type substantially the following notice — NOTICE TO THE BORROWER: “Do not sign this loan agreement before you read it. This loan agreement provides for the payment of a penalty if you wish to repay the loan prior to the date provided for repayment in the loan agreement.” (Or. Admin. R. 441-870-0040).
PA	For residential property with 2 or fewer units, the loan amount must be > $329,411 (adjusted annually — 2026 figure). (41 PA Const. Stat. Ann. Sect 101).
RI	May be imposed only on prepayments made within the first year from the date the loan is made and may not exceed 2% of the outstanding balance due at the day of payoff. PPP after the first year is prohibited.

PPP Quick Tips

Correspondent Partners Only

Make sure to include the Original Guaranty and Original PPP Addendum to accompany the Note, as they are often not included.

Rockstone requires the Prepay Addendum.

- If prepay riders are issued in the current doc set and delivered with the Closing Package, it doesn’t need to be removed — the prepay rider doesn’t replace the required prepay addendum.
- Prepay Addendums are applicable on Investment Occupancy loans.

SAMPLE OF THE PREPAYMENT NOTE ADDENDUM

LOAN NUMBER: **PROPERTY ADDRESS:**

PREPAYMENT NOTE ADDENDUM

THIS PREPAYMENT NOTE ADDENDUM (“Addendum”) is made this ____ day of ___________, and is incorporated into and intended to form a part of the Note dated the same date as the Addendum and also amends and supplements the Mortgage, Deed of Trust or Security Deed (the “Security Instrument”) dated the same date as this Addendum and the Note. To the extent that the provisions of this Addendum are inconsistent with the provisions of the Note and/or the Security Instrument, the provisions of this Addendum shall prevail over and will supersede any inconsistent provisions of the Note and/or the Security Instrument to the extent of such inconsistency.

The Section in the Note entitled Borrower’s Right to Prepay is amended to read in its entirety as follows:

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.” Except as provided below, I may make a Prepayment at any time without paying any penalty. 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 (as defined in the Note) 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 any accrued and unpaid interest due under the terms of the Note, before applying my Prepayment to reduce the Principal amount of the Note. If I make a partial Prepayment, there will be no changes in due date or in the amount 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 this Note provides for a variable interest rate or finance charge, and the interest rate or finance charge at any time exceeds the legal limit under which a Prepayment penalty is allowed, then the Note Holder’s right to assess a Prepayment penalty will be determined under applicable law.

If within the first year(s), beginning with the date the Borrower executed the Note (the “Prepayment Penalty Period”), Borrower makes a full prepayment, or any partial prepayment(s) in any amount(s) that exceed(s) 20% of the original principal loan amount in any 12-month period, Borrower will pay a prepayment charge as consideration for the Note Holder’s acceptance of such Prepayment. The Prepayment charge will equal ___% of the amount by which the Prepayment exceeds 20% of the original principal balance in the preceding 12-month period.

The Note Holder’s failure to collect a prepayment penalty at the time a prepayment is received shall not be deemed a waiver of such a penalty, and any such penalty calculated in accordance with this Section shall be payable on demand.

BY SIGNING BELOW, Borrower accepts and agrees to the terms and provisions contained in this Prepayment Note Addendum.

Borrower’s Signature	Date	Co-Borrower’s Signature	Date

Prepayment Addendum to Note — Percentage Charge · Rev. 3.11.22

Entering Prepayment Penalties in Your LOS

Applies to Encompass, Doc Magic, and other LOS platforms

- Rockstone’s loan Doc Plan Codes do not dictate the prepayment penalty generated on the loan.
- The Prepayment Penalty Addendum that prints is dependent on the user’s data input on the Prepayment screen in your LOS.
- If the prepayment is entered correctly, it should drive the correct prepayment addendum automatically.
- The Prepayment Period and Prepayment Penalty Period must be updated to correspond with the number of months the prepayment is in effect for — regardless of which LOS platform you use.

THREE WAYS TO STRUCTURE A PPP

Fixed %
1, 2, 3, 4, OR 5-YEAR TERM

A flat percentage charged for the full term you select.

Example: a 3-year term at a flat 5% PPP.

of Months' Interest
ADVANCE INTEREST

A charge equal to a set number of months' interest, applied for the term you select.

Example: 6 months' interest PPP, in effect for 5 years.

Declining %
TIERED / STEP-DOWN

The percentage steps down each year over the term you select.

Example: a 5% / 4% / 3% declining scale over 3 years.

Questions on structuring a PPP for a specific state or scenario?
Call the scenario desk at (866) 281-3111 or email sales@rockstonewholesale.com.