Post-Closing Quality Control Policy & Procedures
# Revision History

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Policy and Procedures

1. Mission Statement

LoanLogics is a third party provider of quality control services on behalf of mortgage originators. This Policies and Procedures document sets forth the specific methodology under which LoanLogics reviews closed residential mortgage loans. It is our mission to analyze and accurately report our findings on the loan production of our clients. Audits are performed, based on documentation received, to ensure compliance with all applicable rules, regulations, and laws, as well as lender, investor and agency guidelines, governing mortgage lending, as applicable. Reviews are done in accordance with procedures as outlined herein, in compliance with the Fannie Mae and Freddie Mac guides, FHA, VA and USDA requirements, specific client overlays/guidelines, as applicable, and CFPB’s most current examination procedures issued for the areas/documents reviewed. These examination procedures are incorporated herein by reference.

LoanLogics’ re-underwriting includes but is not limited to the verification of the presence, quality and accuracy of the credit and legal documentation. Property appraisals and underwriting decisions must comply with applicable client, agency, and governmental and/or institutional guidelines. Files are re-underwritten for their conformity with the client’s guidelines and industry standards set by FNMA and/or FHLMC, or by FHA, VA and/or USDA, as applicable. Hereinafter, the above are referred to as the “agencies” or “agency guidelines,” and FHA and VA, as applicable, hereinafter referred to as the “government” or “government guidelines.” LoanLogics review includes specific checks and verifications as applicable for tax transcripts, OFAC compliance, borrower identity, borrower employment, occupancy, MERs lien search, public records, property address validation and a check against the FEMA disaster chart.

1.1 Objectives

Compliance is adhered to in the following areas:

- The lender’s policies and procedures, including client specific state/product requirements.
- State and Federal regulations.
- Investor/Client underwriting criteria.
- Insurer or guarantor requirements.
- Regulation X - Real Estate Settlement and Procedures Act (RESPA).
- Regulation Z - Truth in Lending (TILA)
- Regulation B - Equal Opportunity Act (ECOA)
- Regulation C - Home Mortgage Disclosure Act (HMDA)
- SAFE Act
- Fraud
- Predatory Lending.

LoanLogics verifies the accuracy, validity and completeness of the following:

- Borrower applications
- Credit verification and documentation
- Property appraisals
• Closing documentation

LoanLogics evaluates and monitors the following:
• Loan origination process
• Performance of origination personnel
• Underwriting decision process

2. Procedure Statement

The quality control reviews are typically performed within 30 days of the last day of the month in which the loans close. Lender must provide a closed loan report to LoanLogics within 5 business days from the last day of the previous month listing all loans closed within the month. LoanLogics then performs either a Stratified Random Sample or a Statistical Sample to determine the QC population. Loans may be selected based on specific criteria, including any additional criteria added by the client.

When applicable, the first tier in the selection process is government loans versus conventional loans. There is a minimum selection of 10% of conventional loans, including jumbo loans, and 10% of government loans on a monthly basis. A 10% review of all denied loans and withdrawn loans is also suggested. Lenders may decide to add additional loans for review as desired.

The loans selected should comprise a representative sampling of categories such as, the Lender’s Branches, Loan Officers, and Underwriters as well as any Correspondent Lending/ Third Party Originations (TPOs) which represent a high-risk characteristic. A larger sampling is recommended with newly approved correspondents, branches, loan officers, and underwriters. This higher sample can also be incorporated into the Lender’s Discretionary Review as discussed below.

Additional attributes which may be considered in the loan selection process may include the following; Property Type, Property State, Debt-to-Income Ratio, Credit Score, LTV and loans underwritten manually. FNMA Desktop Underwriter (DU) and FHLMC loan Prospector (LP) guidelines specify that the selection include a representative sample of loans underwritten by their Automated Underwriter (AU) systems. The sample should include loans that receive an Approve, Refer with Caution recommendation for DU, and Accept with Caution for LP.

Discretionary sampling is required by the agencies to augment the random sample. These reviews should be designed to target risk areas such as; new Branch offices, Loan Officers, Underwriters, transactions involving complex income calculations, etc. The discretionary sample should focus on areas that have a higher potential for error, misrepresentation, and/or fraud. In addition, loan transactions containing characteristics of past documented problems should be targeted for a discretionary review. Discretionary selections should be made on a monthly basis and the overall effectiveness of each lender’s plan should be evaluated on a regular basis in order to determine if any changes are necessary.

Additional loan sampling characteristics may be added in response to the lender’s specific product mix and loan offerings.

Furthermore, the selections may also reflect:
• Size and structure of operation
• Volume and types of origination
• Significant changes in staff, product sources and production procedures.

A list of all loans closed in a given month should be provided for this selection within 5 business days of month end. Based on the above requirements, a loan selection list is compiled and forwarded to the client.
within 5 days of receipt of the list of monthly closings.

If for some viable reason a loan file selected for audit cannot be provided for review the lender/client may substitute a separate loan for audit in its place. To do so the lender/client must provide a written request for the substitution for review and approval by an authorized Loanlogics QC Manager. The request must be specific and clearly indicate the reason(s) for the substitution. Once approved the related audit project will be documented to include the request and the reason for any allowable substitution. Some examples of allowable reasons for a substitution include, but are not limited to, the selected file

- Is not yet returned from the closing
- Has been selected for an internal QC review
- Was included on the selection report in error
- Piggy back loan selected requiring an accompanying first lien file

Substituted files must be provided by the lender/client immediately upon Loanlogics approval.

2.1 Early Payment Default

Early payment defaults are loans that have gone into default (60 days past due) within the first six payments from closing. FHA requires that 100% of these loans be selected for quality control review. Quality control identifies problem areas of origination, through the analysis of these loans and the loan process. Lenders may, and should, also submit for audit 100% of their conventional and VA EPD loans at their discretion.

An audit of an EPD loan will entail the same process, except for the closing document review, as performed for a loan which would be selected for a post-closing audit. All credit documents in EPD loans be re-verified as outlined in the "Processing" section.
3. **Loan Documentation Requirements**

3.1 **The legal documentation (left side of the file) when applicable**

- Mortgage Note \(\bar{\bar{\text{executed and endorsed}}},\) Consolidation and extension agreement
- Subordination agreement Mortgage assignment
- Modifying Instrument
- Title insurance policy
- Certificate of occupancy
- Survey
- Executed mortgage
- Executed mortgage riders
- HUD-1 and closing statements / Closing Disclosure
- Final Truth in Lending statement
- Initial Disclosures \(\bar{\bar{\text{including but not limited to the following:}}}\)
  - Good faith estimate / Loan Estimate
  - Initial truth in lending
  - Adjustable rate mortgage disclosure
  - Transfer of servicing
  - Appraisal disclosure
  - Lead paint disclosure
  - Flood disclosure
  - Power of attorney
  - Hazard or Homeowners insurance policy or binder with paid receipt
  - Flood insurance policy
  - Flood certification letter Right of rescission
  - Buy down agreement Termite inspection
  - Septic/ well water certificate
  - W-9 request for taxpayer identification
  - Tax authorization letter
  - Tax escrow account
  - Photo identification
  - Payoff letter
  - Lender/Client specific disclosures/notices (per Client Overlays)

If the loan is a Cooperative property, the file should contain the following documentation:
• Recognition agreement
• Stock certificate
• Stock power
• Proprietary lease
• Assignment of lease seller to buyer
• Assignment of lease to lender
• Consent to transfer by board
• UCC-1
• Co-op search
• Security agreement

In addition, the left side of the file should contain the following for FHA/VA loans:
  - FHA Conditional Commitment
  - Escrow Completion Agreement (VA 26-1849), (VA 26-1847), or (HUD 92300) or (HUD 92000)
  - Request for Insurance Endorsement/Loan Guaranty Funding Fee Transmittal.
  - Upfront MIP remittance form.
  - One time up front MIP statement of account.
  - 203k loan documentation if applicable.

