Homeowners Protection Act

Introduction

The Homeowners Protection Act of 1998 (the Act) was signed into law on July 29, 1998, and became effective on July 29, 1999. The Act was amended on December 27, 2000, to provide technical corrections and clarification. The Act, also known as the "PMI Cancellation Act," addresses homeowners' difficulties in canceling private mortgage insurance (PMI)[1] coverage. It establishes provisions for canceling and terminating PMI, establishes disclosure and notification requirements, and requires the return of unearned premiums.

PMI is insurance that protects lenders from the risk of default and foreclosure. PMI allows prospective buyers who cannot, or choose not to, provide significant down payments to obtain mortgage financing at affordable rates. It is used extensively to facilitate "high-ratio" loans (generally, loans in which the loan to value (LTV) ratio exceeds 80 percent). With PMI, the lender can recover costs associated with the resale of foreclosed property, and accrued interest payments or fixed costs, such as taxes or insurance policies, paid prior to resale.

Excessive PMI coverage provides little extra protection for a lender and does not benefit the borrower. In some instances, homeowners have experienced problems in canceling PMI. At other times, lenders may have agreed to terminate coverage when the borrower's equity reached 20 percent, but the policies and procedures used for canceling or terminating PMI coverage varied widely among lenders. Prior to the Act, homeowners had limited recourse when lenders refused to cancel their PMI coverage. Even homeowners in the few states that had laws pertaining to PMI cancellation or termination noted difficulties in canceling or terminating their PMI policies. The Act now protects homeowners by prohibiting life of loan PMI coverage for borrower-paid PMI products and establishing uniform procedures for the cancellation and termination of PMI policies.

1 The Act does not apply to mortgage insurance made available under the National Housing Act, title 38 of the United States Code, or title V of the Housing Act of 1949. This includes mortgage insurance on loans made the Federal Housing Administration and guarantees on mortgage loans made by the Veterans Administration.

Regulation Overview

Scope and Effective Date

The Act applies primarily to "residential mortgage transactions," defined as mortgage loan transactions consummated on or after July 29, 1999, to finance the acquisition, initial construction, or refinancing[2] of a single-family dwelling that serves as a borrower's principal residence.[3] The Act also includes provisions for annual written disclosures for "residential mortgages," defined as mortgages, loans or other evidences of a security interest created for a single-family dwelling that is the principal residence of the borrower (12 USC §4901(14) and (15)). A condominium, townhouse, cooperative, or mobile home is considered to be a single-family dwelling covered by the Act.

The Act's requirements vary depending on whether a mortgage is:

- A "residential mortgage" or a "residential mortgage transaction";
- Defined as high risk (either by the lender in the case of non-conforming loans, or Fannie Mae and Freddie Mac in the case of conforming loans);
- Financed under a fixed or an adjustable rate; or
- Covered by borrower-paid private mortgage insurance (BPMI) or lender-paid private mortgage insurance (LPMI).[4]

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

Borrower Requested Cancellation

A borrower may initiate 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,

2 For purposes to these procedures, "refinancing" means the refinancing of loans any portion of which was to provide financing for the acquisition or initial construction of a single-family dwelling that serves as a borrower's principal residence. See 15 USC §1601 et seq. and 12 CFR §1026.20.

3 For purposes of these procedures, junior mortgages that provide financing for the acquisition, initial construction or refinancing of a single-family dwelling that serves as a borrower's principal residence are covered.

4 All sections of these procedures and Handbook apply to BPMI. For LPMI, relevant sections begin under that heading and follow thereafter.

which is when the principal balance of the loan reaches (based on actual payments) or is first scheduled to reach 80 percent of the "original value,"[5] irrespective of the outstanding balance, based upon the initial amortization schedule (in the case of a fixed rate loan) or amortization schedule then in effect (in the case of an adjustable rate loan[6]), or any date thereafter that:

- the borrower submits a written cancellation request;
- the borrower has a good payment history;[7]
- the borrower is current;[8] and
- the borrower satisfies any requirement of the mortgage holder for: (i) evidence of a type established in advance that the value of the property has not declined below the original value; and (ii) certification that the borrower's equity in the property is not subject to a subordinate lien (12 USC §4902(a)(4)).

