What is HPML

In general, a HPML or higher-priced mortgage loan for a primary residence where an annual percentage rate, or APR, higher than a benchmark rate called the Average Prime Offer Rate.

The Average Prime Offer Rate (APOR) is an annual percentage rate that is based on average interest rates, fees, and other terms on mortgages offered to highly qualified borrowers. The mortgage will be considered a higher-priced mortgage loan if the APR is a certain percentage higher than the APOR depending on what type of loan you have:

- First-lien mortgages: A first-lien mortgage is "higher-priced" if the APR is 1.5 percentage points or more higher than the APOR.
- Jumbo loans: If your mortgage is a first-lien "jumbo" loan, it is generally "higher-priced" if the APR is 2.5 percentage points or more higher than the APOR.

How does and HPML affect the loan

A higher-priced mortgage loan will be more expensive than a mortgage with average terms. Therefore, the underwriter will have to take extra steps to make sure you can pay your loan back and won't default. The underwriter will need to follow the steps below:

- Obtain a full interior appraisal from a licensed or certified appraiser,
- Condition for a second appraisal will be required if it is a "flipped" home,
- Calculating residual income,
- Complete the **HPML** checklist (located on the intranet under product guidelines), upload the checklist into Legal – High Cost Test and;
- Comment in the conversation log that the loan meets HPML guidelines

A "flip" is when:

- The buyer buys a home from a seller who bought the home less than six months ago and;
- The buyer pays more than the seller paid for the home:
    - 10 percent more if the seller bought the home within the past 90 days.
    - 20 percent more if the seller bought the home in the past 91 to 180 days.

NOTE: Not all flips are subject to this requirement. For example, flips in rural areas are exempt because those areas might have fewer appraisers available. Also, properties acquired from a government agency are exempt.

Calculating Residual Income

Residual income is the amount of monthly income that an individual has after all personal debts and expenses have been paid. This is calculated by taking occupying borrowers gross monthly income minus: State Income Tax, Federal Income Tax, Municipal or other tax, proposed PITI, all other monthly debt, maintenance and utilities (calculated at .14 x square feet of home), job related expenses such as union dues and child care expense = Residual Income. The underwriter will need to use the VA 26-6393 Loan Analysis screen found under the forms tab in Encompass to complete this.

Starting in section C line 19 on the VA 26-6393 Loan Analysis screen the underwriter will calculate the maintenance and utilities by taking the subject property square footage multiplying it by $0.14 the calculated amount will need to be inputted into line 19.

Note: If there is MI on the subject property the amount must be entered into Section 18.

Section C - Estimated Monthly Shelter Expenses

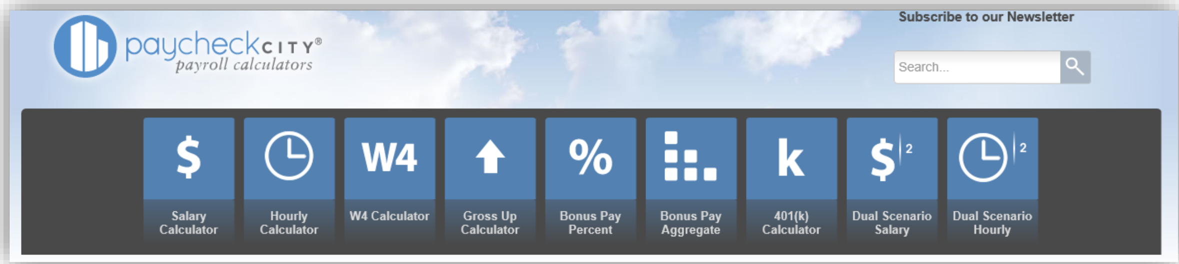
14. Term of Loan	30 Y 5.000 %	19. Maintenance	
15. Mortgage Payment	578.99	20. Utilities	
16. Realty Taxes	19.04	21. Other	64.68
17. Hazard Ins	147.00	22. **Total**	809.71
18. Special Asmts			

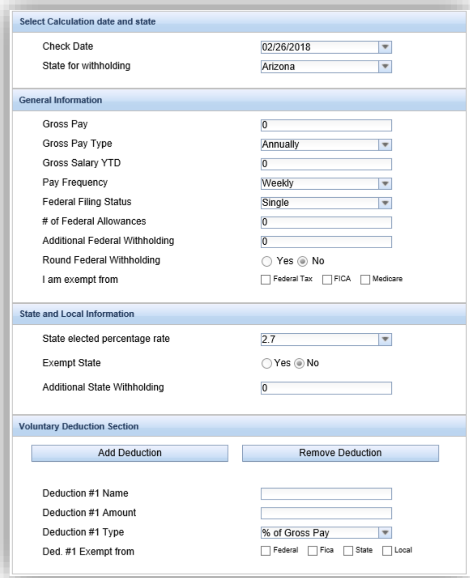
Next you will use Section D to determine your total debt listed on line 31. The underwriter will need to add any other expenses using line 30 if applicable. The underwriter will need to check the center box for all other debts that need to be include in the borrowers DTI. The underwriter may need to hit the "Show All (VOL)" button on the top line of section D as there may be additional liabilities if the borrower has more than are able to be displayed.