3.2 The credit documentation (right side of the file) when applicable
• Commitment letter
• Automated underwriting findings (DU/LP)
• Transmittal Summary (FNMA 1008/ FHLMC 65)
• Initial loan application
• Final loan application
• Credit report
• Re verification of borrower’s credit history.
• Credit explanations
• Re verification of Social Security number
• Validation of qualified parties to the transaction (GSA Excluded Party List and HUD limited Denial of Participation List LDP)
• MERs report
• Verification of owner occupancy
• Signed authorization to release form
• Verification of employment or alternate documentation
• Re verification of income and employment
- IRS transcripts
- Last 2 years personal and corporate tax returns
- Verification of deposit or bank statements
- Re verification of asset information
- Verification of all sources of funds.
- Signed IRS 4506-T at application and/or at closing Executed sales contract
- Appraisal report
- PUD/Condo addendum /questionnaire
- Satisfactory completion certificate
- Mortgage insurance certificate
- Divorce decree, separation agreement
- Mortgage payment history
- Verification of rental history

In addition, the right side of the file should contain the following for **FHA** loans:
- HUD 92900 - LT
- Credit Analysis Worksheet HUD 92900 WS, signed by the DE underwriter (unless HUD approved)
- HUD Firm Commitment signed by HUD and all borrowers (if HUD approved)
- HUD 92900 Addendum signed by lender and borrowers
- Pages 1-4 on all DE approved loans
- Pages 1 and 2 on all HUD approved loans
- Complete FHA Connection
- Amendatory clause signed by buyer, seller, realtor and loan officer
- Real Estate Certification
- Notice to Homeowner
- Importance of Home Inspection Disclosure.
- Hotel and Transient Disclosure (HUD-92561)
- Divorce decree and separation agreement if applicable.
- Wood destroying inspection report.

In addition, the right side of the file should contain the following for **VA** loans:
- Certificate of commitment.
- Signed VA 1802A Addendum signed by lender and all borrowers.
- Loan Analysis Worksheet signed by underwriter (unless VA approved)
- Signed Rate Reduction worksheet (on all IRR Refinances)
- Certificate of Eligibility (front and back)
- Certificate of Release or Discharge (DD214)
- Certificate of Loan Disbursement (VA 26-1878) or (VA 28-1820)
- VA 1880 (for information on previous VA loan)
- VA Indebtedness letter signed by VA (unless VA approved)
4. **Identity Theft**

The Federal Trade Commission’s final rule defines identity theft as a fraud that is committed or attempted using a person’s identifying information without authority. The FTC’s rule recommends that the requirements for a file match include the consumer’s full name, current or recent full address, full social security number and date of birth and for additional proof of identity, copies of government issued identification documents or utility bills. Copies of the Federal register notice are available from the FTC’s website at [www.ftc.gov](http://www.ftc.gov).

During the origination process it is prudent and in the best interest of all concerned parties to confirm that the information given on the application matches. One example is to ask for a copy of the borrower’s social security card. Victims of Identity Theft can place a fraud alert on their credit reports. It is recommended that the lender establish formal procedures for the re-verification of the borrower’s identity if a credit report contains a fraud alert. A FACT Act form must be included in all files, as required the Fair and Accurate Transaction Act.

LoanLogics will further verify the borrower’s identity verification through online sources. Auditors will also review the file to determine whether loan documentation, including, but not limited to, income documentation, has been altered or forged in any way. LoanLogics will notify the lender of any adverse findings.

4.1 **Red flags**

- Application appearing forged altered or destroyed and re-assembled.
- Fraud alert included in the credit report.
- Returned mail for any verification as not deliverable.
5. **Processing Review / Re-Verification Process**

LoanLogics enters loan data, information, comments, and risk ratings into its due diligence system. The system generates reports that are posted to its web based platform, LoanHD. A comprehensive report, iQC Summary Reportö details risk ratings for compliance, closing documents, and credit and provides informational comments. An individual iAsset Summaryöis also provided which summarizes all QC findings in an individual format for each loan.

Fannie Maeö Selling Guide, Freddie Macö Seller/Servicer Guide, FHA Handbook 4000.1 and, as applicable, VA Lenderö Handbook provide instruction on re-verification of income, employment, and assets directly with the source of the original documentation during Post Closing Quality Control Reviews. For FHA loans a reverification attempt will be done for any mortgage and/or rental information. An attempt to verify the property occupancy as intended is also required. Fannie Maeö selling guide indicates the reverifications should be in writing; however verbal re-verification may be accepted provided the conversation is documented in writing and states the name, title, or position of the interviewee. Freddie Macö seller/servicer guide indicates that a re-verification may be in written or verbal form and also must be completely documented. Government loans require a written attempt at re-verification.

For conventional and jumbo loans LoanLogics will attempt a written request, from the source of the documentation provided, for the reverification of employment, income, and all assets and sources of funds used for the loan's down payment, approval and/or closing.

LoanLogics will also attempt to validate the occupancy as intended by the loan transaction. A review will be performed for any loan selected which is to be secured by a principle dwelling to validate occupancy. LoanLogics will review the property insurance policy, appraisal, any tax returns, employment and assets documentation provided in the loan file to determine anything which may indicate the property financed will not be/ is occupied by the borrower(s) as a primary home. In addition an attempt to verify the borrowerö new phone number established at the financed property may be conducted, when deemed necessary, and properly documented within the loan file.

Post-closing re-verification for FHA & VA loans is to make a written request for verification of the documentation provided for the employment, income, assets, rental and/or mortgage references as required by FHA or VA, as the case may be. For FHA loans only, if there is no response to the written request an attempt at a verbal re-verification is made and the results documented.

In addition, as may be required by the Agencies, FHA or VA, as the case may be, LoanLogics will review the IRS tax transcripts provided by the lender to validate the income and source(s) used in approving the loan. In the event a file does not contain such transcripts the loan will be conditioned for receipt of the transcripts from the lender. The lender may then obtain the transcripts directly from the IRS, or through an authorized vendor, for return to LoanLogics in the rebuttal process. Where the tax transcripts were not initially required in connection with the loan's approval the final report will exclude this finding from the gross defects category.

LoanLogics posts an image processing file for each loan that has been selected for re-verification in a folder within the digital loan record on LoanHD. The folder contains digital copies of the cover letter, borrower(s) authorization, and documents that were mailed for re-verification, and/or obtained in connection with the re-verification process. Post-closing credit reports and field reviews are also posted within the loan record on LoanHD, as applicable. Written re-verification responses received are posted to the processing file. LoanLogics considers the QC results final 45 days from the date written re-verification requests are sent.

LoanLogics will provide a separate report for iRe-verification Findingsödetailing any discrepancy and/or instance of fraud as communicated thru the re-verification forms. LoanLogics will further confirm the findings
by calling the person who completed the form if he/she has detailed any discrepancy between the documentation in the file and the actual records of the company/banking institution.
6. **Underwriting**

Whether a loan is underwritten manually or through an automated system, LoanLogics’ Quality Control program provides for a review of mortgage loan files to evaluate the loan origination and underwriting functions, and determines whether information in the primary loan application, final application, and all credit documents is consistent and reconciled. LoanLogics determines the accuracy and completeness of underwriting conclusions and mortgage documentation in accordance with all agency, governmental and client requirements.

