

QUALITY CONTROL PLAN

Revised April 2009

PURPOSE:

The purpose of our Quality Control Plan is to evaluate and monitor the quality of all HUD loans originated by the Company. Our program will ensure compliance with our lending guidelines, HUD/FHA, and applicable government regulations. NMI maintains an ongoing Quality Control Review Program.

RESPONSIBILITY:

These quality control reviews are to be performed by an individual or individuals who are completely independent from the origination, processing, underwriting or closing of the loan being reviewed. These reviews can be conducted by a company employee or an outside contractor and are currently reviewed by Senior Management.

NEIGHBORHOOD MORTGAGE (NMI) OFFICE:

- All FHA/HUD registrations and state licenses shall be properly renewed and licenses are displayed along with Fair Housing Logo.
- NMI maintains a professional, business-like environment that is accessible to persons with mobility impairments.
- NMI has toll-free phone lines and will accept collect calls from borrowers.
- NMI follows all requirements of the State and Federal Labor Law and posts proper Fair Labor Standard Act, HIPAA Discrimination notices and OSHA notifications
- NMI is in compliance with the Fair Housing Act, the Federal Truth In Lending Act and the Equal Credit Opportunity Act.
- All personnel in the office are properly trained, and background checks are performed. No one is employed for HUD origination, processing, underwriting or servicing who is debarred, suspended, subject to a Limited Denial of Participation (LDP) or otherwise restricted from participation in HUD/FHA programs. The employee list is checked at least semi-annually.
- Senior management will take prompt, effective corrective measures and document the measures taken when deficiencies are identified
- HUD shall receive timely reports under HMDA.
- Any violation of the law or regulation, false statement or program abuse shall be reported to the HUD regional office, area office or OIG.
- All loans shall be processed by employees or Authorized Agents.
- MIPs shall be remitted within 15 days of closing
- DB&F Newsletters and Cease & Desist announcements are reviewed by Senior Management on a monthly basis.

QUALIFIED STAFF:.

Current guidelines relating to the quality control are reviewed on a monthly basis with the staff to include processors, loan officers and management. Note - the statutes, regulations, HUD Handbooks and Mortgagee Letters which establish the requirements for FHA programs are available on the web page for HUDCLIPS at:

<http://www.hudclips.org/cgi/index.cgi>.

Our loan production personnel that are directly or indirectly involved in the loan production are familiar with the following:

- Regulatory requirements that affect Mortgage Banking/Brokering – all updates involving the industry are distributed via e:mail by Senior Management as they arise. Also reviewed at monthly staff meetings.
- All loan programs and documents needed for the programs that our investors offer are distributed via email and discussed at monthly meetings.

Our loan production personnel comply with RESPA by confirming and providing the following:

- Special Information Booklets are distributed to all mortgage applicants.
- Good Faith Estimates are prepared and given to borrower no more than 3 business days after application is prepared
- Good Faith Estimate Provider Relationship forms are sent to all borrowers in the initial application noting any business relationships or affiliated entities.
- All borrowers are provided with a copy of their HUD-1 for purchases or HUD – 1A for refinances allowing the borrower to know specifically the costs of the loan and to whom the fees are being allotted
- Kickbacks between lenders and third-party settlement service agents in the real estate settlement process (Section 8 of RESPA) are prohibited.

FILE RETENTION:

Quality control reviews as well as follow-up information will be maintained for a minimum of 2 years. Original borrower files closed, withdrawn, or denied will be locked up and stored for seven years in an off-site facility. HUD and the Department of Banking and Finance are made aware of the storage facility address. Current year files are kept in locked filing cabinets on-site.

QUALITY CONTROL FOR FILES IN PROCESS – BEGINNING TO END

All loans are reviewed by Senior Management if they meet the following criteria:

- Copies, not originals, of any income or asset documentations are sent by borrower
- Copies of tax returns are sent by borrower, or tax returns unsigned
- Credit Score is 620 or lower

If copies of are sent, the processor must perform a VOE, VOD or contact the CPA of record, to verify the validity of each document.

A Pre-Submission Checklist must be filled out with each loan that must be signed off by Senior Management if the above criteria is met (i.e. no originals) – (COPY OF CHECKLIST AT END OF QC POLICY).

The review consists of a thorough review of the Loan Application, Credit Report, Income Documentation, Asset Documentation, Appraisal Report and any other pertinent information contained in the loan file. Senior management will review these findings within 30 days of receipt and will immediately implement corrective action to prevent the reoccurrence of any major exception noted.

Loans are reviewed to ensure compliance with applicable State and Federal regulations and with specific loan programs. In particular, reviews will include a determination that a face-to-face interview was performed with the mortgagor prior to signing the HUD 92900 (unless otherwise exempt i.e. in refinances)

In addition to the specifics of our program it is NMI's responsibility to look for or verify the following:

- Review the title for any inaccuracies/liens etc. that may affect the mortgage
- Review the appraisal for value, proper address, appropriate comparables, etc.
- Income docs – **review the SS WAGE CAP on all W2s** Social Security tax withheld should = 6.2% of Social Security Wages.
- Verify all documents provided by the borrower and submitted to an underwriter are true and valid.
- A title commitment for the property to be used as collateral for a mortgage loan is to be submitted to the lender's underwriting department for approval prior to the loan closing date.
- Verify relevant documents were signed in blank by the mortgagor or employee of lender, and all corrections were initialed by mortgagor/employee.
- If more than 2 credit reports were ordered, all were submitted with the package to HUD.
- Verify escrow funds received are not used for any other purpose than for the reason they were received.
- Preliminary loan application lists each outstanding debt and asset and each was used to qualify the mortgagor.
- Outstanding judgments on the Credit Report were listed on the HUD 92900 with an explanation.
- Verify the occupancy of the property.
- Verify insurance was obtained for the property.