Section D - Debts and Obligations Show All (VOL)

	Creditor	Include on Line 41	Monthly Payment	Unpaid Balance
23.	ADVIA CREDIT UNION	☐	349.00	13,974.00
24.	NAVIENT	☐	63.00	6,291.00
25.	COMENITYBANK/KAYJEWE	☐	150.00	4,063.00
26.	NAVIENT	☐	34.00	3,330.00
27.	US DEPT. OF EDUCATIO	☐	27.00	2,698.00
28.	US DEPT. OF EDUCATIO	☐	22.00	2,108.00
29.	CCS/FIRST NATIONAL BAN	☐	60.00	1,487.00
30.	Alimony / Child Support	☐		
	Job Related Expense			
	Other Expense			
	Negative Rents			
	Other Liabilities	☐	1,362.00	67,771.44
31.	**Total Debt**		2,067.00	101,722.44

Section E is the summary of income and liabilities. The underwriter will need to complete lines 33-35 using following website https://www.paycheckcity.com/ . This site will allow the underwriter to determine state and federal deductions based on the state the borrower resides in and number of dependents within the household. The Salary Calculator tab on the left hand side of the paycheckcity site will allow the underwriter to enter the pay information from their most recent paystub to determine the deductions.





Select Calculation date and state

Check Date	02/26/2018
State for withholding	Arizona

General Information

Gross Pay	0
Gross Pay Type	Annually
Gross Salary YTD	0
Pay Frequency	Weekly
Federal Filing Status	Single
# of Federal Allowances	0
Additional Federal Withholding	0
Round Federal Withholding	Yes / No
I am exempt from	Federal Tax / FICA / Medicare

State and Local Information

State elected percentage rate	2.7
Exempt State	Yes / No
Additional State Withholding	0

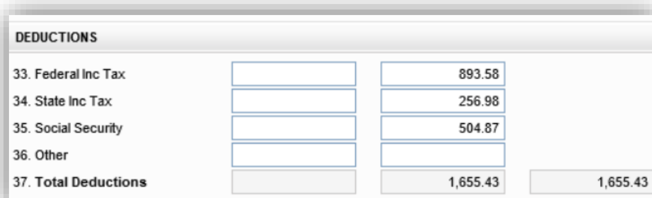
Voluntary Deduction Section

Add Deduction | Remove Deduction

Deduction #1 Name	
Deduction #1 Amount	
Deduction #1 Type	% of Gross Pay
Ded. #1 Exempt from	Federal / Fica / State / Local

You will then input the above figures into the deductions section of the Loan Analysis.

Note: The Social Security and Medicare will need to be entered in the Social Security



DEDUCTIONS			
33. Federal Inc Tax		893.58	
34. State Inc Tax		256.98	
35. Social Security		504.87	
36. Other			
37. Total Deductions		1,655.43	1,655.43

If any income has been grossed up ie non-taxable SSA or VA benefits you will have to enter the difference into line 36.

The underwriter will then need to go to line 44 and enter the family size required amount based on the chart below. This chart can be found on our Towne Underwriting Overlay Sheet.

Residual Income Chart

FOR VA LOANS and FHA Manual Underwritten Loans

Table of Residual Income by Region
For loan amounts of $79,999 and below

Family Size	Northeast	Midwest	South	West
1	$390	$382	$382	$425
2	$654	$641	$641	$713
3	$788	$772	$772	$859
4	$888	$868	$868	$967
5	$921	$902	$902	$1004
Over 5	Add $75 for each additional member up to a family of 7.			

Table of Residual Income by Region
For loan amounts of $80,000 and above

Family Size	Northeast	Midwest	South	West
1	$450	$441	$441	$491
2	$755	$738	$738	$823
3	$909	$889	$889	$990
4	$1025	$1003	$1003	$1117
5	$1062	$1039	$1039	$1158
Over 5	Add $75 for each additional member up to a family of 7.			

	Guideline	
44. Balance Available for Family Support	$	2,158.61
45. Ratio (Sum of items 15,16,17,18,21 and 41 / sum of items 32 and 39)		27.278 %

The borrowers balance on line 44 must be = or greater than the residual income listed on the chart. For example: If the borrower has a family size of 5 in the west and the borrower's income is $75,000 the borrower must have at least $1004 listed on line 44 in order to meet the residual income requirements.

If the borrower does not meet the residual income requirements on an HPML loan the loan should be escalated for management review.