

Table of Contents

Table of Contents.....	i
1.10 Introduction	1
1.10.2 Objective	1
1.11 Quality Control and Management Personnel Identified in Plan	3
Quality Control Manager(s) for HUD and Investor Reporting	3
Section 1.20 – Post Closing Quality Control Review Program	4
1.21 - Audit Coverage/Scope	4
1.21.1 Appraisal Audit Function	4
1.21.2 Federal Law Compliance Function	4
1.22 – Selection Methodology	5
1.22.1 FHA Loan Selection Criteria	5
1.22.2 Early Payment Default	5
1.22.4 “Higher Risk” Criteria Loans Selected by Quality Control.....	6
1.22.5 Higher Risk Transactions Selected by Credit Policy as Warranted.....	6
1.22.6 Streamline Refinances.....	6
1.22.7 Special Handling for 203(k) Rehabilitation Transactions.....	7
1.22.8 Selection of Third Party Originator Transactions.....	7
1.23 - Loan Sampling/Selection Procedure	8
1.23.1 Post Closing Audit Selection Procedure	8
1.23.2 Pipeline Selection Tool	9
1.24 Loan Level Quality Control Review Procedure	10
1.24.1 Post Closing Review Process.....	10
1.24.2 – Post Closing Loan Level Quality Control Review Form and Findings Report	14
1.24.21 Quality Control File Order/Checklist	16
1.24.22 Quality Control Credit Report Order Log	17
1.24.23 Request for Re-verification of Income or Assets	18
1.24.24 Appraisal Review Request.....	20
1.24.24.1 Appraisal Request Log	21
1.24.24.2 Appraisal Desk Reviews and Field Reviews	22
1.24.24.21 FNMA Field Reviews	22
1.24.24.3 Desk Review of Appraisal.....	23
1.24.24.4 Appraiser Independence Rules	24
1.24.4 Tax Return Authenticity Process (4506T).....	25
1.24.41 Tax Return Authenticity in Post-Closing Review	25
1.24.5 Owner Occupancy Re-Verification.....	26
1.24.6 Timing of Post-Closing Audits.....	27
1.24.61 Audit Schedule.....	27
1.24.63 Completion of Review	27
1.24.64 Special Procedure – Early Default.....	28
1.24.65 Special Procedure – Pattern of Deficiencies or Fraud.....	28
1.24.65.1 Pattern of Fraud.....	28
1.25 Production (Pre-Funding) Quality Control Review Elements.....	29
1.25.1 Quality Control Review	29
1.25.21 Validation of Borrower’s Social Security Number	29
1.25.22 Verbal Verification of Employment.....	30
1.25.31 Reviewing and Analyzing Automated Underwriting Findings	31
1.25.33 Validation of Income Computation Method.....	31
1.25.4 Pre-Funding Production and Post-Closing Quality Control Review Checklist	32
Inclusion of Specific HUD/FHA Requirements in Review Process.....	32
HUD 4060.1 REV-2 Requirements	33
1.25.4 Pre-Funding Production and Post Closing Quality Control Review Checklist	34