Once PMI is canceled, the servicer may not require further PMI payments or premiums more than 30 days after the later of: (i) the date on which the written request was received or (ii) the date on which the borrower satisfied the evidence and certification requirements of the mortgage holder described previously (12 USC §4902(e)(1)).

Automatic Termination

The Act requires a servicer to automatically terminate PMI for residential mortgage transactions on the date that:

- the principal balance of the mortgage is first scheduled to reach 78 percent of the original value of the secured property (based solely on the initial amortization schedule in the case of a fixed rate loan or on the amortization schedule then in effect in the case of an adjustable rate loan, irrespective of the outstanding balance), if the borrower is current; or
- if the borrower is not current on that date, on the first day of the first month following the date that the borrower becomes current (12 USC §4902(b)).

If PMI is terminated, the servicer may not require further payments or premiums of PMI more than 30 days after the termination date or the date following the termination date on which the borrower becomes current on the payments, whichever is sooner (12 USC §4902(e)(2)).

There is no provision in the automatic termination section of the Act, as there is with the borrower-requested PMI cancellation section, that protects the lender against declines in property value or subordinate liens. The automatic termination provisions make no reference to good payment history (as prescribed in the borrower-requested provisions), but state only that the borrower must be current on mortgage payments (12 USC §4902(b)).

Final Termination

If PMI coverage on a residential mortgage transaction was not canceled at the borrower's request or by the automatic termination provision, 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 (12 USC §4902(c)). (If the borrower is not current on that date, PMI should be terminated when the borrower does become current.)

The midpoint of the amortization period is halfway through the period between the first day of the amortization period established at consummation and ending when the mortgage is scheduled to be amortized. The servicer may not require further payments or premiums of PMI more than 30 days after PMI is terminated (12 USC §4902(e)(3)).

Loan Modifications

If a borrower and mortgage holder agree to modify the terms and conditions of a loan pursuant to a residential mortgage transaction, the cancellation, termination or final termination dates shall be recalculated to reflect the modification (12 USC §4902(d)).

---

5 "Original value" is defined as the lesser of the sales price of the secured property as reflected in the purchase contract or, the appraised value at the time of loan consummation. In the case of a refinancing, the term means the appraised value relied upon by the lender to approve the refinance transaction.

6 The Act includes as an adjustable rate mortgage, a balloon loan that "contains a conditional right to refinance or modify the unamortized principal at the maturity date." Therefore, if a balloon loan contains a conditional right to refinance, the initial disclosure for an adjustable rate mortgage would be used even if the interest rate is fixed.

7 A borrower has a good payment history if the borrower: (1) has not made a payment that was 60 days or more past due within the first 12 months of the last 2 years prior to the later of the cancellation date, or the date that the borrower requests cancellation; or (2) has not made a payment that was 30 days or more past due within the 12 months prior to the later of the cancellation date or the date that the borrower requests cancellation.

8 The Act does not define current.

Exclusions

The Act's cancellation and termination provisions do not apply to residential mortgage transactions for which Lender Paid Mortgage Insurance (LPMI) is required (12 USC §4905(b)).

Return of Unearned Premiums

The servicer must return all unearned PMI premiums to the borrower within 45 days after cancellation or termination of PMI coverage. Within 30 days after notification by the servicer of cancellation or termination of PMI coverage, a mortgage insurer must return to the servicer any amount of unearned premiums it is holding to permit the servicer to return such premiums to the borrower (12 USC §4902(f)).

Accrued Obligations for Premium Payments

The cancellation or termination of PMI does not affect the rights of any lender, servicer or mortgage insurer to enforce any obligation of a borrower for payments of premiums that accrued before the cancellation or termination occurred (12 USC §4902 (h)).

Exceptions to Cancellation and Termination Provisions for High Risk Residential Mortgage Transactions

The borrower-requested cancellation at 80 percent LTV and the automatic termination at 78 percent LTV requirements of the Act do not apply to "high risk" loans. However, high-risk loans are subject to final termination and are divided into two categories - conforming (Fannie Mae/Freddie Mac-defined high risk loans) and non-conforming (lender-defined high risk loans) (12 USC §4902(g)(1)).

