



## PA Ability to Repay

### Policy and Procedures

---

Mid-Island Mortgage Corp. ("MIM") will not extend a mortgage loan to a borrower, unless it determines that at the time the loan is made, the borrower will have the ability to make the scheduled payments associated with it.

The determination of the borrower's ability to pay will be determined by the following:

1. The following documentation (but not limited to) will be considered in the determination of a borrower's ability to repay an offered loan:
  - a. The borrower's income, including statements submitted by or on behalf of the borrower in the loan application, except that we may not disregard facts and circumstances that indicate that the income statements submitted by or on behalf of the borrower are inaccurate or incomplete.
  - b. The borrower's credit history;
  - c. The borrower's current obligations, including other secured and unsecured debts;
  - d. The borrower's employment status;
  - e. The debt-to income ratio of the borrower's monthly gross income, including the borrower's total monthly housing-related payments, all principal, interest, taxes and insurance; and
  - f. The borrower's other available financial resources, excluding the borrower's equity in the principal dwelling that secures or would secure the offered mortgage loan. We may also use income not being used to qualify for the loan but would indicate a reasonable ability to repay.
2. The following types of loans will be presumed to have the ability to repay an offered loan:
  - a. Insured by the Federal Housing Administration
  - b. Guaranteed by the United States Department of Veterans Affairs
  - c. Originated or approved for purchase by the Pennsylvania Housing Agency



## PA Ability to Repay

### Policy and Procedures

---

- d. Is the subject of a written finding by a United States Department of Housing and Urban Development approved counseling agency that there is a reasonable expectation that the borrower would be able to repay the offered loan.
3. MIM will not rely primarily on the sale or refinance of the collateral in determining the borrower's ability to repay the offered loan.
  4. The calculation used in evaluating the borrower's ability to repay the offered mortgage loan will include:
    - a. The monthly payment amounts based on, at a minimum, the fully indexed rate, assuming a fully amortizing payment schedule;
    - b. The documentation and verification of income by:
      - i. Review of a borrower's tax returns, payroll receipts, or records of accounts from a borrower's financial institution, or reasonable third party verification thereof, in determining the borrower's ability to make the scheduled payments associated with the offered mortgage loans; or
      - ii. Review of reasonable alternatives to the borrower's tax returns, payroll receipts or records of accounts from a borrower's financial institution, or reasonable third party verification thereof, in determining a borrower's ability to make the scheduled payment associated with the offered loan.

"Reasonable alternatives" include, but are not limited to, statements from investment advisors, broker-dealers and others in a fiduciary relationship with the borrower; "Reasonable third party verification" and "reasonable alternatives" must reflect the borrower's actual income. A statement that provides only estimated, projected, anticipated, or a range of, earnings for a borrower's type or class of employment is not a reasonable third party verification of, or reasonable alternative to other evidence of, the borrower's ability to make the scheduled payments associated with the mortgage loan; and



## PA Ability to Repay

### Policy and Procedures

---

- iii. For products that permit negative amortization, a repayment analysis based upon the initial loan amount plus any balance increase that may accrue from the negative amortization provision.
5. For balloon payment loans, MIM:
  - a. May consider the sale or refinance of the applicant's collateral in determining the borrower's ability to pay the balloon payment.
  - b. Will base the fully amortized payment schedule on the full term the borrower chooses when calculating the amortization period for a loan containing a borrower option for an extended amortization period.
  - c. Shall consider the due date of the balloon payment and determine if the borrower will have sufficient equity in the property to make the balloon payment through the sale or refinance of the property.
6. Material changes – if a material change is determined to have occurred after the analysis has been performed, the loan will be reanalyzed. If it determined that the borrower no longer has the ability to repay, the loan will be reviewed by Senior Management.
7. Reverse Mortgages- the ability to pay analysis is not applicable for reverse mortgages.
8. All documentation used in the determination in the borrower's ability to repay will be maintained in the file for as long as the file is required to be held per state and federal law.
9. Prior to the final determination of inability to pay, the loan will be reviewed by Senior Management before a denial letter will be sent to the borrower.
10. For all loans that have been determined there is not an ability to repay the loan, all reasonable efforts will be made to help the borrower.
11. If it is determined that the borrower has not demonstrated an ability to repay the loan, Mid-Island Mortgage will not close the loan.