

Introduction

Midwest Loan Solutions, Inc. (MLS) is committed to the highest standards of Federal and state borrower compliance. MLS requires all management, employees and third-party originators and vendors to follow these policies and to adhere to these standards.

The purpose of this policy is to ensure MLS and its third party originators are complying with the requirements of the provisions of Regulation B and to implement borrower protection mechanisms as required by Federal regulation.

The standards set out in this policy represent minimum requirements based on applicable legal and regulatory guidance and apply throughout MLS's operations. In accordance with MLS's policy, the Equal Credit Opportunity Act policy and procedures described herein shall apply to all residential mortgage transactions and represent the full scope of products, property types, branches and geographic locations.

Background

The Equal Credit Opportunity Act (ECOA) and Regulation B were enacted to prevent the denial of credit on the basis of characteristics that are not related to a borrower's creditworthiness. They protect credit applicants from certain discriminatory practices in any phase of a credit transaction.

Regulation B imposes requirements on MLS and its third party originators with respect to the following:

- Taking and evaluating applications for credit
- Notifying applicants of action taken on their applications
- Reporting and maintaining credit histories
- Retaining records
- Providing to applicants copies of appraisal reports used in connection with credit that is secured by a lien on a dwelling

Regulation B establishes that MLS and its third party originators shall not discriminate against an applicant in any aspect of any credit transaction on any of the following nine specifically identified prohibited bases:

1. Race
2. Color
3. Religion
4. National Origin
5. Sex
6. Marital Status
7. Age (provided the credit applicant has the capacity to enter into a binding contract)
8. Receipt of Income from Public Assistance Programs
9. Good Faith Exercise of any Rights under the Consumer Credit Protection Act

The regulation also requires MLS and its third party originators to collect information about an applicant's race, sex marital status, and age in connection with applications for certain loans that are related to an applicant's principal dwelling and that are secured by a lien on that dwelling.



Regulation B provides guidance regarding how the general rule against discrimination applies in specific circumstances and various phases of the credit relationship. This includes provisions regarding credit advertising and prescreening, the taking of credit applications, the evaluation of credit applications, and the spousal signature rules. It also imposes various administrative requirements for providing notices to borrowers, furnishing credit information, monitoring compliance with federal anti-discrimination law, self-testing and self-correction, record retention, and enforcement.

Review Requirement

MLS requires this policy and procedure to be reviewed no less than annually or when Federal regulation is amended and such amendments apply to MLS and its third party originators.

Overview

Under the ECOA, it is unlawful to discriminate on a prohibited basis in any aspect of a credit transaction. MLS and its third party originators may not, based on a prohibited basis:

- Fail to provide information or services or provide different information or services regarding any aspect of the lending process, including credit availability, application procedures, or lending standards
- Discourage or selectively encourage applicants with respect to inquiries about or applications for credit
- Refuse to extend credit or use different standards in determining whether to extend credit
- Vary the terms of credit offered, including the amount, interest rate, duration, or type of loan
- Use different standards to evaluate collateral
- Treat a borrower differently in servicing a loan or invoking default remedies
- Express, orally or in writing, a preference based on prohibited factors or indicate that we will treat applicants differently on a prohibited basis

Definitions

Application- an oral or written request for an extension of credit that is made in accordance with procedures used by a creditor for the type of credit requested. MLS utilizes the TILA-RESPA Integrated Disclosure definition of application for purposes of ECOA compliance.

Completed Application- an application in connection with which a creditor has received all of the information that the creditor regularly obtains and considers in evaluating applications for the amount and type of credit requested.

Disparate Impact- occurs when an action or policy appears to be neutral on its face but has an unjustified adverse impact on members of a protected class (i.e. women or minorities).

Disparate Treatment- occurs when a member of a protected class is singled out and treated less favorably than others that are similarly situated.

Overt Discrimination- occurs when the discrimination is apparent and not hidden in underlying policies or actions.



Protected Class- race, color, religion, national origin, sex, marital status, age (provided that the applicant has the capacity to enter into a binding contract), the fact that all or part of the applicant's income derives from any public assistance program, or the fact that the applicant has in good faith exercised any right under the Consumer Credit Protection Act or any state law for which an exemption has been granted by the Federal Reserve Board.

