

Table of Contents

Table of Contents	1
Introduction	4
Non-Delegated Lending, Table-Funding and Broker Audit Schedule and Scope	4
Section 1 - Application Quality Control	5
Complete Application Process	5
Notice of Incomplete Application	5
Complete Application Checklist Form	6
Loan Application Process Flow	7
Computer Applications	7
1-27-15 Loan Application Packages and Forms	8
The Completely Documented Loan Application	9
Section 2 – Loan Officer File Set Up	10
Standard File Order	10
Paper File Stacking Order	14
Section 3 - Production (Pre-Funding) Quality Control Review Elements	15
Quality Control Review	15
Pre-Funding Review – 100% Sampling	15
Production Review Elements – Checklist System	15
Post-Closing Random Selection and Audit of Loan Files	16
Selection Methodology	16
Scope of Non-Delegated Audits	16
Use of Third-Party Auditor	16
1-16 QC DEL – Standards, Findings, Reporting and Corrective Action	16
1-16-1 Reporting Time Frames	16
1-16-2 Corrective Action and Time Frames	17
1-16-3 - Defects/Findings – Severity Rating and Target Rates	17
1-16-4 - Target Defect Rates for Corrective Action	18
Validation of Borrower's Social Security Number	19
SAFESCAN	19
Section 4 - Basic Underwriting Submission Process	20
Pre-Underwriting/Pre-Funding Review Checklist	21
Verbal Verification of Employment	30
Independence of Reviewers	31
Selection Criteria	31
Section 5 - Fraud Prevention – Red Flag Process	32
Fraud “Red Flags” Checklist	33
Origination Fraud Watch	36
Loan Characteristics	36
Red Flag Resources We Utilize	37
Fraud Detection and Reporting Procedures	38
Fraud Detection Procedures	38
Step 1 - Highly Detailed Loan Documentation Review (Pre-Underwriting) Checklist	38
Step 2- If You Discover an Inconsistency	39
Step 3- Suspected Fraud Reporting Process	40
Reporting Procedure	40
Marketing or Other Fraud	41
1-70 BSA/AML - Anti-Money Laundering Plan	42
1-70-1 Anti-Money Laundering (AML) and Suspicious Activity Reports (SAR)	42
“Five Pillars” of AML Program	42
Customer Due Diligence	43
Avoiding Duplicative Efforts - QC Plan Extended	44
AML, Fraud and the Mortgage Industry – Fraud, Not Currency Transaction Focused	44
1-70-11 BSA/AML, OFAC and Designated SAR Reporting Personnel	46

BSA/AML Primary Manager	46
OFAC Manager	46
Reporting Individuals with Access to FinCEN	46
Approval by Senior Management	46
Departure of AML Officer	46
1-70-12 USA PATRIOT Act Compliance – Customer Identification	47
Minimum Information Required	47
Disbarred Participants and Watch Lists	47
OFAC Checks - Direct or Through Service	47
Procedure for Checking Government Watch Lists	47
Reporting OFAC “Hits”	49
1-70-13 Review of Procedures	50
1-70-14 AML Training Program	51
1-70-2 AML Red Flags	53
Mortgage Red Flags	54
Red Flags Checklist	55
1-70-3 Risk Assessment - Higher-Risk Businesses and Customers	59
Red Flag Business Types	59
1-70-31 Residential Real Estate	59
1-70-32 Health Care Professionals and Fraud	59
1-70-33 Cash Intensive Businesses	59
Transactional and Account Activity Red Flags Checklist - Higher Risk Businesses	61
1-70-35 Additional Due Diligence for High Intensity Areas	63
Identifying High Risk Areas	63
1-70-36 Risk Layering Analysis - Loan Level or Company Level	64
1-70-4 Self-Employment and Money Laundering	66
General Red Flags	66
1-70-5 SAR Reporting	67
SAR Reporting Workflow	67
Thresholds for Reporting Findings	68
Time Frames for Reporting SAR	68
SAR Completion Process	69
Manual SAR Filing	69
FinCEN Hotline Number	69
Management Notification of SAR Filings	70
SAR Record Retention and Supporting Documentation	70
Prohibition of SAR Disclosure (Confidentiality of Suspicious Activity Reports)	70
1-70-6 AML Independent Review/Audit Process	71
Section 6 - Financial and Compliance Audit	74
Review of Rejected Loans	74
Annual Operational Audit	74
Reviewing Borrower Fees	76
State Audit Compliance Preparation Checklist	77
Compliance Audit Checklist	78
QC Reporting	82
Section 7 - Employee Resources and Training	84
Resources	84
Training	85
Pre-Employment Screening	86
Section 8 - Secondary Marketing and Lock In-in Policy	87
Overview	87
Lock-in Policy	88
Lock Term Policy and Procedure	89
Allowable Lock Periods	89
Exceptions to Lock-in Policies	89
Lock-In of Pre- Qualifications	89