6.1 **Application & Transmittal**

LoanLogics’ reviewers examine the Uniform Residential Loan Application (FNMA 1003/FHLMC 65) and/or the FHA Loan Underwriting and Transmittal Summary. This is to determine the accuracy and completeness of the processed file. A comparison is made between the original handwritten application and the final application. This is for substantive discrepancies and conformity in signatures and dating. The loan officer must sign and date the application. The initial loan disclosures must be dated and mailed within three business days of the application date.

It is important that the entire application, including the Government Monitoring section be completed in its entirety. The sales/originator staff should be trained on completing the loan application (URLA).

The following is a list of “red flags” in the mortgage application:

- Down payment other than cash (rent credit, sale of personal property, repayment of loan, gift, etc.)
- Post Office Box is the only address listed for the employer (especially on the handwritten application).
- Significant or unrealistic commute distance from subject property to employment (on owner occupied transactions).
- Number of years on the job/ employment inconsistent with borrower’s age.
- Borrower’s level of education is inconsistent with employment.
- Assets inconsistent with liabilities (for example, significant assets, yet minimal or no credit)
- Buyer is downgrading to a smaller, less expensive home.
- Borrower income inconsistent with type of employment.
- Incomplete schedule of real estate owned.
- Incomplete handwritten application.
- Significant or contradictory changes in debt, employment, income or assets from the initial to the final loan application.
- Borrower is purchasing property from landlord or employer.
- Handwritten application lists debts in same order as credit report.
- Invalid social security number.
- Same telephone number for buyer and employer.
6.2 Credit

Quality Control obtains a new credit report on the whole sample from three repositories. This updated credit report is compared to the credit report obtained at origination for any discrepancies or undisclosed credit at time of application. Any discrepancies are reported to the client.

The credit report must identify each borrower’s name and social security number. For each debt listed, the report must also show the date the account was opened, the high credit amount, the required payment, the unpaid principal and the payment history, as contained in the credit repositories. The report must be in an easy to read and understandable format and it should not require code translation. The credit report must include bankruptcies, judgments, lawsuits, foreclosures and tax liens that have occurred within the last seven years. All inquiries made within the last 90 days must also be included in the report. At origination, the lender obtains a credit report containing credit information from at least three repositories. A determination will be made to check if more than one credit report was ordered and whether all credit reports were submitted with the loan package. A check will be made to determine that the reference number reflected on the credit report matches the one reflected on the AUS Feedback Certification, when applicable. If there are any outstanding judgments the underwriter should have properly addressed them in underwriting the loan transaction.

The borrower’s entire credit history is examined to indicate future trends based on past behavior. A review of the credit file is conducted to determine the following:

- Review of AUS findings and requirements to determine product eligibility if applicable
- Documented credit scores are acceptable as compared to AUS findings and/or applicable client guidelines.
- Borrowers are first time home-buyers.
- Review of Fraud Alert if applicable.
- Quality control pre closing re-verification credit report is reviewed to confirm all of borrower’s debts.
- All documents reflecting the borrower’s social security number are compared to verify accuracy.
- The number of times the borrowers have made late payments (30, 60, 90) on the liability types and comparing the allowable mortgage and consumer late payments with the DU findings and/or client guidelines.
- Results from the Public Records, ensuring that past due accounts/collections were duly paid off from the loan proceeds or other applicable sources. Public records reviewed include:
  - Collections
  - Garnishments
  - Judgments
  - Liens (tax, etc.)
  - Other
- Other file documentation for bankruptcy to determine if both the AUS findings and Lender’s guidelines allow a bankruptcy within the time frame reflected on the credit report.

Social Security numbers are issued to an individual for life. However, under extreme circumstances and very strict regulations and law, the Social Security administration will issue the individual a new social security number. An example of extreme circumstances is identity theft. In response to a growing incidence of identity theft, some providers of consumer credit have implemented a policy of printing an
abbreviated version of the individual’s social security number.

The following is a list of red flags in the credit report:

- No credit history (possible use of aliases or different social security number).
- All credit reports/supplements are not included in file.
- Variance in residence date from other file documentation.
- Invalid social security number or variance from that on other documents.
- Personal data not consistent with handwritten mortgage application.
- Employment cannot be verified by a certain bureau.
- Credit habits inconsistent with income/employment.
- All trade lines opened at the same time or opened recently.
- All accounts paid off recently (possibly a new undisclosed consolidation loan).
- Refinance of recently originated loan (current lender may have accelerated for misrepresentation).
- Length of time on credit bureau file is inconsistent.
- Handwritten application lists debts in the same order as the credit report.
- Indebtedness disclosed on the mortgage application varies from that reflected on credit report.
- In file credit report on closing date shows additional debt.

6.3 AUS Findings

When underwritten using an automated system the latest AUS Findings are reviewed against actual loan file documentation to confirm AUS data integrity and determine that all AUS requirements for approval have been met by the lender. AUS conditions are reviewed for accuracy as well as LTV/CLTV and DTI thresholds as specified by the approval, and any client specific lending policy.

6.4 Income / Employment

The anticipated amount of income, and the likelihood of its continuance, must be established to determine a borrower’s capacity to repay the mortgage. Income is recalculated to ensure accuracy using the applicable agency, governmental and client guidelines and requirements.

Original documentation verifying employment and income documentation is required in accordance with the requirements of FNMA’s and FHLMC’s selling guide, and governmental insuring agency requirements, for loans underwritten by their automated underwriting systems, as well as those manually approved. A verbal re-verification of all employment is also required within 10 days prior to closing for conventional loans.

It is a requirement that all borrowers must complete and sign a 4506-T at both application and closing regardless of the amount and source of income. Lenders are strongly encouraged by FNMA and FHLMC to process the 4506-T and obtain tax return transcripts prior to closing (many investors require lenders to do so). See Section 5 for 4506-T handling and the requirements for tax transcripts on conventional loans.

For self-employed borrowers, the loan package should contain complete tax returns, with all appropriate schedules, financial statements and the appropriate type of credit report.
Stated Income:
- Review the reason-ability of the stated income by utilizing third party online sources such as salary.com and Manta and document results

Full Documentation:
- Review of VOE, pay stubs and W2s and calculate income.
- If borrower is self-employed obtain IRS tax transcripts if not in file:
  - Calculate income from tax returns in file
  - Review for completeness and verify signatures.
  - Calculate income from subject property if applicable as well as other investment properties owned.
  - Validate employment through independent third party when possible
- Comparison of IRS transcripts with the borrower’s actual claimed income on the tax returns in order to confirm all income sources and related expense
- Review of pre-closing income re-verification documents against income documentation.
- Confirm compliance with QM/ATR and Appendix Q provisions of TILA (refer to TILA 1026.46 & Appendix Q)

The following are a list of red flags under income and employment:
- Evidence of white outs or alterations.
- Appearance that VOE may have been hand carried and not mailed (i.e., not folded, not creased)
- Name of employer incorporates some form of the borrower’s name.
- Employer typed verification of employment.
- Date of hire is a weekend or holiday.
- Rounded dollar amounts in year to date or prior year’s earnings.
- Employer’s address shown only as post office box or mail drop.
- Handwritten pay stub or W2 forms.
- Income out of line with type of employment.
- Commission type position with base salary and vice versa.
- Tax returns not signed or dated.
- Borrower with substantial cash in bank with little or no interest income.
- Real estate taxes or mortgage interest paid, but no ownership of real property reported.
- Different handwriting or type style within one document.
- Confirm compliance with validity of income used with TILA Appendix Q (refer to TILA Appendix Q)
6.5 Assets/ Source of Funds

All funds for the borrower's investment in the property and used for the loan's approval must be verified, re-verified and documented. Acceptable sources of these funds include, but are not limited to the following:

- Savings and checking account.
- Gift funds.
- Sales proceeds.
- Sale of personal property.
- Trade equity.
- Employer's guarantee plans.
- Savings bonds, IRAs, thrift savings and 401Ks.
- Stocks and bonds. (Investment accounts)
- Cash saved at home. (when allowable)
- Cash accumulated with private savings clubs. (when allowable)

Any verification of deposit, bank statements, gift documentation and savings ability are analyzed. A review is made to determine that the borrower had sufficient funds and acceptability of the source for their required investment (including earnest money deposit), prepaid items, closing costs and sufficient cash reserves. The following is a list of red flags for assets and source of funds.