Prohibition against Lending Discrimination

The general principle regarding fair lending is as follows:

- MLS and its third party originators shall not discriminate against an applicant on a prohibited basis regarding any aspect of a credit transaction.
- MLS and its third party originators shall not make any oral or written statement, in advertising or otherwise, to applicants or prospective applicants that would discourage on a prohibited basis a reasonable person from making or pursuing an application.

A credit practice, whether or not specifically prohibited elsewhere in the regulation, that treats applicants differently on a prohibited basis violates the law because it violates the general rule.

1. Disparate Treatment

MLS and its third party originators may propose solutions to credit or other problems relevant to an application, identify compensating factors, and provide encouragement to some applicants but not others. MLS and its third party originators are under no obligation to provide such assistance, but to the extent that it does, the assistance must be provided in a nondiscriminatory way.

If MLS or its third party originator has apparently treated similar applicants differently on the basis of a prohibited factor, it must explain the difference. If the explanation is found to be not credible, a regulator or court that is addressing the matter might conclude that the treatment was an instance of intentional discrimination.

2. Marital Status

Except as may be permitted or required by law, MLS and its third party originators must evaluate married and unmarried applicants by the same standards; and when evaluating joint applicants, MLS and its third party originators are prohibited from treating applicants differently based on whether they are married or not, or are likely to get married.

Marital status is required from all applicants but is not used as a discriminatory basis during the review of the loan file. All fees paid by applicants are charged in the same manner, regardless of marital status.

3. Source of Income

When evaluating an applicant's income in connection with an application, MLS and its third party originators are prohibited from discounting or excluding the income of an applicant or the spouse of an applicant because of a prohibited basis or because the income is derived from part-time employment or is an annuity, pension, or other retirement benefit. MLS and its third party originators may, however, consider the amount of any income and the likelihood that it will continue into the future when evaluating an applicant's creditworthiness. If an applicant has included alimony, child support, or separate maintenance income on an application, MLS and its third party originators must consider them to the extent they are likely to be consistently made.

MLS does not discriminate loan offerings and/or credit decisions on the basis of the source of income. Additional documentation may be required for the above referenced sources of income to show the amount of income and the likelihood or duration of continuance as a basis for loan repayments.

4. Childbearing and Childrearing

MLS and its third party originators are prohibited from making inquiries regarding various issues involving childbearing and childrearing. When evaluating applications, it is also prohibited from making assumptions or using aggregate statistics relating to the likelihood that any category of persons will bear or rear children or will, for that reason, receive diminished or interrupted income in the future.

MLS does not discriminate loan offerings and/or credit decisions on the basis of childbearing. Inquiries are not made into an applicant's intention or ability to bear children. Aggregate statistics regarding childrearing are not utilized.

5. Residency and Immigration Status

MLS and its third party originators are permitted to inquire about applicants' residency and immigration status in connection with the taking of credit applications. When evaluating an application, MLS and its third party originators are also permitted to consider that information and any additional information that may be necessary to ascertain their rights and remedies regarding repayment.

MLS does not discriminate loan offerings and/or credit decisions on the basis of residency and immigration status. Additional documentation may be required to verify the applicant's residency status if it is unclear at the time of application or during the underwriting process. This documentation is not used to discriminate against the applicant, but the information may be used to determine the applicant's ability to repay the loan.

Third Party Originators

MLS requires all mortgage brokers and correspondent lenders to comply with all applicable laws. In each Mortgage Broker Agreement and/or Correspondent Lender Agreement, signed prior to submitting loans, the parties will represent and warrant that each loan submitted to MLS complies with ECOA and Regulation B.

Signature Requirements

Three general principles govern the application of specific signature rules:

- When an applicant is qualified in his or her own right for the amount and terms of credit requested, MLS and its third party originators are generally prohibited from requiring the signature of another person in connection with the loan
- When an applicant is not qualified in his or her own right for the amount and terms of credit requested, MLS and its third party originators may require the signatures or one or more guarantors, endorsers, or other similar parties
- When collateral of any sort is pledged as security for the repayment of a loan, MLS and its third party originators are permitted to require signatures of any persons on any instruments necessary to enable MLS and its third party originators to reach the property pledged as security

When a loan is to be secured by a pledge of property, MLS may require any person who holds an interest in the property to sign any instrument that it reasonably believes to be necessary under state law to make the property being offered as security available to satisfy the debt in the event of default.

In the case of state law requirements, MLS requires the signatures from all title holding properties on the security instruments executed at the closing of the loan transaction.

