

Homeowners Protection Act

Background

The Homeowners Protection Act of 1998 became effective in July 1999. The act, also known as the PMI Cancellation Act, addresses the difficulties homeowners have experienced in canceling private mortgage insurance (PMI) coverage. It establishes provisions for the cancellation and termination of PMI,¹ sets forth disclosure and notification requirements, and requires the return of unearned premiums.

Historically, lenders have viewed an 80 percent loan-to-value (LTV) ratio (and a corresponding 20 percent down payment) as a prudent standard for making consumer real estate loans. This ratio has served to ensure that the borrower had enough of an interest in the property to continue to make the payments and, in the event the borrower was unable to make the payments, that the lender had sufficient equity available to cover lender foreclosure costs.

As housing prices increased (and the corresponding down payment amounts increased), saving for a sufficient down payment became difficult for many prospective homeowners. To further the goal of making homeownership attainable for more Americans, lenders began to look for ways to balance the increasing demand for home loans with the risks inherent in providing loans that fell outside the 80 percent LTV standard. PMI, which is activated only if the borrower defaults on the loan, helps address a lender's risk by covering the difference between the amount a borrower has available to put down and the amount suggested by the standard 20 percent down payment rule. In effect, PMI helps mitigate a lender's risk on loans for which the down payment is less than 20 percent of the sales price or, for a refinancing, when the amount financed is greater than 80 percent of the appraised value.

PMI protects lenders from the risk of default and foreclosure. It allows prospective buyers who cannot, or choose not to, make a significant down payment to obtain mortgage financing at an affordable rate. It is used extensively to facilitate "high-ratio" loans (generally, loans for which the loan-to-value ratio exceeds 80 percent). With PMI, the lender is able to recover the costs associated

with the resale of foreclosed property as well as the accrued interest payments and the fixed costs, such as taxes and insurance policies, paid before the resale. Once the consumer's loan balance falls within the 80 percent LTV ratio, PMI is no longer needed. Excessive PMI coverage provides little extra protection for a lender and does not benefit the borrower.

Before implementation of the act, many homeowners experienced problems in canceling PMI. In some instances, 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. 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 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.

Scope and Effective Date

The act applies primarily to *residential mortgage transactions*, defined as mortgage loan transactions consummated on or after July 29, 1999, the purpose of which is to finance the acquisition, initial construction, or refinancing² of a single-family dwelling that serves as a borrower's primary residence.³ It also includes provisions relating to annual written disclosures for *residential mortgages*, defined as mortgages, loans, or other evidences of a security interest created with respect to a single-family dwelling that is the borrower's primary residence. Condominiums, townhouses, and cooperative or mobile homes are considered single-family dwellings covered by the act.

The act's requirements vary depending on whether the mortgage

- Is a residential mortgage or a residential mortgage transaction
- Is defined as high risk (either by the lender, in the

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

2. For purposes of this discussion, *refinancing* means the refinancing of a loan any portion of which is intended to provide financing for the acquisition or initial construction of a single-family dwelling that serves as a borrower's primary residence.

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

case of nonconforming loans, or by Fannie Mae or Freddie Mac, in the case of conforming loans)

- Has a fixed rate or an adjustable rate
- Is covered by borrower-paid or lender-paid private mortgage insurance

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

Borrower-Requested Cancellations

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 principal balance of the loan
 - Is first scheduled to reach 80 percent of the “original value”⁴ (regardless of the outstanding balance), based on
 - The initial amortization schedule (in the case of a fixed-rate loan)
 - The amortization schedules (in the case of an adjustable-rate loan) or
 - Reaches 80 percent of the “original value,” based on actual payments
- The borrower has a good payment history⁵
- The borrower satisfies any requirement of the mortgage holder for
 - Evidence of a type established in advance that the value of the property has not declined below the original value and
 - Certification that the borrower’s equity in the property is not subject to a subordinate lien

Once PMI is canceled, the servicer may not require further PMI payments or premiums more than thirty days after the later of (1) the date on which the written request was received or (2) the date on which the borrower satisfied the mortgage holder’s evidence and certification requirements, described above.

Automatic Termination

A servicer must automatically terminate PMI for residential mortgage transactions on the earliest date that both

- The principal balance of the mortgage is first

4. *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.