- New bank account.
- Rounded dollar amounts.
- Evidence of white outs or alterations.
- Recent large deposits without acceptable explanation.
- Illegible signatures with no further identification.
- Source of funds consisted of unverified gift, equity exchange or repayment of personal loan.

LoanLogics will review the asset information and documentation provided by the lender to ensure the lender had properly verified the source of the down payment, any large deposits, as defined by the applicable agency's and/or governmental insurer's guidelines, reserves and funds used for the closing in accordance with applicable agency and/or governmental insurer guidelines and requirements. When it is determined the lender had not properly verified the source of any funds used for the transaction the lender will be notified so an investigation may be made by the lender for any suspicious activity and the potential for any anti money laundering violation. When the lender identifies a potential misuse of funds the lender should then file a Suspicious Activity Report (SAR) with the Financial Crimes Enforcement Network of the US Department of the Treasury, and notify either Fannie Mae, Freddie Mac, FHA/VA and/or the investor to which the loan was sold, as applicable.

6.6 Debt Review Procedure

A review of the credit file is conducted for:
- Verification of the subject mortgage payment and the first payment letter amounts concur.
- Review documents for any subordinate or first position liens on the subject property.
- Review note for interest rate.
- Verify that all other housing expenses are accurate.
- Determine primary housing expense when reviewing a second home or investment property transaction.
- Determine cash flow from all income producing properties, including the subject.
- Review the credit report to determine other debts.
- Recalculate debt ratios and verify that front and back conform to AUS findings or applicable underwriting guidelines.
- Confirm compliance with TILA Appendix Q (refer to TILA Appendix Q)

6.7 Sales Contract Review (also see Section 8.2)

- Review of sales contract to ensure that all applicable addendum are present and duly executed. On FHA purchase transactions, make sure that the Amendatory Clause and Real Estate Certification are complete and properly executed.
- Review of seller concessions to ensure that they fall within the maximum allowed by the loan program, agency, governmental and/or specific investor overlays, as applicable.
- Review of sales contract to confirm that final sales price concurs with final HUD-1/Closing Disclosure.

6.8 Property Review Procedure

The original appraisal and all supporting documents are examined to ensure it meets all agency, governmental and/or client guidelines, as applicable. The appraisal report must be the Uniform Residential Appraisal Report (URAR or Form 1004), Small Residential Income Property Report (Form1025), Individual Condominium Report (Form 1073) or Manufactured Home Report (1004C). It must contain a location map of the subject as well as a building sketch and photos of the front & rear of the subject property, street scene and photos (not MLS photos) of the comparable sales and any item of a contributory value (e.g. a detached garage or outbuilding). Certain guidelines require interior photos.

The second page of the report should contain comparable sales that are within a reasonable distance from the subject property. All adjustments must be reasonable and consistent. Individual Line Item Adjustments should not exceed those allowable under agency, governmental or client guidelines, as applicable.

All original appraisals have a desk review performed during the Quality Control process. Approximately (10%) of all loans selected for review have a Field Review appraisal conducted by a qualified independent appraiser. This Field Review sampling must include a minimum 10% of all of the FHA loans, when applicable, included in the overall sample. For example, if there are 100 loans in the overall sample and 70 of them are FHA loans then 10 Field Reviews must be processed and 7 of the 10 must be FHA loan transactions.

Although Field Reviews are not required to be performed on a lender's QC Discretionary Sample if a 10% Field Review sampling of FHA loans, when applicable, must still be maintained. For example, if there are 75 FHA loans in the overall Random Sample and 5 FHA loans in the Discretionary Sample, then Field Reviews on at least 8 FHA loan transactions must be processed.
In addition to the Random and Discretionary Sample (if any) — FHA requires all Early Payment Defaults (EPDs) to have QC reviews. As a result, Field Reviews must be processed on at least 10% of the overall sample, plus on all EPDs. For example, if there are 75 FHA loans in the Random Sample, 5 FHA loans in the Discretionary Sample and 5 FHA EPDs — then the total number of FHA loans that month is 85 which would require Field Reviews to be processed on at least 13 FHA transactions; 8 to cover the Random and Discretionary selections plus the 5 EPDs.

The review underwriter compares the field reviews with the original appraisal. If there is a disagreement between the original appraisal and the field review, it is reported to the client.

When preparing the report, the appraiser must consider certain variables in determining final value. Market value, as stated, must be supported with the comparable sales utilized by the appraiser, in compliance with any agency, governmental or client guidelines. Comparable sales are reviewed for design, similarity and proximity to the subject. All comparable sale adjustments are reviewed and assessed if they are reasonable and calculations are re-computed.

- Original appraisal was used and was valid at time of closing.
- Appraisal information matches other loan documents.
- Neighborhood section does not include any adverse marketability issues.
- Loan to value is within acceptable guidelines.
- An appropriate Remaining Economic Life estimate was provided by the appraiser per agency guidelines.
- Correct appraisal form was used for the type of property being appraised.
- The seller was the owner of record or was exempt from this requirement in accordance with agency guidelines.
- Verify square footage as outlined on the Building Sketch provided by the appraiser.
- Age and distance of comparable sales conforms to current FNMA/FHLMC or program guideline parameters.
- Confirmation of appraised value. Determine if this appraised value was arrived at using acceptable comparable sales with reasonable adjustments.
- Appraisal is signed, dated and within guidelines. Appraiser’s license must be valid as of the effective date of the appraisal. For FHA or VA loans the Appraiser must be an active member of the FHA Roster and/or VA panel, as applicable.
- All required applicable addenda are attached.
- Health & safety repair items are adequately addressed and there is evidence provided in the file clearing all such repairs as well as other conditions.
- On newly constructed homes, the appropriate new construction related documents are contained in the file if applicable (e.g. Builder’s Certification, Certificate of Occupancy, etc.).
- Order and review AVMs or review appraisal per investor guidelines.

**Appraisal Red Flags:**

- Subject property had a recent listing lower than the appraised value
- Incorrect square footage estimates for the subject property and/or comp sales
- Undisclosed deferred maintenance
- Negative external influences not identified in the appraisal report
- Only one (or none) comp sale from the subject property’s defined neighborhood
- Comparable sales used are property flipping transactions
- Comparable sales are in superior locations
- Adjustments are understated or overstated in the same direction (positive or negative)
- Missing exhibits (location map, building sketch, photos, etc.)
- Location map identifies comp locations which cross major highways or barriers that may be indicative of location differences

### 6.9 Title

The title is reviewed to determine if there are any title issues. As part of our review we:

- Verify that closing agent matches HUD-1/Closing Disclosure and other applicable documents.
- Compare legal description to security instrument and appraisal for accuracy
- Verify that vesting is accurate and matches other documents in file.
- Verify lien position and applicable subordinate /senior liens.
- Verify title amount is not less than original loan amount.
- Verify the mortgage clause effect the lender of record.
- Verify presence of ALTA 7.1 endorsement if applicable.
- Review title exceptions for issues that impact clear title.
- Verify that there are no unpaid taxes or liens.
- Verify all pages/ endorsements are present.