Conforming Loans (Fannie Mae/Freddie Mac-Defined High Risk Loans)

Conforming loans are those loans with an original principal balance not exceeding Freddie Mac's and Fannie Mae's conforming loan limits.[9] Fannie Mae and Freddie Mac are authorized under the Act to establish a category of residential mortgage transactions that are not subject to the Act's requirements for borrower-requested cancellation or automatic termination, because of the high risk associated with them.[10] They are however, subject to the final termination provision of the Act. As such, PMI on a conforming high risk loan must be terminated by the first day of the month following the date that is the midpoint of the loan's initial amortization schedule (in the case of a fixed rate loan) or amortization schedule then in effect (in the case of an adjustable rate loan) if, on that date, the borrower is current on the loan (12 USC § 4902(g)). (If the borrower is not current on that date, PMI should be terminated when the borrower does become current.)

Non-Conforming Loans (Lender-Defined High Risk Loans)

Non-conforming loans are those residential mortgage transactions that have an original principal balance exceeding Freddie Mac's and Fannie Mae's conforming loan limits. Lender-defined high-risk loans are not subject to the Act's requirements for borrower-requested cancellation or automatic termination. However, if a residential mortgage transaction is a lender-defined high risk loan, PMI must be terminated on the date on which the principal balance of the mortgage, based solely on the initial amortization schedule (in the case of a fixed rate loan) or the amortization schedule then in effect (in the case of an adjustable rate loan) for that mortgage and irrespective of the outstanding balance for that mortgage on that date, is first scheduled to reach 77 percent of the original value of the property securing the loan.

Like conforming loans that are determined to be high risk by Freddie Mac and Fannie Mae, a residential mortgage transaction that is a lender-defined high-risk loan is subject to the final termination provision of the Act.

Notices

The lender must provide written initial disclosures at consummation for all high-risk residential mortgage transactions (as defined by the lender or Fannie Mae or Freddie Mac), that in no case will PMI be required beyond the midpoint of the amortization period of the loan, if the loan is current. More specific notice as to the 77 percent LTV termination standards for lender defined high-risk loans is not required under the Act.

Basic Disclosure and Notice Requirements Applica-

9 This limit was $417,000 in 2015; however, it is reviewed annually and has differing tiers based on geography and number of units.

10 Fannie Mae and Freddie Mac have not defined high-risk loans as of the date of this publication.

ble to Residential Mortgage Transactions and Residential Mortgages

The Act requires the lender in a residential mortgage transaction to provide to the borrower, at the time of consummation, certain disclosures that describe the borrower's rights for PMI cancellation and termination. A borrower may not be charged for any disclosure required by the Act. Initial disclosures vary, based upon whether the transaction is a fixed rate mortgage, adjustable rate mortgage, or high-risk loan. The Act also requires that the borrower be provided with certain annual and other notices concerning PMI cancellation and termination. Residential mortgages are subject to certain annual disclosure requirements.

Initial Disclosures for Fixed Rate Residential Mortgage Transactions

When PMI is required for non high risk fixed rate mortgages, the lender must provide to the borrower at the time the transaction is consummated: (i) a written initial amortization schedule, and (ii) a written notice that discloses:

- 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 percent 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 percent 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 percent of the original value of the property and the specific date that is projected to occur (based on the initial amortization schedule); and,
- The Act provides for exemptions to the cancellation and automatic termination provisions for high risk mortgages and whether these exemptions apply to the borrower's loan (12 USC §4903(a)(1)(A)).

Initial Disclosures for Adjustable Rate Residential Mortgage Transactions

When PMI is required for non high-risk adjustable rate mortgages, the lender must provide to the borrower at the time the transaction is consummated a written notice that discloses:

- The borrower's right to request cancellation of PMI on (i) the date the loan balance is first scheduled to reach 80 percent of the original value of the property based on the amortization schedule then in effect or (ii) the date the balance actually reaches 80 percent of the original value of the property based on actual payments. The notice must also state that the servicer will notify the borrower when either (i) or (ii) occurs;
- That PMI will automatically terminate when the loan balance is first scheduled to reach 78 percent of the original value of the property based on the amortization schedule then in effect. The notice must also state that the borrower will be notified when PMI is terminated (or that termination will occur when the borrower becomes current on payments); and,
- That there are exemptions to the cancellation and automatic termination provisions for high-risk mortgages and whether such exemptions apply to the borrower's loan (12 USC §4903(a)(1)(B)).

