

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 the Fair Credit Reporting Act 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 Fair Credit Reporting 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 Fair Credit Reporting Act regulates the consumer credit reporting and related industries to ensure that consumer information is reported in an accurate, timely, and complete manner to give individuals information when consumer reports are used to evaluate credit applications and to protect the confidentiality of information. The Fair and Accurate Credit Transaction Act (FACT Act) amends the FCRA, establishing numerous requirements that provide protection for the victims of identity theft, provide more information to consumers about credit reports and credit scoring, limits sharing of information with affiliates, and protects consumer medical and other information.

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.

Summary of the Regulation

The Fair Credit Reporting Act (FCRA) requires consumer reporting agencies to adopt reasonable procedures for handling consumer information in a manner which is fair and equitable to the consumer with regard to the confidentiality, accuracy, relevancy, and proper utilization of consumer reports. It also imposes certain duties on MLS and its third party originators as users of consumer reports and furnisher of credit information to consumer reporting agencies.

The Fair and Accurate Credit Transactions Act (FACTA or FACT Act) amended FCRA and was established to serve the following purposes:

- Enhance the ability of consumers to combat identity theft
- Increase the accuracy of consumer reports
- Allow consumers to exercise greater control regarding the type and amount of marketing solicitations they receive

FACTA has been fully integrated into FCRA.

Other significant amendments to FCRA and FACTA came with the Dodd-Frank Act including:

- The transfer of regulatory authority to the Consumer Financial Protection Bureau;
- Compliance requirements extended to persons who use consumer reports from CRAs, persons who furnish information to CRAs, and users of information provided by CRAs; and
- Guidelines for model disclosures provided to consumers.

Duties of Users Regarding Obtaining and Using Consumer Reports

Congress has limited the use of consumer reports to protect consumer privacy. MLS and its third party originators must have a permissible purpose under the FCRA to obtain a consumer report. The following are the permissible purposes for obtaining a consumer report under the law:

- As ordered by a court or a Federal grand jury subpoena.
- As instructed by the borrower in writing.
- For the extension of credit as a result of an application from a borrower, or the review or collection of a borrower's account.
- For employment purposes, including hiring and promotion decisions, where the borrower has given written permission.
- For the underwriting of insurance as a result of an application from a borrower.
- When there is a legitimate business need, in connection with a business transaction that is initiated by the borrower.
- To review a borrower's account to determine whether the borrower continues to meet the terms of the account.
- To determine a borrower's eligibility for a license or other benefit granted by a governmental instrumentality required by law to consider a borrower's financial responsibility or status.
- For use by a potential investor or servicer, or current insurer, in a valuation or assessment of the credit or prepayment risks associated with an existing credit obligation.
- For use by state and local officials in connection with the determination of child support payments, or modifications and enforcement thereof.
- For the purpose of making prescreened, unsolicited offers of credit or insurance.

MLS and its third party originators shall obtain a consumer report only under circumstances permitted by the FCRA. These could include:

- In connection with a credit transaction involving the consumer;
- For employment purposes (with the appropriate separate consent);
- In connection with the underwriting of insurance involving the consumer;
- When MLS and its third party originators otherwise have a legitimate business need for the report in connection with a business transaction initiated by the consumer;
- In order to review a credit account to determine whether the consumer continues to meet the terms of the account;
- As a potential investor or servicer, in connection with a valuation of, or assessment of the credit or prepayment risks associated with, an existing credit obligation.

No employee of MLS or its third party originators shall procure a consumer report on any borrower for any purpose other than business.

MLS uses Kroll Factual Data to pull credit report information on its borrowers. Kroll Factual Data automatically sends out the required disclosure to the borrower once the credit report has been pulled by MLS.

Prescreened Offers of Credit or Insurance

MLS and its third party originators shall make any prescreened offers of credit or insurance to borrowers only in accordance with the provisions of the FCRA. Specifically, MLS and its third party originators shall make such offers conditioned only upon the borrower continuing to meet the standards MLS and its third party originators provided to the consumer reporting agency to generate the prescreened list. Further, MLS and its third party originators shall provide the disclosure required in prescreened list solicitations concerning meeting the prescreening criteria and the borrower's ability to opt out of future prescreened lists.

Disclosure of Contents of Consumer Report

No one connected with MLS and its third party originators shall disclose anything from a consumer report MLS and its third party originators have procured or otherwise has in its custody except as permitted or required by law.