### 6.10 Fraud Review

- Verify any red flags (see red flag sections)
- Verify borrower identity documentation
- Identify any possible occupancy misrepresentation.
- Utilization of external third party resources to validate possible misrepresentation.
- Validation of the borrower’s occupancy of the subject property.

### 6.11 HUD-1 Settlement Statement / Closing Disclosure

- Verify usage of the proper form and Final HUD-1/Closing Disclosure provided.
- Verify settlement and disbursement date
- Verify document has original signatures, or is true certified from closing agent, when applicable.
- Verify property address is correct.
- Verify borrower’s name is correct.
- Verify the HUD-1/Closing Disclosure transaction matches the appropriate loan purpose.
- Verify purchase price matches all other documents to properly calculate LTV/CLTV.
- Verify seller credits and down payment are within all applicable guidelines.
- Verify cash out amount supports appropriate loan purpose as defined by applicable lending guidelines.
- Verify odd days interest is calculated based on appropriate funding date.
- Determine the interest paid thru date on odd days interest.
- Verify borrower has sufficient assets to document cash to close.
- If outstanding liens were present on title, verify that they were paid.
- Verify that escrow reserve amounts match escrow analysis. (refer to CFPB Mortgage Originations Exam procedure Module 5 item 4)
- Verify the HUD-1/Closing Disclosure monthly escrow amounts match the first payment letter and pay history.
- Verify all pages of document are present, complete and accurate.

6.12 Mortgage Insurance review – MI certificate

The MI certificate and credit file are reviewed for accuracy and the following key elements verified:

- Borrower information matches other documents.
- Property address matches other documents.
- MI Company is acceptable to investor.
- MI insurance has not expired.
- Payment amount matches reserves on HUD/Closing Disclosure, if applicable.
- The MI coverage matches the minimum required by AUS/applicable guidelines.
- Policy coverage matches the loan amount.
- MI certificate number
- MI premium and premium tax rate if applicable.
- Determine if the MI is fixed or declining.
- MI due on first payment of policy deferred.
- Insured lender on certificate must be insured lender of record.
- LTV matches final loan characteristics.
- Term is specified on the MI certificate and loan documents.

6.13 Mortgage Insurance review – Mortgage Insurance Certificate (MIC- for FHA loan transactions)

The FHA MIC and credit file are reviewed for accuracy and the following key elements verified:

- Borrower information matches other documents.
- Property address matches other documents.
• Payment amount matches reserves on HUD/Closing Disclosure, if applicable.
• Policy coverage matches the loan amount.
• MIC is properly executed and has correct FHA case number
• MI premium and premium tax rate if applicable.
• Insured lender on certificate must be insured lender of record.
• LTV matches final loan characteristics.

6.14 Citizenship and immigration status
All borrowers whether US citizens, permanent resident aliens or non-permanent resident aliens must have their own valid social security number as issued by the Social Security Administration. Evidence of residency and work status (or Employment Authorization Document) should be obtained from the U.S. Citizenship and Immigration Services. The Social Security card by itself cannot be used as evidence of work status.

6.15 Underwriting Texas Section 50(a) (6) Loans
A Texas Section 50(a)(6) mortgage is a mortgage originated under the provisions of Article XVI, Section 50(a)(6) of the Texas Constitution, which allows a borrower to take equity out of a homestead property under certain conditions.

By the sale of a Texas Section 50(a)(6) mortgage to FNMA, lenders represent that the mortgage loan complies with Article XVI, Section 50(a)(6), of the Texas Constitution.

LoanLogics will audit Texas Section 50(a)(6) loans for compliance to all requirements to the applicable product/program guidelines as follows:

- The borrower’s first payment must be due no later than two months after closing.
- The lender must provide the title company with a detailed closing instruction letter, and require acknowledgment of its receipt.
- The fair market value of the property must be based on an appraisal or an evaluation that is prepared in accordance with a state or federal requirement applicable to the extension of credit.
- The proceeds of a Texas Section 50(a)(6) mortgage must not be used to acquire or improve the subject property.
- If the new mortgage is a Section 50(a)(6) refinance transaction originated in order to cure a failure in the original mortgage to comply with Section 50(a)(6), then the Texas law requirement that at least 12 months have passed since any previous Section 50(a)(6) mortgage secured by the homestead property was closed does not apply and the mortgage is eligible for sale to Fannie Mae provided that it complies in all respects with Fannie Mae’s requirements.
- Owner occupied primary residences only.
- Texas Section 50(a)(6) mortgages must be secured by first liens and may have original terms up to 30 years. Only the following mortgage products are eligible as Texas Section 50(a)(6) mortgages:
- A fully amortizing fixed-rate mortgage with payments due on a monthly basis; or
- An ARM with a 30 year term, payments due on a monthly basis.
- ARM mortgages may not be assumable.
- Texas Section 50(a)(6) mortgages may not have an interest-only period or be subject to the possibility of negative amortization.
- Interest rate buy downs are not permitted for Texas Section 50(a)(6) mortgages.
- A Texas Section 50(a)(6) mortgage must be secured by a single-unit principal residence constituting the borrower’s homestead under Texas law. These include a detached dwelling, an attached dwelling, a unit in a PUD project, a unit in a condo project, a manufactured home. 2-4 units are not eligible.
- The maximum allowable LTV/CLTV is 80%.
- Texas Section 50(a)(6) mortgages are eligible for refinance under DU Refi Plus and Refi Plus.
- All Texas Section 50(a)(6) mortgages must be identified at delivery with SFC 304, defined as follows: SFC 304: Texas Section 50(a)(6) mortgage. Used to identify a mortgage that is originated under the provisions of Article XVI, Section 50(a)(6), of the Texas Constitution. This code must be used in conjunction with either SFC 003, if the transaction is classified as a cash-out refinance transaction under Fannie Mae’s policy, OR SFC 007 if the transaction is classified as a limited cash-out refinance transaction under Fannie Mae’s policy.

6.16 Underwriting Reverse Mortgages

A Home Equity Conversion Mortgage (HECM) or reverse mortgage is a home equity loan that permits a homeowner to convert the equity in their home into cash while they retain ownership. Equity is the difference between the appraised value of the home and the outstanding mortgage balance. Instead of borrowers making payments to the lender, the lender makes payments to the borrower.

Reverse mortgages require that the youngest borrower be at least 62 years of age. The home must be a primary residence and must be a single family, 2-4 family home, a federally approved condominium, or a planned unit development. If there is already a debt or existing mortgage against the home, it must be paid off. A determination is made to ensure that the homeowners received the appropriate counseling (on FHA HECM loans) and that all fees and charges assessed to the borrowers are reasonable. Verification that the HECM Financial Analysis Worksheet has been completed properly (for all HECM loan transactions in which the FHA Case Number Assignment date is on and after April 27, 2015) and is in compliance with the HECM Financial Assessment and Property Charge Guide will be made by the audit staff. This review will also include the Life Expectancy Set-Aside Determination and related calculations.

LoanLogics’ audit staff will review the following on a HECM loan transaction:

- review of the Housing Counseling Certificate (Form HUD-92902) to determine that it is properly executed and dated before the date of the HECM loan application (for FHA HECM transactions)
- Review documentation in file to determine that the subject property is the primary residence of the borrower(s).
- Review documentation in file to determine that the age of the youngest borrower is at least 62 years old at the time of loan application.
• A check to see that the HECM borrower(s) have a valid Social Security Number, a clear CAIVRS number and GSA/LDP clearance will be conducted. Also, any delinquent federal debt or unpaid property liens stemming from state or court-ordered judgments must have been resolved prior to loan closing.