1. Joint Applicants

MLS is permitted to require the signatures of all joint applicants on the debt instrument and security instrument. This is so regardless of whether the applicants are married, so long as the application is intended by the applicants to be joint (i.e., with the applicants jointly liable for repayment and the assets of both supporting the debt). MLS requires the signatures of all applicants on debt instruments. All applicants are also required to sign the security instruments (mortgage or deed of trust).

2. Cosigners

If MLS determines that an applicant for individual credit does not qualify for the amount and terms of credit requested, it may then request that the applicant obtain a cosigner or guarantor. But MLS:

- Must require a cosigner or guarantor in all circumstances where the applicants are similarly situated (i.e., the creditor cannot require cosigners only for unmarried applicants, or only for married applicants, or only for women, or men, etc.)
- Must not require that the cosigner or guarantor be the applicant's spouse

- Must not impose requirements on the cosigner or guarantor that it is prohibited from imposing on the applicant

3. Signature of an Applicant's Spouse

In certain circumstances MLS may request a spouse's signature, even when a married applicant applies for individual credit. MLS requires the signature of all title holding or rescindable parties to a loan transaction on the security instrument at the closing of the loan.

4. Community Property States

Slightly different rules apply if a married applicant who resides in a community property state requests individual unsecured credit, or if the property upon which a married applicant is relying upon is located in a community property state. In such circumstances, MLS requires the signature of the applicant's spouse on any instrument including the note necessary under the law of the state in which the applicant resides, or in which the property is located.

In the case of state law requirements, MLS requires the signatures from all title holding properties on the security instruments executed at the closing of the loan transaction.

Compliance at Successive Phases of a Credit Transaction

1. Applications

MLS and its third party originators are prohibited from making any oral or written statement, in advertising or otherwise, to applicants or prospective applicants that would discourage, on a prohibited basis, a reasonable person from making or pursuing an application.

MLS requires a completed application for loans for the purpose of purchasing or refinancing a dwelling. The application must include signatures of all persons wishing to apply for a loan and statement of intent to apply for joint credit, if applicable.

2. Collection of Monitoring Information

Government Monitoring Information (GMI) will be collected per Regulation B when an application for credit primarily for the purchase or refinancing of a dwelling occupied or to be occupied by the applicant as a primary residence, where the extension of credit will be secured by the dwelling. The information to be collected regarding the applicant(s) will be:

- Ethnicity using the categories as outlined on the 1003
- Sex
- Marital status using the categories of married, unmarried and separated.
- Age

The applicant(s) will be asked, but not required, to provide this information. Should the applicant(s) decline to provide the information, or any part of it, the fact shall be noted on the application form. If the

application is taken face-to-face, the loan originator will notate the information on the application, to the extent possible, based on visual observation or surname.

3. Notification of Action Taken

MLS or its third party originator must notify a loan applicant of action taken within:

- 30 days after receiving a completed application concerning the creditor's approval of, counteroffer to, or adverse action on the application;
- 30 days after taking adverse action on an incomplete application;
- 30 days after notifying the applicant of a counteroffer if the applicant does not expressly accept or use the credit offered.

A dated notice of Action Taken will be included in the loan file. MLS's LOS system creates adverse action notices as modeled in connection with Regulation B.

4. Definitions of Actions

A. Withdrawn by Applicant

The applicant chose not to proceed with the mortgage application and the application has not been underwritten. For example, the application was taken and the applicant chose to go to another lender for lower fees. The loan may or may not have been run through an AUS to be considered withdrawn as long as the applicant's decision to withdraw was not based on any negative information.

MLS permits loan originators to update loan files to reflect a withdrawn status. An Adverse Action Notice is not required for withdrawn mortgage applications.

B. Denied

The applicant was not approved based on the terms and conditions they requested.

When completing the credit denial statement and choosing reasons for the denial the only selections chosen should be items that cannot be fixed, such as appraised value, or that the customer refuses to fix, such as payoff of collection account.

MLS requires an underwriter to issue all denials on credit transactions. Loan originators are not permitted to issue credit decisions.

C. Approved but not Accepted

The loan has been underwritten and approved based on the terms and conditions requested but the applicant chose not to proceed either by canceling the loan application or not providing required conditions shown on approval.

MLS utilizes the Underwriting Department to issue loan decisions on all credit transactions for which MLS is underwriting the file. Loan originators and processors are permitted to issue the Approved but not Accepted designation on credit transactions in which the applicant does not wish to continue following the approval from the assigned underwriter. An Adverse Action Notice is not required for mortgage applications that are approved but not accepted.