Disclosure of Credit Scores

Whenever MLS and its third party originators obtain or generate a credit score during the processing of an application from a borrower for a loan secured by a one-to-four unit residential real property, whether open- or closed-end, and whether secured by a first or junior lien, MLS and its third party originators shall provide each borrower whose credit score was obtained a credit score notice along with a consumer credit score statement including the following:

- The current credit score of the borrower calculated by the credit reporting agency for a purpose related to the extension of credit;
- The range of possible scores under the scoring model;
- All of the key factors, up to a maximum of four, that adversely affected the borrower's score (and if the number of inquiries is one of the factors, then the maximum becomes five);
- The date the credit score was created;
- The name of the entity that provided the score; and
- The statutorily prescribed "Notice to Home Loan Applicant."

A separate Credit Score Notice will be provided to each applicant within 5 business days of receipt of the credit score.

The Credit Score Notice will be included on the mortgage loan document checklist and Home Equity Line of Credit checklist. A loan cannot be closed and funded unless the Notice to Home Loan Applicant and the Credit Score Notice have been provided to the customer, as noted on the checklist.

The Notice to Home Loan Applicant will be provided to at least one borrower for a consumer purpose loan that is secured by one-to-four unit residential real property, both open-end and closed-end loans. The notice will be provided at the time of application for face-to-face applications and within 3 business days, for applications received through the mail, Internet or by phone.

Reporting Negative Information

MLS and its third party originators shall give each borrower a notice regarding furnishing of negative information to credit bureaus. This notice shall be provided on late notices to those consumer loans that become delinquent. MLS will not include that disclosure with mailings to any persons it is forbidden by law to send collection communications, such as by the automatic stay in bankruptcy.

Duties of Furnishers of Information

MLS furnishes information to a consumer reporting agency on its loans. MLS discloses this information at the time of loan closing by providing to the borrower the FACT Act Notice. This form is built into the closing documentation software in MLS' Loan Origination System (LOS), and contains the following information:
"We may report information about your account to credit bureaus. Late payments, missed payments, or other defaults on your account may be reflected in your credit report."

Third party originators issuing their own closing packages must provide this disclosure in the package issued to the borrower(s) at closing and provide a copy with the fully executed closing package.

Less Favorable Terms Based on Credit Score

If MLS and its third party originators: (1) grants credit to a borrower on terms that are materially less favorable than the most favorable terms available from or through it to a substantial proportion of borrowers (as those terms may be defined by regulations to come); and (2) does not provide the traditional FCRA adverse action notice to that borrower; then MLS and its third party originators shall provide a notice to that borrower as required by whatever regulations the agencies promulgate in the future.

Duties of Users Regarding Risk-Based Pricing

1. Risk-Based Pricing Notice

At times, MLS will use the borrower's credit score when determining an interest rate for a loan. When the credit score is used to determine an interest rate, the borrower must receive a Risk Based Pricing Notice. Below is a list of the forms that are to be mailed out. These forms are automatically mailed out from the Vendor at the time the credit report is run:

- H-1 Model form for risk-based pricing notice.
- H-2 Model form for account review risk-based pricing notice.
- H-3 Model form for credit score disclosure exception for credit secured by one to four units of residential real property.
- H-4 Model form for credit score disclosure exception for loans not secured by residential real property.
- H-5 Model form for credit score disclosure exception for loans where credit score is not available.
- H-6 Model form for risk-based pricing notice with credit score information.

- H-7 Model form for account review risk-based pricing notice with credit score information.

Each of the model forms is designated for use in a particular set of circumstances as indicated by the title of that model form. Model form H-3 is for real-estate-secured loans, and model form H-4 is for non-real-estate-secured loans. A sample of form H-3 is included at the end of this procedure.

2. Timing of Disclosure

The timing requirements for the risk-based pricing notices vary with the type of credit product and notice:

- Closed-end credit: before consummation, but not before credit approval is communicated to the borrower.
- Open-end credit: before the first transaction is made under the plan, but not before credit approval is communicated to the borrower.
- Account review: when the decision to increase the annual percentage rate (APR) is communicated to the borrower, if advance notice of an APR increase is required to be given to the borrower. If advance notice of the increase in the APR is not required, no later than five days after the effective date of the change in the APR.