• Verification will be made that the Maximum Claim Amount (MCA) was properly calculated.

• Verification will be made that the Title Insurance is at least equal to the MCA.

• Verification will be made that the Principal Limit (PL) was properly calculated. ML 2014-12 contains the most recent PL factors.

• Verification will be made that the Initial Draw is sufficient to pay off all property liens unless the borrower has verified assets to cover any liens or that the liens are subordinated to the HECM loan.

• Verification will be made that the interest rate/initial draw amount is correct on the first Note. Also, some states require a dollar amount on the second Mortgage. If applicable the auditor will check to see that this dollar amount is at least 1.5 times the MCA.

• If the HECM borrower selects a fixed rate loan the auditor will check to see that the borrower(s) were limited to a Single Disbursement Lump Sum payment (with no future draws available). If an adjustable rate HECM loan is obtained (on or after June 18, 2014), the borrower(s) may continue to choose from a line of credit, term, tenure, modified term or modified tenure payment options (in accordance with instructions contained in ML 2014-11 and 2014-21).

• If the appraisal is made "subject to completion of repairs" any required repairs that cost less than 15% of the MCA can be completed after loan closing. A check will be made to see if a Repair Set Aside (in an amount at least equal to 150% of the cost of repairs plus the repair administration fee) was properly executed. Required repairs that cost more than 15% of the MCA must be completed before loan closing. If applicable the auditor will check to see that a clear Inspection Report is contained in the loan file (refer to Chapter 3 of HB 4235.1).

• Verification will be made that the HECM Financial Analysis Worksheet has been completed properly (for all HECM transactions in which the FHA case number was assigned on and after April 27, 2015) and signed and dated by a DE underwriter. This Worksheet will be reviewed to determine if it fully complies with the requirements set forth in the HECM Financial Assessment and Property Charge Guide. This includes the Life-Expectancy Set-Aside Determination and related calculations.

6.17 Underwriting FHA 203K

HUD’s primary concerns with the 203 (K) program are energy efficiency, safety and code compliance. In addition to the standard review for FHA loans we perform an in-depth analysis of the processing and endorsement of 203(K) loans and refer to the Rehabilitation Home Section of FHA Handbook 4000.1. We also review the following:

- The extent of the rehabilitation work required.
- Cost estimate of the work; and
- The expected market value of the property after completion of the rehabilitation of the property.
- Contractor’s license, if provided.

When basic improvements are involved, the following costs can be included in addition to the minimum $5,000 requirement (i.e. new free standing range, refrigerator, washer and dryer, and other appliances).

There is a time limit on the rehabilitation construction period:

- The work must begin within 30 days of the closing date.

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- The work must not cease prior to completion for more than 30 consecutive days.
- The work is to be completed within six months following the agreement. However, the lender should not allow a period longer than is required to complete the work.

No appraisal can be ordered without an itemized contractor’s bid or 203(k) Consultant’s report that includes a breakdown of labor and material costs.

On Limited 203(k) loan transactions, a determination is made that the total dollar amount of repairs do not exceed the $35,000 threshold established by HUD/FHA for this program and that the nature of the repairs meet the guidelines established for this program (e.g. no complicated repairs requiring architectural exhibits or detailed drawings, repair of structural damage, new construction (additions), etc.).

A review of the applicable Maximum Mortgage Amount Worksheet is made to determine that the mortgage amount was calculated properly.

6.18 Underwriting VA loans

VA loans will be reviewed to ensure compliance with all relative VA requirements and guidelines as outlined in VA Pamphlet 26-7 and related Circular Letters and updates. VA loans should have an overall DTI ratio of forty one percent (41%). This ratio can be exceeded if the residual income guideline is exceeded by at least 20%, or the underwriter’s supervisor provides a statement justifying approval if the 20% residual guideline is not met. These ratios and other criteria may be somewhat different for Community Homebuyer programs and other targeted products. Such loans will reviewed according to their specific loan guidelines.
7. **Loan Quality Initiative (LQI)**

*refer to FNMA Selling Guide*

Fannie Mae’s Loan Quality Initiative became effective on 7/1/10. The purposes outlined by Fannie Mae of the LQI are the following:

- A principle for conducting business.
- Sustainable homeownership.
- The elimination of loan defects and improvement of loan quality.
- A benchmark for competency and effectiveness.
- Reduction of repurchase risk.

The LQI’s mainly aims to make the quality control process more robust and effective. Lenders are expected to take the necessary steps in order to improve loan quality and the loan production process. To that end, the lenders must implement a quality control process and perform additional due diligence prior to and post-closing:

Prior to closing:

- Confirmation of each borrower’s identity.
- Validation of the borrower’s respective Social Security Number or individual Taxpayer identification number (ITIN) with the social security administration.
- Confirmation that all parties to the mortgage transaction meet certain qualifications.
- Determination that all borrowers’ debts are included in the qualification for the mortgage loan.
- Identification of the property unit number.
- Calculation of LTV ratios.
- Manual underwriting of DU Refer with Caution/IV loan files.

Post-Closing Quality Control:

- Reconciliation of the borrower’s IRS transcript information with the loan documents in the file.
- Re verification of the borrower income, employment and asset information.
- Re verification of the borrower’s traditional and nontraditional credit history.
- Review of closing documents.
- Obtaining a new credit report from a different credit source on the sample selected for post-closing Quality Control.
- Obtaining an appraisal desk review on 90% of the sample, and a field review on the remaining 10% of the sample selected for quality control.
- Verification of data integrity for DU with documentation in file.

FNMA has issued specific directives for the implementation of the above requirements. LoanLogics’ Quality Control process includes a review for adherence to the LQI requirements.
8. **Legal and Closing**

LoanLogics will review the legal documents including the original mortgage commitment. This is to determine that all conditions of the commitment were satisfied prior to closing. Additionally, all legal and closing documents are examined for completeness and accuracy, and compliance with applicable law, rules and regulations.

### 8.1 Note, Mortgage and Riders

These documents are checked for consistency and accuracy. This is to assure the correct signatures, loan amount, interest rate property address, and legal description. LoanLogics also checks relevant documents that are signed in blank by the mortgagor or employee of the lender, and that all corrections were initialed by the mortgagor/employee. The Closing Instructions are checked to make sure all items and conditions have been met.

### 8.2 Contract of Sale (also see Section 6.6)

The Contract of Sale is reviewed and analyzed for contractual agreements with particular emphasis to state-specific stipulations. The terms of loan must agree with the Contract of Sale. LoanLogics will note any discrepancies between the Contract of Sale and the HUD-1 and/or Closing Statement.

The following is a list of flags for the Contract of Sale:

- Seller shown as a relative, real estate agent or employer.
- No real estate agent involved.
- Sales price substantially below market value.
- Assignment of contract or borrower not shown as purchaser.

### 8.3 HUD-1 Settlement Statement / Closing Disclosure (CD)

The HUD-1 Settlement Statement/Closing Disclosure is reviewed and compared to the Contract of Sale, the Note, and Closing Instructions. The settlement charges are computed and adjustments are checked. Any Addendum to the HUD-1/CD is checked to determine if it is accurate and certified by appropriate parties. Per Diem interest is re-calculated and verified. The Mortgage Insurance Premium, if applicable, is checked for accuracy. The HUD-1/CD is compared with other relevant loan documents to determine whether the mortgagor made the required investment and whether any credits resulted in an over-insured mortgage.