- That the file has documentation on source of funds and if other than deposits, the source is verified.
- If the mortgagor is self-employed, that the file has a financial statement and business credit report.
- If there is a gift letter, that it has the relationship of a donor and no repayment and that funds are deposited into mortgagor's account.
- That the HUD-1 is accurate and certified
- That the loan was current when submitted for endorsements.
- That the mortgagor did not transfer the property to a straw buyer.
- That all conflicting information was resolved prior to submission to HUD.
- That there was accurate and complete underwriting.
- Determine if ARM adjustments are calculated properly
- Required to verify that the information entered into an automated underwriting system is valid – COPIES OF AUTOMATED UNDERWRITING FINDINGS are included in all files. If the AU findings are ineligible, a copy will be documented and retained.
- IF LOAN IS DENIED BY LENDER – state accurate reason on Statement of Credit Denial.
- IF LOAN IS WITHDRAWN BY BORROWER – state accurate reason on Statement of Credit Denial.

Special Handling of Tax Returns

Please use the new Processing - Income Doc / Fraud Control Sheet.

A new requirement is that for borrowers who provide Tax Returns, they will need to furnish "proof of filing".

If they are signed by a "paid-preparer" then just verify with the company listed at the bottom of page 2.

If they were "self-prepared", then determine if they were "e-filed".

If they were e-filed, then request their e-file receipt.

If they were NOT e-filed, but rather were simply mailed into the IRS, then have them sign a 4506T and execute that thru TRV (part of our CIC credit company) and compare it to the originals provided and then keep the Transcript from the IRS in the file.

HIGH COST LOANS

NMI does not allow high-cost loans. A High-Cost worksheet is calculated with each loan as soon as the processor receives the signed GFE as well as the lock from the Loan officer indicating YSP.

APPRAISAL POLICY:

Neighborhood Mortgage Inc., (NMI) maintains that all appraisal reports must, at a minimum:

- Comply with the standards of the Uniform Standards of Professional Appraisal Practice (USPAP), promulgated by the Appraisal Standards Board of the Appraisal Foundation, located at 1029 Vermont Ave., NW, Washington, DC, 20005.
- Be written and contain sufficient information and analysis to support the decision to engage in the transaction.
- Be based upon the definition of market value as set forth in the USPAP.
- Be performed by a state licensed or certified appraiser.

CLOSED LOAN REVIEW, TIMELINESS, SAMPLING:

A quality control checklist/worksheet is completed for each loan by the processor. (Copy attached at end of QC policy). These reviews are currently conducted by Senior Management.

Quality control reviews of all closed files will be conducted on a random sample, not less than 10%, of loans originated. The sampling will represent the full scope of our product line and production process.

Over a twelve (12) month period, the sampling will include the following:

Mortgages from all product lines;

Mortgages from all states operating in;

Mortgages from all correspondent brokers;

Mortgages from all authorized agents;

Mortgages from all loan officers;

Mortgages from all underwriters;

Mortgages from all appraisers.

ALL loans going into default within the first six payments.

Reviews of files will take place at least once per month and shall be performed within 45 days of loan closing. Notices of discrepancies or documents missing shall be sent to the processor responsible for closing out the file. The processor must make corrections to files within seven (7) days of notice. Records of Quality Control findings and actions taken shall be maintained.

Findings of fraud are reviewed immediately by Senior Management and appropriate action is taken. Notices are sent in writing with supporting documentation to HUD or to the state regulator where the property is located within 60 days of initial findings.

OTHER QUALITY CONTROLS:

- A. A copy of the Quality Control Plan and future revisions will be distributed to all employees. Each employee will acknowledge receipt and review of the plan.
- B. It is agreed that NMI will furnish a written copy of its current Quality Control Review Plan and the results of its quality control reviews over the past year upon request of a lender.
- C. When the review reveals patterns of deficiencies or potential fraud, the scope of the review will be expanded to the extent necessary to clearly understand the problems(s) and take proper corrective action.
- D. In reference to Credit Underwriting Review, the existence and accuracy of all credit documentation and the validity of the underwriting decision is evaluated.

Anti-Money Laundering Program Certification

Neighborhood Mortgage Inc., (NMI) implements an Office of Foreign Assets Control (OFAC) Alert screening process and Anti-Money Laundering Program that meets the following requirements:

- Loan officer (LO) to provide a “Customer Identification Notice” to each applicant at the time of application advising them of anti-money laundering activities.
- LO to obtain customer’s complete name, middle initial, address, tax ID number and date of birth.
- Fact-to-face applications: LO must identify their customers by reviewing driver’s license, green card, passport, etc. and document in the loan file that the identity has been verified. (Mail and Phone applications will not require any additional documentation other than what is customary in the normal course of business)
- LO to check OFAC lists and identify matches at Office of Foreign Assets Control (OFAC) website <http://www.treas.gov/offices/enforcement/ofac/>
- All Loan officers are to be familiar with and follow the Foreign Asset Control Regulations of OFAC

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