

## Section 35 (HPML) Breakdown Including CFPB 2013 - 2016 Updates

HPML (12 CFR §1026.35) Higher-Priced Mortgage Loans	
<b>General</b>	A <b>closed-end</b> consumer credit transaction secured by the consumer’s principal dwelling with annual percentage rate (APR) that exceeds the APOR by indicated thresholds for a comparable transaction as of the date the interest rate is set.
<b>Consumer Loan Type</b>	<p><b>Principal dwelling only -1<sup>st</sup> and subordinate liens</b> Covers fixed rate or adjustable rate mortgages including:</p> <p><b>“ANY Closed-End Consumer Credit Transaction secured by a principal dwelling”</b></p> <ul style="list-style-type: none"> <li>• Closed-end purchase money loan</li> <li>• Refinancing of closed-end purchase money or home equity loan</li> <li>• Closed-end home equity loan</li> </ul>
<b>Exemptions</b>	<p><b>HPML</b> definitions does not include;</p> <ul style="list-style-type: none"> <li>• Initial Construction Loans (Borrower Interim)</li> <li>• Temporary or Bridge loans with terms of 12 months or less*</li> <li>• Home Equity Lines of Credit (open-end)</li> <li>• Reverse mortgages</li> <li>• Non-owner occupied transactions</li> </ul>
<b>Thresholds</b>	<p>Thresholds based on average prime offer rate (APOR) as published via the FFIEC’s rate spread calculator on website <a href="http://www.ffiec.gov/ratespread/newcalc.aspx">www.ffiec.gov/ratespread/newcalc.aspx</a> :</p> <p><b>Final APR</b> that exceed the <b>APOR</b> as of <b>the final interest rate lock</b> by at least</p> <ul style="list-style-type: none"> <li>• 1.5 percentage points or more for first-lien loans; or</li> <li>• 2.5 or more percentage points for loans which exceed Agency maximum loan limits (jumbo)</li> <li>• 3.5 percentage points or more for subordinate-lien loans.</li> </ul> <p>• <b>Note:3.5 percentage points as of January 10, 2014 for “Small Creditors” pertains to Higher Priced Covered Transactions (HPCT) per §1026.43(b)(4), not Section 35(HPML)</b></p>
<b>Disclosure</b>	No separate additional disclosures required; <b>other then as required by Reg. B 1002.14(a)(2)- Borrowers Right to Receive Appraisal- (now included on Loan Estimate)</b> A creditor shall mail or deliver a copy of the appraisal report promptly (generally within 30 days) after the creditor receives an applicant's request.

	<p align="center"><b>HPML (12 CFR §1026.35) Higher-Priced Mortgage Loans</b></p>
<p><b>Underwriting</b></p>	<p><b>May not rely on the collateral securing the loan without regard to consumer’s ability to repay.</b> Lender may consider current and reasonably expected income, employment, assets other than collateral, current obligations and mortgage-related obligations.</p> <p><b>Mortgage related obligations include;</b> but are not limited to, property taxes, insurance premiums including PMI, HOA or condo fees, secondary mortgage payments taken at or before closing in addition to this transaction’s mortgage payment.</p>
<p><b>Prohibition</b></p>	<p>May <b>not</b> structure a home-secured loan as an open-end plan to evade Regulation Z’s <b>HPML</b> provisions.</p>
<p><b>Requirement</b></p>	<p><b>May not fail to escrow for property taxes and mortgage-related insurance for a minimum of FIVE YEARS</b> (including insurance against loss of or damage to property, protecting mortgage lender against default or other credit loss, and flood insurance) when the high priced mortgage loan is secured by a <u>first lien</u>.</p> <p><b>Exemptions to Escrow Rule Requirement:</b></p> <ul style="list-style-type: none"> <li>• Loans originated by creditor or affiliates who meets all “Rural or Underserved” definitions. Updates 1/2016 and 3/31/2016</li> <li>• Creditor has extended <u>one covered transaction</u> in a Rural or Underserved area during the previous calendar year; or, during either of the two preceding calendar years, with applications received prior to April 1<sup>st</sup>; and</li> <li>• Creditor and affiliates have fewer than 2000 first lien covered transactions during the previous calendar year (not including portfolio loans),</li> <li>• Together with its affiliates, has less than \$2,000,000,000 (billion) in assets during the previous calendar year (adjusted annually per CPI).</li> <li>• Creditor or its affiliates do not maintain escrow accounts other than;             <ul style="list-style-type: none"> <li>○ HPML loans extended between April 1,2010 and May 1, 2016; or</li> <li>○ Established after consummation to distressed consumers to assist in avoiding default or foreclosure</li> </ul> </li> </ul> <p><b><u>However, they are still considered HPML loans and must follow all other HPML rules and requirements, if threshold is exceeded.</u></b></p> <p>Notwithstanding the 5 year mark and borrower’s hand written request to cancel, escrow accounts <u>may not</u> be canceled unless the unpaid principal balance is less than 80% of original value of the property securing underlying debt obligation; and the consumer is not delinquent or in default.</p>

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<b>Prohibition</b>	<p><b>Specified restrictions that HPML loans must follow effective January 10, 2014;</b>            May <b>not</b> impose a prepayment penalty at <b>any</b> time if <b>any</b> of the following is true:</p> <ul style="list-style-type: none"> <li>• More than 36 months after consummation or account opening; or</li> <li>• In an amount more than 2% of the amount prepaid.; and</li> <li>• The penalty will apply after the two year period following consummation.</li> <li>• The consumer’s principal and/or interest mortgage payment can change during the first 4 years of the loan term (i.e., adjustable rate mortgage with first change during first 4 years) ; or</li> <li>• The source of the prepayment funds is a refinancing by the same mortgage lender or an affiliate.</li> </ul>
<b>Requirement</b>	<p><b>Effective January 18, 2014: Appraisal Requirements</b>            Exemptions;</p> <ul style="list-style-type: none"> <li>• A QM as defined in 1026.43(e);</li> <li>• Transaction secured by a new manufactured home (chattel);</li> <li>• A transaction secured by a mobile home, boat or trailer, without land;</li> <li>• A transaction for the initial construction of a dwelling ;</li> <li>• Certain “streamlined” refinances;</li> <li>• A bridge loan of 12 months or less;</li> <li>• A reverse-mortgage transaction; or</li> <li>• A transaction of \$25,000 or less.</li> </ul> <p>A full appraisal must be obtained on any loan meeting HPML requirements; including a physical inspection of the interior of the property.</p> <p>The creditor shall not extend an HPML without obtaining an additional appraisal at no cost to the borrower if;</p> <ul style="list-style-type: none"> <li>• The seller obtained the property 90 days or less prior to the date of purchase agreement, and the sales price exceeds seller’s acquisition cost by 10%</li> <li>• The seller obtained the property 90-180 days prior to the date of purchase agreement, and the sales price exceeds seller’s acquisition cost by 20%</li> </ul> <p>Exceptions to additional appraisal requirement include ones where the seller is;</p> <ul style="list-style-type: none"> <li>• A local, State or Federal government agency;</li> <li>• A person who acquired title through foreclosure,, deed-in-lieu</li> <li>• A non-profit entity as part of a local, State or Federal program.</li> <li>• A person whom acquired title by inheritance or court order.</li> <li>• An employer or relocation agency in connection with relocation of employee;</li> <li>• A service member who received a deployment; or permanent change of station; or property is located in</li> <li>• A federal disaster area as designated by the President; or</li> <li>• Located in a rural county as defined in 1026.35(b)(2)(iv)(A)</li> </ul>