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1. Policies and Procedures

1.1 Implementing Policy and Procedure Changes

The DMC steps to making changes
Bulletin: 9/11/2006

The following are the minimum requirements & steps we should take before implementing any changes...

1. State the objective
 - a. What are we trying to accomplish
2. Communicate changes
 - a. what we are going to change to get the desired results
3. Impact statement.
 - a. How will these changes impact the employees' world? What are the negative consequences? Then what are the positive consequences?
4. Pre-launch feedback.
 - a. Solicit input and feedback before making the changes.
5. Implement the changes
6. Test implementation
 - a. Test to ensure that all changes were made exactly as outlined. You can't judge the success or failure when the implementation never happened – in its entirety
7. Post launch feedback.
 - a. Solicit input & responses after making the changes.
8. Judge the success
 - a. Reviewing any changes against the stated objective (in step 1 above)
 - b. Make any final adjustments as necessary until the policy change is perfected

1.1 Implementing Policy and Procedure Changes

Agency: Freddie Mac

Area: Implementing Policy and Procedure Changes

Good morning,

Please see the attached announcement from Freddie Mac. Thank you.

1.1 Implementing Policy and Procedure Changes

Area: Implementing Policy and Procedure Changes

Good afternoon,

Please see the attached Freddie Mac Bulletin 2024-A. The bulletin addresses the Very Low-Income Purchase (VLIP) Mortgages Credit.

1.1 Implementing Policy and Procedure Changes

Agency: Freddie Mac

Area: Implementing Policy and Procedure Changes

Good morning,

Please see the attached Bulletin from Freddie Mac. Thank you.

1.1 Implementing Policy and Procedure Changes

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1.1 Implementing Policy and Procedure Changes

Area: Implementing Policy and Procedure Changes

Good afternoon,

Please see the attached Bulletin from Freddie Mac. Thank you.

1.1 Implementing Policy and Procedure Changes

Area: Implementing Policy and Procedure Changes

Lacie,

Will you create a support case to Policy Updates?

Max Doane

President

801-924-1874

www.DirectCorp.com

Company NMLS ID: 9612

From: James Beech <jimbeech@directmortgage.com>
Sent: Monday, May 20, 2024 10:48 AM
To: Lacie Sidwell <LacieSidwell@directmortgage.com>; Max Doane <MaxDoane@directmortgage.com>
Cc: ManagementGroup <ManagementGroup@directcorp.com>
Subject: FW: FHA Publishes Updates to Single Family Housing Policy Handbook 4000.1

Max and Lacie,

Wow... as noted below... **FHA is increasing the processing fee that mortgagees can charge borrowers assuming an existing FHA-insured mortgage, from a maximum of \$900 to a maximum of \$1,800.**

James Beech
(801) 924-1888
JimBeech@DirectCorp.com

From: FHA INFO <FHAInfo@public.govdelivery.com>
Sent: Monday, May 20, 2024 10:44 AM
To: James Beech <jimbeech@directmortgage.com>
Subject: FHA Publishes Updates to Single Family Housing Policy Handbook 4000.1

FHA INFO 2024-30

May 20, 2024

FHA Publishes Updates to
Single Family Housing Policy Handbook 4000.1

Today, the Federal Housing Administration (FHA) published updates to the *Single Family Housing Policy Handbook 4000.1* ([Handbook 4000.1](#)). Today's update clarifies instructions, adds new guidance, and incorporates previously published Mortgagee Letters (ML) in Sections I, II, III, and IV as well as Appendix 7.0.

In addition to the incorporation of the updates and revisions, there are notable updates in Section II—*Origination through Post-closing/Endorsement* and Section III—*Servicing and Loss Mitigation*—of which mortgagees should take note:

- **II.A.8.n.vi Assumptions – Allowable Fees and Charges** — In this Handbook 4000.1 update, **FHA is increasing the processing fee that mortgagees can charge borrowers assuming an existing FHA-insured mortgage, from a maximum of \$900 to a maximum of \$1,800.** This fee increase is designed to compensate mortgagees for costs of processing assumptions at a rate that is appropriate for today's market. FHA last changed the reasonable and customary fee mortgagees could charge borrowers assuming an FHA-insured mortgage was in 2016.
- **III.A.1.b.i(B) Responsibility During Transfers of Servicing Rights** — This change requires servicers to transfer the borrowers' language preference to a new servicer as part of a transfer of servicing rights in support of FHA's efforts to provide information and services to borrowers for whom English may not be their first language.

Today's update also includes the updated *Appraisal Report and Data Delivery Guide* and the *Single Family Default Monitoring System Reporting Codes* documents that are posted to the [Supplemental Documents web page](#).

Stakeholders are encouraged to thoroughly review and familiarize themselves with the revisions in [Handbook 4000.1](#). See the [Handbook 4000.1 Transmittal](#) for a summary of all changes, as they reflect and incorporate updates, changes, effective dates and other pertinent information. For comparison purposes, a separate redline version has also been posted on the [Handbook 4000.1 Information web page](#). The online version of Handbook 4000.1 is being updated and will be available soon.

Handbook 4000.1 is the comprehensive, authoritative source for Single Family Housing policy guidance for industry stakeholders doing business with FHA. It provides clear and concise policy and procedure requirements for all FHA Single Family Housing programs. FHA's Office of Single Family Housing produces regular updates to ensure that Handbook 4000.1 remains the complete, single-source document for its latest policies, programs, and processes.

Need Support? Contact the FHA Resource Center.

- Visit our knowledge base to obtain answers to frequently asked questions 24/7 at www.hud.gov/answers.
- E-mail answers@hud.gov. Emails and phone messages will be responded to during normal hours of operation, 8:00 AM to 8:00 PM (Eastern), Monday through Friday on all non-Federal holidays.
- Call 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339.

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1.1 Implementing Policy and Procedure Changes

Area: Implementing Policy and Procedure Changes

Good morning,

Please see the recent announcement from FHA. FHA is increasing the processing fee that mortgagees can charge borrowers when **assuming** an existing FHA-insured mortgage, from a maximum of \$900 to a maximum of \$1,800. This does not apply to regular FHA transactions. No changes are needed at this time.

From: FHA INFO <FHAInfo@public.govdelivery.com>

Sent: Monday, May 20, 2024 10:44 AM

To: Lacie Sidwell <LacieSidwell@directmortgage.com>

Subject: FHA Publishes Updates to Single Family Housing Policy Handbook 4000.1

FHA INFO 2024-30

May 20, 2024

FHA Publishes Updates to Single Family Housing Policy Handbook 4000.1

Today, the Federal Housing Administration (FHA) published updates to the *Single Family Housing Policy Handbook* 4000.1 ([Handbook 4000.1](#)). Today's update clarifies instructions, adds new guidance, and incorporates previously published Mortgagee Letters (ML) in Sections I, II, III, and IV as well as Appendix 7.0.

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Need Support? Contact the FHA Resource Center.

- Visit our knowledge base to obtain answers to frequently asked questions 24/7 at www.hud.gov/answers.
- E-mail answers@hud.gov. Emails and phone messages will be responded to during normal hours of operation, 8:00 AM to 8:00 PM (Eastern), Monday through Friday on all non-Federal holidays.
- Call 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339.

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1.1 Implementing Policy and Procedure Changes**Area: Implementing Policy and Procedure Changes**

Submitted by Lacie

1.1 Implementing Policy and Procedure Changes**Area: Implementing Policy and Procedure Changes**

Good morning,

Please see the attached Freddie Mac Industry Bulletin. Thank you.

1.1 Implementing Policy and Procedure Changes**Area: Implementing Policy and Procedure Changes**

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1.1 Implementing Policy and Procedure Changes**Area: Implementing Policy and Procedure Changes**

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Please see the attached Freddie Mac Bulletin. Thank you.

1.1 Implementing Policy and Procedure Changes**Area: Implementing Policy and Procedure Changes**

Good morning

Please see the attached Freddie Mac bulletin. Thank you.

Commented By: Max Doane | Time: 02/27/2025 12:13 PM

Below are the assignments for reviewing the bulletin, recommending changes and implementing the changes.

1. Max - review the Fraud & Suspicious Activity section and recommend and/or make necessary changes to current policy and procedures, and provide training as needed.
2. Max - review the Quality Control section and recommend and/or make necessary changes to policy and procedures, and provide training as needed.
3. Lacie - review the Condo Project Advisor section and recommend and/or make necessary changes to policy and procedures, and provide training as needed.

Let me know if you have any questions.

Commented By: Max Doane | Time: 02/27/2025 04:40 PM

Changes required for bulletin 2024-12 assigned to Max.

Fraud and Suspicious Activity:

1. Update Fraud policy to include list of parties to be scanned against the Exclusionary List.
2. Update Fraud policy to define frequency to screen DMC employees against the Exclusionary List.
3. Update the Fraud policy with information to request Waiver of Seller/Service Warranties regarding the Exclusionary List.
4. Update the Fraud policy to maintain and share records of fraud cases and positive hits Exclusionary List hits.
5. Update the Fraud and the OFAC/AML policies with Tip Referral Tool.
6. Update the Fraud and the OFAC/AML policies with 30 day reporting requirement.

Quality

1. Update the Quality Control policy with Tip Referral Tool information.
2. Update the Quality Control policy with 30 day reporting requirement when QC findings affect the eligibility of a Mortgage sold to Freddie Mac.

Other items addressed in the bulletin in these 2 sections have already been addressed in DMC policies, or do not require action to be taken.

Commented By: Lacie Sidwell | Time: 02/28/2025 06:17 AM

Changes required for bulletin 2024-12 assigned to Lacie.

-Condo Project Advisor Project Assessment Request (PAR)

- Underwriting reviewed and discussed the Condo Project Advisor enhancement during our weekly meeting on September 18, 2024.
- A condition was created that must be signed off by the underwriter prior to the loan being approved for docs.

- Additional training was done through Loan Product Advisor training resources.

From:

Commented By: Max Doane | Time: 02/28/2025 11:28 AM

The following has been completed for bulletin 2024-12 assigned to Max.

Fraud and Suspicious Activity:

1. Updated Fraud policy to include list of parties to be scanned against the Exclusionary List.
2. Updated Fraud policy to define frequency to screen DMC employees against the Exclusionary List.
3. Updated the Fraud policy with information to request Waiver of Seller/Service Warranties regarding the Exclusionary List.
4. Updated the Fraud policy to maintain and share records of fraud cases and positive hits Exclusionary List hits.
5. Updated the Fraud and the OFAC/AML policies with Tip Referral Tool.
6. Updated the Fraud and the OFAC/AML policies with 30 day reporting requirement.

Quality

1. Updated the Quality Control policy with Tip Referral Tool information.
2. Updated the Quality Control policy with 30 day reporting requirement when QC findings affect the eligibility of a Mortgage sold to Freddie Mac.

The above policy changes were reviewed with employees on 9/23/2024. Other items addressed in the bulletin in these 2 sections have already been addressed in DMC policies, or do not require action to be taken.

Commented By: Max Doane | Time: 02/28/2025 11:28 AM

Completed

Note Added By: Auto Workflow | Time: 02/27/2025 07:07 AM

Support Time Exceeded.This support case has exceeded the expected completion time. Promptly provide a status update.

Note Added By: Lacie Sidwell | Time: 02/28/2025 06:17 AM

Changes required for bulletin 2024-12 assigned to Lacie.

-Condo Project Advisor Project Assessment Request (PAR)

- Underwriting reviewed and discussed the Condo Project Advisor enhancement during our weekly meeting on September 18, 2024.
- A condition was created that must be signed off by the underwriter prior to the loan being approved for docs.

Underwriter to review and ensure compliance with the condo project review requirements specified in the last PAR findings on the LPA Feedback Certificate.

- Additional training was done through Loan Product Advisor training resources.

From:

Change Log

User	Action Date	Action
Max Doane	02/27/2025 04:40 PM	Added Comment

Auto Workflow	02/27/2025 07:07 AM	Added Notes
Max Doane	02/27/2025 12:13 PM	Added Comment
Max Doane	02/27/2025 12:13 PM	Partially Completed
Lacie Sidwell	02/28/2025 06:17 AM	Added Comment
Lacie Sidwell	02/28/2025 06:17 AM	Added Notes
Max Doane	02/28/2025 11:28 AM	Added Comment
Max Doane	02/28/2025 11:28 AM	Completed
Lacie Sidwell	09/10/2024 12:01 PM	Created

1.2 Broker and Correspondent Approval and Management

Broker and Correspondent Approval and Management

1.2.1 Overview

All broker applications shall be reviewed for completeness before review for approval. Broker approval is granted by the CEO or President. Any questions raised during the application review process must be elevated to DMC President or CEO. Any exceptions to the approval criteria below will be made solely by the CEO and the exceptions documented in the Company Documents section of the company profile. A final decision for approval will take place after all required documentation has been reviewed, reference interviews have been completed, and the broker meets all approval criteria. Upon approval, each Broker will receive a notice of acceptance and is required to complete an orientation program with their assigned Account Executive. Each Broker must have a complete understanding of our requirements before a business arrangement has begun.

DMC ensures that its contractors, agents, and loan correspondents are acceptable to FHA and operate in compliance with FHA requirements.

DMC requires that its brokers and correspondents are capable of producing quality mortgages. To that end, DMC will include the following in its procedures for broker and correspondent approval and management:

- A review of resumes, and other Necessary Information and Documentation (see below), of principal officers managing the underwriting and originating process.
- A review of the results of background checks for principal officers.
- A requirement for reviewing periodic reports on activity and performance issues to the DMC's senior management.
- Procedures to ensure that all broker and correspondent employees, including management, involved in the sales, origination, quality control, loan production, processing, underwriting and servicing of mortgage loans are checked against the U.S. General Services Administration Excluded Parties List (GSA), HUD Limited Denial of Participation List (LDP), Federal Housing Finance Agency Suspended Counterparty Program List (SCP), and Freddie Mac Exclusionary List. Ongoing screening of employees is required to occur at least twice per year.

1.2.2 Applications

The broker must fully complete the On-line Mortgage Broker application in DirectWare accessed from the main web page of www.directcorp.com and click the "Sign up" link.

All Necessary Information and Documentation (see below) must be uploaded to DirectWare before approval is granted by the CEO or President. Additionally, through proprietary integrations, DirectWare will ensure that all broker and correspondent employees, including management, involved in the sales, origination, quality control, loan production, processing, underwriting and servicing of mortgage loans are checked against the U.S. General Services Administration Excluded Parties List (GSA), HUD Limited Denial of Participation List (LDP), Federal Housing Finance Agency Suspended Counterparty Program List (SCP), and Freddie Mac Exclusionary List. Ongoing screening of employees is required to occur at least twice per year. The results of these checks will be stored in DirectWare.

After a determination has been made a notification of approval or decline will be provided.

1.2.3 Necessary Information and Documentation

The online application must be complete and include all requested items. These required items may change from time to time based on our current needs and current industry trends. They should include the following items:

- Signed Profit & Loss and Balance Statements covering YTD and the most recent 2 years (fiscal) OR most recent business bank statements.
- Current mortgage license(s).
- Resumes of all principals and managers OR NMLS record of employment.
- Completed and executed Company Certifications form.
- Credit Report or executed "Authorization to Release Information" form.
- Indicate company business structure (Corporation, LLC, Partnership, etc.).
- List all DBA's, if applicable.
- Enter all names of company principals and managers, including their positions and contact information, in DirectWare.
- Enter all branches including addresses and contact information in DirectWare.
- Enter all Loan Officers and Processors including branch association, contact information and NMLS ID in DirectWare.
- Copies of agency approval letters (FHA, VA, etc.), if applicable.
- Executed Broker and Correspondent Agreement.

1.2.4 Evaluation and Approval of Brokers and Correspondents

1.2.4.1 Experience and Integrity Review

- 2-years Industry Experience. The minimum industry experience required is 2 years.
- Resume Verification. Resumes (or NMLS record of employment) of the principals must reflect a minimum of 2 years of mortgage lending experience. The information may be randomly tested for accuracy. A misrepresentation of lending experience should disqualify the applicant. The lending experience shall also be reviewed, and the reference checks may be conducted to confirm accuracy. DMC may also substantiate the broker's professionalism and experience during these reference checks. DMC will, at its discretion, interview other industry sources to help establish a clear understanding of the broker's history and performance.
- References may be requested and checked. A reference check, peer review, and prior lender recommendations will heavily influence the potential for approval.
- Agency Exclusionary Lists. Review available Agency and industry exclusionary lists to ensure the broker is not listed on any of them. Being on any list will suspend the broker from the application process and/or decline the broker's approved status until such time as they become eligible to proceed with both agencies. Reviews are also re-verified at each license renewal, and during each QC review for individual loan files.
- Exceptions to the above requirements may be granted and approved by the CEO or President and documented in the broker Company Documents file.

1.2.4.2 Criteria to Evaluate and Approve a Broker, Including Specific Authority to Approve

- License. Brokers must maintain valid licensing within each state they do business in, and the entity must remain in good standing.
- Continuing Compliance. Licenses and exclusionary lists will be reviewed regularly and updated in DirectWare by the Broker Approval Manager. DirectWare will refer current loan decisions based on the current license and exclusionary status. A second-look license review is performed daily on all submitted loans. This secondary review is automatically submitted by DirectWare to a third party (currently ComplianceEase). Loan files impacted by invalid licenses will be automatically changed to a refer status pending satisfactory resolution of any license issue.
- State & Federal Law review. A legal compliance review may be performed through DirectWare's system to system integration with ComplianceEase. This review can be performed at any time after the loan submission to DMC, but DirectWare requires a successful review before a funding wire can be approved.
- Cash Assets. Broker applicant must provide bank statement(s) OR provide a signed Profit and Loss and Balance Sheet, that demonstrate minimum cash assets of \$5,000 or \$1,000 per Loan Officer, whichever is greater. The broker must be financially viable and capable of meeting its obligations.
- Credit Review. A credit report may be run on the principal(s) of the brokerage that must demonstrate proper management of obligations. A FICO score lower than 620 may be unacceptable, but the review shall not be limited to FICO score only. The review must consider timely payments to all debtors. It should also not reveal or demonstrate excessive debt obligations. Excessive debt obligations may disqualify the applicant. (A recent copy of a credit report, dated within 60 days of the broker application, may be accepted by DMC.) The broker must be financially viable and capable of meeting its obligations.
- File Completeness. The broker must demonstrate an ability to submit a completed application with all required supporting documentation. How the broker submits their broker application package often demonstrates their ability to submit a complete and accurate loan file.
- Background Check. A background check may include OFAC Sanctions lists, First American Core Logic report, license validation, credit report, business entity review, and broker references.
- Specific Authority to Approve. The specific authority to approve is limited to DMC CEO and/or President. All findings from the background checks will be reviewed by the CEO and/or President to determine if further investigation is warranted prior to the approval decision. Based upon findings and responses, approval may be denied.
- The completed Company Certifications form will be reviewed to determine if any negative answers or comments are found. The applicant must confirm that it checks all employees against the U.S. General Services Administration Excluded Parties List (GSA), HUD Limited Denial of Participation List (LDP), Federal Housing Finance Agency Suspended Counterparty Program List (SCP), and Freddie Mac Exclusionary List.

• Exceptions to the above requirements may be granted and approved by the CEO or President and documented in the broker Company Documents file. However, exceptions will not be granted if principals appear on an OFAC Sanctions list.

1.2.5 Monitoring the Quality of Broker Loan Files

All Third-Party customers (Brokers/Correspondents/Financial Institutions) are required to renew their approvals at least yearly. Doing so require Third Party customers to complete an online renewal questionnaire. At that time, DMC senior management will review the activity and performance of Third-Party customers as described below.

All Third-Party customers are evaluated for Federal, State, and local licensing and regulatory compliance on each individual loan transaction. Further, at least annually, DMC reviews OFAC Sanctions lists for findings and Agency and industry exclusionary lists to ensure the broker is not listed on any of them. All findings are reviewed with the CEO or President, and appropriate action is taken as needed, which may include immediate termination.

Identifying Discrepancies and Problem Brokers. An Underwriting Report and Broker Pull-Through Reports are generated daily by DirectWare, and distributed to account executives, underwriters, and all upper management. Poor loan quality and less than desirable broker relationships are identified through these daily reports. Low loan file pull-through percentages and suspend/declines identify problem brokers each day. Each Account Executive is required to report promptly to their respective sales manager regarding any loan files or broker and individual loan officer relationships that fall below DMC defined percentages and standards. Sales Managers report this weekly to upper management.

1) Standards.

A) Pull-Through:

I) 60% on underwriting submissions.

II) 70% Rate Locks

III) 90% Loans to Docs

B) Underwriting Discrepancies:

I) All incidents require a satisfactory explanation from the broker of how any discrepancy happened, and a satisfactory description of the controls and steps they have implemented to avoid duplication of the same mistake.

2) Problem Resolution:

A) Account Executives with lower pull-through percentages and higher incidents of discrepancies may receive reduced commissions.

B) Problem brokers may be charged up front fees for access to the DirectWare services of AUS runs, Rate Locks, and Underwriting Submissions.

C) If up front charges don't resolve the issue, then the broker relationship may be terminated.

D) Misrepresentation. Any suspected broker fraud or loan file misrepresentation will be forwarded by all staff members, including the underwriting staff, to DMC President and CEO. An immediate review will be undertaken by them and if the claim is confirmed then the broker relationship shall be immediately terminated. All logins in DirectWare shall also be immediately terminated.

DMC will review the performance of loans originated by its brokers at least quarterly. The following criteria will be considered during these performance reviews:

- Pull through ratios.
- Funded units and volume.
- Delinquencies, early payment defaults, and foreclosures.
- Early payoffs.

The criteria will be included in brokers' scorecards generated by DirectWare. These performance reviews will be automated via DirectWare. Brokers with unacceptable pull through ratios, funded units & volume, delinquencies, early payment defaults, foreclosures, and early payoffs will be flagged by DirectWare and referred to DMC's management for further review.

1.2.6 Written Agreements and Controls

The broker agreement must be executed by the broker Principals. A copy of the agreement can be accessed from our main company web page at www.directcorp.com and clicking the link "Sign up", then finding the link "Broker Signature Documents". This executed document is required before activating any broker login and allowing any loan underwriting submissions.

1.2.7 Declination Procedure

If an application is deemed inadequate the broker shall be notified in writing, and a copy of the denial letter shall be maintained in the broker application file along with a narrative of the reasons for denial. This denial will be reviewed if the broker reapplies for approval.

1.2.8 Suspension of an Approved Broker

DMC Corporation reserves the right to suspend or reject an approved broker at any time for any reason. The status will be identified as "Terminated".

1.2.9 Inactive Broker Status

In the event that a broker funds no loans with DMC Corporation within a six-month period its status may be changed to "Terminated". If the broker status is changed to "Terminated, the brokers will be notified that the status has been changed. Exceptions may be granted by the CEO or President.

1.2.10 Current List

DMC Corporation maintains our active broker Status through DirectWare. Brokers that are declined or become Terminated are not allowed to access any of DMC's services. This list is available by request.

1.2.11 Disciplinary Action

In the event that a broker is suspected of any kind of misrepresentation of information in a loan file, or in their application for approval, that broker shall be interviewed immediately. If a member of senior management of DMC Corporation believes there is substance to the allegations, that broker shall have their status changed to "Terminated". The file shall be given to the QC department for a full investigation and the findings reported to the board for possible legal actions.

1.2.12 Reinstatement of Terminated parties

Brokers who have been terminated may be reinstated by reapplying for approval. The reapplication requirement may be waived by the CEO or President if they determine a new application is not required, and the status may then be changed to "Approved" within DirectWare. Waiver of the reapplication requirement will be documented and maintained in the broker Company Documents.

1.2.13 File Maintenance

DMC shall maintain a file on all brokers that have applied to DMC Corporation. The Broker Approval department shall continually update these files to maintain accuracy of each file and to insure the validity of required licenses. These files shall be maintained electronically in DirectWare and not separated by their status with DMC Corporation.

1.2.14 Site Review of DMC Branches

DMC will conduct an annual onsite review of each of its branches, both traditional and non-traditional, to confirm that they follow HUD's requirements. The review will include, at a minimum, confirmation of the following items:

- The office is properly registered with HUD and the address is current.
- Operations are conducted in a professional, business-like environment.
- Office is clearly and properly identified for walk-in customer, has adequate space and equipment, is in a conducive location, and is separated by walls or partitions.
- For servicers a toll-free line should be available.
- Sufficiently staffed.
- Access to relevant statutes, regulations, and HUD handbooks.

- Procedures are revised for changing HUD requirements.
- Personnel at the office are all employees or contract employees performing functions that HUD allows to be outsourced.
- Office does not employ or contract with anyone under debarment or suspension or a limited denial of participation.
- Branch office or employees are not engaging in false or misleading advertising practices.

1.2.15 Change Tracking

Change date: 2024.4.4
 Training date: 2024.4.4
 Change date: 2025.2.27
 Training date: 2025.3.5
 Change date: 2025.4.4
 Training date: 2025.4.7

Commented By: Max Doane | Time: 04/11/2025 12:08 PM

Commented By: Max Doane | Time: 03/12/2025 07:57 AM

Completed

Change Log

User	Action Date	Action
Max Doane	03/11/2025 04:31 PM	Created
Max Doane	03/11/2025 04:36 PM	Assigned
Max Doane	03/12/2025 07:57 AM	Completed
Max Doane	03/12/2025 08:35 AM	Assigned
Max Doane	03/12/2025 09:40 AM	Completed
Max Doane	04/11/2025 12:08 PM	Added Comment

1.3 Closing Agent Review

1.3.1 Procedures

Direct Mortgage maintains an approved Closing Agents list within DirectWare, and takes appropriate steps to ensure that Closing Agents are qualified to perform the responsibilities of Closing Agent.

The originating Mortgage Broker or Loan Officer selects the Closing Agent, and is typically the Title Company who is providing Title Insurance for the transaction. If the selected Closing Agent is not approved with Direct Mortgage, the approval process is completed prior to loan funding.

1.3.2 Approval

The Direct Mortgage Account Executive assigned to the Mortgage Broker/Loan Officer who originated the loan application obtains each required item listed below. The required documents are then given to the Direct Mortgage Finance Department who is responsible for calling the references, etc. Once the approval process has been completed, and the Closing Agent approved, the Closing Agent information is entered into DirectWare. The Closing Agent is then activated within DirectWare and made available for use as an approved service provider.

1.3.3 Required Documentation

The following items are required from each Closing Agent:

1. Minimum of three references.
2. Mari Report is run for each Closing Agent.
3. Closing Protection Letter is requested from each Closing Agent.
4. Business License

1.3.4 Review

DirectWare stores the business license expiration date and automatically notifies Direct Mortgage when the license has expired. Closing Agents are then made inactive within DirectWare until an updated license, with valid expiration date, is obtained.

1.3.5 Disciplinary Action

Closing Agents will also be made inactive within DirectWare if their license is revoked by the licensing authority, or if the appraiser is suspected of committing fraudulent acts.

1.4 Appraiser Review

1.4.1 Appraiser Approvals

Direct Mortgage maintains an approved appraiser list, and takes appropriate steps to ensure that appraisers are qualified to perform appraisals for the particular type of property and the property location being appraised. Appraisers are held fully responsible, by Direct Mortgage, for the quality of the appraisal. Appraisers who do not provide quality appraisals are provided an opportunity to correct all deficiencies. If the appraisal still does not meet the standards of an acceptable appraisal, the appraiser is placed on the Appraiser Exclusionary list. Appraisers will also be placed on the Appraiser Exclusionary List if the appraiser has his/her license revoked by their licensing authority, or if the appraiser is suspected of committing fraudulent acts.

Direct Mortgage requires the use of state-licensed or certified appraisers for each loan. Appraisers are required to note his or her license or certification number on the individual appraisal report forms. Direct Mortgage further requires the use of appraisers who have the knowledge and experience required to perform a professional quality appraisal for the specific geographic location and particular property type for which an appraisal is required. Appraisers are also required to have knowledge about, and access to, the necessary and appropriate data sources for the area in which the appraisal assignment is located.

For each appraisal submitted to Direct Mortgage a copy of the appraiser's current business license, including the license or certification number, is required; along with a current resume indicating the appraiser's education and experience, professional affiliations and references from prior clients and/or employers. Professional appraisal designations assist in evaluating an appraiser's qualifications. However, appraisers are not evaluated based solely on the appraiser's membership, or lack of membership, in any particular appraisal organization.

Direct Mortgage requires that a copy of the appraiser's business license and resume be permanently retained as part of the original loan package.

In addition to approving the appraiser on each individual loan transaction, Direct Mortgage also incorporates a three-step appraisal review process to ensure the appraisal accurately reflects the value of the property. The appraisal review process is outlined below.

1.4.2 Appraisal Reviews

Direct Mortgage incorporates the following three-step appraisal review process to ensure the appraisal accurately reflects the value of the property. Appraisals are reviewed a teach step to ensure accuracy. The steps are as follows:

1. Automated Appraisal Review:

Appraisals submitted by an appraiser are required to be in PDF format. Appraisals are then systematically reviewed by a rules based appraisal review program in which 612 rules are reviewed for accuracy. Each rule is evaluated to determine potential problems, which are classified as errors, warnings or information.

Appraisals receiving errors are returned to the appraiser for correction, and may then be re-submitted for evaluation. Appraisals receiving "warnings" may be returned to the appraiser for correction, or may proceed to the next step.

2. Automated Valuation Model Review

All appraisals passing the rules based review are then run through an Automated Valuation Model (AVM) to determine the property value accuracy. Each appraisal value is given a confidence score ranging from 0 to 100. Appraisals receiving a confidence score less than 80 are then submitted for an independent "Enhanced Desk Review".

3. Enhanced Desk Review

Appraisals submitted through the independent desk review process must receive a value equal to the original appraised value in order to automatically proceed through the process. If the property value is reduced during the Desk Review, the revised value is then re-submitted through the AVM process to determine whether it achieves the minimum confidence score of 80. The appraisal is then forwarded to the underwriter, if a confidence score of 80 is achieved. The revised value may be used when it adequately supports the loan transaction. Appraisals receiving a value less than the original appraised value may also be elevated to a Field Review for further review.

Appraisers may be given an opportunity to amend the original appraisal with documentation to support the original value.

4. Underwriter Review

Appraisals that adequately pass the Rules Based Review and the AVM are then thoroughly reviewed by the underwriter.

1.5 Loan Origination Process

1.5.1 Loan File Set-up

The Set-up position is involved in the process flow of the loan file from the time the loan file is delivered to Direct Mortgage to the time it is purchased by the end investor. The responsibilities are listed below:

- File is delivered to Direct Mortgage via Broker and/or retail Loan Officer, via interoffice mail; external delivery methods; or in person. Set-up is responsible for assuring that the loan is registered in the manual receipt log to identify the date and time delivered; the name of the borrower(s) on the loan; and the entity delivering the loan.
- Register the file in the Solution Center software system.
- Deliver the registered loan to U/W, in the first-in/first-out bin, for underwriting. assuring that loans are registered in a timely manner will ensure that loans are delivered to U/W quickly, allowing DMC to maintain 24 hour turn times in U/W.
- Once an underwriting decision has been made, and the Broker notified, the file is returned to Set-up. File the loan, alphabetically in the appropriate decision filing cabinet:
 - conditional approval
 - final approval
 - suspended (aka pended)
 - declined
 - withdrawn
- Set-up is responsible for gathering all incoming conditions and/or other pertinent loan information submitted by Broker that may change the current status of the loan, and file in the appropriate loan file. Once all underwriting conditions have been submitted, deliver file to underwriting in the first-in/first-out bin.

- Once the loan file has received final approval and the doc request has been approved, prepare the file for the Closer. Assure that the loan file has all the required data that the Closer will need to allow for an accurate and timely doc draw. Loan information is to be properly stacked on the right hand side of the file, and then deliver the loan file to the Closer's first-in first-out bin.
- Once docs have been drawn, review all docs for accuracy. Review all the documents for typographical and/or omission errors prior to documents being released to the title or closing agent. Notify the Closer of any corrections that need to be made.
- Assure that the Set-up section of the workflow numbers, in the Solution Center software, is kept current and accurate.

1.5.2 Closer(Closing Documents)

The Closer position is involved in the process flow of the loan file from the time the loan file is approved for Closing Documents and placed in the "Closing Docs Needing to Be Sent Queue", to the time it is purchased by the end investor. Their primary responsibility is to assure that Closing Documents are accurately prepared, only after underwriting has approved the loan. They assure that the closing documents are delivered accurately and timely to the closing agent. They also follow through to make sure the loan is funded or is cancelled, as applicable.

Once underwriting has approved the loan for Closing Documents the file is found in workflow step # 4, Processing and Documentation" and is in the "Closing Docs Needing to Be Sent Queue". The Closer opens the loan in DirectWare and follows the steps listed below:

1.5.2.1 Preparing the Documents:

1. **Power of Attorney requirements:** Use of a "Power of Attorney" (POA) is generally not acceptable. However, on occasion, use of a POA may be necessary, and requires approval from the CEO or President of DMC prior to closing documents being drawn. When a POA is requested the following procedure must be followed:
 - a. Limited (Specific) Powers of Attorney must be used; General Powers of Attorney are not acceptable. A Limited POA appoints an agent to act on behalf of the grantor as to a specific task, such as a real estate transaction, and must always include the Property Address in a real estate transaction.
 - b. Request approval from the CEO or President, prior to drawing the loan documents, and provide a copy of the Limited POA with the request.
 - c. Once approved, loan documents must be drawn and signed to include the borrowers name, the agent's name, and the agent's capacity (attorney in fact) in the signature line. Examples of acceptable signature language are:
 - i. Jane Doe by John Smith Attorney-in-Fact.
 - ii. Jane Doe by John Smith as attorney-in-fact.
 - iii. Jane Doe by John Smith her attorney in fact.
 - iv. Jane Doe by John Smith as her attorney in fact.
 - d. The name typed below the signature line must have the signature information typed exactly as it is to be signed.
 - e. Closing instructions must specify that the agent (Attorney in Fact) is to sign exactly as typed on the closing documents. Failure to do so will require that loan documents be re-signed.
 - f. Funders must verify that the loan documents were signed exactly as drawn.
2. Open the BC Checklist.
 - a. Click "Generate GFE Package".
 - i. Alternately you can open "Track E-Signatures".
 1. Print all GFEs (including those marked cancelled).
 2. Print the Initial Loan Application - 1003 and 92900 (if applicable).
 3. Verify that the Initial Loan Application is signed by all parties. If it is not, find the first signed 1003 and 92900 and include it behind the first unsigned 1003 and 92900.
 4. Sort the GFE print outs in order, first disclosed GFE to last disclosed GFE.
 5. Fill out a Borrower Interest Rate Date form and place it in front of the GFEs.
 - b. Note all changed circumstances between each GFE and fill out the changed circumstance forms accordingly.
 - c. Verify that the 0% tolerance sections have not changed from the first GFE.
 - d. Add up the 10% tolerance section on the first GFE and add 10%. Make sure the 10% tolerance section on the last GFE has not increased more than 10% from the first GFE.
 - e. If there is a Cure for Tolerance, include the Cure Worksheet in the back of the GFE package.
3. Open the "Compliance Tracking Form".
 - a. Verify all sections of the compliance tracking are green.
 - b. Verify that all Truth in Lending (TIL) disclosures meet compliance.
 - i. Click "TIL Compliance Worksheet" and print the worksheet.
 - ii. Open "Track E-Signatures".
 - iii. View each TIL and compare them to the worksheet.
 - iv. Verify that that any required wait periods have been met.
 1. At least 7 days must pass from the initial disclosures.
 2. At least 3 day must pass if an APR is more than .125% greater than the previous disclosed APR.
 3. At least 1 day must pass after any re-disclosure.
4. If the loan is not in GFE or TIL compliance, STOP! The loan must be brought back into compliance before continuing.
5. If the loan is re-disclosed after steps 1,2 or 3, you must:
 - a. Print any new GFE's and Change Circumstance forms and add them to the GFE package.
 - b. Verify that the loan is still in GFE compliance.
 - c. Verify all sections of the compliance tracking are still green.
 - d. If a new TIL disclosure is included during the re-disclosure, review it and print a new TIL Compliance Worksheet.

6. Open the Loan Application in DirectWare:
7. Select the Property Info tab
 - a. Verify that the Property Tax ID # matches the Title Commitment.
 - b. Select the Exhibit A hyperlink and verify that the Property Legal Description matches the legal description found in the Title Commitment
 - i. If the property is a Condo or a PUD, open the Additional Subject Property Info hyperlink and verify that the Project Name is typed in and is correct.
 - c. Verify that the vesting matched the Title Commitment EXACTLY:
 - i. Refinances: Check the vesting against the vesting on the Title Commitment to make sure they match exactly. If the vesting is in a trust, ask for a Quit Claim Deed removing the vesting from the trust. You must see the prepared Quit Claim Deed prior to sending the Closing Documents.
 - ii. Purchases: ask for a prepared Warranty Deed and make sure the vesting in our Loan Application matches the Warranty Deed EXACTLY. You must see the Warranty Deed prior to sending the Closing Documents.
 - d. Verify that all 3 places that the borrowers names occur match each other EXACTLY (the Title to be Held in Name of, Borrower Name/AKA, and the Vesting to Read sections).
 - e. Verify that the Preliminary Title Report Date and the Title Report # match the Title Commitment.
 - f. In the Additional Endorsement section write in the required endorsements for the state in which the property is located.
8. Open the BC Checklist.
 - a. Check the box next to Please Input All Additional Conditions.
 - b. Open the Pre Doc Stage tab:
9. In the Required Service Providers sections verify that every Provider Type has a company name in it.
 - i. On a purchase, the Real Estate Seller should be the Seller's name (not the real estate agent). This almost always needs to be changed. You can find the Seller name on the Purchase Contract or the Title Commitment under Current Vesting. You can change the name in the Service Providers section of the BC Checklist.
 - ii. If the loan requires Mortgage Insurance, there will be a spot for Mortgage Insurance and the provider will say "Please Select Provider". Click on that hyperlink and find the Mortgage Insurance section of the list that pops up. In that section click in the drop down and click on Direct Mortgage. Double click on the 'work flow' that pops up and select save. You can close this window now. Go back to the Provider Type section of the BC Checklist and select Refresh in the top right corner. The provider type for the mortgage insurance should now say Direct Mortgage.
 - b. If all providers are now selected, verify this section by clicking in the Verify box.
10. Skip the HUD section for now and proceed to the Service Providers section.
11. Open all of the following documents in scanned images and verify the following:
 - a. Credit report –
 - i. Verify the bureau the credit was pulled from and see if there is a credit report fee amount. If there is a fee reflected on the HUD we MUST have the amount charged on the credit report or we need a separate invoice.
 - b. MIP netting authorization (on refinances that have an MIP credit)-
 - i. Verify that the credit is accurate on the HUD for the month in which the loan will fund.
 - c. All purchase contracts and addendums (purchases only):-
 - i. Note the settlement date (if it is before the date we are funding we need to ask for a purchase contract addendum extending the settlement date to match the funding).
 - ii. Verify the earnest money amount.
 - iii. Verify any seller paid closing costs; the percentage amount of purchase price.
 - iv. Verify the sellers name with the BC Checklist.
 - v. Verify that the property address matches DirectWare.
 - d. DU or LP Findings (open the very last findings report). Streamlines will not have a DU or an LP report.
 - i. Verify the loan amount. If it is not correct we need to ask the underwriter for the latest one.
 - e. Appraisal report –
 - i. Verify the address matches the property address in DirectWare EXACTLY.
 - ii. Check to see if the box marked PUD is checked. If it is checked, we must have the property selected as a PUD in DirectWare (you can check this in the loan application under the Summary tab and Property Type).
 - iii. If there is an Appraisal Number, then type it into the Account/File Number box in the BC Checklist in the Appraisal Management Company section.
 - f. Hazard Insurance –
 - i. Verify the insured address matches DirectWare EXACTLY.
 - ii. Verify that the borrower/borrowers names match DirectWare EXACTLY; including all middle initials.
 - iii. Note the hazard insurance premium amount and also the date due. On a purchase loan the date due will always be the day after funding.
 - iv. Verify that DMC's mortgagee clause is correct, that ISAOA occurs next to DMC,
 - v. Verify that Direct Mortgage Corp.'s address is correct.
 - vi. Verify that Direct Mortgage Corp.'s loan number occurs is on the declaration page.
 - vii. Type the policy number in the Account/File Number box in the Hazard Insurance box in the BC Checklist.
 - g. Flood Certificate-
 - i. Check the property address against DirectWare, either box #2 or "E" must match our system EXACTLY. If not, you must text edit, save and upload the corrected Flood Cert to scanned images.
 - ii. Verify that the box is marked 'NO' in section D. If it is marked 'YES' there must be Flood Insurance in scanned images.
 - iii. Write the certificate # (F.) in the Account/File Number box in the Flood Report box in the BC Checklist.
 - h. Flood Insurance (only for required for properties located in flood zones - check the Flood Certificate to determine if Flood Insurance is required).
 - i. If Flood Insurance is required, follow the same steps as Hazard Insurance

- i. Title Commitment –
 - i. Verify the Title Company and the Escrow Company are correct in the BC Checklist.
 - ii. Verify that the file number on the Title Commitment matches the Title Report # in the Property Info tab in the DirectWare Loan Application, and also matches the Title section of the BC Checklist.
 - iii. Verify that the effective date on the Title Commitment matches the Preliminary Title Report Date in the Property Info tab in the BC Checklist.
 - iv. Verify that the proposed insured section of the Title Commitment has **Direct Mortgage Corp. ISAOA for a conventional loan and Direct Mortgage, Corp. and/or the Secretary of Housing and Urban Development of Washington D.C., their successors and/or assigns, as their interests may appear** for an FHA loan.
 - v. For Refinance loans verify that the vesting on the Title Commitment matches the vesting on our Loan Application EXACTLY (see Property Info tab in the DirectWare Loan Application). If it doesn't match, correct our vesting to match the Title Commitment. If the vesting is in a trust, we must ask for a Quit Claim Deed removing the vesting from the Trust. The Quit Claim Deed must be reviewed before the loan is sent to docs. For Purchase loans make sure to ask for the Warranty Deed and verify that the vesting on the Warranty Deed matches the DirectWare Loan Application EXACTLY.
 - vi. Verify that the Exhibit A (legal description) on the Title Commitment matches the Exhibit A in the DirectWare Loan Application EXACTLY. If it is incorrect, correct the DirectWare Exhibit A description to match the Title Commitment and select 'Save'.
 - vii. Verify that the property address matches DirectWare EXACTLY.
 - viii. Verify that the Borrower name(s) match DirectWare EXACTLY.
 - ix. Verify that the Tax ID# matches the DirectWare Loan Application EXACTLY.
 - x. Locate the Taxes Due sections of the Title Commitment and note the amount of the yearly taxes due and if there are any delinquent taxes currently due.
 - j. Title Company Errors & Omissions Insurance-
 - i. Verify that the insurance policy is for the Title Company listed in the BC Checklist.
 - k. Closing Protection Letter (CPL) –
 - i. Verify that the CPL has ISAOA next to DMC, our correct address and loan number.
 - ii. Verify that the borrower's names match DirectWare EXACTLY.
 - iii. Verify that the property address matches DirectWare EXACTLY.
 - iv. Verify that the date on the CPL is not more than 60 days prior from funding.
 - l. Wire Instructions -
 - i. Verify that the wire instructions match the ARP Funding Review section of the BC Checklist EXACTLY.
12. APR Funding Review Section:
- a. Type DMC's loan number in the Account/File Number box, if it is missing.
 - b. Select the correct wire instructions from the drop down. If the correct wire instructions are not there, send the wire instructions to Vendors@directcorp.com and request the wire instructions to be added to DirectWare.
 - c. Verify that the interest date matches DMC's last GFE and check the box.
 - d. Verify the APR section of the BC Checklist by checking the Verify box.
13. Legal Description section of the BC Checklist:
- a. Verify all 3 boxes. We do not need to do anything for this section.
14. VOE section of the BC Checklist:
- a. Check the Verify box. Nothing further is required at this time.
15. HUD section of the BC Checklist:
- a. Open the HUD.
 - b. Verify the signing date to the date that title/broker has scheduled as the closing date.
 - c. Verify the disbursement date. For a purchase loan select the day after signing as the funding date. For a refinance loan select 4 business days after the signing date as the funding date (Sundays and holidays are not counted).
 - d. If the loan is lender paid go to the 800 section and look at line 801 A. Open the loan contacts and click on the hyperlink at the top right that says Lender Paid Compensation Plan. There will be a formula based off the loan amount. Calculate that number and make sure it matches line 801 A
 - e. Click on the Shopping Cart Transactions in DirectWare to see who paid for the appraisal and the credit report.
 - i. Always pay the appraisal to Direct Services, LLC and mark the POC box according to who paid for the appraisal. If the broker paid for the appraisal check the Reimburse Broker box
 - ii. Verify the credit report amount matches the amount on the credit report/Credit report invoice. Always pay the credit report to the credit bureau that the credit report was pulled from. Mark the POC box according to who paid for it (usually the broker). If the broker did pay for it make sure the Reimburse Broker box is checked.
 - f. Check line 903 and make sure the hazard insurance amount due matches the amount you noted from the hazard insurance declaration page. If it is a purchase the full yearly amount will be due on that line. If it is a refinance and the yearly premium is not due until after the borrower's first payment date then that line will be blank.
 - g. Go to the 1000 section:
 - h. Make sure both the hazard insurance amount and the property tax amounts are correct and match the amounts you noted.
 - i. Change the hazard insurance annual amount by \$1 and tab out of that section.
 - ii. Change the County Property Tax amount by \$1 and tab until you are out of that section.
 - iii. Change both amounts back to the correct amount and tab through the sections again.
 - iv. Verify that the aggregate amount is not more than the amounts collected.
 - v. Verify the Low Balance and Cushion match each other EXACTLY.
 - i. Verify there is a "Paid To" selected for every section that contains an amount on the HUD.
 - j. Verify the borrowers bottom line (line 303) as follows:
 - i. Purchase - make sure it meets or exceeds the minimum down payment required in the Summary tab in the Loan Application. Also verify that the bottom line does not exceed the amount in the Checking tab in the DirectWare Loan Application.

- ii. Refinance - Verify the bottom line "To the Borrower" does not exceed the max cash back for that particular loan program (you can verify this by going to the Funding Checklist in DirectWare and clicking on the HUD-1 Approval section. At the bottom left corner it will say Max Cash Back Allowed. Make sure the bottom line FROM the borrower does not exceed the Checking tab in Loan Application.
 - k. Check the box at the bottom for Do Not Auto Re-Disclose.
 - l. Select Save.
 - m. Select Approve Closing Fees then click Cancel.
 - n. Select Print HUD-1 and View PDF.
 - i. Check the 3rd page of the HUD against your last GFE. The GFE side needs to match the last GFE EXACTLY (if it does not you will need to re-disclose). The top 4 lines need to match each other exactly (of benefit the borrower).
 - ii. Password protect the HUD with the password as the property address, all lower case letters and NO spaces.
 - iii. Save the HUD as "(borrowers last name)(loan number) DMC HUD 1".
 - o. Verify the HUD-1 section of the BC Checklist.
 - p. All sections of the BC Checklist should now be verified.
 - q. Check the Approved for Closing Docs box.
 - r. Go to the Documents section and expand it.
 - s. Click on Specific Closing Instructions and View PDF.
 - i. Password protect the Instructions like the HUD.
 - ii. Save it as "(borrowers last name)(loan number) Instructions".
 - t. Prepare your Instructions email:
 - i. Fill in the template for the specific loan.
 - ii. Subject as '(borrowers last name) (loan number) Instructions – (property street address)'.
 - iii. Attach the Instructions and the DMC HUD-1.
 - iv. Send the email to everyone in Loan Contacts.
16. Once you receive the HUD back from title open the HUD title returned and the DMC HUD in the BC Checklist:
17. Un-approve the Closing Fees so you can make changes.
18. Balance the HUD with titles HUD.
- i. If it is a purchase, make sure you have a buyer/seller combined HUD.
 - ii. If it is a refinance match the payoff on line 104 with titles. If the payoff decreases approximately a monthly mortgage payment you need to ask title for an updated payoff statement. We need to make sure we get this before funding. Note this so the funder knows to not fund without the updated payoff.
 - 1. If the loan program is an LP Relief Refinance we need to ask the underwriter if the loan amount is still okay before we send the docs.
 - iii. On a purchase match all proration's in the 200 and 500 sections.
 - iv. On a Streamline, make sure the MIP credit matches the MIP credit on the MIP Netting Authorization.
 - v. There can ONLY be broker credits on Borrower Paid Compensation Plan loans.
 - vi. On a purchase match the real estate fees to titles in section 700.
 - vii. Titles 800 section should match ours exactly:
 - 1. Appraisal fees need to ALWAYS be paid to Direct Services, LLC and mark POC according to who paid for it in the shopping cart transactions. If the broker paid for it make it as POC by the BR and check the Reimburse Broker box.
 - 2. The Credit Report fee needs to ALWAYS be paid to the credit bureau. You can find that in scanned images. The broker has usually paid for this so mark it as POC by the BR and check the Reimburse Broker box.
 - viii. Title needs to match our 900 section EXACTLY
 - 1. On a purchase make sure the full amount of the hazard insurance is being collected on line 903.
 - ix. Titles HUD needs to match our 1000 section EXACTLY.
 - x. We need to match titles HUD on the 1100 section.
 - 1. Verify the "Paid To" are all correct.
 - 2. All fees need to be standard in our drop down. If there are any fees that seem questionable, ask if they are okay.
 - 3. On a purchase any fees paid to title on the sellers side in this section need to be on lines 1102 (settlement fee) and lines 1109-1112.
 - xi. We need to match titles HUD in the 1200 section.
 - 1. These fees can only be paid to the title company or the county.
 - 2. Transfer taxes cannot go up at all without causing a cure for tolerance. They can only be paid on the buyers side and then reimbursed to the buyer on the first page of the HUD.
 - 3. On a purchase, if there are any fees in this section on the seller side put them in the Release box on line 1202.
 - xii. Match title on all 1300 section fees.
 - 1. We do not allow repairs on our HUD unless the appraisal is done 'subject to'.
 - 2. All of these fees should be paid to third parties (not title, broker, etc).
 - 3. If a principle reduction is required you will put it in this section.
19. Make sure we balance with title on the bottom line.
20. On a purchase, make sure the bottom line from the borrower meets or exceeds the minimum down payment requirement from the loan application. (bottom line + earnest money deposit).
21. Make sure the bottom line from the borrower is not more than the verified assets we have recorded in the loan application.
22. On a refinance, make sure the borrower is not getting more cash out than their loan program allows.
23. Select Save.
24. Select Approve Closing Fees.
25. Close the HUD.
26. Open the BC Checklist.

27. Verify the HUD-1 section.
28. Check the box for Approve for Closing Docs.
29. Check the box for Review Only.
30. Put today's date in the Date Docs Prepared box.
31. Before you print the Closing Documents make sure you have seen the Warranty Deed or the Quit Claim Deed if you asked for one when you sent the instructions (all purchases need a Warranty Deed and all Refinances in a trust or if there are any changes whatsoever to the vesting you need a Quit Claim Deed).
 - i. Make sure our vesting in the loan application matches titles Deed EXACTLY.
32. Once you have the vesting verified you can click Print Closing Docs in the BC Checklist.
33. Click View PDF.
34. Once the package generates check the following:
 - i. Open the Documents list in the BC Checklist and check every document against the closing docs PDF. Many times there are 1 or more forms missing. If any forms are missing create separate PDFs for the forms and include them in the Closing Documents that you send out.
 - ii. Look at the HUD-1.
 1. Check the bottom line on the HUD-1 and make sure that matches what you balanced too. Often times this number is off.
 2. Check lines 1002, 1004 and 1008 against the corresponding numbers on the Itemization of Amount Financed. They must match EXACTLY.
 3. Check line 802 against the credit for rate chosen on the Itemization of Amount Financed. It must match EXACTLY.
 4. Check line 1001 against the Initial Escrow Account Disclosure – Initial Deposit line. It must match EXACTLY.
 5. Check the 3rd page of the HUD against the GFEs.
 - a. Make sure the top 4 lines of the GFE and HUD-1 section match each other.
 - b. Make sure the top 2 sections on the GFE side match the last disclosed GFE EXACTLY.
 - iii. Look at the HUD Disbursement.
 1. Check that the Disbursement Date is accurate.
 2. Check the Total Money Paid In From against the Total Money Paid Out To. These numbers should match.
 3. Check that all payees (including DMC) are being paid for what they should and that no Payees are missing.
 - iv. Look at the Note and make sure the MIN is at the top left corner. This is missing sometimes.
 - v. Look at the Deed of Trust and make sure the MIN is displayed.
 - vi. Look at the Payment Letter to the Borrower. Note the Total Monthly Payment.
 1. Check the total monthly payment and make sure it matches Initial Escrow Account Disclosure.
 2. Check the total monthly payment and make sure it matches Impound Authorization.
 3. Check the total monthly payment and make sure it matches Truth in Lending.
 4. Check the total monthly payment and make sure it matches.
 - vii. Look at the Initial Escrow Account Disclosure and make sure the Cushion Selected by Servicer is the lowest number on the Escrow Account Balance far right column (other than the top number).
 - viii. On a refinance, look at the Notice of Right to Cancel. The cancel date should be a day before the disbursement date. This often calculates incorrectly over weekends and holidays.
 - ix. Look at the 1003.
 1. Make sure the Home Phone is filled in on page 1.
 2. Make sure the Loan Originator Identifier is filled in next to the brokers name on page 4 (the signature page).
35. Password protect the closing docs PDF with the property city; all lower case and no spaces.
36. Save the PDF as '(borrower last name) (loan number) Closing Docs'.
37. Prepare an email to send your docs out.
 - i. Attach the closing docs.
 - ii. Subject line should be (borrower last name)(loan number) Closing docs -(property street address).
 - iii. Send to everyone in Loan Contacts.

1.5.3 Funding the Loan

Upon return of the original doc package to Direct Mortgage, by the closing agent, give a final review of the closing package as follows:

1. Remove the original Note and a copy of the Mortgage or Deed of Trust, any Riders and Transfer Deeds and place them in a manila folder. Write the last name and the loan number on the folder and immediately place the folder in the collateral file cabinet.
2. Stack and scan the closing documents in DMC required order (see attached form).
3. Verify that the documents were signed on or after the note date.
4. **Right to Cancel:** If the loan is a refinance with a right to cancel, verify:
 - a. There are at least 2 signed copies of the "Right to Cancel" for each borrower.
 - b. All copies have been properly executed, including any non-borrowing signers.
 - C. If the signing date is later than the note date, make sure all dated forms (except the NOTE) have the dates corrected to reflect the date the documents were signed, and verify the borrowers have initialed the changes.
- d. The correct 3 day waiting period is enforced.
5. **GFE:** Retrieve and examine the GFE package created during the document preparation process.
 - a. Make sure that the last GFE in the package matches all the lines on the "Good Faith Estimate" column on page 3 of the HUD-1.

- b. Make sure the "Good Faith Estimate" column on the left and the "HUD-1" column on the right on page 3 of the HUD-1 in the 0% "Charges That Cannot Change" category match exactly.
6. Make sure ALL documents, including the "Return Closing Package Coversheet", are initialed, signed and notarized as required.
7. **NOTE:** Carefully examine the note and verify the following:
 - a. The Note is initialed on every page except the last page where there are signature lines.
 - b. The Note is signed by each borrower.
 - c. Verify that there has been nothing altered or crossed out.
8. **Deed of Trust/Mortgage:** Carefully examine the Mortgage or Deed of Trust and verify the following:
 - a. Verify that the vesting is correct and matches our title report or deed that was provided to correct/change vesting.
 - b. Verify the legal description matches what is on the title report.
 - c. Verify that there has been nothing altered or crossed out.
 - d. There is one exception, the notary is allowed to correct the date and notary location information in the notary section.
 - e. The document is initialed on every page except the last page where there are signature and notary lines.
 - f. The document is signed by each borrower.
 - g. The document is signed by any non-borrowing title vested individuals.
 - h. The document is signed by a non-borrower, non-titled spouse if required by state law.
 - i. The document is properly notarized and dated by the notary.
 - j. The notary is allowed to change the date and location information. This is the only alterations allowed to this document.
 - k. All notary pages must be dated and signed by the notary. If the closing date occurred after the scheduled signing date, all notary stamped pages must have the date corrected by the notary with the notary's initials next to any corrections.
9. **HUD-1 Settlement Statement:** Compare title's HUD against our HUD in the package. Make sure they match or reconcile any differences.
10. **1003/Application:** Verify the last page of the 1003 is signed by the Loan Officer.
11. **Verbal Verification of Employment (VOE):** Obtain a verbal VOE for each employed borrower. If the VOE is obtained through "The Work Number" (TALX), you will need to order the VOE through Vendor Services:
 - a. To order a TALX VOE, go to order services in Directware and find Employment section. On the right you'll see an icon that says add click on that. It will add a line and you will select Talx from the drop down on the far left. Then you will make sure the borrower you need to get the VOE on is in that drop down, and their correct employer. Then you will hit order.
 - b. This will take you to a new screen where you will unclick manual, select VOE from the drop down and hit submit.
 - c. Press (F5) to refresh. Click on the "Order Status" tab and check to see if the verification is complete. If not, refresh again until the order completes.
 - d. Verify that the borrower and the company they work match what is on the 1003 for that borrower and that they are active.
 - e. Save each VOE to upload later.
12. **MERS Search:** Perform a MERS search on each borrower.
 - a. Verify that any "Active" items are listed on the real estate tab of the loan application.
 - b. Print the MERS findings to PDF save to upload later.
13. Open the scanned Closing Package.
14. Open the Funding Checklist, in DirectWare, and complete the following sections:
 - a. **Disbursement Date Section:**
 - i. Make sure all fields are filled out correctly.
 - ii. Adjust the funding date if the loan is funding after the originally scheduled disbursement date.
 - iii. Check off this section as "Verified".
 - b. **HUD-1 Approval Section:**
 - i. Verify the HUD in the system matches the HUD in the scanned package.
 1. If the HUD matches the system, write Final on the HUD in the scanned package.
 2. If the HUD does not match, you will need to make changes to balance with the HUD in your package and then generate a revised HUD, mark it final and replace the HUD in the scanned package.
 3. Delete all other HUDs from the scanned image.
 - ii. If the borrower was to bring funds to close, verify the funds brought to close and make sure there is a copy of the proof of funds behind the HUD.
 1. **We do not** accept copies of cash or money orders.
 - iii. Check off this section as "Verified".
 - c. **Underwriting Conditions/ Final Sign Off Section:**
 - i. Standard conditions that apply to every loan. On every condition, check the notes to see if there are any underwriter instructions.
 1. **Funder to upload DMC provided verbal VOE:**
 - a. Upload the VOEs you obtained earlier, attach, sign off.
 2. **Upload copy of all borrower's funds brought to title or escrow:**
 - a. If borrower was required to bring funds to closing, upload proof of funds into condition or if already in the scanned image you may "Waive" the condition and write "See Final CL for Funds to Close" as the reason.
 - b. If borrower was not required to bring funds to close, "Waive" the condition and write "No funds required" as the reason.
 3. **Upload two forms of identification:**
 - a. Upload ID into condition or if already in the scanned image you may "Waive" the condition and write "See Final CL for ID" as the reason.
 4. **Funder to verify borrower does not have any undisclosed properties:**
 - a. Upload the MERS Search you performed earlier and sign off.
 5. **Upload evidence of hazard insurance showing loss payee as Direct Mortgage Corporation:**

- a. Obtain the latest hazard insurance and verify that all information is correct including that the mortgagee clause is accurate. Make sure there are no notes then upload the Hazard insurance.
 - b. In some states, the mortgagee clause is not updated until the closing. If this is the case, obtain and upload a corrected evidence of insurance and upload it.
 - c. Sign off the condition.
6. **Clean title is required prior to funding. Any derogatory items on title must be paid or released:**
- a. Make sure the title report is clean and all liens are paid off or subordinated through the closing and then sign off.
7. **Principal curtailments are not allowed unless the result of excess premium rate credit:**
- a. Verify that any Principal Reduction in calculated properly and paid to DMC and then sign off.
8. **The Loan Officer must sign the final 1003:**
- a. Make sure the final 1003 is signed by the Loan Officer and then sign off.
9. **Review all changed Circumstances:**
- a. Check your GFE packet and verify all change circumstance forms are accurate and that the last GFE matches the 0% category on the final HUD.
- ii. Conditions specific to a refinance:
1. **Qualifying Parameter- The Liability... (the Payoff):**
 - a. Always use the most recently uploaded payoff and verify the payoff is still valid and that the date is current to your funding date.
 - b. If the payoff date is not the same as your funding date, recalculate the payoff accordingly and make sure it matched the final HUD-1
 - c. Title is only allowed to pad the payoff 3 business days.
 - d. If the payoff is expired, request a new payoff
 - e. If a new payoff is uploaded, mark it "Use". If the one in the system is correct, mark it "Use".
 - f. Verify that the borrower's cash to close is still valid then sign off the condition.
 - g. **Special considerations for LP Relief and FHA Streamline Loans:**
 - If the payoff amount changes from what is on the closing documents, these loans must be verified by the underwriter.
- iii. Conditions specific to a Purchase:
1. **Review the final HUD-1 and confirm the borrower's minimum cash investment has been satisfied in the amount.**
 - a. Add the total funds brought to closing (line 303 on the HUD-1) and any Earnest Money deposits.
 - b. Open the loan application and verify that the total in step a. meets the down payment required for the loan.
 - c. If the minimum cash investment is met, sign off the condition.
 2. **One year of hazard insurance is required on all purchase transactions.**
 - a. Examine the hazard insurance and verify that the policy is for at least one year from the funding date.
 - b. Verify that the premium has been collected on the HUD-1, line 903 for the full year premium.
 - c. If you are provided with evidence that the premium was paid before closing, leave the amount on line 903 and mark it as POC(B).
 - d. Note: Do Not remove the fee from the HUD-1.
 - e. After verifying everything is correct, sign off the condition.
 3. **Upload a copy of the approval from the bank if the subject property is being sold on a short sale.**
 - a. Examine the seller's side of the HUD-1 and verify if the transaction is a short sale.
 - b. If the transaction is a short sale, obtain a fully executed short sale agreement and verify that all the terms of the short sale have been met.
- iv. Other Conditions:
1. If there are any remaining conditions you must:
 - a. Read the notes and examine the documentation.
 - b. If the conditions has been satisfied, sign it off if you have the appropriate rights.
 - c. If you do not have the appropriate rights or cannot clear the condition on your own, contact the underwriter and have them review the condition and sign it off.
 - v. "SAVE" the signed off conditions before you leave this page.
- vi. Once all conditions are signed off and the loan is balanced and ready to fund you can satisfy that last remaining condition to upload the closing documents. (Post and Associate currently does not work properly so we are skipping this step and waiving this condition)
1. **Upload all Closing Documents separately into each image requirement:**
 - a. Upload the final scanned closing package into scanned images.
 - b. Use "Post and Associate" to attach each document to the required image.
 - c. Once all images are uploaded, sign off the condition.
- vii. If there are any conditions remaining that are stopping you from funding the loan you must:
1. Open Loan Contacts
 2. Click "Send E-Mail All"
 3. Use the "Funding Conditions" template and prepare an email to all loan contacts requesting the required documents to fulfill any remaining conditions.
- viii. Once all conditions are met, check off this this section as "Verified".
- d. **Signatures / Other Items:**
- a. Verify these are in the package as you review it.
 - i. All signatures were correct and Certified/Notarized where applicable
 - ii. Closing documents executed by a "Power of Attorney" must be signed exactly as the name under the signature line

is typed. No exceptions are allowed. If the borrower name was not typed on the loan documents using a power of attorney; but, the closing documents were signed by a power of attorney, the closing documents must be re-drawn and re-signed.

- iii. Original Note given to Accounting Department
 - iv. No forms have been changed and/or words lined through
 - v. All forms have the same signing and notary dates
 - vi. Photo ID's and Social Security Cards are in the file and match the Social Security Numbers in DirectWare
 - vii. Flood Cert is in the file
- b. Check them all off.
 - c. Check off this section as "Verified".
- e. **Document Return:**
1. Select the date from the dropdown that corresponds to the closing package that was signed.
 2. Review the package and verify that all documents were returned with the package.
 3. If all documents are present, properly executed and notarized where required then check them all off and verify this section.
- f. **Shipping Documents:**
1. Check off this this section as "Verified".
- g. **APR Funding Review:**
1. Verify that the wire instructions match what is in the package or if there are no wire instructions in the package, check latest in scanned images.
 2. Verify that the interest rate on the note matches the interest rate on the lock.
 3. Retrieve the "DMC Record No. from the "Itemization of Amount Financed" in the closing package and make sure it matches. If it does not, correct the number and press tab.
 4. Press the "Recalculate APR" button and make sure the loan still meets TILA compliance and both "APR Test" and "GL Entries Balance" show "Passed".
 5. Check off this this section as "Verified".
- h. **Disbursement Instructions Delivered to Escrow:**
1. Once the loan is balanced and ready to fund, generate the "Cash Disbursement" and verify the following:
 - i. The wire amount matches the amount paid out by DMC.
 - ii. Cash to or from the borrower matches the final HUD-1.
 - iii. There are no "Payor or Payee Not Supplied" entries.
 - iv. There are no erroneous fees to or from DMC.
 - v. All other payees are correct.
 - vi. Save the "Cash Disbursement" to your computer.
 - vii. Check off this this section as "Verified".
- i. **Loan Funding:**
1. Once all the other sections are verified, check the "Authorized to Fund" checkbox.
 2. If your funding date is different than today's date, you will be prompted before you proceed. If you intend to fund on a future date, press "OK".
 3. You will be prompted that the loan will be sent for final underwriting, press "OK". The final process will complete in about 2 minutes.
15. Compile your "Funding Request":
1. Retrieve the following items as PDF images:
 - a. Wire Instructions (make sure they match the wire instructions in funding conditions)
 - b. CPL (Closing Package Letter) Make sure the date is within 60 days of the funding date, if it is not you will need to request and updated CPL. Verify the DMC info and loan number are correct, verify borrower names, address are correct.
 - c. DU/LP Findings (except Streamlines and IRRRL loans) Make sure it's the last run in the scanned images. You do not need anything for a Streamline or IRRRL loan.
 2. Using Adobe, combine the Wire, CPL, and DU/LP findings in this order as "Borrower Last Name" "Loan Number" "Funding Request".
 3. Create an email to funding@directcorp.com and lockdesk@directcorp.com.
 - a. In the Subject type "Borrower Last Name" "Loan Number" "Funding Request".
 - b. In the body of the email type the following:
 - i. The loan program and type.
 - ii. If there is a principal reduction.
 - iii. If the is an Appraisal Waiver.
 - c. Attach the "Funding Request" that you created.
 - d. Send the email.
16. Send notice that the loan is approved to fund.
1. Open Loan Contacts
 2. Click "Send E-Mail All"
 3. Use the "Disbursement Notification" template and prepare an email to all loan contacts.
 4. Attach the "Cash Disbursement" that you saved earlier
 5. Send the email.
17. Copy the final Closing Package to the "U Drive" in the "Funding 2009" folder.
18. Upload the following to Scanned Images:
1. The GFE Package as document type "Initial Disclosures" and description as "Good Faith Estimates Compliance Package".

2. The TIL Compliance Worksheet as document type "Initial Disclosures" and description as "TILA Compliance Worksheet".
3. The Final Closing Package (If not individually uploaded earlier during the funding process) as document type "Closing Package" and Description as "Closing Documents"
4. The Funding Request as document type "Additional Conditions" and description as "Funding Request".
5. The Cash Disbursement as document type "Additional Conditions" and description as "Cash Disbursement".

1.6 Second Signature or Outside Loan Submission to Investor: Approval Process

All files are to be received after initial underwrite by the underwriting manager. 1003 and 1008 in DirectWare are to be thoroughly reviewed for 100% completeness and accuracy. Appraisal should be reviewed and all supporting documentation. This should take place after the initial underwrite and before processing checklist has gone out.

After all PTD conditions are cleared the underwriting manager will have broker support make a paper file if needed. All file should be submitted using the investor's business practice i.e.: paper or scanned image delivery.

After the package is sent it is the underwriting manager's responsibility to confirm that the investor has received the loan package and verify underwriting turn times. These turn times should be communicated to the broker via the underwriting manager or the account executive. All communications from broker and account executives should be made to underwriting manager as that will be the point of contact between investor and Direct Mortgage Corporation.

Any prior to doc conditions should be sent to and cleared by the underwriting manager. It will be the underwriting manager's responsibility to get the conditions reviewed and submitted to the investor the same day they are submitted to Direct Mortgage. The underwriting manager will communicate with the broker coordinator at the time of initial approval to ensure fees and providers are complete.

These files should be given special priority over other files in the system for immediate doc drawing.

We are implementing this policy to ensure these loans are the highest in quality and turn times improved. The impact this will have is increased customer satisfaction and a growth in non conforming business.. Another impact this will have is if the process is followed every time we will become more familiar with the process while becoming experts in doing nonconforming loans. The brokers will become accustomed to the process and get the same response from us every time. This process will also increase our pull through percentages in turn improving relationships with investors.

Feedback. This policy should be discussed with sales managers before being implemented. Feedback should be done with account executives and brokers. Feedback should also be done with investors if possible to help us better use their business practices. This should result in more first time approvals with no prior to doc conditions.

I think a questionnaire would be the best form of feedback with customer satisfaction being the main focus from the broker and the focus of the investor questionnaire to focus on the quality of the submission and underwriting.

1.7 Vendor Management

1.7.1 Introduction

This Policy and Procedure Manual shall direct the use and management of vendors of DMC and/or its vendors. The purpose of this document is to establish minimum standards for overseeing vendor management, maximize performance, and eliminate penalties incurred from regulatory noncompliance. It is the expectation of DMC that all Vendor Management Policies and Procedures be followed as directed to maintain compliance with regulatory standards.

1.7.1.1 Goals & Objectives

The standards set out in this policy represent minimum requirements for compliance with consumer protection laws holding lenders/brokers accountable for vendors. The policies contained in this document establish the minimum standards associated with outsourced- or vendor-supported work functions. These requirements are intended to prevent DMC, our employees, and vendors from violating federal regulations related to mortgage lending and consumer compliance.

1.7.1.2 Required Review

DMC requires this policy be reviewed no less than annually.

The above required annual review shall include the compliance of this policy with current law, regulation or directive, the procedural implementation of this policy within the then current scope of DMC business lines and operations, internal audit results received during the previous year, and then current industry trends or regulatory guidance.

1.7.1.3 Applicability

The purpose of this policy is to implement vendor management mechanisms as required by the United States statutes and related regulations administered by the CFPB and others. Wherever local regulations are stricter than the requirements set out in this policy, the stricter standard shall be applied. If any applicable laws are in conflict with this policy, DMC must consult with the appropriate legal counsel to resolve the conflict.

1.7.2 Monitoring and Quality Control

DMC requires that this Vendor Management Policy and all requirements referenced herein have a monitoring and quality control component. Ongoing adherence to these policies shall be documented such that adherence to policy can be audited or reviewed for accuracy, compliance, inefficiency, or failure. Quality assurance shall include, but not be limited to:

- Monitoring the effectiveness of staff training.
- Assuring vendor's information system safeguards DMC's customer data and protects customer privacy.
- Monitoring risks associated with vendors, including UDAAP, through testing, audit and performance reviews.
- Reviewing periodic summary reports and trend analysis on consumer complaints and resolution.
- Maintaining proper documentation of vendor oversight.
- Screening vendors against agency and investor exclusionary lists (FMEL/LDP/GSA/etc.) at time of approval, at least twice per year (once at recertification and one additional time during the year).
Third-parties and Vendors involved in sales, quality, control, loan production, processing, underwriting and Servicing must screen employees at least twice each year.

1.7.3 Staff and Vendor Training

DMC requires initial and ongoing training for all management, staff, Third Parties and Vendors concerning this policy, other related policies, and underlying law and regulation. Training may be conducted in a variety of settings utilizing any established education modality. Regardless the method of training delivery, all training must include:

- Presentation of the subject material oriented for the adult learner.
- An assessment of the learner to validate command of the subject matter with a minimum passing grade of 70%.
- A completion certificate documenting satisfactory completion of all of the above.

DMC shall maintain adequate records of this training program to include:

- A description of all training programs.
- Evidence of attendance and satisfactory completion for each employee subject to this policy.
- Management response relative to additional training, reassignment or other responses for those employees who may not have achieved a passing grade on the assessment and/or were not issued a completion certificate.

1.7.3.1 Ongoing Training

All DMC employees shall receive training to ensure current knowledge of this policy and the underlying federal regulations, to a degree commensurate with their job function, which may impact DMC and the current state of law, regulation, and industry best practice. At a minimum, training should address:

This policy and any changes within the last year.

The law and regulation underlying this and other policies including, but not limited to:

- Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
- Gramm-Leach Bliley Act.
- Bank Service Company Act.

The implementation of these policies and the practical application thereof in the context of the employee's function or responsibility.

Disciplinary consequences for noncompliance.

1.7.3.2 New Hire Training

New hire employees shall receive the above training within 30 days of commencing employment with DMC.

1.7.3.3 Vendor and Third-Party Training

Annual Anti-Money Laundering (AML) and Fraud training is required for all Third-parties and Vendors engaged to handle or perform functions typically performed by employees and in a position to notice or report fraud or suspected fraud. This may include parties such as contract underwriters, contract processing services (including loan processors), contract quality control firms, Borrower outreach companies, Sub-servicers, loss mitigation services and collection companies.

Training must include periodic updates no less frequently than on an annual basis to ensure that employees and parties referenced above are aware of emerging fraud scenarios. Verification of vendor training will be documented on the Vendor Training Tracker form.

DMC will require and obtain annual written verification from the engaged entity or individual confirming that training has been received in accordance with Agency requirements.

The AML Compliance Officer and President have oversight responsibility to ensure training requirements are accurately communicated to Third-parties and is completed and documented on the Vendor Training Tracker form. Training requirements regarding what is to be covered and who is required to be trained will be communicated annually in writing during the annual review. Individuals who are involved in sales, quality control, loan production, processing, underwriting and Servicing functions, on behalf of DMC, are required to receive the training. Non-compliance by Third-parties and Vendors to provide the required training may be subject to termination. At a minimum, the entity will be required to provide a detailed plan for training material, who is to be trained and prompt timeline for completing the training. The plan will be reviewed for acceptance by DMC's AML Compliance Officer and/or President. Failure to comply with the remediation plan will subject the entity to termination.

1.7.4 Federal Regulations for Use of Vendors

It is the expectation of DMC to abide by the requirements of its regulators by engaging in a rigorous analytical process to identify, measure, monitor, and establish controls to manage the risks associated with vendor relationships and, to avoid excessive risk-taking that may threaten DMC's safety and soundness. Because vendor relationships are important in assessing the overall risk profile, the primary supervisory concern in reviewing relationships with vendors is whether DMC is assuming more risk than it can identify, monitor, manage, and control.

1.7.4.1 Requirements

DMC maintains a proactive approach to regulatory compliance and consumer advocacy.

1.7.4.1.1 Consumer Advocacy

In Bulletin 2012-03, released April 13, 2012, the Consumer Financial Protection Bureau outlined the expectation that supervised banks and nonbanks must oversee business relationships with vendors. The CFPB cautions vendors of potential harm to consumers if legal requirements were not met, and indicated that supervised banks and nonbanks may be held legally responsible as well as the vendors.

1.7.4.1.2 Consumer Privacy

As required by the Privacy Rule of the Gramm-Leach-Bliley Act (GLBA), DMC and its vendors will comply with regulations about consumer privacy, including:

- Maintaining a privacy policy and notifying customers about these policies and practices.
- Describing the reasons for disclosure of non public personal information about consumers to non affiliated vendors.
- Providing a manner for its customers to "opt out" of disclosure to non affiliated vendors.

1.7.4.1.3 Consumer Safeguards

As required by the Safeguards Rule of the GLBA, DMC, and its vendors will maintain a comprehensive information security program to safeguard sensitive consumer data. DMC and its vendors will notify consumers of information-sharing practices as required under the Safeguards Rule of this act.

1.7.4.2 Violations

DMC may be subject to appropriate corrective measures, including enforcement actions, to address violations of law and regulations or unsafe or unsound practices by DMC or its vendor.

Consequences of violations include but are not limited to:

- Significant monetary penalties.
- "Cease and Desist orders."
- Additional regulatory involvement and investigations of day to day operations.
- Including certified reports of on-going compliance on a periodic basis.

1.7.4.3 Compliance

DMC recognizes multiple regulatory bodies that impact the management of vendor relationships. In addition to the CFPB, the following regulators have been identified.

1.7.4.3.1 Federal Trade Commission (FTC)

The Federal Trade Commission provides regulations concerning the safeguarding of personal consumer information as well as consumer privacy under the GLBA. This regulation applies to vendors of financial institutions and their products or services. In this case, the FTC's definition of financial institution includes mortgage brokers, nonbank lenders, and real estate appraisers.

DMC will comply with the following requirements of Section 501(b) of the GLB Act:

- Exercise appropriate due diligence in selecting vendors.
- Require vendors to implement appropriate security measures for the handling and disposal of customer information.
- Monitor vendors via audits, test results, etc. to confirm that they have satisfied their security obligations.

1.7.4.3.2 Federal Housing Finance Agency (FHFA)

Both Government Sponsored Enterprise (GSE) agencies, FannieMae and Freddie Mac, issued requirements for the selection, retention, and management of law firms as vendors to mortgage servicers for bankruptcies and legal matters related to default, including foreclosures, loss mitigation, and litigation involving GSE-owned mortgages. DMC and its vendor law firms must adhere to GSE requirements.

1.7.4.3.3 Department of Housing and Urban Development(HUD)

HUD provides oversight for numerous fair housing and equal opportunity laws, including:

- Fair Housing Act (and the prohibition of unfair lending practices).
- Title VI of the Civil Rights Act of 1964.
- Section 504 of the Rehabilitation Act of 1973.
- Section 109 of Title I of the Housing and Community Development Act of 1974.
- Title II of the Americans with Disabilities Act of 1990.
- Architectural Barriers Act of 1968.
- Age Discrimination Act of 1975.
- Title IX of the Education Amendments Act of 1972.

HUD further regulates its approved mortgage lenders/brokers and their servicing agents, holding them accountable for actions of vendors engaged in servicing activities, including loss mitigation efforts, on behalf of the mortgagees. DMC will comply with HUD requirements.

1.7.4.3.4 Federal Deposit Insurance Corporation (FDIC)

In its *2012 Compliance Manual*, the FDIC outlines significant policy expectations regarding the use of vendors. Arrangements with vendors may include the following business activities:

- Core information and transaction processing.
- Collections.
- Marketing.
- Customer call centers.

DMC requires the activities provided by a vendor comply with consumer protection laws and guidance such as the Equal Credit Opportunity Act(ECOA) and the Fair Housing Act, and that the vendor uses sound business practices.

1.7.4.3.5 Office of the Comptroller of the Currency

The OCC has supervisory authority of national bank lenders. Under the **Bank Service Company Act**, 12 USC 1867(c), the OCC regulates "situations in which an entity arranges, by contract or otherwise, for the performance of any applicable functions of its internal operations." Therefore, the OCC has the authority to examine and to regulate the functions or operations performed or provided by vendors to the same extent as if they were performed by DMC. Using its supervisory authority, the OCC may examine the operations of vendors who seek out institutions to deliver potentially abusive, unfair and deceptive, or predatory products to evaluate:

- Safety and soundness risks.
- Financial and operational viability of the vendor to fulfill its contractual obligations.
- Compliance with applicable consumer protection, fair lending, and anti-money-laundering laws.
- Whether the vendor engages in unfair or deceptive acts or practices in violation of federal or applicable state law.

According to these regulations, DMC, its board of directors and management are responsible for adequately managing vendor relationships and identifying and controlling the risks that can arise.

1.7.4.3.6 Board of Governors of the Federal Reserve

The Federal Reserve oversees federally insured mortgage servicers. After a 2010 comprehensive Interagency Review coordinated with the OCC and then Office of Thrift Supervision, the regulator called for servicers to establish procedures and policies for outsourcing activities in order to comply with legal requirements and supervisory guidance.

1.7.5 Use of Vendors in Mortgage Lending

Various vendor relationships exist within mortgage lending. These relationships can pose additional business risk.

1.7.5.1 Common Vendor Relationships

DMC recognizes a variety of vendor relationships to which this policy may apply. Examples of common applicable relationships include but aren't limited to:

- Vendors such as mortgage brokers, appraisers, and underwriters.
- Loan servicing vendors such as providers of flood insurance monitoring, debt collection, and loss mitigation/foreclosure activities.
- Disclosure preparers, such as disclosure preparation software and vendor documentation preparers.
- Technology providers such as software vendors and website developers.
- Providers of outsourced bank compliance functions such as companies that provide compliance audits, fair lending reviews, and compliance monitoring activities.

Section 1002(26) of the Dodd-Frank Act defines service provider as "any person that provides a material service to a covered person in connection with the offering or provision by such covered person of a consumer financial product or service." DMC further acknowledges some relationships with service providers are not in scope for this policy. Section 1002(26)(B) identifies exceptions as follows: "The term "service provider" does not include a person solely by virtue of such person offering or providing to a covered person –(i) a support service of a type provided to businesses generally or a similar ministerial service..." Some vendors are not considered service providers under Dodd-Frank because they do not impact the consumer relationship on a transactional basis. Examples of these relationships include but are not limited to:

- Internet publishing and hosting vendors
- Utility providers such as telecommunications or network service

1.7.5.1.1 Appraisal Management

Lending institutions may employ appraisal management companies as vendors for the appraisal process. These vendors must comply with the Appraisal Independence Requirements (AIR) to ensure the originator does not know who is conducting the appraisal and the appraiser does not know who placed the order until the appraisal report is completed. Appraisal management companies typically contract with appraisers in local areas to perform services in an effort to deliver a 'national' presence to large lenders and brokers. The vendor then screens the contract appraisers based upon the vendor's criteria.

1.7.5.1.2. Underwriting

Vendors offering underwriting services include private mortgage insurance companies and other contract underwriting outsourcing agencies. These services typically include analysis of each component of the mortgage loan file, including Credit, Income, Asset, Collateral, and Ratios, and may also include a review for Regulatory Compliance, Fraud Detection, and Loan Decision. Contract underwriters may also perform validation of Automated Underwriting System findings or perform a manual underwrite.

1.7.5.1.3 Compliance / Quality Control Reviews

Some vendors specialize in mortgage quality control services to assist lending institutions with loan-specific problems or to assess the mortgage origination process to ensure compliance with secondary market agencies. They can also perform post-closing quality control audits, in-process compliance reviews, file doc reviews and prefunding audits and Servicing QC reviews of functions such as Loan Administration, Default Management, Foreclosure Processes, and others.

1.7.5.1.4 Mortgage Servicing

Vendors conducting business in this area include Inspection Services for delinquent properties, Property Preservation Field Services to preserve and maintain bank-owned properties, Private Investigators for Loss Mitigation efforts, Broker Price Opinions, Environmental Remediation and firms retained for the purpose of default-related legal services.

1.7.5.1.5 Sub servicers

While mortgage sub servicers are considered an "outsourced relationship," sub servicers are regulated by the federal government and must make certain disclosure has been made to borrowers even though the sub servicer is performing mortgage collection tasks on behalf of the originating lender.

1.7.5.2 Associated with Vendors

DMC recognizes reliance on vendors can increase its risk profile, notably strategic, reputation, compliance, and transaction risks. Increased risk most often arises from poor planning, oversight, and control on its part and inferior performance or service on the part of the vendor, and may result in legal costs or loss of business to both.

DMC requires its management and employees to understand the potential risks associated with outsourcing to vendors and take the necessary next steps to carefully manage those risks.

1.7.5.2.1 Reputation

Reputation risk is the risk to earnings or capital stemming from negative public opinion. Vendor relationships generating dissatisfied customers can result in reputation risk. Poor service, disruption of service, inappropriate sales recommendations, and violations of consumer law can result in litigation and loss of business to DMC, vendor, or both. When the vendor's employees interact directly with customers (in joint marketing arrangements or from call centers, for example), such arrangements may create reputation risk if the interaction is not consistent with the policies and standards of DMC.

Also, negative publicity surrounding vendors may increase reputation risk. Use of vendor relationships to offer new products or services or expand existing ones requires close monitoring of the quality and appropriateness of the vendor's products and services to ensure ongoing customer satisfaction. This may result in negative publicity or customer opinion. Poor service from vendors or from customer interaction inconsistent with the standards of DMC may result in reputation risk. An example would be if private consumer data was compromised due to vendor failure, then the risk is not only to reputation, but, in this case, tied to compliance, legal, and liquidity risks.

1.7.5.2.2 Operational

Operational risk may result from failed internal processes, systems, and people, or unforeseen external events that impacted vendor's ability to execute and vendor was without contingency plans. Negative impact may arise on existing procedures of DMC due to failure by the vendors.

1.7.5.2.3 Credit

Failure of the vendor to meet contractual financial obligations results in credit risk to DMC. Credit risk can be the financial condition of the vendor in the simplest form, and this poses risk to earnings or capital. For example, vendors that market or originate certain types of loans expose DMC to increased credit risk if management does not exercise effective due diligence over, and monitoring of, the vendor. The credit risk for some vendor programs may be shifted back to DMC if the vendor does not fulfill its responsibilities or have the financial capacity to fulfill its obligations. In those situations, it will be important for management to assess the financial strength of the vendor at the outset of the relationship as well as periodic intervals into the future.

1.7.5.2.4 Compliance

Compliance risk is the risk to earnings or capital arising from violations of laws, rules, or regulations, or from nonconformance with internal policies and procedures or ethical standards. This risk exists when products, services, or systems associated with the vendor relationship are not properly reviewed for compliance, or when the vendor's operations are not consistent with law, ethical standards, or the policies and procedures of DMC.

Compliance risk increases when any or all of the following occur:

- The privacy of consumer and customer records is not adequately protected.
- Conflicts of interest between an institution and affiliated vendors are not appropriately managed.
- Vendors have not implemented an appropriate information security program.

1.7.5.2.5 Transactional / Loan Level

Transaction risk occurs from problems with service or product delivery by the vendor. Transaction risk can increase when the products, services, delivery channels, and processes that are designed or offered by a vendor do not fit with the systems, customer demands, or strategic objectives of DMC. A vendor's inability to deliver products and services, whether arising from fraud, error, inadequate capacity, or technology failure, may result in exposure to transaction risk.

1.7.5.2.6 Strategic

Strategic risk impacts earnings or capital arising from adverse business decisions or improper implementation of those decisions. DMC intends to reduce exposure to strategic risk by prohibiting the use of vendors to conduct business functions or offer products and services that are not compatible with its own strategic goals or that do not provide an adequate return on investment.

1.7.5.2.7 Other

Depending on the circumstances, vendor relationships may also subject DMC to liquidity, interest rate, price, and foreign currency translation risk. In addition, there may be exposure to country risk when dealing with a foreign-based vendor. Country risk is the risk that economic, social, and political conditions and events in a foreign country will adversely affect the financial interests of DMC.

To control these risks, both management and the board of DMC must exercise appropriate due diligence prior to entering the vendor relationship and effective oversight and controls afterward. The board of directors must maintain effective oversight and ensure that effective controls are in place. Management must take the lead in effectively managing any vendor relationships. At the start, management must be prepared to select a qualified vendor, manage and monitor the agreement, ensure that controls are in place and validated independently, and ensure that a contingency plan is in place in order to mitigate risks.

1.7.5.3 Risk from Unfair, Deceptive, or Abusive Acts or Practices

When an institution lends its name or regulated entity status to products and services originated by others or activities predominantly conducted by others, and those vendors engage in practices that may be considered predatory, abusive, or unfair and deceptive to consumers, UDAAP violations occur. DMC must verify its vendor's practices are not unfair, deceptive, or abusive to consumers.

Compliance risk and UDAAP violations can escalate when DMC engages vendors because the vendors may:

- Be positioned between the firm and the customer.
- Be involved in the delivery of products and services to consumer.
- Have free access to lending institution's customers.
- Not be adequately monitored.

In order to comply with the provisions of Dodd-Frank, the Consumer Finance Protection Bureau and to combat unfair, deceptive, or abusive acts or practices by vendors, DMC must be certain to:

- Implement and maintain effective risk and supervisory controls to select and manage vendor servicers.
- Ensure that vendors who market or promote products, or service loans, are adequately trained to avoid making statements or taking actions that might be unfair or deceptive.
- Review compensation arrangements for vendors and servicers to ensure that they do not create unintended incentives to engage in unfair or deceptive practices.
- Ensure that vendors have and follow procedures to credit consumer payments in a timely manner. Consumers should be clearly told when and if monthly payments are applied to fees, penalties, or other charges before being applied to regular principal and interest.

1.7.5.4 Verification of UDAAP Compliance

DMC shall ensure its vendors' actions comply with regulatory and legal requirements. The following information is based on the CFPB Examination Procedures for UDAAP. The material specifically addresses vendor entities and is provided as general guidance in the following areas:

- Document Review.
- Management and Policy-Related Procedures.

1.7.5.4.1 Document Review

DMC will obtain and review copies of the following documents for possible UDAAP violations or other regulatory concerns of its vendors:

- Compensation arrangements, including incentive programs.
- Policies and procedures of vendors who intend to interact with its consumers.

1.7.5.4.2 Management and Policy-Related Procedures

DMC will review and determine whether its vendor's internal controls are adequate to prevent unfair, deceptive, or abusive acts or practices. Additionally, DMC will consider whether the vendor's compliance management program has established policies and controls relating to conduct, including:

- Initial and ongoing training.
- Performance reviews or audits.

Discipline policies and records of disciplinary actions.
Vendor agreements and contractual performance standards.
Compensation programs.
Monitoring.

1.7.5.4.3 Ongoing Monitoring

DMC will monitor the activities of vendors to ensure they do not engage in unfair, deceptive, or abusive acts or practices with respect to consumer interactions, and will interview vendor employees to determine whether:

- They are adequately trained so that they do not engage in unfair, deceptive, or abusive acts or practices.
- They are monitored through periodic internal evaluations or audits to check whether vendor employees follow DMC's training and procedures and have a disciplinary policy in place to deal with any deficiencies.
- Their compensation arrangements do not create unintended incentives to engage in unfair, deceptive, or abusive acts or practices, particularly with respect to product sales, loan originations, and collections.
- Their performance evaluation criteria do not create unintended incentives to engage in unfair, deceptive, or abusive acts or practices, including criteria for sales personnel based on sales volume, size, terms of sale, or account performance.

DMC will evaluate whether servicing and collections practices raise potential UDAAP concerns, by considering whether:

Call centers operated by vendors effectively respond to consumers' calls.

Appropriate training is provided to vendor contractors to ensure they:

- Represent fees or charges on periodic statements in a manner that is not misleading.
- Post and credit consumer payments in a timely manner.
- Apply payments in a manner that does not unnecessarily increase customer payments, without clear justification.
- Only charge customers for products and services, such as insurance or credit protection programs, that are specifically agreed to.
- Mail periodic statements in time to provide the consumer ample opportunity to avoid late payments.
- Do not represent to consumers that they may pay less than the minimum amount without clearly and prominently disclosing any fees for paying the reduced amount.
- In the event of debt collection, vendor contractors clearly indicate to consumers that they are calling about the collection of a debt.
- Vendor contractors do not disclose the existence of a consumer's debt to the public without the consent of the consumer, except as permitted by law.

1.7.6 Vendor Relations Risk Management Process

DMC will follow a comprehensive risk management process for its vendor relationships to ensure that capital is sufficient to support the risk exposures and that the vendor is operating in a manner consistent with applicable laws, rules, regulations, and guidance, including those intended to protect consumers.

The following steps shall be completed when entering and managing vendors:

1. Risk assessment
2. Due diligence
3. Contract development
4. Comprehensive Monitoring

1.7.6.1 Step One: Risk Assessment

In advance of engaging in a vendor relationship, DMC's management will identify the strategic purposes, benefits, legal aspects, costs, and risks associated with the vendor activity. Risk evaluation includes reputational risks if the standards associated with the activity or product differ from those customarily exercised by DMC. The board of directors and management shall identify the role of the vendor relationship as it relates to business strategy and objectives. The senior leadership team shall ensure that vendor activities are clearly integrated with corporate strategic goals. Refer to the Appendix for a sample Vendor Assessment / Risk Rating form for assistance in evaluating third-party risk.

1.7.6.1.1 Identify Critical Needs and Objectives

Internal auditors, compliance officers, and legal counsel within the organization will help to analyze the risks associated with the vendor relationship and to establish the necessary control and reporting structures. They will review vendor protocols to ensure vendors meet information security and customer privacy requirements. Based on this strategic planning and risk assessment, objectives must be set and specific vendor activities evaluated.

1.7.6.1.2 Appoint Expertise to Oversee and Manage the Activity

DMC may choose to appoint an internal Vendor Manager (VM) as needed with expertise to evaluate and manage the activity as well as the vendor relationship. The VM must be able to monitor and measure performance under the terms of the vendor agreement.

For significant relationships, DMC will appoint a senior officer to sponsor the vendor relationship and be responsible for the due diligence, implementation, management, and monitoring of the arrangement, including periodic reports to the board. The sponsor shall have sufficient knowledge and skills to critically evaluate the design, operation, and oversight of the vendor relationship.

1.7.6.1.3 Perform a Cost / Benefit Analysis

DMC will perform assessments of the vendor relationship. The Vendor Manager (VM) will be responsible for initially measuring long-term stability and viability against potential short-term profits or cost savings. The VM will perform an initial risk/reward analysis by comparing the proposed vendor relationship to other methods of performing the activity or product offering, including the use of other vendors or performing the function in-house. On at least an annual or more periodic basis, a cost-benefit analysis will also be conducted to assess on-going performance. The board of directors or an appropriate committee will review the analysis.

1.7.6.1.4 Anticipate and Manage Customer Expectations

DMC will manage customer expectations and understandings with respect to joint marketing and franchising activities with their vendors to eliminate or reduce reputation risk.

1.7.6.2 Step Two: Due Diligence and Vendor Vetting

DMC will perform a due diligence process to assess business aspects of a vendor and whether the vendor relationship can help achieve strategic goals. These aspects will include qualitative and quantitative details regarding financials and operational processes of the vendor. Due diligence will be performed before selecting a vendor and at appropriate intervals thereafter, particularly at contract renewal.

Comprehensive due diligence involves a review of all available information about a potential vendor, focusing on financial condition, its specific relevant experience, its knowledge of applicable laws and regulations, its reputation, and the scope and effectiveness of its operations and controls.

The evaluation of a vendor may include a review of one or all of the following areas.

1.7.6.2.1 Technical and Industry Expertise

DMC will assess the vendor's experience and ability to provide the necessary services for current and anticipated needs including:

Identification of areas where DMC would have to supplement the vendor's expertise to fully manage risk.

Evaluation of vendor's:

- Use of third-party agents to support the vendor's operations.
- Experience in providing services in the anticipated operating environment.
- Ability to respond to service disruptions.
- References and user group opinions for the purpose of determining the vendor's reputation and performance history.
- Knowledge of the regulations that are relevant to the services provided.
- Key personnel that would be assigned to support DMC.

1.7.6.2.2 Operations and Controls

DMC will determine the adequacy of a vendor's standards, policies and procedures relating to the following areas, including:

- Internal controls.
- Facilities management (access requirements, sharing of facilities, etc.).
- Security (systems, data, equipment, etc.).
- Privacy protections.
- Maintenance of records.
- Business resumption contingency planning.
- Systems development and maintenance.
- Employee background checks.

DMC will determine the adequacy of vendor's security precautions with respect to resources and the detection and response to intrusions.

DMC will evaluate the ability to have complete and timely access to the information maintained by the vendor.

DMC will perform on-site visits, when necessary, to better understand how the vendor operates and supports its clients.

1.7.6.2.3 Financial Condition

DMC will examine the financial condition of its vendors by:

Analyzing the vendor's most recent audited financial statements and annual report as well as other available documents (SEC filings, etc.).

Considering factors such as:

- How long the vendor has been in business and the vendor's market share for a given service and how much it has fluctuated.
- The significance of DMC's proposed contract on the vendor's financial condition.

Evaluating capital activities such as:

- Resource expenditures to ensure that the vendor's level of investment in its resources is consistent with supporting DMC's activities. The vendor shall have the financial resources to invest in and support the required level of service.
- Existence of any significant complaints or litigation, or regulatory actions against the vendor.

Reviewing business reputation, complaints, and litigation by checking the following references:

- Better Business Bureau.
- State Attorney General Offices.
- State Consumers Affairs offices.
- When appropriate, audit reports and regulatory reports.

1.7.6.2.4 Miscellaneous

DMC will also evaluate various other business criteria as appropriate in order to vet its vendors, such as reviewing:

- Vendor reliance on and success in dealing with subcontractors (DMC may need to consider whether to conduct similar due-diligence activities for material subcontractors).
- Insurance coverage.
- Underwriting criteria.
- Marketing materials to determine how DMC's name will be associated with the product.
- Websites.
- Vendor and institution management responsibilities.
- Vendor's intangible assets (when information is available) to ensure 'cultural compatibility' of the vendor relationship. (Such intangibles would include the vendor's business strategies and goals, human resources policies, service philosophies, quality initiatives, and policies for managing costs and improving efficiency.)

1.7.6.3 Step Three: Contract Requirements

DMC will conduct a contract review in order to identify risk with a current or prospective vendor. Contracts with vendors shall adhere to the same general guidelines as other contractual relationships in which DMC is involved. The contract shall include clear and concise language regarding the arrangement between DMC and the vendor.

The board and management shall ensure that the expectations and obligations of each party are clearly defined, understood, and enforceable. The following topics shall normally be considered when entering into a binding contract or agreement (some points may not apply in every circumstance). Management and the Board of Directors recognize that not all vendors will agree to the terms desired by DMC and that under limited circumstances DMC may not be able to address each item noted below. To the extent that all items are not adequately addressed, it is the responsibility of the owner of the vendor relationship to inform DMC, prior to execution of a contract, of any items omitted from the recommended contractual items listed below.

1.7.6.3.1 Scope of Arrangement

Contracts shall clearly describe the rights and responsibilities of all parties involved. Considerations include:

- Timeframes and activities for implementation and assignment of responsibilities. Services to be performed by the vendor, including support, maintenance, training and customer service.
- Obligations of DMC in the relationship.
- The contracting parties' rights in modifying the existing services performed under the contract.
- Guidelines for adding new or different services and for contract renegotiation.

The contract shall also include requirements that the vendor comply with all applicable laws, regulations, and guidance; authorization for DMC and the appropriate audit, legal, and regulatory agencies to access records of the vendor, especially those necessary to evaluate compliance with laws, rules, and regulations.

1.7.6.3.2 Assignment

DMC prohibits the assignment of any contract with a vendor without the consent of DMC. This includes changes to any subcontractors.

1.7.6.3.3 Benchmark Reporting

DMC requires the contract with vendor specify the type and frequency of management information reports to be received and these reports shall include routine reports such as performance reports and audits, financial reports, security reports, business resumption testing results, and exception-based reports. These would serve as notification of changes or problems that might affect the nature of the relationship or impose risk to DMC.

DMC also requires the contract with vendor address guidelines and fees for obtaining custom reports.

DMC requires materiality thresholds and procedures to be used for notification when vendor service disruptions, vendor security breaches, and other vendor events pose a material risk. Vendor shall notify DMC in the event of financial difficulty, catastrophic events, material change in strategic goals, and significant staffing changes, all of which might result in a serious impact to service.

1.7.6.3.4 Business Continuity

DMC requires the vendor take responsibility for continuance of services in the event of an operational failure, including system breakdown and natural (or man-made) disaster. Vendors shall have appropriate protection for backing up information and shall maintain disaster recovery and contingency plans with sufficiently detailed operating procedures.

Vendors' responsibilities include periodic testing (at least annually) of the plans and providing results to DMC. Interdependencies between vendors must be considered when determining business resumption testing requirements. The vendor shall provide DMC with operating procedures for the vendor and DMC in the event business resumption contingency plans are implemented. Contracts must specify provisions for business recovery timeframes that meet DMC's business requirements. The contract must not contain any provisions that would excuse the vendor from implementing its contingency plans.

Further, DMC's own contingency plan shall address potential financial problems or insolvency of the vendor.

1.7.6.3.5 Compensation

The contract must outline the fees to be paid, including fixed compensation, variable charges, and fees for nonrecurring items or special requests. Other items that will be addressed, if applicable, are the responsibility for purchasing and maintaining equipment, including hardware, software, and other items. Also the contract will identify which party is responsible for payment of any legal or audit expenses. Any conditions under which the cost structure may be changed must be addressed in detail, including limits on any cost increases.

DMC will employ compensations that are consistent with sound banking practice and consumer protection laws. Compensation will be structured to promote long-term performance in a safe and sound manner. Any volume and short-term incentives are to be strictly controlled.

1.7.6.3.6 Compliance

The contract shall identify areas of compliance, including, but not limited to:

- Identification of which party is responsible for delivering any required customer disclosures.
- Insurance coverage to be maintained by the vendor.
- Terms relating to and use of any premises, equipment, or employees of DMC.
- Permissibility or prohibition of the vendor to subcontractor use another party to meet its contractual obligations and any notice or approval requirements.
- Authorizations for DMC to monitor and periodically review the vendor for compliance with this agreement, including audit reports; and indemnification of liability of each party for the actions of the other.

1.7.6.3.7 Consumer Complaints

The contract shall specify who will respond to complaints from the customers of DMC that the vendor receives. If the vendor is responsible, a copy of the complaint and the response shall be forwarded to DMC. Also periodic summary reports, along with a trend analysis on types of complaints, detailing the status and resolution of complaints shall be provided. Additionally, the contract shall address record retention provisions for retaining relevant consumer complaint records.

1.7.6.3.8 Default and Termination

There can be significant risks associated with contract default and/or termination. Therefore, the contract shall:

- Stipulate what constitutes default.
- Identify remedies.
- Allow for opportunities to cure defaults.

The extent and flexibility of termination rights sought vary with the type of service. Termination rights may be sought for a variety of eventualities, including:

- Change in control.
- Merger or acquisition.
- Convenience.
- Substantial increase in cost.
- Repeated failure to meet service standards.
- Failure to provide critical services and required notices.
- Failure to prevent violations of law or unfair, deceptive, or abusive acts or practices, bankruptcy, company closure, and insolvency.

In addition, the contract shall include a provision that enables DMC to terminate the contract, upon reasonable notice and without penalty, in the event that DMC's regulator formally objects to the particular vendor arrangement. Management shall consider whether the contract permits DMC to terminate the relationship in a timely manner without prohibitive expense. The contract shall state termination and notification requirements with time frames to allow for the orderly conversion to another vendor. The contract shall provide for the timely return of DMC's data and other resources. Any costs and servicer's obligations associated with transition assistance shall be clearly stated.

1.7.6.3.9 Dispute Resolution

The contract must establish a dispute resolution process (arbitration, mediation, or other means) for the purpose of resolving problems between DMC and the vendor in an expeditious manner. DMC requires continued performance by vendor during the dispute resolution period.

1.7.6.3.10 Duration

DMC will negotiate the appropriate length of a vendor contract and its renewal periods based on the type of service being provided. The length of time required for notification of intent not to renew a contract with a vendor shall be specified and shall be reasonable.

1.7.6.3.11 Foreign-based Vendors

Should DMC choose to enter into contracts with foreign-based vendors, the contract must include choice-of-law covenants and jurisdictional covenants that provide for adjudication of all disputes between the parties under the laws of a single, specific jurisdiction. Further, DMC relies upon its legal counsel for guidance regarding the enforceability of all aspects of a proposed contract with a foreign-based vendor and the other legal ramifications of each such arrangement.

1.7.6.3.12 Indemnification

Vendor will hold DMC harmless from liability as a result of negligence by the vendor. However, DMC and its vendors shall comply with all consumer protections laws and regulations.

1.7.6.3.13 Information Security

DMC prohibits vendors from using or disclosing DMC's information except as necessary to perform the functions designated by the contract. DMC's nonpublic personal information must be handled consistently with the established privacy policy and applicable privacy laws and regulations. DMC requires prompt and full disclosure of any breaches of security and/or confidentiality of the information. Failure to provide disclosure of information security breaches may result in contract termination at a minimum, as well as regulatory action, which may include criminal fines, imprisonment, or both.

Vendors must do all they can to keep information confidential and secure. The contract shall prohibit the vendor and its agents from using or disclosing DMC's information, except as necessary to provide the contracted services. If the vendor receives nonpublic personal information regarding DMC or its customers, vendor will notify the DMC to assess the applicability of the privacy regulations, and the vendor must implement appropriate security measures designed to meet the objectives of regulatory guidelines with which DMC must comply.

DMC shall require the vendor to fully disclose breaches insecurity resulting in unauthorized intrusions that may materially affect DMC or its customers. The vendor shall report to DMC when material intrusions occur, should estimate the intrusion's effect on DMC, and should specify the corrective action taken. Arrangements should address the powers of each party to change security procedures and requirements, and should resolve any confidentiality/security issues arising out of shared use of facilities owned by a vendor.

The owner of the vendor relationship should refer to DMC's Information Security Program for further guidance.

1.7.6.3.14 Insurance

The vendor shall maintain adequate insurance and shall notify DMC of material changes to coverage.

1.7.6.3.15 Intellectual Property Ownership

DMC maintains its right of ownership of its business property, including data, equipment, software, and intellectual property such as DMC's name and logo, trademark, and other copyrighted material along with applicable business records generated by the vendor during the relationship. Said ownership extends beyond vendor default or termination.

