**Policy 7330: Residential Real Estate Loans**

**Model Policy Revised Date: 01/31/2024**

**General Policy Statement:**

[[CUname]] (Credit Union) will originate residential real estate loans in compliance with all applicable federal and state laws and regulations. Mortgage loans will be held in portfolio or sold on the secondary market as directed by the Asset/Liability Management Committee.

1. **LOAN TYPES**. The Credit Union offers the following types of residential real estate loans: [[7330-11]]
2. **LOAN AUTHORIZATION.** Loan Authorization limits are set forth in the Loan Authorization Policy (See **Policy 7130**).
3. **SECURITY.** The Credit Union will accept first and second trust deeds in fee simple on 1-4 family dwellings.
4. **VALUE.** Collateral value is determined by the lower of the sales price, internal or independent evaluation, or independent appraisal.
5. **APPRAISALS AND EVALUATIONS**
	1. The Credit Union’s appraisal and evaluation program will be conducted in accordance with Credit Union’s Real Estate Appraisal policy (See **Policy 7302 & its appendix 7303**).
6. **LOAN LIMITS.**

	1. **Maximum Loans.** Mortgage loans shall not exceed [[7330-9]] % of the Credit Union loan portfolio.
	2. **Maximum Loans Per Loan Type.**

	[[7330-12]]
	3. **Maximum Loan to Value (LTV) Ratios (lendable amount).**

	Owner Occupied [[7330-9.1]] % of value, less any senior liens
	Non-owner Occupied [[7330-9.2]] % of value, less any senior liens
	Second Mortgages (closed-end) [[7320-11]] % of value, less any senior liens

	Owner occupied means that the dwelling is or will be the borrower's principal residence. Deviations from this policy require Board waiver.
	4. **Maximum Aggregate to One Borrower.** The maximum aggregate to one borrower is [[7330-13]].
	5. **Maximum Maturity.** Loans originated with the intent to sell on the secondary market are limited to maturities of [[7330-9.3]] years. Those originated with the intent to retain in portfolio are limited to maturities of [[7330-9.4]] years.
	6. **Balloon Payments.** Loans originated with the intent to retain in portfolio may be written with maturities extending to [[7330-9.5]] years provided they require a balloon payment within [[7330-9.6]] years.
	7. **Private Mortgage Insurance (PMI).** Loans with over [[7330-14]] LTV will require private mortgage insurance (PMI).
7. **QUALIFYING BORROWERS.** Qualifying borrowers are those members who demonstrate creditworthiness. Loan officers will consider all criteria outlined in the credit underwriting standards and ability to repay requirements from the Credit Union’s Ability to Repay Policy. In particular, loan officers will focus on:

	1. Current or reasonably expected income or assets that the member relies on to repay the loan (other than the value of the property that secures the loan);
	2. Current employment status;
	3. Income stability;
	4. Monthly mortgage payment of the loan under consideration;
	5. Monthly payment on other simultaneous loans secured by the same property;
	6. Monthly payments for mortgage related obligations that could include (but is not limited to) property taxes, insurance, and homeowners association fees;
	7. Private mortgage insurance (PMI) will be required for borrowers with a loan-to-value (LTV) of [[7330-14]];
	;
	8. Debts, alimony, and/or child support obligations;
	9. Monthly debt-to-income ratio and/or monthly residual income, calculated using the total of all of the mortgage and non-mortgage obligations as a ratio of gross monthly income;
	10. The member’s credit history; AND
	11. Purpose of the loan.
8. **REQUIRED DOCUMENTATION.**

	1. The Credit Union will verify the information it relies on to evaluate a member’s ability to repay the mortgage loan using reasonable reliable third-party records.
	2. Completed FNMA/FHCMC application.
	3. Recent credit report and employment income verification.
	4. Clear title policy issued by a title company.
	5. Proof of homeowner's insurance with loss payable to the Credit Union.
	6. Deed of trust, recording, and legal description.
	7. Completed appraisal report (with pictures) prepared for the Credit Union by a qualified appraiser within 120 days of loan application. All single-family home appraisals will be completed on the Uniform Residential Appraisal Report.
	8. Evidence of flood insurance where applicable.
	9. Proof of balance of first mortgage (if applicable).
	10. Closing statements and disclosures.
9. **TITLE COMPANIES.** Management will maintain a current list of approved title companies. Approved companies must demonstrate:

