

The Company

QUALITY CONTROL PLAN

I. PURPOSE

The purpose of the Quality Control Plan of The Company (the “Company”) is to evaluate and monitor the overall quality of mortgage loan production for all types of loans, both conventional and government. The overriding controls of Quality Control are: to assure compliance with FHA’s and the Company’s own origination requirements throughout its operations; to protect the Company and FHA from unacceptable risk; to guard against errors, omissions and fraud; and to assure swift and appropriate corrective action. This Quality Control Plan is designed to be in compliance with Chapter 7 of HUD Handbook 4060.1.

The Company will maintain manuals, which set forth the Company policy relative to all facets of the Company’s mortgage business. This includes, but is not limited to, all HUD notices and guidelines as they relate to HUD processing. HUD manuals will also be maintained as designated in HUD Handbook 4060.1.

II. PROGRAM INTEGRITY

The quality control monitoring and review function will be performed by designated personnel who do not perform the processing or loan origination functions. This review shall be performed on a monthly basis on files which have closed within the last 30 days.

Records of reviews are to be maintained for a minimum of two years. Quality control review findings will be communicated to the appropriate production staff and actions taken to correct any deficiencies which are noted. Notification to investors and/or correspondents of problems and corrective actions taken will be made as appropriate.

III. PROCEDURES

Ensure that no participants in the mortgage transaction (excluding the seller of a principal residence) has been debarred or suspended, or is under an LDP for the program and jurisdiction. The Company will periodically check employee list, at least semi-annually.

The Company will ensure that the mortgage applicant is not ineligible due to a delinquent federal debt.

Loans to receive review will be selected by random sample. The sample will be 10% of all FHA loans closed by the Company. Discretionary or problem reviews will be in addition to the random sample. Review will include reverification of deposits (when needed), employment, and gifts, and a new credit report from a different reporting agency. These new exhibits will be in addition to the following review of existing exhibits relative to the analysis of mortgagor. The procedures will be revised periodically to reflect changes in FHA requirements. Employees responsible for the completion of the functions tested should be identified and failures or errors noted in this report.

EARLY PAYMENT DEFAULT

In addition to the loans selected for routine quality control reviews, mortgagees must review all loans going into default within the first six payments. As defined here, early payment defaults are loans that become 60 days past due.

HOME MORTGAGE DISCLOSURE ACT REPORTING

Verify that the Company is in compliance with HMDA reporting requirements and HUD's requirements for reporting FHA-insured mortgages. Ensure that the reports are filed timely, that the information being reported is accurate and the information is being reported correctly.

PROCESSING

1. Ensure the processing of the file was performed by an authorized Company employee or an Authorized agent.
2. Review the GFE and TIL and compare with the application date to ensure compliance with RESPA.

ANALYSIS OF MORTGAGOR

For all files that have alternative documentation, other than that listed below, note the type of alternative documentation and determine the most efficient way to reverify the data.

1. Determine that a factual data credit report (in compliance with the credit report standards described in HUD Handbook 4155.1 as revised) has been obtained on all borrowers who will be responsible for the repayment of the mortgage.
2. Make sure the credit report:
 - a. Identifies the subjects of the report.
 - b. Lists all accounts by name, location, and account number.
 - c. Lists employment for minimum of last two years.
 - d. Gives subject's current address and prior addresses for a minimum of two years.
 - e. Includes any pertinent information that contributes to a complete credit history of the borrower or borrowers.
3. Ascertain that derogatory credit information is investigated and explained.
4. If more than one credit report was ordered, then ensure all were submitted with the package to HUD/FHA or the Direct Endorsement Underwriter.
5. Review verifications of income and deposit to:
 - a. Ascertain that VOEs cover a two-year period.
 - b. Assure that applicants' signatures compare on VOEs, VODs, applications, and elsewhere in the file.
 - c. Confirm by checking dates sent and dates received that VOEs and VODs were mailed and did not pass through the hands of the applicant or any other third party.
 - d. Ascertain that recent large deposits and/or derogatory information on the VODs are explained by the borrower.
6. Review deposit receipt and/or preliminary title report to make sure all information regarding purchase or refinance transactions are properly reported on the application.
7. Review accuracy of processing calculations on the application and on any worksheets.
8. Review borrower rating to assure it is consistent with the Company and investor guidelines.
9. If relevant documents were signed in blank by the mortgagor or the Company employee, ensure that all documents were initialed by mortgagor/employee.