1.7.6.3.16 Internal Controls

DMC requires its vendors to establish specific policies for services provided to DMC, including:

- Internal controls to be maintained by the vendor.
- Compliance with applicable regulatory requirements.
- Records to be maintained by vendor.
- Access to the records by DMC.

Notification by the vendor to DMC and DMC's approval rights regarding material changes to services, systems, controls, key project personnel Setting and monitoring of parameters relating to any financial functions, such as payments processing and any extensions of credit on behalf of Insurance coverage to be maintained by the vendor.

allocated to DMC, and new service locations. DMC.

1.7.6.3.17 Limits on Liability

DMC's contract establishes limits of vendor's liability. Management must determine whether the proposed limit is in proper proportion to the amount of loss DMC might experience as a result of vendor's failure to perform.

1.7.6.3.18 Ownership and License

The contract shall state whether and how the vendor has the right to use DMC's data, hardware and software, system documentation, and intellectual property, such as the company's name, logo, trademark, and copyrighted material. It should indicate whether any records generated by the vendor are the property of DMC. If DMC purchases software, management shall establish escrow agreements to provide for access to source code and programs under certain conditions (e.g., insolvency of the vendor), documentation of programming and systems, and verification of updated source code. The contract shall provide for the return of all items owned by DMC.

1.7.6.3.19 Performance Standards

DMC will include clearly defined performance standards in the contract to serve as a basis for measuring the vendor's performance, which shall be used as a compensation factor. Industry standard may be used or standards may be set to reflect a particular relationship, such as in these examples:

Contracts with appraisers should contain language outlining the appraisal industry standards the work must meet.

Industry standards for service-level agreements may provide a reference point for commodity-like services, such as payroll processing.

When there are no standard measures, DMC and vendor will agree upon a range of measures.

Management shall periodically review the performance measures to ensure its objectives are being met. Such measures will be used to penalize poor performance or reward outstanding performance.

1.7.6.3.20 Right to Audit

DMC has the right to audit the vendor (and subcontractors) as needed to monitor performance under the contract. DMC will ensure that periodic independent internal and/or external audits are conducted at intervals and scopes consistent with in-house functions (e.g., financial).

DMC reserves the right to conduct its own audits of the function, or it may engage an independent auditor. Audit reports shall include a review of the vendor's internal control environment as it relates to the service or product being provided to DMC. Reports must also include a review of the vendor's security program and business continuity program.

1.7.6.3.21 Subcontracting and Multiple Vendor Relationships

Contracts with vendors shall include a provision specifying that the contracting vendor is responsible for the service provided to DMC regardless of which entity is actually conducting the operations and that DMC must approve any changes regarding the status of subcontractor relationships.

1.7.6.3.22 Violations

Vendor violations of consumer laws will necessitate remedial actions by DMC to prevent further violations. Regulators, including the Consumer Financial Protection Bureau (CFPB) and the Office of the Comptroller of the Currency (OCC), have authority to assess civil money penalties in restitution for violations of consumer protection laws.

Violations of other terms of contract may cause vendor to receive penalties from DMC, including:

Termination of relationship.

Revised compliance management system to detect and eliminate violations.

Monetary penalties.

1.7.6.3.23 Summary

For material vendor arrangements, DMC's legal counsel shall review the contracts and DMC's board or senior management must approve the vendor arrangement prior to finalization. Also any material or significant contracts shall prohibit assignment, transfer, or subcontracting by the vendor of its obligation to another entity unless and until management can determine that such action would not negatively affect DMC.

1.7.6.4 Step Four: Comprehensive Monitoring

After entering into a contract or agreement with a vendor, DMC shall monitor the vendor with respect to its activities and performance. Management shall dedicate sufficient staff with the necessary expertise to oversee the vendor. While the extent of oversight activities will vary depending on the nature of the activity, the oversight program shall monitor the vendor's financial condition, its controls, and the quality of its service and support. Performance monitoring may include, as appropriate, the monitoring of financial condition, controls, and quality of service.

1.7.6.4.1 Monitor Financial Condition

DMC will perform the following assessments when monitoring the financial condition of its vendors:

Evaluate the vendor's financial condition at least annually and more frequently when risk is high or moderate and increasing. Audited financial statements are required for significant relationships with vendors.

If applicable, ensure that the vendor's financial obligations to subcontractors are being met in a timely manner.

Review the adequacy of the vendor's insurance coverage.

Compare actual earnings/costs with projections.

1.7.6.4.2 Monitor Controls

DMC will assess the continued adequacy of vendor's standards, policies and procedures relating to the following areas, including:

Review audit reports (e.g., internal audits, external audits, SSAE16 reviews, security reviews), as well as examination reports, if available. Follow up on any deficiencies noted.

Review any licensing or registrations to ensure the vendor can legally perform its services.

Review the vendor's policies relating to internal controls and security to ensure that they continue to meet DMC's minimum guidelines and contract requirements.

Perform on-site quality assurance reviews, targeting adherence to specified policies and procedures, where practicable and necessary.

Sponsor coordinated audits and reviews with user groups, as applicable.

Review compliance with the ECOA, fair lending, and other consumer protection laws and regulations, as applicable.

Review the vendor's business resumption contingency planning and testing to ensure that all lending services can be restored within an acceptable time. For many critical services, annual or more frequent tests of the contingency plan are typical. Review any results of those tests and ensure that recovery times meet requirements.

Monitor changes in key vendor personnel allocated to DMC.

1.7.6.4.3 Assess Quality of Service Support

DMC will assess the quality of service support and performance of its vendors to ensure the objectives of DMC are being met by:

Regularly reviewing reports documenting the vendor's performance relative to service level agreements. Determine whether contractual terms and conditions are being met, and whether any revisions to service-level agreements or other terms are needed.

Documenting and following up on performance problems in a timely manner.

Evaluating the vendor's ongoing ability to support and enhance the company's strategic plan and goals.

Determining the adequacy of training provided to employees of DMC and vendor.

Reviewing customer complaints on the products and services provided by the vendor and the resolution of these complaints.

Administering any testing programs for vendors with direct interaction with customers, e.g., customer call-back or customer satisfaction programs.

Periodically meeting with contract parties to discuss performance and operational issues.

Maintaining documents and records regarding contract compliance, revision, and dispute resolution.

1.7.7 Consumer Complaint Management

When the contract specifies that vendor will respond to complaints from customers of DMC, the vendor must be held to the same standards for consumer complaints as DMC.

When vendors manage consumer complaints, they should evaluate these areas for compliance with consumer protection laws:

- Ease of submission.
- Timeliness of response.
- Classification.
- Need for change.
- Clocking.
- Effective Resolution.

1.7.7.1 Complaint Tracking

DMC will review the vendor's complaint tracking process thoroughly during due diligence. The vendor must track complaints received from customers of DMC. A report including a copy of each complaint and the response should be forwarded to DMC on at least a quarterly basis.

1.7.7.1.1 Tracking System

A tracking system provides a real-time way of processing complaints in an efficient manner and provides helpful data for longer-term analysis and review. Additionally, the vendor's compliance management system administrator should create a data log that details the following for each complaint:

- Complainant.
- Date.
- Source (i.e., mail, website, etc.).
- Product or service involved.
- Summary of the issue.
- Action taken by the institution.

The data logs can then be used to identify trends that should be reported to DMC. Periodic summary reports, along with a trend analysis on types of complaints, detailing the status and resolution of complaints will be provided.

Records held by the vendor should be retained according to the terms of the contract.

1.7.7.1.2 Analyzing Trends

Analysis of consumer complaints may assist in the identification of violations in consumer protection laws. DMC and the vendor should scrutinize the types of complaints to determine needed product or process changes or possible violations.

When reviewing complaints, DMC must look for any complaints lodged against its vendors regarding activities that involve the vendor, a product offered through the vendor, or a product offered using the vendor's name. While the vendor may not be involved in the activity, if it is a branded product or vendor relationship product, DMC can be held responsible and face the same risks as if the activity was performed in-house.

DMC or vendor may conduct transaction testing when consumers repeatedly complain about a product or service. Complaints that allege misleading or false statements, missing disclosure information, excessive fees, inability to reach customer service, or previously undisclosed charges may indicate possible violations of consumer protection laws.

1.7.7.2 Complaint Resolution Procedures

DMC will thoroughly review the vendor's complaint resolution process during due diligence. DMC and its vendors understand the Consumer Financial Protection Bureau expects proactive resolution of consumer complaints, as well as monitoring complaints for trends that indicate potential policy violations.

Vendors will centralize consumer complaint handling and ensure that all complaints are captured, whether they are made via telephone, mail, email, the business's regulator, or other methods.

Vendors will train all levels of employees on proper customer complaint management to empower employees to resolve issues quickly. Training should provide helpful diffusion dialogue to assist employees with calming irate customers.

Vendors should follow a six-step process for handling complaints:

1. Listen actively. This allows the customer to explain his/her experience with the product or service.
2. Ask open-ended questions – not just those requiring a “yes” or “no” response. This allows an opportunity to gather needed information.
3. Respond in a timely manner to promote a high level of dedicated customer service.
4. Thank the customer for the feedback, which can help foster business growth through changes when necessary.
5. Communicate a solution. Apologize for any inconvenience and move toward a solution. Develop a list of proposed solutions for common customer complaints in the industry.
6. Turn feedback into action. Identify opportunities to turn negative feedback into positive changes allowing stronger and more profitable relationships.

In addition to resolving individual complaints, the vendor should take action to improve its business practices and compliance management system.

1.7.8 Oversight

DMC must maintain adequate oversight of vendor activities and adequate quality control over those products and services provided through vendor arrangements in order to minimize exposure to potential significant financial loss, reputation damage, and supervisory action. Oversight includes screening each vendor against agency and investor exclusionary lists (FMEL/LDP/GSA/FHFA SCP, etc.) at time of approval, at least twice per year (once at recertification and one additional time during the year). Third-parties and Vendors involved in sales, quality, control, loan production, processing, underwriting and Servicing must screen employees at least twice each year.

1.7.8.1 Documentation

DMC will properly document its oversight program. Proper documentation will facilitate the monitoring and management of the risks associated with vendor relationships. Proper documentation typically includes:

- A list of significant vendors or other vendors, i.e., those for which management spends substantial amounts of money, or those deemed critical to the operation.
- Valid, current, and complete contracts.
- Business plans for new lines of business or products that identify management's planning process, decision making, and due diligence in selecting a vendor.
- Regular risk management and performance reports received from the vendor (for example, audit reports, security reviews, reports indicating compliance with service-level agreements, periodic reports for consumer complaint tracking and resolution).
- Regular reports to the board, or delegated committee, of the results of the ongoing oversight activities.

Therefore, DMC must maintain documents and records on all aspects of the vendor relationship.

1.7.8.2 Significant Relationships

The board of directors and senior management of DMC will provide appropriate oversight and risk management of significant vendor relationships. A vendor relationship should be considered significant when DMC's relationship with the vendor is anew relationship or involves implementing new activities, or if the:

- Relationship has a material effect on the revenues or expenses of DMC.
- Vendor performs critical functions.
- Vendor stores, accesses, transmits or performs transactions on sensitive customer information.
- Vendor markets bank products or services.
- Vendor provides a product or performs a service involving subprime lending transactions.
- Vendor poses risks that could significantly affect earnings or capital.

1.7.8.3 Staff

Management must allocate sufficient qualified staff to monitor significant vendor relationships and provide the necessary oversight. Management shall designate a specific officer to coordinate the oversight activities with respect to significant relationships, and involve their compliance management function and, as necessary, involve other operational areas such as audit and information technology, in the monitoring process. The extent of oversight of a particular vendor relationship will depend upon the potential risks and the scope and magnitude of the arrangement.

1.7.8.4 Management

Management is responsible for ensuring that adequate controls are in place to protect the company and its customers from the risks associated with vendor relationships. Management must periodically review the vendor's operations in order to verify that they are consistent with the terms of the written agreement and that risks are being controlled. DMC's compliance management system will ensure continuing compliance with applicable federal and state laws, rules, and regulations, as well as internal policies and procedures.

1.7.8.5 Board of Directors

While the Board of Directors holds senior management accountable for the review and evaluation of all new and existing vendor relationships, the Board of Directors is ultimately responsible for identifying and controlling the risks arising from such relationships to the same extent as if the activity were handled in-house. This applies to any vendor arrangement of DMC.

To determine if the proper oversight is in place to manage risk, DMC will review these areas:

Consider whether the board initially approved the significant vendor relationship and what the board considered in reaching that approval.

Does the board oversee and review at least annually significant vendor arrangements, and review these arrangements and written agreements _____ whenever there is a material change to the program?

Determine if the board provides approval prior to entering into any material vendor arrangements by reviewing these concerns:

- Are board members fully aware of the risks, issues, and responsibilities associated with the vendor relationship under consideration?
- Do any board members have close ties to or have a vested interest in the vendor relationship under consideration?
- Did the board revoke their responsibilities during the review and approval of any material vendor relationship?
- Were board members provided access to the due diligence findings and were findings accurately presented?
- Do minutes exist of board meetings where the vendor arrangements were addressed?

1.7.8.6 Regulatory Review

DMC acknowledges that Regulatory Examiners will review the risks associated with all material vendor relationships and activities together with other lending institutions' risks using the supervision-by-risk framework. They will review the effectiveness of the oversight program of DMC, including its strategic planning, third-party selection process, and ongoing monitoring. In addition, regulators will review the information security and privacy protection programs of DMC regardless of whether the activity is conducted directly by DMC or by a vendor.

1.7.9 Change Tracking

Change Date: 2025.4.4

Training Date: 2025.4.7

1.7.10 Appendix

1.7.10.1 Sample Vendor Assessment /Risk Rating Form

I. Project/Product/Service Information

VENDOR	
DATE PREPARED	
PREPARED BY	

II. Overview

IF THIS IS A NEW PRODUCT, COMPLETE PART A.
FOR AN ANNUAL REVIEW OF VENDOR COMPLETE PART B.

PART A – NEW VENDOR/NEW	PRODUCT SUPPLIED BY VENDOR
1. Briefly describe the purpose of this project.	
2. Describe what need will be addressed by this project, product, or service. Include what the competition is doing.	
3. If this is the final vendor selected, please list the other vendors that were considered.	
4. Is this vendor an affiliate of DMC? (refer to Master Affiliate List)	

PART B – EXISTING	VENDOR/ANNUAL REVIEW
1. What are the services currently supplied by the vendor?	
2. How long has the relationship with the vendor been in place?	

1. Is this vendor an affiliate of DMC? (refer to Master Affiliate List)	
2. When does the current contract expire?	

III. Risk Management for Vendor Relationship - Summary

In evaluating risk, the following chart and definitions should be used in rating the risk of each of these categories. Risk levels are determined by a combination of likelihood of occurrence and impact severity (consequences). Note: Categories with moderate and high scores require detailed explanation and mitigating factors for consideration of third party as a new or continued business relationship.

RISK LEVEL	IMPACT SEVERITY					
Likelihood of Occurrence	INSIGNIFICANT	MINOR	SIGNIFICANT	DAMAGING	SERIOUS	CRITICAL
Negligible	Low	Low	Low	Low	Low	Low
Very Low	Low	Low	Low	Low	Moderate	Moderate
Low	Low	Low	Moderate	Moderate	High	High
Medium	Low	Low	Moderate	High	High	High
High	Low	Moderate	High	High	High	High
Very High	Low	Moderate	High	High	High	High
Extreme	Low	Moderate	High	High	High	High

LIKELIHOOD	OF OCCURRENCE
Likelihood	Description
Negligible	Unlikely to occur.
Very Low	Likely to occur two/three times every five years.
Low	Likely to occur once every year or less.
Medium	Likely to occur once every six months or less.
High	Likely to occur once per month.
Very High	Likely to occur multiple times per month.
Extreme	Likely to occur multiple times per day.

IMPACT SEVERITY LEVELS	
Impact Severity	Description
Insignificant	Almost no impact if the threat is realized and vulnerability is exploited.
Minor	Minor effect that will require minimal effort to restore operation.
Significant	Some negligible yet tangible harm that will require some expenditure of resources to restore operation.
Damaging	Damage to the reputation of DMC, and/or notable loss of confidence by DMC stakeholders. Will require expenditure of significant resources to repair.
Serious	Considerable business disruption and/or loss of customer/business partner confidence. May result in the compromise of services or a large amount of customer/DMC information.
Critical	Extended outage or permanent closure, causing operations to resume in a hot site environment. May result in complete compromise of services or confidential information.

Using the preceding Risk Rating charts, please rate the vendor in each of the following categories:

	New and Existing Vendors	Existing Vendors Only
	RATING (Low, Moderate, High, NA)	DIRECTION OF RISK Increasing/Decreasing/Stable
STRATEGIC RISK: Arises when DMC does not perform an adequate risk assessment or possess sufficient knowledge about a new product, business line or activity or when an activity does not meet DMC's goals or expected return on investment.		
REPUTATION RISK: Arises when the vendor's service or products don't meet the expectations of DMC's customers or if the vendor or product is subject to public scrutiny or negative publicity.		

COMPLIANCE RISK: Arises when the vendor's operations are not in compliance with law or DMC's internal policies and procedures and when audit and control features are weak or nonexistent.		
TRANSACTION RISK: Arises when the vendor is unable to deliver its product or provide service due to error, fraud or technology failure.		
CREDIT RISK: Vendor's failure to meet the terms of its contract or perform as agreed from a financial perspective.		

PRIVACY RISK: Risk that customer information will be compromised; confidence that vendor has installed controls and will report any intrusions to DMC.		
OTHER RISKS: Vendor relationships may subject DMC to LIQUIDITY, INTEREST RATE, PRICE, FOREIGN CURRENCY TRANSLATION OR COUNTRY RISK when dealing with a foreign-based vendor.		

IV. Risk Management for Vendor Relationship - Narrative

Please make comments in regards to the preceding ratings. In particular, any risks that are considered "Moderate" or "High" should be explained. Describe the "likelihood of occurrence" and the "impact severity" using the definitions in Section III. Also, any risks that are considered increasing should be explained.

STRATEGIC RISK:	
REPUTATION RISK:	
COMPLIANCE RISK:	
TRANSACTION RISK:	
CREDIT RISK:	
PRIVACY/INFORMATION SECURITY RISK:	
OTHER RISK:	

V. VendorEvaluation Checklist

A. FINANCIAL INFORMATION	
AUDITED FINANCIALS	
Were audited financials on this vendor received and reviewed?	
If yes, were there any concerns about the vendor's financial situation?	
If yes, describe issues.	
CREDIT CHECK	
If no audited financials were available, did DMC obtain a credit report?	
If a credit report was obtained, include.	

1.7.10.2 Sample Vendor CIP Form

Banking regulations require financial institutions to know their vendors. As such, DMC requires a complete background verification of all major vendors using the Common Industry Protocol form. Your cooperation and understanding is appreciated.

Company Information:

Business Legal Name:	Address:	Phone & Fax Number:

Business Tax ID:	Contact Name / Title:	Phone Number / E-mail Address:
List Company Officers:	Title:	Type of Company: Corporation: _____ Limited Liability Company: _____ Partnership: _____ Sole Proprietorship: _____ State Organized: _____
Years in Business? Website Address:	Are you registered with FinCEN, or are you required to be registered, as a Money Service Business (MSB) for purposes of the Bank Secrecy Act? YES: _____ NO: _____ If Yes, attach documentation	
Has the Company, or has any related company, ever been under investigation or subject to any enforcement action by the FBI, SEC, FDIC, or other federal agency? YES: _____ NO: _____		Has the Company or any related company ever filed for protection under the bankruptcy laws? YES: _____ NO: _____
Have any of the officers ever worked at a company that was under investigation, fined, penalized, or banned from conducting business by a government agency? YES: _____ NO: _____		

Ownership Information (Non-Public Companies):

First Name	Last Name	% of Ownership
1.		
2.		
3.		
4.		
Social Security Number	Home Street Address	City/State/Zip
1.		
2.		
3.		
4.		
Driver's License Number/State Issued	Date of Birth	Home Telephone Number/ E-Mail Address
1.		
2.		
3.		
4.		

Acknowledgement and Agreement:

The undersigned specifically represents to DMC, and its agents or assigns, and agrees and acknowledges that: (i) the information provided herein is true and correct as of the date set forth opposite my signature and that any intentional or negligent misrepresentation of the information contained herein may result in civil liability and/or criminal penalties; (ii) DMC may continuously rely on this information and I am obligated to amend or supplement the information if any of the material facts that I have represented herein have changed; (iii) I hereby give DMC permission to investigate my credit history and that of the Company, and question references, and conduct a civil litigation and criminal background check; and (iv) I have read and understand this acknowledgement and agreement and sign this release voluntarily, without coercion or duress from any individual or party.

For the **COMPANY**:

Print Name/ Title Signature Date

For each Owner **INDIVIDUALLY**:

Print Name Signature Date

Print Name Signature Date

Print Name Signature Date

Commented By: Naren Ananthakrishnan | Time: 04/15/2025 12:57 PM

Completed

Change Log

User	Action Date	Action
Max Doane	04/14/2025 05:59 PM	Created
Naren Ananthakrishnan	04/15/2025 01:44 PM	Completed
Naren Ananthakrishnan	04/15/2025 01:56 PM	Assigned
Naren Ananthakrishnan	04/15/2025 03:21 PM	Assigned
Naren Ananthakrishnan	04/15/2025 03:31 PM	Partially Completed
Naren Ananthakrishnan	04/15/2025 12:57 PM	Completed
Max Doane	04/16/2025 07:06 AM	Completed

1.8 Vendor Services Policies and Procedures

1.8.1 Introduction

The Vendor Services department is responsible for assisting each loan that comes to Direct Mortgage, Corp. Each borrower of Direct Mortgage, Corp must take a KBA test that verifies their identity. When one of these borrowers fails the KBA test, it is the Vendor Services responsibility to make sure Direct Mortgage, Corp has the correct documentation to manual validate each borrower's identity. When the borrower's identity has been validated, the borrower has the ability to order an appraisal. The Vendor Services department has the responsibility to make sure the appraisal order is properly sent to the appraiser and completed in a timely manner.

After the borrower's identity has been validated, all verifications of employment for each borrower are sent to our third-party verification of employment company, VSI. The Vendor Services department has the responsibility to make sure that VSI obtains the correct information on each borrower's employment history.

Along with the verifications of employment getting ordered, an automatic request for transcripts are sent to the IRS. The Vendor Services department has the responsibility to make sure the IRS fully completes the transcript order in a timely manner.

These policies and procedures explain in detail each responsibility the Vendor Services department has.

1.8.2 User ID Authentication

Each DirectWare user, whether the user is a borrower, loan officer, or vendor, must go through a user authentication process. This process ensures the individuals using DirectWare are indeed who they say they are.

Each of the new DirectWare users will be required to go through an eSign process, where they're required to sign a form called the "Social Security Identity Authorization". This form verifies the user's full name, social security number, and date of birth. After the "Social Security Identity Authorization" has been signed, the user will be required to take the KBA test. If they pass the KBA test, the user has been authenticated and can proceed to use DirectWare. If the user fails the KBA, they will be required to manually upload a primary form of ID and a secondary form of ID (primary and secondary forms of ID must follow the Patriot Act, which is listed at the end of the policies and procedures).

The Vendor Services department is responsible for all DirectWare user's ID authentications. Vendor Services is responsible for reaching out to the users to verify their identity, gathering the correct forms of ID, verifying both forms of ID, and approving the user's authentication.

1. **Social Security Identity Authorization:** DMC uses the Social Security Administration (SSA) to verify each DirectWare user's identity by validating their Social Security number. The DirectWare user is required to sign the Consent Form (Form SSA-89, Authorization for SSA to Release SSN Verification).
 - A. DMC agrees to use the verification only for the purpose stated in the Consent Form.
 - B. DMC must retain the signed Consent Form for a period five (5) years from the date of the verification request.
 - C. Protecting and Reporting the Loss of Personally Identifiable Information (PII): PII is any information about an individual maintained by an entity, including (1) any information that can be used to distinguish or trace an individual's identity, such as name, SSN, date and place of birth, mother's maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.
 - i. Requesting Party's Responsibilities in Safeguarding PII: All authorized users shall properly safeguard PII from loss, theft, or inadvertent disclosure. Each authorized user is responsible for safeguarding this information at all times.
 - ii. Reporting Lost, Compromised or Potentially Compromised PII:
 - a. When the Requesting Party or its Authorized User becomes aware or suspects that PII has been lost, compromised, or potentially compromised the Requesting Party, in accordance with its incident reporting process, shall provide immediate notification of the incident to the primary SSA contact. If the primary SSA contact is not readily available, the Requesting Party shall immediately notify one of two SSA alternates, if names of alternates have been provided. The Requesting Party shall act to ensure that each Authorized User has been given information as to who the primary and alternate SSA contacts are and how to contact them.
 - b. The Requesting Party shall provide the primary SSA contact or the alternate, as applicable, updates on the status of the reported PII loss or compromise as they become available but shall not delay the initial report.
 - c. The Requesting Party shall provide complete and accurate information about the details of the possible PII loss to assist the SSA contact/alternate, including the following information:
 - Contact information;
 - A description of the loss, compromise, or potential compromise (i.e., nature of loss/compromise/potential compromise, scope, number of files or records, type of equipment or media, etc.) including the approximate time and location of the loss;
 - A description of safeguards used, where applicable (e.g., locked briefcase, redacted personal information, password protection, encryption, etc.);
 - Name of SSA employee contacted;
 - Whether the Requesting Party or the Authorized user has contacted or been contacted by any external organizations (i.e., other agencies, law enforcement, press, etc.);
 - Whether the Requesting Party or the Authorized User has filed any other reports (i.e., Federal Protective Service, local police, and SSA reports); and
 - Any other pertinent information
 - d. Contact information is:
 - Office of Public Service and Operations Support
 - Project Manager: 410-966-8502
 - Alternate Contact: 410-966-4963

1.8.2.1 Authentication Pending

When the borrower, broker, or vendor eSigns the document and fails their KBA test, they're required to upload a primary and secondary form of ID. When both forms of ID are uploaded by the user, the user's status turns to "Authentication Pending." It is Vendors Service's responsibility to make sure the user has uploaded two valid forms of ID.

1. Open up the "Work Order Queue" found in "Wholesale Lending".
 - a. Select the "ID Authentication All" section
 - i. Select the specific individual and open up the "Fulfillment Form".

1. Open up the "Social Security Authorization" form located on the "Fulfillment Form".

- a. Save the form on the computer desktop or somewhere else in the computer.
- b. Logon to www.fraudpredator.com.
 - i. In the "My Dashboard" tab fill out the loan number, client's full name, social security number, birth date, and sex.
 - ii. Check the product "IDFraudScan(SSN)".
 - iii. Click "Save and Next".
- iv. Select "Complete".
- v. Select "I have a SSA Release form for this order".
- vi. Select "I want to UPLOAD the form".
- vii. Select "Lending" in the Company's Industry" dropdown.
- viii. Select "In Connection with the underwriting of insurance involving the consumer" dropdown.
- ix. Check the "I agree..." statement.
- x. Click "Save and Next".

i. Select "Browse", search for the saved "Social Security Authorization" form and attach the saved "Social Security Authorization" form, then click "Save and Next".

ii. Select "Submit all Orders" in the "My Orders" section.

Note: this order can take up to an hour for FraudPredator to complete.

2. Retrieve the Social Security Authorization results.

- a. Login to www.fraudpredator.com.
 - i. Go to the "My Reports" tab.

ii. Select the "SSN" option of the "Services" drop-down box in the "Report Search" section

- iii. Click "Search".
 1. Open up the "Social Security Authorization" results.
 2. Print and save as a PDF.
 3. Upload the "Social Security Authorization" results in "Identity Authorization page."

ii. Open up the "Primary Form of ID" and follow steps 1–3 below to ensure the form is acceptable.

1. Make sure it is one of the following documents.
 - a. Driver's license
 - b. Passport
 - c. State-issued photo ID card

Note: see the "Patriot Act" located at the end of the policies and procedures for confirmation on acceptable "Primary Forms of ID".

- ii. Make sure the ID is currently active and legible.
- iii. Make sure all of the information matches the "Social Security Authorization" form
- iii. Open up the "Secondary Form of ID" and follow step 1–3 below to ensure the form is acceptable.

2. Make sure it is one of the following documents.

- a. Social security card
- b. Membership card
- c. Most recent W-2
- d. Most recent pay stubs
- e. Most recent utility bill

Note: see the "Patriot Act" located at the end of the policies and procedures for confirmation on acceptable "Secondary Forms of ID".

3. Make sure the ID is currently active and legible.

4. Make sure all of the information matches the "Social Security Authorization" form.

- a. Select the "Approved" status if all the documents are acceptable and click "Save" to approve the client.

Note: if both uploaded documents are nothing like an ID, then mark the status "Documents Needed". If either of the ID's are illegible, expired, or unacceptable, mark the status as "Pending," but E-mail the borrower requesting a more acceptable form of ID(s).

1.8.2.2 Documents Needed

When the borrower uploads documents that are unacceptable, Vendor Services is responsible for requesting acceptable forms of ID.

1. Open up the "Work Order Queue" found in "Wholesale Lending".
 - a. Select the "Authentication-Documents Needed" profile.

- i. Select the "Fulfillment Form" loan number that needs to be worked on.
 1. Find the E-Mail address for the user that needs to be identified.
 - a. E-Mail the user (broker and account executive) explaining the documents uploaded are not acceptable and send the user a list of acceptable forms of primary and secondary ID.

1.8.2.3 No Authentication Attempted

When borrowers, brokers, or vendors have attempted the eSign process, but haven't finished, their status will indicate "No Authentication Attempted." This means they haven't completed the KBA test or signed the documents. If this happens, Vendor Services does not need to request two forms of ID. Vendor Services will need to send a request to the user, asking him/her to logon and complete the KBA. If the user fails the KBA, then Direct Mortgage, Corp. will need two forms of ID.

1. Open up the "Work Order Queue" found in "Wholesale Lending".
 - a. Select the "Authentication-Documents Needed" profile.
 - i. Select the "Fulfillment Form" loan number that needs to be worked on.
 1. Find the E-Mail address for the user that needs to be identified.
 - a. E-Mail the user explaining he/she has not attempted the eSign process and must attempt to pass the KBA test in order to authenticate their identity and move forward with the loan.

1.8.2.4 Four Possible User Authentication Scenarios

Once the user has failed the KBA test there are four potential scenarios the authenticator may encounter. The primary place to find these will be on the employee's Task List. The scenarios and instructions for each scenario are listed below:

1. **Scenario 1:** The user fails to upload any documents as requested.
 - a. Communicate with the user that two forms of ID are required. This can be done by phone or E-Mail.
 - b. Contact anyone on the loan related to the user. For example, if the user is a borrower, then CC the loan officer, processor and account executive in an E-mail sent.
 - c. Mark the "Authentication Status" drop down to "Pending" and click save.
 - d. Notify Jim (CEO) or Max (President) if the user fails to respond.
2. **Scenario 2:** The user uploads two correct forms of ID in the primary position and the secondary position.
 - a. Verify the primary form of ID is a valid (active) form of ID listed on the "Patriot Act".
 - i. Verify the name matches the "Social Security Identity Authorization" for the user eSigned.
 - ii. Verify the date of birth matches the "Social Security Identity Authorization" for the user eSigned.
 - iii. Verify the expiration date is not expired.
 - b. Verify the secondary form of ID:
 - i. Verify the name matches the "Social Security Identity Authorization" for the user eSigned.
 - ii. Verify the date of birth (if listed) matches the "Social Security Identity Authorization" for the user eSigned.
 - iii. Verify the social security number (if listed) matches the "Social Security Identity Authorization" for the user eSigned.
 - c. Click "Approved" after the documents have been verified as valid forms of ID.
3. **Scenario 3:** The user uploads two invalid forms of authentication.
 - a. Verify the forms are invalid forms of ID (meaning they do not meet the "Patriot Act's" guidelines), or the forms are illegible/expired.
 - i. Mark the documents "don't use."
 - ii. Contact the user to explain why the documents fail the requirements and ask the user to E-mail or upload correct documents.
 - iii. Mark the "Authentication Status" drop down to "Documents Needed" and click Save.

Note: after the correct documents have been uploaded or E-mailed back, follow the steps to Scenario 2 located on page 29.

Note: if the documents are E-mailed back, make sure to upload the "Primary Form of ID" in the correct position and the "Secondary Form of ID."

4. **Scenario 4:** The user uploads a valid form of primary ID and an invalid form of secondary ID (or the other way around).
 - a. Verify the primary form of ID is valid and the secondary form of ID is invalid.
 - i. Mark the secondary form of ID as "don't use".
 - ii. Contact the user to request a valid form of secondary ID.
 - iii. As soon as that is received and the "Social Security Identity Authorization" has been completed, mark the status "Approved," and click save.

1.8.3 Appraisal Management

Each borrower(s) on a loan completes the eSign process. Once that process is completed, the borrower will have the ability to pay for and order an appraisal. As soon as the appraisal is ordered, the order is sent to Vendor Services, and an employee randomly selects an appraiser and sends the order to him/her.

When an appraisal has been ordered, Direct Mortgage, Corp. gives the appraiser 24 hours to respond and confirm the appraisal order. After the appraiser has confirmed the appraisal order, the appraiser is required to contact the client within 24 hours to schedule an inspection date. As soon as the inspection has been completed, Direct Mortgage, Corp. gives the appraiser 48 hours to complete the report and submit it to Direct Mortgage, Corp.

The Vendor Services department is responsible for ordering the appraisal, appraiser's order acceptance, appraisal inspection scheduled, appraisal completed, quality control of returned appraisal, uploading the appraisal to the Uniform Collateral Data Portal (UDCP) Portal, and uploading appraisal documents in DirectWare.

1.8.3.1 Ordering the Appraisal

Direct Mortgage, Corp. orders every appraisal the same way to ensure they're able to keep track and monitor the progress of every appraisal order. Tracking each appraisal order allows Direct Mortgage, Corp. to hold each appraiser accountable for his/her work. It is the Vendor Services department's responsibility to keep track of the appraisal orders.

1. Open the "Work Order Queue" found in "Wholesale Lending".

- a. Click "Request Appraisal" under the "Select Product" drop down box.
 - i. Choose the appraisal to be ordered (by specific loan number that matches the appraisal order email), and click on the "Fulfillment Form".
 1. Click "Find Appraiser" located on the table of appraisers, and click "Select" on an "Approved" or "Preferred" appraiser.

Note: an "Approved/Preferred" appraiser is someone who has been approved by Direct Mortgage, Corp's management team. Use these appraisers first.

2. Type in the "Agreed Compensation" fee located on the "Fulfillment Form" that will be paid to the appraiser.

Note: this fee can be found in the specific appraisal order E-mail that was generated for the appraisal order found in step

3. Keep the "Fulfillment Form" open and go to Outlook E-mail to prepare the E-mail order.
2. Go to the E-mail.
 - a. Select "Appraisal Orders" E-mail folder in Outlook.
 - i. Find the corresponding E-mail order (same loan number as step 1).
 1. Select the specific E-mail and click "Forward".
 2. Write the appraiser's E-mail address in the "To" line.
 3. "Carbon Copy" or "CC" the appraisal management E-mail, appraisalorders@directcorp.com.
 4. Delete the "FW:" verbiage in the subject line and in the body of the email.
5. Write in the body of the E-mail:
"Dear (The appraiser's first name), Please see order details below and promptly confirm the order acceptance by replying to this E-mail".
6. Delete the word "Appraiser" in the already written "Dear Appraiser" and add the actual appraiser's name.
7. Delete each appraiser's name in the "Appraisers To Order From:" table at the end of the E-mail, except the chosen appraiser.
 - a. To delete these appraisers names:
 - i. Highlight each row of appraisers that needs to be deleted.
 - ii. Go to the "Review" tab in Outlook.
 - iii. Click "Delete" and then "Delete Rows".
8. Click "Send" to send the appraisal.
3. Go back into the "Work Order Queue" found in "Wholesale Lending".
 - a. Click on the "Fulfillment Form" using the correct loan number.
 - i. Selected the check box "Appraisal Ordered".

1.8.3.2 Appraiser's Order Acceptance

Vendor Services tracks the date and time the appraiser has accepted the order. Vendor Services tracks each appraiser's acceptance to the appraisal orders to ensure they are following Direct Mortgage, Corp's turn times and communicating efficiently. After an appraiser accepts the appraisal order sent, Vendor Services needs to document the acceptance properly.

1. Open the "Work Order Queue" found in "Wholesale Lending".
 - a. Select the "Appraisal Follow-up" profile.
 - i. Find the correct loan number by typing the loan number in the search engine.
 1. Open the "Fulfillment Form".
 - a. Select the "Order Confirmed" button.
2. Write any additional notes (if any) regarding the appraisal order in the "Internal Notes" section and click the save button.
 - a. i.e. "The appraiser called and left a voicemail with the borrower."
2. Repeat the previous steps in the **Ordering Appraisal** section, if the appraiser cannot accept the order.

1.8.3.3 Appraisal Inspection Scheduled

Vendor Services also tracks the date of inspection for the property. This is done for the same reason the department tracks the acceptance of each order, to make sure the appraisers are following turn times and communicating well with the department. Vendor Services also make sure this inspection date is input in DirectWare so the broker, processor, and account executive can know the date of inspection.

1. Open the "Work Order Queue" found in "Wholesale Lending".
 - a. Select the "Appraisal Follow-up" profile.
 - i. Find the correct loan number by typing the loan number in the search engine.
 1. Open the "Fulfillment Form".
 - i. Enter the date of inspection in the empty field below the "Order Confirmation" button.
 - ii. Select the "Inspection Scheduled" button.

1.8.3.4 Appraisal Completed

Direct Mortgage, Corp. has asked each appraiser to notify the company as soon as the inspection has been completed. Often times these inspections are delayed or rescheduled. Unless the appraiser informs Direct Mortgage, Corp. the inspection took place, they may not know what happened.

1. Open the "Work Order Queue" found in "Wholesale Lending".
 - a. Select the "Appraisal Follow-up" profile.
 - i. Find the correct loan number by typing the loan number in the search engine.
 1. Open the "Fulfillment Form".
 - a. Select the "Inspection Completed" button.

1.8.3.5 Quality Control of Returned Appraisal

Direct Mortgage, Corp. requires a brief quality control review on each appraisal that is completed. Vendor Services reviews specific parts of the appraisal that should always be correct, but sometimes are misspelled, misplaced, or accidentally left out. Reviewing the appraisals and requesting corrections upfront will save the underwriters' time as they are underwriting the loan.

1. Open the "Work Order Queue" found in "Wholesale Lending".
 - a. Click "Appraisal Follow-ups" under the "Select Product" drop down box.
 - i. Choose the appraisal to be ordered (by specific loan number that matches the appraisal), and click on the "Fulfillment Form".
2. Open the E-mail sent from the appraiser.
 - a. Make sure three documents are attached: the appraisal in PDF format, the appraisal in XML format, and the invoice in a PDF format.

Note: if the PDF invoice and PDF appraisal are in the same PDF, then separate them, and delete invoice from appraisal PDF.

- b. Save the XML as the loan number.
 - i. Use the file **My Computer>>U drive>>Direct Services>>Appraisals>>XML** to save.
- c. Open the PDF appraisal.
 - i. Conduct quality control by inspecting the appraisal.
 1. Check the property address matches the property address issued on the Title Report found in DirectWare.
 2. Make sure the name of the "Lender/Client" is "Direct Mortgage, Corp. 6955 S Union Park Center Ste 540" Midvale, UT 84047 (typically on page 1 in the "Subject" section of the appraisal).
3. Make sure the inspection date on the report matches the actual date the appraiser completed the inspection. (typically on page 2 in the "Reconciliation" section of the appraisal)
4. Make sure the appraiser filled out the "Cost Approach" (typically on page 3 in the "Cost Approach" section of the appraisal).
5. Make sure all the pictures of the house and comparable are uploaded correctly.
6. Make sure the appraiser added a copy of his/her license to the report (typically found at the end of the appraisal report)

Note: if any of these conditions have not been met request an updated appraisal form from the appraiser.

- i. Save the PDF version of the appraisal as the loan number in the file **My Computer>>U drive>>Direct Services>>Appraisals>>Report**.
- d. Open the PDF invoice.
 - i. Conduct quality control by inspecting the appraisal.
 1. Check the invoice amount and make sure it is the agreed compensation amount.

Note: this amount can be found on the original order E-mail sent to the appraiser, or on the "Fulfillment Form".

2. Make sure the appraiser's company name on the invoice matches the company name on the "Fulfillment Form".

Note: if the appraiser's company name is different update the company name (see Vendor Approval policies and procedures manual).

3. Make sure the appraiser's payment address on the invoice matches the address on the "Fulfillment Form".

Note: if the appraiser's payment address is different update the address (see Vendor Approval policies and procedures manual).

- i. Save the invoice as the loan number in the file **My Computer>>U drive>>Direct Services>>Appraisals>>Invoices**.

1.8.3.6 Uploading the Appraisal to the Uniform Collateral Data Portal (UDCP)

Freddie Mac and Fannie Mae require each appraisal to be written in an XML format. This is a requirement so the lender can run a UAD compliance test on each appraisal to insure the appraiser is filling out the report correctly.

1. Open the UDCP website: www.uniformdataportal.com and login.
 - a. Click the "Submit Appraisal" button.
 - i. Select Direct Mortgage, Corp. in both the Fannie Mae and Freddie Mac drop down.
 - ii. Enter the Direct Mortgage, Corp. loan number.
 - iii. Attach the saved XML appraisal.
 1. Click the browse button.
 - a. Go to **My Computer>>the U drive>>Direct Services>>Appraisals>>XML**.
 - b. Select the correct loan number in the XML folder.
 - iv. Click the "Submit" button.
 - b. Select the "Doc File ID" hyperlink.
 - i. Check the Fannie Mae and Freddie Mac Status'.
 1. If status is "Successful".
 - a. Copy the "Document File ID Number".

- i. Paste the "UDCP Appraisal Document File Id" in the "Fulfillment Form".
- b. Click the PDF icon in the top-right corner; two PDF's will be available.
- i. Open the Fannie Mae PDF.
 1. Save it to **My Computer>>U drive>>Direct. Services>>Appraisals>>Fre-Fnm SSR Forms.**

Note: save it as loan number – FN (example: 123456-FN).

- i. Open the Freddie Mac PDF.
 1. Save it to **My Computer>>U drive>>Direct. Services>>Appraisals>>Fre-Fnm SSR Forms.**

Note: save it as loan number – FR (example: 123456-FR).

1.8.3.7 Uploading Appraisal Documents in DirectWare

Direct Mortgage, Corp.'s investors require the appraiser to send the UAD results to them. Vendor Services uploads the appropriate appraisal documents in DirectWare for their investors in order to close the borrower's loan.

1. Open up the "Fulfillment Form".
 - a. Click the "Upload XML" button at the bottom right-hand corner.
- i. Click the browse button.
 1. Open the **U drive>>Direct Services>>Appraisal>>XML>>and select the specific loan number.**
 2. Click "Upload".
- b. Go to the "Appraisal Invoice" section
 - i. Click the browse button in the "Appraisal Invoice" section.
1. Search the **U drive>>Direct Services>>Appraisal>>Invoices>>and select the specific loan number.**
2. Click "Attach".
3. Select the document as "Use".
- c. Go to the "Appraisal UAD Report" section
 - i. Click the browse button in the Appraisal UAD Report section.
1. Search the **U drive>>Direct Services>>Appraisal>>Fre-Fnm SSR Forms>>select the specific loan number for Fn (example: 123456 Fn).**
2. Click "Attach".
3. Select the document as "Use".
 - ii. Click the browse button in the Appraisal UAD Report section.
 1. Search the **U drive>>Direct Services>>Appraisal>>Fre-Fnm SSR Forms>>and select the specific loan number for Fr (example: 123456 Fr).**
 2. Click "Attach".
 3. Select the document as "Use".
2. Select the "Appraisal Delivered" button.
3. Select the "Appraisal QC'ed" button.

1.8.4 Verification of Employment (VOE)

When each borrower on a loan has completed their eSign process, a verification of employment search for each one of the borrower's jobs listed on the loan application is sent to The Work Number (a nationwide third-party employer verifier). If the borrower's job or previous jobs are not in The Work Number's database, a VOE order is sent to Direct Mortgage, Corp.'s third-party verification of employment company, VSI.

VSI handles all of Direct Mortgage, Corp.'s borrower's VOE's, except the ones completed by The Work Number. VSI is required to verify each employer's business to make sure it exists. VSI does this by searching for a business license, finding a company website, and using the 411.com website. VSI is also required to send the form 1005 (the VOE form) to the employer. VSI is required to follow up and get the form returned correctly filled out.

Vendor Services is responsible for reviewing the information sent to VSI by the employer. If the information received is incorrect or incomplete, it is Vendor Service's responsibility to inform VSI of the mistakes on the VOE. VSI must obtain the correct information from the specific employer.

1.8.4.1 VOE Status Updates

Direct Mortgage, Corp. created a way for VSI to write comments in the system. Direct Mortgage, Corp. has asked VSI to update their comments on each VOE order after they have done work on each order. Direct Mortgage, Corp. has asked VSI to follow up on each VOE order every 24 hours. The comments section helps Direct Mortgage, Corp. hold VSI accountable for its work. These comments also help the Vendor Services department remain updated on each VOE order.

1. Open up the "Work Order Queue" found in "Wholesale Lending".
 - a. Go to the "VOE All" or "VOE Follow-Up" profile.

- i. Search the correct loan number and find the employer.
 1. Click the "Request ID" icon.

Note: the "Request ID" page will show the complete status history of the work VSI/Direct Mortgage, Corp. has done so far.

Note: notes can be typed in this section by using the empty text box below and clicking "Save Comments".

1.8.4.2 VOE Quality Control

Direct Mortgage, Corp created a "Fulfillment Form" that allows VSI to input all of the data received on the VOE. This form was created so underwriting could easily calculate the borrower's income without manually going through all the calculations. The Vendor Services department verifies all of the information VSI has input correctly matches the VOE received. Vendor Services verifies VSI's information so underwriting does not make any mistakes as the borrower's income is calculated.

1. Open up the "Work Order Queue" found in "Wholesale Lending".
 - a. Go to the "VOE QC'd" profile.

- i. Select a loan and click on the "Fulfillment Form".
 1. Open up the attachment called "Employer Verification".

- a. Check and make sure there are two different pages verifying the employer's business.

Note: these can be searched from .411.com, Google.com, whitepages.com, the state business license website, etc.

2. Open up the attachment called "VOE".

- a. Verify VSI entered the correct data from the VOE into the "Fulfillment Form"- by doing the following:
 - i. Verify boxes 9–12B (including the YTD Thru Date), 13 (only if a military employee), 14–19, 26–30 are filled out correctly.

Note: N/A is an acceptable field, if company is not willing to provide the missing information.

Note: if any of the highlighted boxes are left blank, look to the "Addendum for the Written VOE" on the next page to see if the missing information was obtained.

- i. Verify boxes 21–25 are filled out correctly if the borrower is an inactive employee.

Note: if any of these boxes are not filled out, look to the "Addendum for the Written VOE" on the next page to see if the missing information was obtained.

- ii. Scroll down to page 2, of the VOE package to the "Addendum for the Written VOE".

1.
 1. Make sure the borrower's name is filled out correctly.
 2. Make sure the company name is filled out correctly.
 3. Make sure the company contact name, phone number, and title are filled out correctly.
 4. Make sure any missing information on the VOE is filled out in the "Field Identifier" section.

Note: if the VOE was filled out completely, then make sure the "Field Identifier" section states something like, "No additional information needed".

5. Make sure the person who completed the "Addendum for the Written VOE" writes their name, title, and date of completion at the bottom of the page.

6. Scroll down to page 3 to the "Verification of Employment" Summary" page.
7. Make sure borrower's name, loan number, and employer are written correctly on the page.
8. Make sure all the URL's used to verify the employer are copied and pasted in the fields below on the "Verification of Employment" Summary" page. .
Note: see page 14, step 1 "Open up the attachment called "Employer Verified".
9. Make sure the Owner/CEO's name is written at the bottom of the "Verification of Employment Summary" page.

3. Check the "VOE Completed" button located on the "Fulfillment Form".

1.8.5 Tax Transcripts (IRS Orders)

When each borrower completes his or her eSign process and passed the identity authentication process, a transcript order (4506-T) is automatically sent to the IRS. If the borrower completes his or her eSign package but does not pass their identity authentication, the transcripts will not be ordered. The transcript order requests the borrower's last three years of filed tax returns. Vendor Services is responsible for checking on the transcript orders to make sure they were sent correctly to the IRS. The department is also responsible for following up with the IRS and ensuring they process the complete order.

1.8.5.1 Checking Transcript Orders

DirectWare automatically sends out the transcript order as soon as the eSign process and ID User Authentication process have taken place. Unfortunately duplicate and incorrect orders are sent by DirectWare.

To ensure efficiency, Vendor Services is responsible to make sure each transcript order is sent correctly.

1. Open the "4506-T Tax Return" E-mail folder.
 - a. Select the unread E-mail called "4506-Tax Return Copy Request for the Loan ID – (loan number) – (borrower's name)".
 - i. Open the attached PDF.
 1. Review the cover letter.
 - a. Make sure the borrower(s) name is on the list.
 - b. Make sure the borrower's last four digits of their social security number are listed.
 - c. Make sure the letter is requesting the most recent three years (i.e.10, 11, 12) ROAs and Wage and Income docs.
2. Review the 4506-T.
 - a. Make sure the borrower's name is written on line 1a and 2a of the 4506-T (unless there is more than one borrower, then verify that all names are included).
 - b. Make sure the borrower's social security number is written on line 1b and 2b of the 4506-T (unless there is more than one borrower, then verify that all social security numbers are included).

Note: to check social security number, check the borrower info tab in the loan application.

- b. Make sure the borrower's address and previous address are written on line 3 and 4.
- c. Make sure line 5 states, "Direct Mortgage, Corp. 6955 S Union Park Center, Ste 540 Midvale, UT 84047.
- d. Make sure line 6 is requesting, "ROA and All Forms".
- e. Make sure box 6c is checked.
- f. Make sure box 8 is checked.
- g. Make sure the last three most recent years are being requested on line 9. For example: "12/31/2010, 12/31/2011, 12/31/2012".
- h. Make sure each borrower has signed and dated the 4506-T.

Note: see example of correct 4506-T below.

Note: this name and social security number has been modified.

- b. Make sure only one order was sent out per loan number.
 - i. E-mail makeaware@directcorp.com the duplicate order, and ask them to find out why two orders were sent to the IRS.
 - ii. E-mail Chelsie at the IRS using wi.ogden.ives.disput@irs.gov telling her to only process one order.
- c. Request credits on E-mails that state "Wrong Transcript Type Received".

- i. Enter the loan number in DirectWare.
 1. Open Scanned Images.
 - a. Search the "Employment/Income" tab for all additional unordered tax transcripts (this would be anything labeled differently from "Wage and Income Transcript" or "Individual Record of Account").

- i.
 - ii. Send a request to the IRS at wi.ogden.ives.disput@irs.gov asking them to credit Direct Mortgage, Corp. for the unordered transcripts that were sent.

Note: address Chelsie (Direct Mortgage, Corp's Account Manager) in this E-mail.

1.8.5.2 Confirmations/Rejected 4506-T Orders

The IRS sends Direct Mortgage, Corp. a confirmation page for each transcript order they have received and worked on each day. These pages are either blank, or they have a rejection code written on the page. If the page is left blank, then this means the order went through without any problems. If the order has a rejection code, then it means the 4506-T sent was incorrect and/or incomplete. When Direct Mortgage, Corp. gets a rejection code, it is Vendor Services' responsibility to diagnose the code and request an updated 4505-T from the broker.

1. Open up the "Confirmation" E-mail folder.
 - a. Select the unread E-mail.
 - i. Open the attached PDF.
 1. Scroll through each page and search for IRS Rejection Codes.

Note: see a copy of the "Rejection Codes" at the end of the policies and procedures.

2. Request an updated 4506-T from the broker according to the rejection code.
3. Close the PDF after reviewing each page.

1.8.5.3 Resubmitting Corrected 4506-T

Vendor Services needs to resubmit the corrected 4506-T to the IRS after the broker has fixed the rejected 4506-T.

1. Save the corrected 4506-T that was sent from the broker.
2. Open up the "Work Order Queue" found in "Wholesale Lending".

- a. Open the "Fulfillment Form".
 - i. Select the "Transcript All" profile.

1. Search the correct loan number and open up the "Fulfillment Form".
 - a. Click the "Browse" button, and upload the saved corrected 4506-T.
- b. Mark the new 4506-T "Accept" and "Use".
- c. Mark any additional 4506-T's uploaded "Reject" and "Don't Use".
- d. Click the "Submit To IRS" button
- e. Check the "4506-T Tax Return" E-mail to make sure the order was sent correctly (follow the **Checking Transcript Orders** subsection located on page 17).

1.8.5.4 Partially Completed Transcript Orders

DirectWare sends out an "IRS Transcript Status Report" each morning. Vendor Services uses this report to identify if any transcript orders were only partially filled. When the IRS makes this mistake, it is Vendor Service's responsibility to request the missing transcripts.

1. Open up the "IRS Transcript Status Report" E-mail in the inbox.
 - a. Open up the Excel spreadsheet titled "IRS Transcript Status Report".
 - i. Select a loan number in the "Partially Completed Packages" status.
1. Enter the loan number in DirectWare and find the transcript conditions in "Loan Choices".
 - a. Determine which orders are missing in the 4506-T transcript condition.
2. Open up the "4506-T Orders" E-mail.
 - a. Type the loan number in the E-mail search engine.
 - i. Click forward on the 4506-T order E-mail.
 1. Send E-mail to wi.ogden.ives.disput@irs.gov and carbon copy 4506@directcorp.com.
 2. Use the following template E-mail in the body of the E-mail, "Dear Chelsie, This order came back partially completed. Please send us John Smith's (the borrower/s name) 2011, 2012 ROA's and Wage [whatever documents are missing] and Income docs."
3. Follow-up 24 hours after the E-mail was sent if no one from the IRS responds.

1.8.6 Conclusion

Understanding the Appraisal Management, Verification of Employment, Tax Transcripts (IRS Orders), and the User ID Authentication process is essential for each Direct Mortgage, Corp. employee. The policies and procedures written above are detailed instructions that will help any employee or third party auditor understand the procedures and rationale of the Vendor Services department's responsibilities.

1.8.7 Report Suspicious Activities or Concerns to IRS

To report Suspicious Activities or Concerns to the IRS regarding potential loss of taxpayer data due to any unauthorized access of systems, report the information to WI.IVES.Participant.Assistance@IRS.Gov. Any DMC employee who suspects an incident of unauthorized access of DirectWare must immediately report it to the CEO or President, and a determination will then be made if the activity should be reported to the IRS.

1.8.8 Additional Documents

IRS Contact: wi.ogden.ives.disput@irs.gov
 Chelsie Manning – 801-620-7320
 Travis Baker – 801-620-6008

IVES REJECT CODES	
CODES	REJECT REASON
1	ILLEGIBLE
2	ALTERED
3	WRONG/INVALID/MISSING SSN
4	OLD OR ILLEGIBLE DATE
5	NO SIGNATURE/DATE
6	INCOMPLETE FORM
7	YEAR NOT AVAILABLE
8	NOT AUTHORIZED/NO TITLE
9	INCORRECT/INCOMPLETE ADDRESS
10	UNPROCESSABLE
11	WRONG NAME
12	INVALID FORM REQUEST
13	MISSING/INVALID 3RD PARTY
14	DID NOT FILE JOINTLY FOR YEARS REQUESTED

15	NO PRODUCT REQUESTED
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IVES NOTICE CODES	
CODES	NOTICE REASON
A	MISSING 4506T
B	NAME ON 4506T DIFFERS FROM COVERSHEET
C	YEARS ON 4506T DIFFER FROM COVERSHEET
D	4506T REQUESTED SPOUSE
E	DUP NAME ON COVERSHEET / ONLY ONE 4506T
F	BATCH PROCESSED IN LAST 3 BUSINESS DAYS

Patriot Act:

Primary Forms of ID:

- Valid driver's license
- Valid state-issued photo ID card
- Valid passport
- Valid military ID card
- Valid INS (permanent resident alien) card
- Canadian driver's license

Secondary forms of ID:

- Social security card
- Most recent utility bill with name and address of the user
- Government-issued visa
- Birth certificate
- Non-US/Canadian driver's license
- Most recently signed tax return
- Property tax bill
- Voter registration card
- Organization membership card
- Bank/investment/loan statement
- Pay stub
- Most recent W2
- Home/car/renters insurance papers

1.9 Secondary Marketing Policies & Procedures

The Secondary Marketing Department is charged with managing the secondary marketing activities of Direct Mortgage, Corp. and ensuring that the Policies and Procedures are followed. The functions of the Secondary Marketing Department can be categorized in the following areas:

- Mortgage pipeline risk management (Pricing and Rate Locks);
- Interest rate risk management and hedging strategies.

1.9.1 Mortgage Pipeline Risk Management

1.9.1.1 Pricing

1. Pricing Philosophy:

The purpose of Direct Mortgage, Corp.'s (DMC) pricing policy is to provide a consistent, competitive price in the markets we serve. Pricing strategy may be reviewed as often as daily, by the CEO and President, in order to align corporate profitability targets and production levels with pricing strategies. It is our philosophy to be competitive; but, not always a price leader.

2. Daily pricing:

Direct Mortgage Corp. generally establishes and publishes rates, prices and fees for mortgage loan programs each business day in the form of a daily rate-sheet. The Direct Mortgage, Corp. rate-sheet will generally be published by 8:00 a.m. Mountain Time.

3. Price changes:

Market activity will be monitored throughout the day and DMC reserves the right to change rates, prices and fees at any time throughout the day. Once a price change has occurred the new prices are effective immediately, and locks will no longer be accepted at the prior prices. Intra-day price change notifications may be sent via email.

4. Rate lock periods:

DMC generally provides rate lock periods of 12, 30, and 60 days. However, other rate lock periods may apply for specific loan programs.

5. Rate lock expirations:

Loans must be closed and funded by the rate lock expiration date. Loans not closed and funded by the expiration date are subject to re-pricing. Rate locks will expire at 5:00 p.m. Mountain Time Zone, on the lock expiration date.

1.9.1.2 Rate locks

1. Best Effort locks:

All locks with DMC are on a best-effort basis. Once the loan is locked with DMC, it is expected that the loan will be delivered for funding. Direct Mortgage does not offer a Mandatory lock option.

2. Rate lock cut off time:

Loans may be locked in DirectWare at the current day's price until 1:00 a.m. Mountain time, the following day. Lock registrations received after the cut off times will be priced on the following day's prices.

3. Rate Lock Confirmation:

Rate Locks must be requested on-line through DMC web site – using the on-line rate lock request functionality (DirectWare). Once the loan has been locked the Lock Confirmation is immediately available on-line. Rate Locks are not valid and will not be honoured without a Rate Lock confirmation.

Rate Lock confirmations are subject to change at any time, based upon changes made to the loan application and will be honoured at the sole discretion of DMC.

Loan Officers and Brokers may access lock confirmations online by logging in to DirectWare. Account Executives are available to help Brokers with their User ID and Passwords.

4. Procedure for locking rates:

Loans are locked on-line by entering DirectWare and selecting Loan Choices, and then utilizing the "Lock" option.

5. One-Time Float Down:

A one-time float down option may be available for locks in which the price has improved, and are subject to the following conditions:

- To be eligible for the Float Down, the Loan must be within 10 days of funding. (If the lock expiration is not within 10 days, a float down may be granted and the lock expiration will be moved to 10 days from the date of the float down.)
- Loan program and term must be the same as the original loan program and term at time of lock
- Price will be improved to current market price plus a float down adjustment, for pricing of the same lock period as the original lock period. For example, if the loan was originally locked on a 30 day price, the current 30 day price will be used to determine the price after the float down option has been exercised. The float down adjustment may vary by loan program. If a loan has been previously extended, the extension cost will be added to the new price.
- Loan Program Changes are allowed after the float down option has been exercised, and the price will be determined by our current policy for changing loan programs (see section 2(l)). If a loan has been previously extended, the extension cost and the float down adjustment will be added to the new price.
- Lock Extensions are allowed after the loan has been floated down as long as the loan has not been previously extended. Only one extension per loan is allowed.
- Exceptions to the above conditions may be considered by the price desk. Exception requests should be submitted in writing, by the Loan Officer through the Account Executive assigned to your account. (DMC reserves the right to withhold the Float Down program from some unique, niche loan programs.)

6. One time Lock Extension – prior to rate lock expiration:

A one-time lock extension may be granted for periods up to 60 days, when necessary. Lock extension must be completed *prior to the original rate lock expiration date*.

Lock extensions may be requested on-line. Loans not funded by the extended lock expiration date will be subject to re-pricing at the worst of "current price" or "original price (plus extension cost)". The extension costs are available online, when selecting lock extensions, and are subject to change.

1. Re-lock after rate lock expiration:

a. Agency loan programs (Conforming & Government)

If loan is relocked within 30 days of the lock expiration, the loan is subject to the worst of "current price" or "original price" plus an additional relock fee. The loan must be locked for the same lock period as the original lock, i.e. – if original loan was locked for 30 days, must compare prices using "current" or "original" 30 day pricing.

If the loan is relocked 31 days or more after the lock expiration, the loan may be relocked at current pricing for any lock period.

b. Non-Agency loan programs (Non-Conform/Jumbo/ALT-A, Sub-prime, etc)

If loan is relocked within 30 days of the lock expiration, the loan is subject to the worst of "current price" or "original price" plus an additional relock fee. The loan must be locked for the same lock period as the original lock, i.e. – if original loan was locked for 30 days, must compare prices using "current" or "original" 30 day pricing.

If the loan is relocked 31 days or more after the lock expiration, the loan may be relocked at current pricing for any lock period.

7. Change Interest Rate of existing lock:

Requests to change the interest rate of a current lock may be granted at the price in effect at the time of the original lock, when available. If the requested rate was not available at the time of the original lock, the request may be granted with an additional market adjustment taken for market changes.

8. Change Program of existing lock:

Requests to change the loan program of a current lock may be granted at the worst of the original lock price or current lock price, when available. As market conditions dictate, an additional market adjustment may be charged.

1.9.2 Interest Rate Risk Management and Hedging Strategies

It is the policy of DMC to offer rate lock commitments to borrowers. At the time that such a rate lock commitment is made, the company has made an obligation to close the loan, if the loan is approved according to underwriting guidelines. There are several risk factors that result from providing the rate lock commitment to the borrower. The risk factors are:

- Market/Price Risk** – Market or Price Risk is the risk that mortgage prices and rates will change during the time the rate lock commitment is provided to the borrower and the time the loan is committed to a secondary market investor.
- Delivery Risk (Fall-out/Pull-through)** – Delivery risk occurs when the loan is canceled or not closed under the original lock terms defined in the rate lock commitment. This can occur when interest rates decline between the time the mortgage terms are locked with the borrower and the time the loan is sold to the secondary market. Further, some delivery risk is inherent in the mortgage lending process as borrowers may not be able to meet the guidelines of the loan product or consummate their underlying real estate transaction.
- Liquidity/Product Risk** – Liquidity or Product risk results when the product guidelines upon which a rate lock commitment was made change between the time the rate lock commitment was provided and the time when the loan was committed to a secondary market investor. This can occur when there are limited investor outlets for a specific product type or an investor changes the product guidelines or purchase strategy (i.e. exit business). To minimize dependency on any one investor, maintaining multiple investor outlines is ideal.
- Basis Risk** – The risk that the price of the offsetting investments used in a hedging strategy will not correlate significantly with the price of the asset being hedged. This imperfect correlation between the two investments creates the potential for excess gains or

losses in a hedging strategy, thus adding risk to the position.

To mitigate and protect itself against these risks DMC hedges the rate lock commitments.

1.9.2.1 Hedging

1. Hedge Strategy:

DMC may hedge loans on a mandatory basis with Mortgage Back Securities, or by selling loans on a Best Effort and /or Mandatory whole loan basis with Secondary Market investors. The hedge decision is dependent on market volatility and conditions, loan products, and profitability strategy.

2. Hedging with Mortgage Back Securities:

- a. DMC utilizes hedge reports to assist with valuation and risk modelling, mark-to-market analysis, position reporting, best execution analysis, and trade execution.
- b. Hedge reports are updated hourly, or more often as determined by market conditions, and distributed to the CEO and President.
- c. Hedge reports are used to determine acceptable coverage levels, types of coverage, and provide best execution analysis. Pipeline analysis includes new locks, fallout, renegotiations, and loan status review.
- d. The CEO and President meet at least once daily, at 2:00 p.m. Mtn. Time, to discuss and determine lock volume, loans sales and executed trades, acceptable pipeline coverage, identify appropriate and acceptable hedge instruments, and identify trades to be executed. Current coverage levels are also refreshed based upon opening market movement and coverage may be added, lifted or left unchanged, based upon market conditions. A determination is made about the closing pipeline coverage levels required for after hour locks.
- e. The CEO and President communicate throughout the day to update loan sales made and current coverage levels. As loan sales are executed hedge coverage may be lifted proportionately, if additional coverage is not needed. For instance, if \$1,000,000 in loan sales is executed, and DMC desires to maintain a neutral pipeline coverage position, the advisory service will be instructed to pair off a proportionate amount of MBS coverage.
- f. Hedge reports provided are as follows:
 - i. Summary reports (Shock summary, Position Overview, Gain/Loss Summary)
 - ii. Reconciliation (Loan and Asset Reconciliations, Best Execution Changes, Excluded Loans)
 - iii. Risk Management (Hedge Selection, Hedge Buckets – Cross Hedge and Duration, Best Execution Summary)
 - iv. Accounting (Day Summary Change, Daily FAS 133)
 - v. Pipeline (New Loans, Fallout, Renegotiations, Status summary)
 - vi. Trades/Hedges (Open Trade by Asset Type, Open Trade Summary, New Trades and Transactions)
 - vii. Pair-offs
 - viii. Audit (Loan errors, Processing Errors Log, Price Load Exception)
 - ix. Shipping (Unshipped Loans, Unsettled Loans)
 - x. Warehouse (Cash Flow Projections, Outstanding by Warehouse)
- g. Hedge reports are reviewed daily and discrepancies are addressed.
 - i. Day Manager Report – reviewed to determine the long or short position of the locked pipeline. Decisions regarding loan sales, pairoffs and adding coverage are based on the position and market conditions.
 - ii. New Locks & Loans – reviewed to verify that new locks are accounted for and the expected margins are met. If discrepancies are identified, they are researched and corrected, as needed.
 - iii. New Trades and Transactions – the previous day's trades and transactions are verified for accuracy and to ensure all trades were reported.
 - iv. Lock Expiration Detail – expiring locks are reviewed and addressed, as needed.
 - v. Missing Commitment Detail – reviewed to determine if loans have been committed to investor commitments that are not recognized. For instance, if a loan is sold and investor information entered into DirectWare, but the commitment was not reported on the Trade Log, the loan will display on this report. The error is corrected by reporting the trade to the advisory service.

3. Best Effort/Mandatory:

DMC may sell loans on a best effort/mandatory whole loan basis to Secondary Market investors. Loans sold in this manner will be tracked, monitored and reported, but not hedged.

4. Broker/Dealers:

- a. Dealer brokers must be approved by the CEO and/or President of DMC, prior to executing trades. Upon approval, a Vendor will be created in DirectWare to maintain current company and contact information. The required documentation to be provided by the Broker/Dealer will be stored online in DirectWare.
- b. Documentation to be provided by the Broker/Dealer:
 - c. Copy of Errors & Omissions insurance
 - d. Copy of Fidelity Bond insurance
 - e. Most recent audited financial report
 - f. Most recent month unaudited financial report
 - g. Current Securities license
 - h. Current business license
- i. DMC is required to limit exposure to any one Broker/Dealer. No single Broker/Dealer may have more than 25% of all active trades.
- j. Broker/Dealers are required to provide updated audited financials within 90 days of fiscal year-end. Broker/Dealers are required to maintain and provide current Securities and Business licenses.

5. Mortgage Back Securities trading:

- a. Authorized traders – the CEO and President are the only persons authorized to enter into Sale agreements with Brokers/Dealers, and execute MBS trades on behalf of DMC.
- b. Recording MBS trades – each MBS trade (sale or buy) must be recorded in DirectWare and include the following information:
 - i. Date of transaction (trade date)
 - ii. Type of security
 - iii. Nature of transaction (buy or sale)
 - iv. Settlement date
 - v. Dollar amount of trade
 - vi. Interest rate on trade
 - vii. Price of trade
 - viii. Name of the firm and individual with whom the trade was executed
 - ix. Current market price of the trade (updated hourly in hedge reports)
- c. Trade confirmations – each MBS trade executed will be reviewed and confirmed by DMC's accounting department.

1.9.2.2 Loan Sales

On a daily basis, and as part of the daily determination of acceptable coverage levels, Direct Mortgage, Corp. determines the number and volume of loans that are expected to fund during the day. It is generally the policy that loans are sold to secondary market investors the same day the loan funds. However, on occasion, loans may be sold at a later date depending on current pipeline hedge ratios and market conditions. FHA/VA/USDA loans are an exception, and are held until Ginnie Mae pools are issued, or until loans are sold in bulk transactions.

Upon sale of loans, DMC requires that all mortgage change records be reviewed for accuracy of sale, transfer of loans, and terminations of insurance for all FHA insured loans. HUD requires that, (a) the transferee reports the "change of legal rights to service" to HUD (b) the transferor is required to verify that the "change of legal rights to service" has been reported and that all of the details contained in the report are accurate. It also is required that for cases involving the holder's sale of loans, (a) the holder (seller) is required to report the "sale of loans" to HUD within 15 calendar days, and (b) the buyer is required to confirm that the "sale of loans" has been reported and that all of the details contained in the report are accurate. DMC's requires FHA Connection (FHAC) be updated within 15 days of the transfer date, which is the date the 1st payment is due to the new servicer.

1. Fannie Mae – steps for loan sales

- a. Login to <https://committing.efanniemae.com/eCommitting/eCommitting>
- b. Enter your User ID and Password, then select "login".
- c. "Available Seller/Servicer Numbers" screen, select DMC's seller/servicer number, then select "Continue".
- d. "Main Menu" screen - select "Make Commitments".
- e. "Product Favorites" screen – select the loan program to be locked. Be sure to select the correct term and program. Remittance type is always "Schedule/Schedule. Select "continue".
- f. "Make Commitment" – enter the data in the required fields
 - i. Funds Committed – enter loan amount of loan being sold.
 - ii. Pricing Type – always select "Live".
 - iii. Commitment Period – select the number of days needed for loan delivery, generally 2 or 3 days. (Three days if note is going to a warehouse lender.)
 - iv. Minimum Pass Through – the minimum pass through is the Note Rate minus .25% (our servicing fee). Always select a Minimum Pass Through rate that is nearest the half % increment below or equal to the calculated pass through rate. (For example, if the note rate is 4.00%, the pass through rate is 3.75%. The Minimum Pass Through rate will be 3.50%, because it is the nearest half % increment to 3.75%.)
 - v. Expiration Date – this field is automatically populated by Fannie Mae.
 - vi. Quote Increment – always select 12.5 BPS.
 - vii. Master Agreement – no entry is required.
 - viii. Service Fee – always select 0.2500% (this will be pre-populated).
 - ix. Select "Continue".
- g. "Confirm Commitment" – verify that the data is correct on this page; if it is, enter your Pin Number" and select "Commit". You must be sure the information on this page is correct because once you select "commit", DMC is committed to delivering the loan. If the information is not correct, DMC must payoff the commitment at a cost.
- h. "Commitment Detail" – select the "Edit" option and enter the Commitment ID. Enter the DMC loan # and first 5 characters of the borrower's last name as the Commitment ID. Select "Save".
- i. "Commitment Detail" – select "Formatted Version" and Print the "eCommitting Commitment Detail Report" as a PDF. Save as follows
 - i. "U" Drive
 - ii. "Rates" folder
 - iii. "Locks Filing Cabinet
 - iv. "Investor Locks"
 - v. "File Name" is the DMC loan number.
- j. Go to DirectWare and enter the investor commitment information:
 - i. Select the loan number in DirectWare.
 - ii. Click on the Lock Expiration hyperlink.
 - iii. Select "Investor Information".
 - iv. Enter correct commitment information in the screen:
 1. Investor – select Fannie Mae
 2. Lock Type – select "Mandatory".
 3. Investor Loan ID – enter the Fannie Mae commitment number (found on the Fannie Mae Commitment Detail form.
 4. Days – enter the number of days to the Fannie Mae expiration date.
 5. Investor Lock Date – enter the date the Fannie Mae commitment was made.
 6. Lock Expire Date – enter the Fannie Mae commitment expiration date.
 7. Deliver Deadline – enter one business day prior to the Fannie Mae commitment expiration date.
 8. Commitment Number – enter the Fannie Mae commitment number (found on the Fannie Mae Commitment Detail form.
 9. Investor Base Price – enter the Fannie Mae commitment price found on the Fannie Mae Commitment Detail form. (Enter the price for the correct Pass-Through Rate for this loan.)
 10. Locked with Investor – check the box.
 11. Investor SRP – if the loan was sold as service released, enter the SRP value. If the loan was sold service retained, enter "0".
 12. Loan Servicer – select the correct servicer for the loan.
 13. Investor Adjustments – enter the sum total of the investor loan level price adjustments.
 14. Net Investor Price – this field is automatically calculated.
 15. Investor Price: enter the "Net Investor Price" plus or minus all loan level adjustments displayed on the DirectWare lock confirmation screen.
 16. Select "Save".
- k. Notify the DMC Funding Department that the loan has been committed.
 - l. Enter the commitment on the daily Trade Log, to be reported to advisory service.

2. Freddie Mac – steps for loan sales

- a. Login to <http://www.freddiemac.com/singlefamily/>
- b. Select "Selling System Login under the Sell and Deliver Loans category.
- c. Enter your User ID and Password, and then select "OK".
- d. "Login Terms & Conditions" – select "I Agree".
- e. "Welcome to the Freddie mac Selling System" – select "Take Out Cash Contract".
- f. "Choose your contract parameters" –

- i. Contract Option – select “Mandatory”.
- ii. Servicing Option – select the appropriate option (Released, Retained or CTOS).
- iii. Select “Create Contract”.
- g. “Contract Information” – enter the required information.
 - i. Master Commitment – select the number in the dropdown box.
 - ii. Contract Product – select the loan program to be locked. Be sure to select the correct term and program.
 - iii. Contract Amount – enter loan amount of loan being sold.
 - iv. Contract Name – enter the borrower’s last name.
 - v. Contract Period – select the number of days needed for loan delivery, generally 2 or 3 days. (Three days if note is going to a warehouse lender.)
 - vi. Interest Rate Percent Range – enter the Note Rate of the loan being sold, and the rate that is 0.500% above the note rate. (For example, if the Note Rate of the loan is 3.75%, enter a range of 3.75% to 4.25%.)
 - vii. LTV Ratio Percent Range – select the appropriate range.
 - viii. Servicing Option – select the appropriate option.
 - ix. Designated Servicer #: this field is pre-populated.
 - x. Servicing Fee Rate: always enter 0.25%.
 - xi. Remittance Option: always select “Gold”.
 - xii. Interest/Principal: always select Schedule/Actual (this is the only option).
 - xiii. Select “Price Contract”.
- h. “Contract Price” - verify that the data is correct on this page; if it is, select “Accept”. You must be sure the information on this page is correct because once you select “Accept” DMC is committed to delivering the loan. If the information is not correct, DMC must payoff the commitment at a cost.
- i. Summary of Contract Terms – this is the commitment confirmation. Print the “Summary of Contract Terms” as a PDF. Save as follows
 - i. “U” Drive
 - ii. “Rates” folder
 - iii. “Locks Filing Cabinet
 - iv. “Investor Locks”
 - v. “File Name” is the DMC loan number.
- j. Go to DirectWare and enter the investor commitment information:
 - i. Select the loan number in DirectWare.
 - ii. Click on the Lock Expiration hyperlink.
 - iii. Select “Investor Information”.
 - iv. Enter correct commitment information in the screen:
 - 1. Investor – select FreddieMac
 - 2. Lock Type – select “Mandatory”.
 - 3. Investor Loan ID – enter the Freddie Mac commitment number (found on the Fannie Mae Commitment Detail form.
 - 4. Days – enter the number of days to the Freddie Mac expiration date.
 - 5. Investor Lock Date – enter the date the Freddie Mac commitment was made.
 - 6. Lock Expire Date – enter the Freddie Mac commitment expiration date.
 - 7. Deliver Deadline – enter one business day prior to the Freddie Mac commitment expiration date.
 - 8. Commitment Number – enter the Freddie Mac commitment number (found on the Freddie Mac Commitment Detail form.
 - 9. Investor Base Price – enter the Freddie Mac commitment price found on the Freddie Mac Commitment Detail form. (Enter the price for the correct Pass-Through Rate for this loan.)
 - 10. Locked with Investor – check the box.
 - 11. Investor SRP – if the loan was sold as service released, enter the SRP value. If the loan was sold service retained, enter “0”.
 - 12. Loan Servicer – select the correct servicer for the loan.
 - 13. Investor Adjustments – enter the sum total of the investor loan level price adjustments.
 - 14. Net Investor Price – this field is automatically calculated.
 - 15. Investor Price: enter the “Net Investor Price” plus or minus all loan level adjustments displayed on the DirectWare lock confirmation screen.
 - 16. Select “Save”.
- k. Notify the DMC Funding Department that the loan has been committed.
- l. Enter the commitment on the daily Trade Log, to be reported to advisory service.

3. Ginnie Mae Loan Delivery:

DMC securitizes FHAVA/USDA loans in Ginnie Mae Mortgage-Backed Securities. This means that loans within specified interest rate ranges are grouped together and delivered to Ginnie Mae. Ginnie Mae has published guidelines regarding how loans are to be grouped together. The following sections define the process for opening and reviewing Ginnie Mae’s guidelines; organizing loans into acceptable Ginnie Mae pools; and creating and delivering loans in the Ginnie Net delivery system.

- a. Ginnie Mae Guidelines – the guidelines for eligible MBS pools are found at Ginnie Mae’s website, and may be accessed as follows:
 - i. Open the following website:
http://www.ginniemae.gov/doing_business_with_ginniemae/issuer_resources/Pages/default.aspx.
 - ii. Select “MBS Guide”.
 - iii. Select the chapter(s) that address Mortgage-Backed Securities.
- b. Organizing loans into acceptable pools – the steps for organizing loans into pools is as follows:
 - i. Request, from IT, the report listing available “Ginnie Mae Hedge” loans. The excel report will identify each loan that is currently available to be placed into a Ginnie Mae pool, and will display loan fields necessary for determining how to allocate loans.
 - ii. Sort the available loans as follows:
 - 1. Sort by loan term, 180 months and 360 months. Loans with terms less than 180 months are grouped with the 180 month loans. Loans greater than 180 months are grouped with the 360 month loans.
 - 2. Then, sort loans by interest rate. Loans are grouped into pools based upon their interest rate. Loans, with similar terms, are allocated to pools as follows:
 - a. Interest rates from 2.25% to 2.625% are allocated to pools with a coupon rate of 2.00%.
 - b. Interest rates from 2.75% to 3.125% are allocated to pools with a coupon rate of 2.50%.
 - c. Interest rates from 3.25% to 3.625% are allocated to pools with a coupon rate of 3.00%.
 - d. Interest rates from 3.75% to 4.125% are allocated to pools with a coupon rate of 3.50%.
 - e. Interest rates from 4.25% to 4.625% are allocated to pools with a coupon rate of 4.00%.
 - f. Higher interest rates are allocated similarly.
 - 3. Creating and delivering loans:
 - a. Create XML files for each pool created per above guidelines. The steps for creating the XML file are:
 - i. Login to DirectWare.

- ii. Select "Department".
- iii. Select "Wholesale Lending".
- iv. Select "Reports".
- v. Select "Ginnie Net".
- vi. Select "Create New Pool".
- vii. Enter the DMC loan number(s) for each loan allocated to the pool.
- viii. Enter the "pool number", as provided by Ginnie Mae.
- ix. Enter the "Issue Type":
 - 1. "M" for Multi-issuer pool (Pools less than \$1MM).
 - 2. "X" for Single-issuer pool.
- x. Enter "Pool Type":
 - 1. "SF" for FHA/VA/USDA loans of conforming amounts.
 - 2. "JM" for FHA/VA Jumbo loan amounts.
- xi. Enter "Term":
 - 1. "15" for pools with loans that have terms of 180 months or less.
 - 2. "30" for pools with loans that have terms of 360 months or less.
- xii. Enter Issue Date: the issue date is always the 1st day of the month; for example, 7/1/2013.
- xiii. Enter "Security Rate": this is the coupon rate for the pool.
- xiv. Enter "Settlement Date": this date is established and posted by Ginnie Mae, and may be found at the Ginnie Mae website.
- xv. Select "Create Pool".
- xvi. Again, select "Pool Number" and then select the pool number that was just created.
- xvii. Select "Generate GinnieNet File. This will create the pool in the GinnieNet delivery system.
- b. Deliver pools via the GinnieNet delivery system.
 - i. Login to GinnieNet at: <https://www.ginnienet.net/GinnieNET/Logon/logon.aspx?ReturnUrl=%2fGinnieNET%2fstart.aspx>
 - ii. Select "Continue to Login".
 - iii. Enter "User ID" and Password", select "Login".
 - iv. Select "Close".
 - v. Select "Data Entry/Review".
 - vi. Select "New Pool Processing".
 - vii. Select "Single Family Processing".
 - viii. Select "Single-family Pool Details – 11706".
 - ix. Enter "Pool #".
 - x. Select "Search".
 - xi. Validate that each field is correct.
 - xii. Select "Return to Main Menu".
 - xiii. Select "Single-family Subscriber".
 - xiv. Validate that all information is correct. This is the information that the Ginnie Mae will use to deliver the pool to the Broker/Dealer.
 - xv. Select "Return to Main Menu".
 - xvi. Select "Apply Ginnie Mae Edits for Single-family".
 - xvii. Select the pool number to pool to be edited, and select "Edit". If corrections are required, make the appropriate corrections and apply the edits again. Once all errors are corrected, the pool is ready to be transmitted to the Ginnie Mae Custodian.
 - xviii. Return to "Main Menu".
 - xix. Select "Data Export/Import".
 - xx. Select "New Pool Processing".
 - xxi. Select "Export Single-family Pools (New format)".
 - xxii. Enter "Pool #".
 - xxiii. You will be walked through the process of logging in, again, and a "fingerprint password" will be required.
 - xxiv. Plug in the Finger Print reader.
 - xxv. Follow the step-by-step instructions to transmit the pool to the custodian.
 - xxvi. Return to "Main Menu".
 - xxvii. Select "Reports".
 - xxviii. Select "New Pool Processing".
 - xxix. Print the following reports:
 - 1. Schedule of Subscribers – 11705.
 - 2. Schedule of Pooled Mortgages – 11706.
 - 3. Schedule of Pooled Mortgages with data – 11706.
 - 4. Certification and Agreement - 11711B.
 - xxx. Deliver the printed reports to the Shipper.
 - xxxi. Shipper will have the reports signed by an authorized signor – President or CEO.
 - xxxii. Shipper will instruct the applicable warehouse bank send the "Note(s)" to the Ginnie Mae Custodian.
 - xxxiii. Shipper provides a copy of all reports to Accounting Manager.
 - xxxiv. Ginnie Mae Custodian will certify the Ginnie Mae pools, and then deliver the pools to Ginnie Mae.
 - xxxv. Ginnie Mae will deliver the pools to the Broker/Dealer on the applicable Settlement Date.
- c. 48 Hour Notice: 48 hrs. prior to the Settlement Date DMC must deliver, to the Broker/Dealer, notice that the Ginnie Mae pools will be delivered to them, by Ginnie Mae.
 - i. Open the template spreadsheet by going to: "U Drive>Rates>LOCKS filing cabinet>Investor Locks>Ginnie Pools>Ginnie Mae Pools>Notification Template"
 - ii. Complete the Notification spreadsheet, per the instructions found in the template.
 - iii. Email the Notification to the applicable Broker/Dealer.
 - iv. Confirm with the Broker/Dealer that the Notification was received.
- d. Enter Investor Commitment Information in DirectWare.
 - i. Select the loan number in DirectWare.
 - ii. Click on the Lock Expiration hyperlink.
 - iii. Select "Investor Information".
 - iv. Enter correct commitment information in the screen:
 - 1. Investor – select Ginnie Mae
 - 2. Lock Type – select "Mandatory".
 - 3. Investor Loan ID – enter the Ginnie Mae Pool number.
 - 4. Days – enter the number of days to the Ginnie Mae settlement date.
 - 5. Investor Lock Date – enter the date the Ginnie Mae trade was made.
 - 6. Lock Expire Date – enter the Ginnie Mae settlement date.
 - 7. Deliver Deadline – enter two business days prior to the Ginnie Mae settlement date.
 - 8. Commitment Number – enter the Ginnie Mae Pool number.

9. Investor Base Price – enter the Ginnie Mae trade price.
10. Locked with Investor – check the box.
11. Investor SRP – enter "0".
12. Loan Servicer – select the correct servicer for the loan.
13. Investor Adjustments – enter the sum total of the investor loan level price adjustments.
14. Net Investor Price – this field is automatically calculated.
15. Investor Price: enter the "Net Investor Price" plus or minus all loan level adjustments displayed on the DirectWare lock confirmation screen.
16. Select "Save".

1.9.2.3 Trade Log

Trades are executed with Fannie Mae, Freddie Mac and with broker/dealers for Pools. By the close of the MBS market each day, but no later than 3:00 p.m. Mountain Time, the trades made by DMC are reported to the hedge advisory service by emailing the Trade Log spreadsheet. The purpose of reporting the trades is to maintain an accurate record of all trades that have been executed, which gives DMC an accurate report of current hedge coverage. The steps for reporting trades is as follows:

1. Open the Trade Log spreadsheet by going to "U" drive>>Rates>> Trade Logs>>Direct Mortgage Trade Log Template.
2. Enter each individual trade data on a separate line of the template. Fields are completed as follows:
 - a. COMPASS #: this field is left blank.
 - b. CLIENT REFERENCE #: enter the Investor Commitment Number, which can be found on the Investor Trade Confirmation form. If the trade is a Ginnie Mae Pool trade, the outsourced hedge advisory service will provide the Client Reference #.
 - c. PREFIX: enter the applicable Prefix code. Codes may be found by selecting the "Prefix" tab at the bottom of the spreadsheet.
 - d. SECURITY COUPON: For Fannie Mae and Freddie Mac cash sales, enter the Note Rate of the loan being sold. For Ginnie Mae pools, enter the Coupon Rate (Pass through rate) of the security that was sold.
 - e. BROKER/INVESTOR: enter the name of the Investor to whom the loan is sold. The investor name must match the investor names entered in DirectWare in the Investor Information screen.
 - f. STL/DELV Date: Enter the Settlement Date of the pool, if the trade is a Ginnie Mae pool. Enter the Delivery Date, found on the investor confirmation page, if the trade is a Fannie Mae or Freddie Mac cash sale.
 - g. TRADE DATE: enter the date the trade was made.
 - h. SELL/BUY: enter "Sell" if the trade was for a loan sale. Enter "Buy" if the trade was a Pair-off.
 - i. AMOUNT: enter the dollar amount of the trade.
 - j. PRICE: enter the applicable price for the note rate being sold.
 - k. RATE: leave this field blank.
 - l. MISC: Enter "Pair-off, if the trade is a pair-off. Otherwise, leave this field blank.
3. Email the completed Trade Log to the hedge advisory service by selecting the "Send to Client Check Out" button at the top of the spreadsheet. When the button is selected an email will be generated to the hedge advisory service.
4. Save the Spreadsheet in the Trade Log folder and name the file with the current date.

1.10 Funding Loans through Warehouse Bank

1. Initial Funding
 - a. Funding request email is received from Funding department through the distribution group wirerequest@directcorp.com.
 - b. Review this email for important details; i.e. purchase, wet fund, disbursement date.
 - c. Wait for email from Secondary Marketing stating loan has been committed to an investor.
 - d. If loan needs to be funded and the Secondary Marketing has not sold the loan, review the loan with Secondary Marketing and proceed as appropriate.
 - e. In Wholesale Lending click on step 7 which is the wire request queue. This queue shows all loans approved for funding for the current day. If preparing a future funding request there is a "show all" button which brings up all loans approved for funding regardless of disbursement date.
 - f. Locate the loan which needs to be funded in the queue. On the right hand side there is a dropdown menu which lists all available warehouse bank options.
 - g. Select warehouse bank to be used and click radio button below to select the loan.
 - h. Select "Next (Create Spreadsheet)" at the bottom of the screen.
 - i. This creates the "Advance Request Spreadsheet" in excel format. This needs to be saved in Q:\Accounting\Fundings\Advance Requests in the correct folder for the current month using the naming convention within that folder.
 - j. Paste data from this spreadsheet into funding templates found in Q:\Accounting\Funding\current month". You will need to use the correct funding template for the warehouse bank selected above.
 - k. Verify that the data pasted into row 65 creates a balanced journal entry above. If not in balance, review file with funding department to locate discrepancy.
 - l. Save this updated spreadsheet in Q:\Accounting\Fundings in the folder for the appropriate month.
 - m. Loan is now ready to be submitted to warehouse bank.
2. Funding Through Alliance Real Estate Financial Services
 - a. Open new email and address it to the following curtis@wasatchpeaks.com, pmorfin@wasatchpeaks.com, dhernandez@wasatchpeaks.com and wirerequest@directcorp.com.
 - b. In the subject line write Funding Request 1 or Funding Request 3-4 as appropriate for how many loans have been requested from them previously and how many are being requested within the email.
 - c. Attached Wire Instructions and the Advance Request saved earlier.
 - d. Verify disbursement amount on the Advance Request matches the disbursement received from the funding department. If they do not match, review with funding department and correct before sending request.
 - e. Verify wire instructions in advance request saved earlier match the wire instructions provided by funding department.
 - f. Send email.
 - g. Alliance will send back two emails; one that will say "entered" and one that says "2nd verified." Once both emails have been received loan has been funded by the warehouse bank.
3. Funding Through Northpointe Bank.
 - a. Prepare document package in PDF format. Collect the appropriate documents from the list below.
 - i. Investor Rate Lock
 - ii. Final 1008 Transmittal
 - iii. If FHA: Final FHA Transmittal
 - iv. If VA: Final VA Transmittal
 - v. If VA: Verification of VA Benefits

- vi. If VA: Certificate of Eligibility
 - vii. If USDA: RD Commitment
 - viii. Final AUS (*approve / eligible*)
 - ix. Credit Report
 - x. Borrower(s) Income Documentation
 - xi. Final Appraisal
 - xii. If VA: Notice of Value
 - xiii. Title Company E&O, CPL (*must include ISAOA*) and Wiring Instructions
 - xiv. Final HUD-1 (signed/unsigned)
 - xv. Note (signed/unsigned)
 - xvi. Mortgage (signed/unsigned)
 - xvii. Mortgage Rider-if applicable (signed/unsigned)
 - b. Login to the following website <https://www.northpointe.com/lpp/>.
 - c. Go to Submit tab.
 - d. Perform the following tasks in the submission screen
 - i. Enter loan number
 - ii. Enter borrower last name
 - iii. Attached FNMA 3.2 file
 - iv. Attached PDF documents gather above
 - v. Select investor
 - vi. Enter rate lock expiration
 - vii. Enter wire amount
 - viii. Enter wire date
 - ix. Enter receiving bank name
 - x. Enter receiving bank ABA
 - xi. Enter title company name
 - xii. Enter title company city and state
 - xiii. Enter title company account
 - xiv. Enter any specific instructions for warehouse bank
 - xv. Click upload files at bottom of screen
 - e. Watch wire request email for updates on funding process. The following progress emails will be received.
 - i. Package received
 - ii. Package approved
 - iii. Wire approved
 - iv. Wire sent
 - f. Loan has now been funded through the warehouse bank.
4. Mark loan as funded in DirectWare
- a. Once you have confirmation loan has been funded the loan must be marked as such.
 - i. Go to step 7 in Wholesale Lending.
 - ii. Select the radio button for the loan which has been funded.
 - iii. Select "create spreadsheet" button at the bottom of the screen.
 - iv. Review the spreadsheet to ensure the correct loan or loans were selected.
 - v. Mark radio buttons for loans funded and click post button at bottom of screen.
 - vi. Screen will refresh and list loans marked as funded.

1.11 Subservicing Oversight Area: Implementing Policy and Procedure Changes

Direct Mortgage, Corp. works closely with Cenlar Mortgage to monitor service, control and ongoing viability, and stay advised of implemented changes based on industry practices and investor/insurer requirements.

The following processes are followed by the DMC Loan Servicing Manager to monitor Cenlar Mortgage:

- Meet monthly with the assigned Cenlar relationship manager to review operational performance, portfolio activities and enhancements. Develop call agenda during the month as servicing items are reviewed.
- Review weekly/monthly reports and data files received for any significant changes in delinquency, escrows, or portfolio changes. A specific review is focused on: year.
 - The daily report of new loans boarding to insure that loans are boarding timely –within 24 hours of receipt of new loan interface file and the daily reconciliation of cash due to Cenlar for escrow accounts should be remitted and balanced daily.
 - Monthly reporting of loans paid in full to manage portfolio runoff and work with Cenlar to create processes for anticipating prepayment patterns.
- Delinquency reporting to understand what loans are failing and why, and to determine if there is a pattern or profile by product, state, originator, branch, etc.
- Monthly review of Executive Management Report package including the Management Report Card and Monthly Dashboard provided – The reporting package that is issued monthly tracks historical performance for default, customer calls, customer research, escrow, etc. Document trends and action items to take.
- Monthly review of call survey results from customers in the Management Report Card. Calls should be requested from both the Customer Service Call Center, as well as the Collections Call Center. All calls in each area are 100% recorded and can be requested at any time.
- Monthly review of bank reconciliations. Cenlar provides a copy of the reconciled bank reconciliation using agency guidelines which require that all bank accounts are reconciled within 30 days of the cutoff.
- Review of the Monthly Client billing to ensure accurate billing and that loan level detail on servicing advances have been accurately reported and repaid, where applicable, for appropriate entries in the accounting records.
- Review all outstanding Case Management Cases for the entire company each week.
- Review monthly OFAC review report.
- Perform servicing QC review of at least 10 percent of the portfolio each year.
 - Review default servicing and loss mitigation activity on applicable loans.
 - Payoffs and lien releases
 - ARM adjustments
- Review Cenlar's IDC rating on a quarterly basis.
- Review Cenlar's compliance with new Guide Bulletin releases and technology updates released by the agencies.
- Annually review Cenlar's operations and loan administration.

1.12 FHA Lender Insurance Review Process

1. DirectWare determines loan eligibility.
2. If applicable, DirectWare sends loan level data to FHA's TOTAL Scorecard via a direct system to system integration.
3. Underwriting conditions are generated by DirectWare.
4. Loan Originator uploads underwriting conditions to DirectWare and submits loan to underwriting.

5. Quality Control person reviews loan level data to insure data integrity within DirectWare and FHA's TOTAL Scorecard.
6. Via DirectWare's direct system to system integration with FHAC, "Case Audit", Case Query, CAIVRS Authorization and Mortgage Credit Reject reports are prepared and uploaded to Scanned Images.
7. Loan is fully underwritten by DMC DE Underwriter.
8. Prior to closing and funding, Direct Mortgage, Corp. performs secondary review of loan level data to insure data integrity.
9. DMC Closer performs thorough compliance review. Closing documents are prepared. Loan is funded.
10. The Upfront Mortgage Insurance Premium (UFMIP) is paid by the accounting department, within 2 days of loan funding.
11. FHA loans are insured 8 days after the UFMIP is paid.
12. Via DirectWare's system to system integration with FHA Connection, the FHA insurance application is processed. The following steps are completed for Insuring FHA loans:
 - a. Insure the loan
 - i. Go to <https://entp.hud.gov/cias/index.cfm>
 - ii. Sign on
 - iii. Select Single Family FHA
 - iv. Select Single Family Origination
 - v. Select Case Processing
 - vi. Select Insurance Application
 - vii. Type in the FHA Case Number and click Send
 - viii. Complete the Insurance Application screen
 - b. Print the Mortgage Insuring Certificate (MIC)
 - i. Select Mortgage Insurance Certificate from the Case Processing Screen
 - ii. Type in the FHA Case Number and click Send
 - iii. Print the MIC to Adobe PDF and save
 - c. Upload the MIC to Scanned Images
 - i. Go to Scanned Images and select Add Documents
 - ii. Document Type is Mortgage Insurance Certificate
 - iii. Description is MIC
 - d. Mark Trailing Documents as completed
 - i. Go to Workflow History in DirectWare
 - ii. Check off the boxes: FHA Files Shipped and FHA Files Insured
 - iii. Do not mark Shipped if a binder has been requested
 - e. If the loan fails the Lender Insuring process, the file is reviewed by the DMC FHA Insurer, and the process below is followed:
 - i. Case Warnings are reviewed by the Underwriting Manager or Quality Control Manager prior to insuring.
 - ii. If the loan is ineligible for Lender Insurance, a case binder is submitted to the appropriate HOC for processing.
13. FHA Connection is monitored by DMC's FHA Insurer to ensure paper case binders are submitted in a timely manner.
14. Deficiency letters are reviewed and responded to by the Quality Control Manager.
15. Underwriting Deficiencies are discussed in DMC's Credit Policy meeting. Appropriate actions are taken by the Quality Control Manager, Underwriting Manager, President and Chief Executive Officer

1.13 VA Lender Insurance Process

1.13.1 Paying the VA Funding Fee

1. Login to the VAFF payment system at <https://va.pay.gov>
2. Login credential are held by authorized personnel
3. On left hand side select "create payment request" under payments menu
4. Enter the following information
 - a. VA loan number
 - b. Lender Loan Number (Direct Mortgage loan number)
 - c. First Name
 - d. Middle Initial
 - e. Last Name
 - f. SSN
 - g. Select appropriate radio buttons
 - i. Funding Fee Exempt
 - ii. Subsequent Use
 - iii. Reservist
 - iv. Primary Veteran
 - h. Purchase Price
 - i. Down Payment
 - j. Base Loan Amount
 - k. Property State
 - l. Property County
 - m. Closing Date
5. Hit Continue
6. On next screen confirm VAFF amount to be drafted
7. If correct click process.

1.14 MERS Procedures

1.14.1 MERS Registration

1.14.1.1 Objective

Assure that loans are registered timely on the MERS System. This is accomplished by reviewing the daily MERS Registration Verification Report provided by MERS.

1.14.1.2 Process

1. Daily a registration interface between DirectWare and MERS is generated by DMC for all DMC loans funded that day.

2. Daily review the DMC Loan Servicing report and identify if loan are listed in the "MERS Pending Registrations" section of the report.
 - a. If loans are listed in the MERS Pending Registrations section, then log into MERSonline.org and access the MERS "Registration Verification" report to determine whether MERS shows the loans as registered (it is not uncommon for loans to be registered with MERS; but, confirmation is not sent to DMC by MERS).
 1. If loans are registered, then notify the DMC IT department that the loans have been registered with MERS and may be marked in DirectWare as registered.
 2. .If loans are not registered, then notify the DMC IT department that the nightly interface failed and the loans still need to be registered.
3. Notify the DMC President if a loan is not Registered on the MERS System within 2 days of funding.

1.14.2 MERS Reject/Warning Reports

1.14.2.1 Objective

Maintain integrity of information entered and to assure the MIN Status, for Transfer of Beneficial Ownership (TOB) and Transfer of Servicing (TOS) is updated accurately and timely on the MERS System. This is accomplished by reviewing the daily MERS Rejects/Warning Reports provided by MERS.

1.14.2.2 Process

1. Daily log into MERSonline.org and review the MERS system generated "Reject/Warning" reports, and determine corrective action to be taken.
 - a. If Reject/Warning reports are found, then each individual loan listed on each report is to be reviewed and corrected in MERS. This may require communication with MERS and/or Investors to determine the proper corrective action to be taken.
 - b. Retain each Reject/Warning report by saving a PDF version of the reports in the MERS Reject/Warning file.
 - c. Once corrective is taken the loan is to be reviewed in MERS the following day to assure that the loan is now properly registered.
2. Notify the DMC President if a loan is on a MERS Reject/Warning Report longer than 2 days.

1.14.3 MERS Reconciliation

1.14.3.1 Objective

Assure that loans are accurately reported and MERS Data Fields are properly submitted on the MERS System. This is accomplished by conducting a system-to-system reconciliation of all required data fields. Reconciliation is conducted on a monthly or quarterly basis, depending on the size of the servicing portfolio. For lenders with servicing portfolios less than 1,000 loans the reconciliation may be performed quarterly.

1.14.3.2 Process

1. Monthly DMC prepares a loan data file and uploads to the MERS FTP site (data file to be prepared by DMC IT Department).
2. Notify MERS the upload has been completed.
3. MERS compares the DMC data against the MERS System data, and returns to DMC reports with errors identified.
4. DMC individually corrects each error identified and coordinates the corrections with MERS, as necessary.
5. DMC uploads corrected data file to MERS.

1.14.4 MERS MIN Policies & Procedures

Detailed MERS MIN Policies & Procedures are further defined in the MERS System Quality Assurance plan for Members. The MERS System Quality Assurance plan for members defines, among other things:

1. A process for registering loans with MERS,
2. A process to create a standard MERS security instrument for each jurisdiction in a timely manner,
3. Detailed steps to report the MERS registration when the loan is delivered to DMC's investors (Freddie Mac, Fannie Mae, etc.); and
4. Detailed steps to resubmit corrected information if an error is made on the initial submission.

1.15 Trailing Requirements and Documents

DMC will review all trailing documents for accuracy. These documents will be imaged and uploaded into DirectWare™. All original documents will be stored or forwarded to the appropriate party as instructed below.

1.15.1 Trailing Requirements

"Trailing Requirements" refer to the following Work Flow areas:

1. Promissory note reviewed for accuracy and then shipped to the warehouse bank, investor, or document custodian.
2. Payment of FHA UFMIP, VA Funding Fee or RD Guaranty Fee.

3. Issuance of FHA MIC, VA LGC or RD LNG.
4. FHA MIC, VA LGC or RD LNG reviewed for accuracy and then stored, provided to the investor or shipped to the document custodian. Electronic copies of the FHA MIC and VA LGC are acceptable. DMC must obtain the original RD LNG. Ginnie Mae requires the original RD LNG to complete its final certification.
5. Receipt of recorded security instrument.
6. Receipt of final title policy.
7. Review of the recorded security instrument and final title policy.
8. Shipping or storing of the recorded security instrument and final title policy.

"Trailing Requirements" are not finished until each of these Work Flow areas have been completed.

1.15.2 Trailing Documents

"Trailing Documents" refer to the security instrument, final title policy and FHA MIC, VALGC or RD LNG.

1.15.3 Trailing Requirements Checklist

1. Review the promissory note for accuracy. This area cannot be signed off until the "Promissory Note Data Form" has been completed. The "Promissory Note Data Form" will open in a new window. Here are the questions for the "Promissory Note Data Form":
 - a. Verify the following information is listed correctly on the note:
 1. Mortgagor name;
 2. Principal amount (alpha and numeric);
 3. Interest rate (alpha and numeric);
 4. Monthly principal and interest payment (alpha and numeric);
 5. Term of the loan (first and last payment due dates);
 6. Property street address, city and state;
 7. Verify the mortgage margin for ARMs;
 8. Verify the interest rate change date for ARMs;
 9. Verify the index type for ARMs; and
 10. Verify the interest rate cap structure for ARMs, including the initial, subsequent and lifetime interest rate cap structure on the Note.
 - b. Verify that each signature on the note agrees with the name typed below the signature line it appears on.
 1. The promissory note and security instrument must be signed in exactly the same manner, with or without prefixes, suffixes, middle initials, names, etc.
 2. Other loan documents may vary in terms of prefixes, suffixes, middle initials, middle names, etc. so long as the variations are correctly listed on the AKA statement.
 3. Each signature should be compared with and match the signature on the borrower(s)' personal identification.
 - c. Examine the note for sections requiring a notarization, acknowledgment or witness and, if required, verify it is completed.
 - d. Verify that each rider or addendum relates to and references the note.
2. Pay the FHA UFMIP, VA Funding Fee or RD Guaranty Fee. This area cannot be signed off until the "Government Fee Payment Data Form" has been completed and proof of payment has been uploaded. The "Government Fee Payment Data Form" will open in a new window. Here are the questions for the "Government Fee Payment Data Form":
 - a. Does the amount collected on the HUD-1 match exactly the amount being paid?
 - b. Is the borrower information reflected correctly in the applicable payment system?
 - c. Is the property information reflected correctly in the applicable payment system?
 - d. Are the loan details properly reflected in the applicable payment system?
3. Issue the FHA MIC, VA LGC or RD LNG. Electronic copies of the FHA MIC and VA LGC are allowable. DMC must be in possession of the original signed RD LNG, as it is required by Ginnie Mae for final certification. This area cannot be signed off until section 2 and the "Government Insurance Data Form" have been completed. The "Government Insurance Data Form" will open in a new window. Here are questions for the "Government Insurance Data Form":
 - a. Does the agency case number match exactly with DirectWare and the loan documents?
 - b. Does the mortgagor information (name, SSN, DOB) match exactly with DirectWare and the loan documents?
 - c. Does the property address match exactly with DirectWare and the loan documents?
 - d. Do the loan details (principal amount, interest rate, monthly principal and interest payment, term) match exactly with DirectWare and the loan documents?
 - e. For VA loans, is a percentage of indebtedness noted on the LGC?
 - f. For RD loans, verify the LNG has been signed and dated by an authorized agent for the RD. Do not ever discard the original!
4. Receive the security instrument. This area cannot be signed off until the document has been uploaded.
 - a. Upload the security instrument to Scanned Images. Do not discard the original.
 - b. Place the original in the "to be reviewed" filing cabinet.
5. Receive the final title policy. This area cannot be signed off until the document has been uploaded.
 - a. Upload the final title policy to Scanned Images. Do not discard the original.
 - b. Place the original in the "to be reviewed" filing cabinet.
6. Review the trailing documents. This area cannot be signed off until sections 4 – 5 and the "Trailing Documents Data Form" has been completed. The "Trailing Documents Data Form" will open in a new window. Here are questions for the "Trailing Documents Data Form":
 - a. Security instrument
 - a. Verify each item listed below matches with the Note:
 1. Mortgagor name;
 2. Principal amount (alpha and numeric);
 3. Term of loan (first and last payment due dates);
 4. Property street address, city and state; and
 5. FHA/VA/RD case number.
 - b. Determine that the date of the security instrument is the same as or later than the date of the promissory note.
 - c. Verify that the security instrument includes evidence of recording.

