

Prepayment Penalty Policy and Procedure

Policy Overview

BM Real Estate Services, Inc dba Solve Mortgage (“Solve”) complies with all applicable state and federal prepayment penalty regulations in order to ensure compliance and integrity throughout the loan manufacturing process.

The purpose of the Solve Prepayment Policy is to establish consistent practices across all business channels for consideration and approval of prepayment penalties. All Solve loans are subject to written loan policies and underwriting guidelines as approved by senior leadership. Solve employs controls and procedures to ensure that prepayment penalty terms are reviewed and approved in compliance with relevant law, as outlined in this Prepayment Penalty Policy.

Roles and Responsibilities

Broker; Account Executive/Account Manager (“AE” or “AM”): responsible for initial submission of proposed prepayment penalty language and amounts.

Lock Desk: responsible for reviewing the prepayment penalty and determining if request is in compliance with relevant rules outlined herein, pricing the loan with the prepayment penalty and updating the loan file.

Prepayment Penalties Generally

Generally, prepayment penalties are prohibited on all consumer loans and transactions.

Solve employees should review the state requirements listed below in Section 4 to determine when a prepayment penalty is allowed on non-owner occupied commercial and business purpose loans. All AEs, AMs and Underwriters must adhere to the state specific guidelines, including but not limited to the following: limitations on LTV, finance charges, interest rate and APR, prepayment penalty fee amounts, and timing restrictions.

Compliance with State Regulations

AEs, AMs and Underwriters must review every loan file with a prepayment penalty request and determine if the requested prepayment penalty is permissible under the guidelines outlined below.

- **Business purpose exemptions**

Non-owner occupied commercial or business purpose loans are exempt from all prepayment penalty prohibitions and requirements in the following states, except as noted:

- Alabama
- Arizona

- Arkansas
- California
- Colorado- specific disclosure rules apply;
- Connecticut
- District of Columbia
- Florida
- Georgia
- Hawaii
- Idaho
- Indiana
- Iowa
- Kansas
- Kentucky
- Louisiana
- Maine
- Massachusetts
- Mississippi
- Missouri
- Montana
- Nebraska
- Nevada
- New York
- North Carolina
- North Dakota
- Oklahoma
- Oregon- specific disclosure rules apply;
- South Carolina
- South Dakota
- Tennessee
- Texas
- Utah
- Vermont
- Virginia
- Washington
- West Virginia
- Wisconsin- specific disclosure rules apply;
- Wyoming

In all states outlined above, a prepayment penalty may be charged without any limitations on amount, time or other loan characteristics. See states with prepayment penalty restrictions for non-owner occupied commercial or business purpose loans.

- **States with specific terms and restrictions for business purpose loans**

The following states have restrictions on charging a prepayment penalty on non-owner occupied commercial or business purpose loans:

- Illinois Generally- prepayment penalty is permitted only if the interest rate is less than 8%, regardless of loan purpose.
- Illinois: Cook County- prepayment penalty is permissible on a business purpose loan secured by real property in Cook County, Illinois only if loan amount exceeds \$250,000 and interest rate is less than 8%.
- Maryland- a prepayment penalty is permissible for a business purpose loan only if the loan amount exceeds \$75,000.
- Michigan- prepayment penalty is prohibited after 3 years from date of the loan for any business purpose loan that secures a single-family dwelling unit. Additionally, prepayment penalty amount may not exceed 1% of the amount of prepayment made. Mich. Comp. Laws Ann. Section 438.31c(1c)(2)(c).
- New Jersey- prepayment penalties on business purpose loans are permitted only if the mortgagor is a limited liability company or corporation. Prepayment penalties are strictly prohibited on loans to a natural person.
- Pennsylvania – prepayment penalties on business purpose residential mortgage loans securing real property containing 2 or fewer residential units are permitted only if the loan amount is greater than \$256,023, pursuant to 41 Pa Const. Stat. Ann. Section 101. This loan amount minimum was established by the base figure set by Pennsylvania as of the date of this policy and is subject to change annually based on updates published in the Pennsylvania Bulletin. Prepayment penalties are permissible on business purpose loans securing real property containing 3 or more units.
- Rhode Island – prepayment penalties are permitted for business purpose loans if charged within the 1st year from the date of the loan. Any prepayment penalty charged within the 1st year from the date of the loan, may not exceed 2% of the outstanding balance due at the date of the pay-off. Any prepayment penalties charged after the 1st year are strictly prohibited.

The above restrictions apply to non-owner occupied commercial or business purpose loans. Prepayment penalties are prohibited on all consumer purpose loans pursuant to Section 3. AEs, AMs, Underwriters and the Lock Desk must deny any prepayment penalty requests for non-owner occupied business purpose loans that do not meet the above requirements in the respective states. If a determination cannot be reached, the loan file should be escalated.

- **States that prohibit prepayment penalties on business purpose loans**

The following states strictly prohibit charging a prepayment penalty on non-owner occupied commercial or business purpose loans in addition to consumer credit transactions:

- Alaska
- Delaware
- Minnesota
- New Hampshire
- New Mexico
- Ohio

If a prepayment penalty request is submitted for any loan in one of the above-mentioned states, the request must be rejected.

Exceptions and Escalations

If an AE, AM, Underwriter or the Lock Desk cannot determine if the requested prepayment penalty meets the above requirements, the request should be escalated to Solve's legal department for review. Exceptions to the above state and federal guidelines may not be granted under any circumstances.

States with Prepayment Penalty Disclosure Requirements

If a prepayment penalty is charged, the maximum prepayment penalty must be set forth in the loan agreement and promissory note and disclosed at closing to ensure its validity and enforceability.

The following states have additional disclosure requirements for commercial or business purpose loans on which a prepayment penalty fee has been charged.

Closers must ensure that all respective language and disclosures are present in the loan documents pursuant the respective state regulations outlined below.

- Colorado - terms of the offer of a loan product with a prepayment penalty must be provided clearly and conspicuously in writing and include the following disclosure:

"LOAN PRODUCT CHOICE DISCLOSURE

I was provided with an offer to accept a product both with and without a prepayment penalty provision. I have chosen to accept the product with a prepayment penalty."

See Colo. Rev. Stat. Ann. Section 5-3.5-102(1)(g)(III).

- Oregon - If a loan agreement provides for a penalty to be charged for repaying the loan prior to the date provided for repayment in the loan agreement, the loan agreement shall contain in at least 10-point bold or underlined type substantially the following notice:

"NOTICE TO THE BORROWER

Do not sign this loan agreement before you read it. This loan agreement provides for the payment of a penalty if you wish to repay the loan prior to the date provided for repayment in the loan agreement."

See Or. Admin. R. 441-870-0040. This notice must be delivered to the borrower at closing.

- Wisconsin – terms of the offer of a loan product with a prepayment penalty must be provided clearly and conspicuously in writing and include the following disclosure:

"LOAN PRODUCT CHOICE DISCLOSURE

I was provided with an offer to accept a product both with and without a prepayment penalty provision. I have chosen to accept the product with a prepayment penalty."

See Wis. Stat. Ann. Section 428.207.

Excluded Loan Product Types

The following loan product types are excluded from this policy:

- Reverse mortgages
- 2nd lien business purpose loans
- Negative amortization loans

In the event that any of the above loan products are offered and a prepayment penalty request is submitted, employees must escalate that request to Solve's legal department for review.