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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 a.m. to 5 p.m. EST Mon-Fri

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 we make every effort in the secondary markets to obtain the best pricing for our production. Factors that investors analyze include locked loan pull-through, locked loan fall-out, and the overall quality 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 minimum requirements, and A&D should strive 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 can 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 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 OpenClose Banker supports the most current and accurate details of loan status. This enables critical reports to be generated to effectively manage pipeline risk.

Mortgage Loan Officer Responsibility:

1. The Loan File will need to have a complete application with property address in Open Close 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 and the additional cost will be tracked and assessed to the best efforts price and the appropriate department.
3. Any loan must be locked Best Efforts.
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. 15, 30, 45- and 60-day locks are available. 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 pricing is released each morning until 5:00 p.m. Eastern Time. The Lock Desk is available to provide 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 confirmed 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, which will in turn make every effort to provide notice when a re-price is in effect.

Lock Extensions:

In the event that a lock cannot close within the expected original time frame, rate locks can be extended. These extensions cause additional hedging costs that must be passed onto the customer. In addition, an extension MUST be requested by the MLO with the Lock Desk BEFORE the original lock has expired. These requests must be made by requesting a "Secondary Change Request" option in OpenClose.

The following extension options and fees are:

1. 2.5 bps per day including weekends and holidays

2. Minimum extension is 3 days: $2.5 \times 3 = 7.5$ bps and 2.5bps per day thereafter.
 - 7 days = 15.0 to 25 bps (costs are subject to change)
 - 15 days = 37.5 bps (costs are subject to change)
 - 30 days = 62.5 bps (costs are subject to change)
3. Loans may be extended a maximum of two times but no more than 30 days beyond the original lock expiration date.
4. The loan must be extended 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.
6. Loan extension requests must be requested through OpenClose “Secondary Change Request”. No emails necessary unless the lock scenario is not fitting the standard criteria. e.g: small loan amount, branch credit, financed points and fees option addition, etc.

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 and must be extended the business day prior to the weekend.

Lock periods including extensions cannot exceed 60 days. Exceptions require approval from the designated senior business unit manager. This is to prevent ongoing hedging of locks that are not “live” deals.

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 it is because a loan was not extended prior to lock expiration it will be subject to current market or the original lock plus 25 bps to the price, whichever is worse. Loans that have been expired or cancelled from the hedge for greater than 30 days will be permitted to relock at current market.

If it is because of a product change then it will vary based on the pool in which it was originally placed as to whether it will be subject to the original lock date pricing or current market plus a 25 bps to the price. If a loan does not close by the lock expiration date and the loan has been extended for the maximum amount of time (30 days) the loan will be re-priced at worst case pricing plus a re-lock fee of 25 bps.

In order to qualify for a renegotiation, the following criteria must be met: Market must improve by 25bps to rate based on the original rate and terms, loan cannot have extensions in excess of 10 days, and loan must be in an approved loan status. For each 25bps in market improvement, the loan will

qualify for a 12.5bps reduction in rate. There will be a 25bps charge to price for a renegotiation, and once exercised, the loan cannot increase its interest rate. Eligible loans must close within 15 days of the renegotiation as no extensions are allowed and pricing cannot increase to the branch.

Other Critical details regarding Existing Locks:

Loan Feature Changes: If at any time it is discovered that a loan has changes in its characteristics (ex. LTV/CLTV, FICO, DTI ratio, Purpose, or Occupancy changes), the Lock Desk must be notified, and the loan will be re-priced, if necessary, based upon the cost of those features at the time the request is made. 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 a reprice to the originator based on the pricing with the investor.

Changes to Property: If the subject property should change during the course of the loan process the lock may be subject to a re-price.

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

A rate lock may or may not be changed. Secondary Market Department has full right to decide if to grant the change request or not. If the change is granted, price may be determined at worst scenario or according to market situation.

Any request for other changes is as follows:

- **Change of rate and pricing** is allowed as long as the original rate and pricing is on the same rate sheet.
- **Change of property** 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 – i.e. address changes from 123 Street to 123 Ave, transpose number 4592 to 4529, etc)
- **Change of borrower** before commitment can be honored as long as the original borrower remains the same; change of borrower after commitment needs underwriter to re-underwrite the loan, if the original borrower remains the same. No fee is charged.
- **Change in loan term** (from 30 year to 15 year, or vice versa) is allowed as long as 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. Price of new loan will be either the worst scenario or decided by secondary market.

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 OpenClose 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). 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. The discount points are for the purpose of reducing and 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 OpenClose pricing engine, then the Par (undiscounted rate) shall equal the Maximum Available Offer Rate.

In the event you cannot credit back (per agency or investor guidelines) the total amount over 100.00 (PAR) 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 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 caused by the borrower’s lack of performance 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 lack of performance.

Pricing Exceptions Policy**Loan Originator Pricing Discretion:**

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

Documenting Pricing Exceptions:

Any and all pricing exception must be fully documented within the loan file. 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://www.cfpbmonitor.com/wp-content/uploads/sites/5/2013/01/2013-01-22-Loan-Originator-Compensation-Requirements-Under-the-Truth-in-Lending-Act-Regulation-Z.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 also will 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 OpenClose system by 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 to improve a loan officer’s pricing. Once a loan is locked, it must stay with that investor as long as the loan is eligible for sale to that investor.

Non-QM Lock Memo:

General Information

- Rate sheets and eligibility matrices are available daily in OpenClose.
- Rates may not be issued on holidays or days on which the market is closed..
- Daily rates are available from rates issuance, approximately 9:30 AM EST, through 5:00 PM EST.
- Lock request received after 5:00 PM EST will be subject to the next available rate posting.
- Lock requests will be approved within 1-2 hours of the request.
- Lock requests received after 5:00 PM EST, will be considered to be received the next day.
- A&D Mortgage reserves the right to change or suspend pricing without notification.

Non-QM Rate Locks – standard lock time 30 days

Lite Doc Rate Locks – standard lock time 30 days

Re-Locks and Canceled Loans Re-Lock – expired locks can be re-locked at interest rate, based on previous lock confirmation rate or current one whichever is higher. A re-lock fee of 0.25 will be applied. Expired locks can be re-locked at no cost and the current market rates if 30 days passed since the last lock expiration date.

Lock Extension – extension fee is 0.125% for extra 15 days (maximum 2 extensions for a total of 30 days)

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, unrealistically long lock period or unrealistically high price – then such lock shall be null and void.

Product and Programs 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 SuperPrime- provided that the Loan's lock term (including any applicable lock extension) has not expired. If a product is so changed, 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 - OpenClose Price/Lock screen. (<https://adm.admortgage.com/pricing/pricingMain.asp>). Portal is available to receive Float or Lock Requests 24/7. Loan Officer can request lock through assigned Non-QM Loan Processor.

Lock Desk Email: lock@admortgage.com

Phone: 305-824-2421

Lock Policy can change without notice.