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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 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, 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 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. 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-day locks 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 pricing is released each morning until 5:00 p.m. Eastern Time (may vary by loan program). 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. The Lock Desk will make every effort to provide notice when a re-price is in effect.

Lock Extensions:

No free extensions are allowed.

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 should be made through Lock Change Request Form on AD Mortgage website. The following extension options and fees are:

1. 5 bps per day including weekends and holidays



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For All programs, minimum extension is 3 days: $5 \times 3 = 15$ bps and 5 bps per day thereafter.

- 7 days = 35 bps (costs are subject to change)
- 15 days = 75 bps (costs are subject to change)
- 30 days = 150 bps (costs are subject to change)

2. Loans may be extended a maximum of three times 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 need a 4th 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)

4. The extension request for 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 and must be extended the business day prior to the weekend. Extensions exceeding 60 days (including initial lock period) must have a CTC.

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. It is because a loan was not extended prior to lock expiration,
2. The lock has already extended for 3 times and needs a 4th extension,
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 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 relock fee.



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The product type (ex. 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).

How worst-case pricing is calculated:

1. Worst case pricing is determined by comparing locked Base Price + currently locked LLPAs on the loan from initial rate sheet VS 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). Lowest price between the two is considered a worst-case price and is applied to the loan while relocking.
2. In case loan parameters were changed, loan will be repriced using original lock date rate sheet and then it's final price will be compared with current market Base Price + LLPAs.
3. Extensions, previous relocks and other additional charges aside from rate sheets remain in place after relock.
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.

In order to qualify for a renegotiation, the following criteria must be met:

- Current Market must improve 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 current market with a 0.50 deduction to pricing.
- Loan must close with 15 days of new negotiated price
- Renegotiation terms are not eligible for additional extensions. If the lock expires or the loan does not fund 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 (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 new 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 based on new loan parameters. Loan Officer's must review all lock confirmations immediately upon receipt and communicate any errors the same business day to secondary marketing.



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A rate lock may or may not be changed. Secondary Market Department has discretion to grant the change request or not. If the change is granted, price may be determined at worst case 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 from 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.
- **Transfer of locks** 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 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 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. 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 OpenClose pricing engine, then the Par (undiscounted rate) shall equal the Maximum Available Offer Rate.



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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

Exception's Pricing

Loans with exceptions will be updated with additional adjustment to the rate, if applicable, and will be subject to repricing. All loans with exceptions will be priced using the actual loan information (LTV, FICO, DTI, loan amount etc.) according to the rate sheet, in case 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.

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 exceptions 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>



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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.

- **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 Super Prime- 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 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.