- d. Verify that the legal description appears on the security instrument or on an attachment to the instrument. Verify the legal description is complete, accurate and free of typographical errors.
 - e. Verify that all signatures on the security instrument properly relate to the Note.
 - f. Examine the security instrument for the completion of any required notarization, acknowledgment of witness.
 - g. Verify that any rider or addendum properly relates to the security instrument.
 - h. Verify that any rider or addendum is recorded and that the recorded information corresponds to the security instrument.
 - i. Verify the vesting as per the security instrument matches with the vesting as per the final title policy (Schedule A, Sections 3 & 4).
- b. Final title policy
- a. Write the DMC #, borrower last name, investor name and investor # on the title policy.
 - b. For government loans, confirm that an original OR duplicate signed (or countersigned) title policy complete with Schedules, A, B and Conditions and Stipulations has been received. Electronic copies are acceptable for Conventional loans.
 - c. Confirm the title policy has a jacket cover IF the policy is invalid without a jacket cover.
 - d. Compare each of the following line items, appearing on Schedule A of the title policy to the security instrument:
 1. Date of title insurance policy, which must be the same as or later than the recording date on the security instrument; however, in some jurisdictions the title insurance policy is delivered prior to recordation of the security instrument and may be dated earlier (evidence of "gap" insurance required). If the policy date matches the closing or note date rather than the date of recording, then the policy must state "or date of recording, whichever is later" or "gap" insurance must be present.
 2. Amount of insurance coverage, which must be no less than the original amount of the mortgage or the maximum amount (in the event of HECM, HELOC, etc.), whichever is higher.
 - e. Verify that each of the following items, appearing in the mortgage information clause to Schedule A, agrees with (must match exactly!) the security instrument:
 1. Mortgagor name(s);
 2. Jurisdiction recording information (date, number, book, page);
 3. Trustee name(s), if applicable; and
 4. Principal amount
 - f. Verify that the legal description of Schedule A includes either of the following:
 1. A phrase that specifically references the legal description in the security instrument; or
 2. A complete legal description. Confirm the legal description matches the security instrument and is free of typographical errors.
 - g. Confirm the property address matches exactly with the security instrument and is free of typographical errors.
 - h. Confirm the named insured is "Direct Mortgage, Corp. its successors and or assigns, as their interests may appear" or, for FHA loans, "Direct Mortgage, Corp. and/or the Secretary of Housing and Urban Development of Washington D.C., his successors and/or assigns, as their interests may appear."
 - i. Confirm that the vesting as per the vesting deed (typically indicated in Schedule A, Section 3) matches exactly with the vesting as per the security instrument (typically indicated in Schedule A, Section 4.)
- c. Are there conditions, errors or other inaccuracies noted with the security instrument or final title policy? Answering "no" will allow the user to complete the form. Answering "yes" will do several things:
- a. Allow the user to add conditions.
 - b. Allow the user to identify the responsible party for the condition:
 1. County
 2. Title company
 3. Closer
 4. Funder
 5. Underwriter
 6. Other
 - c. Place the loan in the "Trailing documents rejected with conditions" pipeline queue.
7. Ship or store the trailing documents. This area cannot be completed until sections 2-6 and the "Trailing Document Placement Data Form" have been completed. In addition, the user must upload a copy of the shipping label and input shipping information (if applicable). The "Trailing Document Placement Data Form" will open in a new window. Here are questions for the "Trailing Document Placement Data Form":
- a. Is the loan type Government or Conventional?
 - b. Select the investor.
 - c. Select the servicer.
 - d. Select the sub-servicer.
 - e. Congratulations, the trailing documents need to be <SHIPPED or STORED>. Logic to be added to determine proper work flow based on loan type, investor, servicer and sub-servicer.
 - f. <DO NOT DISCARD THE ORIGINAL FINAL TITLE POLICY> OR <VERIFY THE FINAL TITLE POLICY HAS BEEN UPLOADED TO SCANNED IMAGES AND DISCARD THE ORIGINAL> Logic to be added to determine proper work flow based on loan type, investor, servicer and sub-servicer.

1.15.4 IT Needs:

1. Remove existing Work Flow phases from Work Flow History:
 - a. 8a. Collateral Shipped
 - b. FHA UFMIP Paid
 - c. FHA Files Shipped
 - d. FHA Files Insured
 - e. VA Loans to be Insured
 - f. VA Loans to be Shipped
 - g. VA Funding Fee Paid
 - h. USDA UFMIP Paid
 - i. Trailing Docs – Final Title Policy received from Title Co.
 - j. Trailing Docs – Final Title Policy submitted to Investor
 - k. Trailing Docs – Recorded Mortgage / DOT received from County
 - l. Trailing Docs – Recorded Mortgage / DOT submitted to Investor
2. Remove existing Work Flow Areas from the Pipeline:
 - a. FHA UFMIP to be Paid

- b. FHA Loans to be Shipped
 - c. FHA Loans to be Insured
 - d. VA Loans to be Insured
 - e. VA Loans to be Shipped
 - f. VA Funding Fee to be paid
3. Replace the removed Work Flow phases in Work Flow History with "Trailing Requirements Complete." Do not allow a manual sign-off. This will receive and auto sign-off once the proposed "Trailing Requirements Checklist" is complete.
 4. Add the following Work Flow Areas to the Pipeline. The queues will be populated by the logic added to the proposed "Trailing Requirements Checklist."
 - a. Promissory note to be shipped
 - b. FHA UFMP to be paid
 - c. VA Funding Fee to be paid
 - d. RD Guaranty Fee to be paid
 - e. FHA MIC to be issued
 - f. VA LGC to be issued
 - g. RD LNG to be issued
 - h. FHA loans requested by HUD for review
 - i. VA loans requested by the VA for review
 - j. RD loans requested by RD for review
 - k. Security instruments to be received
 - l. Final title policies to be received
 - m. Trailing documents to be reviewed
 - n. Trailing documents rejected with conditions
 - o. Trailing documents to be shipped or stored
 5. In similar fashion to the Funding Checklist, create a "Trailing Requirement Checklist."
 6. Add or clarify underwriting conditions:
 - a. Verify the borrower(s) names are consistent throughout DirectWare and match exactly with the purchase agreement, preliminary title report, appraisal report and evidence of insurance. The borrower(s) names as per the "III. Borrower Info" tab populate the note. The borrower(s) names as per the "II. Property Info" tab populate the security instrument. The borrower(s) names must match exactly between the note and security instrument. Variations in prefixes, suffixes, middle initials, etc. are not allowed.
 - b. Verify the subject property address (street, city, state, & zip code) is consistent throughout DirectWare and matches exactly with the purchase agreement, preliminary title report, appraisal report, flood cert. and evidence of insurance.
 - c. Verify that the legal description is complete, accurate, and free of typographical errors. It must match exactly with the preliminary title report and appraisal report.
 - d. Provide evidence of insurance. The Mortgagee clause should include the loan number and read as follows: "Direct Mortgage, Corp., ISAOA, ATIMA, 6955 South Union Park Center, Suite 540, Midvale, Utah, 84047". Verify the dwelling coverage is sufficient and/or the policy must include an "extended coverage" or "guaranteed replacement cost" endorsement. All occupant borrowers must be named as insured on the policy.
 - e. Provide evidence of condominium insurance. Upload a copy of the "blanket" or "master" policy. "Direct Mortgage, Corp., ISAOA, ATIMA, 6955 South Union Park Center, Suite 540, Midvale, Utah, 84047" must be listed as the Mortgagee. In addition the borrower details (name, address, unit number) must be included. If the "blanket" or "master" policy does not include coverage for the "walls in", provide separate evidence HO-6 insurance. If the "blanket or "master" policy does provide coverage for the "walls in", a separate policy is not required provided that the details of the HO-6 coverage are made clear in the "blanket" or "master" policy.
 7. Add requirements to the BC Checklist:
 - a. Verify the borrower name is consistent throughout DirectWare (note and deed) and matches exactly with the purchase contract, title report, property appraisal and evidence of insurance.
 - b. Verify the property address (street, city, state, zip) is consistent throughout DirectWare and matches exactly with the purchase contract, title report, property appraisal and evidence of insurance.
 - c. Verify that the legal description is complete, accurate, free of typographical errors and matches exactly with the title report and property appraisal.
 - d. Confirm that the vesting as per the vesting deed (typically indicated in Schedule A, Section 3) matches exactly with the vesting as per the security instrument (typically indicated in Schedule A, Section 4.)
 8. Add requirements to the Funding Checklist:
 - a. Several issues noted with evidences of insurance:
 - i. Mortgagee clause is incomplete (missing "ISAOA, ATIMA" verbiage) or incorrect/missing.
 - ii. Dwelling coverage is insufficient due to "extended coverage" endorsements not being explained and/or "cost approach to value" section of appraisal being incomplete (not required).
 - iii. Co-borrower name missing from hazard policy.
 - b. Several issues noted with evidences of insurance (master condominium policies):
 - i. EOI missing borrower details.
 - ii. Mortgagee clause is incomplete (missing "ISAOA, ATIMA" verbiage) or incorrect/missing.
 - iii. HO-6 ("Walls-In") coverage is unclear. Included in master condominium policy or separate policy acquired?
 - c. Verify that each signature on the note agrees with the name typed below the signature line it appears on.
 - i. The promissory note and security instrument must be signed in exactly the same manner, with or without prefixes, suffixes, middle initials, names, etc.
 - ii. Other loan documents may vary in terms of prefixes, suffixes, middle initials, middle names, etc. so long as the variations are correctly listed on the AKA statement.
 - iii. Each signature should be compared with and match the signature on the borrower(s) personal identification.
 - d. Examine the note for sections requiring a notarization, acknowledgment or witness and, if required, verify it is completed.
 9. Generate automatic email notifications for delinquent trailing documents. Email 1 at 3 weeks, then weekly for 2 weeks – daily thereafter.

Other Needs:

1. Update closing instructions. Vesting per the vesting deed must match with the vesting per the security deed. Also, original or duplicate signed (or countersigned) title policy with jacket is required.
2. Update email and closing instructions to request copy of vesting deed prior to releasing documents.
3. Move all trailing documents to central location. File according to status, investor, servicing status, etc.
4. Create log (Excel) to track errors with trailing documents. Share on u:/ drive. Temporary report until DirectWare is updated.
5. Perform MERS query and confirm investor, servicer and sub-servicer details are correct. This is to be performed daily, the day after a loan is settled.

1.16 Advertising and Marketing Policy

1.16.1 Introduction

DMC requires that all advertising materials be truthful and non-deceptive, reasonable, and fair and include all appropriate, required disclosures. In today's regulatory environment, there exists an ever increasing risk of enforcement actions for unfair or deceptive advertising as well as violations of the Truth in Lending Act (TILA) and implementing Regulation Z. Recent changes to Mortgage Acts and Practices (Reg. N) allow the FTC, CFPB and states to seek civil penalties for violations.

It is important for all employees of DMC who are responsible for the creation and distribution of any marketing materials to understand that it is not only possible for violations of consumer protection laws such as TILA but to also violate the Federal Trade Commission Act (FTC Act) and the Mortgage Acts and Practices Act and that liability for non-compliance exists under all laws.

In addition, there are other agency issued regulations and guidance that apply to mortgage lending advertising activities including the Fair Housing Act requirements, HUD issued guidance for FHA-approved lender or mortgagee programs, and individual state specific laws and regulations. Liability for non-compliance and the possibility for enforcement action also exist under any and all of these additional regulations and guidelines for DMC.

1.16.1.1 Goals & Objectives

DMC intends to establish advertising and marketing policies and procedures which will reflect recent changes to law and regulatory guidance as well as reflect best practices and industry standards with respect to the marketing of its products and services. The objective of this policy is to demonstrate DMC's commitment to fair and truthful advertising and marketing practices.

1.16.1.2 Required Review

DMC requires this policy be reviewed every two (2) years or sooner as may be required by legislative or regulatory amendments.

- Last Date of Review – 08/14/2013
- Next Due for Review – 08/14/2014

1.16.1.3 Applicability

This policy shall apply to all advertising and marketing by DMC for all real estate lending functions and real estate-related financial transactions directed toward consumers and/or secured by a dwelling.

1.16.1.4 Interpretation and Reasonableness

It is important to note that there is a significant level of interpretation and application of reasonableness when it comes to the evaluation of advertising and marketing statements and their affect upon various target audience groups. A representation may be expressed or implied. "Express claims directly represent the fact at issue, while implied claims do so in an oblique or indirect way." Whether an implied claim is made depends on the overall net impression that consumers take away from an advertisement or other representation based on all its elements (language, pictures, graphics, etc.). The FTC evaluates whether a consumer's impression or interpretation of a representation or omission is reasonable.

Reasonableness is evaluated based on the sophistication and understanding of consumers in the group to which the representation is targeted, which may be a general audience or a specific group, such as children or the elderly. A claim may be susceptible to more than one reasonable interpretation, and if one such interpretation is misleading, then the advertisement is deceptive, even if other, non-deceptive interpretations are possible.

1.16.2 Accountability and Monitoring

DMC requires that this Advertising and Marketing Policy and all underlying policies or procedures referenced herein have a monitoring and quality control component. Ongoing adherence to these policies and procedures shall be documented such that adherence to those policies and procedures and all applicable laws and regulations can be readily determined as part of the Company's Quality Control audit and review program. Quality control procedures shall include, but are not limited to:

- Monitoring the accuracy, compliance and effectiveness of all advertising and marketing programs, pieces or efforts.
- Assuring DMC has a process for accurately developing, approving and keeping records of all advertising and marketing material.

1.16.3 Staff and Training

DMC requires the ongoing training of its staff involved in the creation and distribution of any marketing materials for the Company. A training program shall be developed and implemented to ensure that staff members maintain current knowledge with respect to applicable advertising and marketing laws, regulations, and guidelines as well as changes to this and other related policies of DMC and its investors. Required staff training may be provided internally by DMC personnel or by any approved third-party vendor. In addition, DMC requires that third party vendors have internal control procedures to ensure that any individuals involved with the DMC's marketing program maintain sufficient levels of education regarding the applicable advertising and marketing laws, regulations, and guidelines.

1.16.3.1 Ongoing Training

All DMC employees shall receive training no less than annually. At a minimum, training should address:

- This policy and any changes within the last year.
- The current laws, regulations and guidelines underlying this and other related policies.
- The implementation of DMC's marketing and advertising policies and the practical application to the employee's function or responsibility.
- Disciplinary consequences for non-compliance.

Training may also address:

- Current methods used in advertising and marketing programs and industry best practice.

1.16.4 Related Regulations

The following sections are grouped by the related regulation or guidance for convenience. There may be additional policy guidance found in other sections of this manual and grouped by product type, media type or both.

1.16.4.1 FTC Act

Section 5 of the Federal Trade Commission Act (FTC Act) contains prohibitions against unfair or deceptive acts or practices in or affecting commerce. These prohibitions extend to marketing and advertising activities and materials. The prohibitions apply to all persons engaged in commerce, including banks.

The Federal Trade Commission (FTC) has broad authority to conduct compliance examinations to assess the level of compliance with Section 5 and in enforcing the rule's prohibitions against unfair or deceptive acts or practices. Other regulators also have authority to enforce the prohibitions of Section 5 of the FTC Act. These include The Federal Reserve Board and the FDIC, collectively referred to as the "agencies" and various state agencies. Specifically under Section 8 of the FDIC Act, the "agencies" have responsibility for enforcing the prohibitions against unfair and deceptive acts and practices in Section 5 of the FTC Act as they apply to state-chartered banks.

1.16.4.1.1 Mortgage Acts and Practices (See 4.6)

[This section revised and relocated to 4.6.](#)

1.16.4.1.2 Prohibitions Against Unfair or Deceptive Acts and Practices

To comply with the requirements of Section 5 of the FTC Act, DMC requires that all advertising, marketing and promotional materials:

- Be truthful and non-deceptive;
- Must have sufficient evidence to back up their claims; and
- Cannot be unfair.

To ensure that DMC's advertising and marketing programs meet the above requirements to remain in compliance with the rule's prohibitions against unfair or deceptive acts and practices, all promotional materials will be assessed against the following standards prior to distribution:

- Is the information or the omission of information, likely to mislead consumers acting reasonably under the circumstances?
- Is the information or the omission of information, "materially" important to a consumer's decision to choose the product or service?
- Does the information cause or is it likely to cause substantial consumer injury which a consumer could not reasonably avoid?
- Is the information contained in the advertising and marketing materials outweighed by the benefit to consumers?

In addition, DMC requires that sufficient, objective evidence to support all claims made in any advertising, marketing or promotional materials be documented before the information is distributed. Such documentation is to be retained along with the material that it supports in DMC's advertising and marketing files. At a minimum, DMC will retain the level of evidence or proof to support the claims stated in the materials. For example, if a specific rate of interest is stated in advertising materials, DMC will include a copy of a current rate sheet reflecting that the rate was made available within a reasonable period after the advertisement is run.

1.16.4.1.3 Bait and Switch Advertising

According to the FTC Act, it is illegal to advertise a product when a company has no intention of selling or offering that item, but instead plans to sell or offer the consumer something else, usually at a higher price. DMC strictly prohibits and will not tolerate any form of "bait and switch" advertising or marketing practices. Staff responsible for the creation and/or distribution of any bait and switch advertising material will be subject to disciplinary action including possible termination of their employment. Vendors who create and/or distribute advertising material on behalf of DMC that contains any evidence of bait and switch practices will be subject to termination of the vendor relationship with DMC.

1.16.4.2 Truth in Lending Act (TILA) – Regulation Z

Details regarding TILA identified below.

1.16.4.2.1 Actually Available Terms

DMC requires that if an advertisement for credit states specific credit terms, it shall state only those terms that actually are or will be arranged or offered by DMC.

1.16.4.2.2 Clear and Conspicuous

DMC requires that all disclosures required by this policy and/or applicable law and regulation shall be made clearly and conspicuously.

1.16.4.2.3 Rate of Finance Charge

Any advertising or marketing materials which include a rate of finance charge will state the rate as an "Annual Percentage Rate," using that term. The term may be expressed using the abbreviation "APR."

The materials will also contain the following additional, required disclosures as applicable:

- If the Annual Percentage Rate may be increased after consummation, the advertisement shall state that fact.
- If an advertisement is for credit secured by a dwelling, the advertisement shall not state any other rate, except that a simple annual rate that is applied to an unpaid balance may be stated in conjunction with, but not more conspicuously than, the Annual Percentage Rate.

DMC may advertise the availability of an initial rate reduction applicable to discounted variable-rate products by stating the reduced simple annual rate, provided the advertisement also shows with equal prominence and in close proximity the limited term to which the reduced rate applies and the Annual Percentage Rate that will apply after the term of the initial rate reduction expires.

1.16.4.2.4 Triggering Terms

Generally, the following terms, when used within any advertisement, require additional disclosures be provided within the advertisement.

- The amount or percentage of any down payment.*
- The number of payments or period of repayment.
- The amount of any payment.
- The amount of any finance charge.

* By virtue of the definition of "down payment" in § 226.2 of Regulation Z, this triggering term is limited to credit sale transactions.

These provisions apply even if the triggering term is not stated explicitly but may be readily determined from the advertisement. For example, an advertisement may state "80 percent financing available," which is in fact indicating that a 20 percent down payment is required.

DMC requires that any advertisement that includes any of the above triggering terms also include the following terms as applicable:

- The amount or percentage of the down payment.
- The terms of repayment, which reflect the repayment obligations over the full term of the loan, including any balloon payment.
- The "Annual Percentage Rate," using that term, and, if the rate may be increased after consummation, that fact.

1.16.4.2.4.1 Catalogs, Other Multiple-Page Advertisements, Electronic Advertising

When any triggering terms are included in a catalog or other multiple-page advertising or in electronic advertising such as the Company website, DMC will allow the required additional disclosures to be contained in a table or schedule elsewhere in the advertisement, provided that it is sufficiently detailed and includes at a minimum:

- All necessary information for a representative sampling of amounts of credit being offered.
- Reflect the amounts of credit DMC actually offers, up to and including higher-priced products.
 - The range of transactions shown in the table or schedule in a particular catalog or multiple-page advertisement need not exceed the range of transactions actually offered in that advertisement.

In addition, the table or schedule must be clearly and conspicuously set forth in the advertisement and all triggering terms contained in the advertisement shall clearly direct the consumer to the location where the table or schedule begins.

Clear and conspicuous requirement: For purposes of this section, a clear and conspicuous disclosure for visual text advertisements on the internet for credit secured by a dwelling means that the required disclosures are not obscured by techniques such as graphical displays, shading, coloration, or other devices.

1.16.4.2.4.2 Alternative Disclosures: Television or Radio Advertisements.

When any triggering terms are included in an advertisement made through television or radio, DMC requires that the materials also either:

- 1) Clearly and conspicuously state each of the terms as applicable:
 - a. The amount or percentage of the down payment.
 - b. The terms of repayment, which reflect the repayment obligations over the full term of the loan, including any balloon payment.
 - c. The "Annual Percentage Rate," using that term, and, if the rate may be increased after consummation, that fact. Or,
- 2) Clearly and conspicuously state the "annual percentage rate," using that term, and, if the rate may be increased after consummation, that fact. The material must also list a toll-free telephone number, or any telephone number that allows a consumer to reverse the phone charges when calling for information, along with a reference that such number may be used by consumers to obtain additional cost information.

Clear and conspicuous requirement: For purposes of this section, a clear and conspicuous disclosure in the context of visual text advertisements on television for credit secured by a dwelling means that the required disclosures are not obscured by techniques such as graphical displays, shading, coloration, or other devices, are displayed in a manner that allows a consumer to read the information required to be disclosed. For example, very fine print in a television advertisement would not meet the clear and conspicuous standard if consumers cannot see and read the information required to be disclosed. In addition, a clear and conspicuous disclosure in the context of an oral advertisement for credit secured by a dwelling, whether by radio, television, or other medium, means that the required disclosures are given at a speed and volume sufficient for a consumer to hear and comprehend them.

For example, information stated very rapidly at a low volume in a radio or television advertisement would not meet the clear and conspicuous standard if consumers cannot hear and comprehend the information required to be disclosed.

1.16.4.2.5 Disclosure of Rates & Payments in Advertisements for Credit Secured by a Dwelling

The following requirements apply to any advertisements of credit secured by a dwelling, other than television or radio advertisements, including promotional materials accompanying applications. However, the requirements do not apply to an envelope in which an application or solicitation is mailed, a banner advertisement, a pop-up advertisement linked to an application, or a solicitation provided electronically.

1.16.4.2.5.1 Disclosure of Rates

DMC requires that any advertising or marketing materials that promote credit secured by a dwelling and that state a simple annual rate of interest where more than one simple annual rate of interest will apply over the term of the advertised loan, will also disclose in a clear and conspicuous manner:

- Each simple annual rate of interest that will apply. In variable-rate transactions, a rate determined by adding an index and margin shall be disclosed based on a reasonably current index and margin.
- The period of time during which each simple annual rate of interest will apply.
- The Annual Percentage Rate for the loan. If such rate is variable, calculation of the Annual Percentage Rate shall comply with the accuracy standards in §§ 226.17(c) and 226.22 of Regulation Z.

Clear and conspicuous requirement: For purposes of this section, clearly and conspicuously disclosed means that the above required information shall be disclosed with equal prominence and in close proximity to any advertised rate that triggered the required disclosures. The required information may be disclosed with greater prominence than the other information.

1.1.6.4.2.5.2 Disclosure of Payments

DMC requires that any advertising or marketing materials that promote credit secured by a dwelling and that state the amount of any payment, will also disclose in a clear and conspicuous manner:

- The amount of each payment that will apply over the term of the loan, including any balloon payment. In variable-rate transactions, payments that will be determined based on the application of the sum of an index and margin shall be disclosed based on a reasonably current index and margin;
- The period of time during which each payment will apply; and
- In an advertisement for credit secured by a first lien on a dwelling, the fact that the payments do not include amounts for taxes and insurance premiums, if applicable, and that the actual payment obligation will be greater.

Clear and conspicuous requirement: For purposes of this section, a clear and conspicuous disclosure means that the required information shall be disclosed with equal prominence and in close proximity to any advertised payment that triggered the required disclosures, and the fact that payments do not include amounts for taxes and insurance, shall be disclosed with prominence and in close proximity to the advertised payments.

1.16.4.2.6 Tax Implications

If any advertising or marketing materials distributed in paper form or through the Internet (rather than by radio or television) promote loans secured by the consumer's principal dwelling and include a statement that the advertised extension of credit may exceed the fair market value of the dwelling, the following information must also be stated clearly and conspicuously in the materials:

- The fact that interest on the portion of the credit extension that is greater than the fair market value of the dwelling is not tax deductible for Federal income tax purposes; and
- The consumer should consult a tax adviser for further information regarding the deductibility of interest and charges.

1.16.4.3 Home Ownership and Equity Protection Act (HOEPA)

Changes to the requirements for advertising and marketing implemented through HOEPA amended TILA Section 129(l)(2) and have been incorporated within the TILA section of this policy.

1.16.4.4 Mortgage Assistance Relief Services (MARS)

In November 2010, the FTC issued the final rule to protect distressed homeowners from mortgage relief scams that have sprung up during the mortgage crisis. The rule titled "Mortgage Assistance Relief Services" (MARS) imposes certain requirements and prohibitions on companies that offer Mortgage Assistance Relief Services which includes loan modification and foreclosure prevention services, on loans that they do not own or service. The following DMC policy applies to Mortgage Assistance Relief Services offered directly by DMC or indirectly through third-party vendor relationships with MARS providers.

1.16.4.4.1 Prohibitions

DMC prohibits the following conduct with respect to Mortgage Assistance Relief Services that it is directly or indirectly engaged in:

- Representing, expressly or by implication, in connection with the promotion and offering of any Mortgage Assistance Relief Services that a consumer cannot or should not contact or communicate with his or her lender or loan servicer.
- Misrepresenting, expressly or by implication, any material aspect of any mortgage assistance relief service, including but not limited to:
 - The likelihood of negotiating, obtaining, or arranging a specific form of mortgage relief.
 - How long it will take to get the advertised mortgage relief.
 - That the mortgage assistance relief service is affiliated with, endorsed or approved by, or otherwise associated with:
 - The United States Government
 - Any governmental homeowner assistance plan
 - Any Federal, State, or local government agency, unit, or department
 - Any nonprofit housing counselor agency or program
 - Any lenders or loan servicers
 - Any other individual, entity, or program

- The terms and conditions of the homeowner's mortgages, including how much they currently have to pay.
- The terms or conditions of any refund, cancellation, exchange, or repurchase policy for the Mortgage Assistance Relief Service, including but not limited to the likelihood of obtaining a full or partial refund, or the circumstances in which a full or partial refund will be granted.
- That the Mortgage Assistance Relief Service provider has completed the represented services when they have not or has a right to claim, demand, charge, collect, or receive payment or other consideration when services have not been provided.
- That the consumer will receive legal representation.
- The benefits and costs of using any alternatives to for-profit MARS providers. The amount of money a consumer may save or the percentage of the debt amount that a consumer may avoid by using the MARS provider.
- The total cost to purchase the mortgage assistance relief service.
- The terms, conditions, or limitations of a lender or loan servicer's offer of mortgage relief, including the time period in which the consumer must decide to accept the offer.
- Making a representation, expressly or by implication, about the benefits, performance, or efficacy of any mortgage assistance relief services being offered unless, at the time such representation is made, the provider possesses and relies upon competent and reliable evidence that substantiates that the representation is true. For the purposes of this paragraph, "competent and reliable evidence" means tests, analyses, research, studies, or other evidence based on the expertise of professionals in the relevant area, that have been conducted and evaluated in an objective manner by individuals qualified to do so, using procedures generally accepted in the profession to yield accurate and reliable results.

1.16.4.4.2 Disclosures Required

DMC requires the following disclosures be clearly and prominently included in any and all commercial communications that promote the availability of Mortgage Assistance Relief Services:

- All general commercial communications — advertising meant for a general audience, like ads on TV, radio, or the Internet must include the following statements:
 - "Direct Mortgage, Corp. is not associated with the government, and our service is not approved by the government or your lender."
 - "Even if you accept this offer and use our service, your lender may not agree to change your loan."

In textual communications the above disclosures must appear together and be preceded by the heading "IMPORTANT NOTICE," which must be in bold face font that is two point-type larger than the font size of the required disclosures.

In communications disseminated orally or through audible means, wholly or in part, the audio component of the required disclosures must be preceded by the statement "Before using this service, consider the following information."

- All consumer-specific commercial communications — a solicitation in the form of a letter, phone call, email, or other text message directed at a specific, prospective customer must include three key facts stated exactly as follows:
 - "You may stop doing business with us at any time. You may accept or reject the offer of mortgage assistance we obtain from your lender [or servicer]. If you reject the offer, you do not have to pay us. If you accept the offer, you will have to pay us (insert amount or method for calculating the amount) for our services."
 - For the purposes of this paragraph, the amount "you will have to pay" shall consist of the total amount the consumer must pay to purchase, receive, and use all of the mortgage assistance relief services that are the subject of the offer, including, but not limited to, all fees and charges.
 - "Direct Mortgage, Corp. is not associated with the government, and our service is not approved by the government or your lender."
 - "Even if you accept this offer and use our service, your lender may not agree to change your loan."

In textual communications the above disclosures must appear together and be preceded by the heading "IMPORTANT NOTICE," which must be in bold face font that is two point-type larger than the font size of the required disclosures.

In communications disseminated orally or through audible means, wholly or in part, the audio component of the required disclosures must be preceded by the statement "Before using this service, consider the following information."

- Any offer of mortgage relief that is negotiated with the consumer's current lender or servicer must also include the following disclosures:
 - A separate written page that clearly and prominently states: "This is an offer of mortgage assistance we obtained from your lender or servicer. You may accept or reject the offer. If you reject the offer, you do not have to pay us. If you accept the offer, you will have to pay us [show the same amount that was disclosed upfront] for our services."
 - A separate one page written notice from the consumer's current lender or servicer that explains all material differences between the negotiated offer of mortgage assistance relief and the consumer's current loan terms. For example, materially different loan terms might include:
 - the principal balance;
 - the interest rate on the loan, including the maximum rate and any adjustable rates;
 - the number of payments on the loan;
 - how much the customer must pay each month for principal, interest, taxes, and any mortgage insurance;
 - any delinquent payments the customer owes;
 - any fees or penalties; and
 - the duration of the loan.

If the offer is a trial or temporary loan modification the written notice must also disclose the material terms, conditions, and limitations of this type of relief, including:

- That it is a trial loan modification and the duration of the trial period;
- That the consumer may not qualify for a permanent mortgage loan modification; and
- If the customer doesn't qualify, the likely amount in suspended payments, arrears, or fees the consumer would owe once the

trial loan modification period ends.

In addition, DMC requires that any commercial communication or solicitation regarding Mortgage Assistance Relief Services refrain from telling the consumer that they should temporarily or permanently discontinue making timely mortgage payments. In the event that the communication or solicitation does suggest that the consumer stop making timely mortgage payments, the following statement must also be contained in the materials: "If you stop paying your mortgage, you could lose your home and damage your credit rating."

1.16.4.5 State or Jurisdictional Rules

DMC requires that all advertising comply with state, local or other jurisdictional requirements in addition to the requirements of this policy and applicable federal regulations or laws. This includes any requirements of the Secure and Fair Enforcement Act (S.F.E. Act) for disclosure of DMC license number and/or Mortgage Loan Originator (MLO) license or registration number on advertising, marketing or other promotional materials. In cases where there exists a conflict between this policy and applicable federal or state law, the most conservative requirement shall be followed.

1.16.4.5.1 License or Registration Numbers

At a minimum, DMC requires the inclusion of Company license information and/or MLO license or registration number or other identifying information to be included in all advertising and or marketing materials. In addition, certain states may have specific language which is required, such as:

- NY - "Registered New York Mortgage Broker by the NYS Banking Department - all loans arranged by third-party lenders".
- CA - "Licensed by the Department of Corporations under the California Finance Lenders law (or Department of Real Estate or Residential Mortgage Act)".

1.16.4.6 Mortgage Acts and Practices (MAP)

Mortgage Acts and Practices 12 CFR §1014 (Reg. N) has been issued and recodified by the CFPB.

DMC is prohibited from making any material misrepresentation, expressly or by implication, in any commercial communication, regarding any term of any mortgage credit product, including but not limited to misrepresentations about:

- The interest charged for the mortgage credit product, including but not limited to misrepresentations concerning:
 - The amount of interest that the consumer owes each month that is included in the consumer's payments, loan amount, or total amount due, or
 - Whether the difference between the interest owed and the interest paid is added to the total amount due from the consumer;
- The annual percentage rate, simple annual rate, periodic rate, or any other rate;
- The existence, nature, or amount of fees or costs to the consumer associated with the mortgage credit product, including but not limited to misrepresentations that no fees are charged;
- The existence, cost, payment terms, or other terms associated with any additional product or feature that is or may be sold in conjunction with the mortgage credit product, including but not limited to credit insurance or credit disability insurance;
- The terms, amounts, payments, or other requirements relating to taxes or insurance associated with the mortgage credit product, including but not limited to misrepresentations about:
 - Whether separate payment of taxes or insurance is required; or
 - The extent to which payment for taxes or insurance is included in the loan payments, loan amount, or total amount due from the consumer;
- Any prepayment penalty associated with the mortgage credit product, including but not limited to misrepresentations concerning the existence, nature, amount, or terms of such penalty;
- The variability of interest, payments, or other terms of the mortgage credit product, including but not limited to misrepresentations using the word "fixed";
- Any comparison between:
 - Any rate or payment that will be available for a period less than the full length of the mortgage credit product; and
 - Any actual or hypothetical rate or payment;
- The type of mortgage credit product, including but not limited to misrepresentations that the product is or involves a fully amortizing mortgage;
- The amount of the obligation, or the existence, nature, or amount of cash or credit available to the consumer in connection with the mortgage credit product, including but not limited to misrepresentations that the consumer will receive a certain amount of cash or credit as part of a mortgage credit transaction;
- The existence, number, amount, or timing of any minimum or required payments, including but not limited to misrepresentations about any payments or that no payments are required in a reverse mortgage or other mortgage credit product;
- The potential for default under the mortgage credit product, including but not limited to misrepresentations concerning the circumstances under which the consumer could default for nonpayment of taxes, insurance, or maintenance, or for failure to meet other obligations;
- The effectiveness of the mortgage credit product in helping the consumer resolve difficulties in paying debts, including but not limited to misrepresentations that any mortgage credit product can reduce, eliminate, or restructure debt or result in a waiver or forgiveness, in whole or in part, of the consumer's existing obligation with any person;
- The association of the mortgage credit product or any provider of such product with any other person or program, including but not limited to misrepresentations that:
 - The provider is, or is affiliated with, any governmental entity or other organization; or
 - The product is or relates to a government benefit, or is endorsed, sponsored by, or affiliated with any government or other program, including but not limited to through the use of formats, symbols, or logos that resemble those of such entity, organization, or program;
- The source of any commercial communication, including but not limited to misrepresentations that a commercial communication is made by or on behalf of the consumer's current mortgage lender or servicer;
- The right of the consumer to reside in the dwelling that is the subject of the mortgage credit product, or the duration of such right, including but not limited to misrepresentations concerning how long or under what conditions a consumer with a reverse mortgage can stay in the dwelling;
- The consumer's ability or likelihood to obtain any mortgage credit product or term, including but not limited to misrepresentations concerning whether the consumer has been preapproved or guaranteed for any such product or term;
- The consumer's ability or likelihood to obtain a refinancing or modification of any mortgage credit product or term, including but not limited to misrepresentations concerning whether the consumer has been preapproved or guaranteed for any such refinancing or modification; and
- The availability, nature, or substance of counseling services or any other expert advice offered to the consumer regarding any

mortgage credit product or term, including but not limited to the qualifications of those offering the services or advice.

1.16.4.6.1.1 Waiver Not Permitted

It is a violation of the Regulation N for DMC to obtain, or attempt to obtain, a waiver from any consumer of any protection provided by or any right of the consumer under Regulation N.

1.16.4.6.1.2 Record Keeping

DMC shall maintain, for a period of 24 months from the last date of dissemination of applicable commercial communication regarding any term of any mortgage credit product, the following evidence of compliance:

1. Copies of all materially different commercial communications as well as sales scripts, training materials, and marketing materials, regarding any term of any mortgage credit product, that the person made or disseminated during the relevant time period;
2. Documents describing or evidencing all mortgage credit products available to consumers during the time period in which the person made or disseminated each commercial communication regarding any term of any mortgage credit product, including but not limited to the names and terms of each such mortgage credit product available to consumers; and
3. Documents describing or evidencing all additional products or services (such as credit insurance or credit disability insurance) that are or may be offered or provided with the mortgage credit products available to consumers during the time period in which the person made or disseminated each commercial communication regarding any term of any mortgage credit product, including but not limited to the names and terms of each such additional product or service available to consumers.

1.16.4.6.1.3 Enforcement and Penalties

Recent changes to Regulation N allow the FTC, CFPB and states to seek civil penalties for violation of this statute and related final rule.

1.16.5 Mortgage Products

The following policy provisions apply only to specific mortgage products and are in addition to any and all other applicable sections of this policy.

1.16.5.1 Forward Mortgages

DMC's advertising and marketing activities related to its Forward Mortgage products will be subject to the provisions and guidelines within this policy. DMC has no other specific policies associated exclusively with the advertising, marketing or promotion of its Forward Mortgage products.

1.16.5.1.1 Fixed Rate

Reserved for future use.

1.16.5.1.2 Adjustable Rate

Reserved for future use.

1.16.5.2 Home Equity Lines of Credit (HELOCs)

Details on HELOCs are below.

1.16.5.2.1 Disclosure Requirements and Prohibitions for HELOC Advertising

The TILA and implementing Regulation Z have additional, specific advertising disclosure requirements for open-end credit plans secured by the consumer's dwelling "home equity plans" also referred to as HELOCs.

An advertisement may not refer to a home equity plan or HELOC as "free money" or contain a similarly misleading term. For example, such an advertisement could not state "no closing costs" or "we waive closing costs" if consumers may be required to pay any closing costs. DMC prohibits the use of the word "free" in any advertising, marketing or promotional materials advertising home equity plans and HELOC products.

1.16.5.2.1.1 Triggering Terms

Generally, the following triggering terms, when stated affirmatively or negatively in an advertisement for a home equity plan or HELOC, require additional disclosures to be included within the advertisement:

- The amount or rate of any finance charge or an explanation of how the finance charge will be determined.
- The amount of any charge other than a finance charge that may be imposed as part of the plan.

These provisions apply even if the triggering term is not stated explicitly but may be readily determined from the advertisement. For example, a statement such as "No interest charges until May" or any other statement regarding when interest or finance charges begin to accrue is a triggering term.

DMC requires that any advertisement that includes any of the above triggering terms also include the following terms as applicable:

- Any minimum, fixed, transaction, activity or similar charge that is considered a finance charge under Regulation Z that could be imposed.
- Any periodic rate that may be applied expressed as an Annual Percentage Rate as determined under § 226.14(b) of Regulation Z. If the plan provides for a variable periodic rate, that fact shall be disclosed.
- Any membership or participation fee that could be imposed.

In addition, when any of the above triggering terms or the payment terms of the plan, including references to the draw period, length of the plan, how payments are determined, or the timing of payments, is stated affirmatively or negatively in an advertisement for a home equity plan or HELOC, the advertisement must also disclose:

- Any loan fee that is a percentage of the credit limit under the plan and an estimate of any other fees imposed for opening the plan, stated as a single dollar amount or a reasonable range.
- Any periodic rate that may be applied expressed as an Annual Percentage Rate as determined under § 226.14(b) of Regulation Z.
- The maximum Annual Percentage Rate that may be imposed in a variable-rate plan.

1.16.5.2.1.2 Discounted and Premium Rate Products

If an advertisement for a home equity loan or line of credit states an initial Annual Percentage Rate that is not based on the index and margin used to make later adjustments, the advertisement must also state:

- The period of time the initial rate will be in effect; and
- A reasonably current Annual Percentage Rate that would have been in effect using a "reasonably current" index and margin.

The advertiser is considered to have used a "reasonably current" index and margin if they were in effect within 60 days before mailing of direct mail materials or within 30 days before the release of an electronic or print advertisement.

1.16.5.2.1.3 Balloon Payments

If an advertisement for a home equity loan or line of credit includes any statement about a minimum periodic payment, and making only the minimum payment will result in a balloon payment being due on the loan, the advertisement must disclose the balloon payment feature in "close proximity" and with "equal prominence" to other required disclosures.

1.16.5.2.1.4 Promotional Rates and Payments

If an advertisement, other than television or radio advertisements, for a home equity loan or line of credit states a promotional APR or payment the following additional disclosures must also be stated in a clear and conspicuous manner:

- The period of time in which the promotional rate or payment will apply.
- Any Annual Percentage Rate that will apply under the plan. If the loan product is a variable rate transaction, the APR stated is subject to the accuracy standards found in Sections 226.5(b) or 226.16(b)(1)(ii), as applicable.
- The amounts and time periods of the promotional payment that will apply under the plan. If the loan product is a variable rate transaction, payments that will be determined based on application of an index and margin shall be disclosed based on a reasonably current index and margin.

However, the requirements do not apply to an envelope in which an application or solicitation is mailed, a banner advertisement, a pop up advertisement linked to an application, or a solicitation provided electronically. In addition, if any Annual Percentage Rate that may be applied to the account is an introductory rate, the term introductory or intro must be in immediate proximity to each listing of the introductory rate in a written or electronic advertisement.

Clear and conspicuous requirement: For purposes of this section, clearly and conspicuously disclosed means that the above required information shall be disclosed with equal prominence and in close proximity to the applicable, advertised promotional rate or payment. If the information is the same type size and is located immediately next to or directly above or below the promotional rate or payment to which it applies, without any intervening text or graphical displays, the disclosures would be deemed to be equally prominent and in close proximity.

1.16.5.2.1.5 Alternative Disclosures--Television or Radio Advertisements

DMC requires that an advertisement for a home equity loan or line of credit made through television or radio that states any triggering terms requiring additional disclosures, including the payment terms of the plan, also clearly and conspicuously state:

- Any periodic rate that may be applied expressed as an Annual Percentage Rate as determined under § 226.14(b) of Regulation Z. If the plan provides for a variable periodic rate, that fact shall be disclosed; and
- A toll-free telephone number or any telephone number that allows a consumer to reverse the phone charges when calling for information, along with a reference that such number may be used by consumers to obtain additional cost information.

Clear and conspicuous requirement: For purposes of this section, a clear and conspicuous disclosure in the context of visual text advertisements on television for credit secured by a dwelling means that the required disclosures are not obscured by techniques such as graphical displays, shading, coloration, or other devices, are displayed in a manner that allows a consumer to read the information required to be disclosed. For example, very fine print in a television advertisement would not meet the clear and conspicuous standard if consumers cannot see and read the information required to be disclosed. In addition, a clear and conspicuous disclosure in the context of an oral advertisement for credit secured by a dwelling, whether by radio, television, or other medium, means that the required disclosures are given at a speed and volume sufficient for a consumer to hear and comprehend them. For example, information stated very rapidly at a low volume in a radio or television advertisement would not meet the clear and conspicuous standard if consumers cannot hear and comprehend the information required to be disclosed.

1.16.5.3 Reverse Mortgages

The Federal Reserve has issued a proposed rule to amend Regulation Z – TILA to establish guidelines regarding the advertising and marketing of Reverse Mortgage products. Until the final rule is issued, DMC's advertising and marketing activities related to its Reverse Mortgage products will be subject to the provisions and guidelines within this policy. DMC has no other specific policies associated exclusively with the advertising, marketing or promotion of its Reverse Mortgage products. This section may be subject to update upon issuance of the final rules.

1.16.6 Advertising & Marketing Methods

"Advertising" means any distribution of information regarding loan products or services by or in the name of DMC to members of the public, which may appear:

- In newspapers, magazines, leaflets, flyers, catalogs, direct mail literature, or other printed material
- On radio or television
- On an inside or outside sign or display, or a window display
- In a facsimile
- In point-of-sale literature, price tags, signs, and billboards
- Online, such as on the Internet, or via email

1.16.6.1 Prohibitions

DMC prohibits any material misrepresentation, whether made expressly or by implication, in any commercial communication, regarding any term of any mortgage credit product. The following list of examples of acts or practices which are prohibited in advertisements for credit secured by a dwelling shall not serve to limit or authorize any other such acts or practices which are prohibited and may not be listed:

1.16.6.1.1 Misleading Advertising of "Fixed" Rates and Payments

Using the word "fixed" to refer to rates, payments or the credit transaction in an advertisement for variable-rate transactions or other transactions where the payment will increase, unless:

- In the case of an advertisement solely for one or more variable-rate transactions:
 - The phrase "Adjustable-Rate Mortgage," "Variable-Rate Mortgage," or "ARM" appears in the advertisement before the first use of the word "fixed" and is at least as conspicuous as any use of the word "fixed" in the advertisement; and
 - Each use of the word "fixed" to refer to a rate or payment is accompanied by an equally prominent and closely proximate statement of the time period for which the rate or payment is fixed, and the fact that the rate may vary or the payment may increase after that period.
- In the case of an advertisement solely for non-variable-rate transactions where the payment will increase (e.g., a stepped-rate mortgage transaction with an initial lower payment), each use of the word "fixed" to refer to the payment is accompanied by an equally prominent and closely proximate statement of the time period for which the payment is fixed, and the fact that the payment will increase after that period.
- In the case of an advertisement for both variable-rate transactions and non-variable-rate transactions:
 - The phrase "Adjustable-Rate Mortgage," "Variable-Rate Mortgage," or "ARM" appears in the advertisement with equal prominence as any use of the term "fixed," "Fixed-Rate Mortgage," or similar terms; and
 - Each use of the word "fixed" to refer to a rate, payment, or the credit transaction either:
 - Refers solely to the transaction(s) for which rates are fixed and complies with this section, if applicable; or
 - If it refers to variable-rate transaction(s), is accompanied by an equally prominent and closely proximate statement of the time period for which the rate or payment is fixed, and the fact that the rate may vary or the payment may increase after that period.

1.16.6.1.2 Misleading Comparisons in Advertisements

Making any comparison in an advertisement between actual or hypothetical credit payments or rates and any payment or simple annual rate that will be available under the advertised product for a period less than the full term of the loan, unless:

- The advertisement includes a clear and conspicuous comparison to the information required to be disclosed under Disclosure of Rates and Payments in Advertisements for Credit Secured by a Dwelling (see section 4.2.5 of this policy); and
- If the advertisement is for a variable-rate transaction, and the advertised payment or simple annual rate is based on the index and margin that will be used to make subsequent rate or payment adjustments over the term of the loan, the advertisement includes an equally prominent statement in close proximity to the advertised payment or rate that the payment or rate are subject to adjustment and the time period when the first adjustment will occur.

1.16.6.1.3 Misrepresentations About Government Endorsement

Making any statement in an advertisement that the product offered is a "government loan program", "government-supported loan", or is otherwise endorsed or sponsored by any federal, state, or local government entity, unless the advertisement is for an FHA loan, VA loan, or similar loan program that is, in fact, endorsed or sponsored by a federal, state, or local government entity.

1.16.6.1.4 Misleading Use of the Current Lender's Name

Using the name of the consumer's current lender in an advertisement that is not sent by or on behalf of the consumer's current lender, unless the advertisement:

- Discloses with equal prominence the name of the person or creditor making the advertisement; and
- Includes a clear and conspicuous statement that the person making the advertisement is not associated with, or acting on behalf of, the consumer's current lender.

1.16.6.1.5 Misleading Claims of Debt Elimination

Making any misleading claim in an advertisement that the mortgage product offered will eliminate debt or result in a waiver or forgiveness of a consumer's existing loan terms with, or obligations to, another creditor.

1.16.6.1.6 Misleading Use of The Term "Counselor"

Using the term "counselor" in an advertisement to refer to DMC, its employees or persons working for DMC that are involved in offering, originating or selling mortgages.

1.16.6.1.7 Misleading Foreign-Language Advertisements

Providing information about some triggering terms or required disclosures but providing information about other triggering terms or required disclosures only in English in the same advertisement.

1.16.6.1.8 Unlimited Access to Credit

DMC prohibits advertisements that contain terms such as "bad credit no problem" (or similar phrases) or language that implies that an applicant will have total access to credit without clearly and conspicuously disclosing the material limitations on the availability of credit.

1.16.6.1.9 Misrepresentations About Interest Charged

Misrepresentations about interest charged for the product, including but not limited to misrepresentations about:

- Whether the loan includes a negative amortization feature
- The amount of interest owed each month that is included in the consumer's payments, loan amount, or total amount due
- The interest owed each month that is not included in the payments but is instead added to the total amount due

1.16.6.1.10 Misrepresentations About the APR

Misrepresentations about the APR, simple annual rate, periodic rate, or any other rate, including but not limited to a payment rate.

1.16.6.1.11 Misrepresentations About the Existence, Nature or Amount of Fees

Misrepresentations about the existence, nature, or amount of fees or costs associated with any mortgage credit product. This includes false or misleading claims that no fees are charged if the fees and costs, although not paid separately, are included in the loan amount or total amount due from the consumer. This provision covers fees and costs imposed at any point during the life of the loan.

1.16.6.1.12 Misrepresentations About Terms Associated with Additional Products

Misrepresentations about terms associated with additional products or features that may be sold in conjunction with a mortgage credit product. This provision covers claims made in cross-selling other products or features in mortgage credit product offers, including but not limited to credit insurance, credit disability insurance, car clubs, or other "add-ons" to the loan.

1.16.6.1.13 Misrepresentations Relating to Taxes or Insurance (Escrow)

Misrepresentations relating to the taxes and insurance payments that are due on the dwelling and whether an escrow account is associated with a mortgage credit product. For example, claims about whether tax or insurance charges are included in the overall monthly payment or are made separately.

1.16.6.1.14 Misrepresentation Regarding Pre-payment Penalties

Misrepresentations about the existence or amount of any penalty for making prepayments on the mortgage; the FTC has brought several cases against entities that allegedly deceived consumers about prepayment penalties.

1.16.6.1.15 Misrepresentations Pertaining to Variability

Misrepresentations pertaining to the variability of interest, payments or other terms of mortgage credit products, including but not limited to, for example, misrepresentations using the word "fixed" when terms are variable or limited in duration.

1.16.6.1.16 False or Misleading Comparisons Between Rates Or Payments

False or misleading comparisons between rates or payments, including but not limited to comparisons involving cost savings; also includes false or misleading comparisons between rates or payments available for different parts of the loan term.

1.16.6.1.17 Misrepresentations About Product Type

Misrepresentations about the type of mortgage credit product that is offered, e.g., false claims that a mortgage is fully amortizing when it is not.

1.16.6.1.18 Misrepresentations About the Amount of the Obligation

Misrepresentations about the amount of the obligation or the existence, nature, or amount of cash or credit the consumer could receive. This would include, for example, false claims that the consumer will receive a certain amount of cash by obtaining a home equity loan, or will receive a certain amount of credit through a purchase money loan.

1.16.6.1.19 Misrepresentations About Payments

Misrepresentations about the existence, number, amount, or timing of any minimum or required payments.

1.16.6.1.20 Misrepresentations About the Potential for Default

Misrepresentations about the potential for default on the mortgage credit product, including but not limited to misrepresentations about the circumstances under which the consumer could default for nonpayment of taxes or insurance, failure to maintain the property, or not complying with other obligations.

1.16.6.1.21 Misrepresentations About the Effectiveness

Misrepresentations about the effectiveness of the mortgage credit product in helping consumers resolve problems in paying debts. For example, false or misleading claims that DMC's product (through a waiver, forgiveness, or otherwise) will reduce, eliminate, or restructure a debt or any other obligation of any person.

1.16.6.1.22 Misrepresentations About Association

Misrepresentations about the association between a mortgage credit product or a provider of such product and any other person or program, including but not limited to any affiliation with an organizational or governmental program, benefit, or entity.

1.16.6.1.23 Misrepresentations About Product Source

Misrepresentations about the source of the mortgage credit product and the commercial communications for it, including but not limited to claims that the communication is made by or on behalf of the consumer's current mortgage lender or servicer.

1.16.6.1.24 Misrepresentations About Consumer's Residence

Misrepresentations about the consumer's right to reside in the dwelling that is the subject of the mortgage credit product, including but not limited to false or misleading claims about how long or under what conditions a consumer can stay in the dwelling.

1.16.6.1.25 Misrepresentations About Consumer's Ability

Misrepresentations about the consumer's ability to obtain, or likelihood of obtaining, any mortgage credit product or term, or any refinancing or modification of a mortgage credit product or term, includes false or misleading claims about whether the consumer or the consumer's property has been preapproved or guaranteed for any such product or term.

1.16.6.1.26 Misrepresentations About Counseling Services

Misrepresentations about the availability, nature, or substance of counseling services or any other expert advice offered to the consumer regarding any mortgage credit product term, including but not limited to the qualifications of those offering the services or advice.

1.16.6.2 Print Advertisements

DMC has no specific, separate policies which apply exclusively to print advertising. Print advertisements are subject to this policy and all underlying Company procedures and guidelines, as applicable.

1.16.6.2.1 Traditional Print Media

Reserved for future use.

1.16.6.2.2 Direct Mail

Reserved for future use.

1.16.6.2.3 Email

DMC draws a distinction between an email address and an email or communication.

DMC allows the use of an email address as promotional advertising – such as a business card, pen or coffee mug – without further qualification, disclosure or application of this policy.

DMC views all email communications (emails) as print advertising and, to the extent they offer products or services, solicit business, include triggering terms or otherwise require disclosure, requires that the emails meet the requirements of this policy.

1.16.6.2.3.1 CAN-SPAM ACT

The CAN-SPAM Act (Controlling the Assault of Non-Solicited Pornography and Marketing Act) of 2003 sets the rules for commercial email, establishes requirements for commercial messages, gives email recipients the right to stop receiving emails and spells out tough penalties for violations.

Despite its name, the CAN-SPAM Act doesn't apply just to bulk email. It covers all commercial messages, which the law defines as "any electronic mail message the primary purpose of which is the commercial advertisement or promotion of a commercial product or service," including email that promotes content on commercial websites. In addition, the law makes no exception for business-to-business email. That means all email – for example, a message to former customers announcing a new product line – must comply with the law.

Each separate email in violation of the CAN-SPAM Act is subject to penalties of up to \$16,000, so non-compliance can be costly.

To ensure that any email communications soliciting or advertising the Company's products and services adhere to the requirements of the CAN-SPAM Act, DMC requires:

1. **False or misleading header information.** The "From," "To," "Reply-To," and routing information – including the originating domain name and email address – must be accurate and identify the person or business who initiated the message.
2. **Deceptive subject lines.** The subject line must accurately reflect the content of the message.
3. **Identify the message as an ad.** The fact that the message is an advertisement must be clearly and conspicuously disclosed.
4. **Tell recipients where DMC is located.** The message must include a valid physical postal address. This can be DMC's current street address, a post office box registered with the U.S. Postal Service, or a private mailbox registered with a commercial mail receiving agency established under U.S. Postal Service regulations.
5. **Tell recipients how to opt out of receiving future email.** The message must include a clear and conspicuous explanation of how the recipient can "opt out" of receiving future emails. Any notice containing the explanation of how the recipient can opt out should be designed so that it is easy for an ordinary person to recognize, read, and understand. Creative use of type size, color, and location can improve clarity. A return email address or another easy Internet-based way to allow people to communicate their choice to opt out of further email communications must be provided. A menu can be used to allow a recipient to opt out of certain types of messages, but the option to stop all commercial messages must also be included. Make sure that the Company's spam filter(s) are not set to block opt-out response requests.

6. **Promptly handling of all opt-out requests.** Any opt-out mechanism offered must be able to process opt-out requests for at least 30 days after message is sent. A recipient's opt-out request must be honored within 10 business days of receipt. DMC cannot charge a fee, require the recipient to provide any personally identifying information beyond an email address, or make the recipient take any step other than sending a reply email or visiting a single page on an Internet website as a condition for honoring an opt-out request. Once DMC has been notified of an opt-out request from the email recipient, DMC is prohibited from selling or transferring the recipient's email address to any other party, even in the form of a mailing list. The only exception is that the address may be transferred to a company hired to help ensure compliance with the CAN-SPAM Act.
7. **Third-party monitoring.** The law makes it clear that even if a third party is hired to handle the Company's email marketing campaigns or solicitations, both DMC and the third-party vendor that distributes the message may be held legally responsible and/or liable for violations of the CAN-SPAM Act. Any email marketing materials or solicitations created through a third-party vendor relationship are to be reviewed for compliance with the CAN-SPAM Act and this policy prior to distribution

1.16.6.3 Television and Radio Advertisements; Electronic Media

DMC has no specific, separate policies which apply exclusively to advertising the Company's products and services through television, radio, or electronic media such as the Company's website. Television, radio and Internet advertisements are subject to this policy and all underlying Company procedures and guidelines, as applicable.

1.16.6.4 Telemarketing

DMC has no specific, separate policies which apply exclusively to advertising its products and services through the use of telemarketing service providers. Any telemarketing conducted through third-party vendor arrangements is subject to this policy and all underlying Company procedures and guidelines, as applicable.

1.16.6.5 Live or In-person Sales Presentations

DMC has no specific, separate policies which apply exclusively to Live or In-person Sales Presentations regardless of whether they are conducted by DMC's employees or through a third-party relationship. Such presentations are subject to this policy and all underlying Company procedures and guidelines, as applicable.

1.16.6.6 Cooperative or Joint Marketing

Cooperative marketing is defined as any marketing effort or material which includes DMC and one or more other parties which may be related or unrelated, affiliates or third parties such as a joint advertisement between a DMC loan officer and a real estate professional. DMC permits cooperative, shared, joint or affiliate marketing providing the advertising or marketing otherwise meets all applicable policies which otherwise would apply based upon the content of message, the media by which the message is conveyed and the following criteria are met:

- DMC and all other parties to the cooperative effort shall share the cost and space proportionately within the promotional material. Proportionately shall mean that if DMC contributes 75% of the cost then DMC shall occupy 75% of the space.
- The advertisement includes no requirement, stated or implied, that the consumer or other target audience utilize any of the services offered by any of the cooperative participants.
- It must be clear that the consumer may choose to utilize any product or service offered to the exclusion of any other product or service. As in the above example, the consumer must be able to select the loan officer and not use the real estate professional or the opposite or both or neither.

1.16.7 Appendix

1.16.7.1 Deception as Defined by FTC

The following summary is from the FTC Policy Statement on Deception [103 F.T.C. 110, 174 (1984)].

"Certain elements undergird all deception cases. First, there must be a representation, omission or practice that is likely to mislead the consumer. Practices that have been found misleading or deceptive in specific cases include false oral or written representations, misleading price claims, sales of hazardous or systemically defective products or services without adequate disclosures, failure to disclose information regarding pyramid sales, use of bait and switch techniques, failure to perform promised services, and failure to meet warranty obligations.

Second, we examine the practice from the perspective of a consumer acting reasonably in the circumstances. If the representation or practice affects or is directed primarily to a particular group, the Commission examines reasonableness from the perspective of that group.

Third, the representation, omission, or practice must be a "material" one. The basic question is whether the act or practice is likely to affect the consumer's conduct or decision with regard to a product or service. If so, the practice is material, and consumer injury is likely, because consumers are likely to have chosen differently but for the deception. In many instances, materiality, and hence injury, can be presumed from the nature of the practice. In other instances, evidence of materiality may be necessary.

Thus, the Commission will find deception if there is a representation, omission or practice that is likely to mislead the consumer acting reasonably in the circumstances, to the consumer's detriment. We discuss each of these elements below."

1.16.7.2 Commercial Communication

The FTC defines Commercial Communication as "any written or verbal statement, illustration, or depiction, whether in English or any other language, that is designed to effect or create interest in purchasing goods or services, whether it appears on or in a label, package, package insert, radio, television, cable television, brochure, newspaper, magazine, pamphlet, leaflet, circular, mailer, book insert, free standing insert, letter, catalogue, poster, chart, billboard, public transit card, point of purchase display, film, slide, audio program transmitted over a telephone system, telemarketing script, on-hold script, up-sell script, training materials provided to telemarketing firms, program-length commercial ("infomercial"), the Internet, cellular network, or any other medium. Promotional materials and items and Web pages are included in the phrase 'commercial communication'."

1.16.7.3 FTC – Three-part Unfairness Test

Section 5(n) of the FTC Act sets forth a three-part test to determine whether an act or practice is unfair.

- First, the practice must be one that causes or is likely to cause substantial injury to consumers.
- Second, the injury must not be outweighed by countervailing benefits to consumers or to competition.
- Third, the injury must be one that consumers could not reasonably have avoided.

1.16.7.4 FTC Cautions and Quotes

- "A disclaimer or qualifying statement may correct a misleading impression, but only if it is sufficiently clear and prominent to convey the qualifying information effectively, i.e., it is both noticed and understood by consumers."
- "[I]n many circumstances, reasonable consumers do not read the entirety of an ad or are directed away from the importance of the qualifying phrase by the acts or statements of the seller; thus, a fine print disclosure at the bottom of a print advertisement or a brief video superscript in a television advertisement is unlikely to qualify a claim effectively."
- "Because consumers 'may glance only at the headline' of an advertisement, accurate information in the text may not remedy a false headline."

1.16.7.5 FTC Enforcement Examples

The FTC has substantial law enforcement experience with mortgage advertising practices. The Commission has brought 18 law enforcement actions, including three in 2009, against individuals or companies that allegedly engaged in unfair or deceptive practices and/or violations of TILA in connection with mortgage advertising. These actions have targeted large and small mortgage lenders, mortgage brokers, and others, located throughout the country. The alleged violations have included deceptive claims – often made to subprime borrowers – about key terms and other aspects of the loans, such as:

- Misrepresentations of the loan amount or the amount of cash disbursed
- Claims for loans with specified terms, when no loans with those terms were available from the advertiser
- Claims of low "teaser" rates and payment amounts, without disclosing that the rates and payments would increase substantially after a limited period of time
- Misrepresentations that rates were fixed for the full term of the loan
- Misrepresentations about, or failure to adequately disclose, the existence of a prepayment penalty or large balloon payment due at the end of the loan
- Claims about the monthly payment amounts that the borrower would owe, without disclosing the existence, cost, and terms of credit insurance products "packed" into the loan
- Claims that the loans were amortizing, when, in fact, they involved interest-only transactions
- Claims of mortgage payment amounts that failed to include loan fees and closing costs of the kind typically included in loan amounts
- False or misleading savings claims in high loan-to-value loans
- False or misleading claims regarding the terms or nature of interest rate lock-ins
- False claims that an entity was a national mortgage lender
- Failure to disclose adequately that the advertiser, not the consumer's current lender, was offering the mortgage
- False or misleading claims that consumers were "pre-approved" for mortgage loans

1.16.7.6 State Enforcement Examples

Numerous states have brought enforcement actions under state laws alleging deceptive mortgage advertising and marketing, challenging misrepresentations about:

- The lack of closing costs
- Low fixed or teaser rates or payments
- The advertiser's affiliation with the consumer's current lender
- The availability of government grants for home repairs
- The savings available by refinancing
- Reverse mortgage terms and government affiliation
- The availability of rates compared to competitors
- The advertiser's self-description as a "bank"

1.16.7.7 FTC Consumer Alert

Specific examples of poor, misrepresented or otherwise unacceptable advertising are not available in the public domain. In lieu of these examples, the following is the FTC Consumer Alert which provides a good representation of how the consumer may be viewing DMC advertising. The full text may be found at <http://ftc.gov/bcp/edu/pubs/consumer/alerts/ai023.shtm>.

Deceptive Mortgage Ads: What They Say; What They Leave Out

If you're looking for a mortgage to buy a home or refinance an existing loan, you may see or hear ads with offers of low rates or payments. Whether you see them on the Internet, on television or in the paper, or whether they come by fax or mail, some of these ads look like they're from your mortgage company or a government agency. Regardless of where you see the ads, remember that while the offers are tempting, some are terribly flawed: they don't disclose the true terms of the deal as the law requires.

The Federal Trade Commission, the nation's consumer protection agency, says that when you're shopping for a home loan, it's important to understand all the terms and conditions of a proposed loan. Start with what is in the ad itself. Read what's between the lines as well as what's in front of your eyes.

What the Ads Say

To help you recognize an offer that may be less than complete, the FTC wants you to know the buzz words that should trigger follow-

up questions, as well as information to insist on after you've read an advertisement.

A Low "Fixed" Rate: Ads that tout a "fixed" rate may not tell you how long it will be "fixed." The rate may be fixed for an introductory period only, and that can be as short as 30 days. When you shop for a mortgage, you need to know when and how your rate, and payments, can change.

Very Low Rates: Are the ads talking about a "payment" rate or the interest rate? This important detail may be buried in the fine print, if it's there at all. The interest rate is the rate used to calculate the amount of interest you will owe the lender each month. The payment rate is the rate used to calculate the amount of the payment you are obligated to make each month. Some offers advertise a low payment rate without telling you that it applies only during an introductory period. What's more, if the payment rate is less than the interest rate, you won't be covering the interest due. This is called "negative amortization." It means that your loan balance is actually increasing because you're not paying all the interest that comes due, and the lender is adding the unpaid interest to the balance you owe.

Very Low Payment Amounts: Ads quoting a very low payment amount probably aren't telling the whole story. For example, the offer might be for an Interest Only (I/O) loan, where you pay only the amount of interest accrued each month. While the low payment amount may be tempting, eventually, you will have to pay off the principal. Your payment may go up after an introductory period, so that you would be paying down some of the principal – or you may end up owing a "balloon" payment, a lump sum usually due at the end of a loan. You must come up with the money when a balloon payment is due. If you can't, you may need another loan, which, in turn, means new closing costs, and potentially points and fees. And if housing prices are falling, you might not be able to refinance to lower your payments.

Mortgage rates near 30-year lows! Rates as low as 1%! You are paying too much! Who doesn't want to reduce their mortgage payments? Loan amount \$300,000 - pay only \$900 per month! Ads with "teaser" short term rates or payments like these don't often disclose that a rate or payment is for a very short introductory period. If you don't nail down the details in advance about your rates and payments for every month of the life of your loan, expect payment shock when the rate and payment increase dramatically.

Important Notice From Your Mortgage Company. Open Immediately - Important Financial Information Enclosed. Please do not discard - account information enclosed: Appearances can be deceiving. Mailers that have information about your mortgage and your lender may not be from your lender at all, but rather from another company that wants your business. Companies can legally get your information from public records. Before you respond to any offer, review it carefully to make sure you know who you're dealing with.

You are eligible to take part in an exclusive interest rate reduction program. This financial institution has been licensed to negotiate your existing adjustable mortgage to a new fixed rate mortgage: You must contact us immediately regarding this notice. Some businesses use official-looking stamps, envelopes, forms, and references to make you think their offer is from a government agency or program. If you're concerned about a mailing you've received, contact the government agency mentioned in the letter. If it's a legitimate agency – and not one that just sounds like a government agency – you'll find the phone number in the Blue Pages of your telephone directory.

What the Ads Don't Say

The APR: The Annual Percentage Rate is a critical factor in comparing mortgage offers from different lenders. It is the total cost of the credit expressed as a yearly interest rate. This rate is different than the simple interest rate on your loan note, because the APR includes all costs of the credit such as points and processing fees. Knowing the APR makes it easier to compare "apples to apples" when considering mortgage offers. Look for the APR for your loan. The amount may not be in the ad at all; it may be hidden in the fine print, or it may be available deep within a website after multiple clicks.

Important Payment Information: It's hard to know what you don't know, and often, some of the most important information you need isn't in the ad, is hidden in the fine print, or is available only at a website after many clicks. To make an informed judgment about any mortgage offer, you need to know – or ask:

- What will the monthly payment be for every month of the loan, and could it increase? When could it increase? What would your new payment be? Could your monthly payment increase more than once?
- Does the monthly payment include an escrow amount to pay for your property taxes and homeowners insurance? Or must you pay these costs on your own? If you have to pay on your own, ask your lender for an estimate so you can budget accordingly.
- What is the term of the loan (for example, 15 years? 30 years?)? How many payments will you have to make? Would the loan be paid off at the end or would you still owe a "balloon" payment?
- Will you have to pay prepayment penalties to refinance and pay off the loan early? If so, how much, and when would they apply? If the loan has an introductory or teaser rate, can you refinance, without penalties, before the rate resets and your payment increases?

1.17 Consumer Privacy

1.17.1 Introduction

DMC is committed to the highest standards of Federal Consumer compliance and requires all management, employees and third-party vendors follow these policies and adhere to these standards.

1.17.1.1 Goals & Objectives

The standards set out in this policy represent minimum requirements based on applicable legal and regulatory guidance and apply throughout DMC. These requirements are intended to prevent DMC, our employees, third party vendors and clients from violating Federal Regulations related to mortgage lending and consumer compliance.

1.17.1.2 Required Review

DMC requires this policy be reviewed no less than annually.

The above required annual review shall include the compliance of this policy with current law, regulation or directive, the procedural implementation of this policy within the then current scope of DMC business lines and operations, internal audit results received during the previous year and then current industry trends or regulatory guidance.

1.17.1.3 Applicability

The purpose of this policy is to implement consumer protection mechanisms as required by the United States statutes and related regulations administered by the CFPB and others.

Wherever local regulations are stricter than the requirements set out in this Policy, the stricter standard shall be applied. If any applicable laws are in conflict with this Policy, DMC must consult with the appropriate legal counsel to resolve the conflict.

1.17.2 Accountability and Monitoring

DMC requires that its own organization, its employees and its third party vendors comply with all requirements of this policy and all underlying regulations as they exist, or from time to time may be amended.

1.17.2.1 Internal Controls

DMC shall ensure that annual independent testing of DMC's compliance includes compliance with this policy and all underlying regulations. The required compliance testing may be conducted by DMC personnel or by an outside party. At a minimum, the annual audit shall include a review to assess:

- The effectiveness of all communications with borrowers
- Initial and annual privacy notices are issued as required
- Security protocols are followed
- Protected information is properly secured
 - And properly destroyed, when applicable

1.17.3 Staff and Training

DMC requires initial and ongoing training for all management and staff concerning this policy, other related policies and underlying law and regulation.

Training may be conducted in a variety of settings utilizing any established education modality. Regardless the method of training delivery, all training must include:

- Presentation of the subject material oriented for the adult learner
- An assessment of the learner to validate command of the subject matter with a minimum passing grade of 70%
- A completion certificate documenting satisfactory completion of all of the above
- DMC shall maintain adequate records of this training program to include:
 - A description of all training programs
 - Evidence of attendance and satisfactory completion for each employee subject to this policy
 - Management response relative to additional training, reassignment or other responses for those employees who may not have achieved a passing grade on the assessment and/or were not issued a completion certificate

1.17.3.1 Ongoing Training

All DMC employees shall receive training to ensure current knowledge of this policy and the underlying Federal regulations, to a degree commensurate with their job function, which may impact DMC and the current state of law, regulation and industry best practice. At a minimum, training should address:

- This policy and any changes within the last year
- The law and regulation underlying this and other policies including, but not limited to:
 - Regulation P
 - DMC security protocols
- The implementation of these policies and the practical application thereof in the context of the employee's function or responsibility
- Disciplinary consequences for non-compliance

1.17.3.2 New Hire Training

New hire employees shall receive the above training within four (4) weeks of commencing employment with DMC.

1.17.4 Privacy of Consumer Financial Information (Regulation P)

1.17.4.1 Consumer Financial Protection Bureau

DMC shall comply with Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) which transferred rulemaking authority of most provisions of Subtitle A of Title V of the Gramm-Leach-Bliley Act (GLB Act). Under the regulation, DMC must:

- Provide notice to customers about its privacy policies and practices
- Describe the conditions under which DMC may disclose non public personal information about consumers to non affiliated third parties
- Provide a method for consumers to prevent DMC from disclosing that information to most non affiliated third parties by "opting out" of that disclosure

1.17.4.2 Initial Privacy Notice to Consumers

DMC must provide a clear and conspicuous notice that accurately reflects DMC privacy policies and practices to:

- *Customer*. An individual who becomes a DMC customer, not later than when DMC establishes a customer relationship, except as provided by the regulation.
- *Consumer*. A consumer, before DMC discloses any nonpublic personal information about the consumer to any nonaffiliated third party, if DMC makes such a disclosure other than as authorized by the regulation.
- DMC is not required to provide an initial notice to a consumer if:
 - DMC does not disclose any nonpublic personal information about the consumer to any nonaffiliated third party
 - DMC does not have a customer relationship with the consumer

DMC establishes a customer relationship when the company and the consumer enter into a continuing relationship.

DMC establishes a customer relationship with a consumer when it originates or acquires the servicing rights to a loan to the consumer for personal, family, or household purposes. If DMC subsequently transfers the servicing rights to that loan to another financial institution, the customer relationship transfers with the servicing rights.

1.17.4.3 Annual Privacy Notice to Customers Required

DMC must provide a clear and conspicuous notice to customers that accurately reflects DMC's privacy policies and practices not less than annually during the continuation of the customer relationship. *Annually* means at least once in any period of 12 consecutive months during which that relationship exists. DMC may define the 12-consecutive-month period, but DMC must apply it to the customer on a consistent basis.

DMC must provide a notice annually if DMC defines the 12-consecutive-month period as a calendar year and provide the annual notice to the customer once in each calendar year following the calendar year in which DMC provided the initial notice. For example, if a customer opens an account on any day of year 1, DMC must provide an annual notice to that customer by December 31 of year 2.

DMC is not required to provide an annual notice to a former customer.

1.17.4.4 Information to be Included in Privacy Notices

DMC shall provide the appropriate initial, annual, and revised privacy notices and include the following items of information:

- The categories of non-public personal information that DMC collects
- The categories of non-public personal information that DMC discloses
- The categories of affiliates and non-affiliated third parties to whom DMC discloses non-public personal information, other than those parties to whom DMC discloses information
- The categories of non-public personal information about DMC's former customers that DMC discloses and the categories of affiliates and non-affiliated third parties to whom DMC discloses non-public personal information about its former customers

If DMC discloses non-public personal information to a non-affiliated third party and no other exception in the regulation applies to that disclosure, a separate statement of the categories of information it discloses and the categories of third parties with whom DMC have contracted shall be provided. Disclosures shall also include an explanation of the consumer's rights to opt out of the disclosure of non-public personal information to non-affiliated third parties.

If DMC discloses non-public personal information to third parties as authorized under the regulation, the company is not required to list those exceptions in the initial or annual privacy notices. When describing the categories with respect to those parties, it is sufficient to state that DMC make disclosures to other non-affiliated companies.

1.17.4.5 Form of Opt Out Notices and Opt Out Methods

If DMC is required to provide an opt out notice the company must provide a clear and conspicuous notice to each of DMC consumers that accurately explains the right to opt out under that section. The notice must state:

- That DMC discloses or reserves the right to disclose nonpublic personal information about DMC consumer to a nonaffiliated third party
- That the consumer has the right to opt out of that disclosure
- A reasonable means by which the consumer may exercise the opt out right.

1.17.4.6 Revised Privacy Notices

DMC must not, directly or through any affiliate, disclose any non-public personal information about a consumer to a non-affiliated third party other than as described in the initial notice that DMC provided to that consumer unless:

- DMC has provided to the consumer a clear and conspicuous revised notice that accurately describes DMC policies and practices
- DMC has provided to the consumer a new opt out notice
- DMC has given the consumer a reasonable opportunity, before DMC discloses the information to the non-affiliated third party, to opt out of the disclosure
- The consumer does not opt out

1.17.4.7 Delivering Privacy and Opt Out Notices

DMC must provide any privacy notices and opt out notices, including short-form initial notices, which this part requires so that each consumer can reasonably be expected to receive actual notice in writing or, if the consumer agrees, electronically.

DMC may reasonably expect that a consumer will receive actual notice if DMC:

- Hand-delivers a printed copy of the notice to the consumer
- Mails a printed copy of the notice to the last known address of the consumer
 - For the consumer who conducts transactions electronically

1.17.5 Consumer Privacy Disclosure Requirements

DMC requires all employees, affiliates and service providers to comply with Regulation P regarding the disclosure of their privacy policies and practices. Disclosures must contain language with respect to information sharing with third parties on financial products for personal, family and household purposes. The disclosure applies to all consumers who apply for a financial product, regardless of whether the credit is extended by DMC. DMC's policy pertains to web-based, telephone or written mortgage applications. DMC, its employees, affiliates and third party providers are required to comply with Regulation P for information sharing with any of the following:

- Credit Agencies
- Appraisers
- Designated Underwriters
- Mortgage Insurance Companies
- Mortgage Investors
- Document Preparation Companies
- Closing Agents
- Electronic Business-to-Business Portals
- Outsource Quality Control Firms

The Privacy Notice must contain language to inform the borrower that personal information will not be shared with third parties and must be given to the borrower when the loan application is taken. Borrowers who inquire company to review existing documents for the purpose of refinance eligibility must be given the notice with or without completing an application.

1.17.6 Closing Agent Authority under the Consumer Privacy Act

Listed are authorized activities for real estate settlement agents as published by the Federal Reserve Board:

1. Review the status of the title in the title commitment, resolve any exceptions to the title, and review the purchase agreement to identify any requirements in it in order to ensure compliance with them;
2. Verify the payment of existing loans secured by the real estate and verify the amount of and then calculate the prorating of special assessments and taxes on the property;
3. Obtain an updated title insurance commitment to the date of closing, prepare the required checks, deeds, affidavits, and obtain any authorization letters needed;
4. Establish a time and place for the closing, conduct the closing, and ensure that all parties properly execute all appropriate documents and meet all commitments;
5. Collect and disburse funds for the parties, hold funds in escrow pending satisfaction of certain commitments, prepare the HUD Settlement Statement, the deed of trust, mortgage notes, the Truth-in-Lending Statement, and purchaser's affidavits;
6. Record the appropriate documents as required under law; and
7. Provide real estate abstracting services: conduct title search and prepare abstract of title.

1.17.7 Safeguarding Confidential Information

Employees may have access to confidential information about DMC's customer data base, other employees and clients. Integral to the success of the mortgage industry is the business of refinancing loan applications of existing customers. Most consumers prefer to save time, and in certain cases, the expense of appraisals and other verification documents and request the review and reuse of their prior mortgage file. In these instances, DMC requires the consumer sign a Consumer Privacy Notice, whether or not an application is taken. All loan originators, processors and other staff members referencing file documents from former customers for the purposes of evaluation and processing and application shall adhere to the policies set forth regarding use and reuse of consumer information and information-sharing.

For direct marketing prior customers (they are approached by are representative of DMC) the consumer may be unaware of what information, and the extent of information, that has been made available to the company representative, who may be a different loan originator. In these cases, caution must be exercised to assure the borrower that access to their information was duly authorized and in compliance with privacy regulations. A general policy for safeguarding consumer information is to mark all emails and correspondence with "Confidential." For purposes of this policy, confidential information includes, but is not limited to:

- Information regarding personnel who are currently or formerly employed by DMC
- Procedures for computer access and passwords of DMC employees and system users
- Any information pertaining to mortgage borrowers who have closed loans with DMC
- Any information regarding mortgage applicants whose loans were closed for incompleteness, withdrawn, denied or counter-offered not accepted
- Prospect information concerning potential customers of DMC
- Any other information relating to DMC's research, marketing, operations, investors, warehouse lenders and secondary marketing agencies

1.17.8 Prohibited Activities

Employees are prohibited from using DMC's email system, network, or Internet/Intranet access for the following activities:

- Downloading software without the prior written approval of DMC's Operations Manager
- Printing or distributing copyrighted materials. Including, but is not limited to, software, articles and graphics protected by copyright
- Using software that is not licensed by the manufacturer or approved by DMC
- Sending, printing, or otherwise disseminating DMC's proprietary data, or any other information deemed confidential by DMC to unauthorized persons
- Operating a business or otherwise engaging in commercial activity outside the scope of employment
- Sending or forwarding messages containing borrower consumer credit or confidential information or account numbers
- Sending or forwarding a message that discloses personal information without Company authorization. Including accessing, transmitting, receiving, or seeking confidential information about borrowers or mortgage transactions without authorization
- Using another employee's password or impersonating another person while communicating or accessing the Network or Internet.

1.17.9 Authorized Use of Software

DMC regularly purchases, leases or maintains site licenses for computer software applications from a variety of commercial manufacturers. To ensure compliance with software license agreements and DMC's Information Security Policy, employees must adhere to the following:

1. Employees must use software in accordance with the manufacturer's license agreements and DMC's policy. Employees acknowledge they do not own software or its related documentation. Employees may not make additional copies of software, unless expressly authorized by the software publisher.
2. Any employee who knowingly makes, acquires, or uses unauthorized copies of computer software licensed to DMC, or who places or uses unauthorized software on the DMC's premises or equipment shall be subject to disciplinary action or termination.
3. Employees must obtain permission from the Operations Manager prior to installing personal software onto the DMC's computer system. Employees are not permitted to copy software from the DMC's computer system for installation on home or other computers without prior authorization.
4. In cases that require an employee to use software at home, the DMC will purchase an additional copy or license. Employee acknowledges that any additional copies or licenses purchased for home use are the property of DMC. Employees who are required to use software at home should consult with the Operations Manager or Systems Administrator to determine if appropriate licenses allow for home use.
5. Employees who suspect or become aware of software misuse are required to notify the Operations Manager.

1.17.10 Administrative Access Control

The Compliance Officer, acting as the DMC's Chief Security Officer, shall maintain confidential passwords and access codes for technology on a corporate-wide level. The bank's president, members of the security committee and key personnel shall have copies of

access code information. Changes in personnel, termination, extended leave, etc. shall warrant changes in passwords or other access code. All changes must be documented by memorandum and placed as an addendum to this policy manual.

1.17.11 Firewall Procedures

This policy guide includes a systemized plan for design and maintenance of firewalls in the company's computer systems. The firewall policy serves as a variable component of the company's overall security policy, depending on the extent of internet access by the company's employees. The firewall policy and implementation must cover each of the following elements:

- Ensure the system is able to examine information content
- Ensure that logging functionality is consistent with access controls
- Support advanced user authentication
- Detect intrusions
- Respond to intrusions
- Cover domain name, HTTP, SMTP, DNS and IP traffic
- Cover all levels of firewall protection, such as:
 - Packet filtering
 - Proxy services
 - Application-level firewalls

1.17.12 Data Center Security

The site for maintaining the information systems components must have the least amount of exposure from internal and external sources. The site should be checked for exposure from fire, flood and environmental hazards. Windows and doors must be secure and the location should not be identified by signage. Detection devices should be used where applicable to prevent theft and safeguard equipment.

DMC must ensure that outside services provide, such as cleaning personnel, who are not required to sign the Services Provider Agreement, may unwittingly access confidential information of borrowers while cleaning carpets, emptying trash, etc. It is imperative that desks, conference tables, photocopying centers, are cleared of confidential documents to avoid exposure.

1.17.13 Document Destruction

Credit reports, mortgage applications, financial statements, tax returns, pay stubs, W-2 forms, retirement income documentation, etc., and numerous other documents that contain the borrower's Social Security Number, names of financial institutions, account numbers, etc., must be destroyed using any of the following methods:

Commercially-built Mechanical Shredder

On-site Services provided by shredding service company

Wrinkling of documents, tearing into sections and disposing into the office trash is not acceptable, as long as there is any way that confidential information can be retrieved. Original loan documents that are removed from the office for the purpose of at-home work must be kept in a safe, secure area during travel and at the off-site location. Any lost or misplaced confidential documents must be reported to the Operations Manager immediately.

Any employee, representative or affiliate of the DMC found disposing credit reports or any income, asset, liability information of consumers in any outside or publicly accessible area shall be grounds for disciplinary action, including termination.

1.17.14 Model Forms

1.18 Anti-Predatory Lending Policy

Direct Mortgage Corp. (DMC) has adopted this Statement against Predatory Lending Practices, as well as numerous other safeguards and procedures, including Best Practices as recommended by the Mortgage Bankers Association of America, in order to help insure that our customers receive fair and equitable treatment in the origination of their mortgage from DMC.

DMC will not originate or purchase any residential mortgage loans that are HOEPA/Section 32 loans or subject to any state or local high cost loan/anti-predatory lending laws, ordinances or regulations. Additionally, DMC will abide by all federal or state anti-predatory lending laws and regulations.

DMC strongly disapproves of abusive or predatory lending practices by any of its employees or agents, and requires its employees to receive training to spot predatory lending practices in an effort to prevent them. DMC requires all new loan brokers to acknowledge DMC's

Best Practices and Anti-Predatory Lending Policy, and to adhere to practices intended to eliminate predatory lending and treat all borrowers fairly and equitably. In addition, DMC complies with all applicable state and federal laws and regulations, including, but not limited to the Equal Credit Opportunity Act, the Fair Housing Act, the Fair Credit Reporting Act, the Truth in Lending Act, and the Real Estate Settlement Procedures Act.

Prospective borrowers are encouraged to seek loan counselling prior to obtaining a mortgage, and the US Department of Housing and Urban Development can provide borrowers with a list of loan counsellors in their area (see <http://www.hud.gov/consumer/> or <http://www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm> for more information, or contact HUD at 1-888-466-3487).

1.19 Best Practices Policy

DMC Mortgage Corporation (DMC) has endorsed MBA Best Practices as recommended by the Mortgage Bankers Association of America. A copy of the MBA Best Practices can be found at: http://www.mbaa.org/industry/docs/01/mba_bespractice.html

The measures recommended by the Mortgage Bankers Association of America are meant to serve as guidelines by which DMC can meet its business objectives, while providing fair and equitable treatment to borrowers. In accordance with the MBA Best Practices, DMC has adopted the following safeguards to ensure fair and equitable treatment of consumers:

- **Borrowers Should Not Be Steered to Inappropriate Products.** Borrowers should be offered the best available products for which the borrower would qualify based on his/her credit worthiness. DMC's automated underwriting system automatically seeks the highest credit grade available for each borrower and prices a loan accordingly.
- **Lenders Should Determine That All Borrowers Have the Ability to Repay Their Loans.** A lender's credit decision should be based primarily on the repayment ability of the borrower. DMC has established a policy which restricts the origination of a loan solely on the basis of the borrower's equity, without regard to proper underwriting. DMC underwriting utilizes, among other things, income, assets, as well as mortgage and credit histories. DMC requires that all borrowers meet prescribed debt-to-income ratios as specified in DMC's underwriting guidelines. Currently, the maximum debt-to-income ratio is 55% (lower for certain products). DMC qualifies ARM loans at a rate of 1% above the start rate on all 6 month and 1 year ARM's.
- **Lenders Should Not "Flip" Customers.** "Flipping" refers to the practice where a lender refinances a loan with a larger loan where the additional proceeds are largely used for fees and charges, and resulting in the borrower's equity being stripped from the property. DMC requires a 12-month listing history as well as the sales history that must be validated by the appraisal department to detect artificially inflated values. DMC also requires a 6-month chain of title on all transactions. Loan transactions for properties with multiple refinances in the last 24 months must also demonstrate an economic value to the borrower.
- **All Borrowers Should Be Fully Informed of All Loan Terms and Conditions, Including the Risks and Benefits of the Loan Transaction.** Applicable disclosures should comply with legal requirements and should provide adequate explanation of all pertinent loan terms and conditions, including any yield-spread or service-release premium. In addition, marketing practices and materials should not be deceptive or exploitative. DMC discloses yield spread premium on the following documentation: Advance Disclosures, Final Disclosures, Lenders Closing Instructions, State specific forms, Final HUD-1. In addition, DMC provides its own Good Faith Estimate in all brokered transactions.
- **Fees and Rates.** Fees and rates should be representative of the associated credit risks and/or costs and services associated with the origination of the loan and properly disclosed. Loan fees must be proportionate to the costs of origination and the credit risk presented to the borrower. DMC has restricted first mortgage loans from exceeding the Section 32 and state-specific high cost rate and fees limitations, and total fees charged to the borrower is limited to 5% on all loans. DMC has a clearly defined risk to rate price sheet.
- **Insurance Bundling.** Lump-sum insurance products, such as credit life insurance, disability insurance, home warranties, etc., should not be a condition of the loan. DMC does not engage in the practice of financing lump-sum or single-premium credit life insurance or similar products, and prohibits such practices in any transaction in which it is involved.
- **Prepayment Penalties.** Prepayment penalties should be fair and fully disclosed. DMC's prepayment penalties follow Federal and State laws. DMC offers all loan programs with a no prepayment penalty option at higher rates.
- **Lenders Should Report Borrowers' Payment History to Credit Bureaus.** Reporting such information enables consumers to improve their credit profile and have access to more favorable financing. DMC's sub-servicer is required to report to all major reporting agencies on a regular basis.
- **Benefit to the Borrower.** All loans must be made based on a bona fide and documented benefit to the consumer. DMC requires employees to evaluate the benefit of each loan to the borrower. Examples of benefits include, without limitation, reduction of rate below borrower's current rate for a 24-month period, reduction in monthly PITI, reduction in overall monthly payments through debt consolidation, conversion of mortgage from ARM to fixed rate, conversion of a mortgage from a longer term to a shorter term, cash out/cash in hand greater than all fees connected with loan (payoff of the prepayment penalty is considered in this evaluation).
- **Up charging.** The assessment of extra charges above an actual third party fee. DMC has prohibited the collection of any excess fees above an actual third party fee. DMC policy requires copies of all third party invoices as a condition to close.
- **Anti-Predatory Lending Policy.** DMC strongly disapproves of abusive or predatory lending practices by any of its employees or agents, and requires its employees to receive training to spot predatory lending practices in an effort to prevent them. DMC requires all new loan brokers to acknowledge DMC's Best Practices and Anti-Predatory Lending Policy at time of approval, and to adhere to practices intended to eliminate predatory lending and treat all borrowers fairly and equitably.
- **Fair Lending/Non-Discrimination.** DMC is an equal housing lender and, in accordance with the Federal Equal Credit Opportunity Act, DMC employs business practices that promote fair lending and will not tolerate discrimination relative to borrower race, color,

religion, sex, handicap, familial status, age, national origin or ancestry. DMC fully supports the letter and spirit of these laws and does not condone discrimination in any mortgage transaction.

- DMC is in compliance with all Fair Lending Laws. In addition, DMC adopts the following guidelines to ensure compliance with HUD requirements:
 - DMC is in compliance with the Department's requirements concerning Tiered Pricing, Overages, and Premium Pricing.
 - DMC does not set minimum loan amounts.
 - DMC may determine if referral to a credit counseling agency may be appropriate for rejected minority applicants.
 - DMC will regularly review its lending programs to determine if outreach to a particular geographic area is appropriate.
 - DMC will display fair housing and equal opportunity signs and logos in offices and on stationary and documents.
 - DMC will ensure that its branch offices and employees are not engaging in false or misleading advertising practices.
 - DMC will regularly review the type of training and instruction given regarding fair housing practices.
 - DMC will consider marketing plans to serve underserved and minority populations.
 - Through its QC program, DMC will verify that it is in compliance with the Home Mortgage Disclosure Act reporting requirements. DMC will report accurate information correctly and in a timely fashion.
- **Industry & Community Involvement.** DMC is committed to involvement with trade organizations, community groups, national associations, mortgage bankers, as well as state and local associations to continually develop and implement practices and disclosures that respond to the needs of consumers, and to scan and respond to new potential legislation which creates the need for consumer disclosures and protections.
- **Violations/Retaliation.** DMC employees and Brokers are encouraged to report to senior management violations of these best practices and/or questionable activities in accordance with company procedures. In addition, no employee or broker will be subject to disciplinary or retaliatory action for a good faith reporting of a suspected violation of these guidelines.
- **Training.** All DMC Employees are required to undergo training on DMC's Best Practices and how to spot and prevent abusive or predatory lending. Brokers submitting applications or loans to DMC acknowledge and agree to abide by DMC's Best Practices and Anti-Predatory Lending Policy.

1.20 Loan Repurchase and Rescission Policy

1.20.1 Introduction

Loan repurchase requests to lenders have increased in recent years, highlighting the need for an improved approach to deliver loans that meet industry standards for quality and compliance. The pushback from parties, including Government Servicing Entities (GSEs) such as Fannie Mae and Freddie Mac, began in earnest in the second half of 2009. In addition to Fannie and Freddie, the pushback is being fueled by demands from private investors, mortgage insurers, and mono-line financial guarantors such as MGIC Investment and Radian. These companies are looking to limit their own losses from defaulted mortgages through loan put-backs to originators and also by denying claims on mortgage insurance.

Fannie and Freddie are scrutinizing loans much more closely these days as they try to shore up their own loan books in the face of outsized losses in the wake of the recession. Not all of the loans being requested for repurchase are non-performing. However, all are single-family residential loans with a vast majority of the loans currently being questioned classified as prime loans.

Private investor institutions have also started to increase their requests for added documentation on mortgage loans that they have underwritten, purchased, sold or securitized.

With delinquencies and foreclosures still running at record highs, there is no sign repurchase and rescission demands will begin to abate anytime soon.

The term Repurchase is used throughout this document and is intended to be synonymous with other common industry terms such as demand, put-back, or rescission. Similarly, the term Rebuttal is used throughout this document and is intended to be synonymous with other common industry terms such as response, counter-claim or repurchase audit.

1.20.1.1 Goals & Objectives

In response to the historically significant increase in Loan Repurchase and Rescission requests, it is essential that DMC have a plan for reducing its risk of repurchase demands. In addition, DMC must have policies and procedures that provide for the efficient investigation, rebuttal (if necessary), corrective action (if necessary), and response to repurchase and rescission requests. This policy shall provide guidance and direction regarding DMC's approach to repurchase demands and the handling of repurchase and rescission requests.

The objective of this policy is to demonstrate DMC's commitment to honoring its contractual obligations as well as ensuring that the resolution process for Repurchase and Rescission requests is as efficient as possible.

1.20.1.2 Fannie Mae's Loan Quality Initiative

Working with its lender partners, Fannie Mae launched its Loan Quality Initiative (LQI) on February 26, 2010 to promote improved loan delivery data that is complete, accurate, and fully reflective of the terms of the mortgage. Designed to ensure that the loan meets the credit and eligibility standards, pricing guidelines, and other requirements of Fannie Mae's Selling Guide, the LQI was also implemented to reduce and mitigate investor and lender repurchase risk.

A primary focus of the LQI is on capturing critical loan data earlier in the process and validating it before, during, and immediately after loan delivery resulting in reduced repurchase requests. Fannie Mae's Selling and Servicing Guide requirements have been updated to address the following key components of the LQI:

- Policies that confirm the identity and occupancy of the borrower, validation of qualified parties to the transaction, and policies that address the borrower's credit profile.
- Updated Quality Control requirements for lenders and an improved feedback loop.
- The delivery of additional information about the property and the appraisal.
- Loan delivery enhancements, including:
 - Validation of loan eligibility at delivery;
 - A new capability that enables lender validation of data before, during and immediately after loan delivery; and

- Collection of additional loan data at delivery and transition to an XML format.
- Reporting and validation of mortgage insurance coverage data.

DMC is committed to complying with Fannie Mae's LQI and the related changes to the Selling and Servicing Guide requirements. To ensure that the Company's mortgage loan originations comply with the updated requirements of Fannie Mae's Selling and Servicing Guide and to reduce and mitigate repurchase risk, DMC will require that every transaction meet the following minimum criteria:

- The borrower's identity will be verified prior to the extension of credit.
- All borrowers on the loan must have a valid SSN or individual TIN.
- Verification of the borrower's occupancy status of the property.
- Confirmation that all parties involved with the mortgage transaction meet certain qualifications, including that any individual on the General Services Administration (GSA) Excluded Party List or the HUD Limited Denial of Participation List ("LDP List") not be involved with the transaction.
- Determination that any undisclosed liabilities that are incurred or closed by the borrower, up to and concurrent with settlement of the loan are accounted for and documented on the final loan application that is signed by the borrower at closing. The debts must be evaluated and included in updated qualification and underwriting calculations performed on the loan, as necessary.
- To help ensure that the loan file contains consistent and complete loan documentation, the loan file must meet the Mortgage Loan File Document Submission Requirements in the Selling and Servicing Guide.
- If the loan is secured by a condo or other property that contains a unit number the unit number must be reflected in the property address on the note.
- Submission of the complete appraisal report data in the prescribed, acceptable format prior to loan delivery.
- Validation of loan eligibility at delivery, including the delivery of mandatory data about each loan, the collection of additional data elements, and performing pre-delivery checks on loan data using DJ.
- Validation and reporting of loan level mortgage insurance coverage.

In addition, DMC will develop and maintain a Quality Control program that defines the DMC's standards for quality and establishes processes and controls designed to achieve those standards throughout its entire origination book of business. Components of DMC's QC program will include but are not limited to:

- Written procedures for the approval of third-party originators and management oversight of third-party originations.
- Specific requirements for outsourcing the QC process, including:
 - Required reviews of contractor's work;
 - Remediation and reporting of review findings;
 - Contractor knowledge and competency requirements;
 - Contractor must have written QC policies and procedures that include a description of the review methodologies followed.
- Specific requirements for pre-funding and post-closing QC review processes, including sampling methodologies and the following timing and reporting requirements for the reviews:
 - Selection of loans for the post-closing review must be made within 30 days of loan closing and review must be completed within 60 days of selection;
 - Notification to Fannie of any QC review cycles that are in arrears more than one 30 day cycle;
 - Reporting the results of DMC's QC reviews to senior management within 30 days of completion of the review.
- Implementation of an audit review of the QC process/program to ensure that:
 - The QC process and applicable procedures are being followed.
 - That assessments, conclusions and findings are consistent and accurately reported.

1.20.2 Audit Review Results

Audit review results must be distributed to senior management and to the appropriate areas within the Company and an action plan must be established for remediation or changes to DMC's QC policies or processes.

1.20.2.1 Required Review

DMC requires this policy be reviewed every two (2) years or sooner as may be required by legislative or regulatory amendments.

- Last Date of Review – 08/14/2013
- Next Due for Review – 08/14/2015

1.20.2.2 Applicability

This policy shall apply to all real estate secured loans originated, sold or purchased by DMC for its own portfolio or assets that are held for sale.

1.20.3 Accountability and Monitoring

DMC requires that this Loan Repurchase and Rescission Policy and all underlying policies or procedures referenced herein have a monitoring and quality control component. Ongoing adherence to these policies and procedures, Fannie Mae's LQI, and any investor guidelines, as applicable shall be documented such that adherence to them can be readily determined as part of the Company's Quality Control review program.

DMC's Quality Control review program shall include, but will not be limited to:

- Clear definition of the lender's standards for loan quality and established processes and controls that are designed to achieve those standards throughout its entire origination book of business.
- Establishment and implementation of an effective prefunding QC review process in accordance with Fannie Mae's LQI and Seller Guide recommendations.
- Establishment and implementation of an effective and timely post-closing QC review and data integrity process in accordance with Fannie Mae's LQI and Seller Guide recommendations.
- Ensuring that DMC's loan repurchase investigation, rebuttal, corrective action, and response processes are completed timely and in accordance with this policy.

1.20.4 Audit Process

In addition, DMC will establish and implement an audit process over its QC program to ensure that QC processes and procedures are followed and that assessments, conclusions, and findings are consistent and accurately recorded. Audit results must be distributed to senior management and to other appropriate areas within the organization and an action plan must be established for remediation efforts or changes to policies, procedures, or processes.

1.20.4.1 Staff and Training

DMC requires the ongoing training of any staff involved in the Company's Repurchase demand and Rescission request process. A training program shall be developed and implemented to ensure that staff members responsible for handling the Company's Loan Repurchase and Rescission requests are knowledgeable of DMC's policies and procedures for handling such requests and that they can effectively perform their assigned duties. Required staff training may be provided internally by DMC personnel or by any approved third party vendor.

1.20.4.2 Ongoing Training

All DMC employees responsible for loan Repurchase demand and Rescission requests shall receive training no less than annually.

Training may include but is not limited to forensic underwriting techniques, loan file audit procedures, valuation and fraud assessment techniques as well as changes to this and other related policies of DMC or investor guidelines.

Training should also address:

- The implementation of DMC's policies and procedures for handling loan Repurchase demand and Rescission requests and the practical application to the employee's function or responsibility.
- Industry best practices regarding repurchase demands and rescission requests.

1.20.5 Repurchase Demand Process Obligations, Rights and Responsibilities

Repurchase obligations are established through covenants in seller/servicer contracts with loan purchasers. Pursuant to these covenants, the seller or servicer agrees to repurchase (usually on 30 days notice) every loan not originated or serviced in accordance with certain representations and warranties in the contract and any applicable seller/servicer guidelines. The obligation to repurchase may also be accompanied by additional covenants to indemnify and hold the purchaser harmless from any loss or injury in connection with any loan for which repurchase may be required.

Various parties have rights and responsibilities during the Repurchase Demand process, including the investor/buyer, seller/servicer, and in some cases the mortgage insurance company that issued the mortgage guarantee insurance on the loan.

However, the rights and responsibilities of a party demanding repurchase or the party against whom the repurchase demand is made may be compromised due to legal defects as the result of events such as mergers and acquisitions or the transfer of servicing rights.

1.20.5.1 Current Market Influences

In the current mortgage market, repurchase and rescission requests from buyer/investors and/or mortgage insurance companies have become common. This has been driven by increases in delinquent accounts and liquidation of foreclosed properties. These events have resulted in increasing claims of potential breaches of representations and warranties and a continual flow of "domino effect" type repurchase requests. In many cases, the originator is no longer in business and the liability is then being shifted to the appraiser or other third party if one exists.

While some demands can be satisfied simply by obtaining missing documents, more often the demand process is much more complex. Demands are frequently received in connection with misrepresentation of income, occupancy, employment, undisclosed debt or valuation concerns. Many of the problem loans on which repurchase demands are now being made could have been worked out or refinanced if their defects had been recognized early enough by a robust Quality Control program and/or diligent servicing practices. In some instances, the actual loss to the investor is more the result of failure to follow required servicing practices, such as prompt commencement of foreclosure or competent handling of Lender Owned property (Other RE Owned – OREO) rather than technical defects in loan origination.

1.20.5.2 Originators or Sellers

Many originator sellers believe that their repurchase obligations are limited to instances of fraud or gross negligence or that their repurchase risk is significantly lessened when the investor performs or oversees the underwriting on the loan. While some repurchase agreements contain such limitations many do not, transferring most if not all, of the credit risk to the originator regardless of the division of underwriting responsibilities. In addition, under some repurchase agreements a loan repurchase demand can arise even with sound underwriting simply because of later events beyond the originator's knowledge or control such as the borrower's early default or failure to occupy non-investment property. Where the risk of loan default has been placed on the originator, every closed loan represents a contingent liability which may not expire for years.

If the contract language does not limit the originator's repurchase obligations to false or inaccurate loan information of which the originator knew or should have known or an equivalent limitation, the resulting exposure can potentially encompass every loan sold. Particularly troublesome are contract provisions that warrant that every loan conforms to all of the investor's applicable lending requirements and contains no defect which would cause an institutional investor to regard the loan as unacceptable. Such language is not only broad, it is

uncertain, providing investors with a flexible basis for issuing repurchase demands.

1.20.5.3 The Role of Mortgage Insurance Companies

Mortgage insurers, facing increased claim activity, are equally interested in avoiding losses. If the mortgage insurer (MI) cancels coverage and/or denies a claim under such coverage due to fraud, misrepresentation or omission of a material fact or for any other reason related to the eligibility of the mortgage for mortgage insurance the action could also result in a repurchase request.

1.20.5.4 Warehouse Lending Considerations

In the field of mortgage warehouse lending, repurchase agreements are being used more frequently rather than traditional mortgage warehouse loan and security agreements because of the favorable treatment of repurchase agreements under the 2005 revisions to the United States Bankruptcy Code if the seller files bankruptcy. Rather than a mortgage loan originator pledging the loan as security for its obligations under a mortgage warehouse loan and security agreement, the originator sells and assigns its entire interest in a mortgage loan to the warehouse lender (or, as more appropriately defined, the "buyer"), under a repurchase agreement.

The warehouse lender buyer pays a purchase price for the mortgage loan and agrees to sell the loan back to the seller or its designee on a specified future date not to exceed one year in exchange for repayment of the purchase price plus an accrued price differential and applicable fees. Any repurchase agreements that DMC may enter into with warehouse lenders will be subject to this policy and all applicable industry practices and standards.