A. Credit Score Exception Notices

If MLS and its third party originators choose to provide an exception notice instead of a risk-based pricing notice, the exception notice must be provided to the borrower as soon as reasonably practicable after requesting the borrower's credit score but not later than consummation for closed-end credit or when the first transaction is made for open-end credit.

B. No Credit Score Notice

When a borrower does not have a credit score (for example, because of insufficient credit history), the “no credit score” notice must be provided as soon as reasonably practicable after MLS and its third party originators have requested the credit score, but not later than consummation for closed-end credit or when the first transaction is made for an open-end credit plan.

3. When a Risk-Based Pricing Notice is Not Required

If an application is denied and an adverse action notice is provided, a risk-based pricing or exception notice is not required.

Use of Medical Information in Credit Decisions

Except as permitted by regulations, MLS will not obtain or use medical information on any borrower in connection with any determination of the borrower's eligibility, or continued eligibility, for credit.

Medical information does not include:

- The age or gender of a borrower;
- Demographic information about the borrower, including the borrower's residence address or email address;



- Any other information about a borrower that does not relate to the physical, mental, or behavioral health or condition of a borrower, including the existence or value of any insurance policy;
- Information that does not identify a specific borrower.

Eligibility, or continued eligibility, for credit is the borrower's qualification or fitness to receive, or continue to receive, credit, including the terms on which credit is offered. The term does not include:

- Any determination of the consumer's qualification or fitness for employment, insurance (other than a credit insurance policy), or other non-credit products or services;
- Authorizing, processing, or documenting a payment or transaction on behalf of the consumer in a manner that does not involve a determination of the consumer's eligibility, or continued eligibility, for credit; or
- Maintaining or servicing the consumer's account in a manner that does not involve a determination of the consumer's eligibility, or continued eligibility, for credit.

The FCRA outlines specific exceptions for obtaining and using medical information. In general, MLS and its third party originators may obtain and use medical information pertaining to a borrower in connection with any determination of the borrower's eligibility, or continued eligibility, for credit in the following circumstances:

- To determine whether the use of a power of attorney or legal representative that is triggered by a medical event or condition is necessary and appropriate or whether the consumer has the legal capacity to contract when a person seeks to exercise a power of attorney or act as legal representative for a consumer based on an asserted medical event or condition;
- To comply with applicable requirements of local, state, or Federal laws;
- To determine, at the consumer's request, whether the consumer qualifies for a legally permissible special credit program or credit-related assistance program that is—
 - Designed to meet the special needs of consumers with medical conditions; and
 - Established and administered pursuant to a written plan that—
 - Identifies the class of persons that the program is designed to benefit; and
 - Sets forth the procedures and standards for extending credit or providing other credit-related assistance under the program.
- To the extent necessary for purposes of fraud prevention or detection;
- In the case of credit for the purpose of financing medical products or services, to determine and verify the medical purpose of a loan and the use of proceeds;
- Consistent with safe and sound practices, if the consumer or the consumer's legal representative specifically requests that the creditor use medical information in determining the consumer's eligibility, or continued eligibility, for credit, to accommodate the consumer's particular circumstances, and such request is documented by the creditor;
- To determine the consumer's eligibility for, the triggering of, or the reactivation of a debt cancellation contract or debt suspension agreement if a medical condition or event is a triggering event for the provision of benefits under the contract or agreement; or

- To determine the consumer's eligibility for, the triggering of, or the reactivation of a credit insurance product if a medical condition or event is a triggering event for the provision of benefits under the product.

MLS will not ask for medical information from any borrower in connection with any determination of the borrower's eligibility, or continued eligibility, for credit. When medical information is supplied to MLS via a voluntary statement from the borrower or credit report, MLS will only use medical information to determine the borrower's eligibility, or continued eligibility, for credit so long as:

- The information relates to debts, expenses, income, benefits, collateral, or the purpose of the loan, including the use of proceeds;
- MLS does not use the medical information in a manner and to an extent that is no less favorable than if it would use comparable information that is not medical information in a credit transaction; and
- MLS does not take the borrower's physical, mental, or behavioral health, condition or history, type of treatment, or prognosis into account as part of any such determination.
- Authorize, process, or document a payment or transaction on behalf of the borrower in a manner that does not involve a determination of the borrower's eligibility, or continued eligibility, for credit; or
- Maintain or service the borrower's account in a manner that does not involve a determination of the borrower's eligibility, or continued eligibility, for credit.