Completion of the Broker Fee Agreement or Financing Agreement	90
Broker Fee Agreement Completion – Lender Paid or Borrower Paid	90
Additional Pipeline Management Time Frames	91
Pipeline Management Reports	91
Expired Lock-ins	92
Re-Locking Expired Lock-ins.....	92
Lock-ins On Denied Loans	92
“Playing the Market” is Prohibited	92
3-12-24 Lock-In Process	93
Secondary Marketing – Confirmation of Lock-in	93
Monitoring Final Pricing.....	94
E-Mailing Secondary Marketing	94
Lock-in Changes.....	94
Change Request Form	94
Reconciling Price Discrepancies	94
Lock-in Confirmation	95
Change Matrix	95
Changes Requiring Secondary Approval	95
Substitutions Not Allowed.....	95
Pricing - Loan Eligibility.....	96
Use of Automated Underwriting and Pricing Engines	96
Unsalable Loan Deficiency	96
Rate Sheet Distribution	97
Lock-in window	97
Lock-in Cut-Off	97
Market Updates	97
Floating Pipeline Monitoring	97
Section 9 - Information Security Audit.....	98
Internal Policies for Information Security Management.....	100
1-80 - Risk Management Process for Mortgage Bankers and Brokers	101
Risk Levels	101
Quality of Risk Controls	102
Mortgage Company Risk Assessment	103

Introduction

To comply with State and Federal Regulations, as well as attempting to anticipate our lenders' requirements, we perform many basic quality control measures. As a non-funding broker our wholesalers and investors double-check our work at the time of registration, submission, underwriting, pre-funding and post-funding. We do not wish to duplicate those efforts, so focus our plan on the elements that we control.

Non-Delegated Lending, Table-Funding and Broker Audit Schedule and Scope

Audit definitions, selection and timing represent one of the compliance quandaries in the non-delegated, table funded or broker operating environment. Sponsoring entities, such as investors, lenders or agencies, often request reports reflecting a non-delegated correspondent or broker's quality control activity. Among lenders, the definition of quality control review includes the re-verification and re-underwriting of all loan file exhibits. For non-delegated entities, including brokers, this is a contradiction since, by definition, there is no underwriting in the process. To clarify the non-underwriting participants' quality control responsibilities, we set forth the following schedule and scope of review.

<u>Scope</u>	<u>Selection</u>	<u>Timing</u>	<u>Definition</u>
Application QC	100%	Within 3 days of receipt	Review initial application and received exhibits. Send notice of incomplete application. Note potential Red Flags and elevate.
Underwriting QC Review	100%	Prior to submission for underwriting	Detailed QC review of all loan file exhibits (credit, income, assets, property and disclosures) to identify any defects. Identify potential Red Flags and elevate.
3rd Party Review (by Lender/UW)	100%	Upon receipt of underwriting disposition	Detailed review and response to 3rd Party (lender) underwriting review. Address all defects. Collect statistics re: Gross and Net Defects
Fair Lending Audit	100%	Upon withdrawal or denial	Review to ensure Notice of Incomplete Application (cancellation) or customer withdrawal. Retain internal or lender notice. Ensure 2nd level of review for declined.
Post-Closing Compliance	100%	Within 3 days of closing	Reconcile fees and refund overcharges. Reissue CD if necessary. Review and retain all audit exhibits
Annual Audit	Random	Within 90 days of first closing, then annual	QC review of sample closed, denied and withdrawn for fair lending, compliance, fraud. Operations review for advertising, SAFE, Privacy, AML, Cyber, training

Section 1 - Application Quality Control

To ensure that our applicants provide all the documentation that our underwriters, lenders and investors require, we have compiled a checklist of items that we request from each borrower. We use this checklist to request information prior to application, but also to review the standard documentation received to evaluate whether there is missing information.