1.20.6 Transactional Considerations

DMC's response to a repurchase demand will usually be a function of the amount in dispute, the status of the relationship with the lender/investor, and the grounds for repurchase asserted. Where it becomes necessary to defend such a claim, a variety of potential defenses may exist. Following are the top reasons for repurchase requests:

- Undisclosed liabilities
- Misrepresentation of income or employment
- Misrepresentation of credit
- Identity theft and/or Social Security number discrepancy
- Misrepresentation of assets
- Misrepresentation of occupancy
- Misrepresentation of property value
- Property flips based on inflated appraisals or other false characteristics
- Misrepresentation of the subject property characteristics or comparable properties use in the appraisal process.
- Sale of fraudulent loans or double selling of loans
- Mishandling of escrow funds or custodial accounts
- Diversion of sale proceeds

In general, repurchase demands include a lot of detailed information that consists of both fact and opinion. It is important when conducting any review, technical or legal, to separate fact from opinion and deal with only the facts. Factual errors and/or omissions are what result in a loan repurchase demand being successful. Opinions, by themselves, are just that and do not rise to the level of successfully triggering repurchase actions. However, one common practice used by investors when demanding repurchase is to list every possible issue that may have affected the loan regardless of the degree of relevancy, factual basis or impact to risk. This creates the appearance of a multitude of issues, adds complexity and is intended to overwhelm the recipient. It is entirely possible for a long list of deficiencies to turn into a short list once the opinion is separated from fact and the real issues are identified.

1.20.6.1 Prioritization

Time is of the essence with regard to repurchase transactions. DMC requires that all repurchase demands be responded to immediately. An immediate response shall include, at a minimum:

- An acknowledgment of DMC's receipt of the request.
- A request for additional time to complete a meaningful inquiry.
- A request for any additional mandatory information needed to process the request that was not originally included with the demand request.

1.20.6.2 Legal Review

DMC shall, with the assistance of [DMC – Counsel], maintain an ongoing and complete review of all repurchase, indemnification, loan sale, warehousing and all other related contracts to allow DMC to assert possible contractual defenses as repurchase demands are received.

The most direct defenses arise from the terms of the contract itself. Even if the contract appears to cover the situation in question, a defense may exist when the contract contains conflicting or ambiguous provisions. Similarly, where the obligation to repurchase is based on provisions contained in different documents such as the contract itself and a referenced manual or guide, the question arises as to whether the referenced document has been properly incorporated into the contract so as to constitute a binding obligation. Finally, if the manual or guide has been revised since the date of the contract, it is important to determine whether DMC has taken the proper steps for the revisions to have the force of a contract amendment.

Other defenses may arise from the circumstances surrounding contract formation. See Loss Mitigation, Valuation and Indemnity for additional considerations.

1.20.6.3 Technical Review

Research into the underwriting and servicing of the loan may also uncover valid defenses. Where the buyer/investor underwrote the loan prior to purchase, it has an implied covenant of good faith and fair dealing requiring it to act in a competent and prudent manner. Given the extraordinary loan volume experienced in the past few years, some buyer/investors have lacked sufficient experienced underwriters to process all loans submitted. At times, the result has been a less thorough review or deviation from company policy. A buyer/investor's failure to follow its own underwriting policies and procedures may negate DMC's repurchase obligation. Similarly, to the extent the buyer/investor or an affiliate provides the loan servicing, negligence in that role may also negate originator liability or reduce the amount recoverable.

Defenses may also arise from the manner of liquidation of the loan collateral. Buyers often seek immediate liquidation of the collateral to recognize an expedited recovery and determine if any loss will result from the borrower's default. However, the method by which the collateral is liquidated may have profound consequences for DMC. In states with anti-deficiency laws, any action by the investor which has the effect of preventing a subsequent recovery from the borrower may exonerate DMC since its right to be reimbursed by the borrower for any payment made to the investor has been partially or entirely impacted.

1.20.6.4 Errors and Omissions and Fidelity Bond Insurance

DMC maintains at least the minimum Errors and Omissions and Fidelity Bond Insurance coverage amount as required by Federal, State, Local, Agency and Investor requirements. Annually the coverage is reviewed and renewed, by the CFO to ensure adequate coverage and to prevent lapse of coverage. Loss Payee Riders are required to list Fannie Mae, Freddie Mac and Ginnie Mae.

If DMC has errors and omissions insurance coverage, a claim should be made immediately. Since such insurance policies usually have provisions that require the timely filing of claims, the claim must be reported in the policy year in which the insured first learns of the possible existence of an adverse claim. Delay until a lawsuit is filed may negate coverage under the policy.

Claims must be made even when the collateral has yet to be liquidated, regardless if the risk of loss and/or the amount of loss remains unknown. Coverage may be denied due to the existence of repurchase exclusions in the policy or the contention that the asserted claim is contractual in nature and therefore not covered. However, in some states such as California a claim for broker negligence exists independent of any contractual obligation and consequently can give rise to an insurable claim.

DMC shall review coverage issues whenever purchasing or reviewing an errors and omissions policy.

DMC will report to Fannie Mae within 30 days after discovery of the occurrence of a single fidelity bond or errors and omissions policy loss that is mortgage related and the amount exceeds the lesser of \$250,000 or the policy's deductible, even when no claim will be filed or when Fannie Mae's interest will not be affected.

In addition, DMC will report to Fannie Mae within 10 business days of receipt of a notice from the insurer regarding the intended cancellation, reduction, nonrenewal, or restrictive modification of DMC's fidelity bond or errors and omissions policy. DMC will send Fannie Mae a copy of the insurer's notice, describe in detail the reason for the insurer's action if it is not stated in the notice, and explain the efforts it has made to obtain replacement coverage or to otherwise satisfy Fannie Mae's insurance requirements. These reports will be sent to fidelity_bond_and_errors_and_omissions_claims@fanniemae.com by DMC's CFO.

1.20.6.5 Timing, Service Levels and Other Standards

The following table provides some guidance regarding the timing of various steps in the process and the service levels or turn times that should be expected of third parties providing repurchase support.

Process	Days Elapsed	Comments
Receipt of Original Demand	0	
Preliminary Review of Demand	0 - 2	
Acknowledgement of Demand	1 - 3	
Detailed Review & Due Diligence	1 - 7	
Order Third Party Reviews	2 - 5	
Receive Third Party Reviews	9 - 12	
Review & Reconciliation	11 - 14	
Draft Response	16 - 19	
Submit Response	18 - 21	

Receive Reply to Response	28 – 36	
Appeal Decision	34 – 43	
Negotiation	44 – 55	
Settlement or Disposition	55 – 60	

Many of the above steps are ongoing concurrently as individual issues are being investigated, third parties engaged and the overall case reviewed. It is important that all DMC personnel engaged in the repurchase or rescission process maintain open lines of communication and provide timely response and disposition of all matters or inquires.

DMC requires that all essential functions have back up support so that an absence from work or other inability to perform essential functions does not result in an undue delay in the repurchase or rescission process.

1.20.6.5.1 Appraisal Field Review

The field review must be performed in accordance with DMC's Valuation policy and should validate fact-based information on the appraisal. The format must be as detailed as possible and in narrative form (check boxes will not be adequate). The appraiser's data is vital to the process and must include, at a minimum:

- Front photo of subject
- Side photo
- Street photo
- Photo of any view or adverse site conditions
- Rear photo (if available)
- Map of comparables used in original report, labeled "OC" for Original Comparables
- Map of supplemental comparables added to the report, labeled "SC" for Supplemental Comparables
- A value conclusion - the field review must agree or disagree with the original appraised value and state a final value
- Copies of ALL MLS Sheets on the Original Appraisal and supplemental comparable

1.20.7 Due Diligence and Related Tools

The following due diligence tools, sources and techniques may be useful in assisting DMC in its investigation of the issues giving rise to there purchase request.

1.20.7.1 Original QC, Compliance & Appraisal Reviews

All origination, quality control, quality assurance, post-closing, funding and/or delivery documents should be reviewed for any relevance to there purchase process. Examples of documents include but are not limited to:

- Original Appraisal.
- Appraisal reviews or audits.
- Original credit file.
- Closing documents not part of collateral file.
- Originator notes or production documents not part of credit file.
- All compliance reports.
- All Quality Control or Quality Assurance reports and any related deficiency resolution documentation or remediation action plans.
- All pre-funding or post-closing credit reports.
- Servicing records.
- Payment history.

1.20.7.2 IRS

The results of processing a IRS 4506T should be validated by either comparison to the information obtained as part of a quality control process after origination or processed directly as part of this review.

1.20.7.3 MLS

The sales history of the subject property and all comparable sales should be checked against the MLS database to ensure that all data elements were properly reflected, considered and adjusted within the appraisal report.

1.20.7.4 Other Third Party Services

The third party vendor services currently used by DMC for various other purposes may be successfully utilized for purposes of the repurchase review process. These may include, but not be limited to:

- Credit bureau services.
- OFAC checks.

- Fraud investigation reports.
- Compliance Services.
- Skip Trace.

1.20.8 Repurchase Requests and Rebuttal Process

When a loan is classified as early payment default (EPD), otherwise goes into default, or a repurchase request and/or MI rescission is received by DMC, the designated [DMC - Repurchase Contact] shall research the issues and conduct a comprehensive review of the origination file and servicing records to determine if there was a breach of representation or warranty, non-compliance with a term of the mortgage insurance policy, or non-compliance with DMC Loan Production or Underwriting guidelines.

If there is no evidence of breach or non-compliance, the [DMC -Repurchase Contact] shall recommend not issuing a repurchase request back to the originator in the case of a loan EPD or default and should recommend appeal of the repurchase or MI rescission request in the case of demands received by DMC.

If there is evidence of a breach or non-compliance, the [DMC Repurchase Contact] shall recommend the loan for repurchase demand. Any loan which is recommended for repurchase demand shall be escalated to the [DMC -Senior Repurchase Contact] for a second review. The final determination to approve or appeal the repurchase demand request shall be made during the second review by the [DMC - Senior Repurchase Contact].

For all repurchase requests subject to a rebuttal or appeal, the following information shall be requested and reviewed from the buyer/investor/servicer in addition to any information developed from third party sources or information provided with the repurchase request:

- Servicing records.
- Payment transaction history.
- In general, if the initial review establishes valid defenses to a repurchase demand, a well-crafted defense or appeal letter is warranted. Appeals are appropriate in these circumstances:
 - Where the loan is currently performing.
 - Where there are lender or servicer errors which contributed to the default.
 - When there is no evidence of misrepresentations.
 - When there is an intervening forbearance agreement in place.
 - When a subsequent sale to another investor has been completed.
 - Where other factors violate the good faith and fair dealing expectations of the parties in the contractual arrangement.

1.20.8.1 Compliance Deficiencies

If the buyer/investor repurchase demand indicates that the loan did not meet federal, state laws and regulations or agency guidelines, DMC shall conduct a compliance review specific to the compliance issue raised by the buyer/investor. The review will include:

- A determination as to whether the cited issue applies to the loan.
- Testing the loan according to the appropriate laws, regulations, and guidelines.

After review and testing have been completed, determine:

- Did the loan pass the compliance test?
- If not, do the related laws, regulations, or guidelines provide for a cure?

Resolution steps:

- Complete any necessary steps to "cure" the error, as applicable and communicate DMC's response to the repurchase demand along with evidence of:
 - The cure or remediation action steps that were taken; OR
- Communicate DMC's rebuttal of the demand along with evidence to support the rebuttal including but not limited to:
 - Provide the original compliance testing calculations and results indicating a pass for the issue identified.
 - Provide evidence the law, regulation, or guideline is not applicable to the loan.
 - Provide proof that the issue was cured or resolved prior to delivery.

1.20.8.2 Documentation Deficiencies

If the buyer/investor repurchase demand indicates that one or more required documents were not delivered to the buyer/investor, determine:

- Was the document applicable or required?
- Can the document be located in files or imaging systems?
- Can the document be retrieved by contacting the original provider?

Resolution steps:

- Complete any necessary steps to obtain the requested documentation including obtaining from the original provider and communicate DMC's response to the repurchase demand along with copies of the requested documentation; OR

- Communicate DMC's rebuttal of the demand along with evidence to support the rebuttal, for example:
 - Provide evidence that the document was not required or applicable.

1.20.8.3 Misrepresentations

1.20.8.3.1 Occupancy

The buyer/investor repurchase demand indicates that the occupancy of the subject property is misrepresented to obtain more favorable terms. The decision relative to this breach is based upon an evaluation and weighting of the evidence presented. In general, DMC considers evidence of occupancy misrepresentation to be present if two (2) or more of the following apply:

- Does the original appraisal indicate that the property is tenant occupied?
- Does the hazard insurance declaration page reflect a landlord policy?
- If a refinance, does the documentation provided to verify income and/or assets reflect a different address for the borrower?
- Is the distance between the subject property and the borrower's employment unreasonable for commuting?
- Is the property tax bill for the borrower reflecting a different mailing address?
- Did the borrower change their mailing address for servicing communications?
- Does a reverse directory search of the borrower's home phone reflect a different home address?
- Is there documented verification that the utilities are not and have not been in the borrower's name?
- Are there public records that indicate the borrower never moved into the property?
- Does a Bankruptcy Discharge indicate a different home address for the borrower for the time frame following closing?
- Is there any documented communication between the borrower and a third party indicating the borrower never occupied the subject property?

Resolution steps:

- Determine if any evidence of occupancy misrepresentation exists and if so, communicate DMC's response to the repurchase demand.
- If no evidence of occupancy misrepresentation exists, communicate DMC's rebuttal of the demand along with evidence to support the rebuttal including but not limited to:
 - Provide documentation that proves the borrower occupied or occupies the subject property.
 - If the borrower intended to occupy the property, but did not, provide an explanation of the extenuating circumstances which prevented the borrower from occupying the property.
 - Offer an explanation to refute the evidence provided, such as, the mailing address used by the borrower for servicing communications is their business address.

1.20.8.3.2 Income

The buyer/investor repurchase demand indicates that the income information and/or documentation provided at origination were either altered or falsified. DMC shall conduct a review of all applicable file documentation and any information provided with the demand request including any new income or supplemental information and verification documents to determine:

- Was the original documentation altered or falsified?
- Does the new income documentation or supplemental information provided reflect the same time period as the original application? If yes,
- Is the new income documentation re-verifiable? If re-verification is not possible, is the documentation clear and complete?
- Does the DTI ratio utilizing the new income documentation exceed an allowable DTI ratio for the program?

Resolution steps:

- If DMC's review reveals evidence to support the buyer's/investor's claim, as follows:
 - The original income documentation cannot be relied on; and
 - Verifiable new income documentation or supplemental information provided reflects the same time period as the original application; and
 - The DTI ratio based on new income information exceeds allowable DTI requirements of the loan program.

DMC's response to the repurchase demand with any agreement to repurchase as appropriate will be communicated back to the buyer/investor.

- If DMC's review reveals that there is no evidence to support the buyer's/investor's claim, communicate DMC's rebuttal of the demand request along with evidence to support the rebuttal including but not limited to:
- Provide documentation that the verification provided does not represent the same time period as the original application.
- Provide any new or additional documentation that supports the original verification.

1.20.8.3.3 Employment

The buyer/investor repurchase demand indicates that the employment status (self-employed vs. W-2; full time vs. part time), dates or job title are misrepresented on the loan application and supporting documentation. DMC shall conduct a review of all applicable file documentation and any information provided with the demand request including any new employment information and verification documents to determine:

- Does the documentation provided reflect the same time period as the original application?
- Are the differences in employment substantial? Was the verified position essentially the same as the stated position (i.e. Manager vs. supervisor)?

- Is the new income documentation re-verifiable? If re-verification is not possible, is the documentation clear and complete?

Resolution steps:

- If DMC's review reveals evidence to support the buyer's/investor's claim, as follows:
 - The original employment documentation cannot be relied on; and
 - Verifiable new documentation provided reflects the same time period as the original application.

DMC's response to the repurchase demand with any agreement to repurchase as appropriate will be communicated back to the buyer/investor.

- If DMC's review reveals that there is no evidence to support the buyer's/investor's claim, communicate DMC's rebuttal of the demand request along with evidence to support the rebuttal including but not limited to:
 - Provide documentation that the verification provided does not represent the same time period as the original application.
 - Provide any new or additional documentation that supports the original verification.

1.20.8.4 Credit

1.20.8.4.1 Undisclosed Debt

The buyer/investor repurchase demand indicates that the borrower has undisclosed debt that was obtained prior to the closing of the subject loan but it is not reflected on the application or origination credit report and it is not included in the qualifying ratios. DMC shall conduct a review of all applicable file documentation and any information provided with the demand request to determine:

- Whether the debt was included in the original underwriting calculations? If no,
- Does the new DTI ratio, including the undisclosed debt, exceed the allowable DTI ratio for the program?
- What date the debt was opened? If opened during the same month as the loan closing date, then the exact date must be verified to determine the debt was opened prior to closing.
- If the debt was opened prior to closing, did DMC pull an updated credit report within a reasonable period prior to closing? For purposes of this section "reasonable period" means as close as possible to the closing date but no earlier than when the closing package request is communicated to the Closing Department.

Resolution steps:

- If DMC's review reveals evidence to support the buyer's/investor's claim, as follows:
 - The debt was opened prior to closing; and
 - DMC should have had knowledge of the undisclosed debt based a review of the updated credit report or would have had knowledge of the undisclosed debt if an updated report was pulled within a reasonable period of time prior to closing; and
 - The debt was not included in original or any updated underwriting calculations; and
 - The new DTI ratio, including the undisclosed debt, exceeds the allowable DTI ratio for the program.

DMC's response to the repurchase demand with any agreement to repurchase as appropriate will be communicated back to the buyer/investor.

- If DMC's review reveals that there is no evidence to support the buyer's/investor's claim, communicate DMC's rebuttal of the demand request along with evidence to support the rebuttal including but not limited to:
 - Provide documentation that DMC could not have had knowledge of the undisclosed debt because an updated credit report was pulled within a reasonable period of time prior to closing or the undisclosed debt was incurred and reported after the subsequent report was pulled.
 - The undisclosed debt was included in original or any updated underwriting calculations and did not have a material impact on those calculations.
 - The undisclosed debt was not included in original or any updated underwriting calculations but the amount is inconsequential to those calculations and the new DTI ratio, including the undisclosed debt, does not exceed the allowable DTI ratio for the program.

1.20.8.5 Appraisal

The original appraiser did not follow USPAP or FIRREA standards, including appraisal independence standards, or any other applicable appraisal guidelines when developing the appraisal. In these cases, DMC shall order a view appraisal from a third party in accordance with its Valuation policy.

As part of the review process, DMC and the reviewer shall, at a minimum:

- Obtain a property detail report for the subject property that contains an aerial photo of the subject property and additional sales.
- Verify the sale date, price and history for all sales referenced within any and all of the appraisal reports provided.
- Verify the appraiser's license data.
- Ensure the appraiser was appropriately credentialed as of the effective date of the appraisal and note if the license had ever been revoked.
- Analyze market conditions at the time of the appraisal incorporating additional market trend data as necessary.
- Encourage the original appraiser to cooperate with and provide the requested documentation to the reviewer.
- Summarize all issues, departures from guidelines and anything else of note in written form to be addressed by the original appraiser including copies of any new research. Potential issues may include, but not be limited to:

- Concerns noted by third party review.
- Concerns noted by repurchase demand or MI rescission.
- Other concerns noted by DMC not included above.

Upon receiving a response from the original appraiser, the review appraiser will make a determination as to whether the original value was supported as of the effective date of the original appraisal. DMC shall then determine:

- Does the review support the original value?
- Does the review state that the original appraisal contains any USPAP or FIRREA violations or departure from applicable standards or guidelines that cannot be explained?

Resolution steps:

- Determine if any evidence exists that:
 - The original appraisal contained violations; or
 - Was not conducted in accordance with all applicable standards and guidelines; or
 - That the original value could not be supported.
- If so, communicate DMC's response to the repurchase demand with any agreement to repurchase, as appropriate, to the buyer/investor.
 - If no evidence of violations or unexplained departure from applicable standards or guidelines exists and the original value can be supported, communicate DMC's rebuttal of the demand along with evidence to support the rebuttal including but not limited to:
 - Provide a copy of the independent review appraisal which supports the original value conclusion.
 - Provide any other necessary documentation that demonstrates that the original appraisal did not contain any violations of law and that any departure from applicable standards or guidelines is explained.

1.20.8.6 Fraud

For indications of fraud, other than borrower misrepresentation, DMC shall, in addition to any response required relative to the repurchase, rebuttal or this policy:

- Advise the other party of the potential fraud (unless the other party is a party to the fraud).
- Report the fraudulent activity in accordance with DMC's AML/Suspicious Activity Report policy.
- Report the fraudulent activity to any law enforcement agency as may be required by policy, regulation or law.

1.20.9 Required Exhibits

All rebuttals and/or responses shall, at a minimum, include:

- DMC Response or Rebuttal Letter.
- DMC Review Appraisal (if applicable).
- Any Quality Control or Assurance results which lend support.
- Automated Value Models and any valuation reviews done at time of origination or retrospectively.
- Any DMC policies in place as well as internal procedures to prevent applicable fraud.
- Original Appraisal (duplicate legible original, if possible).
- Repurchase Letter.
- The investor's submitted review appraisal, if any.

1.20.10 Loss Mitigation, Valuation and Indemnity

As part of its Loss Mitigation activities, DMC will evaluate repurchase claims in an effort to identify alternative resolution(s) to the issue other than repurchase or rescission. If there is no loss or damage or potential for loss, damage, or injury as a result of an alleged breach, a demand for repurchase may not be justified, and instead, a promise of indemnity warranted. Even where there is a loss (or ultimately will be), knowing the amount of it makes a great difference in whether a repurchase obligation can be avoided or some substitute arrangement negotiated. Three considerations in this area of defense are:

- Calculating the amount of loss or expected loss.
- Determining whether any breach of the representations, warranties or other covenants is the actual and "proximate" cause of the claimed loss.
- Determining whether, and to what extent, the purchaser has taken reasonable steps to mitigate the loss or expected loss.

It is critical to find out whether the mortgaged property has actually been liquidated through foreclosure and resale of the REO, or whether the claimed loss is only an estimate, based on appraisals or other projections. Until foreclosure is complete and the property resold, the reality and amount of loss are uncertain, and this may provide a basis for at least delaying are purchase deadline or negotiating an indemnity agreement.

In evaluating and determining the root cause of an alleged breach in loss mitigation activities, it is also extremely important to find out whether the purchaser, and/or its agents, has done everything reasonably possible to prevent loss of investment value on the loan. For loans sold servicing-released, have all servicing obligations - including communications with the borrower and prosecution of the foreclosure - been performed on a timely basis and in the required manner? If not, could the loss have been avoided altogether by better servicing?

1.20.10.1 Third Parties

DMC must be diligent in its pursuit to reduce liability and losses associated with repurchases. As part of this effort, DMC shall compile data from vendors involved in the loan origination process as they usually have E&O insurance to cover negligent acts and omissions. In addition, DMC shall consider the appraiser and the settlement agent in determining responsibility for breaches resulting in a repurchase demand and rely on closing protection letter coverage or a professional liability policy as sources of loss recovery.

1.20.11 Servicing

DMC shall ensure that the servicer has performed all of its fiduciary duties diligently and completely, including but not limited to:

- Adherence to all federal, state and municipal laws and regulations.
- Followed all investor policies and procedures and guidelines to the letter.
- Adopted and implemented all mandated modification requirements.
- Followed all MI guidelines.
- Performed ARM adjustments properly.
- Applied and disbursed escrows appropriately and properly accounted for all funds.
- Performed investor reporting and remittance activities were in a correct and timely manner.

1.20.12 Appendix: Repurchase Definition

The term "repurchase agreement" (which definition also applies to a reverse repurchase agreement) --

A. Means:

- i. an agreement, including related terms, which provides for the transfer of one or more certificates of deposit, mortgage related securities (as defined in section 3 of the Securities Exchange Act of 1934), mortgage loans, interests in mortgage related securities or mortgage loans, eligible bankers' acceptances, qualified foreign government securities (defined as a security that is a direct obligation of, or that is fully guaranteed by, the central government of a member of the Organization for Economic Cooperation and Development), or securities that are direct obligations of, or that are fully guaranteed by, the United States or any agency of the United States against the transfer of funds by the transferee of such certificates of deposit, eligible bankers' acceptances, securities, mortgage loans, or interests, with a simultaneous agreement by such transferee to transfer to the transferor thereof certificates of deposit, eligible bankers' acceptance, securities, mortgage loans, or interests of the kind described in this clause, at a date certain not later than 1 year after such transfer or on demand, against the transfer of funds
- ii. any combination of agreements or transactions referred to in clauses (i) and (iii);
- iii. an option to enter into an agreement or transaction referred to in clause (i) or (ii);
- iv. a master agreement that provides for an agreement or transaction referred to in clause (i), (ii), or (iii), together with all supplements to any such master agreement, without regard to whether such master agreement provides for an agreement or transaction that is not a repurchase agreement under this paragraph, except that such master agreement shall be considered to be a repurchase agreement under this paragraph only with respect to each agreement or transaction under the master agreement that is referred to in clause (i), (ii), or (iii); or
- v. any security agreement or arrangement or other credit enhancement related to any agreement or transaction referred to in clause (i), (ii), (iii), or (iv), including any guarantee or reimbursement obligation by or to a repo participant or financial participant in connection with any agreement or transaction referred to in any such clause, but not to exceed the damages in connection with any such agreement or transaction, measured in accordance with section 562 of this title; and

- B. Does not include a repurchase obligation under a participation in a commercial mortgage loan.

1.21 Anti-Money Laundering Policy

Announcement Number: Freddie Mac Bulletin 2024-12

Area: Implementing Policy and Procedure Changes

1.21 Anti-Money Laundering/OFAC Policy

1.21.1 COMPANY ANTI-MONEY LAUNDERING POLICY STATEMENT

1.21.1.1 Goal

It is the policy of DirectMortgage, Corp. to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorists or criminal activity.

1.21.1.2 Definition of Money Laundering

Money laundering is generally defined as engaging in acts designed to conceal or disguise the true origin of criminally derived proceeds so that the unlawful proceeds appear to have derived from legitimate origins or constitute legitimate assets. Generally, money laundering occurs in three stages:

Placement: Cash generated from criminal activities is converted into monetary instruments, such as money orders or traveler's checks, or deposited into accounts at financial institutions.

Layering: Funds are transferred or moved into other accounts or other financial institutions to further separate the money from its criminal origin.

Integration: Funds are reintroduced into the economy and used to purchase legitimate assets or to fund other criminal activities or legitimate businesses. Terrorist financing may not involve the proceeds of criminal conduct, but rather an attempt to conceal the origin or intended use of the funds, which will later be used for criminal purposes.

1.21.2 AML Compliance Officer Designation and Duties

As required under the USA Patriot Act of 2001 (Patriot Act), the Company designates the President (currently Max Doane) as the Anti-Money Laundering Program Compliance Officer (AMLCO), with full responsibility for the Company's anti-money laundering (AML) program. Our AMLCO is qualified by experience, knowledge and training. The duties of the AMLCO will include monitoring the firm's compliance with AML obligations, overseeing communication, and training for employees. The AMLCO will also ensure that proper AML records are kept. When warranted, the AMLCO will ensure Suspicious Activity Reports (see Appendix Form TD F90-22.56) are filed with the Financial Crimes Enforcement Network (FinCEN) or the Company's designated self-regulatory agency (DSRO).

1.21.3 Sharing AML Information

1.21.3.1 FinCen Requests Under Patriot Act Section 314

Under the U.S. Treasury's final regulations (published in the Federal Register on September 26, 2002), we will respond to any FinCEN request about accounts or transactions by immediately searching our records to determine whether we maintain or have maintained any account for, or have engaged in any transaction with, each individual, entity, or organization named in FinCEN's request. Upon receiving an information request, the AMLCO is to be responsible regarding the request and similar

requests in the future. Unless otherwise stated in FinCEN's request, we are required to search current accounts and transactions, accounts maintained by a named suspect during the preceding twelve (12) months, and transactions conducted by or on behalf of or with a named subject during the preceding six (6) months. If we find a match, we will report it to FinCEN by completing FinCEN's subject information form in a timely manner. If the search parameters differ from those mentioned above (for example FinCEN requests longer periods of time or limits the search to a geographic location), we will limit our search accordingly.

If we search our records and do not uncover a matching account or transaction, then we will not reply as allowed under Section 314(a) of the PATRIOT Act.

We will not disclose the fact that FinCEN has requested or obtained information from us, except to the extent necessary to comply with the information request. We will maintain procedures to protect the security and confidentiality of requests from FinCEN, as required by Section 501 of the Gramm-Leach-Bliley Act (15 U.S.C. 6801 <http://www.ftc.gov/privacy/glbact/glbsub1.htm>).

We will direct any questions we have about the request to the requesting Federal law enforcement agency as designated in the 314(a) request.

Unless otherwise stated in the information request, we will not be required to treat the information request as continuing in nature, and we will not be required to treat the request as a list for purposes of the customer identification and verification requirements. We will not use information provided to FinCEN for any purpose other than (1) to report to FinCEN as required under Section 314 of the PATRIOT Act; (2) to determine whether to establish or maintain an account, or to engage in a transaction; or (3) to assist the Company in complying with any requirement of Section 314 of the PATRIOT Act.

1.21.3.2 Sharing Information with Other Financial Institutions

We will share information about those suspected of terrorist financing and money laundering with other financial institutions for the purposes of identifying and reporting activities that may involve terrorist acts or money laundering activities and to determine whether to establish or maintain an account or engage in a transaction. We will file an initial notice with FinCEN before any sharing occurs and annual notices thereafter. We will use the BSA filing system found at <http://bsaefiling.fincen.treas.gov/main.html> to file our form. Before we share information with another financial institution, we will take reasonable steps to verify that the other financial institution has submitted the requisite notice to FinCEN, either by obtaining confirmation from the financial institution or by consulting a list of such financial institutions that FinCEN will make available. We understand that this requirement applies even with respect to financial institutions with whom we are affiliated, and so we will obtain the requisite notices from affiliates and follow all required procedures.

We will employ strict procedures both to ensure that only relevant information is shared and to protect the security and confidentiality of this information, including segregating it from the firm's other books and records.

1.21.4 Customer Identification and Verification

We have established, documented, and maintained a written Customer Identification Program (CIP). We will collect certain minimum customer identification information from each customer who engages in any activity with the Company; utilize risk-based measures to verify the identity of each customer who engages in any activity; record customer identification information and the verification methods and results; provide notice to customers that we will seek identification information and compare customer identification information with government-provided lists of suspected terrorists as mentioned above in Section 3.

1.21.4.1 Required Customer Information

Prior to engaging in any activity which potentially may involve money laundering, we will collect the following information for all customers: the name; an address, (which will be residential or business street address for an individual), an Army Post Office ("APO") or Fleet Post Office ("FPO") number; an identification number, which will be a taxpayer identification number (for U.S. persons) or one or more of the following: a taxpayer identification number, passport number and country of issuance, alien identification card number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or other similar safeguard (for non-U.S. persons). We will refuse to complete any transaction in the event that a customer has applied for, but has not received a taxpayer identification number and cannot prove his/her identity to the satisfaction of the AMLCO.

1.21.4.2 Customers Who Refuse To Provide Information

If a potential or existing customer either refuses to provide the information described above when requested, or appears to have intentionally provided misleading information, the Company will not conduct any further transactions with that entity. In either case, our AMLCO will be notified so that we can determine whether we should report the situation to FinCEN.

1.21.4.3 Verification of Information

Based on the risk, and to the extent reasonable and practicable, we will ensure that we have a reasonable belief that we know the true identity of our customers by using risk-based procedures to verify and document the accuracy of the information we get about our customers. In verifying customer identity, we will analyze any logical inconsistencies in the information we obtain.

We will verify customer identity through documentary evidence, non-documentary evidence, or both. We will use documents to verify customer identity when appropriate documents are available. In light of the increased instances of identity fraud, we will supplement the use of documentary evidence by using the non-documentary means described below whenever possible. We may also use such non-documentary means, after using documentary evidence, if we are still uncertain about whether we know the true identity of the customer. In analyzing the verification information, we will consider whether there is a logical consistency among the identifying information provided, such as the customer's name, street address, zip code, telephone number (if provided), date of birth, and social security number.

Appropriate documents for verifying the identity of customers include, but are not limited to, the following:

- For an individual, an un-expired government-issued identification evidencing nationality, residence, and bearing a photograph or similar safeguard, such as a driver's license or passport;
- For an entity, other than an individual, documents showing the existence of the entity, such as certified articles of incorporation, government-issued business license, a partnership agreement, or a trust instrument.

We understand that we are not required to take steps to determine whether the document that the customer has provided to us for identity verification has been validly issued and that we may rely on a government issued identification as verification of a customer's identity. However, if we note that the document shows some obvious form of fraud, we must consider that factor in determining whether we can form a reasonable belief that we know the customer's true identity.

We may use any or all of the following non-documentary methods of verifying identity:

- Contacting a customer;
- Independently verifying the customer's identity through the comparison of information provided by the customer with information obtained from a consumer reporting agency, public database, employer or other source;
- Checking references with financial institutions; or
- Obtain a financial statement from financial institutions.

We will use non-documentary methods of verification in the following situations: (1) when the customer is unable to present an unexpired government-issued identification document with a photograph or other similar safeguard; (2) when the Company is unfamiliar with the documents the customer presents for identification verification; (3) when there are other circumstances that increase the risk that the Company will be unable to verify the true identity of the customer through documentary means.

We will verify the information within a reasonable time before a transaction is completed. Depending on the nature of the requested transaction, we may refuse to complete a transaction before we have verified the information. If we find suspicious information that indicates possible money laundering or terrorist financing activity, we will, after internal consultation with the firm's AMLCO, file a SAR in accordance with applicable law and regulation.

1.21.4.4 Lack of Verification

When we cannot form a reasonable belief that we know the true identity of a customer, we will do the following: (A) not complete any transaction; (B) impose terms under which the company may proceed while we attempt to verify the customer's identity; (C) file a SAR in accordance with applicable law and regulation.

1.21.4.5 Recordkeeping

We will document our verification, including all identifying information provided by a customer, the methods used and results of verification, and the resolution of any discrepancy in the identifying information. We will keep records containing a description of any document that we relied on to verify a customer's identity, noting the type of document, any identification number contained in the document, the place of issuance, and if any, the date of issuance and expiration date. With respect to non-documentary verification, we will retain documents that describe the methods and the results of any measures we took to verify the identity of our customer. We will maintain records of all identification information for five years after the account has been closed and readily accessible for the first two years. We will retain records made about verification of the customer's identity for five years after the record is made.

1.21.4.6 Comparison with Government Provided Lists of Terrorists and Other Criminals

The Company may receive notice that a federal government agency has issued a list of known or suspected terrorists. Within a reasonable period of time after an account is opened or a transaction is completed (or earlier, if required by another federal law or regulation or federal directive issued in connection with an applicable list), we will determine whether a customer appears on any such list of known or suspected terrorists or terrorist organizations issued by any federal government agency and designated as such by Treasury in consultation with the federal functional regulators. We will follow all federal directives issued in connection with such lists.

We will continue to comply with Treasury's Office of Foreign Assets Control ("OFAC") rules prohibiting transactions with certain foreign countries or their nationals.

1.21.4.7 Notice to Customers

We will provide notice to customers that the Company is requesting information from them to verify their identities, as required by Federal law. We will give notice to customers regarding the policy either verbally or as a plainly posted notice such as: "To help the government fight the funding of terrorism and money laundering activities, Federal law requires us to obtain, verify, and record information that identifies each person who cashes checks, wire funds or engages in other financial services

with this establishment. We will ask for your name, address and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents."

1.21.4.8 Reliance on another Financial Institution for Identity Verification

Under the following circumstances we may rely on the performance by another financial institution of some or all of the elements of our customer identification program with respect to any customer that is engaging in a money service transaction with the other financial institution to provide or engage in services, dealings, or other financial transactions:

- When such reliance is reasonable under the circumstances;
- When the other financial institution is subject to a rule implementing the anti-money laundering compliance program requirements of 31 U.S.C. 5318(h), and is regulated by a Federal functional regulator.
- When the other financial institution has entered into a contract with our firm requiring it to certify annually to us that it has implemented its anti-money laundering program, and that it will perform (or its agent will perform) specified requirements of the customer identification program.

1.21.5 Foreign Correspondent Accounts and Foreign Shell Banks

It is our policy that the Company will not complete any transactions when we have a reasonable cause to believe a foreign bank or foreign financial institution is involved until the Company has determined, to the satisfaction of the AMLCO that the foreign bank is not in itself suspicious.

1.21.6 Monitoring Accounts for Suspicious Activity

With the assistance of the underwriters, we will monitor our client's bank accounts to permit identification of patterns of unusual size, volume, pattern or type of transactions, geographic factors such as whether jurisdictions designated as "non-cooperative" are involved, or any of the "red flags" identified in Section 6.2 below. The AMLCO will be responsible for this monitoring, will document when and how it is carried out, and will report suspicious activities to the appropriate authorities. Among the information we will use to determine whether to file a SAR are exception reports that include transaction size, location, type, number, and nature of the activity. We will create employee guidelines with examples of suspicious money laundering activity and lists of high-risk clients whose accounts may warrant further scrutiny. Our AMLCO will conduct an appropriate investigation before a SAR is filed.

1.21.6.1 Emergency Notification to the Government

When conducting due diligence we will immediately call Federal law enforcement when necessary, and especially in these emergencies: a legal or beneficial account holder or person with whom the account holder is engaged in a transaction is listed on or located in a country or region listed on the OFAC list, an account is held by an entity that is owned or controlled by a person or entity listed on the OFAC list, a customer tries to use bribery, coercion, or similar means to open an account or carry out a suspicious activity, we have reason to believe the customer is trying to move illicit cash out of the government's reach, or we have reason to believe the customer is about to use the funds to further an act of terrorism. We may contact the OFAC via its hotline at 1-800-540-6322 or electronically through its website at <http://www.treasury.gov/resource-center/sanctions/Pages/forms-index.aspx>.

1.21.6.2 Detecting Red Flags

Red flags that signal possible money laundering or terrorist financing include, but are not limited to:

1. The customer exhibits unusual concern about the Company's compliance with government reporting requirements and the firm's AML policies (particularly concerning his or her identity, type of business), or is reluctant or refuses to reveal any information concerning business activities, or furnishes unusual or suspicious identification or documents.
2. The customer wishes to engage in a transaction that lacks business sense or is inconsistent with the customer's stated business.
3. The information provided by the customer that identifies a legitimate source for funds is false, misleading, or substantially incorrect.
4. Upon request, the customer refuses to identify or fails to indicate any legitimate source for his or her funds and other assets.
5. The customer (or a person publicly associated with the customer) has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations.
6. The customer exhibits a lack of concern regarding transaction costs.
7. The customer appears to be acting as an agent for an undisclosed principal, but declines or is reluctant, without legitimate commercial reasons, to provide information or is otherwise evasive regarding that person or entity.
8. The customer has difficulty describing the nature of his other business.
9. The customer attempts to conduct frequent or large transactions, or asks for exemptions from the Company's AML policies.
10. The customer engages in transactions involving cash or cash equivalents or other monetary instruments that appear to be structured to avoid the \$10,000 government reporting requirements, especially if the cash or monetary instruments are in an amount just below reporting or recording thresholds.
11. For no apparent reason, the customer has multiple accounts under a single name or multiple names, with a large number of inter-account or third-party transfers.
12. The customer is from, or has accounts in, a country identified as a non-cooperative country or territory by the FATF.
13. The customer has unexplained or sudden extensive money service activity, especially when they had little or no previous activity.
14. The customer has a large number of wire transfers to unrelated third parties inconsistent with the customer's legitimate business purpose.
15. The customer has financial activity with no apparent business purpose or from a country identified as a money laundering risk or a bank secrecy haven.
16. The customer makes a funds deposit followed by an immediate request that the money be wired out or transferred to a third party, or to another firm, without any apparent business purpose.
17. The customer requests that a transaction be processed to avoid the Company's normal documentation requirements.
18. The customer uses multiple accounts, or maintains accounts in the names of family members or corporate entities, with no apparent purpose.
19. The customer has inflows of funds or other assets well beyond the known income or resources of the customer.

1.21.6.3 Responding to Red Flags and Suspicious Activity

When a member of the Company detects any red flag he or she will investigate further under the direction of the AML Compliance Officer. This may include gathering additional information internally or from third-party sources, contacting the government, freezing the transaction, or filing a SAR.

1.21.7 Suspicious Transactions and BSA Reporting

1.21.7.1 Filing a SAR

We will file SARs for any activity (including deposits and transfers) conducted or attempted through our Company involving (or in the aggregate) \$5,000 or more of cash or assets where we know, suspect, or have reason to suspect:

1. the transaction involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity as part of a plan to violate or evade federal law or regulation or to avoid any transaction reporting requirement under federal law or regulation,
2. the transaction is designed, whether through structuring or otherwise, to evade the any requirements of the BSA regulations,
3. the transaction has no business or apparent lawful purpose or is not the sort in which the customer would normally be expected to engage, and we know, after examining the background, possible purpose of the transaction and other facts, of no reasonable explanation for the transaction, or
4. the transaction involves the use of the Company to facilitate criminal activity.

We will not base our decision on whether to file a SAR solely on whether the transaction falls above a set threshold. We will file a SAR and notify law enforcement of all transactions that raise an identifiable suspicion of criminal, terrorist, or corrupt activities. In high-risk situations, we will notify the appropriate government agency immediately and will file a SAR with FinCEN.

We will report suspicious transactions by completing a SAR and we will collect and maintain supporting documentation as required by the BSA regulations. We will file a SAR no later than 30 calendar days after the date of the initial detection of the facts that constitute a basis for filing a SAR.

If no suspect is identified on the date of initial detection, we may delay filing the SAR for an additional 30 calendar days pending identification of a suspect, but in no case, will the reporting be delayed more than 60 calendar days after the date of initial detection.

We will retain copies of any SAR filed and the original or business record equivalent of any supporting documentation for five years from the date of filing the SAR. We will identify and maintain supporting documentation and make such information available to FinCEN, any other appropriate law enforcement agencies, or federal or state regulators, upon request.

We will not notify any person involved in the transaction that the transaction has been reported, except as permitted by the BSA regulations. We understand that anyone who is subpoenaed or required to disclose a SAR or the information contained in the SAR, or where disclosure is requested by FinCEN, or other appropriate law enforcement or regulatory agency or an SRO, will decline to produce to the SAR or to provide any information that would disclose that a SAR was prepared or filed. We will notify FinCEN of any such request and our response.

1.21.8 AML Record Keeping

1.21.8.1 SAR Maintenance and Confidentiality

We will hold SARs and any supporting documentation confidential. We will not inform anyone outside of law enforcement or regulatory agency about a SAR. We will refuse any subpoena requests for SARs or SAR information and immediately tell FinCEN of any such subpoena we receive. We will segregate SAR-MSB filings and copies of supporting documentation from other Company books and records to avoid disclosing SAR filings. Our AML Compliance Officer will handle all subpoenas or other requests for SARs. We will share information with our bank about suspicious transactions in order to determine when a SAR should be filed – unless it would be inappropriate to do so under the circumstances, such as where we file a

SAR concerning the bank or its employees.

1.21.8.2 Responsibility for AML Records and SAR Filing

Our AMLCO and his or her designee will be responsible to ensure that AML records are maintained properly and that any SARs are filed as required.

1.21.8.3 Records Required

As part of our AML program, the Company will create and maintain SAR-MSBs, and other relevant documentation on customer identity and verification (see Section IV above) and fund transfers and transmittals as well as any records related to customers listed on the OFAC list. We will maintain SAR-MSBs and their accompanying documentation for at least five years.

1.21.9 Bank / Company Relationship

DMC will work closely with our banking firm to detect money laundering. We will exchange information, records, data and exception reports as necessary to comply with AML laws. The appropriate notification forms can be found at <http://www.fincen.gov/forms/e-filing/>. Generally we have agreed that the Company will monitor customer activity including proper customer identification information as required.

1.21.10 Training Programs

DMC developed ongoing employee training under the leadership of the AML Compliance Officer. Our training will occur on at least an annual basis.

The training includes, at a minimum:

1. how to identify red flags and signs of money laundering that arise during the course of the employees' duties;
2. what to do once the risk is identified;
3. what employees' roles are in the firm's compliance efforts and how to perform them;
4. the Company's record retention policy;
5. and the disciplinary consequences (including civil and criminal penalties) for non-compliance with the PATRIOT Act.

The training program includes the maintenance of the records to show the persons trained, the dates of training, and the subject matter of their training.

We will review our operations to see if certain employees, such as those in compliance, margin, and corporate security, require specialized additional training. Our written procedures will be updated to reflect any such changes.

DMC also requires AML training for third parties and vendors who perform functions on behalf of DMCs for functions typically performed by employees and are in a position to notice or report fraud or suspected fraud.

DMC will require and obtain annual written verification from the engaged entity or individual confirming that training has been received in accordance with Agency requirements.

1.21.11 Program to Test AML Program

Annual testing of our AML program will be performed by a qualified independent third party. The annual testing will include an audit of our compliance with our AML program. The auditor will issue a report of the auditor's findings upon completion of their audit to senior management. We will address each of the resulting recommendations.

1.21.12 Monitoring Employee Conduct and Accounts

We will subject employee transactions to the same AML procedures as customers, under the supervision of the AML Compliance Officer. We will also review the AML performance of supervisors, as part of their annual performance review. The AML Compliance Officer's accounts will be reviewed by a qualified member of the Company staff.

1.21.13 Reporting of AML Non-Compliance

Employees will report any violations of the firm's AML compliance program to the AML Compliance Officer, unless the violations implicate the Compliance Officer, in which case the employee shall report to an appropriate member of senior management. Such reports will be confidential, and the employee will suffer no retaliation for making them.

DMC must notify Freddie Mac of the following circumstances **immediately, within 1 business day**:

- Theft of custodial funds, lack of collateral, non-remittance of pay-off funds or multiple deliveries of the same Mortgage
- A substantial likelihood that the fraud or suspected fraud or other Suspicious Activity will receive significant public exposure or publicity
- A DMC is notified of the entry of a civil judgment, guilty plea or criminal conviction indicating lack of integrity and relating to a participant in a Mortgage or related real estate transaction, or relating to a board member, officer, employee or contractor of DMC
- DMC is notified by law enforcement or another governmental authority that such authority is conducting an investigation or prosecution of fraud relating to Mortgages owned by, or serviced for, Freddie Mac or relating to a board member, officer, employee or contractor of DMC
- A scheme or pattern of (i) more than five Mortgages sold to, or serviced for, Freddie Mac, or (ii) Mortgages sold to, or serviced for, Freddie Mac with an aggregate UPB of at least \$1 million
- Actual or possible terrorist financing or ongoing or possible money laundering schemes or activity

Notification to Freddie Mac will be as follows: DMC must submit the fraud or suspected fraud or other Suspicious activity to Freddie Mac using the **Tip Referral Tool**.

Seller/Service providers are not required and must not disclose to Freddie Mac any Financial Crimes Enforcement Network Suspicious Activity Reports (SARs) or draft SARs, documents or information revealing the existence of a SAR or indicating whether or not a SAR has been filed, or where disclosure of Suspicious Activity would otherwise be prohibited by law.

As permitted by law, the AML Compliance Officer will notify Freddie Mac **within seven business days** of confirmation of any instances of non-compliance or compliance failure related to the AML compliance program. Notification to Freddie Mac will be performed as follows:

via T: (800) 437-2838 Fraud Hotline

Mortgage_Fraud_Reporting@FreddieMac.com

Occurrences of misrepresentations, misstatements or omissions associated with the origination of a Mortgage, whether discovered through a post-closing quality review or by other means must be reported to Freddie Mac **within 30 days** of being identified. Reporting requirements are as follows: DMC must submit the fraud or suspected fraud or other Suspicious activity to Freddie Mac using the **Tip Referral Tool**.

Instances of misrepresentations, misstatements or omissions may occur during origination or servicing of a mortgage including, but not limited to, any loss mitigation activation:

- Misrepresentation, misstatement or omission related to the Borrower including, but not limited to, identification, employment, income, assets, sources of funds, indebtedness and property occupancy
- Misrepresentation, misstatement or omission related to the Mortgage Premises including, but not limited to, property valuation, property value and property use
- Misrepresentation, misstatement or omission of any other information related to a Mortgage or related real estate transaction including, but not limited to, undisclosed Seller or other third-party incentives, loan performance, mortgage purpose, kickbacks, an undisclosed relationship between parties to the transaction when Freddie Mac requires that the transaction is an "arm's length" transaction
- A person or entity on the Freddie Mac Exclusionary List is involved or was involved in the origination, sale or servicing of the Mortgage or in the related real estate transactions. T
- A person or entity on the FHFA Suspended Counterparty Program list is involved or was involved in the origination, sale or servicing of the Mortgage or in the related real estate transactions
- Termination or denial of mortgage insurance based on fraud

1.21.13.1 Tip Referral Tool

DMC will report all Mortgage fraud, suspected Mortgage fraud and , other Suspicious Activity using the **Tip Referral Tool**, located in Freddie Mac Loan Advisor and **Servicing Gateway**. Referrals made through the Tip Referral Tool must include at a minimum:

- a. Freddie Mac loan number
- b. Property address
- c. Mortgage fraud/Suspicious Activity type and category
- d. Parties involved
- e. Supporting documentation
- f. A narrative detailed description of the activity, including why it has been deemed suspicious or fraudulent. (Seller/Service providers should not include protected personal information, such as Social Security numbers, in the narrative description.)
- g. Any other required information as identified in the Tip Referral Tool

1.21.14 Office of Foreign Assets Control (OFAC)

The Office of Foreign Assets Control of the U.S. Department of the Treasury administers and enforces economic and trade sanctions. These sanctions are based on US foreign policy and national security goals against certain countries, individuals, and organizations. The Office of Foreign Assets Control (OFAC) policy detects communications involving these targeted groups. DMC's is committed to complying with OFAC requirements and the following policies outline policy guidelines.

1.21.14.1 Borrower and Guarantor Screening

All borrowers and guarantors are required to be screened against OFAC's most recent list of Specially Designated National and Blocked Persons ("OFAC SDN List") prior to funding and delivery to agencies or other investors. If a Borrower is on the OFAC SDN List, the loan is ineligible for funding. If a loan is funded and a borrower or guarantor is subsequently found to be a valid match on the OFAC SDN List, the loan is ineligible for sale to agencies and investors.

1.21.14.2 Screening of Loans Serviced by DMC

All loans serviced by DMC will be screened monthly against OFAC's most recent list of Specially Designated National and Blocked Persons ("OFAC SDN List") by DMC or the sub-servicer.

1.21.14.3 Reporting Requirements

If DMC or its sub-servicer identifies a valid Borrower match against the OFAC SDN List, DMC must notify the following:

- A. Freddie Mac via e-mail within 24 hours of identifying such match to discuss potential changes to the Servicing of the associated Mortgage, which may include, but are not limited to, the blocking and/or segregation of Mortgage-related funds and ceasing certain Servicing-related activities. Email notification will be sent to: Aml_Ofac_Governance@FreddieMac.com, and will include the following information:
 - I. Freddie Mac loan number
 - II. Borrower Name
 - III. Name, title, e-mail address, and telephone number of the contact at the Servicer who will be able to discuss the OFAC SDN List match.
- B. OFAC notification of blocked property report within 10 days. Report is filed as follows:
 - I. Complete the "Report of Blocked Property" and email to OFACReport@treasury.gov.
 - II. The "Report of Blocked Property" must be retained for as long as blocked; once unblocked, records will be maintained for five years.

1.21.14.4 Responsible Party

DMC's CEO and President are responsible for managing the OFAC guidelines and policy, and filing the applicable reports.

1.21.15 Additional Areas of Risk

The Company has reviewed all areas of its business to identify potential money laundering risks that may not be covered in the procedures described above and is continually working to improve its AML program.

1.21.16 Senior Management Approval

Senior Management has approved this AML program as reasonably designed to achieve and monitor the Company's ongoing compliance with the requirements of the USA PATRIOT Act of 2001 and the implementing regulations under it.

1.21.17 Change Tracking

Change date: 9/26/2024

Training date: 10/7/2024

Commented By: Max Doane | Time: 03/18/2025 04:34 PM

Completed

Change Log

User	Action Date	Action
Max Doane	03/18/2025 04:34 PM	Completed
Max Doane	09/26/2024 04:31 PM	Created

1.22 Information Security Plan

Area: Implementing Policy and Procedure Changes

Policy Manual Section: Information Security Plan

1.22.1 Purpose

Direct Mortgage, Corp. believes in protecting the personal information of its customers. Protection of information is a good business practice, demonstrates our ethical responsibility, and is required by law. DMC has instituted policies and procedures to protect information and will continue to monitor and modify its policies and procedures in light of relevant circumstances, including changes in our company's policies, procedures, operations, or the results of our ongoing security testing and monitoring.

This information security policy has been created in accordance with the Gramm-Leach-Bliley (GLB) Act and the FTC's Safeguards Rule. The Safeguards Rule requires all financial institutions to design, implement and maintain safeguards to protect customer information. As stated by the FTC, this policy is meant to: "(1) Ensure the security and confidentiality of customer records and information; (2) protect against any anticipated threats or hazards to the security or integrity of such records; and (3) protect against unauthorized access to or use of such records or information which could result in substantial harm or inconvenience to any customer."

The Information Security Team of CEO, IT Manager and President is responsible for the development of information security requirements, including the adoption, implementation, maintenance and administration of written minimum-security standards, policies and procedures that responsibly address critical issues such as user responsibilities (e.g., "Acceptable Use"); ownership of and access to information; baseline security practices; physical, administrative and technical security protection mechanisms and other requirements.

DMC requires an annual review and employee training of the Information Security Plan. The Plan is reviewed for compliance and amend as needed. Training is provide

1.22.2 Requirements of the Safeguards Rule

1. The Information Security Team oversee and coordinate the information security program;

2. Identify and assess the risks to customer information in each relevant area of the company's operation, and evaluate the effectiveness of the current safeguards for controlling these risks in the following areas;

- a. Annually review the Information Security Plan for compliance and amend as needed.
- b. Employee management and training;
- c. Information systems;
- d. Detecting and managing system failures, attacks, & intrusions.

3. Design and implement a safeguards program, and regularly monitor and test it, as follows:

- a. Employee management and training;
- b. Information systems;
- c. Detecting and managing system failures, attacks, & intrusions.

4. Select service providers that can maintain appropriate safeguards, make sure our contract requires them to maintain safeguards, and oversee their handling of customer information; and

5. Evaluate and adjust the program in light of relevant circumstances, including changes in our company's policies, procedures, operations, or the results of our ongoing security testing and monitoring.

1.22.3 Information Security Plan

1.22.3.1 Designated Employees

IT managers as well as department managers and executive leadership coordinate information security safeguards.

1.22.3.2 Risk Identification and Safeguard Effectiveness Evaluation

The following are three main of risk that we have identified along with an evaluation of current safeguard effectiveness:

1. Employee Management, & Training

a. The risks identified are:

- i. Disclosing customer information to those without a right or need to know, either intentionally or unintentionally;
- ii. Leaving customer information unprotected on computer systems or other electronic equipment;
- iii. Terminated employees may access or have retained customer information;
- iv. Access by unauthorized persons to customer data via physical files.

b. Current Effectiveness Employee Management & Training Safeguards:

- i. The honesty and training of employees are the most effective ways of maintaining the security of customer data. DMC constantly monitors and tracks the level of integrity of our staff and potential employees.

2. Information Systems

a. The risks identified are:

- i. Access via the Internet to customer data located on servers or electronic devices;
- ii. Direct access to customer data located on servers or other electronic devices.

b. Current Effectiveness of Information Safeguards:

- i. Login credentials issued by DMC restrict access. Safeguards are effectively working.

3. Detecting and Managing System Failures, Attacks, & Intrusions

a. The risks identified are:

- i. Anti-virus, anti-spyware programs may not adequately protect;
- ii. Firewall may not adequately protect;
- iii. System may show customer information to a person without the right or need to know.

b. Current Effectiveness of Detecting System Failures, Attacks, & Intrusions:

- i. DMC will continue to evaluate the effectiveness of this policy on a monthly basis.
- ii. Observations and evaluations are discussed in management meetings.

1.22.3.3 Safeguards Programs

The following are information safeguards for the risks identified in the section above:

1. Employee Management and Training:

- a. Random drug-checks required of employees.
- b. The following are performed for all persons being considered for employment: (a) criminal background check, (b) credit pulled and reviewed, and (c) three professional references contacted.
- c. New employees are given an Employee Handbook containing company policies and are asked to sign an agreement to follow those policies.
- d. Employees are granted varying rights to information and functionality within DMC's information system based on employee responsibilities.
- e. Username and password are required to access each computer in the office.
- f. Username and password are required to access DMC's information system, DirectWare.
- g. Logins to DirectWare are deactivated when an employee is terminated.
- h. Employee computers automatically lock after a period of inactivity and require username and password to regain access.
- i. Employees are to take these basic steps to maintain the security, confidentiality, and integrity of customer information, including:
 - i. Employees are to "lock" their computer when they have finished their work each day.
 - ii. No documents containing sensitive personal information shall be left in the open at the end of the work day.
 - iii. Documents containing customer data shall be stored in a secure environment.
 - iv. Documents placed in an onsite employee's recycle receptacle shall be deposited into a secure canister at the end of each day.
 1. The contents of these secure canisters are destroyed regularly by a third-party document destruction company.
 2. An employee walks the office regularly to ensure that documents are being placed in a designated, secure receptacle.
 - v. Off-site employees shall regularly shred documents that are no longer needed.
 - vi. Employee passwords shall not be openly posted in work areas.
 - vii. Employees are to report suspicious attempts to obtain customer information to designated personnel.
 - viii. Equipment such as laptops, PDAs, cell phones, or other devices that may store customer data:
 1. Should be stored in a secure place when not in use.
 2. Devices that can be locked or password protected should be locked when not in use.
 3. Files containing customer information stored on such devices should be encrypted and password protected in order to better protect customer data in case of theft of such a device.
 - ix. Employees are to immediately report the loss or theft of equipment that contains or may contain customer data.
 - x. Employees who use personal computers to store or access customer data must use approved protections against viruses, spyware, and other unauthorized intrusions.
 - xi. Sensitive customer information such as social security numbers shall not be transmitted via email, including when it appears on screen shots or images.
 - xii. Office keys shall not be lent to other employees without the prior approval of senior management.
 - xiii. Documents containing customer data shall not be removed from the office without the prior approval of senior management.
 - xiv. Employees shall follow the Confidentiality, Communication and Information Systems, Electronic Communications & Instant Messaging (I/M) Policy, and all other company policies.
 - j. Regular conference calls in which policies and procedures can be promulgated.
 - k. Employees are reminded regularly of DMC's policy — and the legal requirement — to keep customer information secure and confidential.
 1. A flyer is posted in a relevant location(s) reminding employees of their responsibility for information security.
 - m. Employees must return any company-owned property.
 - n. Disciplinary measures are taken for security policy violations.
 - o. User Access Management:
 1. The CEO and/or President are required to have admin rights to all agency, vendor, third party sites.
 2. The CEO and/or President will grant, monitor and remove user access to all agency, vendor, third party, and investor sites and systems
 3. No less than quarterly, user access will be reviewed and complete attestations as required by agencies.
 4. Access will be limited to users on a need-to-know basis, and will be reviewed and granted by the CEO and President.
 5. User rights will be restricted to needed roles and will be adjusted within 1 day upon employee transfers or reassignments.
 6. Upon termination or transfer, system access will be terminated or amended within 1 business day.
 7. The CEO and/or President will remove or adjust user access to Freddie Mac systems by updating Access Manager.

2. Third-Party Management of System Access:

- a. Third-party employees may be granted access to DirectWare on a need-to-know basis.

- b. Third-party's will be required to sign a written agreement that personal data will not be downloaded.
- c. Third-party's are required to sign a written agreement to safeguard personal information.
- d. Access rights are managed by the CEO or President and reviewed monthly to determine need.
- e. Upon termination of vendor and/or employees of the vendor access rights will be immediately terminated
- f. Enforce access control methods that limit access to systems, physical or virtual resources and grant access to users on a need-to-know basis

3. Information Systems

1) Storage:

- a) Ensure that storage areas are protected against destruction or damage from physical hazards, like fire or floods.
- b) Servers containing customer records are stored in a room that is locked when unattended.
- c) When customer information is stored on a server or other computer, the computer is accessible only with a "strong" password and is kept in a physically-secure area.
- d) Maintain secure backup records and keep archived data secure by storing it off-line and in a physically-secure area.
- e) Maintain an inventory of DMC's computers and any other equipment on which customer information may be stored.

2) Secure transmission of customer information:

- a) Transmission of customer information online is automatically secure using Secure Sockets Layer (SSL).
- b) Legal disclosures that are automatically delivered by our system via email are sent in a password-protected PDF format.

3) Disposal of customer information:

- a) Storage devices are stripped of personal customer information before being disposed of OR the storage device itself is adequately destroyed.

4. Detecting, Managing and Reporting System Failures, Attacks& Intrusions.

Direct Mortgage takes the following steps to prevent attacks, quickly diagnose a security incident, and have a plan in place for responding effectively.

- a. DMC monitors the websites of its software vendors and stays abreast of emerging threats and available defenses.
- b. DMC utilizes the following programs and controls to prevent unauthorized access to customer information:
 - i. Software vendors are checked regularly to get and install patches that resolve software vulnerabilities;
 - ii. Uses anti-virus and anti-spyware software that updates automatically;
 - iii. Maintains up-to-date firewalls.
 - iv. Regularly ensures that ports not used for our business are closed;
 - v. Promptly passes along information and instructions to employees regarding any new security risks or possible breaches.
- c. DMC uses the following oversight or audit procedures to detect the improper disclosure or theft of customer information:
 - i. Keeps logs of activity on our network and monitors them for signs of unauthorized access to customer information;
 - ii. Uses an up-to-date intrusion detection system to alert us of attacks;
 - iii. Monitor both inbound and outbound transfers of information for indications of a compromise.
 - iv. Inserts a dummy account into each of our customer lists and monitors the account to detect any unauthorized contacts or charges.
- d. In the event of any unauthorized acquisition of or access to data or computing resources or any other security related issue that may compromise the security, confidentiality, availability, integrity or privacy of confidential information or Protected Information has been exposed, accessed or used without authorization, DMC will take the following steps to preserve the security, confidentiality, and integrity of customer information:
 - i. Take immediate action to secure any information that has or may have been compromised. For example, if a computer connected to the Internet is compromised, disconnect the computer from the Internet;
 - ii. Preserve and review files or programs that may reveal how the breach occurred; and if feasible and appropriate, bring in security professionals to help assess, investigate, correct and mitigate the breach as soon as possible;
 - iii. Notify consumers if their personal information is subject to a breach that poses a significant risk of identity theft or related harm;
 - iv. Notify law enforcement if the breach may involve criminal activity or there is evidence that the breach has resulted in identity theft or related harm;
 - v. Notify the agencies as follows:
 - a. Freddie Mac:
 - i. Within 48 hours the CEO or President will send an email to : Privacy_Incident_Management@Freddie Mac. Com
 - ii. Provide the name, phone number and email address of the contact leading the Privacy Incident Investigation.
 - iii. Provide Freddie Mac with information including technical and forensic reports if available, all known details of the Privacy Incident, including related internal and external investigations and point of contact information.
 - vi. Notify the credit bureaus and other businesses that may be affected by the breach;
 - vii. Notify any person(s) that may have been effected by the breach;
 - viii. Check to see if any additional breach notification is required under applicable state law.

1.22.3.4 Third-party Service Providers

DMC chooses service providers with the capability to protect customer information. DMC's contracts with its service providers require them to maintain safeguards.

1.22.3.5 Evaluation and Adjustment of Information Security Plan

DMC will evaluate its information security plan regularly and make necessary adjustments in light of relevant circumstances, including changes in our company's policies, procedures, operations, or the results of our ongoing security testing and monitoring.

1.23 Change Tracking

Change Date 3/10/2025

Training Date 3/17/2025

Commented By: Max Doane | Time: 03/15/2025 02:33 PM

Completed

Change Log

User	Action Date	Action
	03/15/2025 02:23 PM	Created
Max Doane	03/15/2025 02:33 PM	Completed
Max Doane	03/15/2025 02:54 PM	Completed

1.23 Loss Mitigation

1.23.1 Introduction

This Policy and Procedure Manual shall direct the Loss Mitigation efforts of DMC and/or its third party vendors. The purpose of this document is to establish minimum standards, guide the performance of Loss Mitigation personnel, maximize portfolio

performance and minimize loss associated with delinquency, non-performance and foreclosure. It is the intention of DMC that all Loss Mitigation Policies and Procedures be followed as directed to help ensure performance of our organization and meet the contractual obligations DMC has to its Investor(s).

1.23.1.1 Goals & Objectives

The objective of Loss Mitigation is to return the loan to a performing status with minimum loss. If it is determined that the loan cannot return to a performing status, then it is the objective to liquidate the loan for maximum value and minimal loss. The policies and procedures reflected within this document are intended to establish a minimum set of performance standards and shall not be interpreted to limit existing standards from other sources which may apply. In most cases, Loss Mitigation efforts will be further guided by contracts with or policies set by investors such as FHLMC, FNMA, FHA, VA, Ginnie Mae, Treasury, mortgage insurers or others. In cases where such directives exist, they shall be followed and any conflict between these policies and/or procedures and those directives shall defer to that of our servicing contract or investor policy.

1.23.1.2 Current Market Influences

The recent economic crisis – 2007 through 2012 inclusive – and reactions have resulted in significant change. The mortgage market, regulatory environment, economic outlook and industry practices have never been affected in such a pervasive manner. Whole economic sectors have been widely affected and individual states have been singled out as those hardest hit. Government programs, originally announced in March 2009 under the Making Home Affordable Program have been created to assist traditional lender supported Loss Mitigation programs. These same programs have been amended in response to less than favorable results. Sweeping regulatory reform has industry leaders scrambling to reassess most business practices. This process continues through 2012 with further change expected in 2013.

1.23.1.3 Stakeholders and Their Perspective

DMC along with Lenders, Investors, Servicers, Mortgage Insurers, Community Leaders, Regulators and the borrowers share the same objective – avoid foreclosure when possible, maintain homeownership and minimize financial loss to all parties. In today's complex environment, these parties do not always share the same perspective regarding how this objective can be achieved. Industry accepted policy statements note that prudent workout arrangements that are consistent with safe and sound lending practices are generally in the long-term interests of both the financial institution and the borrower. Recent statements identify prudent strategies for loss mitigation for servicers, including loan modifications, deferral of payments, extension of loan maturities, capitalization of delinquent amounts, and conversion of adjustable-rate mortgages into fixed-rate mortgages or fully indexed, fully amortizing adjustable-rate mortgages. DMC supports the collaboration effort required to include the participation of all interested Stakeholders in this complicated process.

1.23.1.4 Failure to Engage in Loss Mitigation

Any failure on the part of DMC to engage in Loss Mitigation efforts concerning any individual case may expose DMC to legal action and/or civil liability. To help avoid such actions or the assessment of penalties, DMC Loss Mitigation shall perform, at a minimum, the following three (3) actions:

- (1) Ensure that the loss mitigation evaluations are completed for all delinquent mortgages before four full monthly installments are due and unpaid.
- (2) Ensure that the appropriate action is taken based on these evaluations.
- (3) Maintain documentation of all initial and subsequent loss mitigation evaluations and actions taken.

1.23.1.5 Agency, Investor or GSE Information

Elements of Investor Servicing Guides (FNMA, FHLMC, FHA, VA, etc.) or similar but otherwise titled documents have been included within this DMC Policy and Procedure Manual as a matter of convenience. These references are meant to highlight differences between the investors' guidelines that may be important to DMC staff or provide a convenient reference for frequently used information. These references are not intended to replace the Investor Guide(s), eliminate the need to follow or reference the Investor Guide(s) or in any way limit the extent to which the Investor Guide(s) is referenced or incorporated within this policy.

1.23.2 Monitoring and Quality Control

DMC requires that this Loss Mitigation Policy and all underlying policies or investor policies referenced herein have a monitoring and quality control component. Ongoing adherence to these policies shall be documented such that adherence to policy can be audited or reviewed for accuracy, compliance, inefficiency or failure. Quality assurance shall include, but not be limited to:

- Monitoring the effectiveness of all communications with borrowers.
- Assuring DMC's loan servicing system accurately documents collection and Loss Mitigation activities.
- Verifying that Loss Mitigation considers options in the order prescribed by DMC or the investor as may apply.
- Assuring that, prior to deciding to foreclose, all appropriate foreclosure prevention alternatives have been considered.
- Determining that all required reporting regarding delinquency status, Loss Mitigation activity and any and all other reporting, that may from time to time be required, is submitted to DMC management and any required and authorized third party. This will include reporting on the Making Home Affordable Programs using Freddie Mac as agent if DMC is a Participating Lender in Treasury's incentive program.

1.23.3 Staff and Training

DMC requires the ongoing training and education of its' staff and third party vendors. A program shall be in place to ensure staff members are knowledgeable in all aspects of collection, default servicing and foreclosure prevention strategies as well as changes to this and other policies of DMC and its investors. Required training may be provided internally by DMC personnel or by any approved third party vendor.

1.23.3.1 Staffing Levels

DMC Loss Mitigation management shall ensure that staffing levels are sufficient to handle inbound and out bound call traffic for all functions and/or departments. Foreclosure prevention staff must be available to assist with all inbound and outbound activity.

1.23.4 Fraud

Although there is no specific statute that defines mortgage fraud, each mortgage fraud scheme contains some type of "material misstatement, misrepresentation or omission relied upon by an underwriter or lender to fund, purchase or insure a loan." The FBI investigates mortgage fraud in two distinct areas: Fraud for Housing and Fraud for Profit. Fraud for Profit is sometimes referred to as "Industry Insider Fraud" and the motive is to remove equity, false Ly inflate the value of the property or issue loans based on fictitious property. Fraud for Housing represents illegal actions perpetrated solely by the borrower. The simple motive behind this fraud is to acquire and maintain ownership of a house under false pretenses. This type of fraud is typified by a borrower who makes misrepresentations regarding his income or employment history to qualify for a loan.

1.23.4.1 Identifying Mortgage Fraud

DMC is committed to the identification, recording and reporting of mortgage fraud. Since early payment default and default in general are indicators of and give rise to the discovery of mortgage fraud, Loss Mitigation personnel shall be aware of historical and current trends in mortgage fraud. All suspected mortgage fraud shall be reported to the appropriate internal department of DMC for recording and reporting as may be appropriate.

1.23.4.2 Trends in Mortgage Fraud

DMC is committed to maintaining a high level of knowledge with respect to current trends in mortgage fraud and has established resources to support this effort. More comprehensive fraud information may be obtained from [DMC Fraud Contact].

Some of the current mortgage fraud trends include: equity skimming, property flipping and mortgage identity related theft. Equity skimming is a tried and true method of committing mortgage fraud and criminals continue to devise new schemes. Today's common equity skimming schemes involve the use of corporate shell companies, corporate identity theft and the use or threat of bankruptcy/foreclosure to dupe homeowners and investors. Property flipping is nothing new; however, once again law enforcement is faced with an educated criminal element that is using identity theft, straw borrowers and shell companies, along with industry insiders to conceal their methods and override lender controls. It should also be noted that identity theft in its many forms is a growing problem and is manifested in many ways, including mortgage documents.

Currently(2012), trends in mortgage servicing fraud are indicating an increased activity in the area of Short-Sale or Short-Payoff abuse. DMC supports the efforts of all agencies in being vigilant in working against these fraudulent efforts. DMC shall, through all of its' Loss Mitigation efforts, work to ensure that such transactions are not closed if they violate the policies of DMC or any of its investors.

1.23.5 Delinquency Prevention

The policies of DMC are intended to support the efforts of borrowers in meeting their obligations, avoiding foreclosure and, when feasible, remaining in their homes. Loss Mitigation personnel shall at all times use appropriate tools and provide guidance that, under the individual circumstances, is deemed an appropriate means by which to avoid foreclosure, promote open and effective communication and provide borrowers opportunity to resolve legitimate disputes.

The specific timing, actions and requirements relating to borrow contact, DMC remedies and property preservation may be found in detail within the section of this manual titled Work Process - Borrower Contact.

1.23.6 Early Default Indicators

The following early default indicators each contribute, in varying degrees, to both the likelihood of default and the likelihood of the Loss Mitigation effort ending in foreclosure.

1.23.6.1 Payment History

Early Payment Default has been found to be a highly reliable indicator of both future default and fraud. Mortgages experiencing Early Payment Default shall be classified and monitored relative to an intrinsically higher degree of default risk.

1.23.6.2 Market Value

Origination and current value shall be assessed for accuracy, market trends and potential fraud. Mortgages on homes exhibiting a declining value have been shown to have a higher likelihood of default and, for those with negative equity, a higher likelihood of foreclosure.

1.23.6.3 Local Market

The local market condition shall be reviewed for understanding of real estate, employment and other economic indicators. Mortgages experiencing default for overriding economic issues, as opposed to a singular event such as the death of a borrower, have been shown to have a higher likelihood of default and foreclosure.

1.23.6.4 Other Characteristics

Explanation of the impact of other characteristics upon default and/or foreclosure is beyond the scope of this manual. However, it should be understood that the following characteristics will impact the performance of the loan there by, either increasing or decreasing the likelihood of default and foreclosure.

- Program: Prime, Sub-prime, Alt A, etc.
- Product: FRM, ARM, GPM
- Documentation Level: Full, Alt, Stated, No Doc, etc.
- Features: Pre Payment Penalty, Negative Amortization, Interest Only & Other Options
- LTV
- Mortgage Insurance
- Occupancy (weighted by economic factors)
- Transaction: Purchase or Refinance
- FICO Scores
- DTI

1.23.6.5 Imminent Default

By establishing early contact with the borrower to discuss the reason for the default and the available reinstatement options, DMC increases the likelihood that the default will be cured and the borrower will be able to retain homeownership. DMC currently limits Loss mitigation options that may be used to assist borrowers facing imminent default to forbearance and HAMP. Other specific restrictions are listed below.

DMC must document in its servicing system the basis for its determination that a payment default is imminent and retain all documentation used to reach its conclusion. The documentation must also include information on the borrower's financial condition.

1.23.6.5.1 FHA

FHA defines an "FHA borrower facing imminent default" to be an FHA borrower that is current or less than 30 days past due on the mortgage obligation and is experiencing a significant reduction in income or some other hardship that will prevent him or her from making the next required payment on the mortgage during the month that it is due. The borrower must be able to document the cause of the imminent default. See [Mortgagee Letter 2010-04](#).

1.23.6.5.2 FHLMC

FHLMC states, in part, that a borrower is considered to be in imminent danger of default, if, based upon the facts and circumstances of the particular Mortgage and using prudent business judgment, it appears more likely than not that the Borrower will default on his or her Mortgage payments within the next 12months.

1.23.6.5.3 FNMA

FNMA states, in part, that a servicer may consider special relief options and foreclosure alternatives when a payment default is reasonably foreseeable(imminent) rather than wait for a payment default. In determining whether a payment default is imminent, DMC must evaluate the borrower's financial condition as well as the condition of and circumstances affecting the property securing the mortgage loan. DMC also must document the basis on which it makes a determination that a payment default is reasonably foreseeable. A default is reasonably foreseeable when the servicer is notified or otherwise becomes aware of an event or factors that is or are expected to cause the borrower to be in default in the near future, generally within 90 days.

1.23.7 Work Process – Borrower Contact

The following work rules shall be applied to all Loss Mitigation efforts performed on behalf of DMC either directly or by a third party vendor. All loans shall be classified into one of three risk categories – Low Risk, Moderate Risk or High Risk – based upon a review of the Early Default Indicators. The resulting risk category may be determined by manual review or the use of an evaluation tool such as those offered by FHLMC, FNMA, FHA and others. A table summarizing the Work Process Rules contained within the following sections 7.3, 7.4 & 7.5 may be found in the Appendix.

Caution: A loan may not improve in risk grade while increasing in delinquency. For example, a loan due for two payments and graded High risk may not be graded less than High risk when due for three payments.

1.23.7.1 Contact

DMC requires that contact via telephone be made with every delinquent borrower to effectuate the Loss Mitigation process. Emphasis must be placed upon the need for timely payments on or before the due date.

1.23.7.1.1 Telephone Contact

It is the policy of DMC that automated message calls do not constitute a sufficient attempt at borrower contact. Additionally, the call history to anyone borrower must be of a sufficiently varying schedule to be considered as adequate outreach.

1.23.7.1.2 Written Contact

DMC requires that all written communication follow established requirements for type, timing and content as specified within this policy or the relevant investor policy.

At a minimum, an individual letter shall be sent to all borrower(s) after the 17th day of delinquency to open communications and determine the borrower(s) commitment and capacity to cure the delinquency.

1.23.7.2 Early Payment Default (EPD)

DMC shall pay special attention to a new Borrower whose mortgage has become delinquent within six months of the Origination Date. In an effort to deter a pattern of chronic Delinquency, DMC must:

- Establish personal contact with a delinquent new Borrower between the 5th and 15th day of delinquency.
- Determine the cause of delinquency
- Educate the Borrower on the importance of making each monthly payment on or before the Due Date or encouraging the Borrower to set up ACH payment arrangements

1.23.7.3 Due for One Payment

1.23.7.3.1 Borrower Contact

- High Risk – Contact shall be made between 17 and 29 days.
- Moderate Risk – Contact is discretionary.
- Low Risk – Contact is discretionary.

1.23.7.4 Due for Two Payments

1.23.7.4.1 Borrower Contact

- High Risk – Contact shall be made between 32 and 45 days.
- Moderate Risk – Contact shall be made between 46 and 60 days.
- Low Risk – Contact shall be made between 46 and 60 days.

1.23.7.4.2 Acceleration

- High Risk – Notice of Acceleration shall be sent no later than day 45.
- Moderate Risk – Acceleration is discretionary.
- Low Risk - Acceleration is discretionary.

1.23.7.4.3 Foreclosure Alternative Notice

- High Risk – Notice of Foreclosure Alternatives shall be sent no later than day 55.
- Moderate Risk – Notice of Foreclosure Alternatives is discretionary.
- Low Risk - Notice of Foreclosure Alternatives is discretionary.

1.23.7.4.4 Property Inspection

Including Right Party Contact

- High Risk – Property Inspection with Right Party Contact shall be completed by day 75.
- Moderate Risk – Property Inspection with Right Party Contact shall be discretionary.
- Low Risk - Property Inspection with Right Party Contact shall be discretionary.
- Without Right Party Contact
- High Risk – Property Inspection with Right Party Contact shall be completed by day 60.
- Moderate Risk – Property Inspection with Right Party Contact shall be completed by day 75.
- Low Risk - Property Inspection with Right Party Contact shall be discretionary.

1.23.7.4.5 Foreclosure Initiation

- High Risk – Foreclosure Initiation shall be completed by day 90. Successful and productive borrower contact including the active pursuit of other Loss Mitigation programs may serve to hold Foreclosure Initiation.
- Moderate Risk – Foreclosure Initiation shall be discretionary.
- Low Risk - Foreclosure Initiation shall be discretionary.

1.23.7.5 Due for Three Payments

1.23.7.5.1 Borrower Contact

- High Risk – Contact shall be made between 32 and 45 days. If no Right Party Contact, attempt monthly
- Moderate Risk – Contact shall be made between 46 and 60 days. If no Right Party Contact, attempt monthly.
- Low Risk – Contact shall be made between 46 and 60 days. If no Right Party Contact, attempt monthly.

1.23.7.5.2 Acceleration

- High Risk – Notice of Acceleration shall be sent no later than day 65.
- Moderate Risk – Notice of Acceleration shall be sent no later than day 75.
- Low Risk - Notice of Acceleration shall be sent no later than day 75.

1.23.7.5.3 Foreclosure Alternative Notice

- High Risk – Notice of Foreclosure Alternatives shall be sent no later than day 75.
- Moderate Risk – Notice of Foreclosure Alternatives is discretionary.
- Low Risk - Notice of Foreclosure Alternatives is discretionary.

1.23.7.5.4 Property Inspection

Including Right Party Contact:

- High Risk – Property Inspection with Right Party Contact shall be completed by day 75.
- Moderate Risk – Property Inspection with Right Party Contact shall be completed by day 105.
- Low Risk - Property Inspection with Right Party Contact shall be discretionary.
- Without Right Party Contact:
- High Risk – Property Inspection with Right Party Contact shall be completed by day 75.
- Moderate Risk – Property Inspection with Right Party Contact shall be completed by day 75.
- Low Risk - Property Inspection with Right Party Contact shall be completed by day 105.

1.23.7.5.5 Foreclosure Initiation

- High Risk – Foreclosure Initiation shall be completed by day 120. Successful and productive borrower contact including the

active pursuit of other Loss Mitigation programs may serve to hold Foreclosure Initiation.

- Moderate Risk – Foreclosure Initiation shall be completed by day 120. Successful and productive borrower contact including the active pursuit of other Loss Mitigation programs may serve to hold Foreclosure Initiation.
- Low Risk - Foreclosure Initiation shall be completed by day 120. Successful and productive borrower contact including the active pursuit of other Loss Mitigation programs may serve to hold Foreclosure Initiation.

1.23.8 Loss Mitigation Programs (Foreclosure Prevention Alternatives)

DMC believes that it is very important to establish an open line of communication with a borrower early in the delinquency resolution process since a borrower generally will be more forthcoming after he or she has had several contacts with DMC's Loss Mitigation personnel.

It is important that all parties having borrower contact make sure that the borrower understands that offers of foreclosure prevention alternatives are just that—offers—and that he or she is under no obligation to agree to one of the offers. DMC must handle workouts that involve the borrower's relinquishing ownership of the property (assumptions, pre-foreclosure sales, deeds-in-lieu of foreclosure) carefully to ensure that the borrower's rights are appropriately protected.

1.23.8.1 Forbearance

A forbearance agreement is an agreement by DMC to postpone, reduce or suspend payment(s) due on a loan for a limited and specific time period. Forbearance agreements may be classified as informal, formal and special. Informal forbearance is a verbal agreement between DMC and the borrower. The duration for an informal forbearance must be three months or less. Formal forbearance is an agreement in writing between DMC and the borrower where the duration of the forbearance agreement will be for more than three months. Special Forbearance is a written repayment agreement between DMC and a borrower that contains a plan to reinstate a loan that is a minimum of three payments due and unpaid and must provide the mortgagor with relief not typically afforded under a repayment plan or an informal forbearance plan.

1.23.8.1.1 FHLMC

FHLMC generally allows Forbearance for up to four (4) months at the discretion of DMC. Long-term forbearance is a written agreement to reduce or suspend monthly payments for a period of 4 to 12 months from the date of the agreement. Long Term Forbearance agreements require the approval of FHLMC in accordance with A65.25 of the FHLMC Servicing Guide.

1.23.8.1.2 FNMA

FNMA generally allows Forbearance for up to six (6) months at the discretion of DMC. In any instance in which DMC is required to obtain Fannie Mae's prior written approval for an extended forbearance period, DMC must send its recommendation, along with a copy of the forbearance plan, a letter from the borrower documenting his or her financial hardship and requesting assistance, and evidence of the mortgage insurer's or guarantor's approval of the proposed forbearance (if applicable). Additionally, FNMA has certain MBS Pools for which the maximum Forbearance term will not be extended. The FNMA Servicing Guide(VII, 403) should be consulted for detailed information for the availability of extended Forbearance terms.

1.23.8.1.3 Lender / Servicer Plans

Most all Forbearance plans typically fall into this category and may be informal, formal or special. All plans other than HAMP Trial will be considered Lender /Servicer plans by DMC.

1.23.8.1.4 HAMP Trial Payment Plans

All HAMP Trial Payment Plans shall be classified as Formal Forbearance plans even when the plan duration is three (3) months. Unlike Lender / Servicer plans, HAMP Trial plans are not expected to return the loan to a current and performing status. Rather HAMP Trial plans are a special designation of Forbearance plan which is a prelude to HAMP Modification. It is expected that, upon successful and timely completion of the HAMP Trial plan, a HAMP Modification will be executed.

The HAMP program is scheduled to expire 12/31/2012. Any Loss Mitigation activities contemplating HAMP as this sunset date approaches should specifically inquire as to alternatives, deadlines and related procedures as HAMP program changes may be occurring concurrent with related changes to this policy.

1.23.8.1.5 FHA

FHA has numerous incentives, requirements and limitations with respect to Forbearance. DMC requires that Loss Mitigation perform Forbearance in accordance with these directives on all loans which are FHA insured. Refer to [Mortgagee Letter 2002-17](#) and [Mortgagee Letter 2010-04](#) detailed information concerning FHA Forbearance.

1.23.8.1.6 VA

It is VA's policy to encourage DMC to extend reasonable forbearance in the event a worthy borrower is unable to begin an immediate plan to liquidate the delinquency. Forbearance is granted by allowing payments to remain delinquent for a reasonable time (usually not more than 12 months), to be followed by reinstatement of the loan through payment of a lump sum or a schedule of increased payments. For the typical default, a certain amount of forbearance is built into VA's default reporting requirements because the default may not be reported until 60 days after the date of first uncured default and foreclosure may not be initiated for 30 days after an NOI is received by VA. At any time in the servicing process, and especially once an NOD has been filed, DMC should obtain a written agreement with the veteran regarding the payment of the delinquency before granting forbearance beyond that which is built into VA's reporting requirements. The lack of a written agreement does not, however, prevent the holder from extending forbearance when it appears appropriate. DMC should inform VA of the forbearance and the reasons for it in the NOD and status updates. This information assists VA's supplemental servicing activity and can prevent the establishment of an inappropriate cutoff date.

1.23.8.2 HAMP – Home Affordable Modification Program

Many homeowners are struggling to make their monthly mortgage payments perhaps because their interest rate has increased or they have less income. A Home Affordable Modification will provide them with mortgage payments they can afford. Under the Treasury Department's Home Affordable Modification program(HAMP), all servicers will use a uniform loan modification process to provide eligible borrowers with sustainable monthly payments. DMC supports and participates in HAMP for all eligible

mortgage loans.

To evaluate a borrower for HAMP, DMC must receive financial documentation, commonly referred to as the "initial package" from the borrower(s). The initial package must include:

- A signed and completed Request for Modification Assistance (RMA).
- A signed and completed Internal Revenue Service Request for Transcript of Tax Return (Form 4506-T) or Short Form Request for Individual Tax Return Transcript (Form 4506T-EZ).
- Evidence of income not older than 90 days upon the day of receipt and in accordance with HAMP documentation standards for the type of income being documented.

In all cases, HAMP guidelines specific to the program, investor or GSE must be followed in their entirety including, but not limited to, eligibility, waterfall, underwriting, documentation and compliance.

The HAMP program is scheduled to expire 12/31/2012. Any Loss Mitigation activities contemplating HAMP as this sunset date approaches should specifically inquire as to alternatives, deadlines and related procedures as HAMP program changes may be occurring concurrent with related changes to this policy.

1.23.8.2.1 FHA

FHA-HAMP provides homeowners in default a greater opportunity to retain homeownership using a partial claim combined with a loan modification. See [Mortgagee Letter 2009-23](#) and related attachment [ML 2009-23 Attachment](#) for details.

1.23.8.2.1.1 Modification Facts – all modifications contain one or more of the following:

- A permanent change in the interest rate.
- All or a portion of the PITI arrearage (Principal, Interest, and Escrow Items) may be capitalized to the mortgage balance.
- Legal fees and related foreclosure costs for work actually completed and applicable to the current default episode may be capitalized into the modified principal balance. Refer to Mortgagee Letter 2005-30 for allowable attorney fees.
- Re-amortize the total unpaid amount due over a 360 month period from the due date of the first installment.
- The date the Mortgagee approves the Loan Modification (all verification completed and servicing notes documented, reported to SFDMS) is the date that Mortgagees are to use in determining the interest rate.
- Mortgagees shall reduce the Loan Modification note rate to current Market Rate. The Department considers Market Rate to be no more than 50 basis points greater than the most recent Freddie Mac Weekly Primary Mortgage Market Survey Rate for 30-year fixed-rate conforming mortgages (US average), rounded to the nearest 1/8th of one percent (0.125%), as of the date the Modification Agreement is executed. Freddie Mac website at <http://www.freddiemac.com/pmms/> and the Federal Reserve Board includes the average 30-year survey rate in the list of Selected Interest Rates that is published weekly in its Statistical Release H.15 at <http://www.federalreserve.gov/releases/h15/>.
- When establishing a Loan Modification, it is acceptable for mortgagees to include all payments due including an additional month.
- Late fees associated with the current default episode should be waived.
- No administrative fees for completing the Loan Modification documents can be passed on to the mortgagor.
- The modified principal balance may exceed the principal balance at origination.
- The modified principal balance may exceed 100% loan-to-value.
- All Loan Modifications must result in a fixed rate loan.
- The Loan Modification must fully reinstate the loan.
- Subsequent defaults are to be treated as a new default.
- Imminent Default Mortgage – First 4 months complete a trial Loan Modification.
- Default Mortgage - First 3 months complete a trial Loan Modification.
- Mortgagees are to advance funds to pay arrearages.
- Defers principal repayment (buy-down) of up to 30% of the unpaid principal balance.
- Arrearage cannot exceed 12 months PITI (includes previous Partial Claim Dollar Amount).
- Interest Rate shall be set according to the requirements stated within Mortgagee Letter 2009-35.
- Loan Modification must be re-amortized to a 30 year fixed rate mortgage.
- FHA-HAMP is a permanent addition to HUD's Loss Mitigation Program.
- The above is a summary only. Please see Attachment to Mortgagee Letter 2009-23 for a complete listing of Program guidelines, Mortgagee Letter 2009-35 for FHA-HAMP and Mortgagee Letter 2010-04 for Loss Mitigation for Imminent Default.

1.23.8.2.1.2 Eligibility

- Minimum of 12 months elapsed since loan origination date.
- The mortgagor must be 61 days delinquent (3 full payments due and unpaid) or more.
- Default due to a verifiable loss of income or increase in living expenses.
- The Loan Modification mortgage must remain in first lien position.
- Loan may not be in foreclosure when executed.
- Owner-occupant, committed to occupying property as primary residence.
- Mortgagor has stabilized surplus income sufficient to support the Loan Modification mortgage.
- Does not have another FHA-insured mortgage.
- Loans reinstated using a Loan Modification within the past three (3) years requires written justification prior to a subsequent modification.
- Subsequent reason for default cannot be related to the previous reason for default.

1.23.8.2.2 FHLMC

DMC is eligible to enter into a Trial Period Plan with a Borrower and approve a modification of a Mortgage under HAMP in accordance with the requirements of the FHLMC Servicing Guide (C65.3) without obtaining prior approval from Freddie Mac. A mortgage loan is eligible for FHLMC-HAMP if it is a FHLMC portfolio mortgage loan or guaranteed by FHLMC and all of the following eligibility criteria are met:

- First Lien Mortgages owned, securitized or guaranteed by Freddie Mac originated on or before January 1, 2009, including Cooperative Share Mortgages and Conforming Jumbo Mortgages sold to Freddie Mac under a Seller's negotiated Purchase Documents, which are secured by:
 - One (1) to 4-unit, single-family Primary Residences, including Condominium Units and Guide-eligible Manufactured Homes that are not abandoned, vacant or condemned
 - Servicers must verify that the property securing the Mortgage serves as the Primary Residence for at least one of the Borrowers. Refer to Section C65.5.1 for more information about this verification requirement.
 - The property securing the Mortgage may be owned by an inter vivos trust, provided the Borrower (i) is a trustee of the trust, (ii) is a primary beneficiary of the trust, and (iii) occupies the property as the Borrower's Primary Residence.
 - The Borrower must have a current monthly housing expense-to-income ratio that is greater than 31% of the Borrower's verified and documented gross monthly income as determined in accordance with Section C65.5.1.
- The Borrower must document a financial hardship and represent that he or she does not have sufficient income or liquid assets to make the monthly Mortgage payments by signing and submitting to DMC a completed RMA. If DMC determines, based on a review of the RMA and other documentation, that the Borrower has not experienced a hardship or has sufficient liquid assets to make the monthly payments, then the Borrower is not eligible for a modification under HAMP.
 - The Borrower may be either delinquent or current on the Mortgage. However, if the Borrower is current or less than 60 days delinquent (i.e., less than three monthly payments past due), the Borrower must first be determined to be in imminent default in accordance with the criteria set forth in Section C65.5.2 in order to be eligible for HAMP.
 - A new co-Borrower may, at the request of another Borrower, be added to the Mortgage, provided DMC verifies that the new co-Borrower occupies the property as a Primary Residence in accordance with the requirements of Section C65.5.1.

1.23.8.2.3 FNMA

A mortgage loan is eligible for FNMA-HAMP if it is a Fannie Mae portfolio mortgage loan or mortgage loan guaranteed by Fannie Mae and all of the following eligibility criteria are met:

1.23.8.2.3.1 Eligibility

- The mortgage loan is a first-lien conventional mortgage loan originated on or before January 1, 2009. Jumbo-conforming mortgage loans are eligible.
- The mortgage loan has not been previously modified under HAMP.
- The mortgage loan is delinquent or default is reasonably foreseeable; mortgage loans currently in foreclosure are eligible.
- The mortgage loan is secured by a one- to four-unit property, one unit of which is the borrower's principal residence. Cooperative share mortgages and mortgage loans secured by condominium units are eligible for HAMP. Mortgage loans secured by manufactured housing units are eligible for HAMP.
- The property securing the mortgage loan must not be vacant or condemned.
- The borrower documents a financial hardship and represents that he or she does not have sufficient liquid assets to make the monthly mortgage payments by completing a Request for Modification and Affidavit (RMA) and providing the required income documentation. The documentation supporting income may not be more than 90 days old (as of the date that such documentation is received by the servicer in connection with evaluating a mortgage loan for HAMP).
- The borrower currently has a monthly mortgage payment ratio greater than 31 percent.
- A borrower in active litigation regarding the mortgage loan is eligible for HAMP.
- The servicer may not require a borrower to waive legal rights as a condition of HAMP.
- A borrower actively involved in a bankruptcy proceeding is eligible for HAMP at the servicer's discretion. Borrowers who have received a Chapter 7 bankruptcy discharge in a case involving the first-lien mortgage loan who did not reaffirm the mortgage debt under applicable law are eligible, provided the Home Affordable Modification Trial Period Plan Notice and Home Affordable Modification Agreement (Form 3157) are revised as outlined in Section 610.04.06, Executing the HAMP Documents (06/01/10) under "Acceptable Revisions to HAMP Documents."
- The borrower agrees to set up an escrow account for taxes, hazard insurance and flood insurance prior to the beginning of the trial period if one does not currently exist.
- Mortgage loans subject to full lender recourse, including MBS mortgage loans and portfolio mortgage loans, are ineligible for the Fannie Mae HAMP. However, servicers should consider these mortgage loans for the non-Government Sponsored Enterprise (GSE) HAMP.
- Borrowers may be accepted into the program if the Home Affordable Modification Trial Period Plan Notice is issued to the borrower on or before December 31, 2012.

1.23.8.3 HARP – Home Affordable Refinance Program

Many homeowners pay their mortgages on time but are not able to refinance to take advantage of today's lower mortgage rates perhaps due to a decrease in the value of their home. A Home Affordable Refinance will help borrowers whose loans are held by Fannie Mae or Freddie Mac refinance into a more affordable mortgage.

1.23.8.3.1 Eligibility

Borrowers who meet the following criteria may be eligible for HARP.

- The mortgage must be owned or guaranteed by Freddie Mac or Fannie Mae.
- The mortgage must have been sold to Fannie Mae or Freddie Mac on or before May 31, 2009.
- The mortgage cannot have been refinanced under HARP previously unless it is a Fannie Mae loan that was refinanced under HARP from March-May, 2009.
- The current loan-to-value (LTV) ratio must be greater than 80%.
- The borrower must be current on the mortgage at the time of the refinance, with a good payment history in the past 12 months.

1.23.8.3.2 HARP 2.0 Program Highlights

- No maximum LTV
 - FRM – No maximum
 - ARM – 105% maximum

- Appraisal requirements
 - Enterprise AVM available – No appraisal required
 - Enterprise AVM NOT available – Appraisal required

1.23.8.4 HAFA – Home Affordable Foreclosure Alternatives

Many homeowners may feel that they can no longer afford their home, but want to avoid the negative effects of foreclosure. The Home Affordable Foreclosure Alternatives Program offers homeowners \$3,000 to help transition to more affordable housing when they complete a short sale or deed-in-lieu of foreclosure.

1.23.8.4.1 FHLMC

Under Freddie Mac's HAFA requirements, eligible Borrowers must be offered a HAFA Short Sale. If the Mortgaged Premises do not sell within the marketing period provided in the Short Sale Agreement, DMC may offer eligible Borrowers a HAFA deed-in-lieu, if authorized by Freddie Mac. Activities under HAFA are considered part of HAMP and, therefore, must comply with the provisions of the FHLMC Servicing Guide (C65.13).

1.23.8.5 State Housing Finance Authority – Hardest Hit Fund

This program provides targeted support to homeowners in ten states hit hard by the economic and housing market downturn. Each state's Housing Finance Agency (HFA) has designed a program based on the distinct challenges homeowners in their state are facing.

For collateral located in North Carolina, Ohio, Oregon, Rhode Island and South Carolina, the respective State Housing Finance Administrations have specific, government funded, programs available to support their residents. Direction and assistance should be provided to help borrowers located in these states contact their designated State HFA.

For collateral located in Arizona, California, Florida, Michigan and Nevada, the Federal Government has allocated significant dollars to assist residents of these states hardest hit by the down turn of the housing market. Specific programs were not available as of Q4 2010. Direction and assistance should be provided to help borrowers located in these states contact their designated State HFA.

Information regarding the State HFA programs should be considered exemplary as it is a work in progress and beyond the scope of this document. Current program and contact information can be obtained at

<http://www.financialstability.gov/roadtostability/hardesthitfund.html>

1.23.8.6 2MP - Second Lien Modification Program

Many homeowners may be struggling to make their monthly mortgage payments because they have a second lien. The 2nd Lien Modification Program (2MP) offers homeowners a way to lower payments on their second mortgage when their first mortgage is modified under the Home Affordable Modification Program.

1.23.8.7 Backup / Servicer / Lender Programs

Until the advent of HAMP and other government sponsored Loss Mitigation options, what we now call backup or servicer programs were once, simply, the programs. Backup Modification is a modification designed to provide borrowers another opportunity to avoid foreclosure if they were initially eligible for a Home Affordable Modification program (HAMP) Trial Period based on stated income, but were later determined to be ineligible for a permanent HAMP modification. This alternative strengthens the ability of DMC to quickly evaluate these borrowers for a modified payment that will bring the borrower current without re-starting a lengthy application and underwriting process for another workout option. Similar back up programs are offered by FHLMC, FNMA and FHA and it is the policy of DMC to utilize Investor sponsored programs whenever possible.

1.23.8.7.1 VA

The VA states, in part, that modification should be considered when the borrower's income has been curtailed and the borrower is financially unable to either maintain the payment at the current amount or to make up the delinquent payments, but will be able to keep the loan current after modification. Further, the VA recommends refinancing of a higher interest rate loan at a current, lower rate under VA's interest rate reduction refinancing program. If the loan is current, no underwriting is necessary; if the loan is delinquent, VA can expedite prior approval of an application.

1.23.8.8 Deed in Lieu

A deed-in-lieu of foreclosure (DIL) is a disposition option in which a mortgagor voluntarily deeds collateral property in exchange for a release from all obligations under the mortgage. A DIL of foreclosure may not be accepted from mortgagors who can financially make their mortgage payments

1.23.8.8.1 FHA

1.23.8.8.1.1 Facts

- Mortgagee can pay compensation, not to exceed \$2,000, to the mortgagor.
- The \$2,000 compensation is not paid to mortgagor until they have vacated the property.
- Mortgagor(s) compensation must be applied to any junior lien(s) placed on the mortgage property.
- Mortgagor must agree to "written" agreement of property conditions.
- Mortgagees may determine that a "current" mortgagor is eligible for the deed-in-lieu of foreclosure option.
- Under no circumstance should the mortgagor be encouraged to default on their mortgage for the purpose of qualifying for this option.
- Deed-in-lieu must be completed or foreclosure initiated within six (6) months of the date of default, unless the mortgagee qualified for an extension of time by first trying a different loss mitigation option or an extension of time was approved by HUD prior to the expiration of the time requirement.
- If the deed-in-lieu follows a failed special forbearance agreement or the pre-foreclosure sale program, then the deed-in-lieu must be completed or foreclosure initiated within 90 days of the failure.

1.23.8.8.1.2 Eligibility

- The property must be owner-occupied, no "walk-a ways" or investment properties. Exceptions: when it is verifiable that the

need to vacate was related to the cause of default (job loss, transfer, divorce, death), and the subject property was not purchased as a rental investment, or used as a rental for more than 12 months.

- The mortgagor must be 31 days delinquent or more at the time of the Deed-in-Lieu Warranty Special Deed is executed.
- The mortgagor must provide documentation of a reduction in income or an increase in living expense, and documentation, which verifies the borrowers need to vacate the property.
- Mortgagee will develop a written Deed-in-Lieu of Foreclosure Agreement, which is to be signed by both the mortgagor and mortgagee, which contain all of the conditions under which the Deed will be accepted.

1.23.8.8.1.3 Deed in Lieu Agreement

- Mortgagor(s) does not own any other FHA-insured mortgages and/or mortgage held by HUD.
- Agreed upon transfer date of property to mortgagee within the Agreement.
- Notification to the mortgagor that there may be income tax consequences as a result of the deed- will be conveyed.
- Mortgagor will convey property vacant and free of personal property unless HUD has approved an occupied conveyance.
- Itemization of the keys, built-in fixtures and equipment to be delivered to the mortgagee on or before the transfer date.
- Mortgagor(s) agreement to provide evidence that certain utilities, assessments, and homeowner's association dues are paid in full to the transfer date unless otherwise agreed to by the parties.
- The dollar amount of consideration payable to and/or on behalf of the mortgagor is not to exceed \$2,000.

1.23.8.8.2 FHLMC

DMC must obtain prior approval from FHLMC before accepting any deed-in-lieu as a Foreclosure Prevention Alternative for loans owned or guaranteed by FHLMC. FHLMC will consider a deed-in-lieu of foreclosure if the Borrower's involuntary inability to pay is permanent or long term and he or she cannot retain ownership of the property and has been unsuccessful in attempts to sell the property. All other relief and workout options should be considered before recommending a deed-in-lieu of foreclosure. If the property is located in a state requiring a judicial foreclosure, and the foreclosure process takes longer than six months, then a deed-in-lieu of foreclosure may be appropriate to avoid a lengthy and costly foreclosure. FHLMC will not accept a deed-in-lieu of foreclosure on a Mortgage secured by a Manufactured Home, unless the valuation indicates that the property is in very good condition, there are no other liens on the property and the Borrower has been unable to sell the property. If a Borrower has been discharged from a Chapter 7 bankruptcy and the Mortgage payments are not current, then FHLMC will consider a deed-in-lieu of foreclosure.

1.23.8.8.3 FNMA

DMC must obtain prior approval from FNMA before accepting any deed-in-lieu as a Foreclosure Prevention Alternative for loans owned or guaranteed by FNMA. To assist Fannie Mae in evaluating the condition and value of the property, Fannie Mae requires DMC to obtain an appraisal. If the property inspections reveal that the property has been poorly maintained, needs major repairs, or has structural or foundation problems, Fannie Mae may permit the borrower to discontinue efforts to sell the property since there will be little likelihood of getting a good purchase offer quickly.

DMC can recommend a deed-in-lieu of foreclosure to FNMA if:

- The property has been listed for sale at a market value for three months or more without a reasonable sales offer
- There may be legal impediments to pursuing foreclosure
- Acceptance of the deed-in-lieu of foreclosure will enable Fannie Mae to acquire the property earlier than it would under a foreclosure action
- The mortgage insurer or guarantor has agreed to the acceptance of a deed-in-lieu of foreclosure
- The borrower is not paid to deed the property over to Fannie Mae (although Fannie Mae might approve a small payment in special circumstances)
- The borrower can convey acceptable marketable title (a title insurance policy will be required)
- The property is vacant (unless eligible for the Deed-for-Lease program or the mortgage insurer or guarantor has agreed to accept an occupied property)
- The property is not subject to liens (subordinate or otherwise) held by others, judgments, or attachments (although Fannie Mae might agree to pay off a lien in special circumstances)
- The borrower agrees to assign and transfer to Fannie Mae any rents if the property is rented, and DMC agrees to collect any rental income.

1.23.8.8.4 VA

DMC must obtain prior VA approval when it is concluded that there is no alternative to terminating the loan, and a deed-in-lieu can be accomplished more quickly than a foreclosure. The VA states, in part, that obtaining the deed must be legally feasible and the borrower must be willing to cooperate. A deed-in-lieu will usually not be accepted if there are any junior liens on the property. If the value of the property is substantially in excess of the debt, the borrower should be encouraged to sell the property rather than offer a deed. If the net value of the property does not exceed the unguaranteed portion of the indebtedness a voluntary conveyance will normally not be approved. In such cases, however, the VA may approve a voluntary conveyance only after DMC completes a partial debt waiver or reduction. If DMC does not intend to complete a partial debt waiver or reduction, VA may authorize DMC to accept a voluntary conveyance with no right to reconvey the property to VA. Such authorization is limited to cases when the borrower either will not be legally liable to reimburse VA for the claim paid or lacks the financial resources to do so. The VA requires the following information to consider a deed-in-lieu:

- A signed financial statement showing their assets, liabilities, income and expenses. (VA Form 26-6807 may be used.)
- A written statement requesting a deed-in-lieu of foreclosure and advising the reason for default, explaining why it is necessary to give up the security property and what efforts have been made to dispose of it, and an agreement to vacate the property when the deed is recorded or to give possession of the property to VA immediately upon notification to do so.
 - VA Form 26-6851, Notice of Intention to Foreclose, if not previously filed, indicating that a deed-in-lieu is obtainable.
 - A statement of account (VA Form Letter 26-567).
 - Occupancy status. If occupied, the name and telephone number of the occupant. If vacant, the keys properly identified with the VA LIN and property address.
 - Title status. If information about any liens on the property which could affect the decision to accept a voluntary conveyance is available, it should be sent to VA.
 - An appraisal must be ordered through VA. See paragraph 4.11.