	1. Proven track record (at least 5-years business experience); and
	2. Ability to meet financial commitments (as evidenced by a signed financial statement).
10. **USE OF THIRD-PARTY BROKERS AND CORRESPONDENTS**. Before entering into a relationship with a third-party broker or correspondent, the Credit Union will adhere to its Vendor Due Diligence and Oversight policy **(See Policy 2185)**.

	1. **Due Diligence**. Specifically, with regard to mortgage brokers and correspondents, the Credit Union will perform the following due diligence:

		1. **Background Check**. The Credit Union will perform a background check on the business and the key individuals involved in the transactions. This check will include: complaints filed against those parties, licensure status (where applicable), and past and current lawsuits. The Credit Union will obtain this information from the Better Business Bureau, the Federal Trade Commission, state agencies, credit reporting agencies, and current and past clients.
		2. **Business Practices and Operations/Potential Conflicts of Interest**. The Credit Union will determine whether the third-party has a sound business model for long-term operations. The Credit Union will also determine who has a controlling interest over companies providing related services to the broker and/or correspondent (i.e., appraisers, title companies, insurance companies, etc.).
		3. **Financial Standing**. The Credit Union will investigate the third-party’s financial condition; will determine whether its cash flow is adequate; and will obtain independently audited financial statements.
		4. **Accounting Considerations**. The Credit Union will understand the sources of the third-party’s cash, as well as how cash flows through the third-party’s operation and between all of the parties involved. The Credit Union will obtain an independently verification of cash flows, and will ensure that every third-party complies with Generally Accepted Accounting Principles (GAAP) in maintaining their account records.
		5. **Internal Controls**. The Credit Union will ensure that each third-party has sound internal controls to help prevent fraud and abuse, as well as to ensure compliance with consumer laws and regulations.
		6. **Contracts and Legal Review**. The Credit Union will obtain a legal review of its contracts with brokers and correspondents, and will ensure that the following issues will be addressed:

			1. Adequate default, termination and escape clauses;
			2. An agreement that the third-party will comply with all applicable laws;
			3. A stipulation that the third-party will use its best efforts to ensure loans offered to borrowers are consistent with each borrower’s needs, objectives and financial situation;
			4. The Credit Union’s right to not to purchase, or to put back on the broker or originator, any loans that fail to comply with the above standards;
			5. The Credit Union’s contract or other agreement for credit transactions secured by a dwelling (including a home equity line of credit) will not include terms that require arbitration or any other non-judicial procedure to resolve any controversy or settle claims arising out of the transaction.
	2. **Monitoring**. The Credit Union will monitor the relationship to ensure that the fees paid to third-parties are legitimate; that mortgage applications are complete and do not contain fraud; that referral or unearned income of fees are legal and not contrary to RESPA prohibitions; and will review the quality of each loan by origination source in an effort to uncover incomplete packages and early payment defaults.
	3. **Controls**. The Credit Union will ensure that adequate controls are in place in order to ensure:

		1. Adherence to Board established lending policies and risk parameters. A sample of loans underwritten by brokers or correspondents will be reviewed for compliance with board policies, applicable regulations and written agreements to determine whether ongoing loan quality is maintained. Additional targeted loan reviews will be performed based on any performance concerns of a third-party, such as increasing default rates, foreclosure rates, complaints, and/or higher than average fees charged to borrowers.
		2. Loan approval authority is not delegated to the broker, and that all loan underwriting criteria and subsequent modifications are approved by the Credit Union.
		3. Broker and correspondent reports are accurate, timely, and contain sufficient detail to adequately monitor activity.
		4. Loan fees, terms and practices are not predatory.
		5. The Credit Union is obtaining appraisals directly, or the quality of completed appraisals is adequate.
11. **DETERMINATION AND NOTICE OF FLOOD HAZARDS.** The Credit Union will comply with NCUA Part 760 regarding the determination of loans in areas having special flood hazards.

