

Corporate Procedure

Overview

On November 7, 2017, Texas voters approved Senate Joint Resolution 60 (SJR 60), which amended Article XVI, Section 50 of the Texas Constitution to make several important changes to the rules governing home equity lending in Texas. These amendments take effect January 1, 2018.

TX 50(a)(6) Program Changes

The following changes affect how CMG must handle 50(a)(6) loans that close/sign in 2018. To clarify:

- Loans that close/sign in 2017 are not subject to the changes below – even if the loans fund in 2018.
- Loans that close/sign in 2017 but must re-sign in 2018 are subject to the changes below.
- Loans that close/sign on or after January 1, 2018 are subject to the changes below.

The key trigger is the closing/signing date, not the funding date.

New 12-Day Notice

A new 12-day notice is required to be provided to all owners/borrowers on (a)(6) loans that have not closed/signed prior to January 1, 2018. This notice restarts the 12 calendar day waiting period required prior to closing/signing. This means (a)(6) loans cannot close within the first 12 days of January.

All “owners/borrowers” means all parties with ownership interest - this includes all titled individuals as well as non-titled spouses. For example, if the borrower is married and the spouse is not on the loan, the spouse must still receive the 12-day notice in order to start the 12-day waiting period.

The owners/borrowers must sign and date the notice in order to start the 12-day waiting period. The signature and date of the owner/borrower evidences receipt. On an exception basis, if the owner/borrower e-consented to the notice in IDS, however did not complete the e-signing process, proof of e-delivery can be pulled from IDS and used to evidence receipt.

For calculating the earliest closing date, the next calendar day **after the last owner/borrower signed and dated** the notice is the first day of the 12-day waiting period. The (a)(6) loan may close at any time on or after the 12th calendar day after the date the borrower signed/dated the notice. (Calendar days are all days including Sundays and holidays.)

The soonest it will be possible for an (a)(6) loan to close/sign in January 2018 is Sunday January 14th. CMG is not open on January 1st, so the new 12-day notice will not be issued until January 2nd. If the borrower e-signed the notice inside IDS on January 2nd, then the 12-day waiting period starts on January 3rd and expires on January 14th, the 12th calendar day after the borrower signed/dated the notice. It is important to note that January 14th is a Sunday and January 15th is a holiday (Martin Luther King Jr. Day), so it is unlikely that any loans will close either day, leaving the actual earliest closing date to be Tuesday January 16th.

See Appendix A for timeline samples

If the borrower prefers to receive a Spanish version of the 12-day notice, it can be delivered to the borrower, however the English version must still be provided and be signed and dated.

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Retail and Wholesale:

On January 2, 2018, Operations must disclose the new TX Notice Concerning Extension of Credit 2018 on all (a)(6) loans that have not closed.

Operations will be responsible for monitoring these loans to ensure the owners/borrowers have signed and dated the 12-day notice and manually enter the signature date of the last owner/borrower into Byte in the "12-Day Notice Signed" field in the Doc Prep or CD Request screen. Both Byte and IDS will have hardstops to ensure no closing dates are permitted prior to the expiration of the 12-day waiting period. CDs and Closing Documents can still be generated prior to the waiting period expiration, however the closing date must be accurate.

Note: New applications dated January 1, 2018 or after will automatically include the new notice in the initial disclosure package. However, it is important to remember that all owners/borrowers must receive the 12-day notice, so the notice may need to be separately delivered to other parties separate from the initial disclosure package.

Correspondent and Mini-Correspondent/Select Partner:

CMG will not purchase any (a)(6) loans that have closed prior to expiration of the new 12-day waiting period.

The Correspondent Seller will be responsible for providing evidence of the date the new 12-day notice was received by all owners/borrowers. The preferred evidence of receipt is a signed and dated 12-day notice, however proof of e-consent and e-delivery or mailing is also acceptable. The closing date is not permitted to be prior to the expiration of the 12-day waiting period.

Investors are not permitting purchase of any loans that close prior to the expiration of the 12-day waiting period, so exceptions to this requirement are not permitted.

Note: Correspondent and Mini-Correspondent loans are not required to be audited for the 2% fee cap explained below in order to be eligible for purchase.

New Fee Cap

Starting on loans closing/signing on or after January 1, 2018, the fee cap will be reduced from 3% to 2% of the original principal loan amount. The following fees will be excluded from the 2% fee calculation:

- Appraisal Fee that is payable to the third party appraiser – the portion of the appraisal fee that is paid to the Appraisal Management Company (AMC) is included in the 2% fee calculation
- Survey Fee performed by a state registered or licensed surveyor
- Lender's Title Insurance premium and endorsements
 - Or Title Examination Report fee if its cost is less than the Lender's Title Insurance without endorsements

The new 2% cap will be audited by both ComplianceEase and IDS.

Appraisal Fee:

As noted above, the appraisal fee paid to the appraiser is excluded from the 2% cap, however the portion paid to the AMC is not. Until Closing Corp is updated to quote separate Appraiser and AMC fees, the default will be to include the total Appraisal Fee payable to both parties in the 2% cap audit.