Pre-Underwriting Review Checklist	34
1.25.5 Pre-Funding/Pre-Closing Quality Control Review	43
1.25.52 Pre-Funding/Closing Document Review Checklist	45
1.25.6 Post-Closing Loan Document Review	46
1.26 Corrective Action and Report Management	49
1.26.2 Corrective Action and Time Frames	49
1.26.21 - Defects/Findings – Severity Rating and Target Rates	50
1.26.22 - Target Rates for Corrective Action	50
1.26.3 Notification to HUD or Other Agency of Significant Discrepancies	51
1.26.4 FNMA Reporting of Findings	52
1.26.41 FNMA QC Reporting Process	53
1.26.43 Significant Findings-Fraud Reporting	54
1.27 Quality Control Personnel	55
1.27.1 Production Personnel Separated by Plan	55
1.27.2 Disbarred Employees/Ineligible Participants	55
1.27.21 Periodic Review of Employee Performance	55
1.27.31 Qualifications of QC Employees	56
1.27.4 Use of Outside Firms to Perform Quality Control Review	56
1.27.41 Review/Audit of Third Party Auditor	57
1.28 Financial and Compliance Audit	58
1.28.1 Review of Rejected Loans	58
1.28.3 State Audit Compliance Preparation Checklist	61
1.29 Employee Resources – Training	62
Resources	62
1.30 Field Review of Branch Offices	63
1.30.1 Field Review Items	63
1.30.3 Prohibited Branch Arrangements (HUD)	63
1.30.4 Mortgage Insurance Endorsement Process	65
1.30.5 Post Endorsement Technical Reviews	67
1.30.6 Reporting of Loan Sales Process	68
1.31 Termination of Insurance Process	69
1.32 Escrow Reporting	70
1.33 Record Retention Guidelines	71
1.34 Fraud Prevention – Red Flag Process	72
1.34.1 Fraud “Red Flags” Checklist	73
1.34.3 Origination Fraud Watch	76
1.34.31 Loan Characteristics	76
1.34.4 Red Flag Resources We Utilize	77
1.40 – Anti-Money Laundering and SAR Reporting	78
1.41 AML and Mortgage Lending – No Currency Transactions	78
1.42 BSA/AML, OFAC and Designated SAR Reporting Personnel	79
BSA/AML Primary Manager	79
OFAC Manager	79
Reporting Individuals with Access to FinCen	79
1.45 USA PATRIOT Act Compliance – Customer Identification	80
1.45.1 Minimum Information Required	80
1.45.2 Disbarred Participants and Watch Lists	80
1.46 Review of Procedures	81
1.47 Third Party Transactions and Vendors	81
1.48 Employee Training Program	81
1.50 AML Red Flags	82
1.51 Transactional and Account Activity Red Flags Checklist	82
1.52 Health Care Professionals and Fraud	84
1.53 Mortgage Servicing Fraud/Fraud Red Flags	85
1.55 Money Laundering in Residential Real Estate	86

Additional Due Diligence for High Intensity Areas	86
1.53 Self-Employment and Money Laundering	87
1.52.1 Self-Employment Money Laundering Red Flags	87
1.52.2 General Red Flags	88
1.53 Red Flag Business Types	90
1.53.1 Cash Intensive Businesses	90
1.60 SAR Reporting	91
1.61 SAR Reporting Workflow	91
1.62 Thresholds for Reporting Findings	92
1.65 SAR Completion Process	93
1.65.1 Manual SAR Filing	93
1.65.3 Management Notification of SAR Filings	94
1.65.4 SAR Record Retention and Supporting Documentation	94
1.65.5 Prohibition of SAR Disclosure	94
1.65.6 Beyond SAR, Additional Notification - Law Enforcement and Regulatory	95

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 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 the product against predetermined standards. The specific objectives of the spot check system are to test the authenticity of different 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 goal of the spot check system is to test for the compliance with industry standards used to process the loan transaction. It is not the purpose of the system to completely reprocess and/or re-verify all of the information contained on every credit document. The purpose of the system is to choose the most important documents and to ask specific questions aimed at uncovering unacceptable practices, procedures or incorrect 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. Clearly, 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

Within 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 part 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 the 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 QC Manager

Compliance Manager for Federal and State Law Compliance

Insert Compliance Manager

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

Insert Operations Manager

Outside Agency - Support

Insert 3rd Party Provider

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

All 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 needed)
- 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 use an Appraisal Management Service (AMS), the AMS is responsible for providing third party review. If we do not use 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 a 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 we use this system HUD or FHA may request documentation of statistical sampling method. 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 (those using non-standard 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 standard 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 a 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 an 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>