Adverse Action Notices

The FCRA definition of adverse action, as outlined above, not only specifically includes the ECOA definition but also covers certain noncredit, consumer-initiated transactions and applications, including consumer applications for insurance, employment, a rental, and a government license or benefit. Note, however, that the FCRA only applies to consumer transactions, so adverse action notices are not required under the FCRA for business transactions.

For a covered transaction, MLS and its third party originators must provide an adverse action notice if:

- Adverse action was taken based in whole or in part on information in a consumer report;
- Borrower credit is denied or a charge for credit increased based on information obtained from third parties other than consumer reporting agencies bearing upon the borrower's creditworthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living; or
- Adverse action was taken based on information furnished by a corporate affiliate of MLS and its third party originators.

An adverse action notice based on information in a consumer report must include the following disclosures:

- Notice that adverse action was taken based on information obtained from a consumer reporting agency;
- The consumer's right to:
 - Obtain a free copy of his or her consumer report from the consumer reporting agency providing the information if requested within 60 days

- To dispute the accuracy or completeness of any information in a consumer report furnished by the consumer reporting agency
- The name, address, and telephone number of the consumer reporting agency that furnished the report to the person;
- A statement that the consumer reporting agency did not make the credit decision and is unable to provide to the consumer the specific reasons why the adverse action was taken; and
- Credit score disclosures if the credit score was a factor in taking adverse action.

When consumer credit is denied or a charge for the credit is increased based on information obtained from third parties other than consumer reporting agencies, the adverse action notice must include the following disclosures:

- The borrower's right to request the information that was relied on in taking adverse action within 60 days of receipt of the adverse action notice; the information must be provided to the borrower within a reasonable period of time.

When MLS and its third party originators are taking adverse action based on information obtained from an affiliate, the adverse action notice must include the following disclosures:

- Notice that adverse action was taken based on information from an affiliate and the borrower's right to obtain the information by sending a written request within 60 days after receipt of the adverse action notice; the information must be provided within 30 days after receiving the request.

The FCRA requires that an Adverse Action Notice be mailed to each co-applicant, proposed co-guarantor or similar party in the particular transaction whose credit report was used in the decision to deny the loan. MLS and its third party originators shall provide appropriate notices of adverse action to all borrowers who are entitled to them under the FCRA.

Responsibilities of Furnishers of Information

The Federal banking agencies are required to:

- Establish and maintain guidelines for use by each person that furnishes information to a CRA regarding the accuracy and integrity of the information relating to borrowers that such entities furnish to CRAs, and update such guidelines as often as necessary; and
- Prescribe regulations requiring each person that furnishes information to a CRA to establish reasonable policies and procedures for implementing the established guidelines.

It is a prohibited practice for MLS and its third party originators to furnish information relating to a consumer to any CRA if MLS and its third party originators:

- Knows or has reasonable cause to believe that the information is inaccurate; or
- Has been notified by the borrower, at the address specified by the person for such notices, that specific information is inaccurate, and the information is, in fact, inaccurate.

Reasonable cause to believe that the information is inaccurate means having specific knowledge, other than solely allegations by the borrower, which would cause a reasonable person to have substantial doubts about

the accuracy of the information.

MLS will taking the following steps to provide accurate information to the CRAs:

- MLS will not furnish information relating to a borrower when MLS and its third party originators know or have reasonable cause to believe that the information is incorrect.
- Upon notice and investigation of an inaccuracy, MLS will no longer furnish that inaccurate information to the CRA.
- MLS will promptly notify the CRA, thru E-OSCAR, of any corrections to the information being reported on a borrower.
- MLS will notify the CRA no later than 90 days after furnishing information regarding a delinquent account being placed for collection, charged to profit or loss or subject to any similar action, the date of delinquency on the account.
- MLS will utilize E-OSCAR for notification of blocked accounts as a result of identity theft and will discontinue the reporting of that information.
- MLS will act upon any notification of dispute by a borrower with the same due diligence as notifications received via E-OSCAR.

Responsibilities Regarding Disputes

A borrower can dispute the accuracy of credit information either through a CRA or directly with the furnisher at the address specified for such notices. When a borrower places a dispute directly with MLS, the information will be forwarded directly to the Operations Manager. The dispute notice must:

- Be in writing
- Identify the specific information that is being disputed;
- Explain the basis for the dispute; and
- Include all supporting documentation required by MLS to substantiate the basis of the dispute.