Initial Disclosures for High Risk Residential Mortgage Transactions

When PMI is required for high risk residential mortgage transactions, the lender must provide to the borrower a written notice stating that PMI will not be required beyond the date that is the midpoint of the loan's amortization period if, on that date, the borrower is current on the payments as required by the terms of the loan. The lender must provide this notice at consummation. The lender need not provide disclosure of the termination at 77 percent LTV for lender defined high-risk mortgages (12 USC §4903(a)(2)).

Annual Disclosures for Residential Mortgage Transactions

For all residential mortgage transactions, including high risk mortgages for which PMI is required, the servicer must provide the borrower with an annual written statement that sets forth the rights of the borrower to PMI cancellation and termination and the address and telephone number that the borrower may use to contact the servicer to determine whether the borrower may cancel PMI (12 USC §4903(a)(3)).

Disclosures for Existing Residential Mortgages

When PMI was required for a residential mortgage consummated before July 29, 1999, the servicer must provide to the borrower an annual written statement that:

- States that PMI may be canceled with the consent of the lender or in accordance with state law; and

- Provides the servicer's address and telephone number, so that the borrower may contact the servicer to determine whether the borrower may cancel PMI (12 USC §4903(b)).

Notification Upon Cancellation or Termination of PMI Relating to Residential Mortgage Transactions

General

The servicer must, not later than 30 days after PMI relating to a residential mortgage transaction is canceled or terminated, notify the borrower in writing that:[11]

- PMI has terminated and the borrower no longer has PMI; and
- No further premiums, payments or other fees are due or payable by the borrower in connection with PMI (12 USC §4904(a)).

Notice of Grounds/Timing

If a servicer determines that a borrower in a residential mortgage transaction does not qualify for PMI cancellation or automatic termination, the servicer must provide the borrower with a written notice of the grounds relied on for that determination. If an appraisal was used in making the determination, the servicer must give the appraisal results to the borrower. If a borrower does not qualify for cancellation, the notice must be provided not later than 30 days following the later of: (i) the date the borrower's request for cancellation is received; or (ii) the date on which the borrower satisfies any evidence and certification requirements of the mortgage holder. If the borrower does not meet the requirements for automatic termination, the notice must be provided not later than 30 days following the scheduled termination date (12 USC §4904(b)).

11 For adjustable rate mortgages, the initial notice to borrowers must state that the servicer will notify the borrower when the cancellation and automatic termination dates are reached (12 USC §4903(a)(1)(B). Servicers should take care that the appropriate notices are made to borrowers when those dates are reached.

Disclosure Requirements for Lender-Paid Mortgage Insurance

Definitions

Borrower paid mortgage insurance (BPMI) means PMI is required for a residential mortgage transaction, the payments for which are made by the borrower.

Lender paid mortgage insurance (LPMI) means PMI that is required for a residential mortgage transaction, the payments for which are made by a person other than the borrower.

Loan commitment means a prospective lender's written confirmation of its approval, including any applicable closing conditions, of the application of a prospective borrower for a residential mortgage loan (12 USC 4905(a)).

Initial Notice

In the case of LPMI required for a residential mortgage transaction, the Act requires that the lender provide a written notice to the borrower not later than the date on which a loan **commitment** is made. The written notice must advise the borrower of the differences between LPMI and BPMI by notifying the borrower that LPMI:

- Differs from BPMI because it cannot be canceled by the borrower or automatically terminated as provided under the Act;
- Usually results in a mortgage having a higher interest rate than it would in the case of BPMI; and,
- Terminates only when the mortgage is refinanced (as that term is defined in the Truth in Lending Act, 15 U.S..C. §1601 et seq., and Regulation Z, 12 CFR §1026.20), paid off, or otherwise terminated.

The notice must also provide:

- That LPMI and BPMI have both benefits and disadvantages;
- A generic analysis of the costs and benefits of a mortgage in the case of LPMI versus BPMI over a ten-year period, assuming prevailing interest and property appreciation rates; and,
- That LPMI may be tax-deductible for federal income taxes, if the borrower itemizes expenses for that purpose (12 USC §4905(c)(1)).