10. Ensure that the preliminary loan application lists each outstanding debt & asset and was used to qualify the mortgagor and that the information is consistent with the final application and all credit documents.
11. Ensure any outstanding judgments on the Credit Report were on the HUD 92900, Mortgage Credit Analysis Worksheet (MCAW), and acceptably explained in accompanying documentation.
12. Determine whether the loan file contains pertinent documentation of the mortgagor's source of funds for the required investment, the acceptability of that source, and that any obligation to repay the funds is included on the MCAW. This is especially important in cases where the source was other than the applicant's accounts at a financial institution.
13. Ensure if mortgagor is self employed, the file has a financial statement, tax return and business credit report.
14. Ensure if there is a gift letter, it has the relationship of donor and no repayment and funds are deposited into mortgagor's account.
15. Ensure the HUD-1 is accurately prepared and properly certified. Assure that only FHA allowable fees and charges were paid by the mortgagor. The HUD-1 should be compared with other relevant loan documents to determine whether the mortgagor made the required minimum investment and whether any credits resulted in over-insured mortgages.
16. Determine whether the seller acquired the property at the time of or soon before closing, indicating a possible property "flip".
17. If possible, determine whether the mortgagor transferred the property at the time of closing or soon after closing, indicating the possible use of a "straw buyer" in the transaction.
18. Ensure all conflicting information is resolved and properly documented in writing prior to submission of the loan to underwriting.
19. Determine whether there are sufficient and documented compensating factors if debt ratios exceed FHA limits.
20. Determine the accuracy and completeness of underwriting conclusions and mortgagee documentation.
21. Ensure the completed Underwriter's Mortgage Credit Analysis Worksheet, HUD 92900WS is retained in the file.
22. Determine all conditions were cleared prior to closing.
23. Determine whether the loan file contains all required loan processing, underwriting and legal documents.
24. Determine whether the loan was submitted for insurance within 60 days of closing or included a payment history showing the loan was current when it was submitted for mortgage insurance.
25. Analyze the overage obtained on the file and ensure compliance with the Company guidelines.
26. Determine whether all items requiring documentation have been properly evidenced and retained in the file.

APPRAISAL REVIEW

1. Review all sections of the appraisal form and determine if they have been properly completed.
2. Determine that any title exceptions such as easements or encroachments disclosed in the title policy are considered by the appraiser.
3. Determine that flood insurance has been obtained if the property is located in a designated flood zone.
4. Determine that the estimate of value is properly supported by appropriate and timely cost, rental, and comparable sales data.

5. Review the appraiser's remarks to assure appropriate requirements were called for to effect needed repairs and eliminate deficiencies and that they meet minimum safety and soundness requirements.

SITE REVIEW

The Company's offices, including traditional, nontraditional branch and direct lending offices engaged in origination or servicing of FHA-insured loans, must be reviewed to determine that they are in compliance with HUD's requirements. The review should be performed by qualified personnel not involved in the day-to-day processes they are reviewing or by an outside firm.

Annual visits are required for offices meeting certain high risk criteria such as high early default rates, new branches or new key personnel, sudden increases in volume, and past problems. Other sites must be reviewed to assure compliance with FHA requirements at a frequency and in a manner determined appropriate by the Company. The criteria used by the mortgagee to determine the frequency of on-site reviews must be in writing and available for review by HUD at the corporate office and any branch office that is not being reviewed annually.

