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LOCK AND PRICING POLICY

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Lock and Pricing Policy QM and Non-QM loans

Lock Desk Contact Information:

- lock@admortgage.com
- Phone 305-824-2421
- Lock Desk Hours 9:00 a.m. to 5:00 p.m. EST Mon-Fri
- Pricing Hours 10:00 a.m. to 8.00 p.m. EST Mon-Fri (may vary for loan programs)

Purpose:

The purpose of the Lock Policy is to provide a framework that allows A&D Mortgage [A&D] to generate income through the origination of mortgage loans, while minimizing interest rate risk and pipeline management costs.

Investors analyze A&D delivery performance when determining price structure and every effort is made in the secondary markets to obtain the best pricing for our production. Factors analyzed by investors include locked loan pull-through, locked loan fall-out and the overall quality, performance and volume of loans delivered.

Pull-through is the ratio of locked loans delivered to the investor divided by the total number of locked loans for a given time period. Fall-out is the inverse of the pull-through ratio and is the amount of loans that were not delivered to the investor divided by the total number of locked loans for a given time period.

Investors assign top-tier pricing to those clients whose pull-through and performance meet the minimum requirements. A&D strives for high pull-through, regardless of secondary marketing execution. The following procedures have been established in order to maintain high pull-through ratios and minimize fall-out.

General Responsibilities

It is the responsibility of all employees involved in origination activities to understand and comply with the Lock Policy.

It is the responsibility of Management to ensure that all team members understand the Policy and the impact their activities may have on loan profitability and the ability to manage risk.

It is the responsibility of the Mortgage Loan Originator (MLO) to convey to the borrower how rate locks are provided at a cost and that deviations from the Policy come at a cost to the company. In some cases, the cost of errors or exceptions can significantly exceed the revenue generated from a transaction.

It is the responsibility of Operations Management to ensure that loan data in the Integra Banker supports current or the latest and the most accurate details of loan status. This enables critical reports to be generated to effectively manage pipeline risk.



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Mortgage Loan Officer Responsibility:

1. The Loan File must have a complete application with property address in Integra prior to locking.
2. A daily report will be reviewed by the Supervisor or Assistant Supervisor of Secondary Marketing Department regarding extensions, re-locking/renegotiations. The Supervisors of the MLO must approve the extensions, re-locks, and renegotiations to ensure against unsound practices. The additional costs will be tracked and assessed to the best-efforts price by the appropriate department.
3. AD Mortgage only offers Best Effort lock options.
4. "Quote and Float" is prohibited. If you are instructed by the borrower to lock, you must lock. You cannot commit to a lock agreement with a borrower, either verbally or in writing until the loan is locked. Violations of this policy will result in disciplinary action.
5. AD Mortgage offers 15, 30, 45 and 60-days lock periods. The lock period chosen MUST accommodate the right-of-rescission period for refinances. All loans must close AND disburse by the lock expiration date.

Hours of Availability:

Each business day rates will be available by approximately 9:30 a.m. Eastern Time. In volatile markets prices may be released later. Rate locks are available from the time the pricing is released each morning until 5:00 p.m. Eastern Time (may vary by loan program). The Lock Desk is available for assistance on rate-lock related issues from 9:00 a.m. to 5:00 p.m. Eastern Time.

Confirmation of Lock:

After a lock request is submitted by the MLO, it will be processed by the Lock Desk within 60 minutes of receipt. It is the responsibility of the MLO to review the lock terms for accuracy. A&D reserves the right to refuse lock requests or to change rates at any time due to fluctuations in the secondary market. The Lock Desk will make every effort to provide notice when a re-price is in effect.

Lock Extensions:

No free extensions are allowed.

Extensions cannot be removed or revoked if already applied.

In the event when a lock cannot be closed within the expected original time frame, it may be extended instead. These extensions cause additional hedging costs that must be passed on to the customer. In addition, an extension **MUST** be requested by the MLO with the Lock Desk **BEFORE** the original lock has expired and the loan must be valid. These requests should be made through the [Lock Change Request Form](#) available on AD Mortgage website (<https://admortgage.com/>) through [Resources](#) tab within [Documents & Forms](#) section. The following extension options and fees are:

1. All extensions include weekends and holidays.
 - 1) The first extension is 2.5 bps per day
 - 2) Second extension is 5 bps per day
 - 3) Third extension is 7.5 bps per day

For all programs the minimum period of extension is 3 days (costs are subject to change).

