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1.10 Introduction

1.10.1 Our Quality Control Plan

Government agencies and secondary market investors expect originating lenders to have established quality control procedures to insure the integrity of their loans. At Company Name our goal is to be able to accurately and routinely monitor a significant percentage of our origination, and to make adjustments to our operations based upon the results of our audits.

To that end, following is our quality control plan, which we have adopted to insure the quality of the loans we deliver to our investors so that we may continue to enjoy a mutually profitable relationship. In addition, our goal is to achieve 100% compliance with Federal, State and Local regulatory requirements.

1.10.2 Objective

The overall objective of any spot check system is to accurately measure the basic quality of a product against predetermined standards. The specific objectives of the spot check system are to test the authenticity of various documents that are used in the credit evaluation process. Logically, a prudent credit decision cannot be made if the information used in the decision process is inaccurate.

The second objective of the spot check system is to test for the compliance with industry standards used to process the loan transaction. It is not the intent of the system to completely reprocess and/or re-verify all of the information contained on every credit document. The intent of the system is to select the most important documents and to ask specific questions aimed at uncovering unacceptable practices, procedures or inaccurate documentation.

1.10.3 Definitions – Broker/Correspondent – Underwriting and Review

There are conflicting interests when dealing with mortgage quality control plans, the quality control process of a wholesale lender and the quality control process of the mortgage broker. Obviously, mortgage brokers do not make loan underwriting decisions, or funding decisions, but must still participate in the post closing review of loans. The determination of deficiencies, fraud, or other errors discovered in a post closing review must be addressed by BOTH the mortgage broker and the mortgage lender.

1.10.4 Pre-Closing and Post-Closing Review Process for Correspondents/Brokers

With in the quality control plan there are multiple references to underwriting, funding, and mortgage insurance guarantees. The mortgage broker does not participate in underwriting or funding, but it must take a fiduciary approach to submitting loan files for underwriting review and documentation to facilitate closing.

As a consequence of the overall quality control process of loan files from “beginning to end” as required by 4060.1 REV-2, 7-7 Specific Elements for the Production Portion of the Quality Control Program, and 7-5 Quality Control from Beginning to End, mortgagees must evaluate the production and underwriting portion of the business. Ultimately, correspondent/brokers will be evaluated on the basis of the lender’s underwriting performance. It is our interpretation of the policy that the mortgage broker must “pre – underwrite” loan files against a checklist of the standard requirements. In this way, even though the correspondent or broker is not actually responsible for, or capable of, approving a mortgage application, the correspondent is responsible for ensuring documentation meets standard guidelines. In addition, this pre-review is the ideal environment for arresting fraud or documentation deficiencies prior to the loan closing.

Within our policy we describe that we will review quality control review findings against the original underwriting decision to determine whether not the loan would have been made with the re-verified information. As correspondents and brokers we understand that we are not issuing approvals for insurance, approvals for loans, or other commitments.

1.10.5 Duplicative Post Closing Activities between Investors and Correspondents

When conducting post closing reviews, particularly those areas such as appraisals, that involve large expenses, it is in the interest of both the lender and the correspondent/broker to coordinate reviews. Duplicative requests for re-verification can delay the conclusion of a review, precluding aggressive enforcement action to prevent further incidences.

1.11 Quality Control and Management Personnel Identified in Plan

We have identified the following individuals who are responsible for the supervision, execution and implementation of the quality control program:

Employees Conducting Quality Control Reviews – Independent Reviewers/Auditors

“See Below for Outside Agency”

Quality Control Manager(s) for HUD and Investor Reporting

Insert Quality Control Manager Here

Compliance Manager for Federal and State Law Compliance

Insert Compliance Manager Here

Branch Operations Manager(s) for Site Visit and Audit Coordination

Insert Branch Manager/Ops Manager Support Name Here

Outside Agency - Support

(insert 3rd Party Quality Control Reviewer here)

We reserve the right to substitute outside company’s quality control reviewers, provided they follow our prescribed procedures.

Section 1.20 – Post Closing Quality Control Review Program

1.21 - Audit Coverage/Scope

Each of the following areas will be addressed in the quality control review:

- Re-verification of Employment
- Re-verification of Deposits
- Back Up/In File Credit Report (RMCR if necessary)
- Field/Site Review of Appraisals on Conventional and FHA Direct Endorsement loans (if no conditional commitment or CRV was issued)
- Review of Origination, Processing and (when applicable) Underwriting and Loan Closing procedures

1.21.1 Appraisal Audit Function

In compliance with the Appraiser Independence Rule, 10% of all appraisals are randomly selected for review. If we utilize an Appraisal Management Service (AMS), the AMS is responsible for providing third party review. If we do not utilize an AMS the selection process will be conducted as part of our independent quality control audit process.