	1. **Determination.** For all loans made, increased, extended or renewed that are secured by a building or mobile home located or to be located in a special flood hazard area, the Credit Union will complete the standard flood hazard determination form developed by the Administrator of the Federal Emergency Management Agency (FEMA). This applies to loan originations, extensions, refinances, and renewals. The Credit Union will retain a copy of the completed form for as long as the Credit Union owns the loan. See **Policy 10007** in the Records Retention Chapter (Table 7 - Lending Records).
	2. **Fee.** The Credit Union may charge a reasonable fee for determining whether the building securing the loan or mobile home is, or will be located, in a special flood hazard area. The portion of the cost for the life-of-loan monitoring will be disclosed as a finance charge pursuant to Regulation Z.
	3. **Notice.** If the building securing the loan or mobile home is in a special flood hazard area, the Credit Union must:

		1. Notify the borrower and the loan servicer of the special flood hazard within a reasonable time before completion of the transaction, the requirement for the purchase of flood insurance, whether flood insurance coverage is available from the National Flood Insurance Program, and whether federal disaster relief assistance may be available in the event of flooding. The Credit Union will retain a written receipt by the borrower and the loan servicer of this notice for as long as the Credit Union owns the loan. Notice may be provided to the servicer electronically.
		2. Notify the Administrator of FEMA, or their designee, of the loan servicer. To ensure that the insurance policy is maintained in full force, the Credit Union will send this notice to the insurance carrier that issued the insurance policy so that the mortgagee endorsement can be updated. The Credit Union will notify the Administrator of FEMA of any change in the servicer of a loan within sixty (60) days after the effective date of the change.
12. **FLOOD INSURANCE.** The Credit Union will not make a loan secured by a building, or mobile home on a permanent foundation, that is located in a special flood hazard area for which flood insurance is available, unless the building is covered by flood insurance for the term of the loan. This applies to all originations, extensions, refinances, and renewals of loans over $5,000 or with a repayment term greater than a year. The credit union is not required to obtain flood insurance for a structure (used for personal, family or household purposes) that is a part of a residential property, but detached from the primary residential structure and does not serve as a residence.

	1. **Term.** The borrower must maintain flood insurance for the term of the loan, unless flood map revisions determine that the underlying collateral is no longer in a designated flood hazard area.
	2. **Coverage.** The policy amount must cover the loan amount or the maximum amount available under the National Flood Insurance Program, whichever is less.
	3. **Escrow.** If flood insurance is required, the Credit Union will escrow the flood insurance premiums, unless an exception applies. The escrow account will be subject to the escrow requirements of the Real Estate Settlement Procedures Act (RESPA). Following receipt of notice from the Administrator of FEMA or other provider of flood insurance that premiums are due, the Credit Union will ensure that payment is made to the insurance provider from the escrow account on the date when such premiums are due.
	4. **Notification; Forced Placement.** The Credit Union will determine whether flood insurance is required and promptly notify prospective borrowers of the need to acquire flood insurance within 45 days, at the borrower’s expense. If the borrower fails to provide evidence of flood insurance within 45 days of notification, the Credit Union will purchase flood insurance for borrower at borrower's expense. If the borrower subsequently obtains sufficient flood insurance coverage, within 30 days of receipt of confirmation, the credit union will notify the insurance provider to terminate any insurance purchased by the credit union and refund to the borrower all premiums and fees paid by the borrower during the time both the borrower’s flood insurance and the credit union-paid flood insurance were in effect.
	5. **Records.** The Credit Union will maintain records documenting the method used to determine the need for flood insurance and notices sent to borrowers.
	6. **Private Flood Insurance.** The Credit Union will accept private flood insurance that meets the definition within NCUA Rules (760.2). In order to confirm the policy meets the definition the Credit Union will ensure that within the policy or as an endorsement, the following statement is included: “This policy meets the definition of private flood insurance contained in 42 U.S.C. 4012a(b)(7) and the corresponding regulation.”