Within 5 business days, the Operations Manager will:

- Conduct an investigation with respect to the disputed information;
- Review all relevant information provided by the borrower with the notice;
- Complete the investigation of the dispute and report the results of the investigation to the borrower before the end of a 30 day period that begins upon receipt of the notice; and
- If the investigation finds that the information reported was inaccurate, promptly notify each CRA to which MLS furnished the inaccurate information and provide the CRA any correction that is necessary to make the information accurate, using the E-OSCAR system.

The Operations Manager is not required to follow the above steps if it is determined that the dispute is frivolous or irrelevant, including:

- When the borrower fails to provide sufficient information to investigate the disputed information; or
- The dispute is substantially the same as a dispute previously submitted.

No later than 5 business days after making a determination that a dispute is frivolous or irrelevant, the Operations Manager will provide a notice to the borrower by mail including:



- The reasons for the determination; and
- Identification of any information required to investigate the disputed information.

Fraud Alerts and Active Duty Alerts

The FACT Act establishes three types of fraud alerts:

- Initial Fraud Alert
- Extended Fraud Alert
- Active Duty Alert

An initial (90-day) fraud alert indicates to MLS and its third party originators when a credit report is obtained that the borrower suspects they are or might become a victim of fraud. When the borrower attempts to open a credit account in their name, increase the credit limit on an existing account, or obtain a new card on an existing account, MLS must utilize reasonable policies and procedures to verify the identity of the borrower.

An extended fraud alert is similar to an initial fraud alert except that it lasts for 7 years and to verify a request from a borrower, MLS must contact the borrower via the telephone number or other reasonable contact method provided to Equifax when the extended fraud alert was requested. An identity theft report showing that the borrower has been a victim of identity theft is required to place an extended fraud alert. Also, the borrower's name is removed from preapproved firm offers of credit or insurance for 5 years.

An active duty alert is an alert for borrowers that are on active military duty. The active duty alert is similar to an initial fraud alert except that it lasts 12 months and the borrower's name is removed from preapproved firm offers of credit or insurance for 2 years.

Red Flags/Identity Theft Program

The Board of Directors, having approved the Red Flags and Identity Theft Program, have assigned responsibility for implementation, oversight and continued administration of the Program to the Senior BSA Officer. This Officer shall periodically review the Program and approve changes as warranted to address changing identity theft risks.

Address Discrepancies

If MLS and its third party originators have requested a consumer report relating to a borrower from a CRA and the request includes an address that substantially differs from the addresses in the file of the borrower and the agency provides a consumer report in response to the request, then the CRA must notify MLS and its third party originators of the existence of the discrepancy.

When a notice of address discrepancy is received from a CRA, enhanced CIP procedures will be followed by the loan processor and the correct address will be ascertained. The borrower's identity will be verified a second time and additional proof of identification will be obtained. The second verification will be noted in the borrower's file.

Affiliate Marketing

The FCRA permits the sharing of:

- Transaction and experience information amount affiliates;
- Other information (beyond transaction and experience information) among affiliates, if the borrower is given notice and the opportunity to opt out of the sharing and the borrower does not elect to opt out.

The FACT Act expands affiliate rules to include provisions governing marketing solicitations. Any eligibility information received from an affiliate may not be used to make a solicitation for marketing purposes to a borrower about its products or services unless:

- It is clearly and conspicuously disclosed to the borrower that the information may be communicated among affiliates for purposes or making such solicitations to the borrower; and
- The borrower is provided an opportunity and a simple method to opt out.

The FACT Act excludes the sharing of the following information with an affiliate:

- Medical Information
- An individualized list or description based on the payment transactions of a borrower for medical products or services; or
- An aggregate list of identified borrowers based on payment transactions for medical products or services.

MLS only shares borrower information pertinent to maintenance of their accounts, such as to process transactions, respond to court orders and legal investigations, or to report to credit bureaus. The borrower does not have the option to limit this sharing.

MLS does not share information for marketing purposes or for any other business purpose and thus is not required to offer an “Opt-Out” provision.

Penalties for Noncompliance

Failure to comply with the FCRA can result in state or Federal government enforcement actions as well as private lawsuits. In addition, any person who knowingly and willfully obtains a consumer report under false pretenses may face criminal prosecution.