1.21.2 Federal Law Compliance Function

Among other items, the Compliance Audit will address:

- Assurance that Company Name is reporting to HUD-FHA under the Home Mortgage Disclosure Act; if required by volume and business nature; that the information being reported is accurate; all required information is being reported; and the information is reported promptly.
- A review of all Automated Underwriting refer/ineligible loans (DU,LP,TOTAL) and the final disposition for patterns of discrimination

1.22 – Selection Methodology

Company Name selects ten percent (10%) per month of each branch's closed files (funded, declined or withdrawn). This includes a minimum of one closed loan and one denied/rejected or withdrawn loan. Defaulted loans will also be automatically selected for audit. This 10% sampling method also includes all 3-4-unit properties, pursuant to the Freddie Mac requirements.

Loans that are selected for pre-funding audit may be included in the post closing review, but information re-verified in pre-funding audited loans does not need to be re-verified in a post-closing audit.

If we close fewer than 10 loans annually we must review at least one loan. If fewer than 15 loans are originated monthly, the 10% sampling requirement may be done on a quarterly basis.

1.22.1 FHA Loan Selection Criteria

Selection of sampling method:

We choose

- 10% of each loan type closed on a monthly basis (Includes 10% of FHA with emphasis on loans identified as higher risk as needed – See “Selection Methodology” for how higher risk loans are to be identified.
- 10% of each loan type rejected or denied files on a monthly basis

If we use the random sample method we may use our previous year’s volume as a basis for the statistical sample and should factor in our error rate. If this system is used HUD-FHA may request us to explain the method used in our statistical sampling. Therefore, Company Name’s management has chosen to use the 10% sampling method for our Quality Control reviews of all single-family mortgages. In accordance with HUD Guide 4060.1 we will assure that the random sampling is applied against FHA production.

1.22.2 Early Payment Default

Company Name’s Quality Control personnel or designees will select for audit all loans that go into default within 12 months of closing

See Sampling Selection Tool for instruction.

1.22.3 Additional Selection Criteria

- Selection of loans for review from all branch offices
- Assurance that all staff - loan officers and processors will have loans subjected to review. (When applicable, underwriters, closers and appraisers)

- A review of alternative documentation loans. The requirements for those types of loans are stated in HUD/FHA's Mortgagee Letters 91-51 and 92-15.

See Sampling Selection Tool for instruction.

1.22.4 "Higher Risk" Criteria Loans Selected by Quality Control

In addition to standard selection criteria, any of the following loan types, which are more likely to present a higher risk, will be targeted for audit.

- 2-4 unit properties;
- New construction or rehab loans;
- Properties transferred within less than 12 months;
- Home Equity Conversion Mortgages (HECM)

1.22.5 Higher Risk Transactions Selected by Credit Policy as Warranted

In addition, underwriting will flag cases with these aspects to evaluate whether they present additional risk

- Substantial seller concessions;
- Non-occupying co-mortgagors or multiple mortgagors;
- Housing expenses increasing by 1.5 times or more;
- Large or multiple earnest money deposits (money orders);
- Large increase in bank account balance;
- Sale of personal property for funds to close;
- Gifts or loans of funds to close;
- Self-employed; and
- Loans risk assessed as "refers" by AUS, DU, LP, or TOTAL Scorecard.

1.22.6 Streamline Refinances

Streamline Refinances do not, by themselves, necessarily represent higher risk, and should be selected within the normal sampling process. However, in periods of high refinance activity, these loans will represent a larger portion of production. When streamline refinances exceed 10% of production, we will ensure that each sampling includes streamline refinances.

Our review process on Streamline Refinances will be limited to the actual documentation required for this loan type, and verification that the loan was eligible for streamline processing.

1.22.7 Special Handling for 203(k) Rehabilitation Transactions

203 (k) loans involve a process similar to a construction loan, with initial approval, a series of inspections and disbursements. When Company Name offers these mortgages we implement a Quality Control Review of the entire 203 (k) process to include:

- handling of rehabilitation escrows
- handling of disbursements
- review of rehabilitation loan agreements
- review of the scope of repairs
- timeliness of completion of repairs
- resolution of borrower complaints regarding quality of work

The approvals of 203 (k) contractors including counselors, consultants, inspectors, and appraisers are renewed annually.