		1. The Credit Union has discretion in accepting a flood insurance policy that is not issued under the National Flood Insurance Program and that does not meet the definition of “private flood insurance” within NCUA Rules (760.2) if; (1) coverage is provided in the amount required, (2) is issued by an insurer that is licensed, admitted, or otherwise approved to engage in insurance by the state regulator or jurisdiction in which the property will be insured, (3) covers both the Credit Union (as the mortgagee) and mortgagor(s) as loss payees (exception for cooperatives and homeowners associations), and (4) provides sufficient protection of the loan, consistent with general safety and soundness principles and the Credit Union documents conclusions regarding that sufficiency in writing.
13. **“HIGHER-PRICED MORTGAGE LOANS.”** “Higher-priced mortgage loans” are defined as consumer-purpose loans secured by a consumer’s principal dwelling which have an annual percentage rate (APR) that exceed the “average prime offer rates” for a comparable transaction published by the Federal Financial Institutions Examination Council (FFIEC) and by at least 1.5 percentage points for first-lien loans, or 3.5 percentage points for subordinate-lien loans (reverse mortgages, construction-only loans, loans originated and directly financed by the Housing Finance Agency(HFA) or U.S. Department of Agriculture (USDA), and bridge loans are **excluded** from this definition).

	1. **Average Prime Offer Rate**. The average prime offer rate is available on the Federal Financial Institutions Examination Council (FFIEC) website.
	2. **Protections Covering Higher-Priced Mortgage Loans**. For higher-priced mortgage loans, the following protections will apply:

		1. **Member’s Ability to Repay**. The Credit Union will consider a member’s ability to repay the loan’s principal and interest, as well as the property taxes, homeowners insurance and similar mortgage-related expenses (i.e., homeowners association or condominium dues). This ability will be based on the member’s reasonably expected income, employment, assets other than collateral, current obligations and mortgage-related obligations. Expectations for improvements in income or employment may be relied upon, but must be reasonable and verified with third-party documents (i.e., tax returns, payroll receipts, and/or account statements).
		2. **Verification of Income and Assets**. The Credit Union will verify income and assets using reliable third-party documents. The Credit Union will never rely solely on an income statement from an applicant, and will never make even an isolated “no income, no asset” loan in the higher-priced mortgage market. Ability to repay a higher-priced mortgage loan will be determined as follows:

			1. Using the largest-scheduled payment of principal and interest in the first 7 years following consummation, and taking into account property taxes, insurance obligations and similar mortgage-related expenses;
			2. Using at least one of two measures: (1) total debt-to-income ratio; or (2) the income the member will have after paying debt obligations.
		3. **Escrow for Taxes and Insurance**. The Credit Union will establish escrow accounts for taxes and insurance for all higher priced mortgage loans. Required hazard and flood insurance premiums will be escrowed when these products are required by the Credit Union. Based on Dodd-Frank Act requirements that amended the Truth in Lending Act escrow account will be maintained on higher priced mortgage loans for a period of not less than five (5) years.

			1. **Borrower’s Right to Cancel.** Borrowers may cancel escrows sixty (60) months after loan consummation. The Credit Union will consult with its legal counsel as to whether an escrow cancellation fee may be imposed.
			2. **Optional Insurance Items**. The Credit Union [[7330-15]] escrow optional insurance items chosen by members (and not otherwise required by the Credit Union).
			3. **Administration**. The Real Estate Settlement Procedures Act (RESPA) applies to the administration of the escrow accounts.
			4. **Condominiums**. Escrows for property taxes for first-lien higher-priced mortgage loans secured by condominium units will be required, unless the condominium’s association maintains and pays for insurance through a master policy.
			5. **Manufactured Housing**. The Credit Union will require escrow accounts for all covered loans secured by manufactured housing, regardless of whether state law treats manufactured housing as personal or real property.
			6. **Exemption.** The Credit Union may qualify for one of two exemptions to the Escrow requirement.

