

Table of Contents

Table of Contents.....	1
Employee Policy Acknowledgement	1
Loan Originator Duties	2
Licensing and Professional Education Requirements (SAFE Act).....	3
Compensation	5
Creditor vs. Originator	5
Base Commission Schedule	5
Dual Compensation.....	5
Avoiding “Steering”.....	6
Acts that May Void Incentive Payments	7
Completing Good Faith Estimates	7
Accurate Lock-ins.....	7
Compensation Policy and Procedure.....	8
Compensation Policy – Consumer Paid Fees.....	9
Process - Consumer Paid or Lender Paid	9
Consumer May NOT Pay Employee Directly.....	9
Compensation Plans	10
Consumer/Creditor Paid Compensation Plan – Brokers or Creditors	10
Investor/Wholesaler (Creditor) Paid Compensation – for Brokers.....	11
Table of Creditors.....	11
Exception to Compensation Grid (Safe Harbor)	11
Safe Harbor – Consumer Chooses Product which results in Higher Compensation.....	12
Customer’s Best Interest Worksheet (Anti-Steering Safe Harbor)	13
Commission Schedules and Permissible Payments.....	14
Performance Reviews	15
Company Name’s Policy on Loan Size Price Adjustments – Tiered Pricing	15
Individual and Spousal Loans	15
Time Keeping Policy	16
Employment Status Policy.....	17
Secondary Marketing.....	19
Pricing and Risk Management Strategies	20
Marketing Risk	20
Hedging Strategies.....	20
Current Pricing Process	21
Lock-in Policy.....	22
Lock Term Policy	23
Exceptions to Lock-in Policies	23
Lock-In of Pre- Qualifications.....	23
Additional Pipeline Management Time Frames	24
Pipeline Management Reports.....	24
Expired Lock-ins	25
Re-Locking Expired Lock-ins	25
Lock-ins On Denied Loans.....	25
“Playing the Market” is Prohibited	25
Lock-In Process	26
Secondary Marketing – Confirmation of Lock-in	26
Monitoring Final Pricing	27
E-Mailing Secondary Marketing	27
Lock-ins With CRA Credit	27
Ineligible Products	28
Planned Refinance Loans	28

Premium Loans	28
Lock-in Changes.....	29
Change Request Form.....	29
Reconciling Price Discrepancies.....	29
Revised Lock-in Confirmation	29
Change Matrix.....	29
Changes Requiring Secondary Approval.....	30
Substitutions Not Allowed	30
Pricing - Loan Eligibility	31
Use of Automated Underwriting and Pricing Engines	31
Unsalable Loan Deficiency	31
Rate Sheet Distribution	32
Lock-in window	32
Lock-in Cut-Off	32
Market Updates.....	32
Floating Pipeline Monitoring.....	32
Outside Investors	33
Investor Overlays.....	33
Tax Return Verification Transcripts.....	33
Approved Appraiser List.....	33
Maximum DTI.....	33
Income Documentation	34
Chain of Title on Title Commitment.....	34
Company Name Fees.....	35
Completing the Lock-In Agreement	36
Secondary Forms and Reports	37
Loan Collateral Delivery Procedures	38
Secondary Marketing Quality Control.....	39
Risk Assessment.....	39
Post-delivery Audit & Reconciliation	39
Operational Risk Factors	39
Secondary Marketing Loss Mitigation	41
Repurchase Request Procedures	42
Steps on Repurchase Requests	42
Repurchase due to Early Payment Default.....	43
Repurchase due to Material Misrepresentation	44
Procedure upon Repurchase Notification	45
Asset Disposition Committee	45
Repurchase Requests/Defects on GNMA Pooled Mortgages.....	46
Initiating Foreclosure/Property Sale.....	47
Alternative Resolution.....	48
Repurchase of Loan for Portfolio	48
Determining Foreclosure Costs	48
Make-Whole Loans.....	49
Repurchase Timeline	50
Loss Mitigation Step by Step	52
Servicing Set Up for Repurchased Loans	53
Reports	54
Problem Loan Report.....	54
Reports – Summary of Disposition	55

Employee Policy Acknowledgement

I have read the secondary marketing policy and procedures manual of Company Name and I fully understand the policies.