1.22.8 Selection of Third Party Originator Transactions

Loans originated through wholesale channels will be selected for review using the same selection criteria as retail transactions.

Minimum selection will include at least 1 transaction per period for each, but no less than 10% of correspondent/Third Party Originator:

- Correspondent Relationship
- Branch within Relationship

1.22.81 Annual Review of Third Party Originators

We review third party originators annually. At this time correspondents are required to provide evidence that they conduct their own internal reviews.

1.23 - Loan Sampling/Selection Procedure

1.23.1 Post Closing Audit Selection Procedure

The majority of our loan level audits are based on the random selection from our production reports.

Individual	Step	Description
Operations Manager/Processor or Quality Control	Generate Pipeline Report	Generate Monthly Pipeline Using LOS Software Report Insert Columns for the Following Fields: <ul style="list-style-type: none"> • Property Type (Including 2-4) • Transaction Type (Including New construction or rehab) • Last Transfer of Title • Seller concessions; • Non-occupying co-mortgagors or multiple mortgagors; • Current (Previous) Housing expenses • Earnest Money Deposit • Source of Funds Down Payment • Employment (Self-employed) • "Refers" by AUS, DU, LP, or TOTAL Scorecard. • Alt Doc • Originator • Processor • Underwriter • Branch • Underwriting Disposition/ECOA (Approved, Denied, Withdrawn)
Operations Manager	Deliver List to Quality Control	Quality Control Will Select Based on Selection Checklist
Quality Control	Identify Loans for Audit	
Operations Manager	Initiate Audit Process	

1.23.2 Pipeline Selection Tool

Checklist-Pipeline Selection Tool

Step 1 - Review Full Pipeline Report for Period - Approved AND Denied/Withdrawn

Step 2 - Identify ALL of the following

- Early payment default/Delinquency
- 2-4 unit properties;
- Correspondence from Investors/Regulators
- Insurance Endorsement/Investor Purchase Rejection
- Neighborhood Watch
- New construction or rehab loans;
- Returned Mail
- Properties transferred within less than 12 months;

Step 3 - Identify Loans with ANY of the following Characteristics

- Substantial seller concessions;
- Non-occupying co-mortgagors or multiple mortgagors;
- Housing expenses increasing by 1.5 times or more;
- Large or multiple earnest money deposits (money orders);
- Large increase in bank account balance;
- Sale of personal property for funds to close;
- Gifts or loans of funds to close;
- Self-employed; and
- Loans risk assessed as "refers" by AUS, DU, LP, or TOTAL Scorecard.
- Alt Doc

Step 4 - Cross Reference Against Employees - Select at least one from each

- Originator
- Processor
- Underwriter
- Branch

Step 5 - Review Selected Loans against pipeline - Minimum of 10%

- Approved
- Denied

QC Audit Random Selection Matrix
7/7/2011

1.24 Loan Level Quality Control Review Procedure

The Quality Control program needs to identify loans that could contain deficiencies as early in the closing and delivery process as possible. Company Name implements a system of Quality Reviews through the production process. To this end, the quality control process begins at application and or prior to closing.

1.24.1 Post Closing Review Process

Step	Responsible Party	Action
Select Loan From Pipeline	Branch Operations Manager, Quality Control	<p>Select Loans For Audit Using the pipeline report and Selection Checklist, identify loans that are candidates for review. Create a copy file for each selected loan, label and fasten documentation using Quality Control File Checklist. Include the Quality Control File Checklist on the file cover and note date file assembled</p> <p>Documents Copied Loan Application (front and back of original handwritten applications (1003) Final Typed/Agency Applications (HUD 92900LT/VA 26-1802A, FNMA 1003) Credit report (including all supplements and updates - only 1 copy is required) Purchase Agreement/Sales Contract. All Pages. FNMA Form 1008 92900LT (FHA only). Appraisal Report (All conventional and FHA Direct endorsement loans). Any other credit documents used in making the underwriting decision. IRS 4506 T Authorization Borrower's Certification and Authorization</p>
Return File to Closing for Document Preparation, Closing and Funding, or shipping/delivery	Branch Operations Manager	<p><u>If loan is selected from Pipeline for Review (Full Audit Pre-Funding) - The original file is returned to closing for document preparation, closing and funding.</u> Operations personnel should take care not to alert production staff to the conduct of the specific audit. <u>If Post-Funding Audit</u> - return original file to Secondary, Shipping and Delivery for Delivery, Insure or Guarantee.</p>