Notice at Termination Date

Not later than 30 days after the termination date that would apply in the case of BPMI, the servicer shall provide to the borrower a written notice indicating that the borrower may wish to review financing options that could eliminate the requirement for LPMI in connection with the mortgage (12 USC §4905(c)(2)).

Fees for Disclosures

As stated previously, no fee or other cost may be imposed on a borrower for the disclosures or notifications required to be given to a borrower by lenders or servicers under the Act (12 USC §4906).

Civil Liability

Liability Dependent upon Type of Action

Servicers, lenders and mortgage insurers that violate the Act are liable to borrowers as follows:

- Individual Action
  - In the case of individual borrowers:
    - — Actual damages (including interest accruing on such damages);
    - — Statutory damages not to exceed $2,000;
    - — Costs of the action, and
    - — Reasonable attorney fees.
- Class Action
  - In the case of a class action suit against a defendant that is subject to section 10 of the Act, (i.e., regulated by the federal banking agencies, NCUA or the Farm Credit Administration):
    - — Such statutory damages as the court may allow up to the lesser of $500,000 or 1 percent of the liable party's net worth;
    - — Costs of the action; and
    - — Reasonable attorney fees.
  - In the case of a class action suit against a defendant that is not subject to section 10 of the Act, (i.e., not regulated by the federal banking agencies, NCUA, or the Farm Credit Administration):
    - — Actual damages (including interest accruing on such damages);
    - — Statutory damages up to $1,000 per class member but not to exceed the lesser of $500,000; or 1 percent of the liable party's gross revenues;
    - — Costs of the action; and
    - — Reasonable attorney fees (12 USC §4907(a)).

Statute of Limitations

A borrower must bring an action under the Act within two years after the borrower discovers the violation (12 USC §4907(b)).

Mortgage Servicer Liability Limitation

A servicer shall not be liable for its failure to comply with the requirements of the Act if the servicer's failure to comply is due to the mortgage insurer's or lender's failure to comply with the Act (12 USC §4907(c)).

Enforcement

The Act directs the federal banking agencies to enforce the Act under 12 USC §1818 or any other authority conferred upon the agencies by law. Under the Act the agencies shall:

- Notify applicable lenders or servicers of any failure to comply with the Act;
- Require the lender or servicer, as applicable, to correct the borrower's account to reflect the date on which PMI should have been canceled or terminated under the Act; and,
- Require the lender or servicer, as applicable, to return unearned PMI premiums to a borrower who paid premiums after the date on which the borrower's obligation to pay PMI premiums ceased under the Act (12 USC §4909).

Examination Objectives

The objectives of the examination are:

1. To determine the financial institution's compliance with the Homeowners Protection Act of 1998 (HOPA), as amended.

2. To assess the quality of the financial institution's policies and procedures for implementing the HOPA.

3. To determine the reliance that can be placed on the financial institution's internal controls and procedures for monitoring the institution's compliance with the HOPA.

4. To initiate corrective action when violations of HOPA are identified, or when policies or internal controls are deficient.

Examination Procedures[12]

1. Through discussions with management and review of available information, determine if the institution's internal controls are adequate to ensure compliance with the HOPA. Consider the following:

   a. Organization charts;

   b. Process flowcharts;

   c. Policies and procedures;

   d. Loan documentation;

   e. Checklists;

   f. Training; and,

   g. Computer program documentation.

2. Review any compliance audit material, including work papers and reports, to determine whether:

   a. The institution's procedures address all applicable provisions of HOPA;

   b. Steps are taken to follow-up on previously identified deficiencies;

   c. The procedures used include samples covering all product types and decision centers;

   d. The compliance audit work performed is accurate;

   e. Significant deficiencies and their causes are included in reports to management and/or to the Board of Directors;

   f. Corrective action is taken in a timely and appropriate manner; and

   g. The frequency of compliance review is appropriate.