5. A borrower has a good payment history if he or she (1) has not made a payment that was sixty days or more past due within the first twelve months of the last two years prior to the cancellation date or (2) has not made a payment that was thirty days or more past due within twelve months of the cancellation date.

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 schedules, in the case of an adjustable-rate loan, regardless of the outstanding balance) and

- The borrower is current on mortgage payments.

If PMI is terminated, the servicer may not require further payments or premiums of PMI more than thirty days after (1) the termination date or (2) the date following the termination date on which the borrower becomes current on the payments, whichever is sooner.

There is no provision in the automatic-termination section of the act, as there is in 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.

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 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.

The servicer may not require further payments or premiums of PMI more than thirty days after PMI is terminated.

Exclusions

The cancellation and termination provisions apply only to residential mortgage transactions for which the borrower pays the PMI. The provisions do not apply to those for which someone other than the borrower makes the payments.

Return of Unearned Premiums

The servicer must return all unearned PMI premiums to the borrower within forty-five days after cancellation or termination of PMI coverage. Within thirty 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.

Exceptions to Cancellation and Termination of PMI: High-Risk Residential Mortgage Transactions

The borrower-requested cancellation at 80 percent LTV and the automatic termination at 78 percent LTV requirements 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- and Freddie Mac-defined high-risk loans) and nonconforming (lender-defined high-risk loans).

Conforming Loans

Conforming loans are loans that have an original principal balance not exceeding Freddie Mac's limit for conforming loans.⁶ 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 due to the high risk associated with them.⁷ Such transactions 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 schedules (in the case of an adjustable-rate loan) if, on that date, the borrower is current on the loan. If the borrower is not current on that date, PMI must be terminated when the borrower does become current.

Nonconforming Loans

Nonconforming loans are residential mortgage transactions that have an original principal balance exceeding Freddie Mac's and Fannie Mae's conforming loan limit. 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 schedules (in the case of an adjustable-rate loan) for that mortgage—is first scheduled to reach 77 percent of the original value of the property securing the loan, regardless of the outstanding balance for that mortgage on that date.

6. The limit for 2005 was \$359,650.

7. As of the date of this publication Fannie Mae and Freddie Mac have not established such a category.

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

Basic Disclosure and Notice Requirements Applicable to Residential Mortgage Transactions and Residential Mortgages

At the time of consummation of a residential mortgage transaction, the lender must give the borrower certain disclosures that describe the borrower's rights with regard to PMI cancellation and termination. The requirements for initial disclosures vary depending on whether the transaction is a fixed-rate mortgage, an adjustable-rate mortgage, or a high-risk loan. Borrowers must also be given certain annual and other notices concerning PMI cancellation and termination. Borrowers may not be charged for any disclosure required by the act.

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

- A written initial amortization schedule and
- A written notice that discloses
 - The borrower's right to request cancellation of PMI and, based on the initial amortization schedule, the date on which 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 date on which that is projected to occur (based on the initial amortization schedule); and
 - That 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.

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 (1) the date on which the loan balance is first scheduled to reach 80 percent of the original value of the property based on the amortization schedules or (2) the date on which 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 (1) or (2) 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 schedules. 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).
- 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

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 schedule 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.

Annual Disclosures for Residential Mortgage Transactions

For all residential mortgage transactions, including high-risk mortgages for which PMI is required, the servicer must provide to the borrower an annual written statement that sets forth the rights of the borrower to cancel and terminate PMI and the address and telephone number that the borrower may use to contact the servicer to determine whether the borrower may cancel PMI.

Disclosures for Existing Residential Mortgages

For residential mortgages consummated before the act took effect (on July 29, 1999), if PMI was required, 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 can contact the servicer to determine whether the borrower may cancel PMI.

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

General Requirements

Not later than thirty days after PMI relating to a residential mortgage transaction is canceled or terminated, the servicer must notify the borrower in writing that

- 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.

Notice of Grounds, and Timing of Notice

If a servicer determines that a borrower in a residential mortgage transaction does not qualify for cancellation or automatic termination of PMI, the servicer must provide to the borrower a written notice of the grounds relied on for making that determination. If an appraisal was used in making the determination, the servicer must give the results of the appraisal to the borrower. If a borrower does not qualify for cancellation, the notice must be provided not later than thirty days following the later of (1) the date the borrower's request for cancellation was received or (2) the date on which the borrower satisfied any of the mortgage holder's evidence and certification requirements. If the borrower does not meet the requirements for automatic termination, the notice must be provided not later than thirty days following the scheduled termination date.