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The following two Appraisal Fees can be excluded from the 2% fee cap audit:

Fee Name	Payable To	2% Cap	Fee Type
Appraisal Conversion Fee	Appraiser	Excluded	Appraisal Fee
Appraisal Rush Fee	Appraiser	Excluded	Appraisal Fee

The following Appraisal Fees are required be included in the 2% cap audit in both ComplianceEase and IDS due to being payable to both the Appraiser and AMC. The user must manually update the Fee Type field in Byte:

Fee Name	Payable To	2% Cap	Change Fee Type To
Appraisal Fee	Appraiser and AMC	Included	Appraisal Desk Review Fee
Appraisal Fee - Departing Residence	Appraiser and AMC	Included	Appraisal Desk Review Fee
Appraisal Fee - Second Appraisal	Appraiser and AMC	Included	Appraisal Desk Review Fee
Appraisal Reinspection Fee	Appraiser and AMC	Included	Appraisal Desk Review Fee
Appraisal Review	Appraiser and AMC	Included	Appraisal Desk Review Fee

Once Closing Corp is able to quote the AMC portion separately from the total cost, these defaults will be updated.

ComplianceEase: If the loan is failing the 2% cap audit and the invoice shows the portion payable to the AMC separately from the portion paid to the appraiser, Compliance can manually update ComplianceEase to separate the two fees – the appraiser portion would be identified in ComplianceEase as “Appraisal Fee” and the AMC portion as “Appraisal Desk Review Fee.” Ensure the invoice is uploaded to the correct document type and then contact Compliance at compliance@cmgfi.com.

IDS: Since the appraisal fee cannot be split in IDS or it will affect the disclosed cost on the LE/CD, the 2% cap audit in IDS will not be accurate if the cost could be split between the Appraiser and AMC as outlined for ComplianceEase above.

Bona Fide Discount Points:

Discount points may only be excluded from the fee cap if they are bona fide, which means the discount points must correspond with a true reduction in interest rate. *If the loan does not have an Undiscounted Rate/Price, then the discount points are not bona fide.*

Operations must first verify the Undiscounted Rate information is accurate –

- Retail: Since Optimal Blue doesn't update the Undiscounted Rate or Price after the first rate lock, Operations must contact the lock desk to verify the Rate and Price are accurate.
- Wholesale: LendingQB does not always update the Undiscounted Rate and Price, so Operations must verify they are accurate either by reviewing the rate sheet or contacting the lock desk.

The Undiscounted Price must be 100.0% or higher in order for the discount points to be considered bona fide. If it is below 100.0%, then the undiscounted rate shown is *discounted* which means no discount points can be excluded.

- Example of an invalid Undiscounted Price and no discount points can be excluded:



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If the Undiscounted Rate is *undiscounted*, then you may choose "Bona Fide for All Tests" from the Discount Points Bona Fide dropdown.

TX 50(a)(4) Rate/Term Refinance

CMG will not be originating or purchasing any 50(a)(4) loans until final regulations are implemented.

The following is for informational purposes only.

The amendments also allowed for a rate/term refinance of a home equity loan. Under current law, a home equity loan may only be refinanced into another home equity loan or reverse mortgage – commonly known as the "once a home equity, always a home equity" rule. After January 1, 2018, a home equity loan can be refinanced with a regulator rate/term refinance as long as all of the following conditions are met:

- The rate/term refinance cannot close until a full year has elapsed since the closing date the home equity loan was closed;
- The refinance may not include the advance of any additional funds other than:
 - Funds to pay off the secured debt, and
 - The actual costs and reserves to refinance the loan.
- The principal loan amount cannot exceed 80% of the fair market value of the property
- The TX Refinance Option Disclosure must be received by all owners/borrowers no later than 3 business days after the application date and at least 12 calendar days prior to the closing/signing date.
- The TX Owner Affidavit Acknowledging Requirements of Section 50(f)(2) must be signed by the borrowers at closing.

The Texas Finance Commission and Credit Union Commission (the "Joint Agencies") have proposed interpretation amendments (the "Proposed Regulations") to the home equity lending regulations in order to implement SJR 60, however these Proposed Regulations are not anticipated to be finalized until late March 2018.

Due to risks associated with the final version still pending, many investors are not yet allowing the provision for a home equity loan to be refinanced as a non-home equity loan. At this time, CMG is not going to close nor purchase transactions where a home equity loan is refinanced as a non-home equity loan. This will be reconsidered upon the final version of the proposed regulations that are anticipated to be in late March 2018.

Appendix A

12-Day Notice Timeline Samples

Sun	Mon	Tues	Wed	Thurs	Fri	Sat
	1 New Year's Day*	2 1	3	4	5 2	6
7	8	9 3	10	11	12	13
14	15 Martin Luther King, Jr. Day*	16 4	17	18	19	20
21	22 5	23	24	25	26	27
28	29	30	31			

*CMG is closed New Year's Day and Martin Luther King, Jr. Day

- 1.** New 12-day notice will be disclosed electronically to borrower(s).
- 2.** If borrower(s) has not provided e-consent, 12-day notice will be mailed to borrower(s).
- 3.** Mailed disclosure is considered received.
- 4.** If e-consent was provided and borrower e-signed on 1/2/2018, this is the first day the closing documents can be consummated (signed).
 - a. The 12-day waiting period expires on 1/14/2018, however title/escrow companies are unlikely to be open on Sunday 1/14 or Monday 1/15 due to the holiday.
- 5.** If mailed on 1/5/2018, this is first day the closing documents can be consummated (signed).
 - a. The 12-day waiting period expires on 1/21/2018, however title/escrow companies are unlikely to be open on Sunday 1/21.