### 8.4 Title Reports and Insurance

Title Policies record the uninterrupted chain of title, noting all liens and encroachments that have been duly recorded. Problems with Title reports should be resolved before the issuance of the Title Policy. Such problems could exist as changes in owners or their status, outstanding surface rights, un-located pipelines, maintenance and encroachment easements, licenses and agreements. Surveys are checked. Quality control also checks for possibility of a straw-buyer through the chain of title. Certificate of Occupancy (CO) and the Certificate of Completion (CC) are verified as consistent with appraisal data.
Special attention is given to property "flipping." According to specific agency, governmental and client guidelines. Property "flipping" is when a property is resold 90 days or fewer following the date of acquisition by the seller. The problem associated with "flipping" is the potential of inflated appraisals.

8.5 Hazard Insurance

Each file must contain a Hazard or Homeowner's Insurance Policy or Binder with paid receipt. Hazard insurance is collected on every loan originated, with the exception of Refinances. All fees are recorded on the HUD-1 Settlement Statement/Closing Disclosure. The policy coverage should be for 100% replacement cost of the dwelling and its contents, or at least the final loan amount. Quality control makes several checks in reviewing the Policy, including but not limited to, that the name(s) and address match all legal documents and the amount of coverage is adequate.

8.6 Flood Insurance

LoanLogics will verify compliance with the National Flood Insurance Reform Act of 1994. Each mortgage loan file must contain a Flood Certification. This certification will reflect the Flood Zone designation for the subject property (which will be compared to the data provided by the Appraiser on the appraisal report). If the property is located in a flood hazard area, adequate flood insurance is required. It is the responsibility of LoanLogics to verify the existence of this document.
9. **Compliance**

Some lending practices fall under the umbrella of abusive (or "predatory") lending. These abuses include things such as "steering", "high cost mortgages", and "equity stripping". In addition to compliance with agency and governmental guidelines we adhere to the requirements of state and federal regulations. There are many laws involved in mortgage compliance. The following is a partial listing of some of the Federal Acts to which LoanLogics ensures compliance.

9.1 **Truth-in-lending Act (TILA)**

The purpose of this regulation is to promote the informed use of consumer credit by requiring disclosure about a mortgage loan's terms and cost. The regulation also includes substantive consumer protections. Coverage includes all credit provided which is secured by a residential dwelling. The regulation covers the required form, timing, and content of the disclosure which must be provided to the consumer. It also covers the determination of the annual percentage rate (APR), which includes all fees and charges being paid by a consumer in obtaining a loan, (the APR in most cases will be higher than the loan's interest rate), a consumer's right of rescission on a refinance transaction and rules governing acceptable advertising of a mortgage loan/rate.

The APR is checked, re-calculated and measured against tolerance levels outlined within the law. LoanLogics computes the final Annual Percentage Rate (APR) according to the charges indicated on the HUD-1 settlement statement/Closing Disclosure. The APR calculated by LoanLogics is then compared with the APR as it appears on the lender's final Truth-in-lending (TIL)/Closing Disclosure. LoanLogics will report any substantial discrepancies that are understated.

The Initial Lender Disclosure is compared to the Lender's Final Disclosure to ensure the estimates of fees are a reasonable representation of the actual costs and fees and that the consumer received a timely re-disclosure if the APR changed by more than .125%.

LoanLogics will perform an additional review of the TIL disclosure(s)/Closing Disclosure to:
- Ensure all fees applicable being charged to the borrower are included in the APR
- Payment stream is accurate
- Disclosure done within 3 business days of receipt of the application.
- Comparison of the APR at rate lock against APOR for QM purpose (TILA 1026.43(b)(4))
- Comparison of projected final APR against APOR for HOEPA triggers (see section 9.2)
- APR at closing is not be greater than a 125 % difference from the last APR disclosed to the consumer (TILA 1026.19(1)(ii) & 1026.22(a).

9.2 **Home Ownership and Equity Protection Act (HOEPA)**

The Home Ownership and Equal Protection Act prohibits the extending of credit without regard to consumer's repayment ability. HOEPA applies to closed-end, non-purchase money home loans bearing rates or fees above a specific percentage or amount as outlined within the law. Lenders offering HOEPA loans must give consumers an additional specific disclosure statement at least three (3) business days before the loans is closed, in addition to the disclosures generally required by TILA before or at closing. 

The HOEPA disclosure informs the consumers that they are not obligated to complete the transaction and that they could lose their homes if they take the loans and fail to make payments. The final APR will be
compared to the corresponding APOR to determine a HOEPA trigger (TILA Section 1026.32), with review for compliance with requirements as outlined in TILA Section 1026.34.

9.3 Real Estate Settlement and Procedures Act (RESPA)

Real Estate Settlement and Procedures Act (RESPA – Regulation Z), covers loans secured with a mortgage placed on a one-to-four residential property. These include most purchase loans, assumptions, property improvement, and equity lines of credit. The provisions of RESPA (section 1024.7) set the time frame for issuance of the Good Faith Estimate (GFE)/Loan Estimate, its content and allowable tolerances for fees disclosed. LoanLogics reviews the GFE(s)/Loan Estimates, with the Truth in Lending disclosure(s), as applicable, to ensure fees are properly disclosed at application and remain in tolerance at closing. Third party providers must be listed on the Good Faith Estimate (GFE), with their name, address and telephone number, or a separate disclosure provided with this information.

The HUD-1 Settlement Statement/Closing Disclosure is also covered under RESPA and shows the actual settlement costs of the transaction. The most recent allowable GFE /Loan Estimate is reviewed against the HUD 1/Closing Disclosure to ensure fees being charged/collected at the closing were correctly disclosed, timely and are within tolerances. The HUD-1/Closing Disclosure is also reviewed for accuracy and for any required adjustments for a “cure” of inappropriate fees charged, if needed.

Documentation is also reviewed to ensure further compliance with RESPA:

- No fee charged (except for credit) prior to 3 business days after borrower receives the GFE/Loan Estimate
- Revised GFE /Loan Estimate issued within 3 business days of a bona fide change (when applicable), and at rate lock, adjusting only those fees affected by the change and/or rate lock.
- Special Information Booklet provided
- Affiliated Business Disclosures
- Mortgage Servicing Transfer Disclosure
- Initial Escrow Account Statement
- Closing Disclosure provide at least 3 business days prior to consummation
- Percentage of total fees being charged against loan amount for QM and HOEPA purposes (see Section 9.2 for HOEPA)

9.4 Home Mortgage Disclosure Act (HMDA) (provided for lender information)

The Home Mortgage Disclosure Act (HMDA – Regulation C) requires lenders to report lending activity to determine trends in communities and neighborhoods. The Compliance Officer or designated personnel of the lender reports the HMDA data. The lender must also report data about applications that did not result in originations. The lender is to report timely to the applicable agency on an annual basis. The lender should check the information for accuracy, on a quarterly basis. LoanLogics does not perform any specific testing/auditing of HMDA data for the individual loans reviewed other than the proper completion of this information on the loan application.
9.5 USA Patriot Act & Bank Secrecy Act

The USA Patriot Act (which incorporates amendments to the Bank Secrecy Act) is one of the most important pieces of anti-money laundering legislation. It, along with provisions of the bank Secrecy Act, give law enforcement and regulators a vast arsenal of tools to address the dangers of money laundering and terrorist-related financial activities. These Acts are critical to the safety and soundness of our nation’s financial services industry. The Acts not only apply to depository institutions but also to the money services businesses as well. In general to safeguard against money laundering a financial institution and mortgage lender shall establish anti-money laundering programs to include at a minimum:

- The development of internal policies, procedures and controls for monitoring activity;
- The designation of a compliance officer;
- An ongoing employee training program; and
- Independent audits function to test all anti-money laundering programs.
- The filing of a Suspicious Activity Report (SAR) upon detection or suspicion of a violation (under section 21.11 of The Bank Secrecy Act)

9.6 The Fair Housing Act (provided for lender’s information)

The Fair Housing Act prohibits discrimination in the following areas:

- The sale or rental of housing.
- Residential real estate-related transactions.
- Provision of brokerage services.
- Ongoing analysis of the trending reports provided to lenders by LoanLogics which are the results of the audits performed will provide data to assist lenders in identifying any potential violations

9.7 The Equal Credit Opportunity Act (ECOA)

The Equal Credit Opportunity Act (ECOA – Regulation B) prohibits discrimination in the extension of credit on the basis of sex, race, color, religion, national origin, marital status, age, or receipt of public assistance. The lender cannot disclose the source of confidential credit information to third parties except as required by law.