Complete Application Process

The loan originator reviews all borrower documentation at the time the borrower submits it. The Complete Application Checklist form is used for this purpose.

Notice of Incomplete Application

We must record information missing at the time of application and provide a copy of the missing information request to the borrower, to comply with the Equal Credit Opportunity Act. While we have numerous formats for this request, regardless of form we must reflect the date of the missing information requested and the deadline for providing the information. The Complete Application Checklist has been provided for this use. If the customer does not provide the information by the deadline, we may cancel the application using the determination “Incomplete Application.”

Complete Application Checklist Form**ITEMS NEEDED TO COMPLETE APPLICATION CHECKLIST**

Date:

The following information is needed to complete your loan application. Your cooperation in providing these items quickly will expedite the processing of your loan.

If we do not receive this information by (/ /) we will withdraw your application.

Personal and Financial Information

Complete Address/Contact Information for:

Landlord:
Phone:
Previous lender
Phone:
Current Lender
Phone:
Other

Financial Documentation

Most Recent Paystubs Covering 30 Day Period
W-2 Forms For 20____, 20____
Federal Tax Form 1040 (with all Schedules Attached) for 20____, 20____ (Please note: If you are a commissioned sales person, receive any bonus income, rental income, or income from other sources, these forms are required even if you do not consider yourself self-employed) Please sign these forms in original prior to submitting them to us. Include any 1099 forms.
Federal Corporate Tax Returns Form 1120 or 1120S (with all Schedules attached) for 20____, 20____ or applicable 2 year fiscal years. Please sign in original before submitting to us.
Year to Date Income and Expense Statement (Profit & Loss) and Balance Sheet. Must be signed by preparer.
3 Most Recent Months Bank Statements - all pages. Please include Savings, Checking, Investment, Stock, Mutual Fund, 401(k), IRA and Keogh Accounts.

Ancillary Documentation

Copy of Green Card (Alien Registration)
Copy of Social Security Card
Divorce Decree/Separation Agreement
Transcripts/Diploma
Proof of Loans Paid Off in Last 3 Months
Copies of Note(s) Held
Proof of Social Security, Pension, or Disability Income. Please provide copies of award letters and checks.
Child Support - 12 Months Cancelled Checks
Trust Agreement - Copy of Trust, Documentation verifying underlying value.

Real Estate Information

Copy of Sales Contract - Subject Property
Copy of Sales Contract - Current Home
Copy of Deed/Deed of Trust - Subject Property (Refinance)
Settlement Statement for any Property Sold in last 12 months
12 Month Payment History for Current Mortgage(s)
Current Leases for all Rental Property. Expired leases must be accompanied by signed extensions.
Pre-Sale Questionnaire Completed by Management Company (Condo-Townhouse PUD)
Condominium Documents as requested on Closing Requirement Checklist attached.

Letters of Explanation

Gift(s), with Donor Verification. Form & Instructions attached
Credit Problems/Inquiries - Credit Report Adverse Summary attached
Reason for Refinance
Gap in Employment/Job History
Increase in Account Balance/Large Deposits

Other Information

Check in the amount of \$_____ or credit card authorization
I intend to proceed with this application
5 Days Prior to closing - all documents required on Closing Requirement Checklist

Signed Disclosures

Occupancy Agreement, Anti-Steering Notice, Credit Score Notice
ECOA/Privacy Act/Fair Lending/Credit Report/Appraisal Copy Notice
Loan Estimate, Notice of Intent to Proceed (all parties), ARM Disclosure
Non-Traditional Loan Disclosure, Tangible Net Benefit Disclosure

All required information outstanding at the time the customer submits an application must be noted on the Complete Application Checklist.

The Complete Application Checklist is to be given to the applicant at the time the initial application is submitted and at each additional request for information.

