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Section 1 General

1.1 Statement of Purpose

[Sample Client] designed these policies and procedures to safeguard its legal responsibility to comply with applicable residential lending laws and regulations. The [board of directors](#) and senior management, through a sound [Compliance Management System](#), ensure the integration of these policies and procedures into the overall framework for product design, delivery, and administration across the residential lending origination and service life cycle. Management and employees utilize these policies and procedures to guide their daily responsibilities to effect mitigation of regulatory compliance risk within their job roles.

1.2 Objective

The guidance in this guide applies throughout [Sample Client]'s operations with the objective to mitigate regulatory risk and consumer harm within the standards of [Sample Client]'s compliance program. [Sample Client] requires employees, contractors, and [third-party vendors](#) to comply with these policies and procedures.

1.3 State Law and Agency Guidelines

Federal law may alter, affect, or preempt state laws that are inconsistent with the federal law. Preemption applies only to the extent of the inconsistency. A state law is not inconsistent if it is more protective of a consumer. Wherever state law or local regulations overlap and provide greater consumer protections than federal law or the requirements set out in this guide, [Sample Client] will comply with the more protective law or regulation and will consult with the appropriate legal counsel to set forth [Sample Client]'s policies and procedures for compliance.

In some instances, agencies may overlay guidelines that expand upon the requirements of federal law. [Sample Client] must be cognizant of agency guidelines and incorporate those guidelines into [Sample Client]'s policies and procedures.

Section 2 Summary

The Homeowners Protection Act (HPA) addresses difficulties some homeowners encountered in canceling private mortgage insurance (PMI) coverage by instituting uniform nationwide standards for PMI cancellation and termination.

Key elements of HPA include:

- Provisions for canceling and terminating PMI, including borrower requested cancellation, automatic termination, and final termination.
- Disclosure and notification requirements, including initial disclosures, annual disclosures, and notices at the [termination date](#).
- Requirements for the return of unearned premiums to the borrower

The Consumer Financial Protection Bureau (CFPB) supervises and enforces compliance with HPA for entities in its jurisdiction.

2.1 Coverage

HPA applies primarily to residential mortgage transactions—mortgage loan transactions to finance the acquisition, initial construction, or refinancing of a single-family dwelling that serves as a borrower’s principal residence, consummated on or after July 29, 1999.

HPA also contains provisions for annual written disclosures for residential mortgages—mortgages, loans, or other forms of evidence of a security interest created for a single-family dwelling that is the principal residence of the borrower.

A condominium, townhouse, cooperative, or mobile home is considered a single-family dwelling covered by HPA.

HPA requirements vary depending on the following factors:

- Whether the mortgage is a residential mortgage transaction or a residential mortgage
- Whether the mortgage is defined as high risk

For conforming loans, Fannie Mae or Freddie Mac establish what is a high risk mortgage and for non-conforming loans high risk is defined by the lender.

- Whether the mortgage is a fixed rate or an adjustable rate loan
- Whether the loan is covered by borrower paid private mortgage insurance (BPMI) or lender paid private mortgage insurance (LPMI)

Section 3 Requirements

3.1 PMI Cancellation and Termination

3.1.1 Cancellation and Termination of PMI for Non-High Risk Residential Mortgage Transactions

HPA requires the cancellation or termination of [PMI](#) based upon a borrower's request or the meeting of requirements for automatic or final termination.

Borrower Requested Cancellation

Borrower requested cancellation for a residential mortgage transaction refers to cancellation following a borrower initiating cancellation of PMI coverage by submitting a written request to the servicer. The servicer must take action to cancel PMI when the [cancellation date](#) occurs or any date after the cancellation date when the borrower meets all the requirements for cancellation.

Automatic Termination

Automatic termination for a residential mortgage transaction must occur on the date the principal balance of the mortgage is first scheduled to reach 78% of the [original value](#) of the secured property (based solely on the [initial amortization schedule](#) for a fixed rate loan) or on the [amortization schedule then in effect](#) for an adjustable rate loan), irrespective of the outstanding balance if the borrower is current. If the borrower is not current on that date, the automatic [termination date](#) is the first day of the first month following the date that the borrower becomes current.

Final Termination

Final termination for a residential mortgage transaction must occur if PMI coverage was not canceled at the borrower's request or by automatic termination. The servicer must terminate PMI coverage by the first day of the month immediately following the date that is the [midpoint of the loan's amortization period](#) if, on that date, the borrower is current on the payments required by the terms of the mortgage. If the borrower is not current on that date, the servicer must terminate PMI when the borrower does become current.

Section 4 Origination Compliance

[Sample Client] origination must comply with the disclosure requirements of HPA.

For a residential mortgage transaction, [Sample Client] must provide certain disclosures to the borrower at the time of consummation. These disclosures describe the borrower's rights for [PMI](#) cancellation and termination. The content of these disclosures varies depending on whether the transaction is a fixed rate mortgage, adjustable rate mortgage, or high-risk loan.

For a residential mortgage, [Sample Client] must only provide certain annual disclosures.

4.1 Initial Disclosures for Non-High Risk Fixed Rate Residential Mortgage Transactions

If PMI is required for a non-high risk fixed rate mortgage, [Sample Client] must provide the following to the borrower at the time the transaction is consummated:

- A written [initial amortization schedule](#)
- A written notice that discloses all the following:
 - The borrower's right to request cancellation of PMI, and, based on the initial amortization schedule, the date the loan balance is scheduled to reach 80% of the [original value](#) of the property
 - The borrower's right to request cancellation on an earlier date, if actual payments bring the loan balance to 80% of the original value of the property sooner than the date based on the initial amortization schedule
 - That PMI will automatically terminate when the LTV ratio reaches 78% of the original value of the property and the specific date that is projected to occur (based on the initial amortization schedule)
 - That there are exemptions to the cancellation and automatic termination provisions for high-risk mortgages and whether these exemptions apply to the borrower's loan

Section 5 Servicing Compliance

[Sample Client] or its servicer must cancel or terminate [PMI](#) in accordance with the provisions of HPA and must provide certain annual and other notices concerning PMI cancellation and termination to the borrower.

5.1 Borrower Requested Cancellation of PMI for Non-High Risk Residential Mortgage Transactions

A borrower has the right to request cancellation of PMI when the [cancellation date](#) has been reached and certain requirements have been met. The borrower must submit a written cancellation request, have a [good payment history](#), be current, and satisfy requirements for providing the following:

- Evidence that the value of the property has not declined below the [original value](#)

This evidence must be of a type of evidence established in advance. [Sample Client] or its servicer may require a property appraisal as evidence that the value of the property has not declined below the original value and may require the borrower to pay for the appraisal. However, any appraisal obtained should be used only to determine whether the property's value has declined below the original value.

- Certification that the borrower's equity in the property is not subject to a subordinate lien

[Sample Client] must take action to cancel PMI based on the borrower's request when the cancellation date occurs and the requirements are met.

Borrower requested cancellation provisions do not apply to residential mortgage transactions for which LPMI is required.