

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 Z 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' operations. In accordance with MLS' policy, the Ability to Repay and Qualified Mortgages 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 Truth-In-Lending Act (TILA), in addition to requiring extensive consumer credit disclosures and credit advertising, also regulates higher priced mortgage loans (also known as "Section 35" loans). In response to events and mortgage lending practices leading up to the 2008 financial crisis or "Great Recession," the Federal Reserve Board of Governors adopted a requirement that creditors must assess a borrower's ability to repay for all Section 35 loan transactions starting October 2009.

In 2010, the Dodd-Frank Act amended TILA to add more comprehensive Ability-to-Repay requirements on all closed-end residential mortgage loans. Congress also established a presumption of compliance with the Ability-to-Repay requirements for a certain category of loans called Qualified Mortgages. The Consumer Financial Protection Bureau was assigned to create and implement final Ability-to-Repay Rules and give definition to Qualified Mortgage.

In January, 2013, the CFPB issued its final Ability-to-Repay and Qualified Mortgage Rule, a rule that applies to transactions for which MLS receives a mortgage application on or after January 10, 2014. CFPB made further amendments to the Rule in June and July, 2013.

The Rule describes the minimum standards MLS and its third party originators must use to make a reasonable, good faith determination before or when consummating a closed-end mortgage loan that the borrower(s) have the ability to repay the loan they are extended. The Rule specifies eight factors that must be considered in underwriting a consumer's ability to repay their mortgage and its Appendix Q, based on FHA underwriting guidelines, goes into great detail on how to underwrite each of the eight factors. The Rule also contains special requirements for creditors that are refinancing their own customers into more affordable loans in order to help them avoid payment shock.

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.



Underwriting

Underwriting maintains guidelines and credit policy for reviewing all loans, including the evaluation of whether a loan meets qualified mortgage requirements. In addition, the underwriter will still establish the borrower's ability to repay prior to giving the loan Clear-to-close (CTC) status. MLS follows FNMA/FHLMC/GNMA guidelines and investor overlays.

ATR Evaluation –Underwriting reviews the following 8 factors in determining ability to repay:

1. Current or reasonably expected income or assets;
2. Current employment status;
3. Monthly payment on the covered transaction;
4. Monthly payment on any simultaneous loan;
5. Monthly payment for mortgage-related obligations;
6. Current debt obligations, alimony, and child support;
7. Monthly debt-to-income ratio or residual income;
8. Credit history

MLS does not originate or purchase non-QM, interest only, balloon payment or negative amortization loan transactions.

Quality Control

The Quality Control process includes both pre-funding and closed loan audits. 10% of loans are audited by an internal QC underwriter prior to funding and 10% of loans are reviewed by an external auditing vendor.

Secondary Marketing

The determination of whether a loan is a qualified mortgage falls initially on secondary marketing when the loan is registered and priced. Loan Level Price Adjustments and net pricing is presented on a daily basis.

Changed Circumstances

If a borrower's ability to repay changes, based on updated and revised information, the loan will be re-evaluated to ensure the borrower is still able to maintain ability to repay.

Second Level of Review

As with all credit decisions, should the borrower be deemed ineligible or unable to repay the loan, the decision will be reviewed by a 2nd level credit review to examine if there are any reasonable alternatives to assist the borrower in obtaining financing.

QM Points and Fees Calculation

If the total points and fees exceed the maximum allowable points and fees, then the loan will not be a Qualified Mortgage. MLS will not originate or purchase a loan that is not a Qualified Mortgage. A loan that qualifies for an exemption, as defined below, is exempt from QM testing.

For a loan to be a QM, the points and fees may not exceed the points-and-fees caps listed below (2019 figures). The dollar amounts are adjusted annually. The points and fees caps are higher for smaller loans:



- 3% of the total loan amount for a loan greater than or equal to \$109,898;
- \$3,297 for a loan greater than or equal to \$65,939 but less than \$109,898;
- 5% of the total loan amount for a loan greater than or equal to \$21,980 but less than \$65,939;
- \$1,099 for a loan greater than or equal to \$13,737 but less than \$21,980; and
- 8% of the total loan amount for a loan less than \$13,737.