1.23.8.9 Short Sale (Pre-Foreclosure Sale)

Caution— this program is experiencing heightened activity and every effort should be employed to avoid mortgage servicing fraud. All applicable DMC policies must be followed.

Short sale is the sale of the collateral property for an amount insufficient to pay the unpaid principal balance in full. DMC will consider a Short Sale as a means by which to avoid Foreclosure or manage imminent default. DMC requires, at a minimum, the following documents to evaluate a short sale request.

- Hardship affidavit from all borrowers
- Fully executed sales agreement
- Estimated Settlement Statement

1.23.8.9.1 FHA

The FHA will not only consider a pre-foreclosure sale, but allows the servicer to order an FHA appraisal to determine the current Fair Market Value before the property is listed for sale. FHA then gives specific guidance to the servicer as to the minimum percentage of fair market value that a servicer may accept as payment in full.

- For the first 30 days of marketing, DMC may only approve offers that will result in a minimum net sales proceeds of 88% of the "as-is" appraised fair market value
- During the next 30 days of marketing, DMC may only approve offers that will result in minimum net sales proceeds of 86% of the "as-is" appraised fair market value
- For the duration of the pre-foreclosure sale marketing period, DMC may only approve offers that will result in minimum net sales proceeds of 84% of the as-is appraised fair market value

1.23.8.9.2 FHLMC

FHLMC will consider a Short Payoff under the following circumstances:

- The Borrower's involuntary inability to pay is permanent or long term and he or she cannot or does not want to retain ownership of the property, but is cooperative, and a sale of the property will net less than the Borrower owes on the Mortgage.
 - There is Risk of Property Ownership or other special circumstances (for example, the property has deteriorated resulting in a decline in the property value) that make a short payoff a cost-effective alternative to foreclosure.
 - The Mortgage is secured by a Manufactured Home even if the Borrower is not experiencing or has not experienced an involuntary inability to pay, if the Borrower has a buyer for the property.
 - If the Mortgage had been modified under a FHLMC loan modification workout option and the Borrower has become delinquent in his or her payments. Refer to [Section B65.37](#) for the specific eligibility requirements for short payoffs.

1.23.8.9.3 FNMA

DMC may pursue a pre-foreclosure sale at any time prior to the actual foreclosure sale if acquisition of the property is the only alternative and the proceeds from the sale, along with any mortgage insurance settlement, would make Fannie Mae whole—or, at least, would result in a loss that would be less than any loss Fannie Mae would incur if it had to acquire and dispose of the property. As long as the proceeds from the transaction make Fannie Mae whole, DMC may negotiate and complete the pre-foreclosure sale without Fannie Mae's involvement. However, DMC must obtain Fannie Mae's prior written approval of any pre-foreclosure sale that will result in a loss to Fannie Mae.

While pursuing a pre-foreclosure sale, DMC must follow Fannie Mae's related to the initiation of foreclosure proceedings for defaulted mortgage loans. DMC must not delay the initiation or continuation of foreclosure proceedings unless it receives prior approval to do so from Fannie Mae

1.23.8.9.4 VA

VA will consider providing a "compromise claim" payment if an offer to purchase the property is received but the proceeds will not be sufficient to pay off the loan or to pay the delinquency in the case of an assumption. The sales price of the property should be the fair market value. In some assumption cases, where the fair market value is less than the unpaid principal balance of the loan, VA's compromise claim payment will also include funds to be applied as a prepayment to principal to reduce the loan balance to the amount the purchaser has agreed to assume.

Any purchaser assuming a VA loan involving a compromise claim must be found by VA to be an acceptable credit risk and must agree to assume full legal liability for repayment of the loan and to indemnify VA against loss in the event of a future default. If the sale is approved, VA will pay the holder a compromise claim for the difference between the net sales proceeds and the mortgage balance. DMC must obtain prior approval from the VA prior to completing a short sale. The following information is required by the VA:

- A copy of the signed offer to purchase. The offer should include a contingency clause which reads, "This offer is contingent on VA approval of a compromise agreement."
- Estimated closing date.
- Statement of projected settlement costs.
- VA Form Letter 26-567, Status of Loan Account -- Foreclosure or Other Liquidation.
- An appraisal or broker's estimate of value.
- If the loan is being assumed, a release of liability package must be completed by the seller and purchaser and submitted to the VA office of jurisdiction. Only VA, on a prior approval basis, can process an assumption and release of liability in cases involving compromise claim payments.

1.23.8.10 Short Refinance

FHA recently announced a new refinance program that will enable DMC to provide additional refinancing options to homeowners who owe more than their home is worth. Starting September 7, 2010, the Federal Housing Administration (FHA) will offer certain "underwater" non-FHA borrowers who are current on their existing mortgage and whose lenders agree to write off at least ten percent of the unpaid principal balance of the first mortgage, the opportunity to qualify for a new FHA-insured mortgage. Details of the program can be found in [ML 2010-23](#) and the Borrower Certification which must be signed by all Borrowers is attached to [ML 2010-35](#) and related [ML 2010-35 Attachment](#).

- Requires consent of all lien holders
- Borrower(s) must owe more on their mortgage than the property is worth

- Borrower(s) must qualify under current FHA Guidelines with a minimum credit score of 500
- Must be owner occupied primary residence
- Existing first lien holder must write off at least 10% of the unpaid principal balance bringing the CLTV to no greater than 115%
- The existing loan must not be FHA insured
- New FHA loan may not exceed 97.75%

1.23.8.11 Partial Claim

- The Partial Claim option is applicable only to FHA.

1.23.8.11.1 FHA

Under the Partial Claim option, a mortgagee will advance funds on behalf of a mortgagor in an amount necessary to reinstate a delinquent loan (not to exceed the equivalent of 12 months PITI). The mortgagor will execute a promissory note and subordinate mortgage payable to HUD. Currently, these promissory or "Partial Claim" notes assess no interest and are not due and payable until the mortgagor either pays off the first mortgage or no longer owns the property

1.23.8.12 Assumption

Assumption of a mortgage is a servicing function where the responsibility or paying for a mortgage is taken over by another person. Most current day originations are not assumable or only assumable under certain limited conditions. DMC will consider an assumption as a viable Foreclosure Prevention Alternative when appropriate and allowed for within the terms of the note and mortgage.

1.23.8.12.1 FHA

Assumption of an FHA-insured mortgage is a servicing function where the responsibility or paying for a mortgage is taken over by another person through simple assumption or creditworthiness assumption. Individuals may assume FHA mortgages originated prior to December 1, 1986, by utilizing the "Simple Assumption" process. For those FHA mortgages originated on December 1, 1986 and thereafter, HUD placed certain restrictions on the assumption of those FHA-insured mortgages and those mortgages have to go through the Creditworthiness Assumption process.

1.23.8.12.2 FHLMC

FHLMC states, in part, it may be in the best interest of Freddie Mac to permit an assumption of a delinquent Mortgage by a creditworthy applicant. Freddie Mac approval is necessary to approve or decline any request to assume a delinquent Mortgage. In these instances, refer to Sections B65.27 through B65.34 for workout Mortgage assumption requirements and contact Freddie Mac to determine whether a workout Mortgage assumption is an appropriate alternative to foreclosure.

1.23.8.12.3 FNMA

FNMA states, in part, it may be in Fannie Mae's best interests to allow a delinquent mortgage loan that has an enforceable due-on-sale (or transfer) provision to be assumed, thus avoiding Fannie Mae's acquisition of the property through foreclosure proceedings. An assumption also may be considered when the current market value of the property is slightly less than the outstanding indebtedness since the property purchaser may be willing to make up the difference in cash because of the lower closing costs associated with a mortgage assumption. In all cases, the property purchaser must qualify for the mortgage loan under Fannie Mae's current underwriting guidelines. DMC requires the FNMA Servicing Guide (VII, 603) be consulted when an assumption is being considered as a viable Foreclosure Prevention Alternative for loans owned or guaranteed by FNMA.

1.23.8.12.4 VA

See 1.23.8.9 (Short Sale)

1.23.8.13 Foreclosure

Foreclosure should only be considered as a last resort and should not be initiated until all relief options have been exhausted. When foreclosure cannot be avoided, it must be started quickly and prosecuted vigorously to minimize losses to both the mortgagee and Lender/Investor.

When executing a foreclosure, DMC shall be diligent in all efforts to manage the foreclosure process to acquire title to the property in a cost-effective, expeditious and efficient manner. Further, DMC shall follow all requirements including but not limited to:

- The terms and conditions of the Mortgage documents
- Applicable federal, state and local laws and customs
- Requirements of FNMA, FHLMC, FHA, VA, RHS or the mortgage insurer (MI), if applicable

All foreclosures conducted by or on behalf of DMC shall be approved by the [DMC Foreclosure Contact] or other authorized manager or officer with appropriate delegated authority.

1.23.8.14 Cash For Keys

Cash For Keys is a financial consideration paid as an alternative to a legal eviction following foreclosure. The consideration represents the savings to DMC by avoiding most of the legal expenses associated with an eviction and other property expenses related to delayed possession of properties. DMC Loss Mitigation may offer up to \$1,000 per dwelling, on the condition that the occupant peacefully vacates a property for which the mortgage has been foreclosed. Cash-For-Keys may not be utilized in conjunction with deed-in-lieu or pre-foreclosure sale options. Additionally, in jurisdictions with rent control ordinances, DMC Loss Mitigation must adhere to all applicable laws and regulations.

1.23.8.15 Servicemembers Civil Relief Act

The Service members Civil Relief Act provides protection and relief to civilians who enter the U.S. military, including members of the National Guard who are called to active duty by federal authorities. Mortgage debts are covered under the Act if the borrower was a civilian when he or she became obligated under the mortgage and subsequently entered the military service, either voluntarily or involuntarily. The relief begins when the individual reports for active duty and ends a short period of time after he or

she is separated from active duty. One of the provisions of the Act requires the mortgage interest rate to be reduced to six percent during the service member's active duty period, unless the creditor applies to the court for permission not to reduce the interest rate because it can demonstrate that the service member's ability to repay the mortgage obligation has not been materially affected by his or her military service. Another provision allows for a complete stay in the enforcement of the mortgage terms if the service member obtains a court order finding that his or her ability to maintain the obligation has been materially affected by entry into the military service. Rather than granting a complete stay, the court could require the service member to make regular partial payments during his or her period of military service.

DMC's military relief provisions follow the intent of the Servicemembers Civil Relief Act, except that we will apply most forbearance terms without the servicemember having to petition the court. We encourage the service member to pay as much as possible toward the mortgage obligation during his or her active duty tour to keep the accumulated arrearages manageable.

1.23.8.15.1 FNMA

FNMA has specific guidelines to address the application of the Servicemembers Civil Relief Act to mortgages owned or guaranteed by FNMA. Please refer to the FNMA Servicing Guide (III, Ch 1, Exhibit 1)

1.23.8.16 Natural Disasters

DMC is committed to helping borrowers who may have been affected by a natural disaster. If a home or borrower(s) ability to make mortgage payments was impacted by an event that the President declared a disaster, that borrower maybe eligible for special assistance. At a minimum, Loss Mitigation shall determine the following:

1. The date and description of the natural disaster declaration.
2. Is the property located within the geographic boundaries of a presidentially declared disaster area?
3. Is/are the borrower(s) or household members deceased, missing or injured directly due to the disaster?
4. Did the borrower(s) expenses increase or was income curtailed and were these financial changes caused directly or substantially by the declared disaster?
5. Is the borrower in default or facing imminent default?
6. Is/are the borrower(s) without other resources, such as insurance settlements?

The answers to the above questions shall be reviewed against natural disaster policies established by DMC and/or our investor. An affirmative response to numbers two (2), three (3) or four (4) above shall, at a minimum, qualify the borrower(s) for a ninety (90) day moratorium on foreclosure and the waiver of related late fees.

1.23.9 Underwriting

DMC is required to assess the mortgagor's financial condition, capacity to repay under the proposed Foreclosure Prevention Alternative and the value and condition of the underlying collateral. In addition, DMC is to perform a retroactive escrow analysis at the time a Loss Mitigation plan is approved to ensure that the delinquent payments being capitalized or deferred reflect the actual escrow requirements required for those months capitalized.

1.23.9.1 Credit

Comparison of the borrowers' credit profile at time of origination with their current credit profile will potentially provide insight into the hardship or reason for default. Identifying these comparative differences will help discern the reasons, responsibility and other influences potentially associated with the hardship.

1.23.9.1.1 Existing Credit

Existing credit shall be reviewed in accordance with the existing standards of DMC.

1.23.9.1.2 Reason for Default

The Reason for Default, as stated in the borrower(s) hardship affidavit, shall be reviewed to determine its reasonableness, duration, borrower control and the likelihood of reoccurrence. If appropriate, supporting documentation shall be obtained to corroborate the Reason for Default.

1.23.9.1.3 Other Credits

All other credits or obligations associated with the transaction shall be reviewed to determine their balance, payment, current status and legal actions pending, if any. Other credits may include senior or junior liens, tax liens, mechanics liens or leases.

1.23.9.2 Capacity

Company must evaluate the capacity of the borrower to repay under the proposed Loss Mitigation plan.

1.23.9.2.1 Borrower Income

All Borrower income shall be reviewed in accordance with the existing standards of DMC.

1.23.9.2.2 Household Income

All household income shall be reviewed in accordance with the existing standards of DMC. Household income is money that may be available as a source of repayment that is not income of the borrower(s) currently obligated on the existing loan and from someone of majority age that is currently living in the household. Household income is not required to be submitted by the borrower(s) or required to be reviewed by underwriting. However, like alimony or child support, it maybe a means by which the borrower(s) can qualify for the proposed plan. Household income, if provided, should not be considered as reason for disqualification.

1.23.9.2.3 Budget

All household expenses should be collected and reviewed to determine qualification for Loss Mitigation programs. While most Loss Mitigation programs have stated qualifying ratios, Net Available income must also be considered as a means by which to assess the sustainability of the proposed Loss Mitigation plan and the possible need for other debt counseling or restructuring.

1.23.9.3 Collateral

Collateral is a critical and integral component in the loss mitigation arena as most all work out options rely heavily upon the determined value. Forming the very basis of the mortgage loan, all risk relates to the value associated with the subject property itself.

1.23.9.3.1 Original Value and Market Condition

The original origination appraisal shall be reviewed to assess changes in condition and any other omissions, circumstances or red flags that may have contributed to the default.

1.23.9.3.2 Current Value and Market Condition

Current property value shall be determined and reviewed in accordance with the existing standards of DMC. Loss Mitigation must verify the property has no adverse physical conditions. If a deed-in-lieu, short sale or short refinance is being contemplated, an interior inspection of the subject property must be included as part of the valuation. Home repair costs, if any, may not be calculated into the Loss Mitigation Plan.

1.23.9.3.3 Current Occupancy

Current occupancy must be determined and documented in accordance with the existing standards of DMC.

1.23.9.4 Compliance

DMC must comply with state and federal disclosure laws or notice requirements, including whether recordation is necessary to maintain first lien position requirement.

1.23.9.5 Bankruptcy

When a borrower files for bankruptcy, DMC (assisted by appropriate legal counsel) must take all actions that are necessary to protect its' interests and the interests of its' investors. Loss Mitigation personnel shall obtain the assistance of [DMC Bankruptcy Contact] to ensure that all DMC Bankruptcy Policies and Procedures are followed. Elements of the Bankruptcy Law or DMC Policies may exist that limit Loss Mitigation options and vice versa. Loss Mitigation and Bankruptcy personnel shall work together to achieve established objectives within the limits of established policy, regulatory and investor guidance.

All actions taken by or on behalf of DMC shall be approved by the [DMC Foreclosure Contact], the [DMC Bankruptcy Contact] or other authorized manager or officer with appropriate delegated authority.

1.23.9.6 NPV

All mortgage loans that meet the HAMP eligibility criteria must be evaluated using a standard NPV test for reporting purposes. DMC must maintain detailed documentation of the NPV model and version used, all NPV inputs and assumptions, and the NPV results. If the value for the no-modification scenario exceeds the value for the modification scenario by more than \$5,000, DMC must not perform the modification without the express written consent of investor/guarantor.

The NPV model is available on the Home Affordable Modification servicer web portal accessible through HMPadmin.com. On this portal, there is access to the NPV model as well as the NPV User Guide, providing detailed guidelines for submitting proposed modification data.

1.23.10 Agency, Investor and Insurer Considerations

1.23.10.1 FNMA

The current FNMA Servicing Guide and contractual amendments, if any, shall guide the Loss Mitigation efforts of DMC for all mortgages serviced on behalf of FNMA.

Fannie Mae does not want to foreclose a delinquent mortgage loan if there is a reasonable chance of saving the mortgage loan. If the reason for default relates to a temporary condition and the borrower appears to have a reasonable chance of bringing the mortgage loan current, DMC must pursue a temporary solution using Fannie Mae's special relief provisions.

Fannie Mae has several types of special relief provisions to help deserving borrowers who are delinquent. Available types of relief may differ depending on whether the mortgage loan is in an MBS pool (including Pooled from Portfolio mortgage loans) or in Fannie Mae's portfolio. DMC Loss Mitigation personnel must be familiar with the terms of each of these provisions. Fannie Mae wants DMC to use Fannie Mae's relief provisions whenever their use is appropriate. However, Fannie Mae does not expect DMC to grant relief unless it will result in either bringing the mortgage loan current and keeping it that way or providing the borrower with a reasonable opportunity to avoid foreclosure by selling his or her property. When DMC grants relief provisions, it remains responsible for making delinquency advances to Fannie Mae throughout the term of the relief, if the mortgage loan is accounted for as a scheduled/actual or scheduled/scheduled remittance type.

Early in the delinquency or when default is determined to be imminent, DMC must determine the borrower's commitment and capacity to cure the delinquency. If DMC believes that the borrower should be granted relief, it must:

- explain Fannie Mae's relief provisions and the borrower's responsibilities under each;
- obtain any financial information that will be needed to develop the repayment plan; and
- stress the consequences of not meeting the terms of a repayment plan to make sure that the borrower has a complete understanding of the agreement he or she is about to enter into. (also see Section 203, Letters (01/01/11))

DMC must analyze each case carefully before determining which relief measure is most appropriate for a given borrower. When establishing repayment terms, DMC must consider the borrower's financial condition, other obligations, and anticipated future income to make sure that the repayment plan finally agreed to is realistic. Fannie Mae will not object to any reasonable relief plan DMC develops as long as it does not jeopardize Fannie Mae's lien position or reduce the amount of any future claim that Fannie Mae might file with FHA, HUD, VA, RD or the mortgage insurer.

Fannie Mae's workout hierarchy recommends the preferred order of consideration for the use of foreclosure prevention options to resolve a delinquency. See FNMA Loan Workout Hierarchy in the Appendix

1.23.10.2 FHLMC

The current FHLMC Servicing Guide and contractual amendments, if any, shall guide the Loss Mitigation efforts of DMC for all mortgages serviced on behalf of FHLMC.

When general collection efforts fail and a reinstatement or relief option as provided in Chapter A65 is not appropriate based on Borrower circumstances, Borrowers may qualify for a workout option under the Guide. DMC must consider Borrowers for workout options in the following sequence:

1. A Borrower must first be considered for a modification under the federal government's Home Affordable Modification Program (HAMP) in accordance with the requirements of Chapter C65
2. If a Borrower is ineligible for HAMP, does not accept a HAMP Trial Period Plan offer, or fails to complete a HAMP modification, you must next consider the Borrower for a modification in accordance with the requirements of this chapter or other Freddie Mac home retention workout options.
3. If a Borrower is ineligible for, does not accept, or fails to complete a modification in accordance with this chapter or other Freddie Mac home retention workout options, you must next consider the Borrower for a short sale or deed-in-lieu under the federal government's Home Affordable Foreclosure Alternative (HAFA) initiative in accordance with the requirements of Chapter D65.
4. If a Borrower is ineligible for or fails to complete a HAFA short sale or deed-in-lieu, you must next consider the Borrower for a short payoff or deed-in-lieu in accordance with the requirements of this chapter.

All Modification or Workout recommendations made by DMC for loans owned or guaranteed by FHLMC require the prior approval of FHLMC in accordance with the FHLMC Servicing Guide (B65.5)

1.23.10.3 FHA

The current FHA Servicing Guide and contractual amendments, if any, shall guide the Loss Mitigation efforts of DMC for all mortgages serviced on behalf of FHA.

1.23.10.3.1 Order of Retention Options

FHA's Loss Mitigation Home Retention Options are to be reviewed in the following order: Special Forbearance, Loan Modification, Partial Claim and FHA's Home Affordable Modification (HAMP)

1.23.10.3.2 Denial

"Evaluation of the Borrower's Financial Condition" in part states, mortgagees must advise the mortgagor, in writing, the reason for denial and allow the mortgagor at least seven (7) calendar days to submit additional information which may impact upon the mortgagee's evaluation.

1.23.10.4 VA

The current VA Servicing Guide and contractual amendments, if any, shall guide the Loss Mitigation efforts of DMC for all mortgages serviced on behalf of the VA .

1.23.11 Default Management Expense & Reimbursement

DMC shall maintain a complete, detailed and accurate accounting of all expenditures associated with the servicing of mortgage loans and all related Loss Mitigation activity. In most cases, incurred expenses are associated with a specific loan and will, eventually, be reimbursed by the borrower(s). There are, however, expenses that the Security Instrument and/or federal, state and local law prohibit DMC from collecting from the Borrower. In these cases, reimbursement shall be sought from our investor in accordance with their policies and procedures.

1.23.12 Appendix

1.23.12.1 [FNMA Loan Workout Hierarchy](#)

Click on the link to review the FNMA Loan Workout Hierarchy in All Regs.

1.23.12.2 [Work Process Rules](#)

1.24 Instant Messaging (I/M) and Electronic Communications Policy

1.24.1 Purpose

As electronic communications evolve, human resource departments must develop policies governing the use of workplace electronic communications. Many employers that provide Internet service and e-mail systems encounter problems because employees use these electronic communications systems to transmit illegal, obscene, discriminatory, or defamatory messages, either via e-mail, instant messaging, or blogs. In addition, employees' use of cell phones or camera phones to invade co-workers' privacy, reveal trade secrets, or send offensive messages or images has increased. The types of electronic communications technologies and the ways they are used in the workplace are changing rapidly, and employers must be ready to adapt their workplace policies to those changes.

Instant Messaging – when used for business purposes – can be an effective way to increase DMC's workplace productivity.

When Instant Messaging is used inappropriately, it can be one of the biggest deterrents to our workplace productivity. I/M is not provided nor intended for personal use.

Employees should remember that company-provided electronic media and services are Direct Mortgage's property and as such, they are designed to foster company productivity and promote organizational goals.

1.24.2 Policy

All DMC's Electronic communications systems must be used solely for business. All e-mail, instant messaging, blogs, and other forms of electronic communications used at work are like memos, letters, and other business tools. The use of such electronic communications tools must conform with all other company policies and accepted standards of good business practice.

All e-mail, instant messaging, and other electronic communications sent, received, or stored on companies' computer systems are DMC's property;

Employees should have no expectation of privacy with respect to their electronic communications;

Personal use of e-mail or instant messaging must be kept to a minimum; I/M may only be used when authorized by your supervisor. When I/M is utilized, it is to be used for business purposes only. I/M is not provided nor intended for personal use.

Security measures, such as passwords and USER ID's, must be kept strictly confidential, and are not at any time to be shared with anyone;

DMC bans any transmission of materials that are illegal, obscene, discriminatory, harassing, or defamatory.

This policy applies to all electronic media and services that are:

- accessed on or from company premises,
- accessed using company computer equipment or via company-paid access methods, or
- used in a manner that identifies the individual with Direct Mortgage.

Prohibited Communications Using Employer-Provided Systems

Electronic media provided by Direct Mortgage cannot be used for knowingly transmitting, retrieving, or storing any communication that:

- is discriminatory or harassing;
- appears derogatory to any individual or group;
- is obscene;
- can be seen as defamatory or threatening;
- reveals company trade secrets, development plans, or other information that could harm Direct Mortgage; or
- is used for any purpose that is illegal or contrary to Direct Mortgage's policy or business interests.

Appropriate Use of Workplace Systems

Employees should try not to cause network congestion when they send or receive e-mail or use any other electronic media and services.

Access to Employees' Communications on Workplace Systems

Direct Mortgage can monitor electronic information created and/or communicated by employees using e-mail, word processing, utility programs, spreadsheets, Internet, and similar electronic media.

Direct Mortgage reserves the right to review employees' electronic files and messages to the extent necessary to ensure that electronic media and services are being used in compliance with the law, this policy, and other Direct Mortgage rules.

Employees should assume that electronic communications are not private. They also should keep in mind that whatever they send in e-mails using Direct Mortgage systems will be in those systems or on the Internet for a long time.

Some Inappropriate uses include (but are not limited to):

- Solicitation of any meeting with another employee for anything not work related;
- Any communication to any employee not work related;
- Distributing DMC's employee contact information to any person/entity outside of DMC;
- Transmitting any company correspondence to any person and/or entity not associated with DMC;
- Allowing an outside person to access DMC's internal messaging system;
- Communicate, entertain, or discuss job offers with others, or communicate other employment opportunities;
- Using a personal I/M system, such as Yahoo, or AOL;

1.24.3 Policy Violations

Employees who violate Company Electronic Communications policies may be subject to legal & criminal liability and/or corrective action up to and including termination.

1.25 Loan Officer Conference Call Policy

1.25.1 Purpose

Direct Mortgage, Corp. primarily hires FULL-TIME loan officers and is committed to their success. Additionally, regulators require that we, as a lender, supervise our loan officers. DMC holds a mandatory loan officer conference call each week that helps us meet both of these objectives. It is mandatory that every loan officer attend this weekly meeting both for their own success as a loan officer and in order to reduce DMC's liability.

1.25.2 Policy

1.25.2.1 Mandatory, Weekly Teleconference

All loan officers are required to attend a weekly, mandatory conference call that occurs every Monday (subject to change). This meeting will ensure that loan officers are current with market trends, the latest training, state & federal laws, loan compliance, DMC policies & procedures, and other pertinent information.

During the call, management also provides an opportunity for each loan officer to inquire on any topic, including specific loan file questions, origination methods, training needs & topics, our policies & procedures, etc.

1.25.2.2 Absences

All absences must be approved ahead of time through the loan officer's coordinator. Requests for time off should be submitted to the coordinator who will then forward the request to the President so that the time can be added to the vacation calendar. The coordinator is responsible to ensure that the time off appears on the calendar. Requests to be absent for reasons other than vacation or medical leave must also be submitted to the coordinator and reviewed and approved by the President or CEO in advance of the conference call.

When unexpected events prevent attendance (such as a flat tire on the way to the office) the coordinator should be notified as soon as possible. The coordinator should then forward the explanation to the President or CEO immediately – before the call if at all possible.

When loan officers miss a call without authorization, their DirectWare login will be deactivated following the call. An email will be sent to the unexcused loan officers explaining why the login was deactivated and what to do to reactivate it. The coordinator will be copied on the email.

Attendance will be closely scrutinized for continued employment – just as with any employee. This means that an unreasonable number of absences (even if they are excused) or tardies may result in DirectWare login deactivation, employee termination, or other disciplinary measure at the discretion of management.

1.25.2.3 Reactivation of Login

To reactivate their login, loan officers must send an email to the Marketing Director (1) explaining why they missed the call and (2) stating their commitment and promise to attend all future calls unless excused in advance through their manager.

1.25.2.4 Termination of Employment

If a satisfactory written response explaining the unexcused absence is not promptly received, the loan officer's employment with Direct Mortgage will be terminated.

1.26 Obtaining an FHA / HUD Login for FHA Connection

1.26.1 Overview

To get to the registration form, go to the FHA Connection web-site and click the "About this Site & Registration" icon. Read the page and then click the "Standard User Registration" link.

1.26.2 To add a User to FHA connection:

1. Go to:

<https://entp.hud.gov/idapp/html/register.cfm?Coordinator=N>

2. Fill out the form

- a. Add 1173900006 as the Title II lender ID.
- b. The Service bureau is left blank.
- c. DMC is not Title I so leave this area blank as well.

3. User ID.

- a. After submitting the user registration form, management will be notified (normally about 24-48 hours later) and will relay the USER ID to the requesting person.

4. Password.

You will need to save the password you created when submitting the request for a user ID.

5. Sharing your user ID is not permitted.

Under no circumstances are you to ever share your login with anyone. If you have forgotten your login credentials, check with your manager to re-obtain. Failure to comply with this policy may result in losing login privileges – and may result in employment termination.

1.26.3 DMC's FHA Lender ID#

- 11739 0000 6 Corporate

1.26.4 For questions

- <http://www.hud.gov/offices/hsg/comp/premiums/premhome.cfm>

1.26.5 FHA Connection web site

- <https://entp.hud.gov/clas>

1.27 Image Retention Policy

DMC's Image retention policy is to retain image files for 5 years from the date of the initial upload. Or if the loan has funded with DMC, then DMC will retain the image files for 5 years from the date of the loan funding or as required by State and/or Federal laws. Should any Lender, Mortgage Broker Company, or Loan Officer be required, or need to have image document retention for a period which is longer than this, then they must download and retain their own files, or make a further agreement with DMC in writing to retain image files for a longer period of time.

1.29 Fraud

Area: Fraud

FRAUD POLICY

1. PURPOSE

Fraud can have devastating effect on our company because it could result in significant financial loss and other long-term business repercussions. Any allegations of fraud will be taken seriously, with no exceptions. All individuals, regardless of position, title, or tenure with the company are expected to remain vigilant and report any suspicious activity to the CEO or President. These procedures promote a culture founded on fraud prevention, detection, awareness, and accountability, and clarify acts that are suspicious. They support a culture of operating within a comprehensive framework of internal controls, complete with documented and formalized policies, procedures, processes, and other supporting safeguards as needed. The procedures provide guidance to prevent, detect, investigate, and report when fraudulent acts are suspected and subsequently proven.

2. POLICY

The company upholds a zero-tolerance approach regarding fraud and corruption. The company will identify and promptly investigate any suspected fraudulent or related dishonest activity against the company or other parties with whom the organization has dealings. The company will take appropriate disciplinary and legal actions to include the possibility of termination of employment, restitution, and forwarding information to the appropriate authorities for prosecution.

3. DEFINITIONS

3.1 Fraud is any intentional act, misrepresentation, misstatement, or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain. Dishonest or fraudulent activities may be discovered in underwriting, pre- or post-closing audits or by any other means, and include, but are not limited to, the following:

- a. Forgery or alteration of documents (checks, bank draft, time sheets, invoices, agreements, verifications of employment and or assets, etc.).
- b. Misrepresentation of information on documents.
- c. Failure to provide known information that may alter the decision to approve a loan.
- d. Misappropriation of funds, supplies, or assets.
- e. Theft, disappearance, or destruction of assets.
- f. Improprieties in the handling or reporting of money or financial transactions.
- g. Authorizing or receiving payments for goods not received or services not performed.
- h. Authorizing or receiving payment for hours not worked.
- i. Inappropriate use of the company's records and disclosing confidential and proprietary information to outside parties.

3.2 Corruption is defined as the offering, giving, soliciting, or acceptance of an inducement or reward that may improperly influence the action of a person or entity. Some examples of corruption include:

- a. Bribery
- b. Conspiracy
- c. Extortion

3.3 Management: For purposes of these procedures, management refers to the CEO, President, or other individuals who manage or supervise other resources, including human resources.

4. RESPONSIBILITIES

4.1. Management is responsible for the detection and prevention of fraud and misappropriation. Each member of management should be familiar with the types of improprieties that might occur within their area of responsibility and be alert for any indication of irregularity.

4.2. Management is responsible to report any potential instance of fraud or corruption to the CEO or President, immediately.

4.3. Management is responsible for taking appropriate corrective actions to ensure adequate controls exist to prevent the recurrence of improper actions. 4.4. All employees must report concerns they have, or information provided to them about the possible fraudulent or corrupt activity of any borrower, employee, contractor, vendor, customer, or any other party with an association with DMC. Any person who has a reasonable basis for believing fraudulent or corrupt acts have occurred has a responsibility to report the suspected act immediately.

4.5. The President is responsible for the administration, revision, interpretation, and application of this policy. The policy will be reviewed annually and revised as necessary.

4.6. The President is also responsible to act as the lead during the investigation process in determining if fraudulent activity has taken place and to lead the review process.

5. PROCEDURES

5.1. PREVENTING FRAUD AND CORRUPTION

5.1.1. DMC has established internal controls, policies, and procedures to deter, prevent, and detect fraud and corruption.

5.1.2. New employees and contractors will be subject to background investigations, including a criminal background check. The Company will also verify all applicants' employment history, education, and personal references prior to making an offer of employment.

5.1.3. Vendors, contractors, and suppliers must be active, in good standing, and authorized to transact business.

5.1.4. Vendors, Third Parties, contractors, and suppliers are subject to screening, including verification of the individual's or company's status as a suspended or debarred party.

5.1.5. Contractual agreements with the Company will contain a provision prohibiting fraudulent or corruptive acts and will include information about reporting fraud and corruption.

5.2. TRAINING – EMPLOYEES, VENDORS AND THIRD PARTIES

5.2.1. DMC employees will receive fraud and corruption awareness training. New hires will receive the training within 90 days of their start date. All employees will receive fraud and corruption awareness training yearly.

5.2.2. The Fraud Policy is required to be reviewed annually and updated, as needed, to ensure that employees and parties are aware of emerging fraud scenarios.

5.2.3. Changes to the Fraud Policy are documented and tracked within the policy, see section 7.

5.2.3. Vendors and Third Parties engaged to handle or perform functions typically handled by employees, and in a position to notice or report fraud and suspected fraud, are required to receive training annually. They are required to provide written verification confirming that the training has been received.

5.2.4. The President of DMC has oversight responsibility for ensuring the training of DMC employees, vendors and third-parties occurs annually.

5.3. FRAUD AND CORRUPTION INTERNAL REPORTING

5.3.1. Any person who has a reasonable basis for believing fraudulent or corrupt acts have occurred has a responsibility to report the suspected act to the CEO or President, immediately. Failure to report suspected fraudulent or corrupt activity in a timely manner according to the procedures below will also be subject to disciplinary action.

5.3.2. The reporting employee shall refrain from further investigation of the incident, confrontation of the alleged violator, or further discussion of the incident with any other party unless requested to do so by the CEO or President.

5.3.3. Retaliation and retribution will not be tolerated against any employee who reports suspected fraudulent or corrupt activities. However, if an employee is determined to have acted maliciously or with deceit, the employee is subject to disciplinary action.

5.3.4. Incidents of fraud or suspected fraud are tracked on the Fraud Activity Tracker, and is maintained by the DMC President.

5.4. INVESTIGATION

5.4.1. The CEO and President have the responsibility to ensure that all suspected fraudulent acts are properly screened and investigated.

5.4.2. The investigating team or individual will have:

- a. Free and unrestricted access to all the company records and premises, whether owned or rented; and
- b. The authority to examine, copy, and/or remove all or any portion of the contents of files, desks, cabinets, and other storage facilities on the premises without prior knowledge or consent of any individual who may use or have custody of any such items or facilities when it is within the scope of their investigation.

5.4.3. If a fraudulent act involves an employee, the investigating team or individual will determine when to notify the employee and whether to recommend that the employee be suspended or temporarily reassigned.

- 5.4.4. All reports of suspected fraudulent acts will be taken seriously, and the investigation team or individual will make decisions based on the nature and seriousness of the allegation and facts of each case.
- 5.4.5. Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know.
- 5.4.6. If the investigation substantiates that fraudulent activities have occurred, the CEO and President will determine if allegations require reporting to regulatory agencies.

5.5. CORRECTIVE ACTION

- 5.5.1. Depending on the seriousness of the offense and the facts of each case, actions against an employee can range from written notification and a probationary period, up to and including dismissal where appropriate, to legal action, either civil or criminal. In cases involving monetary losses the company will pursue recovery of losses.
- 5.5.2. Individuals at all levels of the Organization will be treated equally regardless of their position, years of service, or affiliation with the company.
- 5.5.3. Specific Actions:
 - a. Decisions to prosecute or refer investigation results to the appropriate law enforcement and/or regulatory agency for independent investigation will be made by the CEO and President.
 - b. If an investigation results in a recommendation to terminate an employee, the recommendation must be made by the CEO and President.
 - c. Final determination regarding actions against an individual or business found to have committed fraud or corruption will be made by the CEO and President.

5.6. EXCLUSIONARY LISTS

- 5.6.1. DMC will use exclusionary lists to protect the integrity of its origination and servicing activities. If any party is listed on the exclusionary list, the loan is eligible for sale to the agency or investors. The following parties involved in the origination of mortgages will be screened against the Freddie Mac exclusionary list:
 - a. Borrower
 - b. Property Seller
 - c. Mortgage Loan Originator and origination company
 - d. Real estate agents and company(ies)
 - e. Settlement agent or individual list assetment agent on the Settlement/Closing Disclosure Statement
 - f. Settlement company
 - g. Appraiser and appraisal company

5.7. EMPLOYEE SCREENING AGAINST EXCLUSIONARY LISTS

- 5.7.1. Employees involved in the origination or settlement activities will be screened against exclusionary lists at time of hire and at least twice a year thereafter.

5.8. WAIVER OF SELLER/SERVICER WARRANTIES REGARDING THE EXCLUSIONARY LIST

- 5.8.1. Seller/Servicer may contact Freddie Mac to request a written waiver prior to performing functions or entering into a transaction that would violate the Seller/Servicer warranties. The request must be made to Freddie Mac Exclusionary List mailbox at Elist_Confirmation@FreddieMac.com.

5.9. RECORD MAINTENANCE

- 5.9.1. DMC will maintain and share records of fraud types and trends, fraud cases and positive Exclusionary List hits.

6. REPORTING TO AGENCIES

- 6.1. DMC must report to the Agencies when there is a reasonable belief that one of the following is occurring or has occurred during origination or Servicing of a Mortgage including, but not limited to, any loss mitigation activity:
 - a. Misrepresentation, misstatement, or omission related to the Borrower including, but not limited to, identification, employment, income, assets, sources of funds, indebtedness, and property occupancy.
 - b. Misrepresentation, misstatement, or omission related to the Mortgaged Premises including, but not limited to, property valuation, property value and property use.
 - c. Misrepresentation, misstatement, or omission of any other information related to a Mortgage or related real estate transaction including, but not limited to, undisclosed Seller or other third-party incentives, loan performance, mortgage purpose, kickbacks, and undisclosed relationship between parties to the transaction when Freddie Mac requires that the transaction is an "arm's length" transaction.
 - d. A person or entity on the Freddie Mac Exclusionary List is involved or was involved in the origination, sale, or Servicing of the Mortgage or in the related real estate transactions.
 - e. A person or entity on the FHFA Suspended Counterparty Program list is involved or was involved in the origination, sale, or Servicing of the Mortgage or in the related real estate transactions.
 - f. Termination or denial of mortgage insurance based on fraud.

6.1.2 Freddie Mac reporting requirements:

- a. DMC must report misrepresentations, misstatements, or omissions to the extent that they are associated with the origination of a Mortgage, whether discovered through a post-closing quality control review or by any other means, within **30 days**. This information must be reported to Freddie Mac using the **Tip Referral Tool**.
 - b. DMC must notify Freddie Mac of the following circumstances **immediately, within 1 business day**:
 - Theft of custodial funds, lack of collateral, non-remittance of pay-off funds or multiple deliveries of the same Mortgage.
 - A substantial likelihood that the fraud or suspected fraud or other Suspicious Activity will receive significant public exposure or publicity.
 - A Seller/Servicer is notified of the entry of a civil judgment, guilty plea or criminal conviction indicating lack of integrity and relating to a participant in a Mortgage or related real estate transaction, or relating to a board member, officer, employee, or contractor of the Seller/Servicer
 - The Seller/Servicer is notified by law enforcement or another governmental authority that such authority is conducting an investigation or prosecution of fraud relating to Mortgages owned by, or serviced for, Freddie Mac or relating to a board member, officer, employee or contractor of the Seller/Servicer
 - A scheme or pattern of (i) more than five Mortgages sold to, or serviced for, Freddie Mac, or (ii) Mortgages sold to, or serviced for, Freddie Mac with an aggregate UPB of at least \$1 Million.
 - Actual or possible terrorist financing or ongoing or possible money laundering schemes or activity
- To notify Freddie Mac immediately, the DMC must submit the fraud or suspected fraud or other Suspicious activity to Freddie Mac using the **Tip Referral Tool**.
Seller/Servicers are not required and must not disclose to Freddie Mac any Financial Crimes Enforcement Network Suspicious Activity Reports (SARs) or draft SARs documents or information revealing the existence of a SAR or indicating whether or not a SAR has been filed, or where disclosure of Suspicious Activity would otherwise be prohibited by law.

7. Tip Referral Tool

- 7.1. DMC will report all Mortgage fraud, suspected Mortgage fraud and other Suspicious Activity using the **Tip Referral Tool**, located in Freddie Mac Loan Advisor and **Servicing Gateway**. Referrals made through the Tip Referral Tool must include at a minimum:

- a. Freddie Mac loan number
- b. Property address
- c. Mortgage fraud/Suspicious Activity type and category
- d. Parties involved
- e. Supporting documentation
- f. A narrative detailed description of the activity, including why it has been deemed suspicious or fraudulent. (Seller/Servicers should not include protected personal information, such as Social Security numbers, in the narrative description.)
- g. Any other required information as identified in the Tip Referral Tool

8. CHANGE TRACKING

- Change description:
- Implemented new policy on 3/25/2024
- Change date: 3/25/2024
- Training date: 3/25/2024
- Change date: 9/26/2024
- Training date: 10/7/2024

Commented By: Max Doane | Time: 03/18/2025 04:59 PM

Completed

Change Log

User	Action Date	Action
------	-------------	--------

Max Doane
Max Doane

03/18/2025 04:59 PM
09/26/2024 04:58 PM

Completed
Created

2. Federal Compliance

2.1 Introduction

DMC is committed to the highest standards of Federal Consumer compliance and requires all management, employees and third-party vendors follow these policies and adhere to these standards.

2.1.1 Goals & Objectives

The standards set out in this policy represent minimum requirements based on applicable legal and regulatory guidance and apply throughout DMC. These requirements are intended to prevent DMC, our employees, third party vendors and clients from violating Federal Regulations related to mortgage lending and consumer compliance.

2.1.2 Required Review

DMC requires this policy be reviewed no less than annually.

- Last Date of Review – 08/14/2013
- Next Due for Review – 08/14/2014

The above required annual review shall include the compliance of this policy with current law, regulation or directive, the procedural implementation of this policy within the then current scope of DMC business lines and operations, internal audit results received during the previous year and then current industry trends or regulatory guidance.

2.1.3 Applicability

The purpose of this policy is to implement consumer protection mechanisms as required by the United States statutes and related regulations administered by the CFPB and others.

Wherever local regulations are stricter than the requirements set out in this Policy, the stricter standard shall be applied. If any applicable laws are in conflict with this Policy, DMC must consult with the appropriate legal counsel to resolve the conflict.

2.2 Accountability and Monitoring

DMC requires that its own organization, its employees, its clients and its third party vendors comply with all requirements of this policy and all underlying regulations as they exist, or from time to time may be amended.

2.2.1 Internal Controls

DMC shall ensure that annual independent testing of DMC's compliance program includes compliance with this policy and all underlying policies or regulations. The required compliance testing may be conducted by DMC personnel or by an outside party. At minimum, the annual audit shall include are view to assess:

- The effectiveness of all communications with borrowers.
- The delivery of all required disclosures in a format and timing compliant with this policy.
- Changes or amendments to this policy since last audit have been adequately implemented.
- This policy has been properly applied to any new products or services offered since last audit.
- All DMC's third-party service providers have complied with their obligations applicable to the product or service and this policy.
- This policy is being applied equally and appropriately across all departments, business units, divisions or branches of DMC.
- All required records are being maintained in accordance with this policy.
- The proper functioning and implementation of this policy by any automated tools, systems or business unit procedures.
- The strength, adequacy or weakness of this policy to include the identification of business units, delivery channels or offices for transaction testing.
 - Test to confirm that actual practices are consistent with this policy.
 - Test to determine the impact of any procedures identified as weak or deficient.

2.3 Staff and Training

DMC requires initial and ongoing training for all management and staff concerning this policy, other related policies and underlying law and regulation.

2.3.1 Ongoing Training

All DMC employees shall receive training to ensure current knowledge of this policy and the underlying Federal regulations, to a degree commensurate with their job function, which may impact DMC and the current state of law, regulation and industry best practice. At a minimum, training should address:

- This policy and any changes within the last year
- The law and regulation underlying this and other policies including, but not limited to:
 - Equal Credit Opportunity Act (ECOA)
 - Fair Housing Act (FHA)
 - Fair Credit Reporting Act (FCRA)
 - Fair and Accurate Credit Transactions Act (FACTA)
 - Flood Disaster Protection Act
 - Home Mortgage Disclosure Act
 - Homeowner's Protection Act (HPA)
 - Real Estate Settlement Procedures Act (RESPA)
 - Servicemembers Civil Relief Act
 - Mortgage Disclosure Improvement Act (MDIA)
 - Truth in Lending Act (Regulation Z)
- The implementation of these policies and the practical application thereof in the context of the employee's function or responsibility
- Disciplinary consequences for non-compliance

2.3.2 New Hire Training

New hire employees shall receive the above training within four (4) weeks of commencing employment with DMC.

2.4 Appraiser Independence Requirements

2.4.1 Introduction

Section 1472, Title XIV Mortgage Reform and Anti-Predatory Lending Act of Dodd-Frank Act (HR 4173) called for the sunset of The Home Valuation Code of Conduct (HVCC). As required by the Dodd-Frank Act, the Federal Reserve issued an interim Final Rule in order to ensure the independence of the appraisers and the requirement that appraisers are to receive "customary and reasonable payments for their services."

Fannie Mae and Freddie Mac issued notices regarding new Appraiser Independence Requirements and require that seller/services establish internal procedures to comply with the federal rules for Appraiser Independence. Both Fannie Mae and Freddie require that all single-family loans they purchase adhere to standards for solicitation, selection, compensation, and practitioner independence when it comes to home appraisals.

FHA does not require the use of Appraisal Management Companies (AMCs) or other third party organizations for appraisal ordering, but recognizes that some lenders use AMCs and/or other third party organizations to help ensure appraiser independence. HUD has also issued several mortgagee letters concerning appraiser independence.

2.4.1.1 Goals & Objectives

The standards set out in this policy represent minimum requirements based on applicable legal and regulatory guidance and apply throughout DMC. These requirements are intended to prevent DMC, our employees, third party vendors and clients from violating Federal Regulations related to mortgage lending and consumer compliance.

To be clear, Third Party broker's management and staff are restricted from the appraisal process. Among other things, Third Party broker's management and staff are restricted from choosing the appraiser, placing orders directly with appraisers and having inappropriate communications with appraisers.

2.4.1.2 Required Review

DMC requires this policy be reviewed no less than annually.

- Last Date of Review – 01/13/2021
- Next Due for Review – 01/13/2022

The above required annual review shall include the compliance of this policy with current law, regulation or directive, the procedural implementation of this policy within the then current scope of DMC business lines and operations, internal audit results received during the previous year and then current industry trends or regulatory guidance.

2.4.1.3 Applicability

The purpose of this policy is to implement appraiser independence requirements as required by the United States statutes, the Federal Reserve and related requirements administered by the Agencies and others.

Wherever local regulations are stricter than the requirements set out in this Policy, the stricter standard shall be applied. If any applicable laws are in conflict with this Policy, DMC must consult with the appropriate legal counsel to resolve the conflict.

2.4.2 Accountability and Monitoring

DMC requires that its own organization, its employees and its third party vendors comply with all requirements of this policy and all underlying regulations as they exist, or from time to time may be amended.

2.4.2.1 Internal Controls

DMC shall ensure that annual independent testing of DMC's compliance includes compliance with this policy and all underlying regulations. The required compliance testing may be conducted by DMC personnel or by an outside party. At minimum, the annual audit shall include a review to assess:

- Appraisal ordering and related matters are handled in accordance with this policy.
- No Appraiser has been unduly or inappropriately influenced.
- Potential or possible conflicts of interest are properly disclosed or managed.
- All fee appraisers have received customary and reasonable compensation.
- Quality control and quality assurance reviews adequately test for related agency requirements.
 - Any adverse findings have been reported to management.
 - Mandatory reporting of appraiser non-compliance with USPAP was completed, as applicable.

2.4.3 Staff and Training

DMC requires initial and ongoing training for all management and staff concerning this policy, other related policies and underlying law and regulation.

Training may be conducted in a variety of settings utilizing any established education modality. Regardless the method of training delivery, all training must include:

- Presentation of the subject material oriented for the adult learner.
- An assessment of the learner to validate command of the subject matter with a minimum passing grade of 70%.
- A completion certificate documenting satisfactory completion of all of the above.
- DMC shall maintain adequate records of this training program to include:
 - A description of all training programs.
 - Evidence of attendance and satisfactory completion for each employee subject to this policy.
 - Management response relative to additional training, reassignment or other responses for those employees who may not have achieved a passing grade on the assessment and/or were not issued a completion certificate.

2.4.3.1 Ongoing Training

All DMC employees shall receive training to ensure current knowledge of this policy and the underlying federal regulations, to a degree commensurate with their job function, which may impact DMC and the current state of law, regulation and industry best practice. At a minimum, training should address:

- This policy and any changes within the last year
- The law and regulation underlying this and other policies including, but not limited to:
 - Fannie Mae and Freddie Mac appraisal requirements
 - CFPB and/or prudential regulator requirements
- The implementation of these policies and the practical application thereof in the context of the employee's function or responsibility
- Disciplinary consequences for non-compliance

2.4.3.2 New Hire Training

New hire employees shall receive the above training within four (4) weeks of commencing employment with DMC.

2.4.4 Federal Regulations

2.4.4.1 Summary of Truth-in-Lending Act Section 129E

DMC shall comply with the TILA provisions governing appraisal independence as established by the Dodd-Frank Wall Street Reform and Consumer Protection Act. In order to maintain appraisal independence TILA prohibits the following actions in consumer-credit transactions secured by a consumer's principal dwelling:

1. Causing or attempting to cause the value assigned to the property to be based on a factor other than the independent judgment of the appraiser, by compensating, coercing, extorting, colluding with, instructing, inducing, bribing, or intimidating a person conducting or involved in an appraisal;
2. Mischaracterizing, or suborning any mischaracterization of, the appraised value of the property securing the extension of credit;
3. Seeking to influence an appraiser or otherwise encourage a targeted value in order to facilitate the making or pricing of the transaction;
4. Withholding or threatening to withhold timely payment for an appraisal report or for appraisal services rendered when the appraisal report or services are provided for in accordance with the contract between the parties.

DMC may engage in the following permissible conduct:

1. Asking an appraiser to consider additional, appropriate property information, including information regarding additional comparable properties to make or support an appraisal;
2. Asking an appraiser to provide further detail, substantiation, or explanation for the value conclusion;
3. Asking an appraiser to correct errors in the report.

DMC will comply with the TILA requirements governing appraisal independence as well as the implementing rules set forth in the Federal Reserve Board's Regulation Z.

2.4.4.2 Regulation Z Valuation Independence: Definitions

Covered Persons

Regulation Z Valuation Independence rules apply to creditors, appraisal management companies, appraisers, mortgage brokers, realtors, title insurers and other settlement service providers (as defined in RESPA).

Covered Transaction

Both open-and closed-end credit transactions secured by consumer's principal dwelling are subject to the valuation independence rules. Home equity plans secured by a consumer's principal dwelling are also covered.

Valuation

A valuation is any estimate of value in written/electronic form, other than one produced solely by automated model or system. All appraisals are valuations. A valuation is an estimate of value prepared by a natural person and includes an estimate of value prepared by a real estate agent or an estimate of value developed by a natural person using an automated model or system.

Valuation Management Functions

Valuation Management Functions are administrative functions performed in connection with valuations including:

1. Recruiting, selecting or retaining a person to prepare a valuation;
2. Contracting with or employing a person to prepare a valuation;
3. Managing or overseeing the process of preparing a valuation, or by providing administrative services such as receiving orders, submitting completed valuations to creditors and underwriters, collecting fees for valuation services rendered, and compensating the person that prepares the valuation;
4. Reviewing or verifying the work of the person that prepares the valuation.

2.4.4.3 Prohibited Acts and Practices

DMC will not coerce or attempt to coerce a person who prepares a valuation, directly or indirectly, to assign a value based on any other factor other than the independent judgment of the person that prepares the valuation, to the consumer's principal dwelling, which will secure the credit transaction.

DMC will not engage or attempt to engage in coercion, extortion, inducement, bribery, intimidation, compensation or instruction to, or collusion with a person who prepares valuations or performs valuation management functions in order to cause or attempt to cause the value assigned to the consumers principal dwelling to be based on a factor other than the independent judgment of the person that prepares valuations.

DMC shall not engage in the following acts or practices toward a person who prepares a valuation or a person engaged in valuation management functions:

- Seeking to influence a person to report a minimum or maximum value for the consumer's principal dwelling;
- Withholding or threatening to withhold timely payment to a person because the person does not value the consumer's principal dwelling at or above a certain amount;
- Implying that current or future retention of the person depends on the amount at which the person estimates the value of the consumers principal dwelling;
- Excluding a person from consideration for future engagements because the person reports a value for the consumer principal dwelling that does not meet or exceed a predetermined threshold;
- Conditioning the compensation paid to a person on consummation of the covered transaction.

In addition, DMC shall not falsify or materially alter a valuation, or induce any person to violate the prohibition against falsifying or materially altering a valuation. For example, a loan officer may not coerce a loan underwriter to alter an appraisal report to increase the value assigned. DMC also shall not induce any person who prepares a valuation or performs a valuation management function to materially misrepresent the value of the consumer's principal dwelling in a valuation.

DMC shall not engage in indirect acts or practices with respect to prohibited conduct. For example, a creditor that attempts to cause the

value an appraiser engaged by an appraisal management company assigns to the consumer's principal dwelling to be based on a factor other than the appraiser's independent judgment, by threatening to withhold future business from a company affiliated with the appraisal management company unless the appraiser assigns a particular value.

2.4.4.4 Permissible Conduct

DMC may engage in the following permissible acts or practices:

1. Asking person who prepares valuation to consider additional, appropriate property information, including information about comparable properties, to make or support a valuation;
2. Requesting a person that prepares a valuation provide further detail, substantiation, or explanation for the person's conclusion about the value;
3. Asking a person that prepares a valuation to correct errors in the valuation;
4. Obtaining multiple valuations for the consumer's principal dwelling to select the most reliable valuation;
5. Withholding compensation due to breach of contract or substandard performance of services;
6. Taking action permitted or required by applicable federal or state statute, regulation or agency guidance.

2.4.4.5 Conflicts of Interest

DMC recognizes that TILA prohibits a person from preparing a valuation or performing valuation management functions for a covered transaction if he or she has a direct or indirect interest in the property or transaction. This provision does not prohibit work by staff appraisers within a financial institution or other organization so long as an entity establishes firewalls consistent with the following requirements:

For creditors with assets exceeding \$250 million as of December 31 of the past two calendar years, employees or affiliates do not have a conflict of interest based on the person's employment or affiliation with creditor if:

1. The compensation of the person preparing a valuation or performing valuation management functions is not based on the value arrived at in any valuation.
2. The person preparing a valuation or performing valuation management functions reports to a person who is not part of the creditor's loan production function, and whose compensation is not based on the closing of the transaction to which the valuation relates.
For Example: If a person preparing valuations is directly supervised or managed by a loan officer or other person in the creditors loan production function (employee, officer, director, department, division or other unit of the creditor with responsibility for generating covered transactions, approving covered transactions or both) or by a person who is directly supervised by a loan officer, this condition is not met.
1. No employee, officer, director in the creditors loan production function is directly or indirectly involved in selecting, retaining, recommending or influencing the selection of the person to prepare a valuation or perform evaluation management functions or to be included or excluded from a list of approved persons who prepare valuations or perform valuation management functions. For example, if the person who selects the person to prepare valuation for a covered transaction is supervised by an employee of the creditor who also supervises loan officers, the condition is not met.

For creditors with assets of \$250 million or less for either of the past two calendar years, employees or affiliates do not have a conflict of interest based on the person's employment or affiliation with creditor if the compensation of the person preparing a valuation or performing valuation management functions is not based on the value arrived at in any valuation and the creditor requires that any employee, officer, or director of the creditor who orders, performs, or reviews a valuation for a covered transaction abstain from participating in any decision to approve, not approve or set the terms of that transaction.

DMC recognizes that despite implementing the firewalls set forth above, an employee or affiliate may have a direct or indirect interest in the property or transaction that creates a prohibited conflict of interest. The establishment of firewalls in accordance with this section serves to address perceived conflicts of interest based solely on the basis of a person's employment or affiliation. Whether an employee or affiliate has a prohibited conflict of interest based on some factor other than his or her employment or affiliation with the creditor depends on the facts and circumstances of a particular case, including the structure of the employment or affiliate relationship.

2.4.4.6 Prohibitions on Extensions of Credit

If DMC knows that prohibited conduct was engaged in or that a conflict of interest exists in connection with a valuation, at or before consummation, shall exercise reasonable diligence to determine whether the valuation materially misstates or misrepresents the value of the consumer's principal dwelling before extending credit based on the valuation. DMC shall document that it has acted with reasonable diligence in determining whether a valuation materially misstates or misrepresents the value of the consumer's principal dwelling. If DMC determines the valuation materially misstates or misrepresents the value of the consumer's principal dwelling no credit will be extended based on the valuation.

2.4.4.7 Customary and Reasonable Compensation

DMC will compensate a fee appraiser for performing appraisal services at a rate that is customary and reasonable for comparable appraisal services. DMC or its agents will consider the following factors in determining an amount that is reasonably related to recent rates paid for comparable appraisal services performed in the geographic market of the property:

1. Type of property;
2. Scope of work;
3. Time in which appraisal services are required to be performed;
4. Fee appraiser qualifications;
5. Fee appraiser experience and professional record;
6. Fee appraiser work quality.

DMC will also refrain from the following "anticompetitive" acts:

1. Entering into any contracts or conspiring to restrain trade through methods such as price fixing or market allocation;
2. Engaging in acts of monopolization.

A creditor and its agents shall be presumed to comply with the requirement to provide customary and reasonable compensation to fee appraisers if the creditor determines the amount of compensation paid to a fee appraiser:

1. By relying on information about rates based on objective third party information, including fee schedules prepared by independent third parties such as government agencies, academic institutions and private research firms;
2. By relying on information about rates based on recent rates paid to a representative sample of providers of appraisal services in the same market as the subject property or the fee schedules of those providers;
3. If when relying on information based in fee schedules, studies or surveys, compensation paid to fee appraisers for appraisals

ordered by appraisal management companies is excluded.

2.4.4.8 Mandatory Reporting

If DMC reasonably believes an appraiser has materially failed to comply with the USPAP or ethical or professional requirements for appraisers, the matter will be referred to the appropriate state appraiser certifying and licensing agency within a reasonable period of time after it is determined that there is a reasonable basis for believing a material failure to comply has occurred.

A failure to comply is material if the failure is likely to affect the value assigned to the consumer's principal dwelling. The following acts or practices are material failures to comply and this list is not exclusive:

1. Mischaracterizing the value of the consumer's principal dwelling;
2. Performing an assignment in a grossly negligent manner;
3. Accepting an appraisal assignment on the condition that the appraiser will report a value equal to or greater than the purchase price for the consumer's principal dwelling.

2.4.4.9 Interagency Appraisal and Evaluation Guidelines

In addition to the Regulation Z requirements set forth in the preceding sections, DMC will comply with the additional requirements set forth in the Interagency Appraisal and Evaluation Guidelines to ensure appraisal independence.

Selection of Appraisers or Persons Who Perform Evaluations

DMC will select, evaluate and monitor the performance of appraisers and persons who perform evaluations in order to ensure that a qualified, competent and independent person complete the appraisal or evaluation. DMC will maintain documentation to demonstrate that the person who performs the appraisal or evaluation has the relevant experience and knowledge for the market, location and type of real property being valued.

The person at DMC who selects or oversees the selection of appraisers or persons providing evaluations shall be independent from the loan production area. Use of a borrower-ordered or borrower-provided appraisal violates the Agencies' regulation.

DMC may establish an approved appraiser list so long as DMC creates and maintains appropriate procedures for the development and administration of such a list in accordance with the following requirements:

1. The procedures must include a process for qualifying an appraiser for initial placement on the list;
2. The procedures must outline a process for monitoring appraiser performance and credentials to assess whether the appraiser will be retained on the list; and
3. DMC must set forth a process for periodic internal review of the use of the approved appraiser list to confirm its procedures and controls ensure independence in the development, administration and maintenance of the list.

Subsequent Appraisals

If DMC finds it is necessary to obtain another appraisal or evaluation of a property, DMC will select the most credible appraisal or evaluation, rather than the appraisal or evaluation stating the highest value for the subject property.

2.4.5 Fannie Mae Requirements

2.4.5.1 Fannie Mae Appraiser Independence Requirements

DMC shall comply with Fannie Mae's Appraiser Independence Requirements which were developed to replace the Home Valuation Code of Conduct (HVCC). These requirements were developed to protect the independence of appraisers and the integrity of their appraisals, extend protections for home buyers, mortgage investors, and the housing market and reinforce Fannie Mae's commitment to responsible lending and mortgage quality standards.

Selection of Appraiser

DMC will select, retain and provide compensation for the appraiser. DMC will not accept an appraisal completed by an appraiser selected by any other third party, including mortgage brokers and real estate agents.

DMC will not allow any members of its sales or mortgage production staff to be involved in selecting, retaining, recommending, or influencing the selection of any appraiser or for inclusion on a list of approved appraisers. In addition, no members of DMC's sales or mortgage production staff may have any substantive communications with an appraiser or appraisal management company, including ordering or managing an appraisal assignment.

Subsequent Appraisals

As a general rule, DMC will not order, obtain, use or pay for a second or subsequent appraisal unless a second appraisal is required by law. If DMC determines that a second appraisal is necessary because there is a reasonable basis to believe the original appraisal was flawed or tainted, or because such an appraisal is required pursuant to a written, pre-established appraisal review process, quality control process, or underwriting guidelines, DMC will adhere to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value.

Provision of Appraisal to Borrower

DMC will provide the borrower with a copy of any appraisal report concerning the borrower's subject property upon the completion of the report and no less than 3 business days prior to closing. In order for a borrower to waive this 3 day waiting period a waiver must be obtained at least 3 business days prior to the closing.

2.4.5.2 Prohibited Acts and Practices

No employee, director, officer, or agent of DMC or any third party acting as a partner on behalf of DMC shall engage in the following acts or practices:

1. Expressly or impliedly promising future business, promotions or increased compensation for an appraiser in order to influence or attempt to influence the development, reporting result or review of an appraisal;
2. Conditioning the ordering of an appraisal report or the payment of an appraisal fee, salary, or bonus on the opinion, conclusion, or valuation to be reached, or on a preliminary value estimate requested from an appraiser;
3. Requesting that an appraiser provide an estimated, predetermined, or desired valuation in an appraisal report prior to the completion of the appraisal report, or request that an appraiser provide estimated values or comparable sales at any time prior to the appraiser's completion of an appraisal report;
4. Providing to an appraiser an anticipated, estimated, encouraged, or desired value for a subject property or a proposed or target amount to be loaned to the borrower, except that a copy of the sales contract for purchase transactions may be provided;
5. Any other act or practice that impairs or attempts to impair an appraiser's independence, objectivity, or impartiality or violates law or regulation including but not limited to the TILA, Regulation Z, or the USPAP.

2.4.5.3 Appraiser Independence Safeguards

An "appraiser" must be, at a minimum, licensed or certified by the state in which the property to be appraised is located. No employee, director, officer, or agent of DMC, or any other third party acting as joint venture partner, independent contractor, appraisal company, appraisal management company, or partner on behalf of DMC, shall influence or attempt to influence the development, reporting, result, or review of an appraisal through coercion, extortion, collusion, compensation, inducement, intimidation, bribery, or in any other manner including but not limited to:

1. Withholding or threatening to withhold timely payment or partial payment for an appraisal report;
2. Withholding or threatening to withhold future business for an appraiser, or demoting or terminating or threatening to demote or terminate an appraiser;
3. Expressly or impliedly promising future business, promotions, or increased compensation for an appraiser;
4. Conditioning the ordering of an appraisal report or the payment of an appraisal fee or salary or bonus on the opinion, conclusion, or valuation to be reached, or on a preliminary value estimate requested from an appraiser;
5. Requesting that an appraiser provide an estimated, predetermined, or desired valuation in an appraisal report prior to the completion of the appraisal report, or requesting that an appraiser provide estimated values or comparable sales at any time prior to the appraiser's completion of an appraisal report;
6. Providing to an appraiser an anticipated, estimated, encouraged, or desired value for a subject property or a proposed or target amount to be loaned to the borrower, except that a copy of the sales contract for purchase transactions may be provided;
7. Providing to an appraiser, appraisal company, appraisal management company, or any entity or person related to the appraiser, appraisal company, or appraisal management company, stock or other financial or non-financial benefits;
8. Removing an appraiser from a list of qualified appraisers, or adding an appraiser to an exclusionary list of disapproved appraisers, in connection with the influencing or attempting to influence an appraisal as described in Paragraph B above (this prohibition does not preclude the management of appraiser lists for bona fide administrative or quality-control reasons based on written policy); and
9. Any other act or practice that impairs or attempts to impair an appraiser's independence, objectivity, or impartiality or violates law or regulation, including, but not limited to, the Truth in Lending Act (TILA) and Regulation Z, or the Uniform Standards of Professional Appraisal Practice (USPAP).

2.4.5.4 Acceptability of Subsequent Appraisals

A Fannie Mae seller must not order, obtain, use, or pay for a second or subsequent appraisal in connection with a mortgage financing transaction unless: (i) there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such basis is clearly and appropriately noted in the mortgage file, or (ii) such appraisal is done pursuant to written, pre-established bona fide pre- or post-funding appraisal review or quality control processes or underwriting guidelines, and so long as DMC adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value, or (iii) a second appraisal is required by law.

2.4.5.5 Borrower Receipt of Appraisal

DMC shall ensure that the borrower is provided a copy of any appraisal report concerning the borrower's subject property promptly upon completion at no additional cost to the borrower, and in any event no less than three days prior to the closing of the mortgage. The borrower may waive this three-day requirement if such waiver is obtained at least three days prior to the closing of the mortgage. DMC may provide the borrower at closing, a revised copy of an appraisal and information as to the nature of any revisions, so long as the revisions had no impact on value. DMC may require the borrower to reimburse DMC for the cost of the appraisal.

2.4.5.6 Appraiser Engagement

DMC or any third party specifically authorized (including, but not limited to, appraisal companies, appraisal management companies, and correspondent lenders) shall be responsible for selecting, retaining, and providing for payment of all compensation to the appraiser. DMC will not accept any appraisal report completed by an appraiser selected, retained, or compensated in any manner by any other third party (including mortgage brokers and real estate agents). There must be separation of a seller's sales or mortgage production functions and appraisal functions. An employee of DMC in the sales or mortgage production function shall have no involvement in the operations of the appraisal function.

Certain parties are prohibited from:

- Selecting, retaining, recommending, or influencing the selection of any appraiser for a particular appraisal assignment or for inclusion on a list or panel of appraisers approved or forbidden to perform appraisals for DMC; and
- Having any substantive communications with an appraiser or appraisal management company relating to or having an impact on valuation, including ordering or managing an appraisal assignment.
- These parties are:
 - All members of DMC's mortgage production staff;
 - Any person who is compensated on a commission basis upon the successful completion of a mortgage;
 - Any person whose immediate supervisor is not independent of the mortgage production staff and process;
 - Production staff and process.

2.4.5.7 Use of Appraisal Reports by In-House or Affiliated Appraisers

In underwriting a mortgage, DMC may use an appraisal report prepared by an appraiser employed by:

- DMC;
- An affiliate of the company;
- An entity that is owned, in whole or in part, by the company;
- An entity that owns, in whole or in part, the company; or
- An appraisal company or any appraisal management company affiliated with, or that owns or is owned, in whole or in part, by DMC or an affiliate (appraisers engaged as an independent contractor also qualify), provided that DMC complies with the provisions of these Appraiser Independence Requirements.[]
- DMC also may use in-house staff appraisers to:
 - Order appraisals;
 - Conduct appraisal reviews or other quality control, whether pre-funding or post-funding;
 - Develop, deploy, or use internal Automated Valuation Models; or
 - Prepare appraisals in connection with transactions other than mortgage origination transactions (e.g., mortgage workouts), if the seller complies with the provisions of these Appraiser Independence Requirements.

2.4.5.8 Transfer of Appraisals

DMC may deliver to Fannie Mae a conventional mortgage with an appraisal prepared by an appraiser selected by another lender, including where a mortgage broker has facilitated the mortgage application (but not ordered the appraisal). DMC delivering the loan to Fannie Mae makes all representations and warranties to Fannie Mae regarding the appraisal set forth in the Mortgage Selling and Servicing Contract, the Selling Guide and related documents, including there presentation that the appraisal is obtained in a manner consistent with these Appraiser Independence Requirements.

2.4.5.9 Referrals of Appraisal Misconduct Reports

If DMC has a reasonable basis to believe an appraiser or appraisal management company is violating applicable laws, or is otherwise engaging in unethical conduct, DMC shall promptly refer the matter to the applicable state appraiser certifying and licensing agency or other relevant regulatory bodies.

2.4.5.10 Compliance

DMC has adopted the foregoing written policies and procedures implementing its Appraiser Independence Requirements to comply with Fannie Mae. Compliance shall include, but not limited to, adequate training and disciplinary rules on appraiser independence, including the principles detailed in this manual. Additionally, DMC must ensure that any third parties, such as appraisal management companies or correspondent lenders, used in conjunction with the sale and delivery of a mortgage to Fannie Mae are also in compliance with these Appraiser Independence Requirements.

2.4.5.11 Post-Closing Quality Control Review of Appraisers & Appraisals

DMC shall implement a program to comply with Fannie Mae's requirements for post-closing QC review of appraisers and appraisals, including:

- Evaluation of Appraiser's Work and Property Fieldwork
- Review of Appraisals or Property Inspections
- Review of Appraisal Forms
- Reverification of Appraisals Through a Desk Review
- Automated Valuation Models for Desk Reviews
- Appraiser Independence Requirements

DMC shall continually evaluate the quality of an appraiser's work and property field work through the normal underwriting review of all appraisal reports, as well as through the spot-check field review of appraisals.

DMC shall reverify the appraisal or property inspection for 10% of the mortgage loans selected for QC review by ordering a review appraisal, additional appraisal reports, property inspection report, or other appropriate documentation to check the work of the original appraiser. The selection process must also include appraisals on the basis of the relative risk of the mortgage loan especially if the lender uses an automated valuation model as its sampling tool.

The review appraisal or property inspection—which may be either a new retrospective appraisal or property inspection, or a field review—must be prepared by an appraiser who is not affiliated with the original appraiser or appraisal firm. Any field review must include an exterior inspection and an analysis of the comparable sales, with emphasis on the accuracy of the factual data on the appraisal or property inspection report. For loans underwritten with DU, the review appraisal or property inspection must be consistent with the level of review that was conducted after the DU recommendation was received.

DMC may utilize Fannie Mae's Exterior-Only Inspection Residential Appraisal Report Form 2055 or another form of its choice may be used to document a new retrospective appraisal. The DU Property Inspection Report Form 2075 may be used to document a new property inspection. A One-Unit Residential Appraisal Field Review Report FNMA Form 2000 may be used to report the results of a field review.

A desk review may be used to reverify the appraisal or property inspection for the remaining 90% of mortgage loans selected for QC review. DMC's staff person who performs the desk review does not have to be an appraiser, but must be competent in the application of basic appraisal theory for assessing market risk; determining if property meets eligibility requirements, including the LTV ratio; and prescribing corrective actions in the underwriting process when defects are identified.

2.4.6 Freddie Mac Requirements

2.4.6.1 Appraiser Independence Safeguards

DMC shall comply with Freddie Mac's requirements for Appraiser Independence as follows:

- An "appraiser" must be, at a minimum, licensed or certified by the state in which the property to be appraised is located.
- No employee, director, officer, or agent of the seller, or any other third party acting as joint venture partner, independent contractor, appraisal company, appraisal management company, or partner on behalf of the seller, shall influence or attempt to influence the development, reporting, result, or review of an appraisal through coercion, extortion, collusion, compensation, inducement, intimidation, bribery, or in any other manner including but not limited to:
 - Withholding or threatening to withhold timely payment or partial payment for an appraisal report;
 - Withholding or threatening to withhold future business for an appraiser, or demoting or terminating or threatening to demote or terminate an appraiser.
 - Expressly or impliedly promising future business, promotions, or increased compensation for an appraiser;
 - Conditioning the ordering of an appraisal report or the payment of an appraisal fee or salary or bonus on the opinion, conclusion, or valuation to be reached, or on a preliminary value estimate requested from an appraiser;
 - Requesting that an appraiser provide an estimated, predetermined, or desired valuation in an appraisal report prior to the completion of the appraisal report, or requesting that an appraiser provide estimated values or comparable sales at any time prior to the appraiser's completion of an appraisal report;
 - Providing to an appraiser an anticipated, estimated, encouraged, or desired value for a subject property or a proposed or target amount to be loaned to the borrower, except that a copy of the sales contract for purchase transactions may be provided;
 - Providing to an appraiser, appraisal company, appraisal management company, or any entity or person related to the appraiser, appraisal company, or appraisal management company, stock or other financial or non-financial benefits;
 - Removing an appraiser from a list of qualified appraisers or adding an appraiser to an exclusionary list of disapproved appraisers in connection with the influencing or attempting to influence an appraisal as described in Paragraph B above (this prohibition does not preclude the management of appraiser lists for bona fide administrative or quality-control reasons based on written policy); and
 - Any other act or practice that impairs or attempts to impair an appraiser's independence, objectivity, or impartiality or violates law or regulation, including, but not limited to, the Truth in Lending Act (TILA) and Regulation Z, or the Uniform Standards of Professional Appraisal Practice (USPAP).

2.4.6.2 Acceptability of Subsequent Appraisals

DMC shall not order, obtain, use, or pay for a second or subsequent appraisal in connection with a mortgage financing transaction unless: (i) there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such basis is clearly and appropriately noted in the mortgage file, or (ii) such appraisal is done pursuant to written, pre-established bona fide pre- or post-funding appraisal review or quality control processes or underwriting guidelines, and so long as the seller adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value, or (iii) a second appraisal is required by law.

2.4.6.3 Borrower Receipt of Appraisal

DMC shall ensure that the borrower is provided a copy of any appraisal report concerning the borrower's subject property promptly upon completion at no additional cost to the borrower, and in any event no less than three days prior to the closing of the mortgage. The borrower may waive this three-day requirement if such waiver is obtained at least three days prior to the closing of the mortgage. DMC may provide the borrower at closing a revised copy of an appraisal and information as to the nature of any revisions, so long as the revisions had no impact on value. DMC may require the borrower to reimburse the seller for the cost of the appraisal.

2.4.6.4 Appraiser Engagement

DMC or any third party specifically authorized by the seller (including, but not limited to, appraisal companies, appraisal management companies, and correspondent lenders) shall be responsible for selecting, retaining, and providing for payment of all compensation to the appraiser. DMC will not accept any appraisal report completed by an appraiser selected, retained, or compensated in any manner by any other third party (including mortgage brokers and real estate agents).

There must be separation of a seller's sales or mortgage production functions and appraisal functions. An employee of DMC in the sales or mortgage production function shall have no involvement in the operations of the appraisal function. Certain parties are prohibited from:

- Selecting, retaining, recommending, or influencing the selection of any appraiser for a particular appraisal assignment or for inclusion on a list or panel of appraisers approved or forbidden to perform appraisals for the seller; and
 - Having any substantive communications with an appraiser or appraisal management company relating to or having an impact on valuation, including ordering or managing an appraisal assignment.
- These parties are:
- All members of the seller's mortgage production staff;
 - Any person who is compensated on a commission basis upon the successful completion of a mortgage; and
 - Any person whose immediate supervisor is not independent of the mortgage production staff and process.

2.4.6.5 Use of Appraisal Reports by In-House or Affiliated Appraisers

In underwriting a mortgage, DMC may use an appraisal report prepared by an appraiser employed by:

- DMC;
 - An affiliate of the company;
 - An entity that is owned, in whole or in part, by the company;
 - An entity that owns, in whole or in part, the company; or
 - An appraiser employed by, engaged as an independent contractor, or otherwise retained by an appraisal company or any appraisal management company affiliated with, or that owns or is owned, in whole or in part, by DMC or an affiliate, provided that DMC complies with the provisions of these Appraiser Independence Requirements.
- DMC also may use in-house staff appraisers to:
- Order appraisals;
 - Conduct appraisal reviews or other quality control, whether pre-funding or post-funding;
 - Develop, deploy, or use internal Automated Valuation Models; or
 - Prepare appraisals in connection with transactions other than mortgage origination transactions (e.g., mortgage workouts), if the seller complies with the provisions of these Appraiser Independence Requirements.

2.4.6.6 Transfer of Appraisals

DMC shall deliver to Freddie Mac a conventional mortgage with an appraisal prepared by an appraiser selected by another lender, including where a mortgage broker has facilitated the mortgage application (but not ordered the appraisal). DMC, in its delivery to Freddie Mac, makes all representations and warranties to Freddie Mac regarding the appraisal set forth in the seller's Purchase Documents, including the representation that the appraisal is obtained in a manner consistent with these Appraiser Independence Requirements.

2.4.6.7 Referrals of Appraisal Misconduct Reports

If DMC has a reasonable basis to believe an appraiser or appraisal management company is violating applicable laws, or is otherwise engaging in unethical conduct, the company shall promptly refer the matter to the applicable state appraiser certifying and licensing agency or other relevant regulatory bodies.

2.4.6.8 Compliance

DMC has adopted the foregoing written policies and procedures to implement its Appraiser Independence Requirements, which include, but are not limited to, adequate training and disciplinary rules on appraiser independence, including the principles detailed in this manual. Additionally, DMC shall ensure that any third parties, such as appraisal management companies or correspondent lenders, used in conjunction with the sale and delivery of a mortgage to Freddie Mac are also in compliance with these Appraiser Independence Requirements.

2.4.6.9 General Requirements for Appraisals and Inspections

Selection of appraisers and appraiser independence

The appraisal or inspection report must be signed by an appraiser that the company has approved. DMC shall ensure that the individuals underwriting the appraisals and collateral are independent of loan production staff. If independence is not feasible due to the small size of the company's staff, the DMC must have the appropriate controls in place to assure independence.

With respect to each conventional mortgage delivered to Freddie Mac, DMC must represent and warrant that the appraisal was obtained in a manner consistent with the Freddie Mac's Appraisal Independence Requirements.

Representations and warranties regarding appraisals and inspections

In addition to the representations and warranties with respect to the Appraiser Independence Requirements, with respect to each appraisal or inspection, the seller represents and warrants that:

- All information known to the seller that may affect the estimate of value or marketability has been provided to the appraiser in conjunction with the appraisal or inspection request
- It has reviewed the report and has concluded that the Mortgaged Premises is adequate security for the mortgage, in accordance with the requirements of Freddie Mac
- The appraisal or inspection complies with the applicable requirements in this manual
- The report is of professional quality and supports all of the appraiser's assumptions, data, analyses, rationale and conclusions that were relied on in estimating the value and addressing the marketability of the mortgaged Premises

- The information in the report is accurate, internally consistent, written in clearly understandable language, fully supported and sufficiently documented
- Deficient appraisals or inspections will be considered a breach of the seller's warranty as to the acceptability of the mortgage and will subject the seller to the remedies available to Freddie Mac. In addition to reviewing the appraisal or inspection report submitted by DMC, Freddie Mac may make property inspections and/or other investigations to assure property eligibility and proper underwriting of the Mortgages offered for sale to and sold to Freddie Mac.

2.4.6.10 Market Value Definition

DMC requires that an appraisal must be based on the following definition of market value:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus.

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated
- Both parties are well informed or well advised, and each acting in what he considers his own best interest
- A reasonable time is allowed for exposure in the open market
- Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto, and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale

Adjustments to the comparable sales must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the property or transaction.

Any adjustment should not be calculated on a mechanical dollar-for-dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment. The market value estimate of the subject property must not include value assigned to furniture or any other personal property.

2.4.7 FHA Requirements

2.4.7.1 Responsibility for Appraisals

DMC shall comply with FHA's rule that lender, including sponsoring lenders, are equally responsible, along with appraisers, for the quality, integrity, accuracy and thoroughness of appraisals. DMC will be held accountable if it knew, or should have known, that there were problems with the integrity, accuracy and thoroughness of an appraisal submitted to FHA for mortgage insurance purposes. DMC acknowledges that lenders who submit appraisals to HUD that do not meet FHA requirements are subject to the imposition of sanctions by the HUD Mortgagee Review Board.

FHA does not require the use of Appraisal Management Companies (AMCs) or other third party organizations for appraisal ordering, but recognizes that some lenders use AMCs and/or other third party organizations to help ensure appraiser independence.

DMC must ensure that:

- An FHA appraiser is not prohibited by the lender, AMC or other third party, from recording the fee he/she was paid for performing the appraisal in the appraisal report
- FHA roster appraisers are compensated at a rate that is customary and reasonable for appraisal services performed in the market area of the property being appraised
- The fee for the actual completion of an FHA appraisal does not include a fee for management of the appraisal process or any activity other than the performance of the appraisal
- Any management fees charged by an AMC or other third party must be for actual services related to ordering, processing or reviewing of appraisals performed for FHA financing, and
- AMC and other third party fees must not exceed what is customary and reasonable for such services provided in the market area of the property being appraised.

2.4.7.2 Appraisal Assignment to Ensure Appraiser Competency

DMC must select an appropriate appraiser for every assignment, one who has knowledge of the market area, or geographic competency. The company must not assume, simply because an appraiser is state-certified, that he/she is qualified and knowledgeable in a specific market area or property type. DMC must determine if an appraiser's qualifications, as evidenced by educational training and actual field experience, are sufficient to enable the appraiser to competently perform appraisals before assigning an appraisal to him/her.

DMC must ensure that the FHA roster appraiser selected to perform an appraisal is listed as active on the FHA Appraiser Roster at the time of selection. FHA will not insure mortgages predicated upon appraisals performed by appraisers who are not current on the FHA appraiser roster at the time of the effective date of the appraisal.

2.4.7.3 Preventing Improper Influences on Appraisers

In order to help FHA roster appraisers avoid conflicts of interest or appearance of conflicts of interest, no member of DMC's loan production staff or any person who is compensated on a commission basis tied to the successful completion of a loan, or reports, ultimately, to any officer of the lender not independent of the loan production staff and process, shall have substantive communications with an appraiser.

2.4.7.4 Who May Not Order the Appraisal

FHA prohibits lenders from accepting appraisal reports completed by an appraiser selected, retained or compensated in any manner by a real estate agent. To ensure appraiser independence, FHA-approved lenders are also prohibited from accepting appraisals prepared by FHA roster appraisers who are selected, retained or compensated in any manner by a third-party sponsored originator or any member of a lender's staff who is compensated on a commission basis tied to the successful completion of a loan.

2.4.7.5 Appraiser Independence Safeguards

DMC and third parties working on behalf of the company, are prohibited from the following:

- Withholding or threatening to withhold timely payment or partial payment for an appraisal report
- Withholding or threatening to withhold future business from an appraiser
- Demoting or terminating, or threatening to demote or terminate, an appraiser

- Expressly or impliedly promising future business, promotions or increased compensation for an appraiser
- Conditioning the ordering of an appraisal report or the payment of an appraisal fee, salary or bonus on the opinion, conclusion or valuation to be reached, or on a preliminary value estimate requested from an appraiser
- Requesting that an appraiser provide an estimated, predetermined or desired valuation in an appraisal report prior to the completion of that report
- Requesting that an appraiser provide estimated values or comparable sales at any time prior to the appraiser completion of an appraisal report
- Providing to the appraiser an anticipated, estimated, encouraged or desired value for a subject property or a proposed or target amount to be loaned to the borrower, except that a copy of the sales contract for purchase must be provided
- Providing stock or other financial or nonfinancial benefits to the appraiser, the appraisal company, the appraisal management company, or any entity or person related to the appraiser, appraisal company or management company.
- Allowing the removal of an appraiser from a list of qualified appraisers, or the addition of an appraiser to an exclusionary list of qualified appraisers, used by any entity without prompt written notice to such appraiser, which notice shall include written evidence of the appraiser's illegal conduct, violation of the uniform standards of professional appraisal practice (USPAP) standards, violation of state licensing standards, or improper or unprofessional behavior or other substantive reason for removal.
- Ordering, obtaining, using, or paying for a second or subsequent appraisal or automated valuation model (AVM) in connection with a mortgage financing transaction unless there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such appraisal is clearly and appropriately noted in the loan file; such appraisal or automated valuation model is done pursuant to written, pre-established bona fide pre- or post-funding appraisal review or quality control process or underwriting guidelines, and the lender adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value, or any other act or practice that impairs or attempts to impair an appraiser's independence, objectivity or impartiality, or violates law or regulation, including, but not limited to the Truth in Lending Act (TILA), Regulation Z, and USPAP.

Note: If absolute lines of dependence cannot be achieved as a result of the lender's small size and limited staff, the lender must be able to clearly demonstrate that it has prudent safeguards in place to isolate its collateral evaluation process from influence or interference by its loan production process.

2.4.7.6 Appraiser Selection in the FHA Connection

DMC is responsible for ensuring that the appraiser who actually conducted the appraisal is correctly identified in FHA Connection (FHAC). DMC acknowledges HUD's ruling that lenders who fail to ensure that FHAC reflects the correct name will be subject to administrative sanctions.

2.4.7.7 DE Underwriter Responsibility for the Appraiser Report

DMC shall comply with HUD's directive which states the DE Underwriter who is responsible for the quality of the appraisal report is allowed to communicate with the appraiser. The underwriter may additionally request clarifications and discuss components of the appraisal that influence its quality. Under this policy, the underwriter bears the primary responsibility for determining the eligibility of a property for FHA insurance.

2.5 Equal Credit Opportunity Act (ECOA)

2.5.1 Summary of Regulation

The Equal Credit Opportunity Act (Regulation B) prohibits DMC from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age, if they are a recipient of public assistance and the exercise of rights under the Consumer Credit Protection Act. The Consumer Financial Protection Bureau and prudential regulators enforce ECOA and its implementing regulation, Reg B. All federal agencies that regulate lending institutions have the authority to enforce Regulation B and civil suits and penalties may be brought against DMC within two years of violations.

Under ECOA, a credit applicant must receive a written notice of adverse action stating the reason for denial within 30 days if credit has been declined. DMC must respond in writing to any request for the specific reason(s) for action taken. Records must be maintained for a period of 25 months. ECOA defines and governs the rules concerning pre-screening mortgage applicants, rate inquiries and evaluating applications.

2.5.2 General Requirements

The Equal Credit Opportunity Act (ECOA) requires DMC to:

1. Collect information about the applicant's race and other personal characteristics in applications for certain dwelling-related loans.

An application for credit, primarily for the purchase or refinancing of a dwelling, that is or will be occupied by the applicant as a principal residence, where the extension of credit is secured by the dwelling, must contain the following request for information regarding the applicant(s): race or national origin, sex, marital status and age. This information is used for government monitoring purposes.

2. Notify applicants of the action taken on their applications.

Notification of action taken must be provided to all applicants. DMC must notify an applicant of action taken within 30 days of receiving a completed application concerning the approval of, counteroffer to, or adverse action (denial) on the application.

An adverse action notice must contain a statement of the action taken, the name and address of DMC, the ECOA notice regarding the prohibited bases, the name and address of the federal agency that administers compliance, and a statement of the specific reason(s) for the action taken.

3. Report credit history in the names of both spouses on an account.

If DMC furnishes information to consumer reporting agencies concerning an account that reflects the participation of both spouses, the information must be furnished in a manner that will enable the agency to provide access to the information in the name of each spouse.

4. Provide applicants with copies of appraisal reports used in credit transactions.

DMC shall provide a copy of the appraisal report used in connection with an application for credit that is to be secured by a lien on ad welling. If the copy is not routinely provided, DMC must notify the applicant of the right to receive a copy of the appraisal upon written request. This notification may be provided at any time during the application process, but no later than when notice of action taken is provided.

2.5.3 Prohibited Actions

1. DMC may not require the signature of an applicant's spouse or other person, other than a joint applicant, on any credit instrument if the applicant qualifies under DMC's standards for creditworthiness. DMC may require the signature of an applicant's spouse or other person only on the instrument(s) necessary to secure the property (e.g., mortgage, deed, etc.) in the event of default or death of the applicant.
2. Guarantees
 - a. **Personal.** DMC may not require personal guarantees on a prohibited basis, such as only married officers of a business or only for women-owned or minority-owned businesses. DMC may require the personal guarantee of the partners, directors, or officers of a business, and the shareholders of a closely held corporation, even if the business or corporation is creditworthy. This requirement must be based on the guarantor's relationship with the business or corporation.
 - b. **Spousal.** DMC may not require the signature of a guarantor's spouse, except as noted in item 1.

2.5.4 Specific Rules Concerning Use of Information

1. **Marital Status:** Prohibited Basis.
2. **Special Purpose Credit:** Prohibited Basis.
3. **Age:** DMC may consider the applicant's occupation and length of time to retirement to ascertain whether the applicant's income (including retirement income) will support the extension of credit to its maturity.
4. **Public Assistance:** DMC may take into account the length of time an applicant will likely remain eligible to receive such income; whether the applicant will continue to qualify for benefits based on the status of the applicant's dependents; whether DMC can attach or garnish the income to assure payment of the debt in the event of default.
5. **Individual Applicant:** DMC must evaluate income derived from part-time employment, alimony, child support, separate maintenance, retirement benefits, or public assistance (all referred to as "protected income") on an individual basis, not on the basis of aggregate statistics, and must assess its reliability or unreliability by analyzing the applicant's actual circumstances. In determining the likelihood of consistent payments of alimony, child support or separate maintenance, DMC may consider factors such as whether payments are received pursuant to a written agreement such as a court decree; the length of time that the payments have been received; whether the payments are regularly received by the applicant; the availability of court or other procedures to compel payment; and the creditworthiness of the payor, including the credit history of the payor when it is available to DMC.
6. **Part-Time Employment, Sources of Income:** DMC may score or take into account the fact that the individual has more than one source of earned income -- a full-time and a part-time job or two part-time jobs.
7. **National Origin/Immigration Status:** The applicant's immigration status and ties to the community (such as employment and continued residence in the area) could have a bearing on a credit's ability to obtain repayment. Accordingly, DMC may consider and differentiate, for example, between a noncitizen who is a long-time resident with permanent resident status and a noncitizen who is temporarily in this country on a student visa.
8. **National Origin/Citizenship:** Under the regulation, a denial of credit on the grounds that an applicant is not a United States citizen is not per se discrimination based on national origin.

2.5.5 Credit Denial

During an initial inquiry, it is considered an Adverse Action if DMC, in response to any statement by the applicant, suggests that the borrower should not bother to apply. It is considered an adverse action as soon as the borrower is discouraged. An application does not have to be in writing and an application does not have to be signed. It may be taken over the telephone or using a computerized system. Therefore, a letter of credit denial may be given to a customer based on verbal information during a loan inquiry. **Under no circumstances does a loan originator, processor or any employee other than an authorized underwriter have the authority to issue a letter of adverse action, including standard notifications or letters drafted on lender stationery.**

2.5.6 Notification of Action Taken

When notification is required, DMC shall notify an applicant of action taken within:

- 30 days after receiving a completed application concerning DMC' approval of, counteroffer to, or adverse action on the application;
- 30 days after taking adverse action on an incomplete application, unless notice is provided in accordance with "**Incomplete Applications**" of this section;
- 30 days after taking adverse action of an existing account; or
- 90 days after notifying the applicant of a counteroffer if the applicant does not expressly accept or use the credit offered.

2.5.7 Content of Notification

A notification given to an applicant when adverse action is taken shall be in writing and shall contain:

1. A statement of the action taken, the name and address of DMC
2. A statement of the provisions of section 701(a) of the act
3. The name and address of the federal agency that administers compliance with respect to DMC and either, a) or b)

- a. a statement of specific reasons for the action taken; or
- b. disclosure of the applicant's right to a statement of specific reasons within 30 days, if the statement is requested within 60 days of DMC's notification. The disclosure shall include the name, address, and telephone number of the person or office for which the statement of reasons can be obtained.

2.5.8 Form of ECOA Notice and Statement of Specific Reasons

DMC shall provide a notice that is substantially similar to the following:

1. ECOA Notice

The federal Equal Credit Opportunity Act prohibits DMC from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this lender is:

- Federal Trade Commission
Equal Credit Opportunity
600 Pennsylvania Avenue, NW
Washington, DC 20580

2. Statement of Specific Reasons

The statement of specific reasons for adverse action must be specific and indicate the principal reason(s) for the adverse action. Statements that the adverse action was based on DMC's internal standards or policies or that the applicant failed to achieve the qualifying score on DMC's scoring system are insufficient.

2.5.9 Incomplete Applications

1. Notice Alternatives

Within 30 days after receiving an application that is incomplete regarding matters that an applicant can complete, DMC shall notify the applicant either a statement of the action taken or a statement of the incompleteness.

2. Notice of Incompleteness

If additional information is needed from an applicant, DMC shall send a written notice to the applicant specifying the information needed, designating a reasonable period of time for the applicant to provide the information, and informing the applicant that failure to provide the information requested will result in no further consideration being given to the application. DMC shall have no further obligation if the applicant fails to respond within the designated time period.

If the applicant supplies the requested information within the designated time period, DMC shall take action on the application and notify the applicant.

3. Oral Request for Information

At its option, DMC may inform the applicant orally of the need for additional information; but if the application remains incomplete DMC shall send a notice to the applicant.

4. Withdrawal of Approved Application

If DMC approves the application and the applicant has not responded within 30 days after applying or receiving notification of approval, DMC may treat the application as withdrawn.

5. Multiple Applicants

When an application involves more than one applicant, notification need only be given to one of them but must be given to the primary applicant where one is readily apparent.

6. Applications Submitted through a Third Party

When an application is made on behalf of an applicant to more than one creditor and the applicant expressly accepts or uses credit offered by one of the creditors, notification of action taken by any of the other creditors is not required. If no credit is offered or if the applicant does not expressly accept or use the credit offered, each creditor taking adverse action must comply with this section, directly or through a third party. A notice given by a third party shall disclose the identity of each creditor on whose behalf the notice is given.

2.5.10 Counteroffer Combined with Adverse Action Notice

Dear Applicant: _____ Date: _____

Thank you for your application for _____. We are unable to offer you credit on the terms that you requested for the following reason(s): _____. We can, however, offer you credit on the following terms: _____ If this offer is acceptable to you, please notify us within [amount of time] at the following address: _____.

Our credit decision on your application was based in whole or in part on information obtained in a report from [name, address and telephone number of the consumer reporting agency]. You have a right under the Fair Credit Reporting act to know the information contained on your credit file at the consumer reporting agency.

You should know that the federal Equal Credit Opportunity Act prohibits DMC, such as ourselves, from discriminating against credit applicants on the basis of their race, color, religion, national origin, sex, marital status, age, because they receive income from a public assistance program, or because they may have exercised their rights under the Consumer Credit Protection Act. If you believe there has been discrimination in handling your application you should contact the:

[name and address of DMC's agency]

Dear Applicant: Date:

Thank you for your application for _____. We are unable to offer you credit on the terms that you requested for the following reason(s): _____. We can, however, offer you credit on the following terms: _____ If this offer is acceptable to you, please notify us within [amount of time] at the following address: _____.

Our credit decision on your application was based in whole or in part on information obtained in a report from [name, address and telephone number of the consumer reporting agency]. You have a right under the Fair Credit Reporting act to know the information contained on your credit file at the consumer reporting agency.

You should know that the federal Equal Credit Opportunity Act prohibits DMC, such as ourselves, from discriminating against credit applicants on the basis of their race, color, religion, national origin, sex, marital status, age, because they receive income from a public assistance program, or because they may have exercised their rights under the Consumer Credit Protection Act. If you believe there has been discrimination in handling your application you should contact the:

[name and address of DMC's agency]

2.5.11 Notice of Action Taken (for Credit Scoring Reasons)

NOTICE OF ACTION TAKEN NOTICE OF ACTION TAKEN AND STATEMENT OF REASONS

Date:
Lender: Direct Mortgage, Corp.
Loan Number:
Applicant(s):
Property Address:

Dear Applicant(s):

Thank you for your recent application. Your request for a loan was carefully considered, and we regret that we are unable to approve your application at this time, for the following reason(s):

[Reasons for Denial of Credit]

The consumer reporting agency contacted that provided information that may have influenced our decision in whole or in part was [Name, Address and Phone of credit reporting agency]. The reporting agency played no part in our decision and is unable to supply specific reasons why we have denied credit to you. You have a right under the Fair Credit Reporting Act to know the information contained in your credit file at the consumer reporting agency. You also have a right to a free copy of your report from the reporting agency, if you request it no later than 60 days after you receive this notice. In addition, if you find that any information contained in the report you receive is inaccurate or incomplete, you have the right to dispute the matter with the reporting agency. Any questions regarding such information should be directed to [Name of credit reporting agency].

If you have any questions regarding this letter or would like to discuss reinstating this loan application, you should contact the Mortgage Broker at: [Mortgage Broker's Name, Address and Phone].

Or the lender at: Direct Mortgage, Corp., 6955 Union Park Ctr Ste 540 Midvale, UT 84047, (801) 924-2300.

Notice: The federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission, Equal Credit Opportunity, 600 Pennsylvania Avenue, NW, Washington, DC 20580.

NOTICE OF ACTION TAKEN
NOTICE OF ACTION TAKEN AND STATEMENT OF REASONS

Date:
Lender: Direct Mortgage, Corp.
Loan Number:
Applicant(s):
Property Address:

Dear Applicant(s):

Thank you for your recent application. Your request for a loan was carefully considered, and we regret that we are unable to approve your application at this time, for the following reason(s):

[Reasons for Denial of Credit]

The consumer reporting agency contacted that provided information that may have influenced our decision in whole or in part was [Name, Address and Phone of credit reporting agency]. The reporting agency played no part in our decision and is unable to supply specific reasons why we have denied credit to you. You have a right under the Fair Credit Reporting Act to know the information contained in your credit file at the consumer reporting agency. You also have a right to a free copy of your report from the reporting agency, if you request it no later than 60 days after you receive this notice. In addition, if you find that any information contained in the report you receive is inaccurate or incomplete, you have the right to dispute the matter with the reporting agency. Any questions regarding such information should be directed to [Name of credit reporting agency].

If you have any questions regarding this letter or would like to discuss reinstating this loan application, you should contact the Mortgage Broker at: [Mortgage Broker's Name, Address and Phone].

Or the lender at: Direct Mortgage, Corp., 6955 Union Park Ctr Ste540 Midvale, UT 84047, (801) 924-2300.

Notice: The federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission, Equal Credit Opportunity, 600 Pennsylvania Avenue, NW, Washington, DC 20580.

2.5.12 Additional Disclosures Required if Consumer Credit Score is Used

If a consumer's credit score is used in taking any adverse action, in addition to the disclosures set forth in the prior section, the Adverse Action Notice must contain the following information:

We also obtained your credit score from this consumer reporting agency and may have used it in making our credit decision. Your credit score is a number that reflects the information in your consumer report. Your credit score can change, depending on how the information in your consumer report changes. The credit score used was:

[Borrower's Name]: [Score] Source: [Credit Agency] Date:
Scores range from a low of 300 to a high of 850.
Key factors that adversely affected your credit score:
[Factor #1]
[Factor #2]
[Factor #3]
[Factor #4]

If you have any questions regarding this credit score, you should contact:
[Name of the credit bureau]
[Address]
[Toll-Free Phone]
[Website Address].

We also obtained your credit score from this consumer reporting agency and may have used it in making our credit decision. Your credit score is a number that reflects the information in your consumer report. Your credit score can change, depending on how the information in your consumer report changes. The credit score used was:

[Borrower's Name]: [Score] Source: [Credit Agency] Date:

Scores range from a low of 300 to a high of 850.

Key factors that adversely affected your credit score:

[Factor #1]
[Factor #2]
[Factor #3]
[Factor #4]

If you have any questions regarding this credit score, you should contact:

[Name of the credit bureau]
[Address]
[Toll-Free Phone]
[Website Address].

2.5.13 Record Retention - Applications

For 25 months (12 months for business credit) after the date that DMC notifies an applicant of action taken on an application or of incompleteness, DMC shall retain in original form or a copy thereof of the following:

- A. Any application that DMC receives, any information required to be obtained concerning characteristics of the applicant to monitor

compliance with the act and this regulation or other similar law, and any other written or recorded information used in evaluating the application and not returned to the applicant at the applicant's request;

- B. A copy of the following documents if furnished to the applicant in written form (or, if furnished orally, any notation or memorandum made by DMC):
- The notification of the action taken; and
 - the statement of specific reasons for adverse action; and
- C. Any written statement submitted by the applicant alleging a violation of the act or this regulation.

2.6 Fair and Accurate Credit Transactions Act (FACTA)

2.6.1 Summary of Regulation

DMC is required to comply with the Fair and Accurate Credit Transactions Act (FACTA or FACT Act) of 2004. The act amended the Fair Credit Reporting Act (FCRA) and established to serve the following purposes:

- Enhances the ability of consumers to combat identity theft
- Increases the accuracy of consumer reports
- Allows consumers to exercise greater control regarding the type and amount of marketing solicitations they receive

The FACT Act provides that if any financial institution:

- Extends credit and regularly and in the ordinary course of business, furnishes information to a nationwide consumer reporting agency; and
- Furnishes negative information to such an agency regarding credit extended to a customer, the institution must provide a clear and conspicuous notice about furnishing negative information, in writing, to the customer.

"Negative information" means information concerning a customer's delinquencies, late payments, insolvency, or any form of default. Listed are the notices required under FACTA:

Negative Information Notices: DMC must provide applicants with a notice prior to negative information being provided to a credit bureau. The regulation describes this notice as Model B-1. There is no timing prescribed for the notice, so it could be given at any time during the loan process, or possibly after closing, but before negative information is furnished. Model B-2 is given to the customer after negative information has been provided to a credit bureau. This would typically be given after the loan has closed and the borrower has made late payments or defaulted on the loan.

Credit Score Notice: DMC is required to furnish consumers with a consumer credit score notice as soon as practicable that includes the name, address and telephone number of each consumer reporting agency used, as well as the model language included in the Act.

Disclosure of Credit Score: DMC is required to furnish consumers with a disclosure of Credit Score Information that gives borrowers their credit score, the name of the credit score provider, the key factors that adversely affect the credit score, the range of possible credit scores and the date the credit score was created.

Risk Based Pricing Notice: FACTA requires a notice for all creditors that use risk-based pricing based on information from credit reports. The notice may be provided at the time of application, must state at least the terms are being offered are based on information from a credit report, and that the consumer may obtain a free copy of the report from the credit reporting agency and include credit reporting agency contact information.

2.6.2 Credit Score Disclosure

NOTICETO HOME LOAN APPLICANT
CREDITSCORE INFORMATION DISCLOSURE

Date:

Lender:

Loan Number:

Borrower(s):

Property Address:

In connection with your application for a home loan, the lender must disclose to you the score that a credit bureau distributed to users and the lender used in connection with your home loan, and the key factors affecting your credit scores.

The credit score is a computer-generated summary calculated at the time of the request and based on information a credit bureau or lender has on file. The scores are based on data about your credit history and payment patterns. Credit scores are important because they are used to assist the lender in determining whether you will obtain a loan. They may also be used to determine what interest rate you may be offered on the mortgage. Credit scores can change overtime, depending on your conduct, how your credit history and payment patterns change, and how credit-scoring technologies change.

Because the score is based on information in your credit history, it is very important that you review the credit-related information that is being furnished to make sure it is accurate. Credit records may vary from one company to another.

If you have questions about your credit score or the credit information that is furnished to you, contact the credit bureau at the address and telephone number provided below, or contact the lender, if the lender developed or generated the credit score.

TransUnion Experian Equifax Credit In

P.O. Box 2000 P.O. Box 2002 P.O. Box 740256
Chester, PA 19022 Allen, TX 75013 Atlanta, GA 30374
800-916-8800888-397-3742 800-685-1111

www.transunion.com www.experian.com www.equifax.com

The consumer reporting agency plays no part in the decisions to take any action on the loan application and is unable to provide you with specific reasons for the decision on a loan application.

The following information about your credit scores was provided:

Applicant:

Name of Score:

CreditScore:

Keyfactors affecting the score:

Factor#1

Factor#2

Factor#3

Factor#4

Applicant:

Nameof Score:

CreditScore:

Keyfactors affecting the score:

Factor#1

Factor#2

Factor#3

Factor#4

Applicant:

Nameof Score:

CreditScore:

Keyfactors affecting the score:

Factor#1

Factor#2

Factor#3

Factor#4

I/We have read the above disclosure and acknowledge receiving a copy by signing below.

