Higher Priced Mortgage Loans Policy

Version 1.1

Effective Date 06/26/2018

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Purpose

The purpose of this policy is to outline the requirements for compliant origination of Higher-Priced Mortgage Loans ("HPML"), as defined by Section 35 of the Home Ownership Equity Protection Act (HOEPA), which is part of the Truth-in-Lending Act (TILA) and Regulation Z.

Scope

This policy applies to all employees who work with a Higher Price Mortgage Loan.

Definitions

1. **A Higher Price Mortgage Loan (HPML)** is defined as a closed-end mortgage loan secured by a borrower's owner-occupied principal residence, which has an annual percentage rate (APR) that is 1.5% or more above the Average Prime Offer Rate published weekly by the Federal Reserve (first lien loans) or is 3.5% or more above the Average Prime Offer Rate (second lien loans).

2. **Flip Property** is a home being sold at a price more than 10% above the previous sale price if the seller acquired the property in the last 90 days; or a home being sold at a price more than 20% above the previous sale price if the seller acquired the property in the last 91 - 180 days.

3. **Uniform Residential Loan Application (URLA)** is a form used to obtain borrower information for the purpose of granting a mortgage loan and it is also referred to as the Form 1003.

Regulations

1. A HPML cannot contain a balloon payment during the first seven (7) years of the loan.

2. A loan that is a Flip Property cannot be originated if the loan is a HPML. The APR for the loan must be lowered, such that the loan is no longer a HPML.

Policy

JMAC loans identified as a HPML are underwritten to different guidelines to ensure compliance with all applicable federal and state laws. JMAC requires that a borrower's income is documented with at least tax returns, Form W-2 statements, payroll stubs, or bank statements/records. If there are assets, other than the collateral itself, considered for repayment, JMAC requires documentation in the loan file of third-party verification of the asset's value (e.g. appraisal, bank statement, etc.). All borrower obligations are required to be documented in a URLA that shows all current debts, a credit report, or other debt documentation found in documents provided by the borrower (e.g. title research, etc.).

When JMAC calculates the borrower's debt-to-income ratio, qualification includes reviewing the highest possible payment that can occur during the first seven (7) years of the loan.

JMAC reviews property taxes, hazard insurance, flood insurance, Private Mortgage Insurance (PMI), Homeowner Association Dues, condo or co-op fees, and second mortgage payments. HPML loans cannot contain a prepayment, the monthly payment amount (P&I) must be fixed for at least the first four (4) years of the loan.

For any loan identified as a HPML, there must be an escrow account set up for property taxes and insurance. Further, the account must comply with the following requirements: (a) the escrow account must remain in place for at least the first five (5) years of the loan; and (b) if, after the first five (5) years, the borrower requests to remove the escrow account, the request may be granted only if the loan's unpaid principal balance is less than 80 percent of the original value of the property securing the underlying debt obligation; and the consumer is not be currently delinquent or in default on the underlying obligation.

Responsibilities

1. The President is responsible for interpreting this policy.

2. The Compliance Department is responsible for reviewing loan files to ensure HPMLs have the proper documentation.

3. All employees are responsible for following this policy.

Revision History

Version	Date	Update	Author
1.0	10/25/2017	Initial Release	Alan Vidal, Vice President of Compliance
1.1	06/26/2018	No longer allowing pre-payment penalties.	Alan Vidal, Vice President of Compliance