Exemptions to Passing QM Points and Fees Tests

The following loans are exempt from the QM points and fees test, however, they must pass the FNMA 5%:

- HELOCS, Timeshares, Bridge Loans, Construction/Construction to Perm and Reverse Mortgages
- State Housing Finance Agency Loans- This would include bond and grant programs sponsored by state housing finance agencies.
- Non-IRRRL VA Loans
- VA IRRRL Loans- Not all IRRRLs are eligible for the safe harbor designation. To receive safe harbor protection the loan must refinance a loan that is at least 6 months old and which has not been more than 30 days past due during the preceding six months. The recoupment for all fees and charges financed as part of the loan or paid at closing may not exceed 36 months. Even when an IRRRL does not meet safe harbor requirements the loan has rebuttable presumption that the loan met the ability-to-repay requirements. The rule also excludes IRRRLs from the CFPB's income verification requirements if points and fees do not exceed points and fees thresholds.
- Investment Property. Credit extended to purchase, improve, or maintain non-owner occupied investment property is "deemed" to be for business purpose. This means that residential mortgage loans to be secured by non-owner occupied investment property are exempt. However, if a borrower were to occupy the property for at least 14 days in one year, it would be deemed a second home and thus not a business purpose purchase and would be subject to the QM Rule.

Total Loan Amount Calculation

Please note that the total loan amount reference above is not the face value of the Note.

The total loan amount equals the “amount financed” on the Closing Disclosure minus any points and fees that are rolled into the loan amount.

Failing the QM Points and Fees Test

A non-exempt loan that does not pass the QM test will need to be restructured.

Restructuring Options/ Requirements	
Seller Credits	For purchase transactions with seller credits to be applied to certain finance charges or points and fees, comply with the following: A Purchase Agreement Addendum must be obtained that states that the seller will pay for a specific fee(s) and the amount(s) of that fee(s).
Reducing Fees	For a refinance or when no seller credits can be applied, it may be necessary to reduce origination charges, discount points or finance charges. All requests for reductions in fees need to be requested as a changed circumstance and approved by MLS. The change will be processed through the Secondary Marketing Department.

Included/Excluded in Points and Fees Test

Included	Excluded
<ul style="list-style-type: none"> • Fees charged by lender including origination and processing fees, non-bona fide discount points and LLPAs. • Fees retained by affiliates -This means for HOI policies bought through AAIC, we need to know what commission is retained on that premium and escrow amount that is being collected at closing. This commission must be included in the points and fees test. See Appendix A for detailed procedure. • Prepayment penalties incurred by the consumer if the consumer refinances with the current holder of the mortgage. • Single premium borrower paid upfront mortgage insurance premiums, from current private mortgage insurance companies <ul style="list-style-type: none"> ○ Current products offered by mortgage insurance companies do not meet refundability requirements for exclusion from points and fees testing outlined by the CFPB. • Premiums for credit insurance, credit property insurance, other life, accident, health or loss of income insurance where the creditor is beneficiary or debt cancellation or suspension coverage payments <ul style="list-style-type: none"> ○ Only include these types of insurance if the fee is payable at or before consummation. ○ Exclude premiums for life, accident, health or loss of income if the consumer, or another person designated by the consumer, is the sole beneficiary of the insurance. 	<ul style="list-style-type: none"> • Per Diem Interest; • FHA Upfront MIP and Annual insurance, VA Funding Fee, RD Guarantee Fees; • Private mortgage insurance paid after consummation (monthly); • Third Party Fees as long as they are reasonable, not paid to an affiliate and don't meet the points and fees definition. • Bona Fide Discount Points: <ul style="list-style-type: none"> ○ Up to 2 points if the interest rate w/o discount does not exceed the APOR by 1% ○ Up to 1 point if the interest rate w/o discount does not exceed the APOR by 2% <p>The undiscounted rate will be determined by the Secondary Marketing Department and entered into the LOS. The LOS will do the APOR comparison and the calculation</p> • Real estate-related fees only if: <ul style="list-style-type: none"> ○ The charge is reasonable ○ The creditor receives no direct or indirect compensation in connection with the charge ○ The charge is not paid to an affiliate of the creditor • Fees for title examination, abstract of title, title insurance, property survey, and similar purposes • Fees for preparing loan-related documents, such as deeds, mortgages, and re-conveyance or settlement documents • Notary and credit-report fees • Property appraisal fees or inspection fees to assess the value or condition of the property if the service is performed prior to consummation, including fees related to pest infestation or flood-hazard determinations • Amounts paid into escrow or trustee accounts that are not otherwise included in the finance charge (except amounts held for future payment of taxes) • Creditor paid charges except loan originator compensation paid by the creditor