Loan Application Process Flow

Step	Responsible Party	Description and Timing
Set Appointment	Loan Officer	Preferably in Realtor's Office. Invite Realtor to attend. Never schedule appointments for someone's residence. No copier.
Prepare Applicant	Loan Officer	Preferable not to set appointment until applicant can complete pre-application checklist. At a minimum obtain income and assets documentation.
Obtain Property Documentation	Realtor/Builder	Provide Sales Contract, Copy of Listing and Earnest Money Deposit Check. If Refinance, obtain deed, survey, insurance
Completely fill out application form	Loan Officer	Collect all available documentation. Complete items needed worksheet and all appropriate disclosures. Concur on what items remain to be provided.
Set up File	Loan Officer	Within 24 hours – File is set up in prescribed order and turned in for review-processing
Management - Quality Review	Sr. Loan Officer/Manager	Within 24 hours – File is reviewed to assure adherence to guidelines and quality of application
File Set Up	Set Up/Processing or Loan Officer	Within 72 hours – Send Truth-in-Lending Disclosure.
Follow up	Loan Officer	By 5 p.m. of the day following application – report to Realtor on the results of the application

Computer Applications

Applications taken over the computer must still be noted for items missing at the time of application. In the case of SOFTWARE, under the heading of "Tracking", pull down the menu and select conditions. Here you enter all of the items needed to complete the application.

Doing this allows the information missing to be viewed by future users and processors, and allows the documentation to be printed from the system.

1-27-15 Loan Application Packages and Forms

We provide all forms necessary for loan origination and disclosure in our Loan Origination Software (LOS). We provide access to documents which may not automatically generate from our LOS by link or on a shared resource. These include the following extra forms.

- Real Estate Schedules
- Operating Income Statements
- Net Proceeds Worksheet
- Self-employed Income Analysis
- Blank Deposit/Landlord/Mortgage Verification Forms
- Status Reports
- Lender Registration Forms
- Gift Letter Forms

The Completely Documented Loan Application

- If handwriting, never use blue ink – always black – blue doesn't photocopy or scan well
- Always prepare the applicant
- Whenever you are queried about underwriting requirements, explain the rationale behind the request – don't say, because the underwriter needs it
- Always obtain explanations for issues revealed at application
- Never mail a blank loan application – fill in as much information as possible
- Never leave a blank space or a total
- Always try to set up the file immediately after the loan application – information becomes stale if you wait until the next day
- Clarify if the earnest money deposit is included in the current bank balance
- Field underwrite while you are in front of the applicant – read agreements, rental leases, separation agreements, contracts – if there is something wrong, request resolution now
- Try to avoid revealing problems with qualification until you have had the opportunity to review the file.

Section 2 – Loan Officer File Set Up

Standard File Order

Once the application is complete, place the file in order and scan, or fasten it. In electronic processing, the use of a taxonomy will help a standard file order. Using a "Standard File Order" allows the re-review of the file to assure that nothing was missed. Note that for Electronic Document Processing we may use the lender's portal for uploading documents, but we should still ensure that documents get assembled in some order where we can reference the electronic files contain.

While putting the file in order, make notes on a conversation log of some sort regarding the unusual circumstance revealed through the application process. A checklist of items needed to complete the application, which resembles the initial application checklist, is given to the customer to inform them of anything remaining to be provided for processing.

Electronic Documents - File Order

Since the mortgage process revolves around substantiating all facets of an applicant's borrower's creditworthiness, we assemble a "file," electronically or in paper, where we store all exhibits until we can submit the file for underwriting. The varieties of exhibits can encompass an almost unlimited list, particularly when you add the disclosures, explanations and other non-standard documentation, but they fall into the same basic categories. We use these categories to help us organize exhibits so that we can quickly refer to materials we need to review. We refer to this as a standard file order.

Upon examination, you can see that this convention follows the flow of the standard application form. This makes it easy to review a loan file without jumping around the application find information.

- 1.) Application
- 2.) Credit
- 3.) Income
- 4.) Assets
- 5.) Property
- 6.) Disclosures
- 7.) Closing Documentation
- 8.) Servicing Documentation
- 9.) Correspondence

Imagine a file without any order. It would take hours just to sort out the details, much less evaluate the applicant's creditworthiness.