Regulation B requires that a borrower be notified of action taken by the creditor within 30 days of completion of the application. If a loan is rejected, the lender must complete a notice consistent with the requirements of Regulation B. The rejection notice must contain all reasons for denial/ineligibility and any counter proposal to effectuate loan approval, such as reduced mortgage amount. LoanLogics will review loans to ensure proper notice of a determination on a loan application is provided timely to a consumer.

9.8 Fair Lending

LoanLogics in its reviews assures compliance with the various fair lending laws including the Fair Housing Act and the Equal Opportunity Credit Act (ECOA), as best it can. This is a difficult task. The Lender must report in writing with supporting documentation, to the Office of Fair Housing and Equal Opportunity in HUD
Headquarters and possible violations or incidence of discrimination. Ongoing analysis of the trending reports provided to lenders which are the results from audits performed by LoanLogics will provide data to assist lenders in identifying any potential violations.

9.9 The Fair and Accurate Credit Transactions Act (FACTA)

The FACT Act (which amends the FCRA) imposes a credit score disclosure requirement on single-family mortgage lenders. LoanLogics reviews loans to ensure the lender which uses a credit score to determine a borrower’s eligibility for a 1-4 family owner occupied loan provides the borrower with the required credit score disclosure. The disclosure must inform the consumer that the terms of the loan are based on their credit report. The notice may be given to the consumer at application or at the time of loan approval. The only information that must be given to the borrower to satisfy this disclosure requirement is applicable information that has been obtained from the credit bureau. The disclosure must include:

- The borrower’s most current credit score, or the most recent credit score that was calculated in connection with an extension of credit;
- The range of possible scores under the model used to calculate the borrower’s credit score;
- Up to 4 key factors that adversely affect the credit score under the model used; except that if the number of inquiries made with respect to a credit report has an adverse effect on the credit score, that fact must also be disclosed even if 4 key factors have already been identified.
- The date on which the credit score was created; and
- The name of the person or entity that provided the credit score or the credit file upon which the credit score was created.

The FACT Act also provides the Red Flag Rule, which requires all financial institutions and creditors to implement an Identity Theft Prevention Program to detect, prevent and mitigate identity theft for its consumers. LoanLogics will review loans to ensure a lender’s compliance with this provision under the law.

9.10 Privacy

The Gramm-Leach-Bliley Act (GLBA) captioned “Disclosure of Nonpublic Personal Information” limits the instances in which a financial institution may disclose nonpublic personal information about a consumer to non-affiliated parties. The Act also requires a financial institution to disclose to all of its customers the institution’s privacy policies and practices with respect to information sharing with both affiliates and non-affiliated third parties.

In addition to verifying the Lender’s compliance with this law, and the required disclosure, LoanLogics strictly adheres to the provisions under this Act in protecting the privacy of our clients’ privacy of information as well as that of the consumers on which we perform reviews of their loans. LoanLogics shall not disclose any records that are contained in our Quality Control contract, Section 8, by any means of communication to any person, or to another agency, except pursuant to a written request by our client or with the prior written consent of our client.

9.11 Anti-Money Laundering

LoanLogics will review the asset information provided by the lender to determine if the lender had properly verified the source of the down payment, large deposits, as defined by the applicable agency’s and/or governmental insurer’s guidelines, reserves and final funds used for the closing of the mortgage
loan. The lender will be notified if during this review it is determined that the lender had not properly verified and/or sourced any funds used in the transaction. The lender should then further investigate to determine any suspicious activity surrounding the acquiring and use of these unsourced or unverified funds to determine any violation of the Anti Money Laundering rules. When the lender identifies a potential misuse of funds the lender should then file a Suspicious Activity Report (SAR) with the Financial Crimes Enforcement Network of the US Department of the Treasury, and notify either Fannie Mae, Freddie Mac, or the investor to which the loan was sold.
10. Reporting

10.1 Cycles
Loans are selected from the Lender's report of loans closed as outlined in Section 2. Upon receipt of the selected files, LoanLogics re-verifies and re-underwrites the loans. The findings are reported. The Quality Control review is completed within thirty (30) days.

10.2 Findings and Summary
A QC Summary Report and an Individual Loan Report is prepared and posted to LoanLogics’ web based platform, LoanHD for the client’s review. The Summary Report serves as a compilation of the individual loans reviewed and gives an overview of all loans with risk ratings for compliance, credit and closing/document issues. The Individual Loan Report provides detailed statements on each loan reviewed and loan level detail.

A monthly "Executive Summary" is posted to LoanHD and provides information on the sample selected from monthly production, an overall rating summary, a breakdown of issue by type, information on LQI specific issue, issues segmented by underwriter, issues segmented by branch, as applicable, and trends. LoanLogics notifies senior management and/or the quality control representatives immediately if significant trends are identified.

Senior management and/or the quality control representatives have access to all reports via the LoanHD platform.

LoanLogics notifies senior management immediately if significant trends, material discrepancies, or systemic issues are identified. This is in an effort to provide the earliest opportunity for remedial action.

10.3 Defect Rating
Findings are rated based on severity and how they may effect to loan eligibility. Rating categories are as follows:

**Eligibility Defects**: those findings that may have an adverse impact on the loan’s qualification, eligibility, and/or saleability.

**Moderate Defects**: those which are errors in the loan’s underwriting and/or documentation but that do not have a severe impact on the loan’s eligibility.

**Informational**: Minor defects which may reflect a weakness in the loan process.
11. Follow-Up Procedures

11.1 Management Response

Senior management should respond to all deficiencies noted from Quality Control reports. Identification of a deficiency and its cause is important. Senior management should take corrective action and note this in the file. Responses to the Quality Control reports should take place at least quarterly. The response should be in writing per agency guidelines.

Management promptly notifies all origination and underwriting staff, if appropriate. Amendments to the Quality Control Plan, or operational Policies and Procedures occur whenever necessary.

It is the express responsibility of our client to report any material discrepancies or gross misrepresentations. This report is to the investor. Reports should occur within 30 days of identifying a material discrepancy. Also, lenders should report any violation of law or regulations, potential fraud, false statements or serious material deficiencies to HUD via the Neighborhood Watch Early Warning System.

It is the responsibility of our client to take whatever measures they deem appropriate to rectify loan files that contain material discrepancies. LoanLogics' staff is available to discuss discrepancies with its clients on an as needed basis.

11.2 Management Evaluation

Monitoring of LoanLogics' Quality Control Audits can be accomplished by a random selection of the mortgage files reviewed by LoanLogics. Our client's Compliance Department should perform these random reviews by re-underwriting the files and findings. The Compliance Department should confirm that LoanLogics' reports are satisfactory. This should be performed on a monthly, semi-annual or annual basis depending on volume.

11.3 Record Retention

LoanLogics releases all Quality Control reports and supporting documentation to our client. LoanLogics will preserve Quality Control reports, documentation and records for inspection for a minimum of three years, or as long as the specific documentation is required for retention under the specific governing law, rule statute, investor/agency requirement. Longer periods can be negotiated.
Reserved