3. Obtain a sample of recent residential mortgage transactions, including those serviced by the bank and conducted electronically, if applicable. Complete the Homeowners Protection Act worksheet (page V-5.8). Also, obtain a copy of the bank's disclosure and notification forms and policies and procedures to complete the worksheet. As applicable, the forms should include:

   a. Initial disclosures for: (i) fixed rate mortgages; (ii) adjustable rate mortgages; (iii) high risk loans; and (iv) lender-paid mortgage insurance.

   b. Annual notices for: (i) fixed and adjustable rate mortgages and high-risk loans and (ii) existing residential mortgages.

   c. Notices of: (i) cancellation; (ii) termination; (iii) grounds for not canceling PMI; (iv) grounds for not terminating PMI; (v) cancellation date for adjustable rate mortgages; and (vi) termination date for lender paid mortgage insurance.

4. Using the above sample and bank policies and procedures, determine that borrowers are not charged for any required disclosures or notifications (12 USC §4906).

5. Obtain and review a sample of recent written requests from borrowers to cancel their private mortgage insurance (PMI) on "non-high risk" residential mortgage transactions. Verify that the insurance was canceled on either: (a) the date on which the principal balance of the loan was first scheduled to reach 80 percent of the original value of the property based on the initial amortization schedule (in the case of a fixed rate loan) or the amortization schedule then in effect (in the case of an adjustable rate loan); or (b) the date on which the principal balance of the loan actually reached 80 percent of the original value of the property based on actual payments, in accordance with the applicable provisions in 12 USC §4902(a) of HOPA (i.e., good payment history, current payments and, if required by the lender, evidence that the value of the mortgaged property did not decline, and certification that the borrower's equity was unencumbered by a subordinate lien) (12 USC §4902(a)).

6. Obtain and review a sample of "non-high risk" PMI residential mortgage transactions where the borrower did not request cancellation. Select loans from the sample that have reached a 78 percent or lower LTV ratio based on the

[12] These reflect the interagency examination procedures in their entirety.

original value of the property and that are current. Verify that PMI was terminated, based on the initial amortization schedule (in the case of a fixed rate loan) or the amortization schedule then in effect (in the case of an adjustable rate loan) on the date that the principal balance of the loan was first scheduled to reach 78 percent of the original value of the mortgaged property (if the borrower was current) or on the first day of the first month after the date that the borrower became current (12 USC §4902(b)).

7. Obtain a sample of PMI-covered residential mortgage transactions (including high risk loans, if any) that are at or beyond the midpoint of their amortization period. Determine whether PMI was terminated by the first day of the following month if the loan was current. If the loan was not current at the midpoint, determine that PMI was terminated by the first day of the month following the day the loan became current. If, at the time of the examination, a loan at the midpoint is not current, determine whether the financial institution is monitoring the loan and has systems in place to ensure that PMI is terminated when the borrower becomes current (12 USC §4902(c) and 12 USC §4902(g)(2)).

8. Obtain a sample of any lender defined "high risk" PMI residential mortgage transactions that have a 77 percent or lower LTV based on the original value of the property. Verify that PMI was canceled, based on the initial amortization schedule (in the case of a fixed rate loan) or the amortization schedule then in effect (in the case of an adjustable rate loan), on the date that the principal balance of the loan was scheduled to reach 77 percent of the original value of the mortgaged property (12 USC §4902(g)(1)(B)).

9. Obtain a sample of loans that have had PMI canceled or terminated (the samples obtained above can be used). For PMI loans canceled upon the borrowers' requests, determine that the financial institution did not require any PMI payment(s) beyond 30 days of the borrower satisfying the evidence and certification requirements to cancel PMI (12 USC §4902(e)(1)). For the PMI loans that received automatic termination or final termination, determine that the financial institution did not require any PMI payment(s) beyond 30 days of termination (12 USC §4902(e)(2) and 12 USC §4902(e)(3)).

10. Using the samples in steps 5, 6, and 7, determine if the financial institution returned unearned premiums, if any, to the borrower within 45 days after cancellation or termination (12 USC §4902(f)(1)).

Conclusions

11. Summarize all violations and internal deficiencies.

12. If the violation(s) or internal deficiencies noted above represent(s) a pattern or practice, determine the root cause by identifying weaknesses in internal controls, compliance review, training, management oversight, or other factors.

13. Identify action needed to correct violations and weaknesses in the institution's compliance system, as appropriate.

14. Discuss findings with the institution's management and obtain a commitment for corrective action.

15. Determine if enforcement action is appropriate. If so, contact appropriate agency personnel for guidance. Section 10(c) of the Act contains a provision requiring restitution of unearned PMI premiums.