				1. **Insured Credit Union Exemption.** The Credit Union has assets under $11.835 billion (adjusted annually), originated 1,000 or fewer loans secured by a first lien on a principal dwelling during the preceding calendar year, extended credit in a rural or underserved area, and have not (along with affiliates) maintained an escrow account except for those established for HPMLs when required to do so or after consummation as an accommodation to a distressed consumer.
				2. **Small Creditor Exemption.** The Credit Union has assets under $2.640 billion (adjusted annually), extended 2,000 or fewer loans secured by a first lien that were sold, assigned, or otherwise transferred or subject at the time of consummation to a commitment acquired by another person during the preceding calendar year (or during either of the two preceding calendar years if the loan was received before April 1st of the calendar year), extended at least one covered transaction secured by a first-lien on a property located in a rural or underserved area, and have not (along with affiliates) maintained an escrow account except for those established for HPMLs when required to do so or after consummation as an accommodation to a distressed consumer.
14. **DISCLOSURES.** The Credit Union will provide applicants with proper disclosures in a timely manner, pursuant to the Credit Union's RESPA – TILA Integrated Mortgage Disclosures Policy (See **Policy 7244**).
15. **HOME MORTGAGE DISCLOSURE ACT.** The Credit Union will maintain a loan application register (LAR) that documents data regarding applications for home purchase and home improvement loans. Management shall develop and implement procedures that ensure:

	1. Compliance with the Home Mortgage Disclosure Act.
	2. Timely delivery of a completed LAR to proper supervisory agencies.
	3. Proper maintenance. The LAR should be kept current throughout the year as data is collected. As a general rule, transactions should be fully recorded within 1 month after final action is taken.
16. **SERVICING**.

	1. **Crediting Payments**. The Credit Union will credit all mortgage loan payments as of the date of receipt, except when a delay would not result in any charge to the member or in the reporting of negative information to a consumer reporting agency.

		1. **Non-Conforming Payments**. In the event the Credit Union specifies, in writing, reasonable requirements for making payments, and a member makes a non-conforming payment, the Credit Union will credit the account within 5 days of receipt.
	2. **Providing Loan Payoff Statements**. The Credit Union will provide a loan payoff statement within 7 days of a member’s written or oral request. Prior to delivering this statement, the Credit Union will take reasonable measures to verify the identity of those purporting to act on behalf of a member, and will obtain the member’s authorization to release information to any such persons before the 7 day timeframe begins to run. The payoff statement may be sent electronically, by fax, or physical delivery.
17. **LOAN WATCH.** Since residential real estate loans constitute large balances and long maturities, they shall be monitored regularly so that the amount of obligation and potential percentage of portfolio is understood. Board reports include the amount approved, average maturity, and in the case of home equity loans, undisbursed credit. Board reports also closely monitor past dues and collection efforts.
18. **LOSS MITIGATION STRATEGIES**. The Credit Union may enter into a loan modification or take other loss mitigation strategies as a means of avoiding foreclosure. In doing so, the Credit Union will take into account the issues presented in the Credit Union's Residential Real Estate Loss Mitigation Strategies Policy (see **Policy 7625)** and the loss mitigation requirements of the Mortgage Servicing Rule published by the Consumer Financial Protection Bureau (CFPB) and the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act and presented in the Credit Union’s Mortgage Servicing Policy (See Policy 7360 or 7361).
19. **RISK MANAGEMENT.**