Step	Responsible Party	Action
Select Income Documentation to be Re-Verified and method of Re-Verification	Branch Operations Manager	<p>Verification of Employment (FHA/VA or Conventional) It may not be necessary to re-verify all Verification of Employment (such as previous employment) forms. PVOE re-verification required for FHA (2 years)</p> <p>Full Documentation When the mortgage that is selected for review involved full underwriting documentation, the lender must obtain written re-verification of employment for current employment.</p> <p>Self-Employed Borrower There must be an IRS form 4506 – Request for a copy of tax form. This is the self-employed borrower's written permission to request copies of his or her federal income tax returns directly from the Internal Revenue Service (IRS) in case they were later needed for quality control review. Quality Control should decide whether to request the re-verification from the IRS based on the circumstances of the individual case.</p>
Select Asset Documentation to be Re-Verified and method of Re-Verification	Branch Operations Manager/Quality Control	IF Direct Verification of deposits forms were utilized in lieu of alternative documentation, Quality Control should select the largest or primary sources of funds for the down payment and closing costs. In addition, gift sources should be verified
Deliver the Request for Re-Verification of Income	Quality Control Support	Quality Control should send the following documentation in connection with the re-verification request: The information request letter (exhibit 1) a copy of the original verification of employment form
Deliver the Request for Re-Verification of Deposit	Quality Control Support	Quality Control should send the following documentation in connection with the re-verification request. The information request letter (exhibit 1) a copy of the original verification of deposit form

Step	Responsible Party	Action
Request "In-File" Credit Report	Quality Control Support	<p>An in file credit report is obtained on all loans reviewed.</p> <ul style="list-style-type: none"> • The new report is requested from a bureau other the one originally used • Request a tri-merged in-file report • The new report is inserted in the quality control spot check file. • IF THE tri-merge indicates any discrepancies from the report in-file, QC is to order a FULL RMCR (Standard Factual) • A log is maintained listing the date the report was run, last name of borrower, first name and type of report (individual or joint). • A new standard factual report is ordered for 1 out of every 10 loans reviewed (10%). The procedure for ordering the standard factual report is as follows: <ul style="list-style-type: none"> • Advise the credit bureau that no mortgagor interview is to be conducted. • Request one written copy to be sent to quality control reviewer.
Request Review Appraisal (Not on streamline or HECM)	Quality Control Support	<p>Request Desk Review Every 10th appraisal must be a field review. See Appraisal Order Log (Form 2000/2000E for FNMA) A field review of the appraisal is requested. FHA appraisers must be selected from approved panel https://entp.hud.gov/idapp/html/apprlook.cfm Care must be taken not to advise the appraiser that conducted the original review that an audit is being conducted. The request for review appraisal (exhibit 2) is used to request this.</p>
Review the Mortgage Application	Quality Control Manager	<p>The lender must review the initial and final typed mortgage application for completeness and signatures. A copy of the initial application is sent to the borrower for his or her re-certification.</p>
Follow Up Process	Quality Control Support	<p>Once these items have been requested, follow-up should be conducted in approximately 2 weeks (See – Spot Check Status Report). Items should be re-requested if not received after 2 weeks Items not received after an additional 2 weeks should be followed up verbally</p>

Step	Responsible Party	Action
Quality Control Review – Credit Underwriting	Quality Control Manager / Corporate Underwriting	Once the information has been received, the independent reviewer should compare the results of the information submitted in the original file to the newly verified information to determine if there are significant deviations. If there are deviations , the file must be re-underwritten to determine whether an appropriate underwriting decision was made on the basis of the re-verified information.
Quality Control Review – Compliance	Quality Control Manager	Separate from the Credit Underwriting Review, the Quality Control Manager, must review the file for compliance with regulatory guidelines. The Compliance Checklist – Exhibit 4 – may be used for this purpose.
Reporting Findings	Quality Control Manager / Senior Corporate Management	Audit results are reported directly to senior management. Regulatory Compliance Errors/Omissions Regulatory Compliance Errors are to be corrected immediately directly with the borrower(s) Management will examine whether the error was procedural, clerical, or the result of willful misrepresentation. If procedural omissions are noted, the origination system and modules are corrected; staff is briefed on actions to be taken to avoid future omissions. Fraud-Misrepresentation Any findings of Fraud, Misrepresentation or other irregularities result in expansion of audit to include all production of the related individuals Credit Underwriting Deficiencies Loans with significant deficiencies will be reviewed to determine whether the loan could have been made with the re-verified information. Information on significant omissions will be shared with the investor who purchased the loan to negotiate whether a repurchase is to be required.
Retention of Audit Findings	Quality Control	Audit findings are retained for <u>36 months</u> .

