ABILITY TO REPAY AND QUALIFIED MORTGAGES POLICY MANUAL

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ABILITY TO REPAY (ATR) AND QUALIFIED MORTGAGE (QM) DEFINED

Overview

The ATR and QM rules require that THE COMPANY make a reasonable, good faith determination before or when consummating a mortgage loan that a borrower has a reasonable ability to repay the loan. THE COMPANY will consider important factors, such as:

- The borrower's credit history and
- The borrower's income and/or assets and employment status against:
  - The mortgage loan payment
  - Ongoing expenses related to the mortgage loan or the property that secures it, such as property taxes and required insurances
  - Payments on simultaneous loans that are secured by the same property and
  - Other debt obligations, alimony, and child-support payments

The ATR rule provides a presumption that you have complied with the ATR rule if you originate a Qualified Mortgage.

A Qualified Mortgage is a loan that

- does not contain risky features such as allowing interest-only payments or negative amortization
- limits points and fees
- meets specific underwriting criteria

This manual is designed to provide underwriting guidance for determining a borrower's ability to repay, depending upon the different methods described in the ATR rule. It also gives guidance for THE COMPANY's portfolio lending and General QMs (which are described in this manual).

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Applicable and Exempt Transactions

The ATR/QM rule applies to almost all closed-end consumer credit transactions (used primarily for personal, family or household purposes) secured by a dwelling, including any real property attached to the dwelling. This means loans made to borrowers and secured by residential structures that contain one to four units, including condominiums and co-ops. The ATR/QM rule is not limited to first liens or to loans on primary residences.

The ATR/QM rules do not apply to:

- Business loans or investor loans
- Open end credit plans (HELOCs)
- Time share plans
- Reverse Mortgages
- Temporary or bridge loans with terms of 12 months or less (with possible renewal)
- A construction phase of 12 months or less (with possible renewal) of a construction-to permanent loan.
- Consumer credit transactions secured by vacant land or agricultural property without a dwelling.
- Loan modifications that are not considered a refinancing under Regulation Z

In defined circumstances, an exemption from the ability-to-repay rules may apply for a refinance of a riskier mortgage to a more stable mortgage. An example of a risky loan could be an interest-only or negative amortization loan. An example of a more stable mortgage could be a fixed-rate mortgage.

The ATR/QM rule does not apply to the following types of creditors and their loan programs:

Extensions of credit made by creditors designated by the U.S. Department of the Treasury as Community Development Financial Institutions and creditors designated by HUD as either a Community Housing Development Organization or a Down payment Assistance Provider of Secondary Financing are exempt from the ATR requirements, under certain conditions.

Extensions of credit made by creditors designated as nonprofit organizations under section 501(c)(3) of the Internal Revenue Code of 1986 that extend credit no more than 200 times annually, provide credit only to low-to-moderate income consumers, and follow their own written procedures to determine that consumers have a reasonable ability to repay their loans are also generally exempt from the ATR requirements. Note that some subordinate liens are not counted towards the 200-credit extension limit.

Extensions of credit made by housing finance agencies directly to consumers, as well as