BorrowerDate Borrower Date

2.6.3 Fraud Alerts and Active Duty Alerts – Initial Alert

Upon the direct request of a consumer, or an individual acting on behalf of or as a personal representative of a consumer, who asserts in good faith a suspicion that the consumer has been or is about to become a victim of fraud or related crime, including identity theft, a consumer reporting agency that maintains a file on the consumer and has received appropriate proof of the identity of the requester shall:

- a. include a fraud alert in the file of that consumer, and also provide that alert along with any credit score generated in using that file, for a period of not less than 90 days, beginning on the date of such request, unless the consumer or such representative requests that such fraud alert be removed before the end of such period, and the credit reporting agency has received appropriate proof of the identity of the requester for such purpose; and
- b. refer the information regarding the fraud alert under this paragraph to each of the other consumer reporting agencies

2.6.4 Access to Free Reports – Initial Alert

In any case in which a consumer reporting agency includes a fraud alert in the file of a consumer the consumer reporting agency shall:

- a. disclose to the consumer that the consumer may request a free copy of the file of the consumer; and
- b. provide to the consumer all disclosures required without charge to the consumer, not later than 3 business days after any request

2.6.5 Fraud Alert and Active Duty Alert – Extended Alert

Upon the direct request of a consumer, or an individual acting on behalf of or as a personal representative of a consumer, who submits an identity theft report to a consumer reporting agency that maintains a file on the consumer, if the agency has received appropriate proof of the identity of the requester, the agency shall:

- a. include a fraud alert in the file of that consumer, and also provide that alert along with any credit score generated in using that file, during the 7-year period beginning on the date of such request, unless the consumer or such representative requests that such fraud alert be removed before the end of such period and the agency has received appropriate proof of the identity of the requester for such purpose;
- b. During the 5-year period beginning on the date of such request, exclude the consumer from any list of consumers prepared by the consumer reporting agency and provided to any third party to offer credit or insurance to the consumer as part of a transaction that was not initiated by the consumer, unless the consumer or such representative requests that such exclusion be rescinded before the

end of such period; and

- c. Refer the information regarding the extended fraud alert under this paragraph to each of the other consumer reporting agencies

2.6.6 Access to Free Reports – Extended Alert

In any case in which a consumer reporting agency includes a fraud alert in the file of a consumer pursuant to this section, the consumer reporting agency shall:

- a. Disclose to the consumer that the consumer may request 2 free copies of the file of the consumer during the 12-month period beginning on the date on which the fraud alert was included in the file; and
- b. Provide to the consumer all disclosures required to be made without charge to the consumer, not later than 3 business days after any request

2.6.7 Red Flags Guidelines

DMC is required to develop, implement and maintain a comprehensive Identity Theft Program to detect, prevent, and mitigate identity theft in connection with the opening of all covered accounts or any existing covered accounts. This policy and subsequent procedures are designed to control reasonably foreseeable risks to DMC's customers. Specifically, identity theft is a committed or attempted using the identifying information of another person without authority. Identifying information means any name or number that may be used (alone or in conjunction with any other information) to identify a specific person including the following:

- Name
- Social Security Number
- Date Of Birth
- Official State Or Government Issued Driver's License or Identification
- Alien Registration Number
- Government Passport Number
- Employer Or Taxpayer Identification Number

2.6.8 Identity Theft Program

DMC's senior management has elected the Compliance Officer to supervise the overall management of the company's Identity Theft Program. This individual shall report directly to the Senior Vice President and National Operations Manager. On at least a quarterly basis, the Compliance Officer is to make a written report to the executive staff regarding the status of the company's compliance activities with respect to the Identity Theft Program. Specifically, the Compliance Officer is responsible for:

1. Performing all required risk assessments and provide a report to Senior Management
2. Developing, implementing, and maintaining detailed identity theft recordkeeping procedures
3. Reviewing any related policies and procedures to ensure compliance with the company's Identity Theft Program
4. Training personnel on Identity Theft Program directives
5. Exercise appropriate and effective oversight of service provider arrangements
6. Supporting an independent Identity Theft Program audit program

This program includes policies and procedures to:

- Identify relevant red flags for the covered accounts that the company offers or maintains, and incorporate those red flags into the program;
- Detect red flags that have been incorporated into the program;
- Respond appropriately to any red flags that are detected to prevent and mitigate identity theft; and
- Ensure the program is updated periodically to reflect changes in risks to customers and the business models of the company

2.6.9 Red Flag Categories and Detection

DMC may require a service provider to maintain appropriate policies and procedures to detect relevant red flags that may arise in the performance of the vendor's activities, and either report the red flags to the company or to take appropriate steps to prevent or mitigate identity theft. The following subtopics represent categories of red flags that are used by the company to help detect identity theft:

Obtaining identifying information about, and verifying the identity of, a person

- Authenticating customers
- Monitoring transactions
- Verifying the validity of change of address requests

Alerts, Notifications or Warnings from a Consumer Reporting Agency or Fraud Detection Service

1. A fraud or active duty alert is included with a consumer report.
2. A consumer reporting agency provides a notice of credit freeze in response to a request for a consumer report.
3. A consumer reporting agency provides a notice of address discrepancy.
4. A consumer report indicates a pattern of activity that is inconsistent with the history and usual pattern of activity of an applicant or customer, such as:
 - a. A recent and significant increase in the volume of inquiries;

- b. An unusual number of recently established credit relationships;
- c. A material change in the use of credit, especially with respect to recently established credit relationships; or
- d. An account that was closed for cause or identified for abuse of account privileges by a financial institution or creditor.

Presentation of Suspicious Documents

1. Documents provided for identification appear to have been altered or forged.
2. The photograph or physical description on the identification is not consistent with the appearance of the applicant or customer presenting the identification.
3. Other information on the identification is not consistent with information provided by the person opening a new covered account or customer presenting the identification.
4. Other information on the identification is not consistent with readily accessible information that is on file with the company, such as a signature card or a recent check.
5. An application appears to have been altered or forged, or gives the appearance of having been destroyed and reassembled.

Presentation of Suspicious Personal Identifying Information

1. Personal identifying information provided is inconsistent when compared against external information sources used by the company, such as:
 - a. The address does not match any address in the consumer report; or
 - b. The Social Security Number (SSN) has not been issued, or is listed on the Social Security Administration's Death Master File.
2. Personal identifying information provided by the customer is not consistent with other personal identifying information provided by the customer. For example, there is a lack of correlation between the SSN range and date of birth.
3. Personal identifying information provided is associated with known fraudulent activity as indicated by internal or third party sources used by the company, such as:
 - a. The address on an application is the same as the address provided on a fraudulent application; or
 - b. The phone number on an application is the same as the number provided on a fraudulent application.
4. Personal identifying information provided is of a type commonly associated with fraudulent activity as indicated by internal or third party sources used by the company, such as:
 - a. The address on an application is fictitious, a mail drop, or prison; or
 - b. The phone number is invalid, or is associated with a pager or answering service.
5. The SSN provided is the same as that submitted by other persons opening an account or used by other customers.
6. The address or telephone number provided is the same as or similar to the account number or telephone number submitted by an unusually large number of other persons opening accounts or used by other customers.
7. The person opening the account or the customer fails to provide all required personal identifying information on an application or in response to notification that the application is incomplete.
8. Personal identifying information provided is not consistent with personal identifying information that is on file with the company.
9. In the event that challenge questions are used, the person opening the account or the customer cannot provide authenticating information beyond that which generally would be available from a wallet or consumer report.

2.6.10 Address Discrepancies

A notice of address discrepancy is a notice that is sent to DMC from a consumer reporting agency that informs the company of a substantial difference between the address of a consumer that the company provided to request the consumer report and the address(es) in the agency's file for the consumer. As such, the company has implemented the following procedures that are designed to enable the company to form a reasonable belief upon receiving a notice of address discrepancy that a consumer report relates to the consumer about whom it has requested the report. Upon receipt of such notice, it is the responsibility of DMC to:

1. Compare the information in the consumer report provided by the consumer reporting agency with information the company:
 - Obtains and uses to verify the consumer's identity in accordance with the requirements of the company
 - Maintains in its own records, such as applications, change of address notifications, other customer account records
 - Obtains from third party sources; or
2. Verify the information in the consumer report provided by the consumer reporting agency directly with the consumer.

In addition, DMC is required to furnish an address for the consumer that the company has reasonably confirmed is accurate to the consumer reporting agency from whom it received the notice of address discrepancy when the company:

- Can form a reasonable belief that the consumer report relates to the consumer about whom the company requested the report;
- Establishes a continuing relationship with the consumer (i.e., in connection with a new account); and
- Regularly and in the ordinary course of business furnishes information to the consumer reporting agency from which the notice of address discrepancy relating to the consumer was obtained.

As such, it is the responsibility of DMC to reasonably confirm an address is accurate by:

- a. Verifying the address with the consumer whose report was requested;
- b. Reviewing company records to verify the address of the consumer;
- c. Verifying the address through third party sources; or
- d. Using other reasonable means as necessary and/or required.

2.7 Fair Credit Reporting Act (FCRA)

2.7.1 Summary of Regulation

The Fair Credit Reporting Act requires DMC to deal with consumer reporting agencies that adopt reasonable procedures with regard to the confidentiality, accuracy, relevancy, and proper utilization of consumer reports.

A Consumer Report is any written, oral, or other communication of any information by a consumer reporting agency bearing on a consumer's creditworthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living.

A Consumer Reporting Agency is any person which regularly engages in the practice of assembling or evaluating consumer credit information or other information on consumers for the purpose of furnishing consumer reports to third parties.

2.7.2 Permissible Purposes

A consumer report may only be obtained under the following circumstances:

- In accordance with the written instructions of the consumer
- In connection with a credit transaction
- For employment purposes
- In connection with a review of an existing account
- Other legitimate business need

If any adverse action (denial of credit, employment, insurance) is taken against a consumer that is based in whole or in part on information contained in a consumer report, DMC must provide the consumer with an adverse action notice that includes:

1. The name, address and telephone number of the consumer reporting agency that furnished the report
2. A statement that the consumer reporting agency did not make the decision to take the adverse action and is unable to provide the consumer with specific reasons
3. A statement that the consumer is entitled to a free copy of the report from the consumer reporting agency
4. A statement that the consumer may dispute the accuracy of the information with the consumer reporting agency

When a consumer report is used for employment purposes, the applicant must be provided with a notice of DMC's intent to obtain a consumer report. The notice must be a separate disclosure which the applicant must sign.

2.7.3 Creditor Insurance Solicitations

If DMC uses information obtained from a consumer reporting agency to offer credit or insurance to a consumer that is not initiated by the consumer, the written solicitation must include a statement that:

1. Information contained in the consumer's consumer report was used in connection with the offer
2. The consumer received the offer because he/she satisfied the criteria for creditworthiness or insurability
3. The credit or insurance may not be extended if, after the consumer responds to the offer, the consumer does not meet the specific underwriting criteria or does not furnish the required collateral
4. The consumer has a right to prohibit information contained in the report from being used in connection with any credit or insurance transaction that is not initiated by the consumer
5. The consumer may exercise that right by notification to the consumer reporting agency. This must include address and telephone number.

2.7.4 Responsibilities of Furnishers of Information

If DMC regularly furnishes information to consumer reporting agencies, it must ensure that:

1. The information is accurate and up-to-date
2. Corrections and/or additional information is promptly reported to the agencies
3. If a consumer is disputing the completeness or accuracy of information, DMC may not furnish the information to the agencies without notice that the information is in dispute
4. Notice is provided to the agencies regarding the voluntary closure of accounts by consumers
5. When providing information regarding delinquent accounts being placed in collection, charged to losses or similar action, DMC shall notify the agencies of the month and year of the commencement of the delinquency that immediately preceded the action, not later than 90 days after furnishing the information.

2.7.5 Responsibilities Regarding Disputes

Upon notification from a consumer reporting agency of a dispute regarding information provided to the agency, DMC must promptly investigate the disputed information, and report the results to the consumer reporting agency before the expiration of 30 days.

2.7.6 Record Retention

All adverse action notices issued in connection with a credit transaction will be retained in accordance with the Equal Credit Opportunity Act.

Solicitations for credit or insurance - the criteria used in making the initial section of consumers to receive the offer, as well as the criteria bearing on creditworthiness or insurability, and any requirement for the furnishing of collateral as a condition of the extension of credit, must be retained for a period of 3 years from the date of the offer.

Consumer reports obtained in connection with employment:

- The signed notification to applicant regarding intent to obtain consumer report will be retained in the employee's file, if hired; otherwise,
- Signed notifications and adverse action notices, as applicable, will be retained with the application in accordance with the retention schedule of rejected applications.

2.7.7 Risk-Based Pricing Notice

DMC is required to provide a Risk-Based Pricing Notice (RBPB) if, based in whole or in part on a consumer credit report, it grants, extends or otherwise provides credit to a consumer on material terms that are materially less favorable than the most favorable material terms available to a substantial proportion of its consumers.

2.7.8 Determining Which Consumers Must Receive the RBPB

DMC will utilize one of the following three methods in order to determine which consumers must receive a RBPB:

- DMC may directly compare the material terms offered to each consumer for a specific type of credit product. The RBPB must then be provided to each consumer receiving credit terms which are materially less favorable than the most favorable terms available to a substantial proportion of consumers.
- DMC may utilize a Credit Score proxy method requiring the determination of a "cutoff" score. The "cutoff" credit score is the score representing the point at which approximately 40% of the consumers to whom the DMC grants, extends or provides credit have higher credit scores and approximately 60% of the consumers have lower credit scores. The RBPB must be provided to each consumer with credit score lower than the cutoff score. Cutoff scores must be recalculated no less than every two years. If no credit score is available and credit is extended, DMC must provide the RBPB to the consumer.
- DMC may utilize Tiered Pricing. The creditor must provide the RBPB to each consumer who is not placed within the top (lowest priced) pricing tier (if four or fewer tiers) and not within top two tiers (if five or more tiers).

2.7.9 Content and Timing of the Notice

The RBPB must be provided to a consumer after a credit approval decision has been made and before consummation. The notice must include the following information:

[DMC] Your Credit Report[s] and the Price You Pay for Credit	
What is a credit report?	A credit report is a record of your credit history. It includes information about whether you pay your bills on time and how much you owe to creditors.
How did we use your credit report[s]?	We used information from your credit report[s] to set the terms of the credit we are offering you, such as the [APR/down payment]. The terms offered to you may be less favorable than the terms offered to consumers who have better credit histories.
What if there are mistakes in your credit report[s]?	You have a right to dispute any inaccurate information in your credit report[s]. If you find mistakes on your credit report[s], contact [insert name of CRA(s)], which [is/are] the [consumer reporting agency/ consumer reporting agencies] from which we obtained your credit report[s]. It is a good idea to check y our credit report[s] to make sure the information [it contains/they contain] is accurate.
How can you obtain a copy of your credit report[s]?	Under federal law, you have the right to obtain a copy of your credit report[s] without charge for 60 days after you receive this notice. To obtain your free report[s], contact [insert name of CRA(S)]: By telephone: Call toll-free: 1-877-xxx-xxxx By mail: Mail your written request to: [insert address] On the web: Visit: [insert web address]
How can you get more information about credit reports?	For more information about credit reports and your rights under federal law, visit the Federal Reserve Board's web site at www.federalreserve.gov , or the Federal Trade Commission's website at www.ftc.gov .

2.7.10 Additional Disclosures Required if Score is Used to Set Terms

Additional Disclosures Required if Consumer Credit Score is used to set material terms of credit. If a consumer credit score is used to set material terms of credit the Risk Based Pricing Notice must include the following content:

NOTE: DMC has determined that unless DMC provides an Adverse Action Notice to the consumer, all customers will receive the RBPB as described in section 6.12Exception Notice Provided with FACTA Disclosure of the DMC Federal Compliance Manual.

2.7.11 When a Risk-Based Pricing Notice Is Not Required

An RBPB is not required if DMC provides an Adverse Action Notice to the consumer. An RBPB is not required if the consumer applies for and receives specific terms for which he or she has applied.

2.7.12 Exception Notice Provided with FACTA Disclosure

In lieu of the Risk-Based Pricing Notice, DMC may provide the following supplemental information in conjunction with the FACTA Credit Score Disclosure. DMC must provide the supplemental information to every consumer regardless of whether or not he or she would receive the risk-based pricing notice. Below is the Exception Notice (supplemental information) which must be provided, along with the consumer's credit score, at the same time as the FACTA Credit Score Disclosure.

NOTE:DMC has determined that unless DMC provides an Adverse Action Notice to the consumer, all customers will receive the RBPB as

described in section 6.12 Exception Notice Provided with FACTA Disclosure of the DMC Federal Compliance Manual.

Exception Notice for loans secured by 1-4 Unit Residential Real Property

Your Credit Score and the Price you Pay for Credit	Your Credit Score and the Price you Pay for Credit
Your Credit Score	[Score] Source: [Source] Date: [Date score was created]
What you should know about credit scores	<p>2.7.1 Summary of Regulation The Fair Credit Reporting Act requires DMC to deal with consumer reporting agencies that adopt reasonable procedures with regard to the confidentiality, accuracy, relevancy, and proper utilization of consumer reports.</p> <p>A Consumer Report is any written, oral, or other communication of any information by a consumer reporting agency bearing on a consumer's creditworthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living.</p> <p>A Consumer Reporting Agency is any person which regularly engages in the practice of assembling or evaluating consumer credit information or other information on consumers for the purpose of furnishing consumer reports to third parties.</p> <p>2.7.2 Permissible Purposes A consumer report may only be obtained under the following circumstances:</p> <ul style="list-style-type: none"> · In accordance with the written instructions of the consumer · In connection with a credit transaction · For employment purposes · In connection with a review of an existing account · Other legitimate business need <p>If any adverse action (denial of credit, employment, insurance) is taken against a consumer that is based in whole or in part on information contained in a consumer report, DMC must provide the consumer with an adverse action notice that includes:</p> <ol style="list-style-type: none"> 1. The name, address and telephone number of the consumer reporting agency that furnished the report 2. A statement that the consumer reporting agency did not make the decision to take the adverse action and is unable to provide the consumer with specific reasons 3. A statement that the consumer is entitled to a free copy of the report from the consumer reporting agency 4. A statement that the consumer may dispute the accuracy of the information with the consumer reporting agency <p>When a consumer report is used for employment purposes, the applicant must be provided with a notice of DMC's intent to obtain a consumer report. The notice must be a separate disclosure which the applicant must sign.</p> <p>2.7.3 Credit or Insurance Solicitations If DMC uses information obtained from a consumer reporting agency to offer credit or insurance to a consumer that is not initiated by the consumer, the written solicitation must include a statement that:</p> <ol style="list-style-type: none"> 1. Information contained in the consumer's consumer report was used in connection with the offer 2. The consumer received the offer because he/she satisfied the criteria for creditworthiness or insurability 3. The credit or insurance may not be extended if, after the consumer responds to the offer, the consumer does not meet the specific underwriting criteria or does not furnish the required collateral 4. The consumer has a right to prohibit information contained in the report from being used in connection with any credit or insurance transaction that is not initiated by the consumer 5. The consumer may exercise that right by notification to the consumer reporting agency. This must include address and telephone number. <p>2.7.4 Responsibilities of Furnishers of Information If DMC regularly furnishes information to consumer reporting agencies, it must ensure that:</p> <ol style="list-style-type: none"> 1. The information is accurate and up-to-date 2. Corrections and/or additional information is promptly reported to the agencies 3. If a consumer is disputing the completeness or accuracy of information, DMC may not furnish the information to the agencies without notice that the information is in dispute 4. Notice is provided to the agencies regarding the voluntary closure of accounts by consumers 5. When providing information regarding delinquent accounts being placed in collection, charged to losses or similar action, DMC shall notify the agencies of the month and year of the commencement of the delinquency that immediately preceded the action, not later than 90 days after furnishing the information. <p>2.7.5 Responsibilities Regarding Disputes Upon notification from a consumer reporting agency of a dispute regarding information provided to the agency, DMC must promptly investigate the disputed information, and report the results to the consumer reporting agency before the expiration of 30 days.</p> <p>2.7.6 Record Retention All adverse action notices issued in connection with a credit transaction will be retained in accordance with the Equal Credit Opportunity Act.</p> <p>Solicitations for credit or insurance - the criteria used in making the initial section of consumers to receive the offer, as well as the criteria bearing on creditworthiness or insurability, and any requirement for the furnishing of collateral as a condition of the extension of credit, must be retained for a period of 3 years from the date of the offer.</p> <p>Consumer reports obtained in connection with employment:</p> <ul style="list-style-type: none"> · The signed notification to applicant regarding intent to obtain consumer report will be retained in the employee's file, if hired; otherwise,

·Signed notifications and adverse action notices, as applicable, will be retained with the application in accordance with the retention schedule of rejected applications.

2.7.7 Risk-Based Pricing Notice

DMC is required to provide a Risk-Based Pricing Notice (RBPB) if, based in whole or in part on a consumer credit report, it grants, extends or otherwise provides credit to a consumer on material terms that are materially less favorable than the most favorable material terms available to a substantial proportion of its consumers.

2.7.8 Determining Which Consumers Must Receive the RBPB

DMC will utilize one of the following three methods in order to determine which consumers must receive a RBPB:
·DMC may directly compare the material terms offered to each consumer for a specific type of credit product. The RBPB must then be provided to each consumer receiving credit terms which are materially less favorable than the most favorable terms available to a substantial proportion of consumers.

·DMC may utilize a Credit Score proxy method requiring the determination of a "cutoff" score.

The "cutoff" credit score is the score representing the point at which approximately 40% of the consumers to whom the DMC grants, extends or provides credit have higher credit scores and approximately 60% of the consumers have lower credit scores. The RBPB must be provided to each consumer with credit score lower than the cutoff score. Cutoff scores must be recalculated no less than every two years.

If no credit score is available and credit is extended, DMC must provide the RBPB to the consumer.

·DMC may utilize Tiered Pricing.

The creditor must provide the RBPB to each consumer who is not placed within the top (lowest priced) pricing tier (if four or fewer tiers) and not within top two tiers (if five or more tiers).

2.7.9 Content and Timing of the Notice

The RBPB must be provided to a consumer after a credit approval decision has been made and before consummation. The notice must include the following information:

[DMC]

Your Credit Report[s] and the Price You Pay for Credit

What is a credit report?

A credit report is a record of your credit history. It includes information about whether you pay your bills on time and how much you owe to creditors.

How did we use your credit report[s]?

We used information from your credit report[s] to set the terms of the credit we are offering you, such as the [APR/down payment].

The terms offered to you may be less favorable than the terms offered to consumers who have better credit histories.

What if there are mistakes in your credit report[s]?

You have a right to dispute any inaccurate information in your credit report[s].

If you find mistakes on your credit report[s], contact [insert name of CRA(s)], which [is/are] the [consumer reporting agency/ consumer reporting agencies] from which we obtained your credit report[s].

It is a good idea to check y our credit report[s] to make sure the information [it contains/they contain] is accurate.

How can you obtain a copy of your credit report[s]?

Under federal law, you have the right to obtain a copy of your credit report[s] without charge for 60 days after you receive this notice. To obtain your free report[s], contact [insert name of CRA(S)]:

By telephone: Call toll-free: 1-877-xxx-xxxx

By mail: Mail your written request to:

[insert address]

On the web: Visit: [insert web address]

How can you get more information about credit reports?

For more information about credit reports and your rights under federal law, visit the Federal Reserve Board's web site at www.federalreserve.gov, or the Federal Trade Commission's website at www.ftc.gov.

2.7.10 Additional Disclosures Required if Score is Used to Set Terms

Additional Disclosures Required if Consumer Credit Score is used to set material terms of credit. If a consumer credit score is used to set material terms of credit the Risk Based Pricing Notice must include the following content:

NOTE: DMC has determined that unless DMC provides an Adverse Action Notice to the consumer, all customers will receive the RBPB as described in section 6.12 Exception Notice Provided with FACTA Disclosure of the DMC Federal Compliance Manual.

2.7.11 When a Risk-Based Pricing Notice Is Not Required

An RBPB is not required if DMC provides an Adverse Action Notice to the consumer. An RBPB is not required if the consumer applies for and receives specific terms for which he or she has applied.

2.7.12 Exception Notice Provided with FACTA Disclosure

In lieu of the Risk-Based Pricing Notice, DMC may provide the following supplemental information in conjunction with the FACTA Credit Score Disclosure. DMC must provide the supplemental information to every consumer regardless of whether or not he or she would receive the risk-based pricing notice. Below is the Exception Notice (supplemental information) which must be provided, along with the consumer's credit score, at the same time as the FACTA Credit Score Disclosure.

NOTE: DMC has determined that unless DMC provides an Adverse Action Notice to the consumer, all customers will receive the RBPB as described in section 6.12 Exception Notice Provided with FACTA Disclosure of the DMC Federal Compliance Manual.

Exception Notice for loans secured by 1-4 Unit Residential Real Property

Your Credit Score and the Price you Pay for Credit

Your Credit Score

	<p>Your Credit Score [Score] Source: [Source] Date: [Date score was created]</p> <p>Understanding Your Credit Score What you should know about credit scores Your credit score is a number that reflects the information in your credit report.</p> <p>Your credit report is a record of your credit history. It includes information about whether you pay your bills on time and how much you owe to creditors</p> <p>Your credit score can change, depending on how your credit history changes. How we use your credit score Your credit score can affect whether you can get a loan and how much you will have to pay for that loan. The range of scores Scores range from a low of 300 to a high of 800.</p> <p>Generally, the higher your score, the more likely you are to be offered better credit terms. How your score compares to the scores of other consumers</p> <p>Key factors that adversely affected your credit score [Insert first factor] [Insert second factor] [Insert third factor] [Insert fourth factor] [Insert fifth factor, if applicable]</p> <p>Checking Your Credit Report What if there are mistakes in your credit report[s]? You have a right to dispute any inaccurate information in your credit report[s]. If you find mistakes on your credit report, contact the consumer reporting agency.</p> <p>It is a good idea to check your credit report to make sure the information it contains is accurate. How can you obtain a copy of your credit report[s]? Under federal law, you have the right to obtain a copy of your credit report[s] from each of the nationwide consumer reporting agencies once a year.</p> <p>To obtain your free annual credit report:</p> <p>By telephone: Call toll-free: 1-877-322-8228 On the web: Visit www.annualcreditreport.com By mail: Mail your completed Annual Credit Report Request Form (which you can obtain from the federal Trade Commission's web site at http://www.ftc.gov/bcp/online/include/requestformfinal.pdf) to:</p> <p>Annual Credit Report Request Service P. O. Box 105281 Atlanta, GA 30348-5281</p> <p>How can you get more information? For more information about credit reports and your rights under federal law, visit the Federal Reserve Board's web site at www.federalreserve.gov, or the Federal Trade Commission's website at www.ftc.gov.</p>
How we use your credit score	Your credit score can affect whether you can get a loan and how much you will have to pay for that loan.
The range of scores	Scores range from a low of 300 to a high of 800. Generally, the higher your score, the more likely you are to be offered better credit terms.
How your score compares to the scores of other consumers	
Key factors that adversely affected your credit score	[Insert first factor] [Insert second factor] [Insert third factor] [Insert fourth factor] [Insert fifth factor, if applicable]
What if there are mistakes in your credit report[s]?	You have a right to dispute any inaccurate information in your credit report[s]. If you find mistakes on your credit report, contact the consumer reporting agency. It is a good idea to check your credit report to make sure the information it contains is accurate.
How can you obtain a copy of your credit report[s]?	Under federal law, you have the right to obtain a copy of your credit report[s] from each of the nationwide consumer reporting agencies once a year. To obtain your free annual credit report: <p>By telephone: Call toll-free: 1-877-322-8228 On the web: Visit www.annualcreditreport.com By mail: Mail your completed Annual Credit Report Request Form (which you can obtain from the federal Trade Commission's web site at http://www.ftc.gov/bcp/online/include/requestformfinal.pdf) to:</p> <p>Annual Credit Report Request Service P. O. Box 105281 Atlanta, GA 30348-5281</p>
How can you get more information?	For more information about credit reports and your rights under federal law, visit the Federal Reserve Board's web site at www.federalreserve.gov , or the Federal Trade Commission's website at www.ftc.gov .

2.8 Fair Housing Act (FHAct)

2.8.1 Summary of Regulation

The Fair Housing Act prohibits discrimination in the sale, rental, or advertising of dwellings, in the provision of brokerage services, or in the availability of residential real estate-related transactions based on:

- Race
- Color
- Religion
- Sex
- Handicap
- Familial status
- National origin

The Fair Housing Act applies to:

- Residential real estate-related transactions
- The sale, rental, or advertising of dwellings
- The provision of brokerage services

The Secretary of HUD is responsible for administering the Fair Housing Act. The Secretary may cooperate with state and local agencies charged with the administration of state and local fair housing laws and utilize the services of the agencies and their employees. The Fair Housing Act does not prohibit any religious organization, association, or society, or any nonprofit institution or organization operated, supervised or controlled by or in conjunction with a religious organization, association, or society, from limiting the sale, rental or occupancy of dwellings which it owns or operates for other than a commercial purpose to persons of the same religion, or from giving preference to such persons, unless membership in such religion is restricted on account of race, color, or national origin.

The Fair Housing Act does not prohibit a private club that is not open to the public, which as an incident to its primary purpose or purposes, provides lodgings which it owns or operates for other than a commercial purpose, from limiting the rental or occupancy of such lodgings to its members or from giving preference to its members.

2.8.2 FHAct Definitions

Broker or Agent includes any person authorized to perform an action on behalf of another person regarding any matter related to the sale or rental of dwellings, including offers, solicitations or contracts and the administration of matters regarding such offers, solicitations or contracts or any residential real estate-related transactions.

Discriminatory housing practice means an act that is unlawful under the Fair Housing Act. These provisions pertain to: discrimination in the sale or rental of housing and other prohibited practices; discrimination in residential real estate-related transactions; discrimination in the provision of brokerage services; and interference, coercion, and intimidation.

Dwelling means any building, structure, or portion thereof which is occupied as, or designed or intended for occupancy as, a residence by one or more families, and any vacant land which is offered for sale or lease for the construction or location thereon of any such building, structure, or portion thereof.

Familial status means one or more individuals (who have not attained the age of 18 years) being domiciled with: a parent or another person having legal custody of such individual or individuals; or the designee of the parent or other person having legal custody, with the written permission of such parent or other person. The protections afforded against discrimination on the basis of familial status apply to any person who is pregnant or is in the process of securing legal custody of any individual who has not attained the age of 18 years. Family includes a single individual.

Handicap means, with respect to any person: a physical or mental impairment which substantially limits one or more of such person's major life activities; a record of having such an impairment; or being regarded as having such an impairment.

Person includes one or more individuals, corporations, partnerships, associations, labor organizations, legal representatives, mutual companies, joint-stock companies, trusts, unincorporated organizations and trustees.

Residential real estate-related transaction means the making or purchasing of loans or providing other financial assistance for purchasing, constructing, improving, repairing, or maintaining a dwelling; or secured by residential real estate; or the selling, brokering, or appraising of residential real property.

State means any of the several States, the District of Columbia, the Commonwealth of Puerto Rico, or any of the territories and possessions of the United States.

Rent includes to lease, to sublease, to let and otherwise to grant for a consideration the right to occupy premises not owned by the occupant.

2.8.3 Availability of Loans

It is unlawful for DMC or any person or entity whose business includes engaging in residential real estate-related transactions to discriminate against any person in making available loans or other financial assistance for a dwelling (or which is or is to be secured by a dwelling) because of race, color, religion, sex, handicap, familial status, or national origin. Such prohibited practices include, but are not limited to:

Failing or refusing to provide to any person, because of race, color, religion, sex, handicap, familial status, or national origin, information regarding:

- a. the availability of loans or other financial assistance
- b. application requirements
- c. procedures or standards for the review and approval of loans or financial assistance

Providing information, on the basis of race, color, religion, sex, handicap, familial status, or national origin, which is inaccurate or different from that provided to others.

2.8.4 Loan Terms and Conditions

It is unlawful for DMC or any person or entity engaged in the making of loans or in the provision of other financial assistance relating to the purchase, construction, improvement, repair or maintenance of dwellings or which are secured by residential real estate to impose different terms or conditions for the availability of such loans or other financial assistance because of race, color, religion, sex, handicap, familial status, or national origin. Such unlawful conduct includes, but is not limited to:

1. Using different policies, practices or procedures in evaluating or in determining creditworthiness of any person on the basis of race, color, religion, sex, handicap, familial status, or national origin; and
2. Determining the type of loan or other financial assistance to be provided with respect to a dwelling, or fixing the amount, interest rate, duration or other terms for a loan or other financial assistance for a dwelling or which is secured by residential real estate, because of race, color, religion, sex, handicap, familial status, or national origin.

2.8.5 Purchasing Loans

It is unlawful for DMC, any person or entity engaged in the purchasing of loans or other debts or securities which support the purchase, construction, improvement, repair or maintenance of a dwelling, or which are secured by residential real estate, to refuse to purchase such loans, debts, or securities, or to impose different terms or conditions for such purchases, because of race, color, religion, sex,

handicap, familial status, or national origin.

Such unlawful conduct includes, but is not limited to:

1. Purchasing loans or other debts or securities which relate to, or which are secured by dwellings in certain communities or neighborhoods but not in others because of the race, color, religion, sex, handicap, familial status, or national origin of persons in such neighborhoods or communities;
2. Pooling or packaging loans or other debts or securities which relate to, or which are secured by, dwellings differently because of race, color, religion, sex, handicap, familial status, or national origin; and
3. Imposing or using different terms or conditions on the marketing or sale of securities issued on the basis of loans or other debts or securities which relate to, or which are secured by, dwellings because of race, color, religion, sex, handicap, familial status, or national origin.

2.8.6 Selling, Brokering or Appraising Residential Real Property

It is unlawful for DMC, its third party service providers, any person or other entity whose business includes engaging in the selling, brokering or appraising of residential real property to discriminate against any person in making available such services, or in the performance of such services, because of race, color, religion, sex, handicap, familial status, or national origin.

Such unlawful practices include, but are not limited to, using an appraisal of residential real property in connection with the sale, rental, or financing of any dwelling where the person knows or reasonably should know that the appraisal improperly takes into consideration race, color, religion, sex, handicap, familial status or national origin.

2.9 Flood Disaster Protection Act

2.9.1 Summary of Regulation

The purpose of the Flood Disaster Protection Act and the National Flood Insurance Act is to provide federal disaster relief assistance in areas which have been designated as having special flood hazards by the Director of the Federal Emergency Management Association (FEMA). The requirements apply to all loans secured by permanent structures or mobile homes. A designated loan means a loan secured by a building or mobile home that is located or to be located in a special flood hazard area in which flood insurance is available under the National Flood Insurance Act.

As appropriate, and in accordance with the requirements of its secondary market investors, insurers or guarantors, DMC shall not make, increase, extend, or renew any designated loan unless the building or mobile home and any personal property securing the loan is covered by flood insurance for the term of the loan. The amount of insurance must be at least equal to the outstanding principal balance of the designated loan or the maximum limit of coverage available for the particular type of property under the Act. The company shall also require the escrow of all premiums and fees for any flood insurance required.

Standard Flood Hazard Determination Form: DMC shall use the standard form developed by the Director of FEMA when determining whether the building or mobile home securing the loan is or will be located in a special flood hazard area.

2.9.2 Borrower Fees

DMC may charge a reasonable fee for determining whether the building or mobile home securing the loan is located or will be located in a special flood hazard area. A determination fee may also include, but is not limited to, a fee for life-of-loan monitoring.

The determination fee may be charged to the borrower if the determination:

1. Is made in connection with a making, increasing, extending, or renewing of the loan that is initiated by the borrower
2. Reflects the Director of FEMA's revision or updating of floodplain areas or flood-risk zones
3. Reflects the Director of FEMA's publication of a notice or compendium that:
 - a. Affects the area in which the building or mobile home securing the loan is located; or
 - b. By determination of the Director of FEMA, may reasonably require a determination whether the building or mobile home securing the loan is located in a special flood hazard area; or
4. Results in the purchase of flood insurance coverage by the bank or its servicer on behalf of the borrower
5. The determination fee authorized by this section may be charged to the purchaser or transferee of a loan in the case of the sale or transfer of the loan.

2.9.3 Notice of Flood Hazard

DMC shall mail or deliver a written notice to the borrower if the loan is secured by a building or a mobile home located or to be located in a special flood hazard area whether or not flood insurance is available under the Act.

Contents of Notice – The written notice must include the following information:

1. A warning, in a form approved by the Director of FEMA, that the building or the mobile home is or will be located in a special flood hazard area;
2. A description of the flood insurance purchase requirements set forth in section 102(b) of the Flood Disaster Protection Act of 1973;
3. A statement, where applicable, that flood insurance coverage is available under the NFIP and may also be available from private insurers; and
4. A statement whether Federal disaster relief assistance may be available in the event of damage to the building or mobile home caused by flooding in a federally declared disaster.

Timing of Notice – DMC shall provide the notice to the borrower within a reasonable time before the completion of the transaction, and to the servicer as promptly as practicable after DMC provides notice to the borrower and in any event no later than the time DMC provides other similar notices to the servicer concerning hazard insurance and taxes. Notice to the servicer may be made electronically or may take the form of a copy of the notice to the borrower.

Record of Receipt – DMC shall retain a record of the receipt of the notices by the borrower and the servicer for the period of time DMC owns the loan.

Alternate Method of Notice – Instead of providing the notice to the borrower, a lender may obtain satisfactory written assurance from a seller or lessor that, within a reasonable time before the completion of the sale or lease transaction, the seller or lessor has provided such notice to the purchaser or lessee. DMC shall retain a record of the written assurance from the seller or lessor for the period of time DMC owns the loan.

Use of Prescribed Form of Notice – A lender will be considered to be in compliance with the requirement for notice to the borrower of this section by providing written notice to the borrower containing the language presented below. The notice presented satisfies the borrower notice requirements of the Act.

2.9.4 Sample Notice of Special Flood Hazards

Notice of Flood Hazard Risk and Availability of Federal Disaster Relief Assistance

This notice is provided solely for the use and benefit of a lender in order to comply with the 1994 Reform Act and may not be used or relied upon by any other party for any other purpose, including, but not limited to, in deciding whether to purchase a property or in determining the value of a property. FEMA Flood Insurance Rate maps are intended for federal flood insurance purposes only, do not show all areas subject to flooding, are difficult to interpret and sometimes have errors. This notice and the accompanying information applies only to the address listed below and no other address or location. If the address below is in error, immediately notify your lender.

Name and Address of Lender/Creditor: Name and Address of Borrower:
 {@DBAName} {Borrowers Names}
 {@DBAAddress1}, {@DBAAddress2} {Subject Address}
 {@DBACity}, {@DBAState} {@DBAZip} {Subject City}, {Subject State} {Subject Zip}
 Phone No.: {@DBAPhone} Phone No.: {Bor Phone}

We are giving you this notice to inform you that:

The building (which is securing the loan for which you have applied) is, or mobile home will be, located in an area with special flood hazards. The area has been identified by the Director of FEMA as a Special Flood Hazard Area (SFHA) using FEMA's Flood Insurance Rate Map or Flood Hazard Boundary Map for the community indicated above. This area has at least a one percent (1%) chance of a flood equal to or exceeding the base flood elevation (a 100-year flood) in any given year. During the life of a 30-year mortgage, the risk of a 100-year flood is a SFHA is 26 percent (26%).

Federal law allows a lender and borrower jointly to request the Director of FEMA to review the determination of whether the property securing the loan is located in a SFHA. If you would like to make such a request, please contact the number listed below for further information.

The community listed above participates in the National Flood Insurance Program (NFIP). Federal law will not allow a lender to make you the loan that you have applied for if you do not purchase flood insurance. Flood insurance must be maintained for the life of the loan. If you fail to purchase, or renew, Federal law authorizes and requires a lender to purchase the flood insurance for you at your expense.

Flood insurance may be purchased through an insurance agent directly from the NFIP or an insurance company that participates in the NFIP. It may also be available from private insurers that do not participate in NFIP. At a minimum, flood insurance purchased must cover the lesser of 1) the outstanding principal balance of the loan or 2) the maximum amount of coverage allowed for the type of property under the NFIP. Flood insurance coverage under the NFIP is limited to the overall value of the property securing the loan minus the value of the land on which the property is located.

Federal disaster relief assistance, usually in the form of a low-interest rate loan, may be available (when there is a Presidential declaration) for damages incurred in excess of your flood insurance if your community's participation in the NFIP is in accordance with NFIP requirements.

- **The building (which is securing the loan for which you have applied) is, or mobile home will be, located in an area with special flood hazards. However, flood insurance under the NFIP is not available because the community in which the property is located does not participate in the NFIP or has been sanctioned.** If the non-participating community has been identified for at least one year as containing a SFHA, properties located in the community will not be eligible for Federal disaster relief assistance in the event of a Federally-declared flood disaster.
- **The building (which is securing the loan for which you have applied) is, or mobile home will be, located in an area that is not a FEMA SFHA.** It may have a low to moderate flood risk or be an undetermined area. Federal law does not require you to purchase flood insurance. However, you may want to purchase if you feel your property is at risk.

If during the life of your loan, there is a change in FEMA community status and/or the FEMA flood map, you may be required to have a new flood hazard determination performed. Also, you may be required to obtain flood insurance or an additional amount of flood insurance or your lender can purchase flood insurance coverage at your expense.

Borrower Borrower

2.10 Higher Priced Mortgage Loans (HPML)

2.10.1 Higher Priced Mortgage Loans (§ 1026.35)

The October 2009 amendment to Truth-in-Lending established a new category called Higher-Priced Mortgage Loans. Known as HPML's, provisions apply to applications received on or after October 1, 2009. HPMLs are loans secured by the borrower's principal dwelling that are priced at an APR (Annual Percentage Rate) exceeding a new index published by the Federal Reserve Board named the Average Prime Offer Rate (APOR).

2.10.2 Average Prime Offer Rate (APOR) Index

Based on the date the interest rate is set (locked or re-locked) DMC must compare their APR with the Fed's APOR index. The loan will be considered a higher-priced mortgage loan if the APR exceeds the index by:

- ➔ 1.5 or more percentage points on First Liens
- ➔ 3.5 or more percentage points on Subordinate Liens

DMC may obtain the index from the Federal Institutions Examination Council (FFIEC) which publishes the Average Prime Offer Rate (APOR) on behalf of the Federal Reserve Board. To determine whether or not the loan is considered a Higher-Priced Mortgage Loan, employees may go to the FFIEC website at <http://www.ffiec.gov> and select Rate Spread Calculator from the Consumer Compliance menu on the homepage. This link can be directly accessed as follows: <http://www.ffiec.gov/ratespread/newcalc.aspx>

The APOR tables may be accessed on the following links:

FIXED RATE

<http://www.ffiec.gov/ratespread/YieldTableFixed.CSV>

ADJUSTABLE RATE

<http://www.ffiec.gov/ratespread/YieldTableAdjustable.CSV>

2.10.3 Freddie Mac Primary Mortgage Market Survey (PMMS)

The information which forms the basis for the Federal Reserve's index is the Freddie Mac Primary Mortgage Market Survey (PMMS). The PMMS posts the weekly interest rates for 15- and 30-year fixed and the rates for 1- and 5-year ARMs. The survey also posts the weekly average fees and points, reflected as a percentage of the loan amount. Freddie Mac's PMMS can be accessed from the following link:

<http://www.freddiemac.com/dlink/html/PMMS/display/PMMSOutputYr.jsp>

2.10.4 Loans Excluded from HPML Rule

Higher-priced mortgage loans do not include:

- Construction Financing
- Temporary or bridge loans 12 months or less
- Reverse mortgages
- Home Equity Line of Credit

2.10.5 Assessment of Borrower Ability to Pay

Once DMC employee have determined the loan is an HPML, steps must be taken to assess the borrower's ability to pay. By law, DMC may not extend credit based on the borrower's collateral without regard to their payment ability. DMC must verify the repayment ability as follows:

1. Verify income to cover repayment ability through W-2, tax returns, paystubs, financial institution records or third party verifications
2. Verify the borrower(s)' current obligations through credit reports and other documents

DMC is presumed to have complied with this rule if they have verified the borrower's repayment ability and determined repayment ability of P&I scheduled for the first seven years, taking into account their obligations.

DMC may utilize debt ratios or disposable income. For certain loans, such as terms of seven years or less or increases in principal balance, no presumption of compliance is available.

2.10.6 Prepayment Penalties

DMC may charge a prepayment penalty for an HPML under the following conditions:

1. The penalty will not apply after the two-year period following consummation
2. The penalty will not apply if the source of the prepayment funds is a refinancing by the creditor or an affiliate of the creditor; and
3. The amount of the periodic payment of principal or interest or both may not change during the four-year period following consummation.

2.10.7 Escrow for Property Taxes and Insurance

DMC may not extend a loan secured by a first lien on a principal dwelling unless an escrow account is established before consummation for payment of property taxes and premiums for mortgage-related insurance required by the creditor, such as insurance against loss of or damage to property, or against liability arising out of the ownership or use of the property, or insurance protecting the creditor against the consumer's default or other credit loss.

Escrow accounts need not be established for loans secured by shares in a cooperative; and loans secured by condominium units where the condominium association has an obligation to the condominium unit owners to maintain a master policy insuring condominium units. A creditor or servicer may permit a consumer to cancel the escrow account in response to a consumer's dated written request to cancel the escrow account that is received no earlier than 365 days after consummation.

2.10.8 High Cost Mortgages (Section §1026.32)

The requirements of this section apply to a consumer credit transaction that is secured by the consumer's principal dwelling, and in which either:

1. The annual percentage rate at consummation will exceed by more than 8 percentage points for first-lien loans, or by more than 10 percentage points for subordinate-lien loans, the yield on Treasury securities having comparable periods of maturity to the loan maturity as of the fifteenth day of the month immediately preceding the month in which the application for the extension of credit is received by the creditor; or
2. The total points and fees payable by the consumer at or before loan closing will exceed the greater of 8 percent of the total loan amount, or \$400; the \$400 figure shall be adjusted annually on January 1 by the annual percentage change in the Consumer Price Index that was reported on the preceding June 1.

2.10.9 Notice to Assignee

DMC is prohibited from selling or assigning a mortgage subject to §1026.32 without furnishing the following statement to the purchaser or assignee:

"Notice: This is a mortgage subject to special rules under the federal Truth in Lending Act. Purchasers or assignees of this mortgage could be liable for all claims and defenses with respect to the mortgage that the borrower could assert against the creditor."

2.10.10 Refinancing Within One-Year Period

DMC is prohibited, within one year of having extended credit subject to §1026.32 from there financing any loan to the same borrower into another loan subject to §1026.32, unless the refinancing is in the borrower's interest. An assignee holding or servicing an extension of mortgage credit subject to §1026.32, shall not, for the remainder of the one-year period following the date of origination of the credit, refinance any loan subject to §1026.32 to the same borrower into another loan subject to §1026.32, unless the refinancing is in the borrower's interest.

DMC (or assignee) is prohibited from engaging in acts or practices to evade this provision, including a pattern or practice of arranging for the refinancing of its own loans by affiliated or unaffiliated creditors, or modifying a loan agreement (whether or not the existing loan is satisfied and replaced by the new loan) and charging a fee.

2.10.11 Repayment Ability

DMC is prohibited from extending credit subject to §1026.32 to a consumer based on the value of the consumer's collateral without regard to the consumer's repayment ability as of consummation, including the consumer's current and reasonably expected income, employment, assets other than the collateral, current obligations, and mortgage-related obligations. Mortgage-related obligations are expected property taxes, premiums for mortgage-related insurance required by the creditor, and similar expenses. DMC must verify the consumer's repayment ability as follows:

- Verify amounts of income or assets that it relies on to determine repayment ability, including expected income or assets, by the consumer's Internal Revenue Service Form W-2, tax returns, payroll receipts, financial institution records, or other third-party documents that provide reasonably reliable evidence of the consumer's income or assets
- If the amounts of income and assets that were relied upon in determining repayment ability are not materially greater than the amounts of the consumer's income or assets that could have verified at the time the loan was consummated, it shall not be considered a violation of this rule
- Verify the consumer's current obligations

2.10.12 Repayment Ability – Presumed Compliance

DMC is presumed to have complied with this rule if the company:

1. Verifies the consumer's repayment ability
2. Determines the consumer's repayment ability using the largest payment of principal and interest scheduled in the first seven years following consummation and taking into account current obligations and mortgage-related obligations
3. Assesses the consumer's repayment ability taking into account at least one of the following: the ratio of total debt obligations to income, or the income the consumer will have after paying debt obligations.

No presumption of compliance is available for a transaction for which:

1. The regular periodic payments for the first seven years would cause the principal balance to increase; or
2. The term of the loan is less than seven years and the regular periodic payments when aggregated do not fully amortize the outstanding principal balance.

2.11 Home Mortgage Disclosure Act

2.11.1 Summary of Regulation

DMC is required to submit a Loan Application Register (LAR) in compliance with the Home Mortgage Disclosure Act. The purpose of this regulation is to provide the public with loan data that can be used (1) to help determine whether financial institutions are serving the housing needs of the communities; (2) to assist public offices in distributing investments to attract private investment to areas where it is needed; and, (3) to assist in identifying possible discriminatory lending patterns and enforcing antidiscrimination statutes.

Definitions: The following definitions are important for understanding the Regulation.

Dwelling: The regulation defines a dwelling as "a residential structure (whether or not it is attached to real property) located in a state of the United States of America, the District of Columbia, or the Commonwealth of Puerto Rico. The term includes an individual condominium unit, cooperative unit, or mobile or manufactured home." A residential structure is not limited to a one- to four-family structure. Facilities for temporary residence such as rooming houses, dormitories and other types of non-permanent or transitory residence facilities are not dwellings. A "timeshare" is not a dwelling. Also nursing homes and other types of extended care facilities are not dwellings.

Home Improvement Loan: A home improvement loan is a loan where any portion of the proceeds is used for a home improvement purpose. A home improvement purposes to either improve a dwelling or the land on which the dwelling is located. If any portion of a loan will be used for home improvement, the loan is a home improvement loan. Unlike dwelling purchase loans, a home improvement loan does not have to be secured by a dwelling.

Refinancing: A refinancing is a loan secured by a dwelling where all or part of the proceeds of the loan will be used to payoff an existing loan by the same borrower secured by a dwelling. In determining what is and is not a refinancing, recognize that both the old and the new loan must be secured by a dwelling. All loans that fall within the refinancing definition are refinances, regardless of the purpose of the loan being paid off or the use of any new money from the new loan.

Temporary Financing: Any loan with a period of over two years is not a temporary financing. The HMDA Getting It Right booklet says that each lender must make its own determination of what length of time is temporary; however it cannot set a time frame of more than two years. The classic example of temporary financing is a home

construction loan.

Application: An application is an oral or written request for a dwelling purchase loan, a dwelling improvement loan or are finance that is made in accordance with the procedures of DMC for the type of credit requested.

Preapproval Application: If a lender has a formal pre-approval program for prospective home buyers where the creditworthiness of the applicant is checked and a commitment is issued, then the applications under that program are for pre-approval. The formal definition states as follows: "A request for pre-approval for a home purchase loan is an application if the request is reviewed under a program in which the financial institution, after a comprehensive analysis of the creditworthiness of the applicant, issues a written commitment to the applicant valid for a designated period of time to extend a home purchase loan up to a specified amount." Note that only applications for pre-approval for home purchase loans come under the definition. Applications for pre-approval for home improvement loans or for refinances do not.

2.11.2 Requirements

The regulation applies to any residential structure, including an individual condominium unit, cooperative unit, mobile or manufactured home, and one- to four-family and multiple-family dwellings. DMC is required to:

- Record the data collected on a loan application register, referred to as the HMDA/LAR, within 30 days after the end of each quarter in which final action was taken;
- Submit the HMDA/LAR to DMC's supervisory agency March 1, following the calendar year for which the loan data are compiled. Utilizing the loan data submitted, a Mortgage Loan Disclosure Statement will be prepared by the agency and sent to DMC;
- Make the Mortgage Loan Disclosure Statement available to the public at the main office no later than 3 business days of receipt;
- Prepare a modified HMDA/LAR by removing the loan or application numbers, dates received and dates of action taken and make it available to the public at the main office by March 31, following the calendar year for which the loan data are compiled;
- Post a notice of the availability of the HMDA data in the lobby of each branch office.

2.11.3 Information to Collect

The following data regarding applications (approved, declined or withdrawn) and purchased loans for home purchase (including an application for pre-approval if the result was either a denial or a loan), home improvement, and refinancing for each calendar year:

1. Loan or application number
2. Date application was received
3. Loan type
4. Property type
5. Purpose of the loan
6. Owner-occupancy
7. Pre-approval code (home purchase)
8. Amount requested
9. Action taken
10. Date action taken
11. Race of applicant and co-applicant
12. Ethnicity of applicant and co-applicant
13. Sex of applicant and co-applicant
14. Income used to qualify (rounded in thousands)
15. Type of purchaser
16. Location of the property by MSA (Metropolitan Statistical Area)
17. State (code)
18. County (code)
19. Census tract
20. HOEPA status (loans originated or purchased)
21. Lien status (originated loans)
22. Rate spread (difference between APR and applicable treasury yield if the spread is equal to or greater than 3 percentage points for first lien loans or 5 percentage points for subordinate liens)

2.12 Homeowner's Protection Act (HPA)

2.12.1 Summary of Regulation

The Homeowner's Protection Act (HPA) of 1998, requires DMC (or its servicer) to provide certain disclosures concerning PMI for loans secured by the consumer's primary residence obtained on or after July 29, 1999. The HPA also contains disclosure provisions for mortgage loans that closed before July 29, 1999. In addition, the HPA includes provisions for borrower-requested cancellation and automatic termination of PMI.

2.12.2 Cancellation of PMI

Under HPA, borrowers have the right to request cancellation of PMI when they have paid down their mortgage to the point that it equals 80 percent of the original purchase price or appraised value of the home at the time the loan was obtained, whichever is less. Borrowers must meet certain restrictions, such as having a good payment history. Generally, this requires they have not been 30 days late on the mortgage payment within a year of the request, or 60 days late within two years. DMC may require evidence that the value of the property has not declined below its original value and that the property does not have a second mortgage, such as a home equity loan.

2.12.3 Automatic Termination

Under HPA, mortgage lenders or servicers must automatically cancel PMI coverage on most loans, once the loan is paid down to 78 percent of the value, as long as the borrower is current on payments. If the loan is delinquent on the date of automatic termination, DMC must terminate the coverage as soon thereafter as the loan becomes current. Lenders must terminate the coverage within 30 days of cancellation or the automatic termination date, and are not permitted to require PMI premiums after this date. Any unearned premiums must be returned to the borrower within 45 days of the cancellation or termination date. For high risk loans, mortgage lenders or servicers are required to automatically cancel PMI coverage once the mortgage is paid down to 77 percent of the original value of the property, provided the loan is current.

Under HPA, if PMI has not been canceled or otherwise terminated, coverage must be removed when the loan reaches the midpoint of the amortization period. On a 30-year loan with 360 monthly payments, for example, the chronological midpoint would occur after 180 payments. This provision also requires that the borrower must be current on the payments required by the terms of the mortgage. Final termination must occur within 30 days of this date.

2.12.4 HPA Disclosures

The HPA establishes three different times when a lender or servicer must notify a consumer of his or her rights. Those times are at loan closing, annually, and upon cancellation or termination of PMI.

The content of these disclosures varies depending on whether:

- PMI is "borrower-paid PMI" or "lender-paid PMI,"
- The loan is classified as a "fixed-rate mortgage" or "adjustable-rate mortgage," or
- The loan is designated as "high risk" or not.

At loan closing, lenders are required to disclose all of the following to borrowers:

- The right to request cancellation of PMI and the date on which this request may be made.
- The requirement that PMI be automatically terminated and the date on which this will occur.
- Any exemptions to the right to cancellation or automatic termination.
- Written initial amortization schedule (fixed-rate loans only).

Annually, the mortgage loan servicer must send borrowers a written statement that discloses:

- The right to cancel or terminate PMI.
- An address and telephone number to contact the loan servicer to determine when PMI may be canceled.

When the PMI coverage is canceled or terminated, a notification must be sent to the consumer stating that:

- PMI has been terminated, and the borrower no longer has PMI coverage.
- No further PMI premiums are due.
- The obligation for providing notice of cancellation or termination is with the servicer of the mortgage.

2.13 Loan Originator Compensation

2.13.1 General Principles for Compliance

2.13.1.1 Introduction and Mission Statement

DMC, its directors, executives and managers, recognize the importance and significance of an articulated compensation policy. The foregoing policy statement is considered to be a core element of the company's operational business plan. As appropriate and in accordance with the company's business model, the anti-steering and compensation procedures described herein shall apply to all residential mortgage transactions and represent the full scope of products, property types, branches and geographic locations.

The mission statement of the company compels corporate-wide awareness that discrimination in consumer credit transactions is prohibited. The company obligates every employee and every business associate to a commitment to responsible lending. The company considers its compensation practices as applicable to pre-application disclosures and all procedures for advertising, soliciting, taking applications and issuing commitments and lock-in agreements. The company shall not engage in any activities which are deemed to be deceitful or misleading. Senior management shall regularly monitor compliance to the foregoing policy through self-assessment and testing.

2.13.1.2 Summary of Truth-in-Lending Amendment

DMC shall comply with the expanded provisions of Section 1026.36 of Regulation Z, prohibiting certain acts and practices in connection with credit secured by a dwelling. The law was extended to protect mortgage borrowers from unfair, abusive or deceptive lending practices that can arise from loan originator compensation practices. The rules apply to all persons who originate loans, including mortgage brokers and the companies that employ them, as well as mortgage loan officers employed by depository institutions and other lenders. Rules apply to closed-end loans secured by a consumer's dwelling and effective April 1, 2011 shall:

- Prohibit payments to the loan originator that are based on the loan's interest rate or other terms. Compensation that is based on a fixed percentage of the loan amount is permitted.
- Prohibit a mortgage broker or loan officer from receiving payments directly from a consumer while also receiving compensation from the creditor or another person.
- Prohibit a mortgage broker or loan officer from "steering" a consumer to a lender offering less favorable terms in order to increase the broker's or loan officer's compensation.
- Provide a safe harbor to facilitate compliance with the anti-steering rule. The safe harbor is met if:

The consumer is presented with loan offers for each type of transaction in which the consumer expresses an interest, such as a fixed rate loan, adjustable rate loan or reverse mortgage; and the loan options presented to the consumer include the following:

1. The lowest interest rate for which the consumer qualifies;
2. The lowest points and origination fees; and
3. The lowest rate for which the consumer qualifies for a loan with no risky features, such as a prepayment penalty, negative amortization, or a balloon payment in the first seven years.

2.13.1.3 Definitions

DMC shall comply with the definitions established under the Final Rule as follows:

Loan Originator

A person, who for direct or indirect compensation or gain, a) takes residential mortgage loan applications; b) assists consumers in obtaining or applying to obtain a residential mortgage loan; or c) offers or negotiates terms of a residential mortgage loan (as well as any person who represents to public that it will provide any services).

Creditor

A true creditor that closes a loan in its own name and funds the loan from a bona fide warehouse line of credit, its own money or deposits held by the creditor is not a loan originator.

Mortgage Broker

A mortgage broker is considered a loan originator. Originators consist of both individuals and entities, and an employee of a mortgage broker and/or creditor is a loan originator.

Table-Funding Lender

The funding lender in a table-funded transaction is a loan originator.

Other Examples Not Considered Loan Originators

Persons who are not considered loan originators are persons who are:

1. Staff that perform purely administrative or clerical tasks;
2. An employee of a manufactured home retailer who does not advise consumers on loan terms;
3. Real estate brokers and employees of licensed real estate brokers;
4. A person, estate or trust that provides mortgage financing for sale of 3 properties in any 12-month period provided loan is fully amortizing, where borrower has ability to repay and is either fixed or adjustable only after five years and meets other conditions;
5. A servicer or servicer employee, agent or contractor, including but not limited to those who offer or negotiate terms of residential mortgage loan for purposes of renegotiating, modifying, replacing and subordinating principal of existing mortgage where borrower is behind in payments, in default, or has reasonable likelihood of being in default or falling behind; and
6. A creditor, except a creditor in a table funded transaction under anti-steering provisions.

2.13.1.4 Overview of Compensation Rules

DMC shall prohibit mortgage originators from receiving from any person, and prohibits any person from paying to a mortgage originator, directly or indirectly, compensation that varies based on the terms of the loan (other than the amount of the principal). This prohibition applies both to payments by lenders to independent mortgage brokers and payments by lenders to their employee sales force.

DMC prohibits mortgage loan originators from receiving dual compensation. Therefore, DMC prohibits a mortgage originator from receiving compensation from any person besides the consumer, even if the originator's compensation is not based on the loan terms (i.e., is a flat fee or a percentage of the loan amount). Originators are prohibited from receiving compensation from any person, other than the consumer, or a person who does not know and has no reason to know that a consumer has directly compensated or will directly compensate a mortgage originator. This prohibition applies when a loan originator receives compensation directly from the consumer.

DMC shall consider compensation to include salaries, commissions or any financial or similar incentive provided to a loan originator, such as merchandise and prizes. Compensation may be in the form of fees, such as a processing fee, paid to a loan originator.

DMC shall draft compensation agreements for its originators and agreements may not be revised in time periods less than two weeks. The Final Rule prohibits lenders from entering into compensation agreements with originators that are based on the profits of a particular branch or operations center unless the profit is calculated in whole or in part based on an aggregate value of loans originated during a particular period.

DMC shall draft compensation agreements for Branch Managers, Production Managers and other staff who are responsible to overseeing loan production. Such employees are considered executive or administrative staff that do not arrange, negotiate or otherwise obtain an extension of credit for a consumer. Such individuals may be compensated based in whole or in part of profits including aggregate value of loans. The calculation of the aggregate value of loans can be based on secondary market value or other metrics.

Managers who originate loans cannot receive compensation based on loan terms, even if such compensation would be limited to loans not originated by the manager. However, managers may receive a fixed percentage amount of all loans originated.

2.13.1.5 Acceptable Forms of Compensation – General

DMC shall utilize any of the following permissible forms of compensation in structuring agreements for its loan originators:

1. The loan originator's overall loan volume (dollar amount or units);
2. The long term performance of the originator's loans;
3. Hourly wages for actual hours worked;
4. Whether the consumer is an existing or new customer;
5. A fixed payment for every loan that the originator arranges, such as \$600 per loan, or \$1000 for the first 1000 loans and \$500 for each additional loan;
6. A percentage of applications submitted by the loan originator to the creditor that result in a closed loan;
7. The quality of the loan originator's loan files;
8. Legitimate business expense;
9. Compensation based on a fixed percentage of the amount of credit extended (which may be subject to a minimum or a maximum cap);
10. In the form of incentive payments based on number of loans originated within specified period of time;
11. Compensation may be paid upon sale of consummated loan to a subsequent purchaser; or
12. Originators may be paid differently based on the type of lead or referral (e.g., company-purchased leads vs. their own referral network provided the lender documents how the referral was obtained).

2.13.1.6 Acceptable Forms of Compensation – Loan Pricing

DMC shall permit compensation that is not based on the terms or condition of the loans. Such terms may include any of the following:

1. Based on principal amount of loan;
2. Financed through loan's interest rate provided all other conditions of the final rule are met;
3. A fixed payment for every loan that the originator arranges, such as \$600 per loan, or \$1000 for the first 1000 loans and \$500 for each additional loan;
4. A percentage of applications submitted by the loan originator to the creditor that result in a closed loan;
5. The quality of the loan originator's loan files;
6. Legitimate business expense;
7. Compensation based on a fixed percentage of the amount of credit extended (which may be subject to a minimum or a maximum cap); or
8. In the form of incentive payments based on number of loans originated within specified period of time; permits compensation to be received by upon sale of consummated loan to subsequent purchaser.

2.13.1.7 Compensation from a Consumer

DMC shall comply with the Final Rule whereby a loan originator must choose between being paid by the consumer or being paid by

DMC. If the loan originator receives compensation directly from a consumer, the loan originator may not receive compensation from DMC in connection with the transaction. This shall include payments from any person to the loan originator where the person knows (or has reason to know) that the consumer is paying the loan originator. Originators may receive an origination fee or charge other than from the consumer if the originator does not receive any compensation directly from the consumer; the consumer does not make an upfront payment of discount points, origination points or fees however denominated (other than bona fide third party charges not retained by the mortgage originator).

DMC may accept the following forms of compensation paid by a consumer:

- A flat fee, paid by the consumer;
- A fee that varies based on the principal loan amount, paid by the consumer; or
- A fee, paid by the consumer, based on any factor other than the loan terms or loan type.

DMC may permit payment of an origination fee or charge from someone other than the consumer, so long as the fee does not vary based on the terms of the loan (other than the amount of the principal), the originator receives no compensation from the consumer, and the consumer otherwise does not make an upfront payment for origination fees.

2.13.1.8 Third Party Charges

DMC will allow originators to pass along bona fide third party charges that are not retained by DMC, the mortgage originator or an affiliate of the DMC or mortgage originator. Originators may receive an origination fee or charge other than from the consumer if the originator does not receive any compensation directly from the consumer; and the consumer does not make an upfront payment of discount points, origination points, or fees, however denominated (other than bona fide third party charges not retained by the mortgage originator). Originators are prohibited from paying some or all of the third party fees for a consumer (or crediting the consumer out of pocket).

2.13.2 Loan Steering

2.13.2.1 TILA Prohibition on Steering

DMC shall comply with the TILA Anti-Steering provisions which prohibit mortgage originators from steering. The rule defines steering as directing, advising, counseling or otherwise influencing a consumer to accept a particular transaction. Originators may not steer a consumer to a loan based on the fact that the loan originator will be paid more on that loan (as opposed to other available loans), unless the loan is in the consumer's interest.

2.13.2.2 Exceptions to Steering Rule

DMC shall consider a transaction to be in compliance with the Anti-Steering Rule if either of the following two exceptions is satisfied:

1. DMC's loan originator directs the consumer to consummate a transaction that, after presenting the consumer with a significant number of available loans options, results in the **least** amount of creditor paid compensation.
2. DMC's loan originator directs the consumer to consummate a transaction that, after presenting the consumer with a significant number of available loans options, results in the **highest** amount of creditor paid compensation if the terms and conditions for all of the loan options for which the consumer qualifies are the same.
The exception rule does not limit compensation to the originator based on the principal amount of loan and does not restrict a person other than the consumer from receiving, or person other than the consumer from paying, the origination fee or charge if:
 3. The originator does not receive any compensation directly from consumer; and
 4. The consumer does not pay discount points, origination points or fees however denominated (other than *bona fide* third-party charges not retained by originator.

2.13.2.3 Determination of the Consumer's Interest

DMC shall determine whether the consummated transaction is in the consumer's interest and require that originators complete the following step:

1. The transaction must be compared with other possible loan offers available through the same originator and for which the consumer would likely qualify.
2. Possible loan offers includes loans that could be obtained from a creditor with which the originator regularly does business.

2.13.2.4 Safe Harbor

DMC shall determine if the transaction qualifies under the Safe Harbor exception established under the Final Rule. The Safe Harbor exception is met if:

1. The consumer is presented with loan offers for each type of transaction in which the consumer expresses an interest (that is, a fixed rate loan, adjustable rate loan or a reverse mortgage), **and**
2. The loan options presented to the consumer include the following:
 - a. The lowest interest rate for which the consumer qualifies, **and**
 - b. The lowest points and origination fees, **and**
 - c. The lowest rate for which the consumer qualifies for a loan with no risky features, such as a prepayment penalty, negative amortization or a balloon payment in the first seven years.

2.13.2.5 Loan Options: Type of Transaction

A transaction does not violate the Anti-Steering Rule if the consumer is presented with loan options that meet the conditions for each type of transaction in which the consumer expressed an interest. The term "type of transaction" refers to whether:

1. A loan has an annual percentage rate that cannot increase after consummation
2. A loan has an annual percentage rate that may increase after consummation
3. The loan is a reverse mortgage

2.13.2.6 Loan Options Presented

DMC shall consider a transaction to be in compliance with the anti-steering rule if the loan originator presents the loan options required by that paragraph and all of the following conditions are met:

1. The loan originator must obtain loan options from a significant number of the creditors with which the originator regularly does business and, for each type of transaction in which the consumer expressed an interest, must present the consumer with loan options that include:
 - a. The loan with the lowest interest rate;
 - b. The loan with the lowest interest rate without negative amortization, a prepayment penalty, interest-only payments, a

- balloon payment in the first 7 years of the life of the loan, a demand feature, shared equity, or shared appreciation; or, in the case of a reverse mortgage, a loan without a prepayment penalty, or shared equity or shared appreciation; and
- c. The loan with the lowest total dollar amount for origination points or fees and discount points.
- The loan originator must have a good faith belief that the options presented to the consumer are loans for which the consumer likely qualifies.
 - For each type of transaction, if the originator presents to the consumer more than three loans, the originator must highlight the loans that satisfy the criteria specified by the Final Rule.
 - The loan originator can present fewer than three loans and comply with the Final Rule if the loan(s) presented to the consumer satisfy the criteria if the provisions of the Final Rule are otherwise met.

2.13.3 DMC's Compensation Agreements

2.13.3.1 Agreement Terms for Compensation paid by DMC

DMC's senior management shall establish compensation agreements with its loan officers to comply with the Final Rule. Compensation agreements and specific policies, outlined below, are subject to quarterly review and modification:

- Compensation is based on established upfront terms negotiated between the loan officer and the consumer.
- The compensation will be based on a set percentage of the loan amount and cannot vary from one transaction to another.
- The consumer may pay discount points to reduce the interest rate.
- The consumer may pay bona fide third party costs and fees by paying cash at closing, or by financing them through the loan principal or interest rate.
- The consumer cannot pay any compensation to the loan originator.
- The loan originator cannot reduce the lender paid compensation amount by offering concessions or paying for tolerance violations.

2.13.3.2 Agreement Terms for Compensation Paid by Consumers

DMC's senior management shall establish compensation agreements with its loan officers that comply with the Final Rule, outlined below, and are subject to quarterly review and modification:

- The loan officer will negotiate compensation directly with the consumer.
- The consumer may pay bona fide third party costs and DMC fees by paying cash at closing, or by financing them through the loan principal or interest rate.
- Premium pricing cannot be used to compensate the loan originator.
- The consumer may pay discount points to reduce the interest rate.
- The consumer must pay compensation to the loan officer from their own funds or from the principal proceeds of the new loan.
- No other person (other than the borrower) may provide any compensation to a loan originator, directly or indirectly, in connection with the loan transaction.

2.13.3.3 Agreement Terms Prohibiting Steering

Originators shall agree to comply with DMC's principles for anti-steering and exercise all steps and procedures required to support any safe harbor exceptions to the Final Rule. Originators are prohibited from steering, directing, advising, counseling or otherwise influencing a consumer to accept a particular transaction and may not steer a consumer to a loan based on the fact that the loan originator will be paid more on that loan unless the loan is in the consumer's interest.

2.13.3.4 Disciplinary Action

DMC shall enforce certain remedial efforts or corrective action, as appropriate and in accordance with the severity of the violation to the loan officer compensation and anti-steering policy. Violations found shall be immediately handled by senior management and may warrant disciplinary action up to including immediate suspension of the loan originator. Senior management shall be informed of any corrective action taken, which may include, but are not limited to:

- Revision of more favorable loan terms to the borrower
- Reimbursement of fees to the applicant
- Verbal counseling
- Written counseling
- Fair lending re-training
- Enhanced scrutiny of loans
- Supervisory review of all originations
- Suspension of certain activities
- Termination of employment
- Termination of broker

2.14 Mortgage Disclosure Improvement Act (MDIA)

2.14.1 Background

DMC shall comply with the Housing and Economic Recovery Act of 2008 (HERA) which was enacted by Congress on July 30, 2008. HERA included amendments to the Truth-in-Lending Act (TILA). This amendment became known as the Mortgage Disclosure Improvement Act of 2008(MDIA). The July 2008 final rule requires creditors to give consumers transaction-specific cost disclosures shortly after application for closed-end loans secured by any dwelling of the consumer covered under the Real Estate Settlement Procedures Act (RESPA).

Congress amended MDIA with the enactment of the Emergency Economic Stabilization Act of 2008 (Stabilization Act) on October 3, 2008. The MDIA broadened the requirements of the July 2008 final rule to include disclosures for mortgage loans secured by dwellings other than the consumer's principal dwelling, require waiting periods between the time when disclosures are given and consummation of the mortgage transaction.

MDIA extends Truth-in-Lending to include refinance transactions and loans secured by a dwelling even when it is not the consumer's principal dwelling, which includes second homes. Credit extended to acquire, improve, or maintain rental property that is not owner-occupied (that is, in which the owner does not expect to live for more than 14 days during the coming year) is deemed to be for business purposes. MDIA applies only to closed-end loans secured by a consumer's dwelling and does not affect the disclosure requirements for open-end credit plans secured by a dwelling (home equity lines of credit, or HELOCs).

DMC shall comply with the requirement that early disclosures must be provided before the consumer pays any fee, other than a fee for

obtaining the consumer's credit history and comply with waiting periods prior to consummation.

2.14.2 Written Application

DMC shall rely on RESPA and Regulation X in deciding whether a written application has been received, as deemed permissible by MDIA. In general, Regulation X defines application to mean the submission of a borrower's financial information in anticipation of a credit decision relating to a federally related mortgage loan. An application is received when it reaches the creditor in any of the ways applications are normally transmitted –by mail, hand delivery, or through an intermediary agent or broker. If an application reaches the creditor through an intermediary agent or broker, the application is received when it reaches the creditor, rather than when it reaches the agent or broker.

2.14.3 Business Day

DMC shall comply with the definitions of a business day published by the Federal Reserve Board. The Truth-in-Lending Act contains two definitions of a business day. One is the general definition and the other is called the specific definition.

General Definition: A business day is a day on which the creditor's offices are open to the public for carrying on substantially all of its business functions.

Specific Definition: A business day is all calendar days except Sundays and Federal holidays. The TILA amendment included the following statement:

Four Federal legal holidays are identified in 5 U.S.C. 6103(a) by a specific date: New Year's Day, January 1; Independence Day, July 4; Veterans Day, November 11; and Christmas Day, December 25. When one of these holidays (July 4, for example) falls on a Saturday, Federal offices and other entities might observe the holiday on the preceding Friday (July 3). In cases where the more precise (specific) rule applies, the observed holiday (in the example, July 3) is considered a business day. Under MDIA, the definition of business day for both the 3- and 7-day waiting periods is: all calendar days except Sundays and holidays, which is specific definition. The general applies to the timing of the initial TIL disclosures. The specific rule applies when to Right of Rescission and loans subject to the Home Ownership and Equity Protection Act.

2.14.4 Initial Disclosure Statement

DMC shall comply with the MDIA requirement for creditors to deliver or mail the early disclosures for all dwelling-secured mortgage loans no later than three business days after the creditor receives a consumer's application. For initial disclosure, the general definition of business day applies, which would be the days the creditor's office is open to the public. Disclosures must be given before the consumer pays any fee, other than a bona fide and reasonable fee for obtaining the consumer's credit history. The MDIA amends TILA to require early disclosures for consumer loans secured by any dwelling, even if it is not the consumer's principal dwelling.

The three-business-day period for making early disclosures coincides with the time period within which creditors subject to RESPA must provide good faith estimates of settlement costs. If the creditor does not know the precise credit terms, the creditor must base the disclosures on the best information reasonably available and indicate that the disclosures are estimates. The creditor may label as an estimate only the items primarily affected by unknown information and may provide explanatory material concerning the estimates and the contingencies that may affect the actual terms.

2.14.5 Delivery Methods

DMC shall comply with the ruling that, if a creditor provides disclosures through a courier service, the creditor may presume that the consumer receives the disclosures three business days after they are deposited with the courier service, for purposes of determining when the three-business-day waiting period begins. A creditor is not required to use the presumption of receipt to determine when the waiting period begins. Thus, if a creditor delivers corrected disclosures electronically consistent with the E-Sign Act or delivers disclosures by overnight courier, the creditor may rely on evidence of actual delivery (such as documentation that the mortgage loan disclosure was delivered by certified mail or overnight delivery or e-mail, if similar documentation is available) to determine when the three-business-day waiting period begins.

The Federal Reserve Board has not adopted separate rules or presumptions regarding the delivery of disclosures by overnight courier, electronic transmission, or other means. The Board stated that, in light of the variety of delivery methods and options offered by service providers, although these methods may be faster than delivery by regular mail, it is not feasible to define with sufficient clarity what may be considered acceptable "overnight delivery" or to delineate a separate time period for presumption of receipt for each available delivery method.

2.14.6 "No Requirements to Complete" Notice

DMC shall comply with the MDIA requirement that the early disclosures contain a clear and conspicuous notice containing the following statement:

You are not required to complete this agreement merely because you have received these disclosures or signed a loan application.

The statement must be contained on a disclosure form that is grouped together with the other disclosures. If the same form is used for both initial disclosures and final disclosures, creditors may also include the notice on the disclosures provided at consummation and may group the notice together with other required disclosures.

2.14.7 Itemization of Amount Financed

The itemization of the amount financed required under Truth-in-Lending contains items, such as origination fees or points, that also must be disclosed as part of the good faith estimates of settlement costs required under RESPA. Creditors furnishing the RESPA good faith estimates need not give consumers any itemization of the amount financed.

2.14.8 Collection of Initial Fees

DMC shall comply with the MDIA requirement that disclosures are to be given before the consumer pays any fee, other than a bona fide and reasonable fee for obtaining the consumer's credit history. This rule applies to all mortgage transactions. There is no specific regulatory rule with respect to the collection of post-dated checks or authorization to process a credit card after the waiting period. However, guidance from legal and compliance experts recommend that the collection of post-dated checks as well as credit card information sends a message to the consumer that they are accepting the transaction prior to reviewing the disclosures. An alternative option for lenders is to mail the disclosures with a cover letter which asks the borrower to sign the disclosures and return their copy along with a check to cover the cost of the appraisal.

2.14.9 Seven Days Prior to Consummation

DMC shall comply with MDIA where lenders must allow applicants to have a 7-business-day waiting period after mailing or delivering the TIL prior to consummation (closing of the loan). This timing is not based on receipt date (or assumed receipt date) by the consumer – the timing begins with the mailing or delivery by DMC. This rule is based on the specific rule which includes Saturdays. For example, if a creditor delivers the early disclosures to the consumer in person or places them in the mail on Monday, June 1, consummation may occur on or after Tuesday, June 9, the seventh business day following delivery or mailing of the early disclosures.

Consummation may not occur until both the seven-business-day waiting period and the three-business-day waiting period have expired. For example, assume that the initial disclosures were given to the consumer in person or they were placed in the mail on Monday, June 1. Later, DMC delivers corrected disclosures in person to the consumer on Wednesday, June 3. Although Saturday, June 6 is the third business day after the consumer received the corrected disclosures, consummation may not occur before Tuesday, June 9, the seventh business day following delivery or mailing of the early disclosures.

2.14.10 Revised TIL Disclosure

If the APR is out of tolerance, lenders must re-disclose three business days prior to consummation. If the corrected disclosures are mailed, the consumer is considered to receive the disclosures three business days after mailing. MDIA requires that consummation may not occur until three business days after the consumer receives corrected disclosures. This rule applies the more specific definition of business day, which includes Saturdays.

If the annual percentage rate at the time of consummation varies from the annual percentage rate disclosed by more than $\frac{1}{4}$ of 1 percentage point in a regular transaction (fixed rate) or more than $\frac{1}{4}$ of 1 percentage point in an irregular transaction (adjustable rate), DMC must disclose all the changed terms. The creditor should compare the APR at consummation with the APR in the most recently provided corrected disclosures (not the first set of disclosures provided) to determine whether the creditor must provide another set of corrected disclosures. Corrected disclosures are not required when the APR previously disclosed is over-stated, as long as the actual APR is within tolerance.

If re-disclosure is required, the creditor may provide a complete set of new disclosures, or may re-disclose only the changed terms. If the creditor chooses to provide a complete set of new disclosures, the creditor may but need not highlight the new terms, provided that the disclosures comply with the format requirements of MDIA. If the creditor chooses to disclose only the new terms, all the new terms must be disclosed. No new disclosures are required if the only inaccuracies involve estimates other than the annual percentage rate, and no variable rate feature has been added.

To determine whether a creditor must make corrected disclosures:

- What the A.P.R. will be at consummation is compared to
- The A.P.R. stated in the most recent disclosures issued

For example, assume consummation for a regular mortgage transaction is scheduled for Thursday, June 11, the early disclosures provided in May stated an annual percentage rate of 7.00%, and corrected disclosures received by the consumer on Friday, June 5 stated an annual percentage rate of 7.15%:

1. On Thursday, June 11, the annual percentage rate will be 7.25%, which exceeds the most recently disclosed annual percentage rate by less than the applicable tolerance. The creditor is not required to make additional corrected disclosures or wait an additional three business days.
2. On Thursday, June 11, the annual percentage rate will be 7.30%, which exceeds the most recently disclosed annual percentage rate by more than the applicable tolerance. The creditor must make corrected disclosures such that the consumer receives them on or before Monday, June 8.

Consummation may not occur until both the seven-business-day waiting period and the three-business-day waiting period have expired. For example, assume that the initial disclosures were given to the consumer in person or they were placed in the mail on Monday, June 1. Later, DMC delivers corrected disclosures in person to the consumer on Wednesday, June 3. Although Saturday, June 6 is the third business day after the consumer received the corrected disclosures, consummation may not occur before Tuesday, June 9, the seventh business day following delivery or mailing of the early disclosures.

2.14.11 Waivers

Borrowers may waive both the seven-day and three-day waiting period to meet a bona fide personal financial emergency. However, if the TIL Statement is out of tolerance, the waiver is no longer effective. After re-disclosure, borrowers must submit a signed statement describing the emergency.

Under the MDIA, the consumer must receive the disclosures required by TILA Section 128(a), 15 U.S.C. 1638(a), at or before the time of the consumer's modification or waiver. To expedite consummation of a mortgage transaction, a consumer may modify or waive the timing requirements for the early disclosures when the consumer determines that the credit extension is needed to meet a bona fide personal financial emergency.

With a bonafide personal financial emergency, the consumer may shorten or waive the seven-business-day waiting period or the three-business-day waiting period after receiving accurate disclosures.

If the APR stated in the early disclosures is no longer accurate, after receiving a corrected disclosure the consumer can provide a signed statement describing the financial emergency in order to waive the three-business-day waiting period and close the loan. To shorten or waive a waiting period, the consumer must give the creditor a dated written statement that describes the emergency, specifically modifies or waives the waiting period, and bears the signature of all the consumers who will be primarily liable on the legal obligation. Creditors may not use pre-printed forms for this purpose.

2.14.12 Reverse Mortgages

For purposes of providing reverse mortgage disclosures, "business day" has the same meaning as forward loans—all calendar days except Sundays and the Federal legal holidays listed in 5 U.S.C. 6103(a). This means if disclosures are provided on a Friday, consummation could occur any time on Tuesday, the third business day following receipt of the disclosures.

2.14.13 Timeshare Applications

Lenders must comply with the initial disclosure requirements; however, both the 3- and 7-day waiting periods do not apply. Under MDIA, if the APR stated in the early disclosures becomes inaccurate, the creditor must disclose all the changed terms no later than consummation or settlement. For loans other than timeshare transactions, the creditor must make corrected disclosures (if required) not later than the third business day before consummation. For timeshare transactions, the general definition of business day applies, which would be the days the creditor's offices are open to the public for carrying on substantially all of its business functions.

For extensions of credit secured by a consumer's timeshare plan, when corrected disclosures are required, they must be given no later than "consummation or settlement." "Consummation" is defined in Regulation Z (§1026.2(a)). "Settlement" is defined in Regulation X (24 CFR 3500.2(b)) and is subject to any interpretations issued by HUD. In some cases, a creditor may delay re-disclosure until settlement, which may be at a time later than consummation. If a creditor chooses to re-disclose at settlement, disclosures may be based on the terms in effect at settlement, rather than at consummation.

2.14.14 Denied or Withdrawn Transactions

DMC may determine within the three-business-day period that the application will not or cannot be approved on the terms requested. If the consumer withdraws the application within the three-business-day period, the creditor need not make the disclosures under this ruling.

If the creditor fails to provide early disclosures and the transaction is later consummated on the original terms, the creditor will be in violation of MDIA. If, however, the consumer amends the application because of the creditor's unwillingness to approve it on its original terms, no violation occurs for not.

2.15 Protecting Tenants at Foreclosure Act

2.15.1 Introduction

DMC is committed to the highest standards of Federal Consumer compliance and requires all management, employees and third-party vendors follow these policies and adhere to these standards.

2.15.1.1 Goals & Objectives

The standards set out in this policy represent minimum requirements based on applicable legal and regulatory guidance and apply throughout DMC. These requirements are intended to prevent DMC, our employees, third party vendors and clients from violating Federal Regulations related to mortgage lending and consumer compliance.

2.15.1.2 Required Review

DMC requires this policy be reviewed no less than annually.

- Last Date of Review – 08/14/2013
- Next Due for Review – 08/14/2014

The above required annual review shall include the compliance of this policy with current law, regulation or directive, the procedural implementation of this policy within the then current scope of DMC business lines and operations, internal audit results received during the previous year and then current industry trends or regulatory guidance.

2.15.1.3 Applicability

The purpose of this policy is to implement consumer protection mechanisms as required by the United States statutes and related regulations administered by the CFPB and others.

Wherever local regulations are stricter than the requirements set out in this Policy, the stricter standard shall be applied. If any applicable laws are in conflict with this Policy, DMC must consult with the appropriate legal counsel to resolve the conflict.

2.15.1.4 Accountability and Monitoring

DMC requires that its own organization, its employees and its third party vendors comply with all requirements of this policy and all underlying regulations as they exist, or from time to time may be amended.

2.15.1.5 Internal Controls

DMC shall ensure that annual independent testing of DMC's compliance includes compliance with this policy and all underlying regulations. The required compliance testing may be conducted by DMC personnel or by an outside party. At minimum, the annual audit shall include a review to assess:

- The effectiveness of all communications with borrowers.
- DMC's loan servicing system accurately documents occupancy status to properly identify non-owner occupied residential properties (actively serviced and REO).
- Proper determination of bona fide leases and duration of the lease term
- Required notices to tenants prior to foreclosure are provided.
- Foreclosures and evictions are handled in accordance with this policy and related regulation.

2.15.2 Staff and Training

DMC requires initial and ongoing training for all management and staff concerning this policy, other related policies and underlying law and regulation.

Training may be conducted in a variety of settings utilizing any established education modality. Regardless the method of training delivery, all training must include:

- Presentation of the subject material oriented for the adult learner
- An assessment of the learner to validate command of the subject matter with a minimum passing grade of 70%.
- A completion certificate documenting satisfactory completion of all of the above.

DMC shall maintain adequate records of this training program to include:

- A description of all training programs
- Evidence of attendance and satisfactory completion for each employee subject to this policy.
- Management response relative to additional training, reassignment or other responses for those employees who may not have achieved a passing grade on the assessment and/or were not issued a completion certificate.

2.15.2.1 Ongoing Training

All DMC employees shall receive training to ensure current knowledge of this policy and the underlying Federal regulations, to a degree commensurate with their job function, which may impact DMC and the current state of law, regulation and industry best practice. At a minimum, training should address:

- This policy and any changes within the last year
- The law and regulation underlying this and other policies including, but not limited to:
 - Protecting Tenants at Foreclosure Act of 2009 (PTFA)
 - Helping Families Save Their Homes Act of 2009
 - Relevant Sections of the Dodd-Frank Act pertaining to PTFA
 - Any new rules promulgated by the CFPB regarding tenant protections prior to or after completion of foreclosure
- The implementation of these policies and the practical application thereof in the context of the employee's function or responsibility
- Disciplinary consequences for non-compliance

2.15.2.2 New Hire Training

New hire employees shall receive the above training within four (4) weeks of commencing employment with DMC.

2.15.3 Purpose

The following sections of this manual provide an overview of the federal Protecting Tenants at Foreclosure Act of 2009 (PTFA), also known as Public Law 111-22, and the procedures that must be followed by DMC when a foreclosure takes place on a tenant-occupied property to ensure compliance with PTFA.

2.15.4 Protecting Tenants at Foreclosure Act

The "Helping Families Save Their Homes Act of 2009" went into effect on May 20, 2009 and included the Protecting Tenants at Foreclosure Act (PTFA) as well as amendments to Section 8 of the United States Housing Act of 1937.

PTFA applies to any foreclosure on a federally-related mortgage loan (as defined in RESPA) or on any dwelling or residential real property that is occupied by tenants.

The intent and purpose of PTFA is to protect tenants from immediate eviction by persons or entities that become owners of residential property through the foreclosure process and extends similar protections for tenants with U.S. Department of Housing and Urban Development Section 8 vouchers.

PTFA ensures that tenants who may face eviction as a result of a foreclosure have a minimum time period they can remain in a foreclosed property before eviction and that tenants have adequate notice of the time they can remain so as to have sufficient time to find new housing.

Not affected by PTFA is any state or local law that provides longer time periods or other additional protections for tenants.

2.15.5 Effect of the Dodd-Frank Act on PTFA

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) had several impacts on PTFA. When PTFA was first enacted, it was set to expire on December 31, 2012. The Dodd-Frank Act extended the expiration date to December 31, 2014.

Prior to Dodd-Frank, PTFA allowed bona fide tenants of foreclosed properties to continue to reside at the property for the remaining term of the lease executed with the former owner only if that lease was entered into "as of the date of foreclosure." It was unclear when the "date of foreclosure" occurred. Dodd-Frank clarified the phrase as follows:

For purposes of this section, the date of a notice of foreclosure shall be deemed to be the date on which complete title to a property is transferred to a successor entity, or person, as a result of an order of a court pursuant to provisions in a mortgage, deed of trust or security deed.

[Insert sample company procedures for documenting the date of foreclosure on its system of record.]

2.15.6 Bona Fide Lease or Tenancy

The protections for tenants afforded by PTFA apply to tenants under a "bona fide" lease or tenancy.

A lease or tenancy is considered to be bona fide only if:

1. The mortgagor or the child, spouse, or parent of the mortgagor is not the tenant;
2. The lease or tenancy was the result of an arm's length transaction; and
3. The lease or tenancy requires the receipt of rent that is not substantially less than fair market rent or the rent is reduced or subsidized due to a federal, state or local subsidy.

Written leases are not required as evidence of bona fide tenancy. In the absence of a written lease, the tenant must be able to provide evidence of consistent lease payment history.

PTFA does not cover tenants facing eviction in a non-foreclosed property, tenants with a fraudulent lease, tenants who enter into lease agreements after a foreclosure sale, or homeowners in foreclosure.

[Insert sample company procedures for verifying bona fide lease or tenancy]
Immediate Successor in Interest

PTFA defines the "immediate successor in interest" as the party who will assume the ownership or interest in a property, including a bank or lender that takes title to a house upon foreclosure.

The immediate successor in interest assumes ownership of the property subject to the rights of any bona fide tenant and will need to comply with certain notice requirements as provided in PTFA.

[Insert sample company procedures: is sample company the lender who will take ownership at the time of foreclosure sale or is sample company a servicer, acting on behalf of the owner, who will take ownership at the time of foreclosure sale]

2.15.7 Notice to Tenant Requirements

The immediate successor in interest at foreclosure must:

1. Provide all tenants with a 90-day notice before being evicted as the result of a foreclosure, even in those cases where the lease ends in less than 90 days.
2. Honor existing leases for tenants to the end of the term of the lease, with some exceptions. Even if the new owner honors the lease until the end of the term of the lease, the new owner must provide a 90-day notice to vacate the property to the tenants.

Exceptions:

1. Tenants without a lease (the tenant must provide evidence of a lease or be able to provide evidence of consistent and regular lease payments)
2. Tenants with a lease terminable at will under state law, or
3. Where the purchaser of the property will occupy the property as a primary residence.

In these cases, the tenants must receive a minimum of 90-days' notice to vacate the property.

Not affected by PTFA is any state or local law that provides longer time periods or other additional protections for tenants.

[Insert sample company procedures for ensuring that the date of foreclosure is documented and that the appropriate 90-day notice is provided to bona fide tenants]

2.15.8 Effect of Foreclosure on Section 8 Tenancies

PTFA includes parallel provisions for tenants receiving Section 8 housing vouchers.

In the case of a foreclosure on a federally-related mortgage loan (as defined by RESPA) or on any residential real property in which a recipient of assistance under Section 8 housing assistance is a bona fide tenant, a successor in interest assumes its interest subject to:

1. The lease between the prior owner and the tenant, and
2. The housing assistance payments contract between the prior owner and the public housing agency for the occupied unit.

The successor in interest (owner) may terminate the tenancy effective on the date of transfer of the unit to the owner if the owner:

1. Will occupy the unit as a primary residence; and
2. Has provided the tenant with a notice to vacate at least 90 days before the effective date of such notice.

The above requirements do not affect any state or local law that provides longer time periods or other additional protections for tenants.

[Insert sample company procedures for identifying tenants with Section 8 housing vouchers and contracts and ensuring that Section 8 tenants are handled appropriately]

2.15.9 Steps to Take Prior to Foreclosure

To ensure compliance with PTFA, the following steps should be taken prior to foreclosure:

1. Identify if the property is occupied or not occupied.
2. If verified as occupied, identify occupants of the property:
 - a. Is it owner-occupied?
 - b. If not owner-occupied, is it occupied by tenants?
3. If the property is occupied by tenants, are the tenants bona fide tenants?
4. If not bona fide tenants, a 90-day notice to vacate must be provided.
 - a. If bona fide tenants, determine the term of the lease.
 - b. Bona fide tenants are allowed to continue to occupy the property until the term of the lease expires, but also must be provided with a 90-day notice to vacate;
 - c. If no lease can be verified (written or verbal), but the tenants are bona fide tenants, a 90-day notice to vacate must be provided.

2.15.9.1 Verification of Occupancy

Occupancy can be verified by a property inspection agent or through personal contact with the occupants or neighbors.

In the event personal contact cannot be made, notices must be mailed and/or posted on the property with contact information.

1. Notices are mailed and/or posted in accordance with local regulations;
2. Some states require a legal notice regarding occupancy and tenant rights to be mailed and posted on the property; and
3. If the occupants do not respond to the notices, the property should continue to be monitored to verify occupancy until occupancy can be verified.

[Insert sample company procedures for verification of occupancy, documenting occupancy on the system of record, and sending notice of tenants rights requirements]

2.15.9.2 Verification of Bona Fide Tenancy

If the property is verified as occupied by tenants, bona fide tenancy must be verified.

[Insert sample company procedures for verification of bona fide tenancy once the property is verified as occupied by tenants, including how the system is documented to ensure the proper 90-day notice to vacate is given at the appropriate time]

2.15.10 Steps to be Taken at the Time of Foreclosure

To ensure compliance with PTFA, the following steps should be taken at the time of foreclosure for properties occupied by bona fide tenants:

1. Verify if the property is still occupied by bona fide tenants.
 - a. If the property is still occupied by bona fide tenants:
 - The tenants should be notified of the new owner, the new owner's contact information, and where to send monthly rental payments; and
 - Review the system to determine the appropriate time to send out the 90-day notice.
 2. Send the 90-day notice to vacate at the appropriate time.

[Insert sample company procedures for verification of occupancy, notifying bona fide tenants of new ownership, collecting of rental payments, and sending the 90-day notice to vacate timely]

2.16 TILA-RESPA Integrated Disclosure (TRID)

2.16.1 Summary of Regulation

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) directed the Bureau of Consumer Financial Protection (Bureau) to integrate the mortgage loan disclosures under TILA and RESPA Sections 4 and 5. The Bureau published the integrated disclosures- "Integrated Mortgage Disclosures Under the Real Estate Settlement Procedures Act (Regulation X) and the Truth in Lending Act (Regulation Z).

The TILA-RESPA Rule provides a detailed explanation of how the newly created Loan Estimate (LE) and Closing Disclosure (CD) forms should be filled out and used.

The purpose of the Dodd-Frank Act is to simplify the disclosure forms and provide disclosures that will be helpful to consumers in understanding the key features, costs, and risks of the mortgage loan for which they are applying. The forms use clear language and design to make it easier for consumers to locate key information, such as interest rate, monthly payments, and costs to close the loan.

The LE and CD forms also provide more information to help consumers decide whether they can afford the loan and to facilitate comparison of the cost of different loan offers, including the cost of the loans over time.

The TILA-RESPA Rule applies to most closed-end consumer mortgages. It does not apply to home-equity lines of credit (HELOCs), reverse mortgages, or mortgages secured by a mobile home.

DMC is required to comply in every aspect with the TILA-RESPA Integrated Disclosure guidelines and rules and uses the LE and CD prescribed by the Bureau. To view the rules and guidelines, see the attached TILA-RESPA Integrated Disclosure Rule – Small entity compliance guide addendum A, attached to this policy and procedure manual.

2.17 Real Estate Settlement Procedures Act (RESPA)

2.17.1 Summary of Regulation

DMC is required to comply with the Real Estate Settlement Procedures Act implemented by Regulation X. The purpose of this Act is to require advance disclosure to consumers of settlement charges involved in mortgage loan transactions and to ensure the accurate accounting and maintenance of escrow accounts. The Consumer Financial Protection Bureau and prudential regulators enforce RESPA and its implementing regulation, Reg X. RESPA applies to all federally related mortgage loans on residential real property to consumers for the purpose of personal, family or household use, regardless of the lien position. It does not apply to a loan on property containing 25 or more acres or a business purpose loan.

Requirements for Applications and Settlement

DMC must provide HUD's special information booklet entitled "Buying Your Home, Settlement Costs and Helpful Information" no later than 3 business days after receipt of an application for a mortgage loan. The booklet need not be provided in the following transactions:

- Refinancing
- Subordinate lien position closed-end loans
- Purpose is not the purchase of a 1- to 4-family residential property

Open-end Lines of Credit: In this transaction, the applicant must receive a copy of the brochure entitled "When your Home is On the Line: What You Should Know About Home Equity Lines of Credit".

2.17.2 Initial RESPA Disclosure

Good Faith Estimate of Closing (Settlement) Costs: Applicants must receive a good faith estimate of the amount of or range of charges for the specific settlement services the applicant is likely to incur no later than 3 business days after receipt of an application.

Service Providers: If DMC requires the use of a particular service provider and requires the consumer to pay any portion of the cost, the good faith estimate shall clearly state the required use and that the estimate is based on the provider's charges. In addition, the good faith estimate shall include disclosure of the name, address and telephone number of the service provider, and describe the nature of any relationship between the service provider and DMC.

Affiliate Business Arrangement: If DMC and the service provider are affiliated, this disclosure must be provided separately from the good faith estimate. The disclosure of the relationship must describe the ownership and financial interest between DMC and the service provider. A lender may not require the use of an affiliated service provider other than DMC's chosen attorney, credit reporting agency or appraiser.

Servicing Disclosure Statement: DMC must disclose no later than 3 business days after receipt of an application, a disclosure that contains information on whether the servicing of the loan may be sold or transferred to another lender and the percentage of loans originated that have been sold or transferred during the most recent 3 calendar years. This disclosure is not required for subordinate lien loans or open-end home equity line of credit regardless of the lien position. Each applicant must sign an acknowledgment of receipt of the Servicing Disclosure Statement before settlement.

2.17.3 Settlement Statement

DMC shall prepare a HUD settlement statement that details the costs of settlement.

- a. The statement to be used is the HUD-1 for all mortgages.
- b. The borrower shall be permitted to inspect the settlement statement during the business day preceding settlement.
- c. The borrower shall be provided with a copy of the settlement statement at the time of settlement or within a reasonable time thereafter.

2.17.4 Requirements for Escrow Accounts

An escrow account is any account that a lender or servicer establishes on behalf of a borrower to pay real estate taxes, hazard or flood insurance premiums, or any other charges that the borrower and lender have voluntarily agreed that the servicer should collect and pay.

Limitation on payments: DMC shall not require a borrower to deposit more than the following amounts into an escrow account:

- a. At settlement, an amount sufficient to pay the charges attributable to the period from the date the payment(s) were last paid until the initial payment date;
- b. Throughout the life of the escrow account, a monthly sum equal to 1/12 of the total annual escrow payments. In addition, DMC may add a charge to maintain a cushion no greater than 1/6 (2 months) of the estimated total annual payments.

Escrow Analysis: To conduct an escrow analysis, DMC shall estimate the amount of escrow items to be disbursed in the next computation year. If the charge is unknown, the estimate may be based on the preceding year's charge, with an increase not to exceed the most recent year's change in the Consumer Price Index. Upon completion of the escrow analysis, one of three conditions may occur:

- a. **Surplus** - if the balance in the account exceeds the required amount, DMC shall refund the surplus to the borrower within 30 days, if it is \$50 or more. If the surplus is less than \$50, DMC may either refund the surplus or credit the amount towards next year's escrow payments;
- b. **Shortage** - if the balance in the account will not meet the required amount, DMC may require the borrower to repay the shortage in equal payments over a 12-month period. If the amount is less than one month's payment, DMC may either require the payment within 30 days or in equal payments over a 12-month period.
- c. **Deficiency** - if there is a negative balance in the escrow account, DMC may require the borrower to repay the deficiency in 2 or more equal monthly payments.

Upon completion of an escrow analysis, DMC shall prepare and deliver the escrow account statement to the borrower. The initial escrow account statement shall be delivered to the borrower at settlement or within 45 calendar days of settlement. The statement may be included on, or attached to, the HUD Settlement Statement;

The annual escrow account statement shall be delivered to the borrower within 30 calendar days of completion of the escrow analysis and shall include the following:

1. Current monthly mortgage payment and the portion deposited in the escrow account;
2. Past year's monthly mortgage payment and the portion deposited in the escrow account;
3. Total amount paid into the escrow account during the past computation year;
4. Total amount paid out of the escrow account during the same period for taxes, insurance, and other charges, separately identified;
5. Account balance at the end of the period;
6. An explanation of how any surplus is being handled by DMC or how any shortage or deficiency is to be paid by the borrower; and
7. If applicable, an explanation why the estimated low monthly balance was not reached.

Record Retention: DMC shall retain evidence of compliance with this regulation for a period of five (5) years after the date of execution of documents or after the account is paid.

2.17.5 Definitions

Application means the submission of a borrower's financial information in anticipation of a credit decision relating to a federally related mortgage loan, which shall include the borrower's name, the borrower's monthly income, the borrower's social security number to obtain a credit report, the property address, an estimate of the value of the property, the mortgage loan amount sought, and any other information deemed necessary by the loan originator. An application may either be in writing or electronically submitted, including a written record of an oral application.

Balloon payment has the same meaning as "balloon payment" under Regulation Z (12 CFR Part 1026).

Business day means a day on which the offices of the business entity are open to the public for carrying on substantially all of the entity's business functions.

Changed circumstances means:

- Acts of God, war, disaster, or other emergency;
- Information particular to the borrower or transaction that was relied on in providing the GFE and those changes or is found to be inaccurate after the GFE has been provided. This may include information about the credit quality of the borrower, the amount of the loan, the estimated value of the property, or any other information that was used in providing the GFE;
- New information particular to the borrower or transaction that was not relied on in providing the GFE; or
- Other circumstances which are particular to the borrower or transaction, including boundary disputes, the need for flood insurance or environmental problems.

Changed circumstances *do not include*:

- The borrower's name, the borrower's monthly income, the property address, an estimate of the value of the property, the mortgage loan amount sought, and any information contained in any credit report obtained by the loan originator prior to providing the GFE, unless the information changes or is found to be inaccurate after the GFE has been provided; or
- Market price fluctuations by themselves.

Dealer means, in the case of property improvement loans, a seller, contractor, or supplier of goods or services. In the case of manufactured home loans, "dealer" means one who engages in the business of manufactured home retail sales.

Dealer loan or dealer consumer credit contract means, generally, any arrangement in which a dealer assists the borrower in obtaining a federally related mortgage loan from the funding lender and then assigns the dealer's legal interests to the funding lender and receives the net proceeds of the loan. The funding lender is the lender for the purposes of the disclosure requirements of this part. If a dealer is a "creditor" as defined under the definition of "federally related mortgage loan" in this part, the dealer is the lender

for purposes of this part.

Effective date of transfer is defined in section 6(i)(1) of RESPA (12 USC 2605(i)(1)). In the case of a home equity conversion mortgage or reverse mortgage as referenced in this section, the effective date of transfer is the transfer date agreed upon by the transferee servicer and the transferor servicer.

Lender means, generally, the secured creditor or creditors named in the debt obligation and document creating the lien. For loans originated by a mortgage broker that closes a federally related mortgage loan in its own name in a table funding transaction, the lender is the person to whom the obligation is initially assigned at or after settlement. A lender, in connection with dealer loans, is the lender to whom the loan is assigned, unless the dealer meets the definition of creditor as defined under "federally related mortgage loan" in this section. See also §1024.5(b)(7), secondary market transactions.

Loan originator means a lender or mortgage broker.

Managerial employee means an employee of a settlement service provider who does not routinely deal directly with consumers, and who either hires, directs, assigns, promotes, or rewards other employees or independent contractors, or is in a position to formulate, determine, or influence the policies of the employer. Neither the term "managerial employee" nor the term "employee" includes independent contractors, but a managerial employee may hold a real estate brokerage or agency license.

Mortgage broker means a person (not an employee of a lender) or entity that renders origination services and serves as an intermediary between a borrower and a lender in a transaction involving a federally related mortgage loan, including such a person or entity that closes the loan in its own name in a table funded transaction. A loan correspondent approved under 24 CFR 202.8 for Federal Housing Administration programs is a mortgage broker for purposes of this part.