Disclosure Requirements for Lender-Paid Mortgage Insurance

Definitions

- *Borrower-paid mortgage insurance (BPMI)*—PMI that is required in connection with a residential mortgage transaction, the payments for which are made by the borrower
- *Lender-paid mortgage insurance (LPMI)*—PMI that is required in connection with a residential mortgage transaction, the payments for which are made by a person other than the borrower
- *Loan commitment*—A prospective lender's written confirmation of its approval of a prospective borrower's application for a residential mortgage loan (including any applicable closing conditions)

Initial Notice

In the case of LPMI that is required in connection with a residential mortgage transaction, the lender must 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, paid off, or otherwise terminated.

The notice must also contain

- A statement that both LPMI and BPMI have 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
- A statement that LPMI may be tax deductible for purposes of federal income taxes, if the borrower itemizes expenses for that purpose.

Notice at Termination Date

Not later than thirty days after the termination date that would apply in the case of BPMI, the servicer must 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.

Fees for Disclosures

As stated previously, no fee or other cost may be imposed on borrowers for the disclosures and notifications that lenders and servicers are required to give them.

Civil Liability

Liability Dependent on 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's fees.
- *Class action*

In the case of a class action suit against a defendant that is subject to section 10 of the act (that is, an entity regulated by a federal banking agency, the 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's fees.

In the case of a class action suit against a defendant that is not subject to section 10 of the act (that is, an entity not regulated by a federal banking agency, 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's fees.

Statute of Limitations

A borrower must bring an action under the act within two years after the borrower discovers the violation.

Mortgage-Servicer Liability Limitation

A servicer is not 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.

Federal Preemption

For residential mortgage transactions, the provisions of the act supersede state laws, except for those states that had PMI laws in effect as of January 2, 1998.⁸ Laws in these states are preempted only to the extent that they are less protective than the act. These states were permitted two years from the date of enactment (that is, until July 29, 2000) to amend their laws in light of the provisions of the act.

The provisions of the act also supersede any conflicting provision contained in any agreement relating to the servicing of a residential mortgage loan entered into by Fannie Mae, Freddie Mac, or

⁸ Eight states (California, Colorado, Connecticut, Maryland, Massachusetts, Minnesota, Missouri, and New York) had PMI laws in effect prior to January 2, 1998. See 144 Cong. Rec. 5,432 (daily ed. July 14, 1998; statement by Rep. LaFalce).

any private investor or note holder (or any successor thereto).

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. The agencies are required to

- 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.

Homeowners Protection Act Examination Objectives and Procedures

EXAMINATION OBJECTIVES

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

1. Through discussions with management and review of available information, determine if the institution's internal controls are adequate to ensure compliance with the Homeowners Protection Act. Consider the following:
 - a. Organization charts
 - b. Process flow charts
 - c. Policies and procedures
 - d. Loan documentation
 - e. Checklists
 - f. Training
 - g. Computer program documentation
2. Review any compliance audit materials, including workpapers and reports, to determine whether
 - a. The institution's procedures address all applicable provisions of the 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 to the board of directors
 - f. Corrective action is taken in a timely and appropriate manner
 - g. The frequency of compliance review is appropriate