1.24.2 – Post Closing Loan Level Quality Control Review Form and Findings Report

The Quality Control Review Checklist/Report is placed on top of the left side of the loan file and is used to document the progress of the Quality Control Review. Once all exhibits are assembled, it is used to review and identify deficiencies. All loan level reviews are combined into one report for a cumulative report/executive summary.

We use the LOS Software to aggregate this information into a database. Once the loan is closed, production can no longer access or manipulate the file data.

Quality Control Review Form/Report

Credit Review

Date Closed: _____

FHA	VA	Conventional
-----	----	--------------

Date Review Completion Due _____ (90 Days from note date)

Date File Received _____ Agency Case Number: _____

Date File Returned _____

Loan Number _____

Borrowers Name(s) _____

Property Address _____

Sales Price _____

Loan Amount _____

Checklist of Items Requested/Reviewed

Item - List Name	1st Request	2nd Request	Phone Follow Up	Date Received	Date Reviewed	Results	
						OK	No *
Initial Application							
Final Application (Data Integrity)							
VOD							
VOD							
VOD							
VOD							
Mortgagor VOE							
PVOE							
Co-Mortgagor VOE							
PVOE							
Credit Report							
Owner Occupied							
Appraisal							

* If any of the results are "NO" - the loan must be re-underwritten to determine eligibility.

Date of Audit _____

Auditor _____

Findings

Employment Stability	Good	Average	Fair	Poor
Ratios	Exceeds Guidelines	Meets Guidelines	Below Guidelines	
List Compensating Factors Present if "Below Guidelines"				
Credit History	Good	Average	Fair	Poor
Available Cash Assets:	Good	Average	Fair	Poor
	More than Enough on hand at settlement	Just enough to close	need gift &/or cash to close	
Overall Underwriting Review:	Good	Average	Fair	Poor
Manual Underwrite	Refer Override?	Refer Decline?		

Analysis of Findings	Notes
Serious - Fraud/Misrep	
Serious - Lien Perfection	
Procedural	
Compliance	

1.24.21 Quality Control File Order/Checklist

The QC File Order Checklist is placed on top of the right side of the Quality Control file. This ensures all documents are placed in the file in the correct order.

Quality Control File Order Checklist

Place this on top of file – right side

Borrower: _____

Property: _____

Right Side (Top to Bottom)

- Loan Application (front and back of original handwritten applications (1003)
- Final Typed/Agency Applications (HUD 92900/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/HUD 92900-LT/Underwriting Worksheet
- Appraisal Report (All conventional and FHA Direct endorsement loans).
- IRS 4506/4506T
- Borrower's Certification and Authorization
- Income Documentation
- Asset Documentation
- Any other credit documents addressed in making the underwriting decision.

Left Side (Top to Bottom)

- Quality Control Review Spot Check Form
- Copies of Re-verification Requests

Quality Control File Order & Checklist

1.24.22 Quality Control Credit Report Order Log

This document is used to log credit reports ordered in conjunction with the quality control review. Every 10th report is to be ordered as an RMCR. Note: Full RMCR is ordered on EVERY loan with Fraud Findings.

Quality Control Credit Report Order Log

Highlighted Line Indicates 10th Report - Full RMCR Required

Number	Ordered	Borrowers Last Name (s)	First Name(s)	Property Address	Type (Individual/ Joint)

1.24.23 Request for Re-verification of Income or Assets

This letter is completed and forwarded, with a copy of the original verification/documentation, to the original source of the verification.

