



MAXIMUM PRINCIPAL REDUCTION POLICY

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INTRODUCTION

It is the policy of Ameritrust Mortgage Corporation to establish clear, consistent, and compliant guidelines for the application of Principal Reductions in refinance transactions. This policy ensures that all refinance loans processed or purchased by Ameritrust comply with applicable regulatory standards and industry best practices when the cash back to the borrower exceeds the allowable limits, necessitating a Principal Reduction.

In such cases, the policy mandates the application of a Principal Reduction to bring the loan into compliance. The policy outlines the roles and responsibilities of all departments involved, ensuring consistent implementation. It also clarifies the responsibilities of Correspondent Sellers in ensuring compliance with the policy when submitting refinance loans for purchase.

SCOPE

This policy applies to all refinance transactions processed or purchased by Ameritrust Mortgage Corporation, where the cash back to the borrower exceeds the maximum allowable amount, thereby requiring a Principal Reduction. It is applicable to all loan programs, including but not limited to, Fannie Mae, Freddie Mac, FHA, VA, USDA, and Non-QM refinance loans.

This policy affects all departments involved in the loan process, including Underwriting, Closing, Post-Closing, Funding, and Servicing, ensuring consistent application and compliance across all relevant functions. It is also the responsibility of the Correspondent Seller to comply with Ameritrust's Maximum Principal Reduction Policy when submitting loans for purchase.

PURPOSE

The purpose of this policy is to ensure that all refinance transactions processed or purchased by Ameritrust Mortgage Corporation comply with regulatory guidelines and industry standards when cash back to the borrower exceeds the allowable limits, necessitating a Principal Reduction. This policy provides clear and consistent guidance for the application of Principal Reductions, ensuring compliance with both internal risk management practices and external regulatory requirements. When cash back exceeds the allowable limits, a loan must be escalated to the appropriate manager for review and recalculation.

Additionally, the policy outlines the roles and responsibilities of Ameritrust's internal departments and Correspondent Sellers, emphasizing the importance of uniform application across all loan programs. By adhering to this policy, Ameritrust and its Correspondent Sellers will ensure that all refinance loans meet compliance standards, minimize financial risk, and maintain the integrity of the loan process.

DEFINITIONS

- **Excessive Cash Back:** A circumstance in which a borrower receives cash back at closing that exceeds the allowable limits set by the relevant loan program.
- **Cash-Out Refinance:** A mortgage refinancing option where the borrower replaces their existing mortgage with a new loan for a larger amount than the current balance. The difference between the new loan and the existing mortgage is provided to the borrower in cash.
- **Correspondent Seller:** An entity that submits loans to Ameritrust Mortgage Corporation for purchase, and which is required to adhere to Ameritrust's Maximum Principal Reduction Policy.
- **Maximum Cash Back to Borrower:** The maximum allowable amount of cash a borrower can receive in a cash-out refinance loan, as defined by the relevant loan program.
- **Principal Reduction:** A decrease in the mortgage loan balance applied during the settlement process. This reduction is implemented when the borrower is set to receive cash back exceeding the maximum allowable amount for their loan program. To bring the loan into compliance, the excess cash is applied as a principal reduction.

ROLES AND RESPONSIBILITIES

- **Underwriting:** Responsible for noting the maximum allowable cash back on the loan approval in refinance transactions. The Underwriter will ensure that all calculations align with program-specific limits.
- **Closing:** The Closers will prepare the loan documents to reflect the correct Principal Reduction and ensure that the refinance loan is in compliance with the policy before finalizing.
- **Funding and Post-Closing:** Funding and Post-Closing is responsible for reviewing the Closing Disclosure (CD) or HUD-1 Settlement Statement to ensure that the Principal Reduction has been properly applied and that the loan meets compliance standards.
- **Servicing:** Ensures that the Principal Reduction is accurately reflected in the Servicing system and that the correct terms are applied to the loan.
- **Purchaser:** Responsible for reviewing the Closing Disclosure (CD) or HUD-1 prepared by the Correspondent Seller to ensure that the Principal Reduction has been properly applied and that the loan meets requirements.
- **Correspondent Sellers:** Are responsible for ensuring that any loans submitted to Ameritrust for purchase comply with the Maximum Principal Reduction Policy, including providing accurate documentation and adhering to applicable program guidelines.



MAXIMUM CASH BACK LIMITS AND PRINCIPAL REDUCTION GUIDELINES

A refinance is considered to have Excess Cash Back if the cash back to the borrower exceeds the maximum allowed cash back amount for the relevant loan program.

Correspondent Sellers must ensure that loans submitted for purchase are in full compliance with these guidelines. Any loan that exceeds the allowable cash back or Principal Reduction limits will not be purchased by Ameritrust.

The Principal Reduction must be reflected on the Closing Disclosure in the Payoffs and Payments section, or on the HUD-1 Settlement Statement Section J, or on an addendum noted in Section J.

The following outlines the Maximum Cash Back to Borrower limits for various loan programs:

Program	Maximum Cash Back to Borrower
Fannie Mae	The lesser of 2% of the loan amount or \$2,000
Freddie Mac	The greater of 0.50% of the loan amount or \$2,000
FHA Rate/Term	Cash back cannot exceed \$500
FHA Streamline	\$0 at Underwriting; \$500 at Closing
VA IRRRL	\$0 at Underwriting; \$500 at Closing
NQM	As per program-specific guidelines
USDA Rate/Term	Cash back cannot exceed \$500
USDA Streamline	\$0
TX No Cash-Out	\$0

Any cash back exceeding the allowable limit must be applied as a Principal Reduction. The maximum Principal Reduction permitted is \$2,000.

ESCALATION PROCESS

When the cash back to the borrower exceeds the maximum allowable limits prior to closing, the loan must be returned to Underwriting to have the loan amount recalculated. For Correspondent loans, where the Seller prepares the closing documents, if the cash back exceeds the limits, it must be escalated to the Post-Closing Manager for review and resolution. Any loans not in compliance with the guidelines will be delayed or deemed ineligible for purchase.



SERVICING NOTIFICATION

When a Principal Reduction is applied to a loan, it is critical that Servicing is notified to ensure proper documentation and processing. This notification ensures that the loan terms are updated accurately, and the necessary adjustments are reflected in the servicing system and lock status.

- **Ameritrust Closing:** Once the Principal Reduction is applied Servicing must be informed.
- **Ameritrust Purchaser:** For Correspondent loans, where the Seller prepares the closing documents, once the Principal Reduction is entered in MeridianLink (MLM), Servicing must be informed.

MONITORING AND ENFORCEMENT

Ameritrust Mortgage Corporation will periodically review the application of this policy to ensure compliance across all departments involved in the loan process. Compliance officers will conduct audits on a quarterly basis to verify that Principal Reductions are being applied correctly in refinance transactions. Any non-compliance identified will be addressed with appropriate corrective actions, which may include retraining, process updates, or disciplinary measures if necessary.

Correspondent Sellers must also ensure that their internal processes and submissions are compliant with this policy and may be subject to review and corrective action if discrepancies are found.