

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
1.24.24.3 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.....	27
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
1.25.5 Pre-Funding/Pre-Closing Quality Control Review.....	38
1.25.52 Pre-Funding/Closing Document Review Checklist.....	40
1.25.6 Post-Closing Loan Document Review	41
1.26 Corrective Action and Report Management.....	44

1.26.2 Corrective Action and Time Frames	44
1.26.3 Notification to HUD or Other Agency of Significant Discrepancies	45
1.27 Quality Control Personnel	46
1.27.1 Production Personnel Separated by Plan.....	46
1.27.2 Disbarred Employees/Ineligible Participants	46
1.27.2.1 Periodic Review of Employee Performance	46
1.27.4 Use of Outside Firms to Perform Quality Control Review	47
1.28 Financial and Compliance Audit.....	49
1.28.1 Review of Rejected Loans	49
1.28.3 State Audit Compliance Preparation Checklist.....	52
1.29 Employee Resources – Training.....	53
Resources	53
1.30 Field Review of Branch Offices	54
1.28.1 Field Review Items.....	54
1.28.3 Prohibited Branch Arrangements (HUD)	54
1.29 Mortgage Insurance Endorsement Process	55
1-29-1 Post Endorsement Technical Reviews.....	57
1.30 Reporting of Loan Sales Process.....	58
1.31 Termination of Insurance Process	59
1.32 Escrow Reporting.....	60
1.33 Record Retention Guidelines	61
1.34 Fraud Prevention – Red Flag Process	62
1.34.1 Fraud “Red Flags” Checklist.....	63
1.34.3 Origination Fraud Watch	66
1.34.3.1 Loan Characteristics	66
1.34.4 Red Flag Resources We Utilize	67
1.40 – Anti-Money Laundering and SAR Reporting	68
1.41 AML and Mortgage Lending – No Currency Transactions	68
1.42 BSA/AML, OFAC and Designated SAR Reporting Personnel.....	69
BSA/AML Primary Manager.....	69
OFAC Manager	69
Reporting Individuals with Access to FinCen.....	69
1.45 USA PATRIOT Act Compliance – Customer Identification.....	70
1.45.1 Minimum Information Required.....	70
1.45.2 Disbarred Participants and Watch Lists.....	70
1.46 Review of Procedures	71
1.47 Third Party Transactions and Vendors	71
1.48 Employee Training Program	71
1.50 AML Red Flags.....	72
1.51 Transactional and Account Activity Red Flags Checklist.....	72
1.52 Health Care Professionals and Fraud.....	74
1.53 Mortgage Servicing Fraud/Fraud Red Flags	75
1.55 Money Laundering in Residential Real Estate	76
1.53 Self-Employment and Money Laundering.....	77
1.52.1 Self-Employment Money Laundering Red Flags	77
1.52.2 General Red Flags.....	78
1.53 Red Flag Business Types	80
1.53.1 Cash Intensive Businesses.....	80
1.60 SAR Reporting	81
1.61 SAR Reporting Workflow	81
1.62 Thresholds for Reporting Findings.....	82
1.65 SAR Completion Process.....	83
1.65.1 Manual SAR Filing	83
1.65.3 Management Notification of SAR Filings	84
1.65.4 SAR Record Retention and Supporting Documentation.....	84

1.65.5 Prohibition of SAR Disclosure..... 84

1.10 Introduction

1.10.1 Our Quality Control Plan

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

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

1.10.2 Objective

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

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

1.10.3 Definitions – Broker/Correspondent – Underwriting and Review

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

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

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

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

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

1.10.5 Duplicative Post Closing Activities between Investors and Correspondents

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

1.11 Quality Control and Management Personnel Identified in Plan

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

Employees Conducting Quality Control Reviews – Independent Reviewers/Auditors

“See Below for Outside Agency”

Quality Control Manager(s) for HUD and Investor Reporting

Insert Quality Control Manager Here

Compliance Manager for Federal and State Law Compliance

Insert Compliance Manager Here

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

Insert Branch Manager/Ops Manager Support Name Here

Outside Agency - Support

(insert 3rd Party Quality Control Reviewer here)

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

Section 1.20 – Post Closing Quality Control Review Program

1.21 - Audit Coverage/Scope

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

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

1.21.1 Appraisal Audit Function

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

1.21.2 Federal Law Compliance Function

Among other items, the Compliance Audit will address:

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

1.22 – Selection Methodology

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

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

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

1.22.1 FHA Loan Selection Criteria

Selection of sampling method:

We choose

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

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

1.22.2 Early Payment Default

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

See Sampling Selection Tool for instruction.