	1. **Interest Rate Risk.** The Credit Union will sell all [[7330-9.7]] -year FHA, VA, and conventional loans to qualified investors. All portfolio loans will be limited to a maximum amortization term of [[7330-9.8]] years, unless waived by Board approval. Interest rates on any portfolio loans will not be fixed for longer than [[7330-9.9]] years.
	2. **Liquidity Risk.** The Credit Union is primarily committed to provide consumer financing to its membership. Funding mortgage lending in our portfolio is only permissible if the Credit Union loan to deposit ratio is less than [[7330-9.9A]] %. The Credit Union will ensure it only grants loans that are suitable for potential sale on the secondary market (See (22) below). The Credit Union’s asset liability management program (**See Policy 5100**) will indicate the point at which the loans will be sold to minimize losses.
	3. **Credit Risk.** The Credit Union will closely scrutinize applicants for default risk; applicants must adhere to the Credit Union's strict underwriting standards. In particular, all mortgage loans are required to have an in-file TRW credit report before the loan is approved, and any loan over $[[7330-9.9B]] must have a complete mortgage credit report. The Credit Union also minimizes risk exposure by limiting the LTV ratios, monitoring delinquent loans, and implementing effective collection procedures.
	4. **Mortgage Pipeline Risk**. The Credit Union will closely monitor its mortgage pipeline risk. Monitoring will be in the form of understanding potential interest rate and liquidity risk the pipeline presents to the Credit Union. Monitoring will also be in the form of compliance with federal regulations.
20. **PROPERTY TAXES PAID FROM MORTGAGE ESCROW ACCOUNTS.** If the Credit Union services mortgage loans, it will follow HUD's suggestions regarding annual versus installment disbursements for paying property taxes.

	1. For each such loan, the Credit Union will total all payments associated with paying property taxes annually (if permitted) and all payments associated with paying in installments (if permitted).
	2. If the total associated with annual payments is less, the Credit Union will pay the property taxes annually. If the total associated with paying in installments is less, the Credit Union will pay installments.
	3. If funds in the escrow account are insufficient to make a property tax payment, the Credit Union will advance funds to make the payment unless the borrower is more than 30 days past due.
21. **HAZARD INSURANCE PAID FROM MORTGAGE ESCROW ACCOUNTS**. The Credit Union will follow the requirements of the Mortgage Servicing Rule (See Policy 7360 or 7361) in respects to force placing hazard insurance on a member’s property.
22. **SECONDARY MARKET STANDARDS.** In order to ensure that the Credit Union’s loans meet secondary market standards, the following issues will be considered:

	1. **Documentation – Uniform Instruments.** The Credit Union will use uniform instruments, as accepted by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), FNMA and FHLMC.
	2. **Appraisals.** An appraisal that conforms with NCUA Part 722; Equal Credit Opportunity Act Valuations Rule, as amended by the Consumer Financial Protection Bureau; Fair Lending Laws; as well as Regulation Z appraisal requirements.
	3. **LTV Ratio Limits.** For conventional loans, the maximum LTV permissible will be no greater than 80% of the lower of the appraised value or sales prices unless PMI is obtained. PMI will be obtained from a company acceptable to the Credit Union and to established secondary markets. On government-insured loans, the LTV will not exceed the applicable FHA or VA guidelines.
	4. **Credit Reports.** The Credit Union will obtain credit reports acceptable to the secondary market (i.e., “residential mortgage credit reports” as opposed to “in file” credit reports).
	5. **Hazard Insurance.** Hazard insurance policies will be obtained that name the Credit Union as the loss payee. The policies will be in the amount of the original loan balance or the replacement value of the structure, whichever is less. Coverage must be sufficient to pay the mortgage balance including prior liens, if any.
	6. **Grace Periods and Interest Calculations Basis.** All residential real estate loans will have calculations acceptable to the secondary market. To satisfy this objective, loans will be based on a 30-day month/360-day year interest calculation basis and have a 15-day grace period.
	7. **Title Search and Abstract.** Title searches and abstracts will be performed prior to the closing of all residential real estate loans.
	8. **Title Insurance.** The Credit Union will obtain a lender’s title insurance policy for all residential real estate loans.
	9. **Indexes for Adjustable Rate Loans.** The index used to establish the rate for adjustable rate loan programs, as well as the margins over the index, will be acceptable to secondary markets and appropriate to the type of loan granted. Therefore, the Credit Union will not use internal indexes for loans the Credit Union desires to sell on the secondary market.
23. **SUBORDINATION**. The Credit Union will agree to subordinate its lien position only in the following circumstances: [[7330-16]]
24. **WRITTEN AUTHORIZATION.**Prior to sharing any member tax return information through either a sale to the secondary market, third-party servicing relationship or otherwise, the Credit Union will obtain the member’s written authorization.