3. Complete the HOPA worksheet by reviewing disclosure and notification forms and the financial institution's policies and procedures. As applicable, the forms should include
 - Initial disclosures for (1) fixed-rate mortgages, (2) adjustable-rate mortgages, (3) high-risk loans, and (4) lender-paid mortgage insurance
 - Annual notices for (1) fixed- and adjustable-rate mortgages and high-risk loans and (2) existing residential mortgages
 - Notices of (1) cancellation, (2) termination, (3) grounds for not canceling PMI, (4) grounds for not terminating PMI, (5) cancellation date for adjustable-rate mortgages, and (6) termination date for lender-paid mortgage insurance
4. Confirm that borrowers are not charged for any required disclosures or notifications. (§ 7 of the HOPA)
5. Obtain and review a sample of recent written requests from borrowers to cancel their PMI on non-high-risk residential mortgage transactions. Verify that the insurance was canceled on either (1) the date on which the principal balance of the loan was first scheduled to reach 80% of the original value of the property based on the initial amortization schedule (in the case of a fixed-rate loan) or the amortization schedules (in the case of an adjustable-rate loan) or (2) the date on which the principal balance of the loan actually reached 80% of the original value of the property based on actual payments, if all the applicable provisions in section 3(a) of the HOPA were satisfied (that is, good payment history 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). (§ 3(a))
6. Obtain and review a sample of non-high-risk PMI residential mortgage transactions. Verify that PMI was terminated, based on the initial amortization schedule (in the case of a fixed-rate loan) or the amortization schedules (in the case of an adjustable-rate loan), on the date on which the principal balance of the loan was first scheduled to reach 78% of the original value of the mortgaged property, assuming that the borrower was current, or on the earliest date thereafter on which the borrower became current. (§ 3(b))

7. Obtain a sample of PMI-covered residential mortgage transactions (including high-risk loans, if any) that have reached 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. (§§ 3(c) and 3(f)(2))
8. Determine if the financial institution has made any lender-defined high-risk residential mortgage transactions. If so, select a sample of these transactions and verify that PMI was canceled, based on the initial amortization schedule (in the case of a fixed-rate loan) or the amortization schedules (in the case of an adjustable-rate loan), on the date on which the principal balance of the loan was scheduled to reach 77% of the original value of the mortgaged property. (§ 3(f)(1)(B))
9. Obtain a sample of loans that have had PMI canceled or terminated. For PMI loans canceled upon the borrower's request, determine that the financial institution did not require any PMI payments beyond 30 days of the borrower's satisfying the evidence and certification requirements to cancel PMI. (§ 3(d)(1)) For

PMI loans that received automatic termination or final termination, determine that the financial institution did not require any PMI payments beyond 30 days of termination. (§§ 3(d)(2) and 3(d)(3))

10. Using the samples in steps 5, 6, and 7, determine if the financial institution returns unearned premiums, if any, to the borrower within 45 days after cancellation or termination of PMI. (§ 3(e)(1))

Conclusions

11. Summarize all violations.
12. If the violation (or violations) noted represents 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 Reserve Bank personnel for guidance. Section 10(c) of the act contains a provision requiring restitution of unearned PMI premiums.

Homeowners Protection Act Worksheet

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|---|-----|----|-----|
| 1. For <i>fixed-rate</i> residential mortgage transactions, does the lender provide, at consummation, written initial disclosures that include the following? | | | |
| a. A written amortization schedule (§ 4(a)(1)(A)(i)) | Yes | No | N/A |
| 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% of the original value of the mortgaged property, regardless of the outstanding balance of the mortgage; or such earlier date that, based on actual payments, the principal balance actually reaches 80% of the original value of the mortgaged property, and provided that the borrower has a good payment history and has satisfied the lender's requirements that the value of the mortgaged property has not declined and is unencumbered by subordinate liens (§§ 4(a)(1)(A)(ii)(I) and 4(a)(1)(A)(ii)(II)) | Yes | No | N/A |
| c. The specific date, based on the initial amortization schedule, on which the loan balance is scheduled to reach 80% of the original value of the mortgaged property (§ 4(a)(1)(A)(ii)(I)) | Yes | No | N/A |
| d. A notice that PMI will automatically terminate on the date that, based on the amortization schedule and regardless of the outstanding balance of the mortgage, the principal balance is first scheduled to reach 78% of the original value of the mortgaged property, provided that the loan is current (§ 4(a)(1)(A)(ii)(III)) | Yes | No | N/A |
| e. The specific date the loan balance is scheduled to reach 78% LTV (§ 4(a)(1)(A)(ii)(III)) | Yes | No | N/A |
| f. Notice that exemptions to the borrower's right to cancel PMI and automatic PMI termination exist for high-risk loans, and whether such exemptions apply (§ 4(a)(1)(A)(ii)(IV)) | Yes | No | N/A |
| 2. For <i>adjustable-rate</i> residential mortgage transactions, does the lender provide, at consummation, written initial disclosures 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(s) and regardless of the outstanding balance of the mortgage, the principal balance is first scheduled to reach 80% of the original value of the mortgaged property; or such earlier date that, based on actual payments, the principal balance actually reaches 80% of the original value of the mortgaged property and the borrower has a good payment history and has satisfied the lender's requirements that the value of the mortgaged property has not declined and is unencumbered by subordinate liens (§ 4(a)(1)(B)(i)) | Yes | No | N/A |
| b. The servicer will notify the borrower when the cancellation date is reached, that is, when the loan balance represents 80% of the original value of the mortgaged property (§ 4(a)(1)(B)(I)) | Yes | No | N/A |
| c. PMI will automatically terminate when the loan balance is first scheduled to reach 78% of the original value of the mortgaged property, regardless of the outstanding balance of the mortgage, and the loan is current (§ 4(a)(1)(B)(ii)) | Yes | No | N/A |
| d. On the termination date the borrower will be notified of the termination or the fact that PMI will be terminated when the loan is brought current (§ 4(a)(1)(B)(ii)) | Yes | No | N/A |