By:

(Signature)

(Retain in employee file)

Loan Originator Duties

Title - Mortgage Banker, Loan Officer, Loan Originator

Duties and Responsibilities

The Loan Officer is the primary company representative to real estate community. Objective is to develop referral relationships among the professional community including realtors, homebuilders, accountants, attorneys, home improvement contractors, other lenders, credit unions, and community development agencies. This position facilitates individual applications, and acts as liaison between processing, underwriting, closing and the borrower. Duties and responsibilities include:

- Developing a specific client base
- Weekly distribution of rates and programs to clients
- Meet with Sales Managers, Agents to promote awareness of company products
- Prepare applicants for application by communicating company requirements prior to application interview.
- Assure complete application is submitted in compliance with company guidelines
- Correctly communicate lock-in of interest rates with borrower, company and investor/secondary marketing
- Perform weekly status checks on all cases in process and report progress to all interested parties
- Continuously update program specifications to maintain guidelines as current
- Participate in coordinating closings/settlements with borrowers/agents/title-escrow companies

Pre-requisite Experience

B.A., B.S. and/or related industry experience either in financial sales or real estate. Loan Origination is an intensive, competitive, direct customer contact related field. Good organizational and communication skills are required. The first 6 months to 2 years require a large commitment to attracting and maintaining a customer base. Markets vary, but there are generally numerous competing lenders within any area. Loan Originators should be able to manage intense competition for business as well as the cyclical nature of seasonal business and interest rate fluctuations.

Licensing and Professional Education Requirements (SAFE Act)

In conformance with the Housing and Economic Recovery Act (HERA) of 2008 which authorized the Secure and Fair Enforcement of Mortgage Licensing Act (SAFE) Company Name requires that all mortgage loan originators comply with licensing or registry issue requirements.

Loan originators may be hired subject to obtaining appropriate licensing. Company Name acts as a “sponsor” for the originator. In this circumstance, the loan originator is not allowed to interact with the borrowing public but is employed on an interim basis pending receipt of the license or registration confirmation.

During this period time the mortgage originator may perform the following functions

- Assistance with direct mail marketing
- Processing mortgage applications of other loan originators
- Market analysis for professional third party sources of business such as real estate agents, homebuilders, certified public accountants and other intermediary sources of business
- Clerical duties such as answering phones, file copying, distribution of internal communications.

If the new employee is not registered or licensed at the time of employment, he or she must provide a copy of his or her registration on the Nationwide Mortgage Licensing System (NMLS) Registry. At this time, the employee may affiliate with Company Name. Company Name will confirm affiliation. Employment is conditional upon satisfactory registration (after April, 2011) or licensing.

If required to be licensed (State Regulated or Affiliate/Subsidiary of Federal Supervised Institution):

- Register to take the National and State Examinations through NMLS
- Obtain fingerprint and background check
- Pass the National and State Examinations
- Take a NMLS approved 20 hour (or appropriate amount for the state) Pre-Licensing Education course
- Pay all applicable licensing and examination fees
- Upon receipt of license and confirmation in NMLS, the originator will be given business cards and is free to contact customers in fulfillment of prescribed originator duties.

If required to be registered (Federally Supervised Lender)

- Register with NMLS
- Obtain fingerprint and background checks

Compensation Plans

Consumer/Creditor Paid Compensation Plan – Brokers or Creditors

Consumer Paid Model	
Applies to: (Check One)	Consumer Pays to Company Name
<input type="checkbox"/> Individual Originator <input type="checkbox"/> Individual Manager (Personal Production) <input type="checkbox"/> Branch (Specify _____) <input type="checkbox"/> Area Wide (Specify _____) <input type="checkbox"/> Regional (Specify _____) <input type="checkbox"/> National	_____ % of Loan Amount with limits \$ _____ Maximum Fee \$ _____ Minimum Fee
<input type="checkbox"/> Originator receives	_____ % of the loan amount with limits \$ _____ Maximum Loan \$ _____ Minimum Loan
<input type="checkbox"/> Broker/Owner	Plus 100% of Net Profits
<input type="checkbox"/> Production Manager	Personal Production Plus _____% of Branch/Area production volume
Creditor Paid Compensation	
<input type="checkbox"/> Individual Originator <input type="checkbox"/> Individual Manager (Personal Production) <input type="checkbox"/> Branch (Specify _____) <input type="checkbox"/> Area Wide (Specify _____) <input type="checkbox"/> Regional (Specify _____) <input type="checkbox"/> National	Basic Compensation Structure From Lender See Table of Creditor Paid Compensation: Loan Originator or Manager (Employee) is paid _____% of the fee
Production Manager	Personal Production plus _____% of the branch fees
Broker Owner	Personal Production plus 100% of Net Profits

“(ii) For purposes of this paragraph (d)(1), the amount of credit extended is not deemed to be a transaction term or condition, provided compensation received by or paid to a loan originator, directly or indirectly, is based on a fixed percentage of the amount of credit extended; however, such compensation may be subject to a minimum or maximum dollar amount.”