DATE:

TO: (Institution Completing Original Verification Request)

Re: Verification of (Employment or Deposit)

Borrower(s): _____

Acct #: _____

(If applicable)

Dear:

As part of our normal quality control program we have enclosed a copy of a verification you provided which was used in our decision to grant a loan to the above referenced borrower. We would appreciate your re-verification of the original information provided to us. Please review the attached and determine if the information was accurate at the time the form was completed by our office. Please also verify that an appropriate individual in your office executed the form.

Please indicate below any substantial variation in the information. If it was correct as of the date of preparation, please sign this form and return it in the envelope provided. Should you have any questions please call Quality Control at

Your Company's Quality Control Number

Thank you for your assistance.

Sincerely,

Quality Control Department

Reverification of Employment or Deposit Letter.doc

Are there any discrepancies on the attached form? YES NO

If "yes" please describe:

THE ATTACHED VERIFICATION RECEIVED IS A TRUE AND CORRECT COPY
OF THE ORIGINAL.

SIGNATURE

DATE

TITLE

Reverification of Employment or Deposit Letter.doc

1.24.24 Appraisal Review Request

This letter is completed and forwarded with the original appraisal copy. Remember to Black Out the name of the original appraiser.

Date: _____
TO: _____ (APPRAISER)

ADDRESS

RE: _____
(BORROWER(S) NAME)

(PROPERTY ADDRESS)

LOAN #: _____

DEAR :

This is to request and authorize you to make a field appraisal for us on the above captioned property. Please perform an EXTERIOR EXAMINATION ONLY and clearly state on the appraisal report that the value is subject to interior considerations. DO NOT CONTACT THE OWNER. Enclosed is a copy of the initial appraisal.

Prior to assigning this review, please delete any reference to the identity of the original appraiser.

Please mail your review directly back to me at the above address.

Your prompt attention to this matter is greatly appreciated.

Cordially,

QUALITY CONTROL DEPARTMENT
Company Name

Field Appraisal Request Letter

1.40 – Anti-Money Laundering and SAR Reporting

The Bank Secrecy Act/Anti-Money Laundering (BSA/AML) regulations applicable to mortgage lenders deal with the detection and reporting of fraud. Among the many mortgage related scams FinCEN has identified are false statements, use of straw buyers, fraudulent flipping, flopping, and identity theft. Our general mortgage loan process is specifically designed to verify that no aspect of the mortgage transaction represents fraud for profit or property, and we have procedures in place at all stages of loan production to detect this type of activity.

Company Name's BSA/AML policy is designed to supplement our current anti-fraud procedures and provide guidance on additional required reporting responsibilities. Normally, our underwriting and review of documentation places the highest burden of substantiation on that documentation needed to meet underwriting guidelines. With this new regulation we must now extend the same level of review to areas of inquiry that we normally do not pursue, such as examining and reporting on the nature of an applicant's self-employment business and whether bank transactions represent potential money laundering activities.

In addition, customer facing personnel, such as loan originators, processors, customer service representatives and branch personnel must actively survey customers' behavior to ascertain whether Company Name has become a target for potential schemes.

The new regulations likely will significantly increase the number of mortgage related SAR filings; give law enforcement and regulators more comprehensive data on specific crimes; and provide government and industry a more complete perspective on mortgage related crime trends nationwide.

1.41 AML and Mortgage Lending – No Currency Transactions

As mortgage lenders and correspondents, we do not process currency transactions, so we limit the scope of our policy to the fraud detection and elements of money laundering which present themselves to our process in the course of our daily business. This generally limits us to customer verification documentation and information reported in the application process.

1.42 BSA/AML, OFAC and Designated SAR Reporting Personnel

Company Name establishes and maintains a list of individuals who are responsible for monitoring and reporting.

BSA/AML Primary Manager

Insert BSA Manager

OFAC Manager

Insert OFAC Manager

Reporting Individuals with Access to FinCen

Authorized to access and report to FinCen's Electronic SAR portal.

Insert Employees with FINCEN access.