1) First extension estimates (2.5/day):

- 7 days = 17.5 bps
- 15 days = 37.5 bps
- 30 days = 75 bps

2) Second extension estimates (5/day):

- 7 days = 35 bps
- 15 days = 75 bps
- 30 days = 150 bps

3) Third extension estimates (7.5/day):

- 7 days = 52.5 bps
- 15 days = 112.5 bps
- 30 days = 225 bps

2. Loans may be extended maximum three times (two times for Prime Jumbo) but no more than 30 days beyond the original lock expiration date at regular pricing described above. Should a loan that has been already extended for 30 days need another extension, AD Mortgage will relock it and a worst-case pricing will be applied (please, refer to Re-locks and Renegotiations, page 5 of Lock Policy)

3. Should a loan, that has been already extended for 3 times (for 2 times for Prime Jumbo), need a 4th extension (3rd extension for Prime Jumbo), AD Mortgage will relock it and a worst-case pricing will be applied (please, refer to Re-locks and Renegotiations, page 5 of Lock Policy).

4. The extension request for an expiring loan must be submitted prior to the loan expiration date.

5. The loan must be in the underwriting stage or approved by underwriting to be eligible for an extension. The waiver of extension fees is treated as a renegotiation and requires management approval, as the cost will be borne by the company. Lock extensions expiring on a weekend do NOT automatically roll over till Monday or the next working day and must be extended on the business day prior to the weekend. Extensions exceeding 60 days (including initial lock period) must have a CTC (Clear to Close) status.

Re-locks and Renegotiations:

A relock of a loan may be required for a variety of reasons therefore should be treated on a case-by-case basis.

If it is to retain a client that may leave for a better rate, it may be less costly to offer a renegotiation than to lose the loan. This will result in less profit to the company.

If:

1. A loan was not extended prior to lock expiration
2. The lock has already been extended 3 times and needs a 4th extension (extended 2 times and needs a 3rd extension for Prime Jumbo)
3. The lock has already been extended for 30 days and needs another extension, it will be subject to current market or the original lock price, whichever is worse, plus relock fee.

Relock fee is 25 bps for 15 days and 37.5 bps for 30 days. All previously applied extension fees and LLPAs will remain in place. Loans that have been expired from the hedge for greater than 30 days (60 days for Jumbo) will be permitted to relock at a current market price.

If the reason is a product change, then the decision will vary based on the pool in which it was originally placed. It will be either subject to the original lock date pricing or treated as regular re-lock (current market, plus a relock fee).

The product type (e.g., 30yr Fixed Rate - 60 Days) will not update based on the selected re-lock term. Worst-case pricing will be calculated using the new lock period (15 or 30 days).

Method of calculation for worst-case pricing:

1. Worst case pricing is determined by comparing locked Base Price + currently locked LLPAs on the loan from initial rate sheet versus current market Base Price + new LLPAs for the same parameters from the most recent rate sheet (for the time relock/extension request was submitted through a Lock Change Request form). The lowest price between the two is considered a worst-case price and is applied to the loan while relocking.
2. If loan parameters were changed, the loan will be repriced using the original lock date rate sheet. Then its final price will be compared to the current market Base Price + LLPAs.
3. Extensions, previous relocks and other additional charges, aside from rate sheets, remain in place after relocking.
4. In volatile conditions, if initially locked interest rate is not available at the time relock request was submitted, interest rate must be increased on the loan.

To qualify for a renegotiation/a float down, the following criteria must be met:

- The current market must change by at least 1.00 point better in price than the original locked rate/price
- Loan must be approved with all prior to CTC conditions signed off; must be CTC
- A renegotiation may only be exercised once per loan and will be priced at the current market with a 0.50 deduction to pricing.
- Loan must close within 15 days of new negotiated price
- Renegotiation terms are not eligible for additional extensions. If the lock expires or the loan is not funded within the 15 days included with the renegotiation, the loan will be re-locked at worse case pricing.
- Interest Rate cannot be increased on the loan.
- Rate Lock Negotiations for all Jumbo, NonQM and Lite Doc programs will be considered on a case-by-case basis.