e. Exemptions to the borrower's right to cancel PMI and automatic PMI termination exist for high-risk loans, and whether such exemptions apply (§ 4(a)(1)(B)(iii))	Yes	No	N/A
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?	Yes	No	N/A
4. For high-risk residential mortgage transactions (as defined by the lender or Fannie Mae or Freddie Mac), does the lender provide, at consummation, written initial disclosures that PMI will not be required beyond the midpoint of the amortization period of the loan, if the loan is current? (§ 4(a)(2))	Yes	No	N/A
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 where the servicer can be contacted to determine whether they may cancel PMI? (§ 4(a)(3)) (Note: This disclosure may be included on the RESPA annual escrow account disclosure or the IRS interest payment disclosures.)	Yes	No	N/A
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 (§ 4(b)(1))	Yes	No	N/A
b. An address and telephone number that the borrower may use to contact the servicer to determine whether the borrower may cancel the PMI (§ 4(b)(2))	Yes	No	N/A
(Note: This disclosure may be included on the RESPA annual escrow account disclosure or the IRS interest payment disclosure.)			
7. If the financial institution acts as servicer for residential mortgage transactions, does it provide borrowers written notice 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? (§ 5(a))	Yes	No	N/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? (§ 3(e))	Yes	No	N/A
9. If the financial institution acts as servicer for residential mortgage transactions, does it provide borrowers written notice 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? (§§ 5(b)(1) and 5(b)(2)(A))	Yes	No	N/A
10. If the financial institution acts as servicer for residential mortgage transactions, does it provide borrowers written notice of the grounds it relied on (including the results of any appraisal) in refusing to automatically terminate PMI not later than 30 days after the scheduled termination date? (§ 5(b)(2)(B))	Yes	No	N/A

(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 schedules (in the case of an adjustable-rate loan), the principal balance of the loan is first scheduled to reach 78% of the original value of the mortgaged property, assuming that the borrower is current on that date, or the earliest date thereafter on which the borrower becomes current.)

11. If the financial institution acts as a servicer for adjustable-rate residential mortgage transactions, does it notify borrowers that the cancellation date has been reached? (§ 4(a)(1)(B)(i))	Yes	No	N/A
12. If the financial institution acts as a servicer for adjustable-rate residential mortgage transactions, does it notify the borrowers on the termination date that PMI has been canceled or will be canceled as soon as the borrower is current on loan payments? (§ 4(a)(1)(B)(ii))	Yes	No	N/A
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 the following?			
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 (§ 6(c)(1)(A))	Yes	No	N/A
b. A statement that LPMI usually results in a mortgage with a higher interest rate than BPMI (§ 6(c)(1)(B)(i))	Yes	No	N/A
c. A statement that LPMI terminates only when the transaction is refinanced, paid off, or otherwise terminated (§ 6(c)(1)(B)(ii))	Yes	No	N/A
d. A statement that both LPMI and BPMI 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 (§ 6(c)(1)(C))	Yes	No	N/A
e. A statement that LPMI may be tax deductible on federal income taxes if the borrower itemizes expenses for that purpose (§ 6(c)(1)(D))	Yes	No	N/A
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? (§ 6(c)(2))	Yes	No	N/A
15. Does the financial institution prohibit borrower-paid fees for the disclosures and notifications required under the HOPA? (§ 7)	Yes	No	N/A