1.45 USA PATRIOT Act Compliance – Customer Identification

The USA PATRIOT Act requirements are incorporated into our AML/BSA compliance policies and procedures. As part of our day-to-day business we comply with the PATRIOT Act by insuring that we positively identify each of our customers when they initiate an application with us.

1.45.1 Minimum Information Required

At a minimum, Company Name obtains the following identifying information from each customer before opening the account:

- Name
- Date of birth for individuals
- Address
- Identification number
-

We utilize normally acceptable standards for reviewing photographic documentation that we expect all customers to provide:

- an unexpired government-issued form of identification – including evidence of a customer’s nationality or residence and bear a photograph such as a driver’s license or passport.

If the loan process reveals fraud red flags associated with the customer, we may request additional identification verification

1.45.2 Disbarred Participants and Watch Lists

In addition to standard verification, if circumstances warrant, we also compare our customers against government watch lists, such as LDP, OFAC and others, as part of our production quality control plan.

1.46 Review of Procedures

Our production quality control programs and post-closing random loan selection and review provide insight as to whether our procedures are being followed.

As we improve our experience with AML/BSA risk analysis we will continue to add to and improve our checklists of items to review in our assessment of loan level and systemic risks. Please see our Quality Control and Fraud Prevention policies and procedures for details on all elements of risk prevention.

1.47 Third Party Transactions and Vendors

Every item that is received from a third party or Vendor is scrutinized to the same extent as directly originated documents. We will not rely on the warranties of third parties in order to establish compliance.

We add new vendors through our Vendor/Third Party Approval and Renewal Process. As part of this process we require certification of an Information Security and AML program.

1.48 Employee Training Program

At the time of new hire, and as part of the annual review process, we require evidence of annual BSA/AML training. If the individual is a licensed employee, such as a state-regulated loan originator, and we can ascertain BSA/AML training through the licensing training process, this employee may be exempt from our internal training requirement.

Please see our Operations/Human Resources policies and procedures for details on hiring and annual reviews.

1.50 AML Red Flags

Based on research by the Egmont Group and surveys of FIU's (Financial Intelligence Units) in Action, and from the FinCen repository of cases, use these checklists to identify items that may represent evidence of Money Laundering activity.

1.51 Transactional and Account Activity Red Flags Checklist

A single instance of a red flag is not, by itself, an indication of suspicious or illegal activity. However, each instance should be investigated and properly explained. When there is a Red Flag on any level, the entire array of Fraud/AML Red Flag checklists should be deployed against the loan level case to determine if there are any patterns of illegal behavior that require further investigation or reporting.

Account and Transactional Activity Checklist	
	Business checks written to individuals versus legitimate suppliers and cashed at the banks where the checks originated versus being deposited into another businesses bank account.
	Business checks written to cash on a regular basis in amounts that far exceed a business' petty cash requirement.
	Multiple checks on the same day (to cash or otherwise) consistently written in amounts less than \$10,000, possibly to avoid reporting requirements, despite the fact that checks would not normally generate Currency Transaction Reports.
	Multiple money orders in increments of \$500 or less deposited into bank accounts where the remitter of the money order is the same as the authorized signers on the bank accounts for which the checks are being deposited.
	Cash deposits related to the questionable financial activities involved currency in \$100 denominations.
	Fraudulent use of debit/gift cards, which are also referred to as stored value cards.
	Cashier's checks obtained from U.S. banks and tendered at foreign banks.
	Large bank wire transfers in exchange for product shipped via interstate Commerce
	A business account established with a small bank which in turn has funds moved to an account at a larger bank.
	An individual or a company maintains multiple bank accounts with the same financial institution and conducts transfers between the accounts that do not have an apparent reason or business purpose.
	A business account has no transactions for expected business related expenses (i.e., payroll, vendor payments, or utility expenses.)
	An account has a change in ownership followed by a significant increase in account activity.
	A business customer suddenly changes its mailing address to a P.O. Box, residential address or other nondescript address (which could be a sign of account takeover.)
	A fraudulent company is created and named similarly to a legitimate company with the intent of using fraudulent checks meant to pass as checks drawn by the legitimate company.
	Use of cashier's checks in lieu of checks or EFT to pay for goods, or make other payments from the account.
	Purchases of money orders in even dollar amounts which are made payable to a third party that does not appear to be business related.
	A business account has expenses that appear personal in nature (for vacations, purchase of goods or services).
	Checks made payable to the "IRS" which are intended to look like payments to the

