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Chapter 2 Accountability and Monitoring

[Sample Client] requires that its own organization, employees, contractors, and third-party vendors comply with all requirements of this policy and all fair lending laws and regulations as they exist and from time to time may be amended.

2.1 Internal Controls

[Sample Client] will ensure that annual independent testing includes compliance with this policy and all underlying fair lending laws and regulations. The required testing may be conducted by [Sample Client]'s personnel or by a third party. If conducted internally by [Sample Client], the Compliance Officer or their subordinate may not perform the audit. At minimum, the annual audit will assess the following:

- Communication with borrowers is clear and effective.
- Staff training is conducted regularly and is appropriate to job functions.
- All required disclosures are delivered in a format and timing compliant with [Sample Client]'s policies.
- Changes or amendments to policies since [Sample Client]'s last audit have been adequately implemented.
- [Sample Client]'s policies have been properly applied to any new products or services offered since [Sample Client]'s last audit.
- All [Sample Client]'s third-party service providers have complied with their obligations applicable to the product or service and [Sample Client]'s policies and appropriate vendor/service provider monitoring procedures are in place.
- [Sample Client]'s policies are applied equally and appropriately across all departments, business units, divisions, or branches of [Sample Client].
- All required records are maintained in accordance with [Sample Client]'s policies.
- [Sample Client]'s policies implemented by any automated tools, systems, or business unit procedures function properly.
- Protocols for information security, documentation destruction, and incident preparedness are in place and implemented.
- Transaction testing is conducted to assess the strength, adequacy, or weakness of [Sample Client]'s policies and includes testing to
  - confirm that actual practices are consistent with [Sample Client]'s policies; and
  - determine the impact of any procedures identified as weak or deficient.
- Action plans and follow-ups are implemented to resolve any weaknesses or deficiencies.

Chapter 4 Commitment to Responsible Lending

[Sample Client] conducts business in accordance with all federal fair lending regulations and expects full support and continuance of any practice which supports the company's commitment to fairness. The company compels responsible lending along with uniform processing and underwriting standards. Loan originators are trained to furnish and explain state and federal disclosures, including any state disclosures and fee agreements for use by the company. In this regard, loan applicants receive a straightforward description of counseling activities, processing procedures, and approval conditions, all of which apply uniformly to all applicants.

4.1 Consistent Use of Forms

The company utilizes marketing brochures, forms, materials, letterhead, and specific formats regarding e-mail communication and signatures. Personnel are restricted from using non-approved materials or formats for customer communication. Company forms must be utilized for all communications such as the following:

- "Thank you for your application" from the loan originator
- "Welcome and introductory letter" from the processor
- Cover letter for initial disclosures
- Outstanding documents reminder letter
- Second notice of outstanding documents reminder letter
- Cover letter for loan approval
- How to understand Truth-in-Lending Disclosures and other loan information addenda
- Steps for accepting loan approval and submission of underwriting conditions
- Steps for preparing for loan settlement and submission of closing conditions
- What to bring to the closing
- Information regarding title insurance, flood insurance, environmental waivers, and special information for purchase transactions
- Special information for nontraditional mortgage programs, such as Adjustable Rate Mortgages with Interest-Only or Option ARM features
- Special information for Home Equity Conversion Mortgages (HECM) loans (reverse mortgages), and Home Equity Lines of Credit (HELOCs)

4.2 Loan Programs

[Sample Client] will review marketing materials, loan programs, parameters, rate sheets, and underwriting criteria on a periodic basis to ensure uniformity in presenting products and programs to

Chapter 5 Borrower Ability to Repay

Loans eligible for sale to Fannie Mae, Freddie Mac, FHA, VA, USDA, or the Federal Home Loan Bank must meet the Ability to Repay (ATR) and Qualified Mortgage requirements for compliance with the provisions of the Dodd-Frank amendments under TILA. The Ability to Repay Rule requires [Sample Client] to make a reasonable, good faith determination of the borrower's ability to repay the mortgage loan prior to completing origination. The rule also establishes certain protections from liability for "qualified mortgages" for [Sample Client].