D. Closed for Incompleteness

The loan has not been underwritten and the applicant has been given written notice itemizing the information that still must be provided and the applicant has not responded in a reasonable time.

MLS issues a Notice of Incompleteness to request the documentation or information needed to make a credit decision. The purpose of this notice is to inform the applicant of the incompleteness of the application and the missing information with a request that it be provided within a reasonable period of time for the application to be considered further. MLS's policy is that this must be sent within 30 days of the receipt of an incomplete application.

The applicant will be given an additional 10 days to submit the missing documentation for the review of their application. If the applicant does not provide the missing information within this timeframe, the file is considered closed for incompleteness.

5. Second Review/Loan Denials

All loan applications that are underwritten and denied will go through a second review process to determine if there are other options for the applicant. These applications will be referred to the Underwriting Manager. Applicants will be notified of the final action taken on their application within 30 calendar days of receipt of a completed application.

6. Underwriting and Policy Exceptions

Underwriting guidelines are established through written policy and procedure in order to promote and ensure consistency throughout the lending process for all applicants. Any approval outside of the guidelines requires a thorough supervisory review and explanation of the variance. This explanation contains a specific and precise written non-discriminatory justification of the exception.

All mortgage loans must meet Agency and investor guidelines to be saleable in the secondary market.

Appraisals

MLS will provide a copy of any appraisal, AVM or any other documentation used to develop the value of the property being used as collateral on the loan request, no later than three business days prior to closing, for loans in which the appraisal order was processed through MLS.



Record Retention

MLS will maintain records as per Regulation B requirements and/or as required by state mandate. Records will be kept in a manner that will allow the timely retrieval of all appropriate information for examination or other allowable purposes.

Regulation B establishes a general 25-month record retention period for documentation pertaining to consumer credit accounts and 12 months for business credit. The record retention time period generally begins on the date that MLS provides notice of action taken or a notice that an application is incomplete.

Furnishing Credit Information Regarding Consumers

MLS determines applicant's creditworthiness by examining a credit history that has been compiled and maintained by one of the consumer credit reporting agencies from information supplied primarily by creditors. Regulation B establishes requirements that govern the method by which the information must be maintained and reported.

When MLS furnishes credit information to a consumer reporting agency, it must designate:

- Any new account to reflect the participation of both spouses if an applicant's spouse is permitted to use or is contractually liable on the account
- Any existing account to reflect the participation of both spouses within 90 days of receiving a written request to do so from one of the spouses

If MLS or its third party originator furnishes credit information to a consumer reporting agency regarding an account that is designated to reflect the participation of both spouses, it must furnish the information in a manner that will enable the agency to provide access to the information in the name of each spouse.

In addition, if MLS or its third party originator furnishes credit information in response to an inquiry concerning an account designated to reflect the participation of both spouses, it shall furnish the information in the name of the spouse about whom the information is requested.

Self-testing and Self-correction

A self-test, as defined in Regulation B, must meet two criteria. First, it must be a program, practice, or study that MLS and its third party originators design and use specifically to determine the extent or effectiveness of its compliance with ECOA and Regulation B. Second, the self-test must create data or factual information that is otherwise not available and cannot be derived from loan or application files or other records related to credit transactions.

If a self-test satisfies the foregoing criteria and is conducted voluntarily by MLS or its third party originator, the report or results of the self-test, data and factual information created by the self-test, and any analysis, opinions, and conclusions pertaining to the self-test reports or results are privileged against discovery or use by outside parties. Specifically, they are privileged against discovery or use by a government agency in the examination or investigation related to ECOA or Regulation B, and a government agency or an applicant in any legal proceeding involving an alleged violation of ECOA or Regulation B.

The privilege applies only if MLS or its third party originator has taken or is taking appropriate corrective action if the self-test shows that it is more likely than not that a violation occurred. In this context, appropriate action would be action that is reasonably likely to remedy the cause and effects of a likely violation by identifying the policies or practices that are the likely cause of the violation and assessing the extent and scope of any violation.

The privilege does not extend to information about whether a self-test was conducted, the methodology, scope, time period, or dates covered by the self-test, loan or application files or other business records related to credit transactions, and information derived from such files and records, even if aggregated, summarized, and reorganized.