The review must include confirmation of the following:

1. The office is properly registered with FHA and the address is current;
2. Operations are conducted in a professional, business-like environment;
3. If located in a commercial space, the office is properly and clearly identified for any walk-in customers; has adequate office space and equipment; is in a location conducive to mortgage lending; and is separated from any other entity by walls or partitions (entrances and reception areas may be shared);
4. If located in noncommercial space, the office has adequate office space and equipment; displays fair housing poster if public is received; if it is open to receive the public, it must be accessible to persons with disabilities, including those with mobility impairments; if it is not open to the public, but used occasionally to meet with members of the public, alternate means of accommodations may be used to service persons with disabilities;
5. The servicing office provides toll-free lines or accepts collect calls from mortgagors;
6. The office is sufficiently staffed with trained personnel;
7. Office personnel have access to relevant statutes, regulations, HUD issuances and Handbooks, either in hard copy or electronically;
8. Procedures are revised to reflect changes in HUD requirements and personnel are informed of the changes;
9. Personnel at the office are all employees of the mortgagee or contract employees performing functions that FHA allows to be outsourced; and
10. The office does not employ or have a contract with anyone currently under debarment or suspension, or a Limited Denial of Participation.

MIP REVIEW

For all FHA Loans, assure that HUD-FHA Mortgage Insurance Premiums (MIP's) are remitted within 15 days from the date of loan closing and that late charges and interest and penalties (if any) are promptly submitted for single family mortgages.

REAL ESTATE SETTLEMENT PROCEDURES ACT

The Company must verify compliance with the provisions of RESPA, including, but not limited to the following:

1. Distributing the *Special Information Booklet* to mortgage applicants;
2. Providing applicants with Good Faith Estimates of the settlement costs relating to obtaining a mortgage not later than 3 business days after the application is received or prepared;
3. Providing applicants with their HUD-1;
4. Disclosing transfer of servicing; and
5. Disclosing business relationships with affiliated entities.

REJECTED LOANS

Of all FHA loans rejected, the Company will review a minimum of 10% concentrating on the following areas:

- Ensuring that the reasons given for rejection were valid;
- Ensuring that each rejection has the concurrence of an officer or senior staff person of the Company, or a committee chaired by a senior staff person or officer;
- Ensuring that the requirements of the Equal Credit Opportunity Act are met and documented in each file;
- Ensuring that no Civil Rights violations are committed in rejection of applications; and
- Where possible discrimination is noted, the Company will take immediate corrective action.

IV. RECONCILIATION

Upon completion of all phases of review, quality control management personnel will reconcile all of the information and determine if the actions taken and the ultimate products meet the standards for the program or investor involved with the individual loan.

V. CORRECTIVE ACTIONS

When discrepancies from original documents or exhibits are found, the file will immediately be analyzed for final disposition. Findings must be reported to the Company's senior management within one month of completion of the initial report. Management must take prompt action to deal appropriately with any material findings. The final report or an addendum must identify actions being taken, the timetable for their completion, and any planned follow-up activities. If any patterns or trends are noted during these reviews, which are detrimental to the Company, our investors or government agency, they will be promptly notified of such finding in writing.

Findings of fraud or other serious violations must be immediately referred, in writing to the Director of the Quality Assurance Division in the HUD Homeownership Center (HOC) having jurisdiction. This should be done using the Lender Reporting feature in the Neighborhood Watch Early Warning System. Findings discovered by employees during the normal course of business and by quality

control staff during reviews/audits of FHA loans are reported to HUD within 60 days of the initial discovery.

VI. PROCEDURAL COMPLIANCE

In addition to the review of case files, the Company will comply with various fair lending laws including the following:

- Fair Housing Act;
- Equal Credit Opportunity Act; and
- Federal Truth in Lending Act.

Possible violations or incidences of discrimination must be reported to the Office of Fair Housing and Equal Opportunity in HUD's headquarters in a timely manner.