State of New York Mortgage Agency
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December 5, 2013

Re: Lender Letter - Impact of New York State High-Cost and Subprime Loan Laws and Certain Federally-Mandated Regulations on SONYMA Mortgages

Dear Participating Lender:

Over the past month or so, several lenders have requested that the State of New York Mortgage Agency ("SONYMA") adjust the interest rate on certain loan applications that are found to be in non-compliance with (1) New York State laws regarding "high-cost home loans" and/or "subprime home loans", and (2) Federal requirements regarding "higher priced mortgage loans" and "HOEPA" loans. These requests are primarily due to the differential between conventional mortgage rates and the current rates of some SONYMA programs. Most of these loans will most likely have a higher interest rate due to SONYMA down payment assistance. This letter serves as guidance as to the implications, if any, of these laws or regulations on SONYMA loans.

New York State High-Cost and Subprime Loan Laws

SONYMA loans are *exempt* by the nature of their definition as "Home loans" from both the New York State high-cost home loan and subprime home loan laws.

a. *High Cost Loans*: The basis for this exemption is stated in Sections 6-l (d) and (e) of Article I of the New York State banking law. Section 6-l (d) restricts the term "High-cost home loan" to "Home loans" that meet certain characteristics. Section 6-l (e) defines a "Home loan" as a loan…., other than….a loan made or fully or partially guaranteed by the state of New York mortgage agency.

b. *Subprime Home Loans*: The basis for this exemption is stated in Sections 6-m (c) and (d) of Article I of the New York State banking law. Section 6-m (c) restricts the term "Subprime home loan" to "Home loans". As with respect to High Cost Loans, Section 6-m (d) defines a "Home loan" as a loan…., other than….a loan made or fully or partially guaranteed by the state of New York mortgage agency.

To be clear, SONYMA does not make loans, but each loan is required to be insured (guaranteed) by SONYMA's Mortgage Insurance Fund. Thus, since the Legislature has exempted SONYMA loans from these provisions, intended to address types of loans never offered by SONYMA, SONYMA will no longer adjust the interest rate on any loan that a lender finds does not comply with either of these laws.

Federally-Mandated Higher Priced Mortgage Loans (HPMLs) and HOEPA Loans

SONYMA recognizes that some of its higher interest rate loans may be categorized as a "higher priced mortgage loan" (or HPML) or as a HOEPA Loan under Federal Regulation Z rules. However, if a SONYMA loan falls outside of the HPML rules, lenders may continue to originate such loans as long as the loan

meets the requirements outlined below. SONYMA loans *are subject* to the Home Ownership and Equity Protection Act ("HOEPA") rules for high-cost loans issued by the Consumer Financial Protection Bureau ("CFPB") as authorized under the Dodd-Frank Act.

a. *Higher Priced Mortgage Loans*: We believe that all SONYMA loans, based on our longstanding requirement for fully documented loans, comply with the HPML rules. Loans categorized as an HPML can be originated and still comply with HPML rules, provided the following requirements are met:

- Escrow Accounts – Section 2.215 of the SONYMA Seller's Guide requires that escrows for property taxes, hazard insurance premiums, flood insurance premiums, and mortgage insurance premiums must be established for each loan.
- Prepayment Penalties – Section 2.212(b) of the SONYMA Seller's Guide states that no prepayment charges or penalties are allowed on any loan.
- Property Appraisals – SONYMA requires the property appraiser to perform a full interior and exterior inspection of each property.
- Ability to Repay – All SONYMA loans are required to be fully documented including income, asset, and liability information as well as credit reports and full property appraisals.

Based on the above, we believe that all SONYMA loans, conform to these requirements and as such comply with the HPML rules.

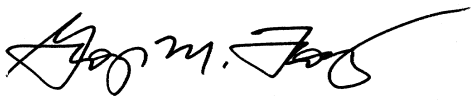
b. *HOEPA Loans*: As stated above, SONYMA loans are subject to the HOEPA high-cost mortgage rules. Accordingly, in order to ensure lender compliance with HOEPA, SONYMA will reduce the interest rate of any loan to a level where the loan no longer fails the HOEPA high-cost loan test. If a loan fails the HOEPA test, please submit to the attention of Marie Cammarata, documentation to support the request. This documentation should include:

i. Copy of the test result showing the currently locked interest rate failed;
ii. Copy of the test result showing the lowest interest rate (in increments of 1/8ths) in which the loan would fail;
iii. Copy of the test result showing the highest interest rate (in increments of 1/8ths) in which the loan would pass;
iv. Copy of Good Faith Estimate; and
v. Copy of Truth-in-Lending Itemization of Amount Financed.

If SONYMA agrees with your finding, we will reduce the interest rate on the loan to the highest interest rate in which the loan would pass the HOEPA high-cost loan test.

Lenders are responsible for ensuring SONYMA loans are in compliance with relevant Federal and New York State laws and regulations, but we trust that this guidance will provide you with the confidence to originate loans with respect to these specific laws and regulations.

Sincerely,



George M. Leocata
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