	Internal Revenue Service (e.g., a fraudulent company that is using the initials "IRS" in its name.)
	The only checks written against the account are to the account signer or other companies affiliated with the account signer.
	Significant withdrawals made from an ATM.

1.52 Health Care Professionals and Fraud

Established lending practices have indicated that Medical Professionals and Physicians are a desirable class of borrower. Health Care professionals present a high statistical probability of repayment and potential for future income and wealth growth. This desire to serve this sector can be exploited by fraudsters. When we entertain loan requests from Health Care professionals and associated businesses, we must examine the file for evidence of Health Care Fraud Red Flags.

Health Care/AML Red Flags	
	A personal account is receiving large dollar electronic funds transfers (EFTs) into the account and has large, even dollar payments going out of the account.
	A business account is established using an address that is shared by other companies, sometimes with the same owner or account signer listed.
	Multiple companies with similar names are located at the same address and share the same owner or account signer.
	A company switches from a business model not related to the health care industry to one which is related.
	The owner of a business is not the account signer. The account signer(s) for the business is not listed on any paperwork for the company.
	The account is located in a state other than where the doctor/company providing the service or receiving payment is located.
	Transfers are conducted from several apparently unrelated companies to the same one or two companies, which are in turn sending funds back to another account, and there is reason to believe that there may be common owners among the companies.
	The company is billing the Medicare program for multiple products/services (which are, in practice, provided by separate contractors under the Medicare program.)
	An account opened with a minimum deposit that had no activity or minimal activity over an extended period of time suddenly begins to receive large or frequent deposits from a Medicare contractor.
	Checks drawn on a health care related business account, which in turn are being cashed at a check cashing service.
	Hard-copy checks are received into an account as Medicare payments, when the standard form of payment is EFT.
	EFT deposits from Medicare immediately followed by a withdrawal for exactly the same amount by either check, wire transfer, cash withdrawal or ATM withdrawal within a day of the deposit.
	Checks from Medicare and/or HMO plans are endorsed over to a third party and either deposited into an account with no affiliation to the health care industry or cashed at a check cashing business.
	Checks from Medicare, Medicaid or an HMO deposited into accounts with no affiliation to the health care industry (such as a liquor store.)
	Financial transactions (wires, checks, etc.) with companies not involved in health care (automobile dealers, liquor stores, restaurants, etc.)
	Companies that allegedly provide durable medical equipment but show no expense transactions related to the purchase of those goods AND are billing Medicare or an HMO for supplying the goods.

1.53 Mortgage Servicing Fraud/Fraud Red Flags

Servicing Consultant Fraud Red Flags	
	Mortgage payments stop being made. Mortgage payments abruptly stop with no contact from the homeowner and/or default occurs on the mortgage within a month or two after the loan is made.
	The foreclosure process is stayed by a bankruptcy filing. The filing of the bankruptcy case may be in tandem with the sudden failure to make regular mortgage payments.
	The debtor in the bankruptcy case that stayed the foreclosure is not the borrower.
	The debtor does not disclose a fractional interest and/or other ownership in real property in his/her bankruptcy documents. Failure to disclose such interests may indicate a fractional interest or property transfer scheme.
	Serial bankruptcy cases are filed and/or numerous lenders file motions seeking relief from the automatic stay to proceed with foreclosure and/or eviction actions. Where the perpetrators file serial bankruptcy cases, especially those involving fractional interest schemes, financial institutions should expect to see other lenders filing motions seeking relief from the bankruptcy automatic stay as well.