1.22.3 Additional Selection Criteria

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

1.24 Loan Level Quality Control Review Procedure

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

1.24.1 Post Closing Review Process

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

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

125.22 Verbal Verification of Employment

As a matter of course, we verbally re-verify borrower employment a maximum of 10 days prior to closing. This re-verification is performed by the processor, underwriter or closer. The Pre-Closing Document Review Checklist calls for the Verbal Verification of employment, with no changes, to be in file prior to loan closing/funding.

This does not supersede any post-closing re-verification of employment, which will be conducted as normal. For a description of the Verbal Verification of Employment process, including seeking phone numbers through directory assistance as a quality control measure, please see Processing Policies and Procedures.

1.25.3 Post-Closing Review Elements – Production Review Confirmed

We review the files after closing for the same elements. That is, our post-closing plan seeks to determine that we adequately reviewed our files during the production process. This provides an element of simplicity. Our post-closing process is based on a consolidated checklist of items which were required to have been reviewed prior to funding.

The following pages detail the elements that we review for in our quality control plan, but include:

- Information on the preliminary and final application and all supporting credit documentation are reconciled and correct
- Documentation was not hand-carried or delivered or prepared by a party with an identity of interest
- No documents are signed in blank (except blanket credit authorization)
- Documents do not appear to be altered
- All conditions and discrepancies were corrected PRIOR to submitting the file to the underwriter.
- If ratios are exceeded, compensating factors are listed.
- That the underwriting conclusions were accurate and complete and that all mortgagee documentation is included
- That all conditions were met prior to closing
- That each file contains all required loan processing, underwriting and legal documents.

1.25.52 Pre-Funding/Closing Document Review Checklist

<u>Pre-Funding/Closing Document Review</u>			
Borrower(s):			
Checked Against	() Application () Credit Report () Tax Return () COE () Vesting (ref)		
Legal Description			
Checked Against	() Title Binder () Survey () Appraisal		
Property Address			
Checked Against	() Survey () County Map () Hazard Insurance Policy () Appraisal		
Confirm Conditions/Registration/Loan Terms			
<u>Registration</u>	_____ Loan Amount	_____ Points	_____ Expiration
	_____ Rate		
	_____ Term		
<u>Approval</u>	_____ Terms Agree with Registration		_____ PMI Required
	_____ LTV		
<u>Terms Agree With</u>	_____ 1003/1008	_____ VA 6393/8923	
	_____ Commitment Letter		_____ FHA 2900
<u>Sales Contract</u>	_____ Point Structure	Buyer ()	Seller ()
	_____ Repairs		
	_____ Contract Expires		
<u>Appraisal</u>	_____ Property Address	_____ Legal Description	
	_____ PUD	_____ Condo	
	_____ Well/Septic	_____ Flood Zone	
	_____ Builder's Warranty		
	_____ Appraisal Conditions		
<u>Refinance</u>	_____ Cash Out		_____ Debt Payoffs
<u>Disclosure Review</u>	_____ Truth-in-Lending	_____ Date Issued (Initial	
	_____ APR Change > .125/.25%	_____ Closing Date (> 7 Days from Initial	
	_____ If Change, Reissue?	_____ Closing Date (> 3 Days from Change)	
	_____ GFE Change?	_____ If yes, Changed Circumstance?	
<u>Loan Quality</u>	_____ Verbal VOE	_____ Reissue Credit	
	_____ Changed Info?	_____ New Debts?	
	_____ Loan Officer Licensed?		
Document Review			
() Title Binder	_____ Effective Date (<90 Days)	_____ Mortgagee Clause	
	_____ Legal Description	_____ Survey Exception	
	_____ ALTA Endorsement	_____ Taxes Current	
	_____ Sales Price	_____ Building Restriction Line	
	_____ Owner matches contract?	_____ Refi - Borrower on Title?	
	_____ Insured Closing Letter?	_____ Covenants & Restrictions	
	_____ Loan Amount	_____ Sellers name matches Contract?	
	_____ 12/24 Month Chain of Title?		
() Hazard Insurance	_____ Paid Receipt	_____ Property Address	
	_____ Coverage Amount	_____ Effective Dates	
	_____ Names	_____ Agent Address	
	_____ Mortgagee Clause		
	_____ Condo Certificate		
() Survey	_____ Legal Correct	_____ Dated	
	_____ Sealed	_____ House Number	
	_____ BRL Violated	_____ North Arrow	
	_____ Fence Off Lines	_____ Ingress/Egress	
	_____ Utility Lines		
() Termite	_____ Correct Form	_____ Address	
	_____ Damage	_____ Treated	
	_____ Signed 12A	_____ Dated	
	_____ Original		
() PMI Certificate	_____ Borrowers	_____ Property Address	
	_____ Conditions	_____ Loan Amount	
	_____ Coverage Amount		
Review Completed by: _____			
	Name/Signature	Date	
Pre-Closing Document Review Form Updated 6/29/2011			