Table funding means a settlement at which a loan is funded by a contemporaneous advance of loan funds and an assignment of the loan to the person advancing the funds. A table-funded transaction is not a secondary market transaction.

2.17.6 Good Faith Estimate

Except as otherwise provided in this section, not later than 3 business days after DMC receives an application, or information sufficient to complete an application, DMC must provide the applicant with a GFE. In the case of dealer loans, DMC must either provide the GFE or ensure that the dealer provides the GFE.

DMC must provide the GFE to the loan applicant by hand delivery, by placing it in the mail, or, if the applicant agrees, by fax, email, or other electronic means. DMC is not required to provide the applicant with a GFE if, before the end of the 3 business day period:

- The lender denies the application; or
- The applicant withdraws the application.

DMC is not permitted to charge, as a condition for providing a GFE, any fee for an appraisal, inspection, or other similar settlement service. DMC may, at its option, charge a fee limited to the cost of a credit report. DMC may not charge additional fees until after the applicant has received the GFE. If the GFE is mailed to the applicant, the applicant is considered to have received the GFE 3 calendar days after it is mailed, not including Sundays and the legal public holidays specified in 5 U.S.C. 6103(a).

DMC may at any time collect from the loan applicant any information that it requires in addition to the required application information. However, DMC is not permitted to require, as a condition for providing a GFE, that an applicant submit supplemental documentation to verify the information provided on the application.

Availability of GFE terms:

Except as provided in this paragraph, the estimate of the charges and terms for all settlement services must be available for at least 10 business days from when the GFE is provided, but it may remain available longer, if the loan originator extends the period of availability. The estimate for the following charges are excepted from this requirement: the interest rate, charges and terms dependent upon the interest rate, which includes the charge or credit for the interest rate chosen, the adjusted origination charges, and per diem interest.

2.17.7 Content and Form of GFE

The loan originator must prepare the GFE in accordance with the requirements of 12 CFR §1024 and Appendix C. The instructions in Appendix C allow for flexibility in the preparation and distribution of the GFE in hard copy and electronic format.

Tolerances for amounts included on GFE: Except as provided in this section, the actual charges at settlement may not exceed the amounts included on the GFE for:

- The origination charge;
- The credit or charge for the interest rate chosen (while the borrower's interest rate is locked);
- The adjusted origination charge (while the borrower's interest rate is locked); and
- Transfer taxes.

Except as provided below, the sum of the charges at settlement for the following services may not be greater than 10 percent above the sum of the amounts included on the GFE:

- Lender-required settlement services, where the lender selects the third party settlement service provider;
- Lender-required services, title services and required title insurance, and owner's title insurance, when the borrower uses a settlement service provider identified by the loan originator; and
- Government recording charges.

The amounts charged for all other settlement services included on the GFE may change at settlement.

Binding GFE: The loan originator is bound, within the tolerances provided in the settlement charges and terms listed on the GFE provided to the borrower, unless a new GFE is provided prior to settlement consistent with provisions of this rule governing changed circumstances. If a loan originator provides a revised GFE consistent with this paragraph, the loan originator must document the reason that a new GFE was provided. Loan originators must retain documentation of any reasons for providing a new GFE for no less than 3 years after settlement.

Changed circumstances affecting settlement costs. If changed circumstances result in increased costs for any settlement services such that the charges at settlement would exceed the tolerances for those charges, the loan originator may provide a revised GFE to the borrower. If a revised GFE is to be provided, the loan originator must do so within 3 business days of receiving information

sufficient to establish changed circumstances. The revised GFE may increase charges for services listed on the GFE only to the extent that the changed circumstances actually resulted in higher charges.

Changed circumstances affecting loan. If changed circumstances result in a change in the borrower's eligibility for the specific loan terms identified in the GFE, the loan originator may provide a revised GFE to the borrower. If a revised GFE is to be provided, the loan originator must do so within 3 business days of receiving information sufficient to establish changed circumstances.

Borrower-requested changes. If a borrower requests changes to the mortgage loan identified in the GFE that change the settlement charges or the terms of the loan, the loan originator may provide a revised GFE to the borrower. If a revised GFE is to be provided, the loan originator must do so within 3 business days of the borrower's request.

Expiration of original GFE. If a borrower does not express an intent to continue with an application within 10 business days after the GFE is provided, or such longer time specified by the loan originator pursuant to "[Availability of GFE terms](#)" above, the loan originator is no longer bound by the GFE.

Interest rate-dependent charges and terms. If the interest rate has not been locked by the borrower, or a locked interest rate has expired, the charge or credit for the interest rate chosen, the adjusted origination charges, per diem interest, and loan terms related to the interest rate may change. If the borrower later locks the interest rate, a new GFE must be provided showing the revised interest rate-dependent charges and terms. All other charges and terms must remain the same as on the original GFE, except as otherwise provided in "Binding GFE" of this section.

New home purchases. In transactions involving new home purchases, where settlement is anticipated to occur more than 60 calendar days from the time a GFE is provided, the loan originator may provide the GFE to the borrower with a clear and conspicuous disclosure stating that at any time up until 60 calendar days prior to closing, the loan originator may issue a revised GFE. If no such separate disclosure is provided, the loan originator cannot issue a revised GFE, except as otherwise provided in "Binding GFE" of this section.

GFE is not a loan commitment. Nothing in this section shall be interpreted to require a loan originator to make a loan to a particular borrower. The loan originator is not required to provide a GFE if the loan originator does not have available a loan for which the borrower is eligible.

2.17.8 Use of HUD1 Settlement Statement

The settlement agent shall use the HUD-1 settlement statement in every settlement involving a federally related mortgage loan in which there is a borrower and a seller. For transactions in which there is a borrower and no seller, such as refinancing loans or subordinate lien loans, the HUD-1 may be utilized by using the borrower's side of the HUD-1 statement.

Alternatively, the form HUD-1A may be used for these transactions. The HUD-1 or HUD-1A may be modified as permitted under this part. Either the HUD-1 or the HUD-1A, as appropriate, shall be used for every RESPA-covered transaction, unless its use is specifically exempted. The use of the HUD-1 or HUD-1A is exempted for open-end lines of credit (home-equity plans) covered by the Truth in Lending Act and Regulation Z.

Charges to be stated. The settlement agent shall complete the HUD-1 or HUD-1A in accordance with the instructions set forth in Appendix A to this part. The loan originator must transmit to the settlement agent all information necessary to complete the HUD-1 or HUD-1A.

Actual charges (in general). The settlement agent shall state the actual charges paid by the borrower and seller on the HUD-1, or by the borrower on the HUD-1A. The settlement agent must separately itemize each third party charge paid by the borrower and seller. All origination services performed by or on behalf of the loan originator must be included in the loan originator's own charge. Administrative and processing services related to title services must be included in the title underwriter's or title agent's own charge. The amount stated on the HUD-1 or HUD-1A for any itemized service cannot exceed the amount actually received by the settlement service provider for that itemized service, unless the charge is an average charge in accordance with this section.

Use of average charge. The average charge for a settlement service shall be no more than the average amount paid for a settlement service by one settlement service provider to another settlement service provider on behalf of borrowers and sellers for a particular class of transactions involving federally related mortgage loans. The total amounts paid by borrowers and sellers for a settlement service based on the use of an average charge may not exceed the total amounts paid to the providers of that service for the particular class of transactions.

The settlement service provider shall define the particular class of transactions for purposes of calculating the average charge as all transactions involving federally related mortgage loans for:

- A period of time as determined by the settlement service provider, but not less than 30 calendar days and not more than 6 months
- A geographic area as determined by the settlement service provider; and
- A type of loan as determined by the settlement service provider

A settlement service provider may use an average charge in the same class of transactions for which the charge was calculated. If the settlement service provider uses the average charge for any transaction in the class, the settlement service provider must use the same average charge in every transaction within that class for which a GFE was provided.

The use of an average charge is not permitted for any settlement service if the charge for the service is based on the loan amount or property value. For example, an average charge may not be used for transfer taxes, interest charges, reserves or escrow, or any type of insurance, including mortgage insurance, title insurance, or hazard insurance.

The settlement service provider must retain all documentation used to calculate the average charge for a particular class of transactions for at least 3 years after any settlement for which that average charge was used.

Violations of section 4 of RESPA (12 U.S.C. 2604). A violation of any of the requirements of this section will be deemed to be a violation of section 4 of RESPA. An inadvertent or technical error in completing the HUD-1 or HUD-1A shall not be deemed a violation of section 4 of RESPA if a revised HUD-1 or HUD-1A is provided in accordance with the requirements of this section, within 30 calendar days after settlement.

2.17.9 Reproduction of HUD1 Settlement Statement

Permissible changes. The following changes and insertions are permitted when the HUD-1 settlement statement is reproduced:

1. The person reproducing the HUD-1 may insert its business name and logo in section A and may rearrange, but not delete, the other information that appears in section A.

2. The name, address, and other information regarding the lender and settlement agent may be printed in Sections F and H, respectively.
Reproduction of the HUD-1 must conform to the terminology, sequence, and numbering of line items as presented in lines 100-1400. However, blank lines or items listed in lines 100-1400 that are not used locally or in connection with mortgages by the lender may be deleted, except for the following: Lines 100, 120, 200, 220, 300, 301, 302, 303, 400, 420, 500, 520, 600, 601, 602, 603, 700, 800, 900, 1000, 1100, 1200, 1300, and 1400. The form may be shortened correspondingly. The number of a deleted item shall not be used for a substitute or new item, but the number of a blank space on the HUD-1 may be used for a substitute or new item.
3. Charges not listed on the HUD-1, but which are customary locally or pursuant to the lender's practice, may be inserted in blank spaces. Where existing blank spaces on the HUD-1 are insufficient, additional lines and spaces may be added and numbered in sequence with spaces on the HUD-1.
4. The following variations in layout and format are within the discretion of persons reproducing the HUD-1 and do not require prior HUD approval: size of pages; tint or color of pages; size and style of type or print; vertical spacing between lines or provision for additional horizontal space or lines (for example, to provide sufficient space for recording time periods used in prorations); printing of the HUD-1 contents on separate pages, on the front and back of a single page, or on one continuous page; use of multi-copy tear-out sets; printing on rolls for computer purposes; reorganization of Sections B through I, when necessary to accommodate computer printing; and manner of placement of the HUD number, but not the OMB approval number, neither of which may be deleted. The designation of the expiration date of the OMB number may be deleted. Any changes in the HUD number or OMB approval number may be announced by notice in the Federal Register, rather than by amendment of this part.
5. The borrower's information and the seller's information may be provided on separate pages.
6. Signature lines may be added.
7. The HUD-1 may be translated into languages other than English.
8. An additional page may be attached to the HUD-1 for the purpose of including customary recitals and information used locally in real estate settlements; for example, breakdown of payoff figures, a breakdown of the borrower's total monthly mortgage payments, check disbursements, a statement indicating receipt of funds, applicable special stipulations between buyer and seller, and the date funds are transferred. If space allows, such information may be added at the end of the HUD-1.
9. As required by HUD/FHA in FHA-insured loans.
10. As allowed by §1024.17, relating to an initial escrow account statement.

2.18 S.A.F.E Mortgage Licensing Act

2.18.1 Introduction

2.18.1.1 Goals & Objectives

The purpose of this SAFE Act Policy Manual is to ensure the compliance of DMC, its' employees and third party vendors with the "Secure and Fair Enforcement for Mortgage Licensing Act of 2008" or "SAFE Mortgage Licensing Act of 2008"(SAFE Act).

2.18.1.2 Applicability

The SAFE Act applies to both employers and institutions that originate residential mortgages and their employees who fit the definition of Mortgage Loan Originator (MLO). The implementation of the SAFE Act varies between those businesses which are Federally Regulated and those which are not. It is important that all employees of DMC, its' subsidiaries and third party vendors understand which implementation is applicable and comply accordingly. A more detailed review of these applications may be found in Section 2.18.5 – About the Law.

2.18.1.2.1 Employer/Institution

Any bank, savings association, credit union or Farm Credit System (FCS) institution and certain of their subsidiaries that are regulated by a Federal banking agency or the FCA (collectively, Agency-regulated institutions) will follow the Federal Registration procedures. All other non-banking, non-agency regulated or other businesses originating residential mortgage loans must follow the State Licensing procedures.

For purposes of this SAFE Act Policy and Procedure, DMC is State Licensed.

2.18.1.2.2 Employee/MLO

TheSAFE Act requires an employee of a bank, savings association, credit union orFarm Credit System (FCS) institution and certain of their subsidiaries that areregulated by a Federal banking agency or the FCA (collectively,Agency-regulated institutions) who acts as a residential Mortgage LoanOriginator to register with the Nationwide Mortgage Licensing System andRegistry (NMLS), obtain a unique identifier and maintain this FederalRegistration. All other employees of all other institutions or businesses mustobtain a license, registration and unique identifier from the State(s) in whichthey originate residential mortgage loans and maintain this State License.

TheSAFE Act specifically prohibits an individual from engaging in the business ofresidential mortgage loan origination without first obtaining and maintainingannually:

1. A registration as a registered mortgage loan originator and a unique identifier if employed by an Agency-regulated institution (Federal registration), or
2. A license and registration as a State-licensed mortgage loan originator and a unique identifier (State Licensed).

All employees of DMC shall be fully compliant with SAFE Act prior to engaging inloan origination activities on behalf of DMC.

2.18.1.2.3 De minimis exception(s)

Thereexists an exception within the Federal Registration process which allows forindividuals originating five (5) or fewer residential mortgage loans within arolling twelve (12) calendar months. However, it should be noted that both FNMAand FHLMC now require that all loan applications include the Mortgage LoanOriginator's unique identifier. This would preclude the sale of any loan toFNMA or FHLMC that may have been originated by an individual relying upon thede minimis exception.

DMCrequires that all employees originating residential mortgage loans obtain andmaintain the required registration regardless of their possible qualificationunder the de minimis exception.

2.18.1.3 Required Review

DMCrequires this policy be reviewed every two (2) years or sooner as may berequired by legislative or regulatory amendments.

- Last Date of Review: 8/14/2013
- Next Due for Review: 8/14/2015

2.18.2 Nationwide Mortgage Licensing System (NMLS) & Registry

The goal of the Nationwide Mortgage Licensing System (NMLS) is to improve mortgage industry supervision, heighten communication across states, increase consistency in licensing requirements and automate processes to the greatest degree possible. Further, the Nationwide Mortgage Licensing System supports registration and the issuance of a unique identifier for those Mortgage Loan Originators (MLOs) employed by Agency Regulated Institutions.

2.18.2.1 When the NMLS Should Be Used

Any person or entity wishing to apply for a license, amend an existing license, surrender/cancel or renew their license should do so through the NMLS. Any person or entity wishing to apply for Federal Registration, amend an existing Federal Registration, surrender/cancel or renew their Federal Registration should do so through the NMLS.

2.18.2.2 Registration vs. License

Federal Registration is the collection of certain required information in accordance with the requirements of the SAFE Act for the purpose of public disclosure and the issuance of a required Unique Identifier.

State Licensing is the collection of certain required information in accordance with the requirements of the SAFE Act for the purpose of public disclosure, approval and issuance of a license and the issuance of a required Unique Identifier.

2.18.2.3 The One Record Concept

It is important to differentiate between a company's, branch's or person's record in the system and the company's, branch's or person's license authority in a particular jurisdiction. Each distinct legal entity (Company Form Formerly MU1), each branch (Branch Form Formerly MU3) and each natural person (Individual Form Formerly MU2/MU4) will only have a single, unique record in the NMLS. These entities' or person's ONE record in the NMLS can be used to apply for, maintain or surrender multiple licenses in multiple states. When seeking licensure in any particular jurisdiction, the company, branch or person uses this one record to execute the appropriate Form to "file" through the NMLS with one or more jurisdictions.

Likewise, when a company or individual makes a change to their single record, that change applies to every jurisdiction in which they hold a license. All jurisdictions share the exact same information in the NMLS about licensees. If one jurisdiction does not accept some of the information on an applicant's filing, or does not accept a license amendment submitted by a licensee, the licensee has the choice of foregoing licensure in that jurisdiction or changing their record for all jurisdictions in which they are licensed.

2.18.2.4 Real Time System

NMLS operates as a real-time system that is a legal system of record for the federal or state agency in which licensees and regulator actions become part of a company's, branch's or individual's record.

For licensees, this means that in submitting a filing, they are attesting the information is true and accurate as of the date of the filing. DMC's Signature Authorization policy is referenced hereby as may be applicable.

For regulators, this means that when they change a license status on an applicant's or licensee's record, the license status is effective as of the date and time of the change in NMLS.

2.18.2.5 Licensee/Registrant Responsibility

Each company or person is responsible for their record on the NMLS. Regulators cannot change a company, branch or individual's information. If a regulator has a problem with information on an applicant's or licensee's record, the regulator must require the applicant or licensee to change their record.

2.18.2.6 Jurisdiction Specific Requirements

In addition to using their record in the NMLS to apply for, amend, surrender, or renew their license or registration, applicants and/or licensees may be required by a jurisdiction to submit additional items outside the system.

2.18.2.7 Creation of a Company Record

Each distinct, legal company in the NMLS will have a single record, regardless of the number of jurisdictions in which they are licensed, or even if they are not licensed in any jurisdiction(s). This single record will allow the system to apply a unique identification number to the company that will remain with the company across states and over time. The unique identifying number is different than a license number, which will be provided by each regulatory agency. It is thus important in the NMLS to ensure that only a single record is created for each entity that the system wishes to track. Companies wishing to access the NMLS to create a record for their company must first go through an entitlement process. This process requires an official within the company to complete a Company Account Request Form and submit it to the NMLS Entitlement Group. Specific instructions regarding this process may be found on the [NMLS web site](#).

2.18.2.8 Filing Date vs. Effective Date

Given that the NMLS is a real-time system, there is no distinction between filing date and effective date. The filing date is the date the filing submission is made in the system to one or more regulators. The change is made to the licensee's record in the NMLS instantly. Thus the effective date and the filing date are the same.

2.18.2.9 Publicly Available Information

Some information from a licensee's record is made publicly available through NMLS Consumer Access, which is a separate system than NMLS. Areas of the MU forms that are made available are indicated on the MU forms and throughout the NMLS system.

2.18.2.10 Mortgage Call Report (MCR)

Under the requirements of the SAFE Act, all state mortgage licensees must submit a report of condition as required by NMLS. DMC shall review the State MCR Requirements Chart from the NMLS website for state-specific details and submit report quarterly for its

licensed mortgage loan originators.

The Standard MCR contains two components:

- Residential Mortgage Loan Activity (RMLA) - This component collects application, closed loan, individual MLO, Line of Credit and repurchase information by state.
- Financial Condition (FC) – This component collects financial information at the company level. It does not have to be completed by state.

DMC shall submit the Standard MCR under the Filing Tab in NMLS. The following quick guides found on the NMLS website will walk you through creating and completing the Standard MCR through NMLS:

- Standard MCR – Residential Mortgage Loan Activity
- Standard MCR – Financial Condition

The schedule for the Residential Mortgage Loan Activity (RMLA) is due quarterly, within 45 days of the end of every calendar quarter as described below:

- Q1 data (January 1 – March 31) is due May 15
- Q2 data (April 1 – June 30) is due August 14
- Q3 data (July 1 – September 30) is due November 14
- Q4 data (October 1 – December 31) is due February 14

The Financial Condition (FC) is due annually, within 90 days of DMC's Fiscal Year End.

2.18.3 Accountability and Monitoring

DMC requires that its own organization, its employees and its third party vendors comply with all requirements of the SAFE Act as they exist, or from time to time may be amended, including but not limited to the following:

2.18.3.1 Registration / Licensure

DMC employees who are mortgage loan originators subject to Federal Registration must register with the NMLS, maintain this registration, and obtain a unique identifier.

DMC employees who are mortgage loan originators subject to State Licensing must register with the Registry, maintain this registration, obtain a valid license from the State(s) in which they originate residential mortgage loans and obtain a unique identifier.

2.18.3.2 Record Keeping

DMC shall monitor compliance of all subsidiaries, employees and third party vendors by, at a minimum, keeping a record of:

- NMLS ID#
- Registration/License Date
- Internal validation of registrations, updates or renewals in accordance with Section 2.18.3.3
- Expected Renewal Date
- Criminal History/Background Checks

2.18.3.2.1 NMLS Required Reporting

DMC shall ensure compliance with all NMLS reporting requirements as may from time to time be amended by NMLS.

DMC shall designate a NMLS Reporting Officer responsible for compliance with all NMLS Required Reporting.

The NMLS Reporting Officer shall ensure compliance with all NMLS Required Reporting and/or Mortgage Call Reports (Section 2.18.2.10)

2.18.3.3 Internal Controls

DMC shall confirm the adequacy and accuracy of all employee registrations, including updates and renewals, by comparison of the employee submitted information with that contained within DMC's internal records. Typically this information would include the employee's identifying information, such as the employee's name; home address; business address and contact information; social security number; gender; date and place of birth; and financial services-related civil actions, arbitrations and regulatory actions taken against DMC's employee, if any. This required confirmation shall be completed prior to approving, accepting, authorizing or otherwise taking any action with respect to the MLO registration. If confirmation cannot be made, no action shall be taken by DMC until such time as the information contained within the registration matches that contained within the records of DMC, any discrepancies have been addressed and it has been determined that any resulting changes in information do not have an adverse impact upon the registrant/licensee employee relationship with DMC or the qualifications of the registrant/licensee as a Mortgage Loan Originator.

DMC shall ensure that annual independent testing of DMC's compliance includes compliance with the SAFE Act. The required compliance testing may be conducted by DMC personnel or by an outside party. Any requirements of DMC's Compliance Policy that may bear on the implementation of the SAFE Act or this policy are referenced hereby as may be applicable and the requirements of this policy shall not serve to limit, reduce or otherwise alter any requirements of DMC's Compliance Policy.

2.18.3.4 Criminal History / Background Checks / Fingerprints

DMC shall be responsible for ensuring the satisfactory completion of criminal history background reports on employees received from the FBI through the NMLS. On the rare instance when a license is not granted, DMC shall take appropriate action consistent with applicable law and rules with respect to these reports, maintain records of these reports, and document any action taken with respect to such employees consistent with applicable recordkeeping requirements, this policy and any other applicable policies of DMC.

The specific procedures, processes or services utilized to fulfill this policy requirement and their individual scope vary from state to state. DMC expects the application of this policy to be followed in spirit and applied in such a manner as to be compliant with the requirements of the State within which licensure is sought.

2.18.3.5 Discipline

DMC shall take appropriate disciplinary action against any employee who fails to comply with the registration/licensure requirements of the SAFE Act, this policy or the related policies and procedures of DMC, including prohibiting such employees from acting as mortgage loan originators or other appropriate disciplinary actions as DMC may determine to be appropriate.

2.18.3.6 Unique Identifier (NMLS ID#)

DMC shall make the unique identifier(s) of its registered mortgage loan originator(s) available to consumers. Registered or state licensed mortgage loan originators must provide the originator's unique identifier to a consumer upon request, before acting as a mortgage loan originator, and through the originator's initial written communication with a consumer, whether that communication is provided in writing on paper or through electronic means.

DMC may choose to direct consumers to a listing of registered mortgage loan originators and their unique identifiers on its Web site; post this information prominently in a publicly accessible place, such as a branch office lobby or lending office reception area; and/or establish a process to ensure that institution personnel provide the unique identifier of a registered mortgage loan originator to consumers who request it from employees other than the mortgage loan originator. Although a mortgage loan originator may change his or her name, change employment or move, the unique identifier assigned to the originator by the Registry at the originator's original registration will remain the same.

The unique identifier will enable [consumer access](#) to an individual mortgage loan originator's profile stored in the Registry, including the mortgage loan originator's publicly available registration information, any State mortgage licenses held (active or inactive), employment history, and publicly adjudicated disciplinary and enforcement actions, if any. If a mortgage loan originator is simultaneously employed by more than one State or Agency regulated institution, that information also will be readily visible to the consumer.

2.18.4 Staff and Training

It should be noted that the requirements related to education are markedly different for Federal Registration and State Licensure. Simply, the education requirements apply to State Licensure and not Federal Registration.

It is important that all employees of DMC, its' subsidiaries and third-party vendors understand which implementation is applicable and comply accordingly.

Additionally, each state can establish their minimum pre-licensure education requirements as well as their continuing education requirements provided that the statespecific education requirements are MORE stringent than the minimum standards called for in the Federal SAFE Act

2.18.4.1 Pre-Licensing Education (PE) Required

All DMC employees seeking a new State License shall complete at least 20 hours of approved education including at least:

- Three (3) hours of Federal law and regulations;
- Three (3) hours of ethics, which shall include instruction on fraud, consumer protection, and fair lending issues; and
- Two (2) hours of training related to lending standards for the nontraditional mortgage product marketplace.

All pre-licensing education courses are reviewed and approved by the Nationwide Mortgage Licensing System and Registry. A list of approved courses may be found at the [NMLS Resource Center](#).

The above represents the minimum federal requirements and may be less restrictive than any individual State statute. Mortgage Loan Originators seeking state licensure should consult the specific requirements (Section 2.18.2.6 Jurisdiction Specific Requirements) of the state(s) to which they need apply.

2.18.4.2 Continuing Education (CE) Required

All DMC employees seeking to meet the annual continuing education requirements of State Licensure shall complete at least 8 hours of approved education including at least:

- Three (3) hours of Federal law and regulations;
- Two (2) hours of ethics, which shall include instruction on fraud, consumer protection, and fair lending issues; and
- Two (2) hours of training related to lending standards for the nontraditional mortgage product marketplace.

All continuing education courses are reviewed, and approved by the Nationwide Mortgage Licensing System and Registry. A list of approved courses may be found at the [NMLS Resource Center](#).

2.18.4.3 Registration Assistance or Support

The above represents the minimum federal requirements and may be less restrictive than any individual State statute. Mortgage Loan Originators seeking state licensure should consult the specific requirements (Section 2.18.2.6 Jurisdiction Specific Requirements) of the state(s) to which they need apply.

2.18.5 About the Law

TITLE V—SAFE MORTGAGE LICENSING ACT § 1500 – 1517 provides the authority for both State Licensing and Federal Registration. Section 1502 outlines the purposes and methods for establishing a mortgage licensing system and registry as follows:

1. Provides uniform license applications and reporting requirements for State-licensed loan originators.
2. Provides a comprehensive licensing and supervisory database.
3. Aggregates and improves the flow of information to and between regulators.
4. Provides increased accountability and tracking of loan originators.
5. Streamlines the licensing process and reduces the regulatory burden.
6. Enhances consumer protections and supports anti-fraud measures.
7. Provides consumers with easily accessible information, offered at no charge, utilizing electronic media, including the Internet, regarding the employment history of, and publicly adjudicated disciplinary and enforcement actions against, loan originators.
8. Establishes a means by which residential mortgage loan originators would, to the greatest extent possible, be required to act in the best interests of the consumer.
9. Facilitates responsible behavior in the subprime mortgage market place and provides comprehensive training and examination requirements related to subprime mortgage lending.
10. Facilitates the collection and disbursement of consumer complaints on behalf of State and Federal mortgage regulators.

A complete copy of the [SAFE Act](#) is available online.

2.18.5.1 State Licensing

The SAFE Act requires State Licensing of all mortgage loan originators who do not meet the definition of Registered Loan Originator. State Licensing under the SAFE Act requires, in summary, the following:

- Background checks to include finger prints, personal history, credit report and criminal history
- Issuance of a license requires that a prior license not be revoked and limitations on prior felony or financial crimes
- Pre-licensing education
- Written test
 - National examination
 - State Specific examination
- The applicant has met either a net worth or surety bond requirement, or paid into a State fund, as required by the State (State requirements vary greatly and should be investigated for each state in which licensing is desired.)
- Annual update and certification of information contained within the registry
- Establishment of a Unique Identifier within the NMLS system

2.18.5.1.1 Jurisdictional Variances

The SAFE Act requires that each state implement legislation affecting the act but allows some latitude with regard to the methods of implementation. A state by state review of SAFE Act implementation and/or requirements of licensing is beyond the scope of this policy. Mortgage Loan Originators seeking state licensure should consult the specific requirements of the state(s) to which they need apply.

A listing of [State-by-State Education Requirements](#) may be found online.

A [summary of State-by-State financial statement and net worth requirements](#) is maintained by the NMLS. There may also be Secretary of State requirements including, but not limited to, items such as Articles of Incorporation or Certificate of Good Standing.

2.18.5.2 Agency Regulated Institutions

The SAFE Act requires Federal Registration for all mortgage loan originators who meet the definition of Registered Loan Originator. Federal Registration under the SAFE Act requires, in summary, the following:

- Background checks to include finger prints, personal history and criminal history
- Establishment of a Unique Identifier within the NMLS system

While Registered Loan Originators are generally defined as employees of depository institutions or any other institution or business regulated by a Federal Banking Agency, there are subtle variances to the implementation of the SAFE Act by each of the agencies and the institutions, subsidiaries or holding companies to which the SAFE Act applies. The SAFE Act follows the FDIC definition of "depository institution" and does not include bank or savings association holding companies or their non-depository subsidiaries. Employees of these entities who act as mortgage loan originators are not covered by the Federal registration requirement and, therefore, must comply with State licensing and registration requirements.

2.18.5.2.1 Department of the Treasury – OCC

With respect to the OCC, this rule applies to national banks, Federal branches and agencies of foreign banks, their operating subsidiaries, and their employees who are mortgage loan originators.

2.18.5.2.2 Federal Reserve System

For the Board, this rule applies to member banks of the Federal Reserve System (other than national banks); their respective subsidiaries that are not functionally regulated within the meaning of section 5(c)(5) of the Bank Holding Company Act, as amended (12 U.S.C. 1844(c)(5)); branches and agencies of foreign banks (other than Federal branches, Federal agencies and insured State branches of foreign banks); commercial lending companies owned or controlled by foreign banks; and their employees who act as mortgage loan originators.

2.18.5.2.3 Federal Deposit Insurance Corporation

For the FDIC, this rule applies to insured State nonmember banks (including State-licensed insured branches of foreign banks) and their subsidiaries (except brokers, dealers, persons providing insurance, investment companies, and investment advisers) and their employees who are mortgage loan originators.

2.18.5.2.4 Department of the Treasury – OTS

For the Department of Treasury - OTS, this rule applies to savings associations and their operating subsidiaries, and their employees who are mortgage loan originators.

2.18.5.2.5 Farm Credit Administration

For the Farm Credit Association (FCA), this rule applies to FCS institutions that originate residential mortgage loans under sections 1.9(3), 1.11 and 2.4(a)(2) and (b) of the Farm Credit Act of 1971, as amended (12 U.S.C. 2017(3), 2019, and 2075(a)(2) and (b)), and their employees who are mortgage loan originators.

2.18.5.2.6 National Credit Union Administration

For the NCUA, this rule applies to credit unions and their employees who are mortgage loan originators. Because non-federally insured credit unions generally are not federally regulated institutions, special registration conditions apply to them. Individuals employed by CUSOs that engage in residential mortgage loan origination activities, whether the CUSO is owned by a State or a federal credit union, would need to be licensed in accordance with applicable State requirements. Due to the unique nature of non-federally insured credit unions compared with all other credit unions, NCUA is working with State supervisory authorities in those States with non-Federally insured credit unions to implement an oversight program to enable them to participate in the Federal registration system.

2.18.6 Secondary Market Implications

2.18.6.1 FNMA

As of January 01, 2010, FNMA began requiring the mortgage loan originator's unique identifier and the mortgage loan originator company's unique identifier to be included on the application and/or within data elements transmitted to FNMA. Since FNMA has provided no exception to this requirement - other than for States with delayed implementation - all loans originated for sale to FNMA must be originated by properly licensed or registered Mortgage Loan Originators.

In response, DMC requires that all employees originating residential mortgage loans obtain and maintain the required registration regardless of their possible qualification under the de minimis exception.

2.18.6.2 FHLMC

As of July 01, 2010, FHLMC began requiring the mortgage loan originator's unique identifier and the mortgage loan originator company's unique identifier to be included on the application and/or within data elements transmitted to FHLMC. Since FHLMC has provided no exception to this requirement - other than for States with delayed implementation - all loans originated for sale to FHLMC must be originated by properly licensed or registered Mortgage Loan Originators.

In response, DMC requires that all employees originating residential mortgage loans obtain and maintain the required registration regardless of their possible qualification under the de minimis exception.

2.18.6.3 HUD

HUD, through the FHA, requires that all Principal Owners and Corporate Officers of FHA-approved mortgagees must confirm that their institution and its officers, partners, directors, principals, managers, supervisors, loan processors, loan underwriters, or loan originators participating in FHA programs are not in violation of the provisions of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act) (Public Law 12 U.S.C. 5101 et seq.) or any applicable provision of state law. Principal Owners and Corporate Officers must confirm that all employees, as required, consistently meet their respective state's licensing requirements as well as all federally-mandated licensing or registration requirements including registration with the Nationwide Mortgage Licensing System and Registry (NMLS).

2.18.6.4 VA

As of this revision, the VA has not published any directives relating to the SAFE Act.

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2.18.7 Appendix

2.18.7.1 State Licensed Mortgage Loan Originator (MLO) Requirements

Starting August 1, 2009, any individual who, for compensation or gain, takes a residential mortgage loan application or offers or negotiates terms of a residential mortgage loan application must be licensed or registered as a Mortgage Loan Originator. The SAFE Mortgage Licensing Act of 2008 does not provide any exceptions to licensing for individuals conducting above activities. Real estate brokerage, loan processing and loan underwriting activities are not covered.

Licensing Requirements

Mortgage Loan Originators must:

- Provide fingerprints for an FBI criminal history background check
- Provide authorization for NMLS to obtain a credit report
- Input and maintain their personal Mortgage Loan Originator record in NMLS as their license in each state in which they wish to conduct loan origination activity
- Pass a national mortgage test
- Pass a state specific mortgage test
- Take 20 hours of pre-licensure education courses approved by NMLS. The education must include:
 - 3 hours of federal law and regulations
 - 3 hours of ethics, which must include fraud, consumer protection, and fair lending
 - 2 hours of standards on non-traditional mortgage lending

Licensing Standards

All state-licensed Mortgage Loan Originators must meet the following standards:

- Never had a loan originator license revoked; and
- Has had no felonies in the past seven years; and
- Never had a felony involving fraud, dishonesty, breach of trust or money laundering; and
- Demonstrates financial responsibility and general fitness; and
- Scores 75% or better on a national test created by NMLS. The test will include:
 - Ethics
 - Federal law and regulation
 - State law and regulation
 - Federal and state law and regulation pertaining to fraud, consumer protection, nontraditional mortgages, and fair lending; and
- Takes eight hours of continuing education annually. The education must include:
 - 3 hours of federal law and regulations
 - 3 hours of ethics, which must include fraud, consumer protection, and fair lending
 - 2 hours of standards on non-traditional mortgage lending; and
- Maintain licensure through NMLS.

2.18.7.2 Examples of Mortgage Loan Originators

The following non-exclusive list of examples of what constitutes a mortgage loan originator and what does not have been compiled from HUD's Final Ruling (Federal Register 76-38492). Further, there may be additional variations among the individual state implementations of the SAFE Act. Mortgage Loan Originators seeking state licensure should consult the specific requirements (Section 2.18.2.6 Jurisdiction Specific Requirements) of the state(s) to which they need apply. The following examples are subject to change without notice:

Taking a Loan Application.

Taking a residential mortgage loan application within the meaning of §3400.103(c)(1) means receipt by an individual, for the purpose

of facilitating a decision whether to extend an offer of loan terms to a borrower or prospective borrower, of an application as defined in § 3400.23 (a request in any form for an offer, or a response to a solicitation of an offer, of residential mortgage loan terms, and the information about the borrower or prospective borrower that is customary or necessary in a decision whether to make such an offer). The following are examples to illustrate when an individual takes, or does not take, a loan application:

1. An individual "takes a residential mortgage loan application" even if the individual:
 - a. Has received the borrower or prospective borrower's request or information indirectly. Section 3400.103(c)(1) provides that an individual takes an application, whether he or she receives it "directly or indirectly" from the borrower or prospective borrower. This means that an individual who offers or negotiates residential mortgage loan terms for compensation or gain cannot avoid licensing requirements simply by having another person physically receive the application from the prospective borrower and then pass the application to the individual;
 - b. Is not responsible for verifying information. The fact that an individual who takes application information from a borrower or prospective borrower is not responsible for verifying that information—for example, the individual is a mortgage broker who collects and sends that information to a lender—does not mean that the individual is not taking an application;
 - c. Only inputs the information into an online application or other automated system; or (iv) Is not involved in approval of the loan, including determining whether the consumer qualifies for the loan. Similar to an individual who is not responsible for verification, an individual can still "take a residential mortgage loan application" even if he or she is not ultimately responsible for approving the loan. A mortgage broker, for example, can take a residential mortgage loan application even though it is passed on to a lender for a decision on whether the borrower qualifies for the loan and for the ultimate loan approval.
2. An individual does not take a loan application merely because the individual performs any of the following actions:
 - a. Receives a loan application through the mail and forwards it, without review, to loan approval personnel. HUD interprets the term "takes a residential mortgage loan application" to exclude an individual whose only role with respect to the application is physically handling a completed application form or transmitting a completed form to a lender on behalf of a borrower or prospective borrower. This interpretation is consistent with the definition of "loan originator" in section 1503(3) of the SAFE Act.
 - b. Assists a borrower or prospective borrower who is filling out an application by explaining the contents of the application and where particular borrower information is to be provided on the application;
 - c. Generally describes for a borrower or prospective borrower the loan application process without a discussion of particular loan products; or
 - d. In response to an inquiry regarding a prequalified offer that a borrower or prospective borrower has received from a lender, collects only basic identifying information about the borrower or prospective borrower on behalf of that lender.

Offering or Negotiating Terms of a Loan.

The following examples are designed to illustrate when an individual offers or negotiates terms of a loan within the meaning of § 3400.103(c)(2) and, conversely, what does not constitute offering or negotiating terms of a loan:

1. Offering or negotiating the terms of a loan includes:
 - a. Presenting for consideration by a borrower or prospective borrower particular loan terms, whether verbally, in writing, or otherwise, even if:
 2. Further verification of information is necessary;
 3. The offer is conditional;
 4. Other individuals must complete the loan process;
 5. The individual lacks authority to negotiate the interest rate or other loan terms; or
6. The individual lacks authority to bind the person that is the source of the prospective financing.
 - a. Communicating directly or indirectly with a borrower or prospective borrower for the purpose of reaching a mutual understanding about prospective residential mortgage loan terms, including responding to a borrower or prospective borrower's request for a different rate or different fees on a pending loan application by presenting to the borrower or prospective borrower a revised loan offer, even if a mutual understanding is not subsequently achieved.
7. Offering or negotiating terms of a loan does not include any of the following activities:
 - a. Providing general explanations or descriptions in response to consumer queries, such as explaining loan terminology (e.g., debt-to-income ratio) or lending policies (e.g., the loan-to-value ratio policy of the lender), or describing product-related services;
 - b. Arranging the loan closing or other aspects of the loan process, including by communicating with a borrower or prospective borrower about those arrangements, provided that any communication that includes a discussion about loan terms only verifies terms already agreed to by the borrower or prospective borrower;
 - c. Providing a borrower or prospective borrower with information unrelated to loan terms, such as the best days of the month for scheduling loan closings at the bank;
 - d. Making an underwriting decision about whether the borrower or prospective borrower qualifies for a loan;
 - e. Explaining or describing the steps that a borrower or prospective borrower would need to take in order to obtain a loan offer, including providing general guidance about qualifications or criteria that would need to be met that is not specific to that borrower or prospective borrower's circumstances;
 - f. Communicating on behalf of a mortgage loan originator that a written offer has been sent to a borrower or prospective borrower without providing any details of that offer; or
 - g. Offering or negotiating loan terms solely through a third-party licensed loan originator, so long as the non-licensed individual does not represent to the public that he or she can or will perform covered activities and does not communicate with the borrower or potential borrower. For example:
 8. A seller who provides financing to a purchaser of a dwelling owned by that seller in which the offer and negotiation of loan terms with the borrower or prospective borrower is conducted exclusively by a third-party licensed loan originator;
 9. An individual who works solely for a lender, when the individual offers loan terms exclusively to third-party licensed loan originators and not to borrowers or potential borrowers.

For Compensation or Gain.

1. An individual acts "for compensation or gain" within the meaning of § 3400.103(c)(2)(ii) if the individual receives or expects to receive in connection with the individual's activities anything of value, including, but not limited to, payment of a salary, bonus, or commission. The concept "anything of value" is interpreted broadly and is not limited only to payments that are contingent upon the closing of a loan.
2. An individual does not act "for compensation or gain" if the individual acts as a volunteer without receiving or expecting to receive anything of value in connection with the individual's activities.

2.18.7.3 Glossary of NMLS Terms

ACCESS – indicates a company's ability to view, file or maintain an MU2 or MU4 on behalf of an individual. Individuals must provide company access to the individual NMLS account in order to file or maintain their record, create a relationship or sponsorship.

AFFILIATE – An organization that is under common control with the applicant

APPLICANT – The entity applying or amending information on this form. The only instance in which the applicant is an individual is in the case of a sole proprietorship or MU4 Loan Officer/Originator.

AUDITED FINANCIAL STATEMENT - A financial statement that has been audited and represents all components of a financial statement including balance sheet, cash flow statement and income statement.

CHARGED – Being accused of a crime in a formal complaint, information, or indictment (or equivalent formal charge).

CIK NUMBER (CENTRAL INDEX KEY) - A unique identifier assigned by the SEC to companies who file disclosure documents with the SEC. This number is reported on Company 10K filings as required for publicly traded companies. Some jurisdictions alternatively refer to this number as the 10K Id number. However, the 10K Id number is a filing identifier for the 10K filing and is not used to uniquely identify a Company.

CONSOLIDATED FINANCIAL STATEMENT - Audited financial statements of a group (parent and all its subsidiaries) presented as those of a single entity.

CONSOLIDATED SCHEDULES - Audited or unaudited financial statements for a subsidiary as included in the parent company's consolidated financial statement.

CONTROL – The power, directly or indirectly, to direct the management or policies of a company, whether through ownership of securities, by contract, or otherwise. Any person that (i) is a general partner or executive officer, including Chief Executive Officer, Chief Financial Officer, Chief Operations Officer, Chief Legal Officer, Chief Credit Officer, Chief Compliance Officer, director, and individuals occupying similar positions or performing similar functions; (ii) directly or indirectly has the right to vote 10% or more of a class of voting security or has the power to sell or direct the sale of 10% or more of a class of voting securities; (iii) in the case of an LLC, Managing Member; or (iv) in the case of a partnership, has the right to receive upon dissolution, or has contributed, 10% or more of the capital, is presumed to control that company.

CONTROL AFFILIATE – A partnership, corporation, trust, LLC, or other organization that directly or indirectly controls, or is controlled by, the applicant. This includes companies that are “up or down the ownership ladder.” In effect, this requires applicants to only disclose relationships that go up (parent and grandparent) or those that go down (subsidiary) but not for those relationships that go sideways (brother and sister). A licensee or applicant must disclose for companies that “go up” the ownership “ladder” until reaching the last individual owner, a publicly-traded entity, or a bank or bank holding company regulated by a Federal banking regulator, such as the Federal Reserve, the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Company (FDIC), or the National Credit Union Association (NCUA). No barrier going down the “ladder.”

CONTROL PERSON – An individual (natural person) named that directly or indirectly exercises control over the applicant. (See definition of control)

ENJOINED – Includes being subject to a mandatory injunction, prohibitory injunction, preliminary injunction or a temporary restraining order.

ENTITY – A company, branch or an individual with a record in the system. This includes all MU1 companies, MU3 branches and MU2 and MU4 individuals.

FELONY – For jurisdictions that do not differentiate between a felony and a misdemeanor, a felony is an offense punishable by a sentence of at least one year imprisonment and/or a fine of at least \$1,000. The term also includes a general court martial. If your jurisdiction already differentiates, use your jurisdiction's definition and label. An individual on probation would still be required to disclose. Consult your jurisdiction-specific requirements to determine whether or not an individual on probation for a felony is eligible for licensure in your state.

FINANCIAL SERVICES OR FINANCIAL SERVICES RELATED – Pertaining to securities, commodities, banking, insurance, consumer lending or real estate (including, but not limited to; acting as or being associated with a bank or savings association, credit union, Farm Credit System institution, mortgage lender, mortgage broker, real estate salesperson or agent, appraiser, closing agent, title company, or escrow agent).

FINANCIAL STATEMENT - The generic reference to a financial statement, either audited or unaudited. The financial statement may contain one or more component: balance sheet, cash-flow statement, statement of income, etc.

FINANCIAL STATEMENT CLASSIFICATION - The type of financial statement required by a jurisdiction in regards to one of the following designations (shown in highest to lowest ranking stringency as they appear in the system):

- Audited
- Unaudited (reviewed)
- Unaudited (compiled)
- Unaudited

FINANCIAL STATEMENT PERIOD END DATE - The period end date that corresponds to the Financial Statement Filing. This date should correspond to the classification of the financial statement and the Fiscal Year End of the Company.

FINANCIAL STATEMENT PERIOD TYPE - Represents the period to which the Financial Statement Filing pertains relative to the Fiscal Year. e.g. annual, quarterly or year-to-date. The Period Type qualifies the Financial Statement Filing in conjunction with the Fiscal Year.

FISCAL YEAR - Any 12-month period a company uses for accounting purposes.

FISCAL YEAR END - The last day of a 12-month accounting period.

KEY FINANCIAL DATA - Numeric values of Assets, Liabilities & Owners' Equity to be entered into the system by the company in conjunction with submitting a Financial Statement filing that is classified as an Annual/Initial statement.

NET WORTH (OWNERS' EQUITY) - The amount by which assets exceed liabilities calculated according to Generally Accepted Accounting Principles (GAAP).

FOREIGN FINANCIAL REGULATORY AUTHORITY – Includes (1) a financial services authority of a foreign country; (2) other governmental body empowered by a foreign government to administer or enforce laws relating to the regulation of financial services or financial services-related activities; and (3) a foreign membership organization, a function of which is to regulate the

participation of its members in financial services activities listed above.

FOUND – Includes:

- adverse final actions
- consent decrees/orders in which the respondent has neither admitted nor denied the findings

Does not include:

- agreements
- late fees
- deficiency letters
- examination reports
- memoranda of understanding
- letters of caution
- admonishments, or
- similar informal resolutions of matters

“Settlement” often falls under the “included” category like consent decrees and final actions. However, in jurisdictions that use “settlement” to be synonymous with “agreement” such settlements would fall under the “not included” batch with other agreements. One possibility that may be relevant in determining where a “settlement” fits in your jurisdiction is to the determination of whether it is a public record or not. In this analysis, if it is a public record then it should be included and if it is not a public record, it should not be included.

INVOLVED – Doing an act or omission or aiding, abetting, counseling, commanding, inducing, conspiring with or failing to reasonably supervise another in doing an act or omission.

JURISDICTION – A state, the District of Columbia, the Commonwealth of Puerto Rico, or any subdivision or regulatory body thereof.

MISDEMEANOR – For jurisdictions that do not differentiate between a felony and a misdemeanor, a misdemeanor is an offense punishable by a sentence of less than one year imprisonment and/or a fine of less than \$1,000. The term also includes a special court martial. If your jurisdiction already differentiates, use your jurisdiction’s definition and label. (Also see “felony.”) MU1 Disclosure question (B)(1) is limited to “a misdemeanor involving: financial services or a financial services-related business”

ORDER – A written directive issued pursuant to statutory authority and procedures, including orders of denial, suspension, or revocation; does not include special stipulations, undertakings or agreements relating to payments, limitations on activity or other restrictions unless they are included in an order. Orders include temporary and permanent Cease and Desist Orders. Orders that must be disclosed are limited in Disclosure Question (C)(4) to orders directed to applicant or control affiliate. See definitions of control affiliate to or any fraud, false statements or omissions, theft or any wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses” The RMRT intended to omit irrelevant misdemeanors, including, but not limited to, traffic violations, non-fraud related violations, etc. understand the extent of required disclosures in this regard.

PERSON – An individual, partnership, corporation, trust, LLC or other organization.

PROCEEDING – Includes a formal administrative or civil action initiated by a governmental agency, self-regulatory organization, or a foreign financial regulatory authority; a felony criminal indictment or information (or equivalent formal charge); or a misdemeanor criminal information (or equivalent formal charge). The term does not include other civil litigation, investigations, or arrests or similar charges affected in the absence of a formal criminal indictment or information (or equivalent formal charge).

QUALIFYING INDIVIDUAL – A person that must meet certain requirements and is responsible for the actions of the company. Different terms are used in different states, such as Qualified Person In Charge or Managing Principal. The individual may be the branch manager in some cases if they meet the jurisdiction’s requirements.

RELATIONSHIP – A company’s indication of the individual being employed by the company or having a contract to work for the company. It represents the relationship between the company and the individual and does not require approval by any regulator.

SETTLEMENT SERVICES – The same as defined in the federal Real Estate Settlement Procedures Act (RESPA) 12 U.S.C. Sec. 2601 et seq., Regulation X, 24 C.F.R. Part 3500 et seq including:

- Title searches
- Title examinations
- The provision of title certificates
- Title insurance
- Services rendered by an attorney
- The preparation of documents
- Property surveys
- The rendering of credit reports or appraisals
- Pest and fungus inspections
- Services rendered by a real estate agent or broker
- The origination of a federally related mortgage loan (including, but not limited to, the taking of loan applications, loan processing, and the underwriting and funding of loans)
- The handling of the processing, and closing or settlement

SPONSORSHIP – a company’s indication that the individual will conduct business under a specific license/registration for the company. Only a company user may request sponsorship of the individual’s license and the company must already have an established relationship with the individual in the system. License sponsorship must be approved by the regulator.

UNAUDITED FINANCIAL STATEMENT - One or more components of a financial statement (balance sheet, cash flow statement, income statement) that has not been audited.

UNAUDITED (COMPILED) FINANCIAL STATEMENT – An unaudited financial statement, for which the financial data has been assembled by a CPA or equivalent but not reviewed for accuracy.

UNAUDITED (REVIEWED) FINANCIAL STATEMENT – An unaudited financial statement, for which the financial data has been reviewed for accuracy by a CPA or equivalent.

2.18.7.4 Glossary of SAFE Act Terms

FEDERAL BANKING AGENCIES - The term “Federal banking agencies” means the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Director of the Office of Thrift Supervision, the National Credit Union Administration, and the Federal Deposit Insurance Corporation.

DEPOSITORY INSTITUTION - The term "depository institution" has the same meaning as in section 3 of the Federal Deposit Insurance Act, and includes any credit union.

LOAN ORIGINATOR

- (A) **INGENERAL**—The term "loan originator":
- i. means an individual who
 - I. takes a residential mortgage loan application; and
 - II. offers or negotiates terms of a residential mortgage loan for compensation or gain;
 - ii. does not include any individual who is not otherwise described in clause (i) and who performs purely administrative or clerical tasks on behalf of a person who is described in any such clause;
 - iii. does not include a person or entity that only performs real estate brokerage activities and is licensed or registered in accordance with applicable State law, unless the person or entity is compensated by a lender, a mortgage broker, or other loan originator or by any agent of such lender, mortgage broker, or other loan originator; and
 - iv. does not include a person or entity solely involved in extensions of credit relating to timeshare plans, as that term is defined in section 101(53D) of title 11, United States Code.

(B) **OTHER DEFINITIONS RELATING TO LOAN ORIGINATOR** - For purposes of this subsection, an individual "assists a consumer in obtaining or applying to obtain a residential mortgage loan" by, among other things, advising on loan terms (including rates, fees, other costs), preparing loan packages, or collecting information on behalf of the consumer with regard to a residential mortgage loan.

(C) **ADMINISTRATIVE OR CLERICAL TASKS** - The term "administrative or clerical tasks" means the receipt, collection, and distribution of information common for the processing or underwriting of a loan in the mortgage industry and communication with a consumer to obtain information necessary for the processing or underwriting of a residential mortgage loan.

(D) **REAL ESTATE BROKERAGE ACTIVITY DEFINED** - The term "real estate brokerage activity" means any activity that involves offering or providing real estate brokerage services to the public, including:

- i. acting as a real estate agent or real estate broker for a buyer, seller, lessor, or lessee of real property;
- ii. bringing together parties interested in the sale, purchase, lease, rental, or exchange of real property;
- iii. negotiating, on behalf of any party, any portion of a contract relating to the sale, purchase, lease, rental, or exchange of real property (other than in connection with providing financing with respect to any such transaction);
- iv. engaging in any activity for which a person engaged in the activity is required to be registered or licensed as a real estate agent or real estate broker under any applicable law; and
- v. offering to engage in any activity, or act in any capacity, described in clause (i), (ii), (iii), or (iv).

LOAN PROCESSOR OR UNDERWRITER

(A) **IN GENERAL** - The term "loan processor or underwriter" means an individual who performs clerical or support duties at the direction of and subject to the supervision and instruction of:

- i. a State-licensed loan originator; or
- ii. a registered loan originator.

(B) **CLERICAL OR SUPPORT DUTIES** - For purposes of subparagraph (A), the term "clerical or support duties" may include:

- i. the receipt, collection, distribution, and analysis of information common for the processing or underwriting of a residential mortgage loan; and
- ii. communicating with a consumer to obtain the information necessary for the processing or underwriting of a loan, to the extent that such communication does not include offering or negotiating loan rates or terms, or counseling consumers about residential mortgage loan rates or terms.

NATIONWIDE MORTGAGE LICENSING SYSTEM AND REGISTRY - The term "Nationwide Mortgage Licensing System and Registry" means a mortgage licensing system developed and maintained by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators for the State licensing and registration of State-licensed loan originators and the registration of registered loan originators or any system established by the Secretary under section 1509.

NONTRADITIONAL MORTGAGE PRODUCT - The term "nontraditional mortgage product" means any mortgage product other than a 30-year fixed rate mortgage.

REGISTERED LOAN ORIGINATOR - The term "registered loan originator" means any individual who:

- (A) meets the definition of loan originator and is an employee of
- i. a depository institution;
 - ii. a subsidiary that is
 - i. owned and controlled by a depository institution; and
 - ii. regulated by a Federal banking agency; or
 - iii. an institution regulated by the Farm Credit Administration; and

(B) is registered with, and maintains a unique identifier through, the Nationwide Mortgage Licensing System and Registry.

RESIDENTIAL MORTGAGE LOAN - The term "residential mortgage loan" means any loan primarily for personal, family, or household use that is secured by a mortgage, deed of trust, or other equivalent consensual security interest on a dwelling (as defined in section 103(v) of the Truth in Lending Act) or residential real estate upon which is constructed or intended to be constructed a dwelling (as so defined).

SECRETARY - The term "Secretary" means the Secretary of Housing and Urban Development.

STATE - The term "State" means any State of the United States, the District of Columbia, any territory of the United States, Puerto Rico, Guam, American Samoa, the Trust Territory of the Pacific Islands, the Virgin Islands, and the Northern Mariana Islands.

STATE-LICENSED LOAN ORIGINATOR - The term "State-licensed loan originator" means any individual who:

(A) is a loan originator;

(B) is not an employee of

- i. a depository institution;
- ii. a subsidiary that is
 - i. owned and controlled by a depository institution; and
 - ii. regulated by a Federal banking agency; or
- iii. an institution regulated by the Farm Credit Administration; and

(C) is licensed by a State or by the Secretary under section 1508 and registered as a loan originator with, and maintains a unique identifier through, the Nationwide Mortgage Licensing System and Registry.

UNIQUE IDENTIFIER

(A) IN GENERAL.—The term “unique identifier” means a number or other identifier that:

- i. permanently identifies a loan originator;
- ii. is assigned by protocols established by the Nationwide Mortgage Licensing System and Registry and the Federal banking agencies to facilitate electronic tracking of loan originators and uniform identification of, and public access to, the employment history of and the publicly adjudicated disciplinary and enforcement actions against loan originators; and
- iii. shall not be used for purposes other than those set forth under this title.

(B) RESPONSIBILITY OF STATES - To the greatest extent possible and to accomplish the purpose of this title, States shall use unique identifiers in lieu of social security numbers.

2.18.7.5 Company Form (Formerly MU1)

[Company Form](#) (Formerly MU1) may be found on the NMLS web site. It begins on the next page.

Effective April 2012, changes were made to the following sections of the Company Form (MU1):

- New Business Activity Wizard – Add ability for users to indicate the types of business activities they conduct.
- Updates to Current License Wizard – Updates to the steps to request, surrender, withdraw, and maintain a license.
- Identifying Information – Addition of copy button to allow main address to be copied in the mailing address field.
- Other Trade Names – Add ability to associate industry types to each trade name provided.
- Web Addresses – Add ability for users to identify if they are accepting applications or transacting business through the website provided.
- Contact Employees – Add ability for users to designate a primary company contact and primary consumer complaint contact. Companies can also designate the industry types and states that non-primary contact employees participate in.
- Books and Records Information – Add ability for users to select an industry type associated with each books and records location.
- Approvals and Designations – New section added to collect information regarding the company’s approvals and designations previously collected in the Other Business section.
- Bank Accounts – New section added to collect bank account information for the license they are applying for (only if required by the state regulator).
- Other Business – The Other Business section was removed and the information previously provided on this page will be collected in other sections of the form (Business Activity Wizard and Approvals and Designations).
- Disclosure Questions – Text updates made to disclosure questions.
- Disclosure Explanations – Add the ability for users to provide an explanation and upload supporting legal documentation for any disclosure questions answered “yes”.
- Qualifying Individuals – Add functionality for a qualifying individual to be provided for each industry type the company is associated with.
- Document Upload – Add ability for users to upload defined document types within NMLS.
- Jurisdiction Participation – This section was removed from the form.

2.18.7.6 Individual Form (Formerly MU2/MU4)

[Uniform Biographical Statement & Consent Form](#) may be found on the NMLS web site. It begins on the next page.

Effective April 2012, Forms MU2 and MU4 were consolidated and changes were made to the following sections of the Individual Form (Formerly MU2/MU4):

- Identifying Information – Add ability for users to provide Government Issued Identification and Passport information fields (only if required by state regulator). Separate Extension field provided for Business Phone.
- Disclosure Questions – Updates made to existing disclosure questions and new questions added.
- Disclosure Explanations – Add the ability for users to provide an explanation and upload supporting legal documentation for any disclosure
- Jurisdiction Participation – This section was removed from the form.

2.18.7.7 Branch Form (Formerly MU3)

[Uniform Branch Office Form](#) may be found on the NMLS web site. It begins on the next page.

Effective April 2012, changes were made to the following sections of the Branch Form (Formerly MU3):

- New Business Activity Wizard – Add ability for users to indicate the types of business activities they conduct.
- Updates to Current License Wizard – Updates to the steps to request, surrender, withdraw, and maintain a license.
- Other Trade Names – Add ability to associate industry types to each trade name provided.
- Branch Manager – Add functionality for a single branch manager to be provided for each industry type the company conducts business activities in.
- Web Addresses – Add ability for users to identify if they are accepting applications or transacting business through the website provided.
- Books and Records – Add ability for users to select an industry type associated with each books and records location.
- Document Uploads – Add the ability for users to upload defined document types within NMLS.
- Jurisdiction Participation – This section was removed from the form.

New

2.18.7.8 Business Activities. Definitions

NMLS provides a comprehensive list of [Business Activity Definitions](#).

2.19 Servicemembers Civil Relief Act

2.19.1 Summary of Regulation

The Service members Civil Relief Act (SCRA) updates and replaces the Soldiers and Sailors Civil Relief Act of 1940 (SCCRA) as of December 19, 2003. The purpose of the Act is to enhance protections available to service members on active duty by preventing loss of residence, automobile, or similar personal property when the debtor is on active duty and living on a military pay scale.

Eligibility. Any member of the Armed Forces on active duty and member of a reserve component (National Guard or Army, Navy, Air Force, Marine, or Coast Guard Reserve) called to active duty are eligible. The protection continues until the servicemember's release from active duty.

2.19.2 Military Service

Military Service. In the case of a servicemember who is a member of the Army, Navy, Air Force, Marine Corps, or Coast Guard—active duty, as defined in section 101(d)(1) of title 10, United States Code, and (ii) in the case of a member of the National Guard, includes service under a call to active service authorized by the President or the Secretary of Defense for a period of more than 30 consecutive days under section 502(f) of title 32, United States Code, for purposes of responding to a national emergency declared by the President and supported by Federal funds.

Period of Military Service. Period of Military Service is defined as the period beginning on the date on which a servicemember enters military service and ending on the date on which the servicemember is released from military service or dies while in military service.

2.19.3 Servicemember's Rights

Listed are the rights of the service members:

- Right to have default judgments and other legal proceedings, evictions, repossessions, and foreclosures delayed until a servicemember is able to defend themselves in court;
- Right to have interest rates on pre-active duty loans (includes credit cards) reduced to a level of six (6%) percent for the period of active duty. The interest rate limitation will apply during the individual's term of active service, unless otherwise directed by a court. When the servicemember is released from active duty the loan reverts to the contracted rate of interest.
- Right to waive any rights and protections under SCFA in writing, but only during or after the servicemember's period of military service. No waiver is permitted before service.

2.20 Truth in Lending Act (Regulation Z)

2.20.1 Summary of the Regulation

DMC is obligated to comply with the Truth in Lending Act (Regulation Z). The purpose of this regulation is to promote the informed use of consumer credit by requiring disclosures about the terms and cost associated with the credit. Regulation Z applies to credit that is offered or extended to consumers, primarily for personal, family or household purposes. However, if a credit card is involved, certain provisions apply even if the card is to be used for business purposes. It does not apply to the following:

- a. business, commercial, agricultural or organizational credit
- b. an extension of credit to other than a natural person, such as a government agency
- c. credit in excess of \$25,000 not secured by real property or a dwelling
- d. public utility credit
- e. securities or commodities accounts
- f. home fuel budget plans
- g. student loan program.

2.20.2 TIL Definitions

Open-End Credit. Credit extended under a plan in which:

- a. repeated transactions may occur
- b. a finance charge may be imposed on an outstanding unpaid balance
- c. during the term of the plan, the amount of credit that may be extended is generally made available to the extent that any outstanding balance is repaid

Closed-End Credit. Credit extended under a plan in which no additional transactions may occur.

Residential Mortgage Transaction. A transaction in which a mortgage, deed of trust, purchase money security interest arising under an installment sales contract, or equivalent consensual security interest is created or retained in the consumer's principal dwelling to finance the acquisition or initial construction of that dwelling.

2.20.3 Form of Disclosure

DMC shall make the disclosures clearly and conspicuously in writing, in a form that the consumer may keep. The disclosures may be provided to the consumer in electronic form, subject to compliance with the consumer consent and other applicable provisions of the Electronic Signatures in Global and National Commerce Act (E-Sign Act) and may be provided to the consumer in electronic form without regard to the consumer consent or other provisions of the E-Sign Act. The disclosures shall be grouped together, shall be segregated from everything else, and shall not contain any information not directly related to the disclosures required. The Itemization of the Amount Financed must be separate from the other disclosures under that section. The disclosures may include an acknowledgment of receipt, the date of the transaction, and the consumer's name, address, and account number.

The following disclosures may be made together with or separately from other required disclosures: the creditor's identity, the variable rate example, insurance or debt cancellation, and certain security interest charges. The terms finance charge and annual percentage rate, when required to be disclosed together with a corresponding amount or percentage rate, shall be more conspicuous than any other disclosure, except the creditor's identity.

2.20.4 Multiple Borrowers

If a transaction involves more than one creditor, only one set of disclosures shall be given and the creditors shall agree among themselves which creditor must comply with the requirements that this regulation imposes on any or all of them. If there is more than one consumer, the disclosures may be made to any consumer who is primarily liable on the obligation. If the transaction is rescindable, however, the disclosures shall be made to each consumer who has the right to rescind.

2.20.5 Content of Disclosures

For each transaction, the creditor shall disclose the following items, as applicable:

- a. Creditor
- b. Amount financed
- c. Itemization of amount financed
- d. Finance charge
- e. Annual percentage rate
- f. Variable rate
- g. Payment schedule
- h. Total of payments
- i. Demand Feature
- j. Total sale price
- k. Prepayment
- l. Late payment
- m. Security interest
- n. Insurance and debt cancellation
- o. Certain security interest charges
- p. Contract reference
- q. Assumption policy
- r. Required deposit

2.20.6 Use of Estimates

If any information is unknown to DMC, the disclosures shall be based on the best information available at the time of disclosure and shall clearly state that the disclosure is an estimate. Redisclosure shall be required prior to consummation or at settlement.

For a transaction in which a portion of the interest is determined on a per-diem basis and collected at consummation, any disclosure affected by the per-diem interest shall be considered accurate if the disclosure is based on the information known to the creditor at the time that the disclosure documents are prepared.

2.20.7 APR Tolerance

The disclosure of the finance charge and other disclosures affected by any finance charge will be treated as being accurate for purposes of TILA if the amount disclosed as the finance charge:

1. does not vary from the actual finance charge by more than \$100; or
2. is greater than the amount required to be disclosed under TILA.

An error in disclosure of the finance charge will not, in itself, be considered a violation of Regulation Z if:

1. the error resulted from a corresponding error in a calculation tool used in good faith by DMC; and
2. upon discovery of the error, DMC promptly discontinues use of that calculation tool for disclosure purposes and notifies the Board in writing of the error in the calculation tool.

Right of Rescission Purposes. Except as provided below, the finance charge and other disclosures affected by the finance charge will be considered accurate for TILA's right of rescission purposes.

1. is understated by no more than 1/2 of 1% of the face amount of the note or \$100, whichever is greater; or
2. is greater than the amount required to be disclosed.

In a refinancing of a residential mortgage transaction (other than a Section 32 Mortgage) with a new lender, if there is no new advance and no consolidation of existing loans, the finance charge and other disclosures affected by the finance charge will be considered accurate for TILA's right of rescission purposes if the disclosed finance charge:

1. is understated by no more than 1% of the face amount of the note or \$100, whichever is greater; or
2. is greater than the amount required to be disclosed.

2.20.8 Timing of Disclosures

DMC shall furnish the disclosures required at least three business days prior to consummation of a mortgage transaction. After complying with this ruling and prior to consummation, if the creditor changes any term that makes the disclosures inaccurate, new disclosures shall be provided in accordance with TIL requirements.

2.20.9 Telephone Disclosures

A creditor may provide new disclosures by telephone if the consumer initiates the change and if, at consummation:

1. The creditor provides new written disclosures; and
2. The consumer and creditor sign a statement that the new disclosures were provided by telephone at least three days prior to consummation.

2.20.10 Waiver of Waiting Period

The consumer may, after receiving the disclosures required, modify or waive the three-day waiting period between delivery of those disclosures and consummation if the consumer determines that the extension of credit is needed to meet a bona fide personal financial emergency. To modify or waive the right, the consumer shall give the creditor a dated written statement that describes the emergency, specifically modifies or waives the waiting period, and bears the signature of all the consumers entitled to the waiting period. Printed forms for this purpose are prohibited, except when creditors are permitted to use printed forms pursuant to §1026.23(e)(2).

2.20.11 Right of Rescission

Under Regulation Z, a consumer has the right to rescind/cancel a credit plan in which a security interest is or will be retained on the consumer's principal dwelling. The following transactions are not rescindable:

- A Residential Mortgage Transaction
- a refinancing or consolidation by the same creditor

However, if a credit limit is increased or additional funds are requested the amount of the increase is rescindable.

DMC must mail or deliver two copies of a Notice of Right to Rescind to each consumer entitled to rescind the transaction. The consumer has until midnight of the third business day to rescind. For this purpose, a business day includes Saturdays. Unless the consumer waives the right to rescind in writing, under a bona fide personal financial emergency, no funds shall be disbursed other than in escrow, no services performed and no materials delivered until the rescission period has expired.

2.20.12 Finance Charge

The finance charge is a measure of the cost of consumer credit represented in dollars and cents. DMC must disclose the finance charge, expressed as a dollar amount. The finance charge includes any charge payable directly or indirectly by the consumer and imposed directly or indirectly by the creditor as a condition of the credit.

Charges by third parties. The finance charge includes fees and amounts charged by someone other than the creditor, unless otherwise excluded under this section, if the creditor:

- requires the use of a third party as a condition of or an incident to the extension of credit, even if the consumer can choose the third party; or
- retains a portion of the third-party charge, to the extent of the portion retained.

Special rule: Closing Agent Charges. Fees charged by a third party that conducts the loan closing (such as a settlement agent, attorney, or escrow or title company) are finance charges only if the creditor:

- Requires the particular services for which the consumer is charged;
- Requires the imposition of the charge; or
- Retains a portion of the third-party charge, to the extent of the portion retained.

Special rule: Mortgage Broker Fees. Fees charged by a mortgage broker (including fees paid by the consumer directly to the broker or to the creditor for delivery to the broker) are finance charges even if the creditor does not require the consumer to use a mortgage broker and even if the creditor does not retain any portion of the charge.

Example of finance charges. The finance charge includes the following types of charges:

1. Interest, time price differential, and any amount payable under an add-on or discount system of additional charges.
2. Points, loan fees, assumption fees, finder's fees, and similar charges.
3. Appraisal, investigation, and credit report fees.
4. Premiums or other charges for any guarantee or insurance protecting the creditor against the consumer's default or other credit loss.
5. Charges imposed on a creditor by another person for purchasing or accepting a consumer's obligation, if the consumer is required to pay the charges in cash, as an addition to the obligation, or as a deduction from the proceeds of the obligation.
6. Premiums or other charges for credit life, accident, health, or loss-of-income insurance, written in connection with a credit transaction. Premiums or other charges for insurance against loss of or damage to property, or against liability arising out of the ownership or use of property, written in connection with a credit transaction.
7. Discounts for the purpose of inducing payment by a means other than the use of credit.
8. Debt cancellation fees. Charges or premiums paid for debt cancellation coverage written in connection with a credit transaction, whether or not the debt cancellation coverage is insurance under applicable law.
9. Service, transaction, activity, and carrying charges, including any charge imposed on a checking or other transaction account to the extent that the charge exceeds the charge for a similar account without a credit feature.

Charges Excluded from the Finance Charge.

The following charges are not considered finance charges:

1. Application fees charged to all applicants for credit, whether or not credit is actually extended.
2. Charges for actual unanticipated late payment, for exceeding a credit limit, or for delinquency, default, or a similar occurrence.
3. Charges imposed by a financial institution for paying items that overdraw an account, unless the payment of such items and the imposition of the charge were previously agreed upon in writing.
4. Fees charged for participation in a credit plan, whether assessed on an annual or periodic basis.
5. Seller's points.
6. Interest forfeited as a result of an interest reduction required by law on a time deposit used as security for an extension of credit.
7. Real-estate related fees. The following fees in a transaction secured by real property or in a residential mortgage transaction, if the fees are bona fide and reasonable in amount:
 - a. Fees for title examination, abstract of title, title insurance, property survey, etc.
 - b. Fees for preparing loan-related documents, such as deeds, mortgages, settlement documents.
 - c. Notary and credit report fees.
 - d. Property appraisal fees or fees for inspections to assess the value or condition of the property if the service is performed prior to closing, including fees related to pest infestation or flood hazard determinations.
 - e. Amounts required to be paid into escrow or trustee accounts if the amounts would not otherwise be included in the finance charge.
8. Discounts offered to induce payment for a purchase by cash, check, or other means, as provided in section 167(b) of the Act.

2.20.13 Annual Percentage Rate (A.P.R.)

The APR is a measure of the total cost of credit, expressed as a nominal yearly rate. It relates the amount and timing of value received by the consumer to the amount and timing of payments made by the consumer. The disclosure of the APR is central to the uniform credit cost disclosure envisioned by the TILA.

The APR for closed-end credit must be disclosed as a single rate only, whether the loan has a single interest rate, a variable interest

rate, a discounted variable interest rate, or graduated payments based on separate interest rates (step rates). The APR must appear with the "segregated" disclosures— disclosures grouped together and not containing any information not directly related to the disclosures required under the law.

APR calculations do not rely on definitions of interest in state law and often include charges, such as a commitment fee paid by the consumer, that are not viewed by some state usury statutes as interest. Conversely, APR calculations might not include charges, such as a credit-report fee in a real property transaction that some state laws view as interest for usury purposes.

Along with APR disclosures, the disclosure of the finance charge is central to the uniform credit cost disclosure envisioned by the TILA. Generally, the finance charge includes any charges or fees payable directly or indirectly by the consumer and imposed directly or indirectly by the financial institution either incident to or as a condition of an extension of consumer credit. For example, the finance charge on a loan always includes any interest charges and, often, other charges, such as points, transaction fees, or service fees.

2.21 Unfair, Deceptive, Abusive Act or Practice

2.21.1 Introduction

DMC is committed to the highest standards of federal consumer compliance and requires all management, employees, and third-party vendors follow these policies and adhere to these standards.

2.21.1.1 Goals and Objectives

The standards set out in this policy represent minimum requirements based on applicable legal and regulatory guidance and apply throughout DMC. These requirements are intended to prevent DMC, our employees, third-party vendors, and clients from engaging in unfair, deceptive, or abusive acts or practices (UDAAP).

2.21.1.2 Required Review

DMC requires this policy be reviewed no less than annually.

- Last Date of Review – 08/14/2013.
- Next Due for Review – 08/14/2014.

The above required annual review shall include the compliance of this policy with current law, regulation or directive, the procedural implementation of this policy within the then current scope of DMC business lines and operations, internal audit results received during the previous year and then current industry trends or regulatory guidance.

2.21.1.3 Applicability

The purpose of this policy is to implement consumer protection mechanisms as required by the United States statutes and related regulations administered by the CFPB and others with a focus on unfair, deceptive, or abusive acts or practices (UDAAP).

Wherever local regulations are stricter than the requirements set out in this Policy, the stricter standard shall be applied. If any applicable laws are in conflict with this Policy, DMC must consult with the appropriate legal counsel to resolve the conflict.

2.21.2 Accountability and Monitoring

DMC requires that its own organization, its employees, and its third-party vendors comply with all requirements of this policy and all underlying regulations as they exist, or from time to time may be amended.

2.21.2.1 Internal Controls

DMC shall ensure that annual independent testing of DMC's compliance includes compliance with this policy and all underlying regulations. The required compliance testing may be conducted by DMC personnel or by an outside party. At minimum, the annual audit shall include are view to assess:

- The effectiveness of all communications with borrowers.
- The appropriate recording and resolution of all consumer complaints.
- The trending of UDAAP related issues within existing quality control reports.
- Marketing campaigns for UDAAP compliance.
- Training programs for appropriate content related to UDAAP.

The results of this audit should be used to guide training requirements and/or revisions thereto.

2.21.3 Staff and Training

DMC requires initial and ongoing training for all management and staff concerning this policy, other related policies, and underlying law and regulation.

Training may be conducted in a variety of settings utilizing any established education modality. Regardless the method of training delivery, all training must include:

- Presentation of the subject material oriented for the adult learner.
- An assessment of the learner to validate command of the subject matter with a minimum passing grade of 70%.
- A completion certificate documenting satisfactory completion of all of the above.

DMC shall maintain adequate records of this training program to include:

- A description of all training programs.
- Evidence of attendance and satisfactory completion for each employee subject to this policy.
- Management response relative to additional training, reassignment or other responses for those employees who may not have achieved a passing grade on the assessment and/or were not issued a completion certificate.

2.21.3.1 Ongoing Training

All DMC employees shall receive training to ensure current knowledge of this policy and the underlying federal regulations, to a degree commensurate with their job function, which may impact DMC and the current state of law, regulation, and industry best practice. At a

minimum, training should address:

- This policy and any changes within the last year.
- The law and regulation underlying this and other policies including, but not limited to:
 - Truth-in-Lending Act.
 - Equal Credit Opportunity Act.
 - Fair Credit Reporting Act.
 - Fair Debt Collection Practices Act.
 - Privacy Regulations.
- The implementation of these policies and the practical application thereof in the context of the employee's function or responsibility.
- Disciplinary consequences for non-compliance.

2.21.3.2 New Hire Training

New hire employees shall receive the above training within four weeks of commencing employment with DMC.

2.21.4 UDAAP Policy Process and Implementation

The implementation of policy surrounding UDAAP differs from the more common regulation based policy in that UDAAP is a concept as opposed to a regulation. As such, this policy implements the concept of UDAAP across the policy spectrum rather than define specific regulatory or operational requirements. Once complete, the assessment and resulting data required by this policy will form the basis for improvements to other policies and procedures in support of UDAAP.

2.21.4.1 CFPB Examination Process

To understand how to structure and implement a business policy for the prohibition of UDAAP, compliance professionals should first understand the process by which a CFPB examination is conducted.

2.21.4.1.1 Scheduling the Exam

The CFPB disclosed the examination parameters in the Supervision and Examination Manual – Version 2.0. Mortgage lenders and brokers will be identified for examination on the basis of risks to consumers, including:

- Consideration of the company's asset size.
- Volume of consumer financial transactions.
- Extent of state oversight.
- Other factors determined relevant by the CFPB.

2.21.4.1.2 Objectives

Objectives of a UDAAP examination as defined by the CFPB are:

- To assess the quality of the compliance risk management systems, including internal controls and policies and procedures, for avoiding unfair, deceptive, or abusive acts or practices (UDAAP).
- To identify acts or practices that materially increase the risk of consumers being treated in an unfair, deceptive, or abusive manner when offering or providing consumer financial products or services.
- To determine whether an unfair, deceptive or abusive act or practice has occurred.

2.21.4.1.3 General Guidance

Based on the results of a risk assessment of DMC by the CFPB, examiners will review for potential unfair, deceptive, or abusive acts or practices, taking into account the marketing programs, product and service mix, customer base, and other factors, as appropriate. Even if the risk assessment has not identified potential unfair, deceptive, or abusive acts or practices, examiners will be alert throughout an examination for situations that warrant review.

2.21.4.1.4 Examination Cycle

Pre-Examination Planning: The overall objective of pre-examination planning is to collect information necessary to determine the examination's scope, resource needs, and work plan. After the CFPB examiner gathers both internal and external data, a Risk Assessment is prepared in order to evaluate the extent of risk to consumers on a consistent basis. The risk assessment is not used to reach conclusions about violations.

Conduct the Examination: After receiving and reviewing the requested information and documents, the Examiner In Charge (EIC) will determine the specific examination procedures to use during the onsite review and how to deploy the examination team to conduct interviews, observations, transaction testing, and other processes.

Communicate Conclusions and Required Corrective Action: Once the examination phase is complete, the EIC will meet with the lender/broker's management team to discuss preliminary findings, recommended rating, expected corrective actions, and next steps. However, examinations findings are not final until internal CFPB reviews have been conducted and the prudential regulator has reviewed and commented as applicable.

2.21.4.2 UDAAP Policy Implementation

DMC shall evaluate current products and services by performing a UDAAP risk assessment to identify potential risks. Refer to Best Practices for Lenders/Brokers (Section 2.21.4.6) for guidance on risk assessment. Obtain and review copies of the following documents for possible UDAAP violations or concerns:

- Training materials.
- Lists of products and services, including descriptions, fee structure, disclosures, notices, agreements, and periodic and account statements.
- Procedure manuals and written policies, including those for servicing and collections.
- Minutes of the meetings of the Board of Directors and of management committees, including those related to compliance.
- Internal control monitoring and auditing materials.
- Compensation arrangements, including incentive programs for employees and third parties.
- Documentation related to new product development, including relevant meeting minutes of Board of Directors, and of compliance and new product committees.
- Marketing programs, advertisements, and other promotional material in all forms of media (including print, radio, television, telephone, Internet, or social media advertising).
- Scripts and recorded calls for telemarketing and collections.
- Organizational charts, including those related to affiliate relationships and work processes.
- Agreements with affiliates and third parties that interact with consumers on behalf of the lender/broker.
- Consumer complaint files.
- Documentation related to software development and testing, as applicable.

Once the Risk Assessment has been completed, perform the following steps to implement policy for the prohibition of unfair, deceptive, or abusive acts or practices.

2.21.4.2.1 Step1: Management and Policy-Related Procedures

DMC shall maintain relevant written policies and procedures regarding the following areas of UDAAP risk:

- Product development.
- Marketing and advertisement.
- Employees and vendor management.
- Compensation tied to sales incentives.
- Customer complaints.
- Internal audit reports.
- Management reports.

Working with the internal audit function, DMC will identify and address issues that include, but aren't limited to:

- The compliance audit includes a review of potential unfair, deceptive, or abusive acts or practices.
- The compliance audit work is performed consistent with the audit plan and scope.
- The frequency and depth of audit review is appropriate to the nature of the business activities and size of the business.
- Management and the Board of Directors are made aware of and review significant deficiencies and their causes.
- Management has taken corrective actions to follow up on any identified deficiencies.
- The compliance programs ensure that policies are being followed through a sampling of relevant product types and decision centers, including sales, processing, and underwriting.
- A process exists to respond to consumer complaints in a timely manner and determine whether consumer complaints raise potential UDAAP concerns.

2.21.4.2.2 Step2: Evaluate the Compliance Management System

DMC shall ensure internal controls are adequate to prevent unfair, deceptive, or abusive acts or practices, considering whether the compliance management system:

- Includes measures aimed at avoiding unfair, deceptive, or abusive practices, including:
 - Organization charts and process flow charts;
 - Policies and procedures; and
 - Monitoring and audit procedures.
- Conducts advanced UDAAP reviews of advertising and promotional materials, including promotional materials and marketing scripts for new products.
- Evaluates initial and subsequent disclosures, including customer agreements and changes in terms, for potential UDAAP concerns.
- Reviews new products and changes in the terms and conditions of existing products for potential UDAAP concerns.
- Includes a thorough process for receiving and responding to consumer complaints as well as a process to receive complaints made to third parties, such as the Better Business Bureau or the CFPB.
- Evaluates servicing and collections for UDAAP concerns, as applicable.
- Has established policies and controls relating to employee and third-party conduct, including:
 - Initial and ongoing training;
 - Performance reviews or audits;
 - Discipline policies and records of disciplinary actions;
 - Third-party agreements and contractual performance standards;
 - Compensation programs; and
 - Monitoring
- Includes documentation for internal control processes.
- Computer programs are tested and documented to ensure accurate and timely disclosures to consumers.

2.21.4.2.3 Step3: Identify Potential Risk Areas

DMC shall perform a high-level assessment of products, services, and customer base to identify areas for potential risks from UDAAP. This process should determine whether:

- A given credit product is not underwritten on the basis of ability to repay.
- A product's profitability depends significantly on penalty fees or "back-end" rather than upfront fees.
- A product has high rates of repricing or other changes in terms.
- A product combines features and terms in a manner that can increase the difficulty of consumer understanding of the overall costs or risks of the product and the potential harm.
- Penalties are imposed on a customer when they terminate their relationship.
- Fees or other costs are imposed on a consumer to obtain information about their account.
- A product is targeted to particular populations, without appropriate tailoring of marketing, disclosures, and other materials designed to ensure understanding by the consumers.

If the high-level assessment indicates procedural weakness or other UDAAP risks, conduct transaction testing, as necessary, using the following procedures. Decide to what extent to sample individual products, services, or marketing programs. Increase the sample size to achieve confidence that all aspects of the products and services are reviewed sufficiently.

2.21.4.2.3.1 Marketing and Disclosures

Through a review of marketing materials, customer agreements, and other disclosures, DMC shall ensure the following conditions exist prior to the consumer choosing to obtain a product or service:

- All representations are factually based.
- All materials describe clearly, prominently, and accurately:
 - costs, benefits, and other material terms of the products or services being offered;
 - related products or services being offered either as an option or required to obtain certain terms; and
 - material limitations or conditions on the terms or availability of products and services, such as time limitations for favorable rates, promotional features, expiration dates, prerequisites for obtaining particular products or services, or conditions for canceling services.
- The customer's attention is drawn to key terms, including limitations and conditions that are important to enable the consumer to make an informed decision.
- All materials clearly and prominently disclose the fees, penalties, and other charges that may be imposed and the reason for the imposition.
- Contracts clearly inform customers of contract provisions that permit changes in terms and conditions of the product or service.
- All materials clearly communicate the costs, benefits, availability, and other terms in language that can be understood when products are targeted to particular populations, such as reverse mortgage loans for the elderly.
- Materials do not misrepresent costs, conditions, limitations, or other terms either affirmatively or by omission.
- Advertising terms that are generally not available to the typical targeted consumer are avoided.

Clear and accurate disclosures that are sensitive to the level of sophistication of the target audience are needed for products and services that have been associated with abusive practices. DMC must take particular care in marketing credit and other products and services to the elderly, the financially vulnerable, and customers who are not financially sophisticated. In addition, DMC shall pay particular attention to ensure that disclosures are clear and accurate with respect to:

- Points and other charges that will be financed as part of home-secured loans.
- Terms and conditions related to insurance offered in connection with loans.
- Loans covered by the Home Ownership and Equity Protection Act.
- Reverse mortgages.
- Loans with prepayment penalties, temporary introductory terms, or terms that are not available as advertised to all consumers.

2.21.4.2.3.2 Availability of Terms or Services as Advertised

DMC must evaluate whether product(s) and service(s) that consumers are receiving are consistent with our disclosures and policies. For each product and service being reviewed, select a sample that:

- Is sufficient in size to reach a supportable conclusion about such consistency;
- Includes, as appropriate, transactions from different origination and underwriting channels — for example, different geographical areas or different sectors of the organization structure; and
- Includes approved and/or denied accounts.

Determine whether:

- Consumers are reasonably able to obtain the products and services, including interest rates or rewards, as represented by DMC marketing.
- Consumers receive the specific product or service that they request.
- Counteroffers clearly, prominently, and accurately explain the difference between the original product or service requested and the one being offered.

2.21.4.2.3.3 Availability of Actual Credit to the Consumer

DMC must evaluate whether the amount of useable credit that the consumer will receive is represented in a truthful way, considering whether:

- The available credit is sufficient to allow the consumer to use the product as advertised and disclosed to the consumer.
- The fees and charges, typically imposed on the average targeted customer, both initially and throughout the term of the loan, remain in a range that does not prevent the availability of credit.
- Convenience checks are honored when used by the customer in a manner consistent with introductory or promotional materials and disclosures.

2.21.4.2.3.4 Employees and Third Parties Interacting with Consumers

DMC shall monitor the activities of employees and third-party contractors, marketingsales personnel, vendors, and service providers to ensure they do not engage in unfair, deceptive, or abusive acts or practices with respect to consumer interactions.

DMC must review procedures and requirements for employees and third parties and consider whether:

- Employees and third parties who market or promote products or services are adequately trained so that they do not engage in unfair, deceptive, or abusive acts or practices.
- Periodic evaluations or audits are conducted to check whether employees or third parties follow DMC's training and procedures and are aware of the disciplinary policy in place to deal with any deficiencies.
- Compensation arrangements for employees, third-party contractors, and service providers are reviewed to ensure that they do not create unintended incentives to engage in unfair, deceptive, or abusive acts or practices, particularly with respect to product sales, loan originations, and collections.
- Performance evaluation criteria do not create unintended incentives to engage in unfair, deceptive, or abusive acts or practices, including criteria for sales personnel based on sales volume, size, terms of sale, or account performance.
- Effective risk and supervisory controls are implemented and maintained to select and manage third-party contractors and service providers.

2.21.4.2.3.5 Servicing and Collections

DMC shall evaluate servicing and collections practices potential for raising UDAAP concerns, by considering whether:

- Policies detailing servicing and collections practices and monitoring systems are in place to prevent unfair, deceptive, or abusive acts or practices.
- Call centers, either operated by DMC or by third parties, effectively respond to consumers' calls.
- Appropriate training is provided to employees and third-party contractors to ensure they:
 - represent fees or charges on periodic statements in a manner that is not misleading;
 - post and credit consumer payments in a timely manner;
 - apply payments in a manner that does not unnecessarily increase customer payments, without clear justification;
 - only charge customers for products and services, such as insurance or credit protection programs, that are specifically agreed to;
 - mail periodic statements in time to provide the consumer ample opportunity to avoid late payments; and
 - do not represent to consumers that they may pay less than the minimum amount without clearly and prominently disclosing any fees for paying the reduced amount.
- Compliance with the Fair Debt Collections Practices Act is required by policy to prevent abusive, deceptive, or unfair debt collection practices.
- Employees and third-party contractors clearly indicate to consumers that they are calling about the collection of a debt.
- Employees and third-party contractors do not disclose the existence of a consumer's debt to the public without the consent of the consumer, except as permitted by law.
- Repeated telephone calls to consumers that annoy, abuse, or harass any person at the number called are avoided.

2.21.5 Mortgage Lenders / Brokers Need for UDAAP Guidance

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) mandates "fair, equitable and nondiscriminatory access to credit" for consumers. More specifically, Section 1024 applies to "any covered person who offers or provides origination, brokerage, or servicing of loans secured by real estate for use by consumers primarily for personal, family, or household purposes, or loan modification or foreclosure relief services in connection with such loans." Congress granted supervisory and rule-making authority to the Consumer Financial Protection Bureau (CFPB) as part of Dodd-Frank.

The CFPB is also charged with enforcement of consumer financial laws, including ECOA and HMDA. Title XIV of the Dodd-Frank Act addresses Mortgage Reform and Anti-Predatory Lending by amending chapters within the Truth in Lending Act (15 U.S.C. 1602). Through the rule-making authority granted to the CFPB under Dodd-Frank, revisions to the Truth in Lending Act (TILA) have been

designed to ensure lenders and brokers are prohibited from engaging in abusive or unfair lending practices." Therefore, federal statutes compel mortgage lenders and brokers to adopt a UDAAP policy in order to comply with their regulator.

Since 2008, the FDIC cited banks with assets totaling less than \$250 million with more than 40% of UDAAP violations. These citations resulted in unsatisfactory CRA ratings, downgraded consumer compliance ratings, restitution to customer, and monetary damages. UDAAP is a concern for both large and small financial institutions, including banks and nonbank lenders.

2.21.5.1 What is UDAAP?

The acronym stands for **Unfair, Deceptive, or Abusive Acts or Practices** and refers to products or services provided by mortgage lenders/brokers that may cause significant financial injury to consumers." In their first annual report to Congress, the Consumer Financial Protection Bureau further stated that UDAAP can "erode consumer confidence and undermine the financial marketplace." The Dodd-Frank Act makes it illegal for mortgage brokers/lenders to engage in any unfair, deceptive or abusive act or practice.

Competition among lenders and brokers is stiffer than ever. The competitive environment has fostered a culture of aggressive marketing campaigns for secured consumer credit and credit-related products, e.g., mortgage life insurance products. With today's technology, a great deal of consumer information can easily be accessed for the use of preapproved solicitations through direct mail and telemarketing campaigns. The mortgage industry often relies on third-party telemarketers to offer services on their behalf. These actions can create an increased risk for engaging in business practices or acts that are unfair or deceptive. The real question becomes how (Sample Client) will manage policies and procedures in order to comply with the new mandates.

2.21.5.2 Unfair, Deceptive, or Abusive Act or Practices

2.21.5.2.1 Unfair Acts or Practices

DMC should rely upon the Dodd-Frank Act to identify unfair acts or practices. The standard evaluation of an unfair act or practice is threefold; consider these points when evaluating business practices:

1. **It causes or is likely to cause substantial injury to consumers.**

Substantial injury usually involves monetary harm. Monetary harm includes costs or fees paid by consumers as a result of an unfair practice. An act or practice that causes a small amount of harm to a large number of people may be deemed to cause substantial injury.

Actual injury is not required in every case. A significant risk of concrete harm is also sufficient. However, trivial or speculative harms are typically insufficient for a finding of substantial injury. Emotional impact and other more subjective types of harm also will not ordinarily amount to substantial injury. Nevertheless, in certain circumstances, such as unreasonable debt collection harassment, emotional impacts may amount to or contribute to substantial injury.

2. **The injury is not reasonably avoidable by consumers.**

An act or practice is not considered unfair if consumers may reasonably avoid injury. Consumers cannot reasonably avoid injury if the act or practice interferes with their ability to effectively make decisions or to take action to avoid injury. Normally the marketplace is self-correcting; it is governed by consumer choice and the ability of individual consumers to make their own private decisions without regulatory intervention. If material information about a product, such as pricing, is modified after, or withheld until after, the consumer has committed to purchasing the product, the consumer cannot reasonably avoid the injury. Moreover, consumers cannot avoid injury if they are coerced into purchasing unwanted products or services, or if a transaction occurs without their knowledge or consent.

A key question is not whether a consumer could have made a better choice. Rather, the question is whether an act or practice hinders a consumer's decision-making. For example, not having access to important information could prevent consumers from comparing available alternatives. In doing so, consumers may choose those that are most desirable to them, and avoid those that are inadequate or unsatisfactory. In addition, if almost all market participants engage in a practice, a consumer's incentive to search elsewhere for better terms is reduced, and the practice may not be reasonably avoidable.

The actions that a consumer is expected to take to avoid injury must be reasonable. While a consumer might avoid harm by hiring independent experts to test products in advance or by bringing legal claims for damages in every case of harm, these actions generally would be too expensive to be practical for individual consumers and, therefore, are not reasonable.

3. **The injury is not outweighed by offsetting benefits to consumers or to competition.**

To be unfair, the act or practice must be injurious in its net effects — that is, the injury must not be outweighed by any offsetting consumer or competitive benefits that also are produced by the act or practice. Offsetting consumer or competitive benefits of an act or practice may include lower prices to the consumer or a wider availability of products and services resulting from competition.

Costs that would be incurred for measures to prevent the injury also are taken into account in determining whether an act or practice is unfair. These costs may include the costs to the institution in taking preventive measures and the costs to society as a whole of any increased burden and similar matters.

Public policy, as established by statute, regulation, judicial decision, or agency determination, may be considered with all other evidence to determine whether an act or practice is unfair. However, public policy considerations by themselves may not serve as the primary basis for determining that an act or practice is unfair.

2.21.5.2.2 Example of an Unfair Practice

Refusing to release a lien after the consumer makes their final payment on a mortgage.

The FTC brought an enforcement action against a mortgage company based on allegations, described below, that repeatedly failed to release liens after consumers fully paid the amount due on their mortgages.

- **Substantial injury.** Consumers sustained economic injury when the mortgage servicer did not release the liens on their properties after the consumers had repaid the total amount due on the mortgages.
- **Not outweighed by benefits.** Countervailing benefits to competition or consumers did not result from the servicer's alleged failure to appropriately service the mortgage loan and release the lien promptly.
- **Not reasonably avoidable.** Consumers had no way to know in advance of obtaining the loan that the mortgage servicer would not release the lien after full payment. Moreover, consumers generally cannot avoid the harm caused by an improper practice of a mortgage servicer because the servicer is chosen by the owner of the loan, not the borrower. Thus, consumers cannot choose their loan servicer and cannot change loan servicers when they are dissatisfied with the quality of the loan servicing.

2.21.5.2.3 Deceptive Acts or Practices

Representation, omission, act, or practice is deceptive when:

1. **The representation, omission, act, or practice misleads or is likely to mislead the consumer.**

Deception is not limited to situations in which a consumer has already been misled. Instead, an act or practice may be deceptive if it

is likely to mislead consumers. It is necessary to evaluate an individual statement, representation, or omission not in isolation, but rather in the context of the entire advertisement, transaction, or course of dealing, to determine whether the overall net impression is misleading or deceptive. A representation may be an express or implied claim or promise, and it may be written or oral. If material information is necessary to prevent a consumer from being misled, it may be deceptive to omit that information.

Written disclosures may be insufficient to correct a misleading statement or representation, particularly where the consumer is directed away from qualifying limitations in the text or is counseled that reading the disclosures is unnecessary. Likewise, oral or fine print disclosures or contract disclosures may be insufficient to cure a misleading headline or a prominent written representation. Similarly, a deceptive act or practice may not be cured by subsequent truthful disclosures.

Acts or practices that may be deceptive include: Making misleading cost or price claims; offering to provide a product or service that is not in fact available; using bait-and-switch techniques; omitting material limitations or conditions from an offer; or failing to provide the promised services.

The Federal Trade Commission's "four Ps" test can assist in the evaluation of whether a representation, omission, act, or practice is likely to mislead:

- a. Is the statement **prominent** enough for the consumer to notice?
 - b. Is the information **presented** in an easy-to-understand format that does not contradict other information in the package and at a time when the consumer's attention is not distracted elsewhere?
 - c. Is the **placement** of the information in a location where consumers can be expected to look or hear?
 - d. Is the information in close **proximity** to the claim it qualifies?
2. **The consumer's interpretation of the representation, omission, act, or practice is reasonable under the circumstances.**
In determining whether an act or practice is misleading, one also must consider whether the consumer's interpretation of or reaction to the representation, omission, act, or practice is reasonable under the circumstances. In other words, whether an act or practice is deceptive depends on how a reasonable member of the target audience would interpret the representation. When representations or marketing practices target a specific audience, such as older Americans, young people, or financially distressed consumers, the communication must be reviewed from the point of view of a reasonable member of that group.

Moreover, a representation may be deceptive if the majority of consumers in the target class do not share the consumer's interpretation, so long as a significant minority of such consumers is misled. When a seller's representation conveys more than one meaning to reasonable consumers, one of which is false, the seller is liable for the misleading interpretation.

Exaggerated claims or "puffery," however, are not deceptive if they would not be taken seriously by a reasonable consumer.

3. **The misleading representation, omission, act, or practice is material.**
A representation, omission, act, or practice is material if it is likely to affect a consumer's choice of, or conduct regarding, the product or service. Information that is important to consumers is material.

Certain categories of information are presumed to be material. In general, information about the central characteristics of a product or service – such as costs, benefits, restrictions on the use or availability – is presumed to be material. Express claims made with respect to a financial product or services are presumed material. Implied claims are presumed to be material when evidence shows that the institution intended to make the claim (even though intent to deceive is not necessary for deception to exist).

Claims made with knowledge that they are false are presumed to be material. Omissions will be presumed to be material when the financial institution knew or should have known that the consumer needed the omitted information to evaluate the product or service.

4. If a representation or claim is not presumed to be material, it still would be considered material if there is evidence that it is likely to be considered important by consumers.

2.21.5.2.3.1 Example: Misrepresentation About Loan Terms

In 2004, the FTC sued a mortgage broker advertising mortgage refinance loans at "3.5% fixed payment 30-year loan" or "3.5% fixed payment for 30 years," implying that the offer was for a 30-year loan with a 3.5% fixed interest rate. Instead, the FTC claimed that the broker offered adjustable rate mortgages (ARMs) with an option to pay various amounts, including a minimum monthly payment that represented only a portion of the required interest. As a result, unpaid interest was added to the principal of the loan, resulting in negative amortization.

Practice likely to mislead. The FTC claimed that the advertisements were misleading because they compared payments on a mortgage that was fully amortizing to payments on a non-amortizing loan with payments that increased after the first year. In addition, the FTC claimed that after application, the broker provided Truth in Lending Act (TILA) disclosures that misstated the annual percentage rate (APR) and that failed to state that the loan was a variable rate loan.

Reasonable consumer perspective. It was reasonable for consumers to believe that they would obtain fixed-rate mortgages, based on the representations.

Material representation. The representations were material because consumers relied on them when making the decision to refinance their fully amortizing 30-year fixed loans. As a result, the consumers ended up with adjustable rate mortgages that would negatively amortize if they made payments at the stated 3.5% payment rate.

2.21.5.2.4 Abusive Acts or Practices

The Dodd-Frank Act makes it unlawful for DMC to engage in an "abusive act or practice." An abusive act or practice:

- Materially interferes with the ability of a consumer to understand a term or condition of a consumer financial product or service, or
- Takes unreasonable advantage of:
 - A lack of understanding on the part of the consumer of the material risks, costs, or conditions of the product or service;
 - The inability of the consumer to protect its interests in selecting or using a consumer financial product or service; or
 - The reasonable reliance by the consumer on a covered person to act in the interests of the consumer.

Although abusive acts also may be unfair or deceptive, be aware that the legal standards for abusive, unfair, and deceptive each are separate.

2.21.5.2.4.1 Example: Harassing, Oppressive, or Abusive Communications

The CFPB has not published specific examples of violators; however, the following conduct by debt collectors would be considered abusive. According to the CFPB's debt collection examination parameters, these include:

- a. Using or threatening to use violence to physically harm a person or his or her reputation or property.
- b. Using obscene or profane language or other language that the natural consequence of which is to abuse the hearer or reader.
- c. Publishing a list of consumers who allegedly refuse to pay debts, except to a consumer reporting agency.
- d. Advertising a debt for sale to coerce payment.
- e. Causing a person's telephone to ring or engaging any person in telephone conversations repeatedly or continuously with intent to annoy, abuse, or harass.

2.21.5.3 Consequences of UDAAP Violations

As with any violation of law or regulation, the response to a violation of Section 5 of the FTC Act will depend on a number of factors, including:

- The nature of the violation;
- Whether it is a repeat violation or a variation of a previously cited violation;
- The harm, or potential harm, suffered by consumers;
- The number of parties affected; and
- The institution's overall compliance posture and history, both in general and with respect to UDAAP.

Any violations revealed during an examination may result in actions such as litigation, enforcement actions, monetary judgments, and damage to DMC's reputation. Significant violations may result in a downgrade of our institution's compliance and CRA ratings and potentially, our institution's risk management rating. In determining the overall CRA rating for DMC, examiners consider evidence of discrimination or other illegal acts, including violations of Section 5 of the FTC Act.

In addition to determining a violation's impact on our institution's compliance and CRA ratings, the CFPB will consider corrective actions that should be taken. These may include requiring the discontinuance of the act or practice, restitution to consumers, informal or formal enforcement actions, and assessment of a civil money penalty.

2.21.5.4 UDAAP Oversight

2.21.5.4.1 Consumer Financial Protection Bureau

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) established the Consumer Financial Protection Bureau (CFPB). The central mission of the CFPB is to make markets for consumer financial products and services work for Americans — whether they are applying for a mortgage, choosing among credit cards, or using any number of other consumer financial products.

The CFPB is working to:

Educate	An informed consumer is the first line of defense against abusive practices.
Enforce	Like a neighborhood cop on the beat, the CFPB supervises banks, credit unions, and other financial companies, and enforces Federal consumer financial laws.
Study	The CFPB gathers and analyzes available information to better understand consumers, financial services providers, and consumer financial markets.

Above all, this means ensuring that consumers get the information they need to make the financial decisions they believe are best for themselves and their families—that prices are clear up front, that risks are visible, and that nothing is buried in fine print. In a market that works, consumers should be able to make direct comparisons among products and no provider should be able to build, or feel pressure to build, a business model around unfair, deceptive, or abusive practices.

2.21.5.4.2 Federal Trade Commission (FTC)

The Federal Trade Commission (FTC) has broad authority to enforce the requirements of section 5 of the FTC Act against many nonbank entities. The FTC has been overseeing consumer protection for almost a century (09/26/1914) — long before creation of the CFPB or many of the other regulators. The FTC enforces laws that protect consumers from deceptive mortgage practices by certain kinds of lenders. The FTC also takes action when companies use illegal tactics directed to people facing foreclosure.

2.21.5.4.3 Office of the Comptroller of the Currency (OCC)

The Office of the Comptroller of the Currency (OCC) has also issued guidance on unfair or deceptive acts or practices. The OCC serves as Administrator of National Banks and their operating subsidiaries. The OCC issued guidance on UDAAP in an effort to help national banks avoid penalties, judgments, and reputational harm from committing unfair or deceptive acts or practices. Consumer complaints, state agency referrals, or a regular compliance examination can reveal issues of unfair or deceptive acts or practices.

2.21.5.4.4 Federal Deposit Insurance Corporation (FDIC)

In 2004, the Federal Deposit Insurance Corporation (FDIC) issued a Financial Institution Letter (FIL-26-2004) providing guidance to state-chartered banks for the development of policies against unfair or deceptive acts or practices, as well as, information and best practices to assist in risk management of UDAAP.

2.21.6 Best Practices for Lenders/Brokers

2.21.6.1 Due Diligence and Risk Assessment

DMC performs a risk assessment (using the template provided by the Consumer Financial Protection Bureau or a similar form) by evaluating each of the following areas in terms of factors that may increase the risk of UDAAP, discrimination, or other violations of federal consumer law AND challenges to DMC's compliance management system.

Financial Products and Services – Nature and Structure

- Consider the ability of consumer to make payments for credit products.
- Terms should not be altered solely at discretion of DMC – need for disclosure.
- Discretion over terms and product features should be based upon policies and procedures.
- Scrutinize termination penalties for consumer protection issues.
- Assess the volume of customers who could be at risk for specific products and services.
- Reversal of fees is a higher rate than those of like-size competition.

Product Terms and Bundling – Nature and Structure

- Measure and monitor fee reversal rates.
- Product profitability should not be dependent on penalty fees.
- Products and services should be bundled in a way that costs are clear, and not obscured to the consumer.
- Pricing structures need to make total costs and benefits understandable.
- No barriers to information including costs to access customer service.
- Credit decision makers have discretion in setting terms and product features in accordance with policies and procedures defining

the discretionary authority.

- Credit products are underwritten based on the ability to repay according to terms.

Marketing and Advertising

- Review and audit materials for targeted consumer groups.
- Inspect our offers to ensure that targeted consumers should be likely to qualify for advertised products or terms.
- Audit our advertising to avoid advertising only the higher cost products and not the full product suite.
- Review our data analytics model to avoid potential discrimination or compliance issues.
- Teaser rates or low fees need to have sufficient information about important conditions including periodic charges or exit fees.