References

12 USC §§4901 – 4910 (2001)
[not found in FDIC Laws, Regulations and Related Acts]

Job Aids

Homeowners Protection Act Worksheet

Use this worksheet to perform transactional testing. Answer the following questions with a "Yes" (Y) or a "No" (N) answer. Every "No" answer indicates a violation of law or an internal deficiency and must be explained fully in the work papers.

Homeowner Protection Act Worksheet

	Yes	No
1. Does the lender provide written initial disclosures at consummation for fixed rate residential mortgage transactions that include:		
a. A written amortization schedule? (12 USC §4903(a)(1)(A)(i))		
b. A notice that the borrower may submit a written request to cancel PMI as of the date that, based on the initial amortization schedule, the principal balance is first scheduled to reach 80 percent of the original value of the mortgaged property, irrespective of the outstanding balance of the mortgage, or based on actual payments, when the principal balance reaches 80 percent of the original value of the mortgaged property (or any later date) and the borrower has a good payment history, is current on payments, and has satisfied the lender's requirements that the value of the mortgaged property has not declined and is unencumbered by subordinate liens? (12 USC §4903(a)(1)(A)(ii)(I) and (II))		
c. The specific date, based on the initial amortization schedule, the loan balance is scheduled to reach 80 percent of the original value of the mortgaged property? (12 USC §4903(a)(1)(A)(ii)(I))		
d. A notice that PMI will automatically terminate on the date that, based on the amortization schedule and irrespective of the outstanding balance of the mortgage, the principal balance is first scheduled to reach 78 percent of the original value of the mortgaged property if the loan is current or on the first day of the first month after the date that the loan becomes current? (12 USC §4903(a)(1)(A)(ii)(III))		
e. The specific date the loan balance is scheduled to reach 78 percent LTV? (12 USC §4903(a)(1)(A)(ii)(III))		
f. Notice that exemptions to the right to cancel and automatic termination exist for high-risk loans and whether such exemptions apply? (12 USC §4903(a)(1)(A)(ii)(IV))		
2. Does the lender provide written initial disclosures at consummation for adjustable rate residential mortgage transactions that include a notice that:		
a. The borrower may submit a written request to cancel PMI as of the date that, based on the amortization schedule then in effect and irrespective of the outstanding balance of the mortgage, the principal balance is first scheduled to reach 80 percent of the original value of the mortgaged property or based on actual payments, when the principal balance actually reaches 80 percent of the original value of the mortgaged property (or any later date), and the borrower has a good payment history, the loan is current, and the borrower has satisfied the lender requirements that the value of the mortgaged property has not declined and is unencumbered by subordinate liens? (12 USC §4903(a)(1)(B)(i))		
b. The servicer will notify the borrower when the cancellation date is reached, i.e., when the loan balance represents 80 percent of the original value of the mortgaged property? (12 USC §4903(a)(1)(B)(i))		
c. PMI will automatically terminate when the loan balance is first scheduled to reach 78 percent of the original value of the mortgaged property irrespective of the outstanding balance of the mortgage if the loan is current, or on the first day of the first month after the date that the loan becomes current? (12 USC §4903(a)(1)(B)(ii))		