This policy does not apply to reverse mortgages, HELOCs, bridge loans with terms 12 months or less, transactions secured by vacant land, and time-share plans.

5.1 Reasonable Assessment of Ability to Repay (ATR)

[Sample Client]'s loan originators are expected to gather sufficient information from loan applicants to render a reasonable assessment of the borrower's ability to repay the loan. [Sample Client] will not offer a mortgage loan to any borrower without having reasonably determined, based on the documents and information provided, that the applicant will have the ability to repay the loan. Ability to repay must be determined according to the fully indexed rate at the time of loan maturity. For adjustable rate mortgages, employees may use the current index plus the specific margin to determine the fully indexed rate. This policy applies to both retail and wholesale business channels of the company.

5.2 Presumed Ability to Repay

An applicant is *presumed* to have the ability to repay if the originated loan meets any of the following criteria, as mandated and published by the geographic state banking division, the secondary market loan investor, insurer, guarantor, or other housing agency:

- The loan meets Qualified Mortgage requirements, including the following:
  - The debt-to-income ratio is 43% or less.
  - The loan is insured by the Federal Housing Administration.
  - The loan is guaranteed by the United States Department of Veterans Affairs.
  - The loan is eligible for purchase by Fannie Mae or Freddie Mac.
  - The loan was approved for purchase by a state housing finance agency.
  - Any loan that is eligible for purchase, guarantee or insurance by Fannie Mae, Freddie Mac, FHA, VA, or USDA meets the Qualified Mortgage requirement until the agency issues its own Qualified Mortgage rules, or January 10, 2021, whichever occurs first.

Chapter 8 Agency and Regulatory Requirements

[Sample Client] will use prudent, sound, and responsible business practices in its marketing and origination efforts in order to identify and avoid predatory lending practices. [Sample Client] will maintain updated business policies and procedures, including quality control procedures, as necessary, to ensure continued responsible lending practices that are in line with current market conditions.

[Sample Client] may be required to repurchase a mortgage loan that is in breach of these requirements at any time notwithstanding the number of payments a borrower may have made.

8.1 Regulatory Compliance

[Sample Client], its employees, subservicers, and third-party originators must fully comply with all federal, state, and local laws (e.g., statutes, regulations, ordinances, administrative rules, and orders that have the effect of law, and judicial rulings and opinions) that apply to any of its origination, selling, or servicing practices or other business practices, including the use of technology. [Sample Client] must comply with any applicable law that addresses fair housing, fair lending, equal credit opportunity, truth-in-lending, wrongful discrimination, predatory lending, terrorist activity, or ability to repay, in addition to all aspects of the origination, settlement, and servicing processes or the enforcement of any of the terms of the mortgage.

8.2 Know Before You Owe Disclosure Rule

The Dodd-Frank Act directed the CFPB to publish rules and forms that combine certain disclosures that consumers receive in connection with applying for and closing on a mortgage loan under TILA and Regulation Z and under RESPA and Regulation X. Consistent with this requirement, the CFPB amended Regulations X and Z to establish new disclosure requirements and forms in Regulation Z for most closed-end consumer credit transactions secured by real property.

The final Know Before You Owe Disclosure Rule, published in 2013, implemented new, integrated disclosures and became effective with applications received on and after October 3, 2015, for consumer closed-end credit transactions secured by real property.

The initial Truth in Lending (TIL) disclosure and the Good Faith Estimate (GFE) were combined into one new form, the Loan Estimate (LE), to be provided within three business days of loan application.

The final Truth in Lending disclosure and the HUD-1 Settlement Statement required by RESPA were replaced with another form, the Closing Disclosure (CD), to be provided to consumers at least three business days before consummation of the loan. The Know Before You Owe Mortgage Disclosure Rule