Other Critical Details Regarding Existing Locks

Loan Feature Changes: If at any time it is discovered that a loan has changes in its characteristics (such as LTV/CLTV, FICO, DTI ratio, Purpose, or Occupancy changes), the Lock Desk must be notified about such changes. If necessary, the loan will be repriced based on the cost of those features at the time of the request. The Lock Desk will make the necessary changes and the system will reflect the revised price.

Investor/Product Selection: If a loan is deemed ineligible for delivery to the priced investor/program, the loan pricing will revert to the next-best investor based off the original lock date. Loans delivered to an investor and subsequently rejected could be subject to repricing to the originator based on the pricing with the new investor.

Changes to Property: If the subject property should change during the loan process the lock may be subject to repricing based on new loan parameters.

Loan Officers must review all lock confirmations immediately upon receipt and communicate any errors the same business day to the secondary marketing.

A rate lock may or may not be changed. The Secondary Market Department has the discretion to grant or deny the change request. If the change is granted, price may be determined at worst case scenario or according to the market situation.

Any request for other changes is as follows:

- **Rate and pricing change** is allowed as long as the original rate and pricing are from the same rate sheet.
- **Adding points financed** is only allowed on the locked files.
- **Property change** requires a written request via email. Secondary may or may not require an entirely new lock. (You may want to add examples of when an exception would be eligible – e.g., address changes from 123 Street to 123 Ave, transpose number 4592 to 4529, etc.)
- **Borrower change** before commitment can be honored as long as the original borrower remains the same; change of borrower after commitment requires underwriter to re-underwrite the loan if the original borrower remains the same. No fee is charged.

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- **Loan term change** (from 30 year to 15 year or vice versa) is allowed if the new rate and pricing is derived from the original lock day's rate sheet.
- **Change in loan type** (from Fixed Rate Mortgage to ARM or vice versa) will be considered cancellation and fall out of original loan. The price of a new loan will be either the worst-case scenario or defined by the secondary market.
- **Locks transfer** between different programs is not allowed. All transfer requests are considered on a case-by-case basis and must meet the following requirements:
 1. Transfers are allowed on locks for the same property and the same borrower.
 2. Lock must be active at the moment of the transfer request.
 3. Transfer must be reviewed and approved by Lock Desk.
 4. Transfers are allowed on Conv, NQM, FHA programs.

Cancellations: Upon identification of a lock cancellation, the MLO must notify the Lock Desk immediately to prevent further hedge costs.

Pricing Policy:

All loans must be priced through Integra and a Par rate must be presented to the consumer (Par is defined as the First Interest Rate equal to or greater than 100.00 points). Any lock pricing over Par is to be credited back to the consumer. Such premiums will be reflected on the GFE/LE as a "credit" to the consumer. If the credit exceeds the Adjusted Origination Charge in Block A of the GFE/LE, the excess amount may be applied towards other closing costs. Any lock pricing below Par is to have the equivalent discount points charged to bring the price to 100.00. Discount points must result in a reduction of the interest rate. In the event a Par rate is not available due to pricing reaching the maximum available rate in Integra pricing engine, the Par (undiscounted rate) shall equal the Maximum Available Offer Rate.

If the total amount over 100.00 (PAR) cannot be credited back (per agency or investor guidelines) due to max credits being limited to total closing costs and pre-paid items, the loan file is to be documented in detail, the circumstances for not crediting the total amount over 100.00 due to agency or investor limitations.

In the event a lock price is below 100.00 and the corresponding discount is not being charged, the loan file is to be documented in detail as to why the discount is not being charged. Underage or pricing concessions may be granted only as described in this Policy.

Extension fees and/or re-lock fees that were applied due to the borrower's inactivity may be charged to the borrower. In the event of charging the extension or relock fees to the borrower, the loan file is to be documented in detail with the specifics resulting in the borrower's inactivity.

Pricing Exceptions Policy

Exception's Pricing

Loans with exceptions will be updated with additional adjustment to the rate if applicable and will be subject to



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repricing. All loans with exceptions will be priced using the actual loan information (LTV, FICO, DTI, loan amount etc.) according to the rate sheet. If pricing is unavailable, the last adjustment in the row will be used.