	Yes	No
d. On the termination date the borrower will be notified of the termination or the fact that PMI will be terminated on the first day of the first month after the date that the loan becomes current? (12 USC §4903(a)(1)(B)(ii))		
e. Exemptions to the right to cancel and automatic termination exist for high-risk loans and whether such exemptions apply? (12 USC §4903(a)(1)(B)(iii))		
3. Does the lender have established standards regarding the type of evidence it requires borrowers to provide to demonstrate that the value of the mortgage property has not declined and are they provided when a request for cancellation occurs? (12 USC §4902(a)(4)(A))		
4. Does the lender provide written initial disclosures at consummation for high risk residential mortgage transactions (as defined by the lender or Fannie Mae or Freddie Mac), that PMI will not be required beyond the midpoint of the amortization period of the loan, if the loan is current? (12 USC §4903(a)(2))		
5. If the financial institution acts as servicer for residential mortgage transactions, does it provide an annual written statement to the borrowers explaining their rights to cancel or terminate PMI and an address and telephone number to contact the servicer to determine whether they may cancel PMI? (12 USC §4903(a)(3)) *Note: This disclosure may be included on RESPA's annual escrow account disclosure or IRS interest payment disclosures.*		
6. If the financial institution acts as servicer, does it provide an annual written statement to each borrower who entered into a residential mortgage prior to July 29, 1999, that includes:		
a. A statement that PMI may, under certain circumstances, be canceled by the borrower with the consent of the lender or in accordance with applicable state law? (12 USC §4903(b)(1))		
b. An address and telephone number that the borrower may use to contact the servicer to determine whether the borrower may cancel the PMI? (12 USC §4903(b)(2)) *Note: This disclosure may be included on RESPA's annual escrow account disclosure or IRS interest payment disclosure.*		
7. If the financial institution acts as servicer for residential mortgage transactions, does it provide borrowers with written notices within 30 days after the date of cancellation or termination of PMI that the borrower no longer has PMI and that no further PMI payments or related fees are due? (12 USC §4904(a))		
8. If the financial institution services residential mortgage transactions, does it return all unearned PMI premiums to the borrower within 45 days of either termination upon the borrower's request or automatic termination under the HOPA? (12 USC §4902(f))		
9. If the financial institution acts as servicer for residential mortgage transactions, does it provide borrowers with written notices of the grounds it relied on (including the results of any appraisal) to deny a borrower's request for PMI cancellation, no later than 30 days after the date the request is received, or the date on which the borrower satisfies any evidence and certification requirements established by the lender, whichever is later? (12 USC §4904(b)(1) and 12 USC §4904(b)(2)(A))		

	Yes	No
10. If the financial institution acts as servicer for residential mortgage transactions, does it provide borrowers with written notices of the grounds it relied on (including the results of any appraisal) for refusing to automatically terminate PMI not later than 30 days after the scheduled termination date? (12 USC §4904(b)(2)(B)) *Note: The scheduled termination date is reached when, based on the initial amortization schedule (in the case of a fixed rate loan) or the amortization schedule then in effect (in the case of an adjustable rate loan), the principal balance of the loan is first scheduled to reach 78 percent of the original value of the mortgaged property, if the borrower is current on that date or the first day of the first month after the date that the borrower becomes current.*		
11. If the financial institution acts as a servicer for adjustable rate residential mortgage transactions, does the financial institution notify borrowers that the cancellation date has been reached? (12 USC §4903(a)(1)(B)(i))		
12. If the financial institution acts as a servicer for adjustable rate residential mortgage transactions, does the financial institution notify the borrowers on the termination date that PMI has been canceled or that it will be cancelled on the first day of the first month after the date that the loan becomes current? (12 USC §4903(a)(1)(B)(ii))		
13. If the financial institution requires "Lender Paid Mortgage Insurance" (LPMI) for residential mortgage transactions, does it provide a written notice to a prospective borrower on or before the loan commitment date that includes:		
a. A statement that LPMI differs from borrower paid mortgage insurance (BPMI) in that the borrower may not cancel LPMI, while BPMI is subject to cancellation and automatic termination under the HOPA? (12 USC §4905(c)(1)(A))		
b. A statement that LPMI usually results in a mortgage with a higher interest rate than BPMI? (12 USC §4905(c)(1)(B)(i))		
c. A statement that LPMI only terminates when the transaction is refinanced, paid off, or otherwise terminated? (12 USC §4905(c)(1)(B)(ii))		
d. A statement that LPMI and BPMI both have benefits and disadvantages and a generic analysis reflecting the differing costs and benefits of each over a 10-year period, assuming prevailing interest and property appreciation rates? (12 USC §4905(c)(1)(C))		
e. A statement that LPMI may be tax-deductible for federal income taxes if the borrower itemizes expenses for that purpose? (12 USC §4905(c)(1)(D))		
14. If the lender requires LPMI for residential mortgage transactions, and the financial institution acts as servicer, does it notify the borrower in writing within 30 days of the termination date that would have applied if it were a BPMI transaction, that the borrower may wish to review financing options that could eliminate the requirement for PMI? (12 USC §4905(c)(2))		
15. Does the financial institution prohibit borrower paid fees for the disclosures and notifications required under the HOPA? (12 USC §4906)		