“1. Compensation in connection with a particular transaction. Under § 226.36(d)(2), if any loan originator receives compensation directly from a consumer in a transaction, no other person may provide any compensation to a loan originator, directly or indirectly, in connection with that particular credit transaction. See comment 36(d)(1)-7 discussing compensation received directly from the consumer. The restrictions imposed under § 226.36(d)(2) relate only to payments, such as commissions, that are specific to, and paid solely in connection with, the transaction in which the consumer has paid compensation directly to a loan originator. Thus, payments by a mortgage broker company to an employee in the form of a salary or hourly wage, which is not tied to a specific transaction, do not violate § 226.36(d)(2) even if the consumer directly pays a loan originator a fee in connection with a specific credit transaction. However, if any loan originator receives compensation directly from the consumer in connection with a specific credit transaction, neither the mortgage broker company nor an employee of the mortgage broker company can receive compensation from the creditor in connection with that particular credit transaction.”

Pricing and Risk Management Strategies

Company Name uses a number of strategies to manage pricing risk.

- Marketing Risk (Hedging)
- Delivery Risk
- Post Purchase Risk and Loss Mitigation

Marketing Risk

We define marketing risk as the potential for financial loss due to changes in the value of the loans we make which are intended for sale in the secondary market, or held for yield in a portfolio. In order to offset these risks we utilize different risk mitigation strategies which are commonly referred to as “hedging”.

Hedging Strategies

- **Whole Loan/Flow Sales** – With a whole loan forward commitment, secondary marketing locks the loan in with a third party institutional investor. We record these mandatory delivery contract terms in our internal pricing records. We reflect the net rate commitment expiration date on our internal pricing confirmation communication, after subtracting 10 business days (subject to marketing conditions) so that production has a deadline for loan delivery. Upon loan closing, secondary marketing has 10 days to deliver the closed loan package to the investor for purchase.
- **Best Efforts** – We use this correspondent lending approach in the portion of our production we hedge directly with individual investors. With this strategy we recognize the benefit of no direct “pair-off” penalty. However, we must exercise more diligence in underwriting these loans to meet the investor’s specific requirement. If the individual loan cannot be approved, we must arrange another Best Efforts commitment to meet our interest rate guaranty to the customer.
- **Pipeline Hedging** – Also known as a “TBA” (where the ultimate investor is yet to be assigned), we hedge a portion of our pipeline for which we cannot use a whole loan strategy. This is the case with some of the secondary market investors we deliver loans to, or with loans which are to be aggregated into loan pools for sales as securities. In this instance we purchase price insurance through various put and call securities options to match the relative interest rate profile of our pipeline. In this way, while the market may fluctuate up or down, we can offset any loan or security sale losses.

Changes Requiring Secondary Approval

Certain changes must be approved and acknowledged by Secondary Marketing

- Extensions
- Product Change
- Investor change
- Rate change
- Renegotiation
- Service Retained
- Adding or deleting CRA Credit
- Pricing Shortfall or Underwriting Exception Approved by Manager

Substitutions Not Allowed

Locks are borrower, loan number, and property specific. No substitutions are allowed. If the borrower finds a new property, a new loan number must be issued and the loan must be locked as a new loan. Changes of address will generally be considered as substitutions, but unusual situations will be considered on a case-by-case basis. Investor rules and resultant fees will apply for investor conduit loans.

For assistance with program guidelines, please refer to the mortgage intranet, your processor or underwriter.

Operational risk data, which support the Basel II capital initiative, show that the second most prominent cause of losses are due to breakdowns in execution, delivery, and process management. Organizations who wish to mitigate these types of risk often use design review, quality management, or change control processes to identify potential sources of risk early in the design and implementation process.

Quality control is generally less expensive to design into a new process than correcting an error or rebuilding the system after a problem has occurred. While the old saying of total quality control management that "quality is free" may not literally be true in all cases, most organizations have learned that designing quality into the process not only reduces development and operating costs, it also improves service quality and customer satisfaction." Some of the common operational risk factors that lead to financial losses are:

- Fraud
- User error
- Misinterpretation of business logic
- Coding errors
- Systems constraints
- System glitches
- Operational constraints
- Poor execution, delivery, and process management
- Computer virus, worm, Trojan horse

These risk factors could incur losses in millions of dollars by mortgage lenders and agencies. Unlike market risk, operational risk can be managed, controlled, mitigated or in some cases eliminated. Lenders and investors need to implement constant quality control and risk monitoring techniques to ensure loans are originated according to agency guidelines. In addition to prudent underwriting practices, it's important to ensure that loan data is properly input and passed on to downstream systems with no adverse affect on the salability of the loans in secondary markets.