For example: Loan \$3,000,001-3,500,000 and LTV 75% the price adjustment is NA, so the adjustment for LTV 70%, -1, will be used instead and pricing/rate hit will be applied on top.

Conditions of Exceptions

The loans with exceptions must be locked within a week (7 days) after the approval of an exception. An exception remains valid as long as the lock on the loan with the exception is active. Once the lock on file is expired, the exception becomes void.

If an exception is approved and applied to a locked loan, the same rule remains – the exception loses power when the lock expires.

Loan Originator Pricing Discretion:

ONLY Branch Managers may request pricing concessions for documented competitive pricing reasons within the limit described in this Policy. The concessions may be granted only with the approval of the Secondary Marketing Supervisor. Other pricing exceptions may be granted based on Lender Credit Policy and Federal/State Applicable Regulations. No concessions exceeding 75 basis points may be granted without the approval of Secondary Marketing or the CEO.

An exception is eligible for approval ONLY if ALL credit decision conditions are met. Otherwise, the exception is considered invalid. Please make sure to contact an assigned underwriter and Lock Desk to restructure the loan according to the exception if necessary.

Documenting Pricing Exceptions:

Any and all pricing exceptions must be fully documented within the loan file. AD exceptions procedure requires a loan number to match the AD LOS loan number on the exception form. Conditional pre-approval is allowed in case an AD loan number is not yet available. In such cases after a loan is submitted, an exception must be requested again with the correct loan id supported by all the required documentation. All exceptions without the correct loan number are deemed invalid.

The MLO with approval of Branch Manager must provide sufficient description and documentation for the pricing exception. For concessions due to competitive pricing reasons, the MLO must note: (1) the size of the concession (2) state the reason for the concession (3) the name of the competing lender (4) the details regarding the competing lender's interest rate and terms. Simply stating "need to meet a competitor's price" is not sufficient. The MLO must provide and upload an imaged copy of the competing lender's rate sheet, Loan Estimate or other information reflecting the rate and terms. This documentation retention requirements are ruled by CFPB and are stated in **Loan Originator Compensation Requirements under the Truth in Lending Act (Regulation Z)**.

For more details, please refer to the link below: https://files.consumerfinance.gov/f/201301_cfpb_final-rule_loan-originator-compensation.pdf

Monitoring Pricing Decisions/Exception Reports:

The Company will regularly monitor pricing exceptions for sufficient explanation and documentation to ensure the reasons for the exception are clearly documented in the system. The Company will also monitor the frequency and magnitude of pricing exceptions. The Company will utilize Pricing Exception Reports to monitor pricing exceptions. Pricing Exception Reports will be generated monthly and will be provided to senior management.

Rate Sheets:

Rates are available daily via the Integra system from 10:00 am EST, Monday through Friday.

Rates are subject to intra-day price changes at any time, based on market fluctuation without prior notice. Notification of price changes will be communicated via email and are effective based on the time stamp in the body of the email regardless of the receipt or delivery time.

Switching Investors:

Investors will not be switched on loans in order to improve a loan officer's pricing. Once a loan is locked, it must remain attached to the investor as long as the loan is eligible for sale to that investor.

- **Manifest Error – In the event that the ADM automated locking engine locks a loan at terms that constitute a manifest error – for example, an unrealistically low rate, long lock period or high price – then such lock shall be null and void.**

Product and Program Changes – Lenders may change the product of a Loan that was previously locked – for example from a 5/1 ARM to a 7/1 ARM or from Prime to Super Prime - provided that the loan's lock term (including any applicable lock extension) has not expired. If a product is changed in such a way, the lock will be amended to reflect the interest rates and prices for the new product that were available on the day the loan was locked plus a reduction or increase in price if applicable.

All lock requests must be made through the designated automated locking engine - Integra Price/Lock screen. (<https://adm.admortgage.com/pricing/pricingMain.asp>). The portal is available to receive Float or Lock Requests 24/7. The Loan Officer can request a lock through assigned Non-QM Loan Processor.

Lock Change Request must be done through online form: <https://admortgage.com/lock-change-request-form/>

Lock Desk Email: lock@admortgage.com

Phone: 305-824-2421

Lock Policy can change without notice.