Profitability and Money Factors

- Review our incentive plans for high cost products for fairness.
- Assess employee procedures if they have price discretion.
- Analyze returns, refunds, and credits to see if there is a selling issue.
- Implement daily dashboards for credit portfolio analysis to monitor risk.
- Integrate customer harm (monetary) into our issue and complaint management process.

Customer Relationship Management

- Customer Service Representatives (CSRs), including collection representatives, as well as vendors performing CSR responsibilities, are evaluated based on service quality or customer satisfaction.
- Compensation of CSRs or Vendors with CSR responsibilities with discretion to adjust pricing or terms is not impacted by the frequency and size of adjustments.
- Policies and procedures define appropriate use of CSR discretion by employees and vendors.
- The customer service function is staffed properly to provide timely service.
- Customer service technology systems have sufficient capacity to support the customer database.

Compliance Management Challenges

- The business systems are fully integrated to originate and service product relationships.
- Solicitation is not performed through cross-selling, outbound telemarketing, or third-party telemarketers.
- The retail network is central to the business.
- Consumer financial products and services are provided by the parent company and not subsidiaries, affiliates, or third parties.

Embed UDAAP into Standard Practices

- Embed the UDAAP "4 Ps" into our web privacy policy statement approval process:
 - Is the statement **prominent** enough for the consumer to notice?
 - Is the information **presented** in an easy-to-understand format that does not contradict other information in the package and at a time when the consumer's attention is not distracted elsewhere?
 - Is the **placement** of the information in a location where consumers can be expected to look or hear?
 - Finally is the information in close **proximity** to the claim it qualifies?
- Measure readability scores for key customer documents – adapt as needed.
- Add UDAAP considerations to our review of credit disputes and chargeback processes.
- Integrate UDAAP into our marketing/advertising checklists.
- Adapt existing employee training – employee training should be broad ranged (from customer service to compliance).

2.21.6.1.1 Compliance Risk Management

Regulatory enforcement has been escalating over the past year. The escalation has uncovered flaws in traditional compliance management programs originally designed to manage technical rules rather than the newer subjective rules. DMC needs to consider revising our programs to best comply with regulations; in particular the litmus test for 'fairness.'

Traditional compliance functions were never designed to evaluate product fairness, especially when held by the subjective standards that exist in the new regulations. DMC must become strategic in implementing our compliance management model. It is better to be proactive in developing a new or updated policy rather than being reactive to a summary evaluation.

Additionally, DMC must integrate compliance decisions into the business line. Because the terms "unfair" and "abusive" are subjective, they create grey areas for regulatory compliance. Therefore, it is important for the legal and compliance functions to participate with product development, marketing, systems and operations to scope, define, and implement new initiatives from the beginning throughout the product's life cycle.

Other components to consider when revising our compliance management system include a new human resource approach to incentive plans, efficiency in the system, focus on results, new leadership, and strong cultural support.

An effective compliance management system includes an evaluation of the following areas:

- Board of Directors and management oversight.
- Policies and procedures.
- Compliance risk management program and oversight.
- Product and system development and modification.
- Training.
- Complaint management.

2.21.6.1.2 Internal Controls to Mitigate UDAAP

DMC, through our internal audit function will develop a strong compliance risk management system to mitigate risks associated with UDAAP. According to financial services auditors, DMC's internal audit function should:

- Evaluate the strength of our compliance risk management program and the integration of the new standard for abusive acts.
- Identify potential risks attributable to UDAAP that management should address to prevent such acts or practices in marketing, origination, servicing, and vendor management activities.

2.21.6.1.3 Evaluating Business Protocols for UDAAP Risk

DMC must allocate sufficient resources to ensure and demonstrate compliance with UDAAP. If not already in existence, create a Compliance function under the direction of the Compliance Officer. This committee or function should regularly review UDAAP concerns as part of their meeting agenda and take detailed meeting notes for documentation purposes. The Compliance function is the business "watchdog" put in place to scrutinize products and processes; they are agents of oversight.

2.21.6.2 Employees and Third-Party Servicers

In compliance with the provisions of Dodd Frank, the Consumer Finance Protection Bureau and our policy to prohibit unfair, deceptive, or abusive acts or practices, DMC shall:

- Implement and maintain effective risk and supervisory controls to select and manage third-party servicers.
- Ensure that our employees and third parties who market or promote products, or service loans, are adequately trained to avoid making statements or taking actions that might be unfair or deceptive.
- Review compensation arrangements for our employees as well as third-party vendors and servicers to ensure that they do not

- create unintended incentives to engage in unfair or deceptive practices.
- Ensure that DMC and our third-party servicers have and follow procedures to credit consumer payments in a timely manner. Consumers should be clearly told when and if monthly payments are applied to fees, penalties, or other charges before being applied to regular principal and interest.

2.21.6.3 Training / Monitoring Requirements

Trainings shall be evaluated in the following four areas:

- **Appropriateness** – All staff members, including those in the product development, marketing and customer service functions, receive training targeted to consumer protection laws and an organization's obligation to avoid unfair, deceptive, abusive or discriminatory practices.
- **Timeliness** – Training delivery should be provided at the appropriate times and repeated as needed, according to staff responsibilities.
- **Accountability** – Staff should be encouraged to take responsibility for consumer compliance and to identify and correct issues.
- **Third-Party Agents** – Policies and procedures, including oversight mechanisms, are designed to ensure that appropriate and current training is provided to employees of third parties who interact with consumers.

2.21.6.4 Marketing, Services, Product Offerings, etc.

Marketing methods and sales organizations are evaluated by examining incentives and compensation; marketing and advertising; and how the organization manages ongoing customer relationships. To avoid engaging in unfair or deceptive activity, DMC shall apply the following practices, as encouraged by the agencies for advertising and solicitations:

- Review all promotional materials, marketing scripts, and customer agreements and disclosures to ensure that they fairly and adequately describe the terms, benefits, and material limitations of the product or service being offered, including any related or optional products or services, and that they do not misrepresent such terms either affirmatively or by omission. Ensure that these materials do not use fine print, separate statements or inconspicuous disclosures to correct potentially misleading headlines, and ensure that there is a reasonable factual basis for all representations made.
- Draw the attention of customers to key terms, including limitations and conditions, that are important in enabling the customer to make an informed decision regarding whether the product or service meets the customer's needs.
- Clearly disclose all material limitations or conditions on the terms or availability of products or services, such as a limitation that applies a special interest rate only to balance transfers; the expiration date for terms that apply only during an introductory period; material prerequisites for obtaining particular products, services or terms (e.g., minimum transaction amounts, introductory or other fees, or other qualifications); or conditions for canceling a service without charge when the service is offered on a free trial basis.
- Inform consumers in a clear and timely manner about any fees, penalties, or other charges (including charges for any force-placed products) that have been imposed, and the reasons for their imposition.
- Clearly inform customers of contract provisions that permit a change in the terms and conditions of an agreement.
- Clearly disclose any limitations, conditions, or restrictions on the offer when using terms such as "pre-approved" or "guaranteed."
- Clearly inform consumers when the account terms approved by the lender/broker for the consumer are less favorable than the advertised terms or terms previously disclosed.
- Tailor advertisements, promotional materials, disclosures and scripts to take account of the sophistication and experience of the target audience. Do not make claims, representations or statements that mislead members of the target audience about the cost, value, availability, cost savings, benefits, or terms of the product or service.
- Avoid advertising that a particular service will be provided in connection with an account if the lender/broker does not intend or is not able to provide the service to customers. Clearly disclose when optional products and services — such as insurance, credit protection, and consumer report update services that are offered simultaneously with credit — are not required to obtain credit or considered in decisions to grant credit.
- Ensure that costs and benefits of optional or related products and services are not misrepresented or presented in an incomplete manner.
- Accurately and completely represent the amount of potential, approved, or useable credit that the consumer will receive when making claims about amounts of credit available to consumers.
- Avoid advertising terms that are not available to most customers and using unrepresentative examples in advertising, marketing, and promotional materials.
- Avoid making representations to consumers that they may pay less than the minimum amount due required by the account terms without adequately disclosing any late fees, over limit fees, or other account fees that will result from the consumer paying such reduced amount.

2.21.6.5 Consumer Complaint Management

How a DMC manages consumer complaints is also important and should be done in concert with the following concepts:

- **Ease of Submission** – Consumers are provided the opportunity to submit complaints through their preferred delivery method (i.e., mail, email or telephone).
- **Timeliness of Response** – DMC provides complete and timely responses to complaints received either directly from consumers or indirectly through regulators or other third parties that process complaints.
- **Third-party Management** – Agents of DMC who provide services involving consumers have an established complaint process that is appropriately monitored.
- **Classification** – DMC must track all types of consumer complaints.
- **Need for Change** – It is DMC's responsibility to monitor complaints in order to identify issues requiring changes in products, procedures, and/or training.
- **Clocking** – DMC must track the time required to reach final resolution of consumer complaints.
- **Effective Resolution** – Complaints must be resolved without requiring direction or involvement of executives, regulators or third parties (Better Business Bureau), or without the prospect of litigation or enforcement actions.

DMC shall follow these best practices when reviewing policies and procedures for consumer complaints. Clearly disclose a telephone number or mailing address (and, as an addition, an email or website address if available) that consumers may use to contact us or our third-party servicers regarding any complaints they may have, and maintain appropriate procedures for resolving complaints. Consumer complaints should also be reviewed to identify practices that have the potential to be misleading to customers.

2.21.7 Relation to Other Laws

An unfair, deceptive, or abusive act or practice may also violate other federal or state laws. The following laws and examples of UDAP violations are taken directly from the FDIC Compliance Manual – June 2011.

2.21.7.1 Truth in Lending Act

For example, pursuant to the TILA, (Section 2.20) creditors must "clearly and conspicuously" disclose the costs and terms of credit. An act or practice that does not comply with these provisions of TILA may also be unfair, deceptive, or abusive.

Conversely, a transaction that is in technical compliance with other federal or state laws may, nevertheless, violate the prohibition against UDAAPs. For example, an advertisement may comply with TILA's requirements, but contain additional statements that are untrue or misleading, and compliance with TILA's disclosure requirements does not insulate the rest of the advertisement from the possibility of being deceptive.

2.21.7.2 Equal Credit Opportunity Act and Fair Housing Act

The Equal Credit Opportunity Act (ECOA) (Section 2.5) and Regulation B prohibit discrimination in any aspect of a credit transaction against persons on the basis of race, color, religion, national origin, sex, marital status, age, and the fact that an applicant's income derives from any public assistance program. Depending upon the totality of the circumstances, an institution that engages in unfair or deceptive acts or practices may also violate the Equal Credit Opportunity Act (ECOA) – particularly if such acts or practices affect or are targeted at consumers based on their age, race, gender or other prohibited factor.

The Fair Housing Act (FHA) prohibits lenders in residential real estate transactions from discriminating against any person on the basis of race, color, religion, sex, handicap, familial status, or national origin. UDAAPs that target or have a disparate impact on consumers in one of these prohibited basis groups may violate the ECOA or the FHA, as well as the FTC Act. Moreover, some state and local laws address discrimination against additional protected classes, e.g., handicap in non housing transactions, or sexual orientation. Such conduct may also violate the FTC Act.

2.21.7.3 Privacy Regulations

12 CFR 40, the OCC's regulations implementing Title V of the Gramm-Leach-Bliley Act (Privacy Regulations), among other things, prohibit the disclosure to a nonaffiliated third party, other than to a consumer reporting agency, of an account number or similar access code for a credit card, deposit, or transaction account of a consumer for use in marketing.

Depending upon the circumstances, an institution not in compliance with these requirements may be also engaging in unfair or deceptive acts or practices – for example, the unlawful disclosure of account numbers in connection with marketing of a third-party's products or services.

2.21.7.4 Fair Debt Collection Practices Act

The Fair Debt Collection Practices Act (FDCPA) prohibits unfair, deceptive, and abusive practices related to collection of consumer debts. Although the bank itself may not be subject to the FDCPA when a third party collects debts on its behalf, it nevertheless faces reputation risk – and potential legal risk for approving or assisting in an unfair or deceptive act or practice in violation of the FTC Act – if the third party violates the FDCPA by engaging in deception, harassment, or threats in the collection of the bank's loans.

2.21.7.5 Fair Credit Reporting Act (FCRA)

The FCRA (Section 2.6) contains significant responsibilities for institutions that obtain and use information about consumers to determine the consumer's eligibility for products, services, or employment; share such information among affiliates; and furnish information to consumer reporting agencies. The FCRA was substantially amended with the passage of the Fair and Accurate Credit Transactions Act (FACT Act) in 2003, which contained many new consumer disclosure requirements as well as provisions to address identity theft. Violations of the FCRA may also be considered as a UDAAP. For example, obtaining and using unsolicited medical information (outside of the exceptions provided by the rule) to make credit decisions may also be considered as unfair.

2.21.7.6 Mortgage Assistance Relief Services (MARS) Rule

While this rule does not apply to lenders and servicers offering mortgage assistance relief services for loans they own or service, the rule does apply to mortgage brokers who promote loan origination or refinancing transactions as a way for homeowners to avoid foreclosure. Mortgage brokers who do not promote their services in this manner are not covered by the rule.

Highlighted tips offered by staffers at the FTC on complying with MARS include:

- **It's illegal to charge upfront fees.** You cannot collect money from a customer unless you deliver – and the customer agrees to – a written offer of mortgage relief from the customer's lender or servicer.
- You must clearly and prominently disclose certain information before you sign people up for your services. You must tell them upfront key information about your services, including:
 - the total cost,
 - that they can stop using your services at any time,
 - that you're not associated with the government or their lender, and
 - that their lender may not agree to change the terms of their mortgage.
- If you advise someone not to pay his or her mortgage, you must clearly and prominently disclose the negative consequences that could result. You must warn customers that failure to pay could result in the loss of their home or damage to their credit rating.
- Don't advise customers to stop communicating with their lender or servicer. Under the Rule, it's illegal to tell people they shouldn't communicate with their lender or servicer.
- You must disclose key information to your customer if you forward an offer of mortgage relief from a lender or servicer. You must give your customer a written notice from the lender or servicer describing all material differences between the terms of the offer and the customer's current loan. You also have to tell your customer that if the lender or servicer's offer isn't acceptable to them, they don't have to pay your fee.
- Don't misrepresent your services. Under the Rule, it's illegal to make claims that are false, misleading, or unsubstantiated.

For mortgage information about the Mortgage Assistance Relief Services Rule: A Compliance Guide for Business, visit the Federal Trade Commission's website (<http://business.ftc.gov/documents/bus76-mortgage-assistance-relief-services-rule>).

3. Internal Audit Policies and Procedures

3.1 Internal audit policy

V.1.0 March 25, 2021

3.1.1 Purpose

The purpose of the 'Internal audit policy' is to set out the framework within which Direct Mortgage, Corp. ("DMC") conducts internal audits, obtains internal audit reports, receives and reviews internal audit reports, and enacts changes, when necessary, as a result of the internal audit reports.

Further, it is DMC's intent for the 'Internal audit policy' to satisfy the requirements of its regulators, business partners and investors

(e.g., Fannie Mae, Freddie Mac, Ginnie Mae, HUD, VA, USDA, CFPB, various state regulators, etc.), some of which impose their own internal audit ("IA") requirements of DMC.

3.1.2 Ownership, approval, and periodic review

The Internal Audit Department consists of DMC's Chief Executive Officer, President, and a qualified 3rd party vendor ("Vendor"). The Vendor will be chosen by DMC's Chief Executive Officer and President. At the time of this writing, the Vendor chosen by DMC's Chief Executive Officer and President is Analytic Brains Technologies Pvt. LTD.

The Statement of Work between DMC and its Vendor will be reviewed at least every 3-years. Any material changes to the Statement of Work, or any change in Vendor, will be considered and approved by the Chief Executive Officer and President of DMC.

This 'Internal audit policy' will be reviewed at least annually, and any material changes will be considered and approved by the Chief Executive Officer and President of DMC.

3.1.3 Application and scope

The scope of the 'Internal audit policy' covers all aspects of DMC and its activities so as to enable it to meet its primary objective. This includes, but is not limited to, the assessment of systems, processes, controls, information, and operations related to the following:

- Corporate Governance, Oversight & Accounting; and
- Information Technology & Business Continuity; and
- Training; and
- Compliance & Licensing; and
- Loan Origination & Processing; and
- Underwriting & Appraisals; and
- Secondary Marketing; and
- Closing, Funding & Post-Closing; and
- Quality Control; and
- Servicing & Sub-Servicing.

3.1.4 Internal Audit Plan

DMC's Vendor will conduct an Initial Risk Assessment ("IRA") every 3-years. Based on the results of the IRA, the Vendor will develop a 1-year, 2-year and 3-year Internal Audit Plan ("IAP"). The IAP must be reviewed and approved by DMC's Chief Executive Officer and President. The IAP must ensure that all 10 operation areas identified in Section 3 above are audited at least every 3-years.

3.1.5 Audits

The Vendor will perform audits of all 10 operation areas identified in Section 3 above according to the IAP. All 10 operations areas identified in Section 3 above must be audited at least once every 3-years.

In carrying out its duties and responsibilities as per the Statement of Work, the Vendor is entitled to:

- Full and unrestricted access to all of DMC's activities, records, property, and information; and,
- Full and free access to DMC's Chief Executive Officer and President; and,
- The assistance of staff across DMC where necessary to fulfil its objectives; and,
- Allocate and apply resources, scope of work and audit techniques, set frequencies and select appropriate subjects in order to meet its objectives.

3.1.6 Audit Reports

Upon completion of each audit, the Vendor will supply DMC with an Operation Area Audit Report ("OPAR"). Each OPAR will detail the Vendor's findings and recommendations. Each OPAR will be distributed to the Chief Executive Officer, President, and applicable manager(s). Each OPAR may be made available to additional staff at the discretion of DMC's Chief Executive Officer and President.

Upon receipt of each OPAR, DMC's Chief Executive Officer, President and applicable manager(s) shall have 180-days to review and respond in writing, as necessary. DMC's written response will be referred to as the Management Response to OPAR ("MROPAR"). If a MROPAR indicates remediation actions are to be taken, DMC shall have 180-days to implement such actions.

3.1.7 Summary of Reports

To be clear, DMC expects to receive 1 IRA, 1 IAP and 10 OPAR's every 3-years from its Vendor. Additionally, DMC's Chief Executive Officer, President, and applicable manager(s) will be expected to complete 10 MROPAR's every 3-years.

3.1.8 Confidentiality

In fulfilling its objective, the Internal Audit Department will handle and safeguard all confidential information with which they come into contact in the same prudent manner as those members of staff who would normally be accountable for them.

Additional measures and safeguards will be necessary for all audit documents including but not limited to: IRA, IAP, OPAR, MROPAR.

3.1.9 Independence and objectivity

The Internal Audit Department is independent of the activities that it audits, in order to ensure unbiased judgments and impartial advice to DMC and its management. In order to ensure this independence and objectivity, the Internal Audit Department will report

directly to DMC's Chief Executive Officer and President. Where the Internal Audit Department is unable to provide independence and objective assurance in a particular circumstance, a 3rd party or parties with the requisite expertise may be engaged, pursuant to the Statement of Work. In order to fulfill its responsibilities efficiently and effectively, the Internal Audit Department may also cooperate with other operational areas within DMC. Where such cooperation takes place, the work will be planned and carried out in such a way as to ensure that the independence and objectivity of the IAP and OPAR remain safeguarded.

3.1.10 Glossary

- Internal audit policy = this document
- DMC = Direct Mortgage, Corp.
- Vendor = qualified 3rd party vendor, currently Analytic Brains Pvt. LTD.
- IRA = Initial Risk Assessment
- IAP = Internal Audit Plan
- OPAR = Operational area audit report
- MROPAR = Management response to operational area audit report

3.1.11 Current organizational chart for DMC's Internal Audit Department

4. Quality Control Plan

4.1 Introduction

The purpose of the 'Quality Control Policy' ("the Policy") is to set out the framework within which Direct Mortgage, Corp. ("DMC") performs all quality control functions including, but not limited to, the following:

- Making loan selections.
- Processing reverifications.
- Conducting quality control audits.
- Receiving, reviewing, and responding to quality control audit reports.
- Enacting changes, when necessary, as a result of the quality control audit reports.
- Choosing vendors.
- Overseeing vendors and monitoring the quality of their work.

Generally speaking, the Policy has been established and implemented by DMC to provide feedback with the following objectives in mind

- Monitoring and evaluating DMC's loan origination and servicing operations.
- Reducing the possibility of errors, irregularities, fraud and/or other misrepresentations.
- Ensuring underwriting decisions are complete and accurate.
- Assisting DMC's management in fulfilling its obligations to operate DMC within the law and exercise due care over all operations.
- Comparing DMC's loan origination and servicing operations against its own requirements, standards, criteria, guidelines, and written policies and procedures, as well as industry standards and widely accepted best practices.
- Ensuring that all data, documents, files, records, and loans are accurate, authentic, complete, and conform to DMC's own requirements, standards, criteria, guidelines, and written policies and procedures.
- Ensuring the scope of quality control reviews are expanded when activities, data or documents that are dishonest, fraudulent, or otherwise misleading are discovered.
- Ensuring compliance with all applicable local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements.
- Ensuring DMC's own requirements, standards, criteria, guidelines, and written policies and procedures are accurate, complete, up-to-date and revised in a timely manner.
- Ensuring DMC's own requirements, standards, criteria, guidelines, and written policies and procedures satisfy all requirements set forth by all applicable local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements, with respect to quality control.
- When discrepancies are found, quickly identifying responsible parties, and assisting in taking immediate corrective actions, including changing requirements, standards, criteria, guidelines, and written policies and procedures, where applicable.
- Ensuring not less than 10% of all loans originated are selected randomly and subject to quality control audits.
- Ensuring some loans are selected using a discretionary method and subject to quality control audits. A discretionary sample ensures that some loans with certain higher risk characteristics are subject to quality control audits.
- Ensuring each sample includes some loans from each type of loan DMC originates including, but not limited to, conventional, FHA/HUD, USDA, VA, jumbo and, from time to time, non-conforming and/or non-QM.
- Ensuring some loans from all branch offices are selected and subject to quality control audits.
- Ensuring the work of each loan processor, loan officer, account executive, underwriter, closer, and funder is subject to quality control audits.
- Ensuring all third-party originators will have some loans reviewed annually.
- Ensuring the work of appraisers, builders, and real estate companies with whom DMC conducts a significant amount of business is subject to quality control audits.
- Ensuring 10% of denied loans are subject to quality control audits.
- Ensuring all FHA Early Payment Default ("EPD") loans, FHA loans with findings which have been identified by HUD issued reports, such as underwriting and Notice of Return ("NOR") reports, other EPD, and repurchase loans are subject to post-funding quality control audits. EPD loans are loans that become 60-days or more past due within the

- first 6-payments. Note, all such loans will hereafter be referred to as "variant loans".
- Ensuring DMC does not employ for origination, underwriting, or servicing any individual whose name appears on the following industry lists: Limited Denial of Participation ("LDP"), General Services Administration ("GSA"), Secured Counterparty Program ("SCP"), and Freddie Mac Exclusionary List.
 - Ensuring DMC does not make loans to any individual whose name appears on the following industry lists: Limited Denial of Participation ("LDP"), General Services Administration ("GSA"), Secured Counterparty Program ("SCP"), and Freddie Mac Exclusionary List.

4.2 Ownership, Approval, and Periodic Review

The Quality Control Department ("QCD") consists of DMC's Chief Executive Officer ("CEO"), President, one or more qualified 3rd party vendors, and Quality Control Auditors ("QCA"). Vendors are chosen by DMC's CEO and President. At current, the vendor is Cross Check Compliance.

The QCD is responsible for the Policy and its related duties, responsibilities, and tasks.

Quality control functions are always performed independent of any originating, underwriting, closing, funding, or servicing responsibilities.

The Policy itself will be reviewed at least annually. Any material changes to the Policy will be considered and approved by DMC's CEO and President.

4.3 Confidentiality

In fulfilling its objective, the QCD will handle and safeguard all confidential information with which it comes into contact in the same prudent manner as those members of staff who would normally be accountable for them.

4.4 Independence and Objectivity

The QCD is independent of the activities that it reviews, in order to ensure unbiased judgments and impartial advice to DMC and its management. In order to ensure this independence and objectivity, the QCD will report directly to DMC's CEO and President. Where the QCD is unable to provide independence and objective assurance in a particular circumstance, a 3rd party or parties with the requisite expertise may be engaged, pursuant to the Statement of Work. In order to fulfill its responsibilities efficiently and effectively, the QCD will also cooperate with other operational areas within DMC. Where such cooperation takes place, the work will be planned and carried out in such a way as to ensure that the independence and objectivity of the loan-level reports and summary reports remain safeguarded.

4.5 Scope

The Policy applies to all real estate secured loans originated or purchased by DMC.

4.6 Staff and Training

All staff responsible for performing the duties, responsibilities, and tasks per the Policy should meet the following requirements:

- Be independent of the loan origination process and have no direct loan originating, underwriting, closing, funding, or servicing responsibilities.
- Be appointed by the CEO or President.
- Be knowledgeable about the Policy.
- Be knowledgeable about all applicable local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements.
- Be able to solve complex problems and think critically.
- Be able to communicate precisely both verbally and in writing.
- Have a good understanding of mortgage underwriting requirements, standards, criteria, guidelines, and written policies and procedures.
- QCA's, whether employed by DMC or the vendor, and in addition to meeting the above-mentioned requirements, should also:
 - Possess 3+ years of related experience processing and/or underwriting residential mortgage loans.
 - Possess underwriting certifications such as DE, LAPP, and/or SAR, or the professional experience and knowledge to obtain them.
- Demonstrate experience reviewing and a current working knowledge of all loan types originated by DMC including conventional, HUD/FHA, VA, USDA, state bond (e.g., Utah Housing, Corp.), jumbo and, from time to time, non conforming and non-QM.
- Be able to compile, analyze, interpret information and data, and stay up to date about compliance with all applicable local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements, with respect to quality control.
- Be able to keep up to date with all industry trends.
- Show proficiency using common mortgage industry software systems including Automated Underwriting Systems ("AUS") and Loan Origination Systems ("LOS").
- Show proficiency using Microsoft Office, Adobe Acrobat, and other common software programs required to complete quality control audits.
- Be able and willing to participate in ongoing training and continuing education.

All staff responsible for performing the duties, responsibilities, and tasks per the Policy should receive initial training.

New hires who will be responsible for performing the duties, responsibilities, and tasks per the Policy should receive initial training within 30-days of employment.

Ongoing training is required whenever changes are made to any of the following:

- The Policy.
- Local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements, with respect to quality control.
- Industry trends and/or widely accepted best practices, with respect to quality control.

Further, whenever quality control audit reports identify major or critical defects, the parties involved in the defect will be held accountable by notifying them of performance failures and errors. The work product of the employees involved will be monitored and notified of disciplinary actions, if the problem persists. Also, ongoing training becomes necessary. When necessary, ongoing training should occur no less than annually. Ongoing training necessitated by a major or critical finding extends past the staff responsible for performing the duties, responsibilities, and tasks per the Policy to other staff involved in the origination of the loan at issue. Training subjects include, but are not limited to, the following:

- Appraisals and property valuation.
- DMC's requirements, standards, criteria, guidelines, and written policies and procedures.
- Local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements.
- Industry trends and/or widely accepted best practices, with respect to quality control.
- Activities, data, or documents that are dishonest, fraudulent, or otherwise misleading.
- Underwriting including, but not limited to, the following:
 - Assets.
 - Credit.
 - Employment and income.
 - Title reports.

Training may occur in a wide variety of settings utilizing any existing and effective educational modality including online webinars and self-paced courses.

4.7 Methodology/Rationale and Target Defect Rates

A zero defect rate target is generally considered ambitious and difficult to achieve. However, DMC enacts the Plan with a zero defect rate target because it aims to achieve zero defect loan quality. Aspiring to have some loan defects is undesirable and simply unacceptable. Instituting a zero defect rate encourages high quality and a granular evaluation of each step in the lending process. As such, all defects, regardless of their severity level, are noted during the quality control audit process and must be reported in the loan level, preliminary, summary, final, and monthly management reports. DMC will utilize the following severity levels to identify defects, risks, etc., take corrective actions, and improve loan quality:

- "MINOR" – These findings do not ordinarily pose a threat to loan quality. But, if many "minor" items are identified, it could reveal a general lack of awareness and attention to details. These items differentiate issues that individually have only minor impact on the designated subject, but their relative frequency of occurrence and changes in frequency of occurrence might signify the development of other, more consequential, irregularities. This is another way of saying that such laziness or "sloppy" work, even in immaterial areas or while performing menial tasks, can sometimes reduce overall loan quality. (e.g., inaccurate data input to an area of the loan application that is not often utilized for compliance or underwriting purposes such as an applicant's previous employer's zip code.)
- "MAJOR" – These findings sometimes delineate issues that represent a significant compromise regarding a relevant procedure, negatively impact the integrity of a functional process, or constitute a fundamental degradation in anticipated performance. (e.g., miscalculating an applicant's monthly income and debt to income ratio.)
- "CRITICAL" – These findings often designate prominent issues that may jeopardize an employee, client, or customer relationship, generate adverse financial consequences, and/or indicate the possibility of repercussive or legal remedies. (e.g., failing to deliver a required disclosure within the time frame allotted by law, thereby affording an applicant and extended rescission period after a loan is funded.)

Findings which could result in unsalable (to any agency or otherwise), uninsurable, or repurchase loans must always be labeled "CRITICAL."

Further, in addition to severity levels, all defects and findings must be designated as "Compliance" or "Eligibility" related. Compliance refers to defects and findings related to local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit. Eligibility refers to defects and findings related to Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, and written policies and procedures.

DMC will review its target defect rates, severity levels, and designations at least annually.

4.8 Loan Selection

The QCD will utilize production reports to make loans selections as follows:

- At a minimum, 10% of funded loans are subject to pre-closing quality control audits.
- At a minimum, 10% of funded loans are subject to post-funding quality control audits.
- At a minimum, 10% of denied loans are subject to post-funding quality control audits.

- All variant loans are subject to post-funding quality control audits.

The QCD aims to ensure the loans selected for and subject to quality control audits are representative of DMC's entire book of business. However, this representative sample must ensure that, at a minimum, 10% of funded loans from the following categories are subject to quality control audits:

- Conventional.
- FHA.
- Jumbo.
- Jumbo VA.
- Non-Conforming.
- Non-QM
- Purchase.
- Refinance.
- VA.
- USDA.

The QCD will fulfill each of the above mentioned 10% targets with loans randomly selected. Loans in process, funded, and denied are eligible for the random sample.

Further, the QCD must take special care to ensure FHA streamline refinances, 203(k), and HECM loans are included and audited proportionate to the total number of these loans funded or denied.

The QCD is also responsible for each of the following tasks with respect to making loan selections:

- Ensuring some loans are selected using a random selection method and subject to quality control audits.
- Ensuring some loans are selected using a discretionary selection method and subject to quality control audits. A discretionary sample ensures that some loans with certain higher risk characteristics are subject to quality control audits.
- Ensuring some loans from all branch offices are selected and subject to quality control audits.
- Ensuring the work of each loan processor, loan officer, account executive, underwriter, closer, and funder is subject to quality control audits.
- Ensuring all third-party originators will have some loans reviewed annually.
- Ensuring any patterns of deficiencies identified in prior audits will be reviewed and loans with the tendency for the deficiencies will be selected.
- Ensuring the work of appraisers, builders, and real estate companies with whom DMC conducts a significant amount of business is subject to quality control audits.

The QCD will select additional loans using discretion. Loans in process, funded, and denied are eligible for the discretionary sample. The QCD will select some loans that have been deemed a higher risk for having potential errors or misrepresentation. These same loans may be at a higher risk for future defaults. DMC will select target areas on a monthly basis. Examples of target areas are as follows:

- Loans submitted by new third-party originators.
- Loans assigned to new wholesale account executives.
- Retail loans originated by new loan officers.
- Retail loans processed by new processors.
- Loans underwritten by new underwriters.
- Loans closed and funded by new closers and/or funders.
- Loans with appraisals performed by newly approved appraisers.
- Loans submitted for new product types.
- Loans with credit scores below 620.
- Loans with complex income calculations.
- Loans requiring the use of non-standard processing or underwriting guidelines.
- Loans secured by 2-4 unit properties, new construction properties, or flipped properties.
- Loans with a typical funds for closing. (e.g., gift funds and funds resulting from the sale of personal property.)
- Loans with non-occupying co-borrowers or multiple co-borrowers.
- Loans for self-employed borrowers.
- Loans where borrowers will experience excessive housing payment shock.
- Loans with excessive seller contributions.
- Loans assessed as a Refer, Caution, or Ineligible by an AUS.
- Loans with a high LTV or CLTV at or above 97%.
- Loans secured by second homes or investment properties.

All variant loans are subject to post-funding quality control audits.

Keep in mind, the QCD has full authority to conduct additional quality control audits at its own discretion as it deems necessary.

4.9 Timing

4.9.1 Pre-Closing Quality Control Audits

The QCD will conduct pre-closing quality control audits on loans from both samples, random and discretionary.

The QCD will conduct pre-closing quality control audits on loans in process.

Monthly, on the 1st business day of each month, DMC will prepare production reports. Production reports include details on all loans funded and denied during the previous month. DMC will utilize production reports to determine the number of loans subject to pre-closing quality control audits for the current month.

Monthly, by the EOB on the 1st Friday of each month, QCD will utilize DirectWare to identify eligible loans and make its random and discretionary selections. The QCD will make best efforts to select loans that have been Conditionally Approved and will most likely proceed to Approval status within the current month. Once the loans are selected a Prefund QC condition will be added to the underwriting conditions checklist requiring the Pre-fund audit be completed prior to final approval of the loan. Audit findings will be added to the pre-fund QC underwriting condition, and all findings must be cleared prior to the loan being approved for closing documents.

Monthly, before loan closing or within 15-days of receiving notice of loans selected, whichever is sooner, the QCD will complete the pre-closing quality control audits. At this time, the QCD will provide loan-level preliminary reports to DMC for review. Note, reverifications are not ordered as part of the pre-closing quality control audits.

Monthly, before closing or within 5-days of receipt, DMC will review and respond to each preliminary loan-level report.

Monthly, within 30-days of month-end, the QCD will review the preliminary reports and prepare and provide final reports. Final reports include summary reports and loan-level reports.

Monthly, within 60-days of month-end, DMC will complete its review of the final reports. DMC will complete a management response to the

final reports. Where applicable, management responses will include corrective actions.

Monthly, on the 1st Monday of each month, DMC will distribute the final reports and management response to the management group and, as deemed necessary, other responsible parties.

DMC will review the final reports and management response during both its company-wide and management meetings. At this time, DMC's management team will review its requirements, standards, criteria, guidelines, and written policies and procedures. If applicable DMC will also revise its requirements, standards, criteria, guidelines, and written policies and procedures, and provide staff with ongoing training.

Generally, findings that include activities, data or documents that are dishonest, fraudulent, or otherwise misleading, and other serious violations must be referred to the applicable agency, institutional investor, private investor, private mortgage insurer, or warehouse bank within 30-days of discovery.

More importantly, to ensure compliance with all applicable requirements, standards, criteria, guidelines, written policies and procedure, and agreements, the quality control lifecycle must always be completed within 120-days of month-end even in instances where the aforementioned timeframes are untenable.

However, certain circumstances may cause the timing to become delayed. Examples of circumstances which may cause the timing to become delayed include, but are not limited to, increased or increasing loan volumes, changes in vendors, changes in staffing, holidays, IT challenges, inclement weather, and/or natural disasters. In the event the quality control lifecycle becomes in arrears by more than 1-month, DMC will notify all applicable counterparties as required per its requirements, standards, criteria, guidelines, written policies and procedure, and agreements with each.

4.9.2 Post-Funding Quality Control Audits

The QCD will conduct post-funding quality control audits on loans from both samples, random and discretionary.

The QCD will conduct post-funding quality control audits on loans funded and denied.

The QCD will conduct post-funding quality control audits on all variant loans.

Monthly, on the 1st business day of each month, DMC will provide the QCD with production reports. Production reports include details on all loans funded and denied during the previous month. The QCD will utilize production reports to make its random and discretionary selections. Additionally, at this time, DMC will provide the QCD with a list of all variant loans.

Monthly, within 15-days of month-end, the QCD will make its loan selections. Both random and discretionary loan selections will be made from funded and denied loans. All variant loans are subject to post-funding quality control audits and will be included in the loans selected.

Monthly, after receiving notice of the loans selected by the QCD, DMC will review all loan files selected to determine if IRS tax transcripts are already present. 2-years of IRS tax transcripts (Wage and Income, Record of Account) is required to complete post-funding quality control audits. DMC will process IRS Form 4506-C and order IRS tax transcripts for all loans selected that do not yet have transcripts present in the files. Monthly, 1-week after ordering IRS tax transcripts, DMC will perform follow-up work to ensure that all orders were successfully processed and completed.

Monthly, within 30-days of month-end, the QCD will order reverifications.

Monthly, within 60-days of month-end, the QCD will complete the post-funding quality control audits. At this time, the QCD will provide preliminary reports to DMC for review.

Monthly, within 70-days of month-end, DMC will complete its review of the preliminary reports. At this time, the following tasks will be completed:

- DMC will respond in writing to the preliminary reports.
- DMC will meet with the QCD to discuss recurring findings, issues, etc.
- DMC will review findings with responsible parties.

Monthly, within 75-days of month-end, the QCD will review the preliminary reports and prepare and provide final reports. Final reports include summary reports, loan-level reports, and reverification files.

Monthly, within 90-days of month-end, DMC will complete its review of the final reports. DMC will complete a management response to the final reports. Where applicable, management responses will include corrective actions.

Monthly, on the 1st Monday of each month, DMC will distribute the final reports and management response to the management group and, as deemed necessary, other responsible parties.

DMC will review the final reports and management response during both its company-wide and management meetings. At this time, DMC's management team will review its requirements, standards, criteria, guidelines, and written policies and procedures. If applicable DMC will also revise its requirements, standards, criteria, guidelines, and written policies and procedures, and provide staff with ongoing training.

Generally, findings that include activities, data or documents that are dishonest, fraudulent, or otherwise misleading, and other serious violations must be referred to the applicable agency, institutional investor, private investor, private mortgage insurer, or warehouse bank within 30-days of discovery.

More importantly, to ensure compliance with all applicable requirements, standards, criteria, guidelines, written policies and procedure, and agreements, the quality control lifecycle must always be completed within 120-days of month-end, even in instances where the aforementioned timeframes are untenable.

However, certain circumstances may cause the timing to become delayed. Examples of circumstances which may cause the timing to become delayed include, but are not limited to, increased or increasing loan volumes, changes in vendors, changes in staffing, holidays, IT challenges, inclement weather, and/or natural disasters. In the event the quality control lifecycle becomes in arrears by more than 1-month, DMC will notify all applicable counterparties as required per its requirements, standards, criteria, guidelines, written policies and procedure, and agreements with each.

The QCD will ensure the following items are reviewed for Pre-Closing Review and Post-Closing Review

4.9.3 Servicing Quality Control Audits

The QCD will conduct servicing quality control audits on loans serviced by DMC or its sub-contractors. At least 10% of the servicing portfolio will be reviewed annually to verify all loan administration functions are being performed correctly.

The QCD will review at least semi-annually the findings of the monthly servicing reviews performed on any servicing activities performed by DMS or its sub-contractors. The QCD will verify that any findings are provided to anyone involved in servicing loans for DMC.

4.10 The Quality Control Audit

Quality Control Policy

4.1 Introduction

The purpose of the 'Quality Control Policy' ("the Policy") is to set out the framework within which Direct Mortgage, Corp. ("DMC") performs all quality control functions including, but not limited to, the following:

- Making loan selections.
- Processing reverifications.
- Conducting quality control audits.
- Receiving, reviewing, and responding to quality control audit reports.
- Enacting changes, when necessary, as a result of the quality control audit reports.
- Choosing vendors.
- Overseeing vendors and monitoring the quality of their work.

Generally speaking, the Policy has been established and implemented by DMC to provide feedback with the following objectives in mind:

- Monitoring and evaluating DMC's loan origination and servicing operations.
- Reducing the possibility of errors, irregularities, fraud and/or other misrepresentations.
- Ensuring underwriting decisions are complete and accurate.
- Assisting DMC's management in fulfilling its obligations to operate DMC within the law and exercise due care over all operations.
- Comparing DMC's loan origination and servicing operations against its own requirements, standards, criteria, guidelines, and written policies and procedures, as well as industry standards and widely accepted best practices.
- Ensuring that all data, documents, files, records, and loans are accurate, authentic, complete, and conform to DMC's own requirements, standards, criteria, guidelines, and written policies and procedures.
- Ensuring the scope of quality control reviews are expanded when activities, data or documents that are dishonest, fraudulent, or otherwise misleading are discovered.
- Ensuring compliance with all applicable local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements.
- Ensuring DMC's own requirements, standards, criteria, guidelines, and written policies and procedures are accurate, complete, up-to-date, and revised in a timely manner.
- Ensuring DMC's own requirements, standards, criteria, guidelines, and written policies and procedures satisfy all requirements set forth by all applicable local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements, with respect to quality control.
- When discrepancies are found, quickly identifying responsible parties, and assisting in taking immediate corrective actions, including changing requirements, standards, criteria, guidelines, and written policies and procedures, where applicable.
- Ensuring not less than 10% of all loans originated are selected randomly and subject to quality control audits.
- Ensuring some loans are selected using a discretionary method and subject to quality control audits. A discretionary sample ensures that some loans with certain higher risk characteristics are subject to quality control audits.
- Ensuring each sample includes some loans from each type of loan DMC originates including, but not limited to, conventional, FHA/HUD, USDA, VA, jumbo and, from time to time, non-conforming and/or non-QM.
- Ensuring some loans from all branch offices are selected and subject to quality control audits.
- Ensuring the work of each loan processor, loan officer, account executive, underwriter, closer, and funder is subject to quality control audits.
- Ensuring all third-party originators will have some loans reviewed annually.
- Ensuring the work of appraisers, builders, and real estate companies with whom DMC conducts a significant amount of business is subject to quality control audits.
- Ensuring 10% of denied loans are subject to quality control audits.
- Ensuring all FHA Early Payment Default ("EPD") loans, FHA loans with findings which have been identified by HUD issued reports, such as underwriting and Notice of Return ("NOR") reports, other EPD, and repurchase loans are subject to post funding quality control audits. EPD loans are loans that become 60-days or more past due within the first 6-payments. Note, all such loans will hereafter be referred to as "variant loans".
- Ensuring all Freddie Mac and Fannie Mae Early Payment Default ("EPD") loans, and repurchase loans are subject to post funding quality control audits. EPD loans are loans that become 60-days or more past due within the first 6-payments. Note, all such loans will hereafter be referred to as "variant loans".
- Ensuring DMC does not employ for origination, underwriting, or servicing any individual whose name appears on the following industry lists: Limited Denial of Participation ("LDP"), General Services Administration ("GSA"), Secured Counterparty Program ("SCP"), and Freddie Mac Exclusionary List.
- Ensuring DMC does not make loans to any individual whose name appears on the following industry lists: Limited Denial of Participation ("LDP"), General Services Administration ("GSA"), Secured Counterparty Program ("SCP"), and Freddie Mac Exclusionary List.

4.2 Ownership, Approval, and Periodic Review

The Quality Control Department ("QCD") consists of DMC's Chief Executive Officer ("CEO"), President, one or more qualified 3rd party vendors, and one or more qualified DMC Quality Control Auditor(s) ("QCA"). Vendors are chosen by DMC's CEO and President. At current, the vendors are CrossCheck Compliance.

The QCD is responsible for the Policy and its related duties, responsibilities, and tasks.

Quality control functions are always performed independent of any originating, underwriting, closing, funding, or servicing responsibilities.

The Policy itself will be reviewed at least annually. Any material changes to the Policy will be considered and approved by DMC's CEO and President.

4.3 Confidentiality

In fulfilling its objective, the QCD will handle and safeguard all confidential information with which it comes into contact in the same prudent manner as those members of staff who would normally be accountable for them.

4.4 Independence and Objectivity

The QCD is independent of the activities that it reviews, in order to ensure unbiased judgments and impartial advice to DMC and its management. In order to ensure this independence and objectivity, the QCD will report directly to DMC's CEO and President. Where the QCD is unable to provide independence and objective assurance in a particular circumstance, a 3rd party or parties with the requisite expertise may be engaged, pursuant to the Statement of Work. In order to fulfill its responsibilities efficiently and effectively, the QCD will also cooperate with other operational areas within DMC. Where such cooperation takes place, the work will be planned and carried out in such a way as to ensure that the independence and objectivity of the loan-level reports and summary reports remain safeguarded.

4.5 Scope

The Policy applies to all real estate secured loans originated or purchased by DMC.

4.6 Staff and Training

All staff responsible for performing the duties, responsibilities, and tasks per the Policy should meet the following requirements:

- Be independent of the loan origination process and have no direct loan originating, underwriting, closing, funding, or servicing responsibilities.
- Be appointed by the CEO or President.
- Be knowledgeable about the Policy.
- Be knowledgeable about all applicable local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements.
- Be able to solve complex problems and think critically.
- Be able to communicate precisely both verbally and in writing.
- Have a good understanding of mortgage underwriting requirements, standards, criteria, guidelines, and written policies and procedures.

QCA's, whether employed by DMC or the vendor, and in addition to meeting the above-mentioned requirements, should also:

- Possess 3+ years of related experience processing and/or underwriting residential mortgage loans.
- Possess underwriting certifications such as DE, LAPP, and/or SAR, or the professional experience and knowledge to obtain them.
- Demonstrate experience reviewing and a current working knowledge of all loan types originated by DMC including conventional, HUD/FHA, VA, USDA, state bond (e.g., Utah Housing, Corp.), jumbo and, from time to time, non-conforming and non-QM.
- Be able to compile, analyze, interpret information and data, and stay up to date about compliance with all applicable local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements, with respect to quality control.
- Be able to keep up to date with all industry trends.
- Show proficiency using common mortgage industry software systems including Automated Underwriting Systems ("AUS") and Loan Origination Systems ("LOS").
- Show proficiency using Microsoft Office, Adobe Acrobat, and other common software programs required to complete quality control audits.
- Be able and willing to participate in ongoing training and continuing education.

All staff responsible for performing the duties, responsibilities, and tasks per the Policy should receive initial training.

New hires who will be responsible for performing the duties, responsibilities, and tasks per the Policy should receive initial training within 30-days of employment.

Ongoing training is required whenever changes are made to any of the following:

- The Policy.
- Local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements, with respect to quality control.
- Industry trends and/or widely accepted best practices, with respect to quality control.

Further, whenever quality control audit reports identify major or critical defects, the parties involved in the defect will be held accountable by notifying them of performance failures and errors. The work product of the employees involved will be monitored and notified of disciplinary actions, if the problem persists. Also, ongoing training becomes necessary. When necessary, ongoing training should occur no less than annually. Ongoing training necessitated by a major or critical finding extends past the staff responsible for performing the duties, responsibilities, and tasks per the Policy to other staff involved in the origination of the loan at issue.

Training subjects include, but are not limited to, the following:

- Appraisals and property valuation.
- DMC's requirements, standards, criteria, guidelines, and written policies and procedures.
- Local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements.
- Industry trends and/or widely accepted best practices, with respect to quality control.
- Activities, data, or documents that are dishonest, fraudulent, or otherwise misleading.
- Underwriting including, but not limited to, the following:
 - Assets.
 - Credit.
 - Employment and income.
 - Title reports.

Training may occur in a wide variety of settings utilizing any existing and effective educational modality including online webinars and self-paced courses.

4.7 Methodology/Rationale and Target Defect Rates

A zero-defect target rate for "Critical" findings is generally considered ambitious and difficult to achieve. However, DMC enacts the Plan with a zero-defect target rate because it aims to achieve zero-defect loan quality. Aspiring to have some loan defects is undesirable and simply unacceptable. Instituting a zero-defect target rate encourages high quality and a granular evaluation of each step in the lending process. As such, all defects, regardless of their severity level, are noted during the quality control audit process and must be reported in the loan-level, preliminary, summary, final, and monthly management reports. DMC will utilize the following severity levels to identify defects, risks, etc., take corrective actions, and improve loan quality:

- "MINOR" – These findings do not ordinarily pose a threat to loan quality. But, if many "minor" items are identified, it could reveal a general lack of awareness and attention to details. These items differentiate issues that individually have only minor impact on the designated subject, but their relative frequency of occurrence and changes in frequency of occurrence might signify the development of other, more consequential, irregularities. This is another way of saying that such laziness or "sloppy" work, even in immaterial areas or while performing menial tasks, can sometimes reduce overall loan quality. (e.g., inaccurate data input to an area of the loan application that is not often utilized for compliance or underwriting purposes such as an applicant's previous employer's zip code.)
- "MAJOR" – These findings sometimes delineate issues that represent a significant compromise regarding a relevant procedure, negatively impact the integrity of a functional process, or constitute a fundamental degradation in anticipated performance. (e.g., miscalculating an applicant's monthly income and debt-to-income ratio.)
- "CRITICAL" – These findings often designate prominent issues that may jeopardize an employee, client, or customer relationship, generate adverse financial consequences, and/or indicate the possibility of repercussive or legal remedies. (e.g., failing to deliver a required disclosure within the time frame allotted by law, thereby affording an applicant an extended rescission period after a loan is funded.) The defined **quality threshold** for "CRITICAL" findings is zero percent.

Findings which could result in unsalable (to any agency or otherwise), uninsurable, or repurchase loans must always be labeled "CRITICAL." Loans with "CRITICAL" findings reported in the QC report will be reviewed by Senior Management and the Underwriting manager to determine if the cause of the finding is systemic or an isolated error and then establish appropriate corrective action. Systemic errors may require system or process changes with additional training for the appropriate department(s) or individual(s). Isolated errors will require additional training for the appropriate department(s) and/or individual(s).

Further, in addition to severity levels, all defects and findings must be designated as "Compliance" or "Eligibility" related. Compliance refers to defects and findings related to local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit. Eligibility refers to defects and findings related to Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, and written policies and procedures.

DMC will review its target defect rates, severity levels, and designations at least annually.

4.8 Loan Selection

The QCD will utilize production reports to make loan selections as follows:

- At a minimum, 10% of funded loans are subject to pre-closing quality control audits.
- At a minimum, 10% of funded loans are subject to post-funding quality control audits.
- At a minimum, 10% of denied loans are subject to post-funding quality control audits.
- All EPD (variant) loans are subject to post-funding quality control audits.

The QCD aims to ensure the loans selected for and subject to quality control audits are representative of DMC's entire book of business. However, this representative sample must ensure that, at a minimum, 10% of funded loans from the following categories are subject to quality control audits:

- Conventional.
- FHA.
- Jumbo.
- Jumbo VA.
- Non-conforming.
- Non-QM.
- Purchase.
- Refinance.
- VA.
- USDA.

The QCD will fulfill each of the above-mentioned 10% targets with loans randomly selected. Loans in process, funded, and denied are eligible for the random sample.

Further, the QCD must take special care to ensure FHA streamline refinances, 203(k), and HECM loans are included and audited proportionate to the total number of these loans funded or denied.

The QCD is also responsible for each of the following tasks with respect to making loan selections:

- Ensuring some loans are selected using a random selection method and subject to quality control audits.
- Ensuring some loans are selected using a discretionary selection method and subject to quality control audits. A discretionary sample ensures that some loans with certain higher risk characteristics are subject to quality control audits.
- Ensuring some loans from all branch offices are selected and subject to quality control audits.
- Ensuring the work of each loan processor, loan officer, account executive, underwriter, closer, and funder is subject to quality control audits.
- Ensuring all third-party originators will have some loans reviewed annually.
- Ensuring any patterns of deficiencies identified in prior audits will be reviewed and loans with the tendency for the deficiencies will be selected.
- Ensuring the work of appraisers, builders, and real estate companies with whom DMC conducts a significant amount of business is subject to quality control audits.
- Ensuring the pre-funding and post-closing selection process includes a process for sampling of ACE+PDR loans and validate that the data submitted in the AUS is accurate and complies with eligibility requirements.

The QCD will select additional loans using discretion. Loans in process, funded, and denied are eligible for the discretionary sample. The QCD will select some loans that have been deemed a higher risk for having potential for errors, and mortgages where there is reason to suspect misrepresentation and fraud. These same loans may be at a higher risk for future defaults. DMC will select target areas on a monthly basis. Examples of target areas are as follows:

- Loans submitted by new third-party originators.
- Loans assigned to new wholesale account executives.
- Retail loans originated in new branch offices.
- Retail loans originated by new loan officers.
- Retail loans processed by new processors.
- Loans underwritten by new underwriters.
- Loans closed and funded by new closers and/or funders.
- Loans with appraisals performed by newly approved appraisers.
- Loans submitted for new product types.

- Loans with credit scores below 620.
- Loans with complex income calculations.
- Loans requiring the use of non-standard processing or underwriting guidelines.
- Loans secured by 2–4-unit properties, new construction properties, or flipped properties.
- Loans with atypical funds for closing. (e.g., gift funds and funds resulting from the sale of personal property.)
- Loans with non-occupying co-borrowers or multiple co-borrowers.
- Loans for self-employed borrowers.
- Loans where borrowers will experience excessive housing payment shock.
- Loans with excessive seller contributions.
- Loans assessed as a Refer, Caution, or Ineligible by an AUS.
- Loans with a high LTV or CLTV at or above 97%.
- Loans secured by second homes or investment properties.

All EPD (variant) loans are subject to post-funding quality control audits.

Keep in mind, the QCD has full authority to conduct additional quality control audits at its own discretion as it deems necessary.

4.9 Timing

4.9.1 Pre-Closing Quality Control Audits

The QCD will conduct pre-closing quality control audits on loans from both samples, random and discretionary.

The QCD will conduct pre-closing quality control audits on loans in process.

Monthly, on the 1st business day of each month, the QCA will prepare production reports. Production reports include details on all loans funded and denied during the previous month. DMC will utilize production reports to determine the number of loans subject to pre-closing quality control audits for the current month.

Monthly, QCD will utilize DirectWare to identify eligible loans and make its random and discretionary selections. The QCD will make best efforts to select loans that have been Conditionally Approved and will most likely proceed to Approval status within the current month. Once the loans are selected a Pre-fund QC condition will be added to the underwriting conditions checklist requiring the Pre-fund audit be completed prior to final approval of the loan. Audit findings will be added to the Pre-fund QC underwriting condition, and all findings must be satisfied, cleared and **signed-off by the QCD** prior to the loan being approved for closing documents. If a loan is selected for Pre-fund QC and the closing date is moved up prior to the original closing date, the loan will be rescheduled to ensure the audit review is completed and the Pre-fund QC underwriting condition is signed off by the QCD prior to the Closing.

Monthly, before loan closing or within 15-days of receiving notice of loans selected, whichever is sooner, the QCD will complete the pre-closing quality control audits. At this time, the QCD will provide loan-level preliminary reports to DMC for review. Note, reverifications are not ordered as part of the pre-closing quality control audits.

Monthly, before closing or within 5-days of receipt, DMC will review and respond to each preliminary loan-level report.

Monthly, within 30-days of month-end, the QCD will review the preliminary reports and prepare and provide final reports. Final reports include summary reports and loan-level reports.

Monthly, within 60-days of month-end, DMC will complete its review of the final reports. DMC will complete a management response to the final reports. Where applicable, management responses will include corrective actions.

Monthly, on the 1st Monday of each month, DMC will distribute the final reports and management response to the management group and, as deemed necessary, other responsible parties.

DMC will review the final reports and management response during both its company-wide and management meetings. At this time, DMC's management team will review its requirements, standards, criteria, guidelines, and written policies and procedures. If applicable DMC will also revise its requirements, standards, criteria, guidelines, and written policies and procedures, and provide staff with ongoing training.

Generally, findings that include activities, data or documents that are dishonest, fraudulent, or otherwise misleading, and other serious violations must be referred to the applicable agency, institutional investor, private investor, private mortgage insurer, or warehouse bank within 30-days of discovery.

More importantly, to ensure compliance with all applicable requirements, standards, criteria, guidelines, written policies and procedure, and agreements, the quality control lifecycle must always be completed within 120-days of month-end, even in instances where the aforementioned timeframes are untenable.

However, certain circumstances may cause the timing to become delayed. Examples of circumstances which may cause the timing to become delayed include, but are not limited to, increased or increasing loan volumes, changes in vendors, changes in staffing, holidays, IT challenges, inclement weather, and/or natural disasters. In the event the quality control lifecycle becomes in arrears by more than 1-month, DMC will notify all applicable counterparties as required per its requirements, standards, criteria, guidelines, written policies and procedure, and agreements with each.

4.9.2 Post-Funding Quality Control Audits

The QCD will conduct post-funding quality control audits on loans from both samples, random and discretionary.

The QCD will conduct post-funding quality control audits on loans funded and denied.

The QCD will conduct post-funding quality control audits on all EPD (variant) loans.

Monthly, on the 1st business day of each month, DMC will provide the QCD with production reports. Production reports include details on all loans funded and denied during the previous month. The QCD will utilize production reports to make its random and discretionary selections. Additionally, at this time, DMC will provide the QCD with a list of all EPD (variant) loans.

Monthly, within 15-days of month-end, the QCD will make its loan selections. Both random and discretionary loan selections will be made from funded and denied loans. All EPD (variant) loans are subject to post-funding quality control audits and will be included in the loans selected.

Monthly, after receiving notice of the loans selected by the QCD, DMC will review all loan files selected to determine if IRS tax transcripts are already present. 2-years of IRS tax transcripts (Wage and Income, Record of Account) is required to complete post-funding quality control audits. DMC will process IRS Form 4506-C and order IRS tax transcripts for all loans selected that do not yet have transcripts present in the files. Monthly, 1-week after ordering IRS tax transcripts, DMC will perform follow-up work to ensure that all orders were successfully processed and completed.

Monthly, within 30-days of month-end, the QCD will order reverifications.

Monthly, within 60-days of month-end, the QCD will complete the post-funding quality control audits. At this time, the QCD will provide preliminary reports to DMC for review.

Monthly, within 70-days of month-end, DMC will complete its review of the preliminary reports. At this time, the following tasks will be completed:

- DMC will respond in writing to the preliminary reports.
- DMC will meet with the QCD to discuss recurring findings, issues, etc.
- DMC will review findings with responsible parties.

Monthly, within 75-days of month-end, the QCD will review the preliminary reports and prepare and provide final reports. Final reports include summary reports, loan-level reports, and re-verification files.

Monthly, within 90-days of month-end, DMC will complete its review of the final reports. DMC will complete a management response to the final reports. Where applicable, management responses will include corrective actions.

Monthly, on the 1st Monday of each month, DMC will distribute the final reports and management response to the management group and, as deemed necessary, other responsible parties.

DMC will review the final reports and management response during both its company-wide and management meetings. At this time, DMC's management team will review its requirements, standards, criteria, guidelines, and written policies and procedures. If applicable DMC will also revise its requirements, standards, criteria, guidelines, and written policies and procedures, and provide staff with ongoing training.

Generally, findings that include activities, data or documents that are dishonest, fraudulent, or otherwise misleading, and other serious violations must be referred to the applicable agency, institutional investor, private investor, private mortgage insurer, or warehouse bank within 30-days of discovery.

More importantly, to ensure compliance with all applicable requirements, standards, criteria, guidelines, written policies and procedure, and agreements, the quality control lifecycle must always be completed within 120-days of month-end, even in instances where the aforementioned timeframes are untenable.

However, certain circumstances may cause the timing to become delayed. Examples of circumstances which may cause the timing to become delayed include, but are not limited to, increased or increasing loan volumes, changes in vendors, changes in staffing, holidays, IT challenges, inclement weather, and/or natural disasters. In the event the quality control lifecycle becomes in arrears by more than 1-month, DMC will notify all applicable counterparties as required per its requirements, standards, criteria, guidelines, written policies and procedure, and agreements with each.

The QCD will ensure the following items are reviewed for Pre-Closing Review and Post-Closing Review

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4.9.3 Servicing Quality Control Audits

The QCD will conduct servicing quality control audits on loans serviced by DMC or its sub-contractors. At least 10% of the servicing portfolio will be reviewed annually to verify all loan administration functions are being performed correctly.

The QCD will review at least semi-annually the findings of the monthly servicing reviews performed on any servicing activities performed by DMS or its sub-contractors. The QCD will verify that any findings are provided to anyone involved in servicing loans for DMC.

4.10 The Quality Control Audit

QCA's conduct all quality control audits. QCA's utilize a process engineered and checklist prepared by the QCD to aid in conducting quality control audits. These checklists help QCA's ensure all requirements put forth in this section are fulfilled accurately and reliably. The checklists include a list of conditions, questions, and requirements. Completed checklists also serve as loan-level reports.

At a minimum, QCA's are responsible for completing each of the following tasks for each loan subject to quality control audit:

- Confirm the mortgage loan was underwritten in accordance with all applicable local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements, and that adequate support for the underwriting decision is contained in the loan file.
- Confirm that all loan approval conditions required by the underwriter were satisfied and that the information on all of the closing documents is consistent with the underwriting decision and the final terms of the mortgage loan.
- For loans underwritten using any AUS, the QCA must confirm that all messages, conditions, findings, warnings, and red flags contained in the AUS report were satisfactorily resolved and adequately supported by appropriate documentation. If the AUS returned a Refer, Caution, or Ineligible recommendation, the QCA must confirm that the loan was eligible for delivery to the applicable counterparty.

To do so, QCA's will review, at a minimum, the following data and documents. QCA's must validate all are present and complete, and that the data relied upon in making the underwriting decision is accurate:

- Underwriting decisions and approval conditions.
- The accuracy and completeness of the loan application.
- Data entered into the AUS (DirectWare, DU, LP, GUS).
- If applicable, output from any 3rd party data analysis tools.
- Borrower(s)' Social Security Number(s).
- Employment information.
- Income calculations.
- Assets needed for closing and/or reserves.
- Compliance Report – Consider & Verify.
- Appraisal report.
- Property eligibility.
- When applicable, project eligibility.
- When applicable, compliance with mortgage insurer's guidelines.
- When applicable, adequate mortgage insurance coverage.
- When applicable, sales contract.
- All closing documents for accuracy, completeness, and compliance.
- Title Policy/Commitment.

4.10.1 Appraisals

QCA's will complete a Post-Closing QC Collateral Risk Assessment Analysis ("CRA") via Fannie Mae Form 1033 (or its equivalent) on each loan within appraisal. At current, CRA's have replaced desk reviews. Note, CRA's must be completed even when a desk review or field review is performed. QCA's will review the appraisal for completeness and required addenda, as well as determine if their value conclusion is well supported by the use of bonafide comparable sales and true commentary. Further, QCA's will make the following determinations:

- Determine that a property meets eligibility requirements including the LTV, CLTV, and HCLTV ratios.
- Assess appropriateness of comparable sales.
- Assess appropriateness of the data presented in the appraisal report.
- Conclude that the rationale for the reconciliation of value is supported.
- Prescribe corrective actions for defects identified in the appraisal process.
- Reconcile flags and messages that were identified in Collateral Underwriter ("CU") if the property was able to be scored in CU. If the property was not able to be scored in CU, then reconcile any known quality messages (messages, alerts, flags) that are reflected in other third-party tools if utilized.

If QCA's are unable to complete a CRA or appropriately determine the quality of the origination appraisal, they may order either a desk review or field review from a licensed appraiser. The desk review or field review must account for all of the points in the above-mentioned requirements.

QCA's are responsible for obtaining field reviews on 10% of loans with appraisals. Field reviews must be ordered from a qualified and independent appraiser. Field reviews must include an exterior photo of the subject property, thorough analysis of the original appraisal, and include comments as to the accuracy of the original appraisal. For owner-occupied properties, the appraisers are required to attempt to contact the occupants of the property to verify the occupancy of the borrowers. Compare the review appraisal's results to the original appraisal and note discrepancies and findings. QCA's will determine if the property is acceptable for the program.

QCA's will note any discrepancies and findings between the original appraisal reports and the CRA's and desk and/or field reviews.

4.10.2 Reverifications

Reverifications are an integral part of the post-funding quality control audit. QCA's will order reverifications. Reverifications are not required for pre-closing quality control audits. Reverifications always include, but are not limited to, the following:

- Assets
- Credit (undisclosed liabilities)
- Employment and income
- IRS tax transcripts
- Occupancy

DMC will pay, or reimburse the vendor, for expenses related to obtaining reverification documents.

4.10.2.1 Assets

QCA's are responsible for reverifying all assets listed on the loan application. Each financial institution, or other asset account holder, will be contacted by phone, email, or fax, or via reverification service, to confirm the account name, account type, account holder information, current balance, average balance, and authenticity of the account statements, Verification of Deposit ("VOD") and/or Verification of Assets ("VOA") in the file. The financial institution, or other account holder's, contact information should be obtained independently through public information including internet search results, phone directories, etc. QCA's will determine if the account statements, VOD, and/or VOA in the file was mishandled by an interested 3rd party or the borrower. QCA's will note any discrepancies and findings.

4.10.2.2 Credit (undisclosed liabilities)

Evaluating a borrower's ability to repay their mortgage is crucial for DMC to accurately assess the risk of every mortgage originated and to ensure each complies with all applicable local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and/or satisfies all applicable Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, and written policies and procedures.

When a borrower doesn't disclose all their existing obligations, including any new debts, the calculated debt-to-income ratio ("DTI") is inaccurate, and DMC is unable to evaluate the borrower's ability to repay the loan. This could also increase the likelihood that the loan fails to comply with all applicable local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and/or satisfy all applicable Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, and written policies and procedures.

Undisclosed debt is defined as any loan or liability (e.g., auto, revolving, installment, mortgage, or lease) that exists at the time the borrower closes on the subject loan and is not disclosed by the borrower during origination. Borrowers often incur new debts after the initial loan application is submitted and the origination credit report is pulled but prior to the loan closing.

QCA's are responsible for ordering new tri-merge credit reports. QCA's will then carefully compare the origination credit reports to the new tri-merge credit reports. QCA's will note any discrepancies and findings of additional credit granted.

4.10.2.3 Employment and Income

QCA's are responsible for reverifying each borrower's current employment. Each borrower's current employment will be contacted by phone, email, or fax, or via reverification service, to confirm the hire date, current status, position, and compensation structure, and verify the validity and authenticity of the Verification of Employment ("VOE") in the file. The employer's contact information should be obtained independently through public information including internet search results, phone directories, etc. QCA's will determine if the VOE in the file was mishandled by an interested 3rd party or the borrower. QCA's will note any discrepancies and findings.

QCA's are responsible for reverifying income documents including, but not limited to, VOE's, paystubs, W2's, tax returns, etc. The income documents can be reverified by obtaining a new VOE and reviewing IRS tax transcripts. QCA's will note any discrepancies and findings when comparing the original income documents to reverification documents.

4.10.2.3.1 IRS Tax Transcripts

DMC obtains IRS tax transcripts at the time of origination on certain loans. DMC will review all loans selected for quality control audits to determine if IRS tax transcripts are already present in the loan files. DMC will process IRS Form 4506-C and order IRS tax transcripts for all loans selected that do not have transcripts already present in the loan files.

The QCD requires 2-years IRS tax transcripts (Wage and Income, Record of Account) to complete its quality control audits. QCA's are responsible for confirming all loan files contain 2-years IRS tax transcripts. QCA's will notify DMC if any loan file is missing all or part of the required 2-years IRS tax transcripts. QCA's will note any discrepancies and findings when comparing the original income documents to IRS tax transcripts.

4.10.2.4 Occupancy

QCA's are responsible for reverifying occupancy using documents in the file including evidence of hazard insurance, appraisal report, income and tax documents, etc. QCA's will note any discrepancies and findings with respect to primary, second home, or investment occupancy types.

4.10.3 Consider & Verify

QCA's will verify that the "Compliance Report – Consider and Verify" document is completed and retained in the Underwriter Documents package in scanned images. Underwriters are required to review and document what sources are used when considering how income, assets, debt obligations, alimony, child support, and monthly debt-to-income calculations and residual income was reviewed in determining the ability-to-repay. Acceptable documents include: verifications of employment, paystubs, w-2's, tax transcripts, offer letters, bank statements, retirement account statements, investment account statements, credit reports, liability monthly statements, divorce decrees, separation agreements, etc.

Other documents, such as an underwriter worksheet and automated underwriting system (AUS) certificates may be used when determining the ability-to-pay.

DMC does not allow manual underwriting; therefore, all loans are required to meet investor and agency guidelines. All documents are permanently retained in scanned images.

4.10.4 Discrepancies and Responses

DMC will carefully review all discrepancies noted by QCA's during the quality control audit process, including, but not limited to, discrepancies identified when comparing reverification documents and origination documents.

DMC will respond to all discrepancies noted by QCA's and documented in the QCD's preliminary reports. Responses will be submitted by the original underwriter or the underwriting manager and take the form of either a concurrence or rebuttal.

Rebuttals include attempts to overturn or change the preliminary findings. QCA's will review rebuttals and decide whether to uphold or change their preliminary findings. Rebuttals and their results must be documented in the final reports.

Whenever DMC concurs or a QCA upholds their preliminary findings, DMC must re-underwrite the loan at issue and determine if the changes are within tolerance and/or impact eligibility.

If the loan at issue is in process and the changes are outside of tolerance and/or impact eligibility, it cannot progress and move into closing and funding unless:

- it remains eligible using new loan parameters.
- DMC's President or CEO overturn the QCA's preliminary findings.
- DMC's President or CEO approve an exception for the underwriter and underwriting manager to move forward as-is.

If the loan at issue is sold and contains discrepancies that result in it no longer being eligible, it must be reported within 30 days to Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank as per DMC's agreements with each.

If the finding is related to fraud or possible fraud, Freddie Mac must be notified within 30 days of funding by notifying Freddie Mac Quality Control using the Tip Referral Tool and include at a minimum the Freddie Mac loan number, property address, mortgage fraud/suspicious activity type and category and parties involved.

Not Acceptable Quality (NAQ) loans are ineligible for delivery to Freddie Mac and must be reported within **30 days** after the quality control results are reported in writing to DMC's senior management. Notification is to include any identified significant defects. Notification is required by using the Tip Referral Tool (TRT) in Loan Advisor, and must include at a minimum the Freddie Mac loan number, property address, mortgage fraud/suspicious activity type and category and parties involved.

Repurchased loans are not eligible for resale to Freddie Mac. All repurchased loans are required to be approved by the CEO or president prior to resale in the secondary market and must meet qualifications for sale to other investors.

4.11 Vendor Oversight

Remaining diligent with respect to vendor oversight is crucial for the Policy to be effective. When engaged, vendors are an extension of DMC. Regularly examining their work is required. This step is key and used to ensure that loan defects are consistently and accurately identified.

Monthly, on the 1st Monday of each month, DMC will carefully review and evaluate the vendor's work and performance and prepare a vendor oversight report. The vendor oversight review and correlating report will help ensure DMC's requirements, standards, criteria, guidelines, and written procedures as per the Policy are applied consistently, and that the vendor's reports accurately reflect the quality of DMC's operations and book of business. The Vendor Oversight Audit Report will be provided to and reviewed with management to ensure compliance.

At a minimum, the vendor oversight review and correlating report must include the following components:

- Minimum 10% of the loans audited by the vendor must be reviewed.
- The 10% sample must include both loans for which the vendor identified defects and identified no defects.
- Document whether the loans included in the vendor oversight report and audited by the vendor were done so in compliance with the Policy.
- A description of the sample selected for review.
- Concurrence rates.
- Discrepancies identified by DMC.

The vendor oversight report will be provided to the vendor monthly upon completion. DMC will meet with the vendor no less than quarterly to discuss the vendor oversight reports and conduct other ongoing dialogue.

Further, DMC will review the vendor at least annually to ensure all of the following:

- Vendor is performing quality control audits and providing reports as per the Policy.
- Vendor is completing tasks according to the timelines set forth in the Policy.
- Vendor has its own requirements, standards, criteria, guidelines, and written policies and procedures detailing its review methodology, including selections, reverification practices, identification of defects and trends, and process for reporting those results to DMC.
- Vendor has its own requirements, standards, criteria, guidelines, and written policies and procedures to associate the appropriate severity levels to the identified defects.
- Vendor uses an agreed upon severity rating system and definitions as per the Policy.
- Vendor follows DMC's requirements as per the Policy for managing severity ratings and not changing the initial findings.

- Vendor captures a defect rate in addition to the number of exceptions.
- Vendor has a process to implement corrective actions for defects identified by DMC much like DMC has a process to implement corrective actions for defects identified by the vendor.
- Vendor has a separate process to notify DMC when activities, data or documents that are dishonest, fraudulent, or otherwise misleading are discovered.
- Vendor's staff meet the aforementioned minimum requirements.

The Statement of Work between DMC and the vendor will be reviewed at least every 3-years. Any material changes to the Statement of Work, or any change in vendor, will be considered and approved by DMC's CEO and President.

4.12 Reports

DMC will provide monthly production reports. Monthly production reports include funded, denied, and EPD (variant) loans. The DirectWare Crosscheck Audit File is an example and the current production report.

The QCD will provide monthly loan selection reports that identify all loans selected for quality control audits and whether said loans are included in the random, discretionary, or EPD (variant) selections.

DMC will prepare reconciliation reports to determine which loan files require additional 4506-C / IRS tax transcripts orders.

QCA's will complete loan-level reports which include relevant loan-level data and checklists.

The QCD will provide monthly preliminary reports. Preliminary reports will indicate all findings noted by QCA's. DMC will respond in writing to the preliminary reports.

The QCD will provide monthly summary reports. Summary reports must do the following:

- Describe the sample selection.
- Include results for all loan selections including random, discretionary, and EPD (variant).
- Identify loan defects and final defect rates, organized by severity level and designation (Compliance or Eligibility).
- Identify responsible parties for defects.
- Document the resolution of defects.
- Include defect trending information.
- Be addressed and communicated monthly to DMC senior management.

The QCD will provide reverification files. Reverification files must include all of the following items:

- VOI's and VOE's.
- VOA's and VOD's.
- Tri-merge credit reports.
- Collateral reviews including, as applicable, desk reviews, field reviews, and CRA's.
- 2-years IRS tax transcripts

The QCD will provide monthly final reports. Final reports include summary reports, loan selection reports, loan-level reports, and reverification files.

DMC will prepare a monthly management response.

DMC will prepare a monthly vendor oversight report.

4.13 Other Key Dates

No less than quarterly, DMC will review the vendor oversight reports and conduct other ongoing dialogue with the vendor. DMC will review the Policy at least annually.

DMC will review its target defect rates, severity levels, and designations at least annually.

DMC will further evaluate the vendor relationship whenever its agreement renews, but at least every 3-years.

4.14 Requirements Specific to FHA/HUD Loans

The QCD must regularly review FHA loans with defects identified by HUD issued reports, such as underwriting and NOR (notice of return) reports.

Regarding FHA loans, findings that include fraud or other serious violations will be immediately referred, upon confirmation of deficiency, in writing (along with any available supporting documentation), to the Director of the Quality Assurance Division in the HUD Homeownership Center (HOC) having jurisdiction (determined by the State where the subject property is located). In lieu of submitting a paper report, DMC may use the Lender Reporting feature in the Neighborhood Watch Early Reporting System. If HUD staff is suspected of involvement, the findings must be referred to the Office of Inspector General at 451 7th Street, SW, Room 8256, Washington, DC 20410.

For cases involving the transfer of legal rights to service FHA-insured loans, Direct Mortgage Corp reports the "change of legal rights to service" to HUD and will verify that the "change of legal rights to service" has been reported and that all of the details contained in the report are accurate.

Regarding FHA loan applications rejected by DMC's AUS, when requested, some of these loans will be reviewed by underwriters to see if the rejection is warranted. Loans that are denied will be included in the pool of selected loans for QC.

4.15 Record Retention

DMC will keep all records related to quality control including, but not limited to, production reports, loan selection reports, loan-level reports, summary reports, final reports, reverification files, and vendor oversight reports for a minimum of 7-years.

All EPD QC reports and documentation of follow up action taken to mitigate review findings are retained for 2-years from the initial quality control review or from the last action taken to mitigate the findings, whichever is later.

4.16 Systems

DMC utilizes DirectWare, its own proprietary web-based system to originate and manufacture mortgage loans. DirectWare also serves as DMC's document repository. QCA's access DirectWare to review all data, documents, files, records, and loans as needed to complete quality control audits.

The vendor uses its own system of record to perform quality control audits. The system of record must always include loan-level checklists and the ability to generate loan-level, preliminary, and final reports.

DMC and the QCD utilize Microsoft OneDrive (or its equivalent) to store all reports, correspondence, etc. related to quality control audits.

DMC and the QCD will utilize Microsoft Planner (or its equivalent) to ensure all tasks are completed accurately, carefully, and timely according to the Policy.

Reports are distributed via email and training is conducted in-person or via Zoom (or its equivalent).

4.17 Current Organizational Chart for the QCD

James Beech, CEO

?

Max Doane, President

?

CrossCheck Compliance, Vendor

4.18 CHANGE TRACKING

Change description:
 Changedate: 9/23/2024
 Trainingdate: 9/23/2024
 Changedate: 2/26/2025
 Trainingdate: 3/3/2025

Commented By: Max Doane | Time: 03/19/2025 03:58 PM

Completed

Change Log

User	Action Date	Action
Max Doane	03/04/2025 03:56 PM	Created
Max Doane	03/19/2025 03:58 PM	Completed

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4.17 Current Organizational Chart for the QCD

5. Employee Handbook

5.1 Introduction

5.1.1 Introduction to the Handbook

Purpose of the Handbook

This Handbook is the Company's general guide of human resource policies. It is not comprehensive, does not address all employment issues or policy exceptions, and is not intended to provide specific details in all areas. Many issues (such as benefits) are addressed in detail in other official documents that are controlling. Consequently, employees are encouraged to contact Human Resources or their Manager with their questions.

Policies Are Not Contracts or Guarantees of Rights

These policies are not contractual employment commitments and except for the employment-at-will policy may be changed or revoked at any time. No policy is intended as a guarantee of terms or conditions of employment or of benefits or rights. This Handbook does not alter the employment-at-will relationship in any way. Employment is not for any specific time and may be terminated at will, without notice, at any time with or without cause. Employees may also resign at any time. These guidelines replace any previous oral or written policies and practices regarding matters covered in this Handbook. The only exceptions to these policies are those written and signed by the President.

If you have questions or need help in understanding the policies in this Handbook, please ask a member of Management or contact Human Resources.

5.1.2 Message from Management

Whether you have just joined our organization or have been with us for a while, we are confident that you will find our Company to be a professional and productive organization. Your unique talents and abilities are extremely valuable to us and we look forward to a rewarding and successful association. Direct Mortgage Corporation is proud of the professional services we provide our customers. We believe that our employees are truly our most valuable assets and that each of us directly contributes to our continued success.

This Handbook was developed to establish a framework in which employees' efforts can advance both the Company's objectives and the individual's interests. To further this goal we have adopted human resource policies, which we believe are fair, consistent, and will let employees know what is expected of them. It is our intention that these policies will promote sound management as well as success and growth for each of you as part of our Company team.

Please familiarize yourself with the Handbook's policies, as they should answer many common questions concerning your employment at Direct Mortgage Corporation. Also, please sign and return the Employee Acknowledgement Form found at the beginning of the Handbook.

We hope that your experience is enjoyable, challenging, and rewarding in every respect!

Sincerely,

James J. Beech
CEO

5.1.3 Mission Statement

Direct Mortgage Corporation IS COMMITTED TO LEADING THE MORTGAGE INDUSTRY IN THE DEVELOPMENT AND IMPLEMENTATION OF WEB-BASED MANAGEMENT PROGRAMS THAT INCREASE THE EFFICIENCY AND ACCURACY OF THE ORIGINATION, PROCESSING AND FUNDING OF LOANS.

OUR STRENGTH IS GENERATED FROM DEDICATED EMPLOYEES THAT ARE WILLING TO GO THE EXTRA MILE IN CUSTOMER SERVICE.

OUR COMPANY IS FOUNDED ON THE PRINCIPLE THAT EXCELLENCE IS A REQUIREMENT, NOT A GOAL.

5.2 General Management Practices

5.2.1 Americans with Disabilities Act (ADA)

Scope of the ADA

As part of our Equal Employment Opportunity commitment we will implement all applicable provisions of the Americans with Disabilities Act(ADA). We do not discriminate against any qualified applicant or employee with a known physical or mental disability in any employment practice including hiring, promotion, job assignment, compensation, discipline, training, and termination. Ability, not disability, is the basis of all of our employment decisions.

Reasonable Accommodations

As required under the ADA, we will provide reasonable accommodations for qualified individuals with known disabilities to assist them in performing the essential functions of the job unless the accommodation would create an undue hardship on the Company or create a direct health or safety threat. Any employee or Manager with ADA related questions or discrimination complaints, or anyone seeking an accommodation is encouraged to contact Human Resources.

5.2.2 Employment-At-Will

Although the Company hopes our employment relationship will be along and rewarding one, our policy provides that all employees who do not have individual, written employment contracts for specific, fixed terms are considered employees-at-will. The Company, without notice, may end employment at any time, and for any reason, with or without cause. Employees, likewise, may terminate employment at any time, for any reason.

5.2.3 Equal Employment Opportunity (EEO)

EEO Commitment

Equal employment opportunity has been, and will continue to be a basic principle at Direct Mortgage Corporation. Employment at our Company is based upon merit, ability and qualifications. No qualified applicant or employee is to be discriminated against because of race, color, religion, sex, age, national origin, citizenship, disability, veteran status or other protected class.

Scope of EEO

Our equal employment opportunity commitment applies to all areas of employment including hiring, training, placement, promotion, compensation, and benefits. Employees who feel they are victims or witnesses of discrimination should immediately report this fact to their Manager or to Human Resources. Employees should feel free to raise such concerns without fear of retaliation.

Corrective Action

Appropriate corrective action will be taken against any employee found to have violated this policy.

5.2.4 Harassment

All Harassment Prohibited

All Company employees have the right to work in an organization free of discrimination, harassing conduct, and unwelcome sexual advances or requests for sexual favors. Verbal, physical, or other communication or conduct by an employee, Manager, customer, or supplier which harasses, disrupts, or interferes with another's work performance or which creates an intimidating, offensive, or hostile environment will not be tolerated. All types of harassment, whether based on sex, race, color, religion, age, disability, or other protected class are unacceptable work behavior and expressly prohibited. Same sex and/or heterosexual harassment are prohibited.

Examples of Harassment

Harassment may include conduct (both overt and subtle) that demeans another person or shows hostility toward an individual because of a protected characteristic. Examples include but are not limited to: teasing, unwelcome advances, leers, repeated requests for a date, inappropriate touching, pinching or patting, practical jokes, offensive or lewd remarks, inappropriate personal questions, showing or posting inappropriate pictures or cartoons, and offensive use of the internet, e-mail, voice mail, and other communication systems.

Harassment may exist when:

- Submission to such conduct is made an explicit or implicit term or condition of employment;
- Submission to or rejection of such conduct is used as a basis for an employment decision affecting an individual; or
- Such conduct has the purpose or effect of unreasonably interfering with an individual's work performance or creating an intimidating, hostile, or offensive work environment.

Reporting Procedures

An employee who believes that he/she has been harassed or who has questions regarding this policy is strongly encouraged to immediately contact his/her Manager or Human Resources. Questions and complaints will be investigated promptly and as confidentially as possible under the circumstances. Employees should feel free to raise their concerns or make complaints without fear of retaliation.

Corrective Action

An employee found to have participated in sexual or any other type of harassment will be subject to corrective action up to and including termination.

5.3 Employment Status and Personal Records

5.3.1 Employment Categories

Our employees are classified into several categories: temporary, part-time, or full-time, and exempt or nonexempt. Classifications are important in determining eligibility for various benefits, overtime, and to clarify employment status. Since employees are employed at-will for unspecified durations, established classifications do not guarantee employment.

Each employee's position is designated as exempt or nonexempt.

- **NON-EXEMPT** employees receive overtime pay for work in excess of 40 hours in a workweek. Their work and pay are determined based on their actual hours worked.
- **EXEMPT** employees hold positions that meet specific tests established by the Fair Labor Standards Act (FLSA). They are not eligible for overtime pay.

In addition to each of the above categories, each employee belongs to one of the following employment categories.

- **FULL-TIME EMPLOYEES** are hired to work the Company's normal forty (40) hour workweek on a regular basis. Generally, they are eligible for full benefits subject to the terms and conditions of each benefit and leave program.
- **PART-TIME EMPLOYEES** are scheduled to work less than forty (40) hours per week indefinitely on a regular or irregular basis. Part-time employees are eligible for limited benefits as detailed in each benefit and leave program.
- **TEMPORARY EMPLOYEES** are hired for defined projects and/or limited timeframes and generally are not eligible for Company benefits. Employment beyond any initially stated period does not imply a change in employment status. As with all other employees, temporary employees remain employees-at-will throughout their employment.

5.3.2 Introductory and Initial Employment Period

All employees, both full and part-time are required to complete Initial Employment Periods. The first ninety (90) calendar days of employment after hire are considered to be the Initial Employment Period. During this period an employee's potential for successful performance will be closely examined. It is expected that each employee will also evaluate the Company and his/her position in terms of his/her own personal needs. Under appropriate circumstances the ninety (90) day period may be extended. However, employment remains "at will" both during and after the Initial Employment Period and employment may be terminated at any time for any reason.

5.3.3 Personnel Files and Records

Updating Information

Records and information regarding each applicant, employee, and former employee are kept to ensure compliance with government requirements and to support benefit programs and employment actions. It is important that records are accurate and current. Therefore, employees are asked to notify Human Resources of any changes in:

- Name and/or marital status
- Address and/or telephone number
- Number of dependents
- W-4 (dependent information)
- Emergency contact person
- Immigration status
- Military status
- Insurance beneficiaries

Access to Files

Human Resource files are Company property and therefore access to them is restricted. Generally, only management personnel have access to the files. Employees may review their own records by making a written request for an appointment with Human Resources. A member of Management must be present during any employee review of records. Copies of the records may be made. However, under no circumstances may a file be removed. Contact Human Resources for additional information.

5.3.4 Reference Checks

Refer All Requests to Human Resources

All reference requests and inquiries regarding current or former employees should be directed to Human Resources. No employee may provide a letter of reference for any current or former employee without Human Resource's permission.

No Verbal Release of Information

Under no circumstances may any information regarding current or past employees be provided over the phone. Human Resources will respond in writing only to reference requests that are submitted in writing. Limited information such as verifying name, dates of employment, and job title will be provided without the written consent and release of the individual involved.

5.4 Employment Practices

5.4.1 Complaint Procedure

Informal Problem Solving

Direct Mortgage Corporation seeks to promote an atmosphere where employees are comfortable in voicing their concerns and raising employment related issues. Therefore, employees are encouraged to speak informally and discuss any problems with their Manager so that appropriate actions may be taken. The Company is committed to ensuring a responsive and fair problem solving process at the lowest

possible organizational level and encourages this same commitment from all employees. If such informal discussions fail to resolve an employee's concerns, he/she is encouraged to utilize our more formal complaint procedures.

Formal Problem Solving

Documentation in Writing. If an employee feels that a formal complaint is appropriate he/she should provide a written, detailed explanation to his/her Manager of the problem and related events along with a summary of how the employee would like to see the problem resolved. Complaints must be submitted promptly, generally within ten (10) business days. When a complaint to an employee's Manager may be inappropriate under the circumstances, he/she may submit a complaint directly to the Department's Vice-President or Human Resources.

Appeal. If an employee is dissatisfied with a Manager's decision, he/she may appeal within thirty (30) days in writing to the Department's Vice-President or Human Resources.

Human Resources Assistance

Employees are also encouraged to utilize Human Resources for consultation at any stage in the problem-solving process. Effort will be made to resolve the problem as quickly and as confidentially as possible.

Procedures Are Guidelines

This policy is only a guideline. The Company reserves the right to take action, as Management deems appropriate.

5.4.2 Corrective Action

Employee Responsibilities

All employees are expected to comply with the Company's standards of behavior and performance. Any noncompliance with these standards must be remedied and is subject to corrective action.

Possible Corrective Action

Examples of corrective action include oral warnings, written reprimands, suspension, probation, demotion, and termination. However, nothing in this policy alters the at-will relationship between the Company and its employees and all corrective action policies are guidelines only.

Management Discretion

In cases of serious misconduct or performance problems an employee may be suspended or terminated immediately. Each situation is dealt with on a case-by-case basis in the sole discretion of Management.

5.4.3 Hiring of Relatives and Friends (Nepotism)

Conditions

An employee's immediate relative, close friend, or household member may be hired provided the applicant can perform the essential functions of the job and the employment would not establish a:

- Real or apparent conflict of interest; or
- Potential adverse work situation.

For this policy "immediate relative" includes spouse, parents, step-parents, siblings, step-siblings, aunt, uncle, nephew, niece, grandparent, grandchild, children (whether by blood, marriage, or adoption), mother-in-law, father-in-law, sister-in-law, brother-in-law and anyone else who lives with or has a close personal relationship with the employee. This policy also applies to transfers and promotions.

Employees Who Become Related

If two employees become related or otherwise become subject to this policy's restrictions after hire, one of them must seek a transfer. If a transfer is not possible, the employees will have twenty (20) working days to decide which of them will terminate employment. Management retains complete discretion in approving all employee transfers and reassignments.

5.4.4 Medical Examinations, Drug Testing, and Health Certification

Exams and Testing

As a condition of continued employment, employees may be required to undergo periodic medical exams and drug screenings. Medical inquiries, examinations, and drug testing may be undertaken at Management's discretion if job-related and consistent with applicable legal requirements. A copy of the Company's drug policy is explained in this handbook under the section EMPLOYEE RESPONSIBILITIES.

Medical Certification

Documentation of medical condition and/or suitability for work maybe required at Management's discretion in certain situations (including absence from work, return from leave, request for leave, and request for an accommodation). Additional medical opinions may also be requested.

Criminal Background Checks

State licensing requirements for loan officers state that applicants must be fingerprinted and submit to a criminal background check. This investigation is done by the state. Each employee that is directly related to originating loans must submit to such requirements as indicated in the laws of the state in which they reside.

5.4.5 Outside Employment and Activities (Moonlighting)

Conditions

Employees may hold outside jobs or be involved in outside business, educational, community, political, and charitable activities as long as they continue to meet established performance standards and such activities do not impact business interests, consume company

resources, or create conflicts of interest. An employee's position at our Company is considered to be of primary importance. Employees are expected to devote full attention and energy to our organization.

Consultation with Management

Unless acting as a Company representative, an employee should make clear at all times that he/she is acting on a private, personal basis and not as part of our organization. Management approval should be sought if any doubt exists regarding the appropriateness of an employee's involvement in outside activities.

5.4.6 Performance Reviews

All employees are strongly encouraged to regularly and informally discuss their job performance and goals with their Manager. Additionally, more formal performance reviews are generally conducted after completion of the Initial Employment Period and annually thereafter. Reviews provide an opportunity for employees and Managers to discuss job duties, employee strengths and weaknesses, mutual concerns, and long-term goals. Performance reviews and the appraisal process are subject to Company discretion and may be changed or eliminated, as Management deems appropriate.

5.4.7 Promotions and Transfers

Eligibility

Direct Mortgage Corporation encourages employees to seek more advanced positions or lateral positions for which they qualify. A posting system may be used to inform employees of job opportunities and requirements. Except in unusual circumstances, required by business necessity, employees must have performed acceptably in their current positions for at least [Insert time period] before they seek a transfer and [Insert time period] before they seek a promotion. Additionally, an employee's performance record and skills must support the change in job responsibilities.

Process

All transfers and promotions will be judged individually, based on departmental needs and the skills, abilities, and work record of the employee. Employees seeking a change in position should discuss it first with their supervisor or with Human Resources to determine if their skills and experience meet the requirements of the job. Employees are encouraged to discuss their job plans and career goals at any time with either their Manager or Human Resources.

Management Discretion

While Management intends to work closely with all employees to ensure that job placements are appropriate and satisfying, all staffing decisions are subject to Management's complete discretion. Promotion and transfer guidelines may be disregarded as business needs require.

5.4.8 Serious Illness and Medical Conditions

Employees with serious illnesses or medical conditions (including but not limited to cancer, heart disease, HIV, and AIDS) may wish to continue their active employment. Such employees who are able to meet acceptable performance standards and whose conditions do not threaten themselves or others may continue to work. Reasonable accommodations will be provided as required under the Americans with Disabilities Act (ADA). Discrimination or harassment based on an employee's medical condition will not be tolerated. Employees requiring accommodations or who may have concerns or questions relating to this policy should contact Human Resources.

5.4.9 Termination of Employment

In the absence of a specific written agreement, employees may resign at any time. The Company also has the right to end an employment relationship at any time, with or without notice or cause and for any legal reason. No Manager (except the President) has authority to enter into an employment agreement for any specified time period.

Resignation

All employees should provide advance written notice of their intention to leave the Company. The notice should state the reason for their resignation and give the date of departure.

- Managers and other exempt employees should provide at least four weeks' notice.
- All other employees are requested to give at least two weeks' notice.

Vacation or personal days may generally not be included in the notice period. Employees who fail to give proper notice may be ineligible for re-employment and may lose certain benefits that are not formally accrued. A withdrawal of resignation may not be allowed without the permission of Human Resources.

Exit Interviews

Management may determine that it would be helpful to conduct an exit interview with a departing employee to determine the employee's reasons for leaving and opinions regarding the workplace. The time is also used to arrange for the return of Company property and to answer employee questions regarding benefits and other issues. Such interviews are generally conducted during the last week of employment.

Paychecks

Terminated employees and those who resign will be paid as is required by state law.

Since vacation pay is only for actual vacation time used, terminating employees will not be paid for any unused vacation time.

No payment will be made for accrued sick or other leave days.

Benefits

Benefits including Health Insurance end on the last day of the month in which an employee works. Employees, unless terminated for

gross misconduct, may choose to continue their medical benefits under COBRA. Contact Human Resources for more information.

5.5 Employee Responsibilities

5.5.1 Appearance and Grooming

Service and professionalism are what separate our Company from its competition. The nature of our business demands that an employee's appearance reflects an appropriate professional image and be consistent with an employee's particular duties. Dress, grooming, and hygiene should be appropriate to the nature of work, degree of customer contact, expected business standards, and the need to maintain job safety. Employees with special needs or questions or concerns regarding dress and grooming standards should contact Human Resources. Improperly groomed or dressed employees will be subject to corrective action.

Employees with Public Contact

Employees who frequently interact with the public are expected to be professionally dressed and to convey a positive Company image. Appropriate dress for women includes business suits, dresses, skirts, and dress pants and blouses. Appropriate dress for men includes suits, sports jackets, dress pants.

Employees without Public Contact

Appropriate dress for employees who do not regularly interact with customers or members of the public includes shirts with collars, jeans (clean and in excellent condition), casual slacks and sweaters, and casual shoes. Tennis shoes are not acceptable except on casual dress days. They must be clean and/or new.

Prohibited Attire

Extreme, immodest, or revealing attire is not permitted. Sweatpants, shorts, miniskirts, tank/tube/halter/transparent tops, worn jeans, t-shirts, hats, and other very casual clothing are not permitted.

Casual Days

On designated "casual dress days" employees may wear more in formal attire than usual but still must conform to a "business casual" standard. Employees are still required to wear modest, neat, and clean clothing.

Grooming

Good personal hygiene and grooming are absolutely essential. Hair, beards, and moustaches must be neatly trimmed and appropriate to our business. Extreme hairstyles and jewelry are not allowed including rings and piercings on any part of the body except the ears. Women will be limited to one set of earrings per ear.

Special Dress Standards

As designated by Management, specific dress standards may be required of employees in some positions. Employees who travel outside the office on Company business are expected to adhere to all established dress standards.

5.5.2 Attendance and Dependability

Absenteeism and tardiness burden co-workers, disrupt business operations, and reduce the quality of customer service. Therefore, good attendance, punctuality, and dependability are required of all employees. Attendance and tardiness problems reduce an employee's opportunity for advancement and will result in corrective action up to and including termination.

Company Expectations

Employees are expected to be at work and to return from breaks as scheduled. Employees are also expected to be at their workstations, performing assigned work during all work hours, to work any assigned overtime, and are not permitted to leave work before their scheduled quitting time.

Notification of Absence/Tardiness

Prompt Notice Required. Employees are expected to give their Managers as much advance notice as possible (calling no more than thirty minutes (30) after scheduled starting time) of anticipated tardiness, absence, or of the need to leave early. Employees should explain the reason for the absence or tardiness and when they will return to work. Managers should be personally notified on a daily basis unless a return to work day has been established or an alternate arrangement has been established.

Personal Notification Required. Leaving a voice mail or having someone call for the employee (except in unusual circumstances) does not satisfy this requirement. Another Manager or Human Resources should be notified if an employee is unable to reach his/her Manager. Notifying another employee is not acceptable. Employees should also maintain regular contact with their Manager during any extended absences.

Make-up Time

Management's permission is required for employees to make up missed work time. Make up work should occur very infrequently, may not be used to compensate for frequent tardiness or absences, and may not be allowed if it would cause the employee to work overtime.

Emergency Closings

Severe weather, natural disasters, power outages, and other emergencies may require the closing of Company facilities. As allowed by federal and state law, time off due to emergency closings or shortening of hours is unpaid. Where possible, with Managerial approval, nonexempt employees may be allowed to "make-up" work hours missed due to such closings.

Leaving Company Premises

Employees must receive Management permission before leaving the workplace during working hours.

5.5.3 Communication and Information Systems

The communication systems (including telephone, fax, photocopy machine, voice mail, e-mail, computer files, and Internet systems) are provided for business purposes and are Company property. Consequently, the Company may intercept, monitor, review, and disclose any communication or files as business needs require. Messages or files created, sent, or received are not an employee's private property. Employees should have no ownership or privacy expectations regarding communications or data sent over Company information systems.

All communications both inside and outside the Company should be professional, business-like, and courteous. Communications that are offensive, discriminatory, sexually explicit, non-job related, disruptive, harassing or used to solicit commercial, religious, political, charitable, union, or other non-business causes are strictly prohibited. Improper use of systems and equipment may subject an employee to corrective action.

Telephone

Personal use of the telephone should be minimal. Good judgment should be used in limiting the length and frequency of personal calls. Long distance calls may not be charged to the Company and must either be placed collect or billed to the employee's personal account.

Passwords

All passwords must be disclosed and remain Company property. To ensure security, confidential passwords should not be shared with co-workers. While employees should treat all messages as confidential and should not try to access another employee's mail or files, they should be aware that the confidentiality of messages will not be guaranteed. Passwords do not completely guarantee security and messages that are erased may be retrieved and read.

Internet

The Internet is useful in providing access to a broad range of information. However, employee distraction and performance problems related to Internet use will not be tolerated. The Internet is for business use only.

Security

To ensure the integrity of our communication systems it is critical that employees follow all established security policies and procedures.

5.5.4 Confidentiality

Maintaining confidentiality is a condition of employment. Employees are responsible for acting with complete professionalism when discussing Company business or handling Company information. Information, files, documents, records, plans, and other material relating to Direct Mortgage Corporation, its employees, and customers is considered confidential. The Company's general business affairs should not be discussed with anyone outside the organization except as required in the normal course of business. Inappropriate release of confidential information, either internally or externally will result in corrective action, including possible termination. All questions and requests for confidential information, including reference requests should be referred to Management.

5.5.5 Conflicts of Interest

Employees (and their families or household members) may not participate in activities which conflict with or appear to conflict with the business interests of Direct Mortgage Corporation or which hurt their job performance. Examples of conflicts of interest include but are not limited to:

- Accepting gifts, cash, discounts, and entertainment from business contacts that could be interpreted as given to influence an employee's actions. Employees may accept nominal gifts (those under \$50) such as pens, calendars, Christmas candy, and meals;
- Working for an organization or having outside business interests which compete with Direct Mortgage Corporation or engaging in work that interferes with job performance at our Company;
- Receiving improper personal benefits (directly or indirectly) because of actions taken on the job;
- Improperly using Company facilities, equipment, supplies, or Company name; and
- Developing a relationship with a customer or other business contact which may jeopardize an employee's independent judgment. Inter-office relationships of a romantic nature are discouraged.

Employees who violate Company conflict of interest policies will be subject to corrective action including termination. Employees should contact their Manager or Human Resources if they have questions or if they receive an inappropriate gift (such as one exceeding \$50).

5.5.6 Drug Policy

Our Company has a strong commitment to maintaining a drug-free, healthy, and safe workplace. Consequently the following are examples of acts, which are strictly prohibited while

on Company property or work sites, while conducting Company business off-site, or while operating any vehicle while on Company business:

- The use, possession, purchase, sale, or distribution of any illegal drug, alcohol, or non-prescribed controlled substance;
- Being under the influence of alcohol, illegal drugs, or controlled substances which impair judgment, job performance, or behavior or which threaten employee safety; and
- The use, possession, purchase, sale, or distribution of any legal prescription or over-the-counter drug in a manner inconsistent with the law or being under the influence of such drugs if behavior, performance, or safety is impaired.

These activities are serious violations of Company policy and will subject employees to corrective action up to and including termination. Off-the-job use, possession, sale, etc. of alcohol, illegal drugs, or controlled substances may also subject an employee to corrective action if such actions impact job performance, workplace safety, or Company interests. Additionally, Direct Mortgage reserves the right to conduct drug and medical tests on any employee or applicant at any time, unless prohibited by law.

5.5.7 Employee Conduct and Work Rules

Rules and standards regarding employee behavior are necessary for the efficient operation of the Company and for the benefit and safety of all employees. All employees are expected to meet established performance and conduct requirements. While it would be impossible to compile complete lists of expected behavior and/or unacceptable conduct subject to corrective action, the following guidelines provide a general outline of expectations.

Performance

Employees are expected to perform their jobs efficiently, effectively, and in accordance with established procedures. Examples of unacceptable performance include:

- Failure to meet quality standards and deadlines;
- Refusal to work overtime or failing to accept work assignments;
- Insubordination or failing to follow Manager directions;
- Unprofessional conduct or rudeness to customers; and
- Violation of safety rules.

Attendance

Employees are expected to arrive at work as scheduled and to return from breaks promptly. Examples of attendance misconduct include:

- Unexcused or excessive tardiness or absences; and
- Leaving work early or leaving Company premises without permission.

Honesty and Integrity

Employees are expected to demonstrate honesty and professionalism in the conduct of all business activities, including observance of the spirit as well as the letter of the law. Additionally, employees are responsible for reporting any illegal or unethical actions of employees and non-employees to Management. Examples of unacceptable actions include:

- Willful or negligent damage, theft, or misuse of property;
- Falsification of Company records or documents (including time records, absence reports, expense accounts, and other business records);
- Failure to report injury or unsafe conditions or to cooperate in Company investigations;
- Disclosing confidential information without authorization; and
- Use of Company time or equipment for unauthorized or personal purposes.

Behavior

Employees are expected to conduct themselves professionally and to meet established standards of behavior. Examples of unacceptable employee behavior include:

- Violation of dress and grooming standards;
- Working under the influence of illegal drugs and/or alcohol;
- Possession, use, or sale of alcohol or illegal drugs at work;
- Using offensive, foul, or abusive language;
- Possession of guns, explosives, or other weapons on Company property;
- Fighting with or threatening employees or non-employees;
- Harassment or discrimination of any kind (including sexual harassment);
- Any intentional or negligent act which endangers the safety, health, or well-being of another person; and
- Misconduct or any act which disrupts work or discredits the organization.

The expected conduct and work rules outlined above are merely examples of the types of behavior that may subject an employee to corrective action. Our Company, as an at-will employer, maintains complete discretion over corrective action and termination policies and practices.

5.5.8 Employee Inventions

Some employees may develop or invent new products, software, processes or other intellectual property during employment or arising out of our employment relationship. As a condition of employment, the Company retains exclusive ownership of such inventions, improvements, software, and other work created during employment or which arises out of our business.

Employees must promptly inform their managers of each invention, software development, improvement, discovery, related documentation or other work creation.

They are also obligated to assist the company, without further compensation, in obtaining patent, copyright or other legal protection. However, such inventions remain Company property whether or not they are otherwise legally protected.

5.5.9 Personal Property, Searches, and Inspections

Protecting Personal Property

Employees will be assisted in protecting their personal property while at work, however the Company does not assume responsibility for its theft, damage, or disappearance. Consequently, employees should not keep valuable property or large amounts of cash at work. Good judgment should also be used when displaying personal items. Employees should ensure that such items are professional and do not hamper Company functions or sales efforts.

Searches and Inspections

To ensure workplace security and safety, all Company facilities, Company property(including desks, work stations, lockers, files, etc.), and employee's personal property on Company premises are subject to inspection without notice and upon request.

Employee Responsibilities

All employees are responsible for assisting with the security of Company property and work areas and any related investigations. Employees should immediately notify Management of any unfamiliar or suspicious persons in their work areas and offer assistance or escort such persons as is appropriate.

5.5.10 Public Relations and Customer Service

Our Company's goal is to provide unequalled customer and business service. Employees are expected to be professional and to interact politely and patiently with all customers and business contacts. Employees should always attempt to satisfy customers' needs or questions and to build goodwill. Public relations problems should be reported to Managers who may assist and provide suggestions for resolving problems. Direct Mortgage Corporation always welcomes employee input or suggestions regarding customer service, public relations, and improvement of total quality.

5.5.11 Safety

Safety is the responsibility of each employee. Observance of safety rules and use of safety devices are conditions of continued employment. Such safety rules include:

- Reporting to a Manager or Human Resources:
 - Any work-related injuries and illnesses, no matter how minor;
 - Unsafe conditions or practices (reports may be made anonymously if necessary); and/or
 - All suspicious persons, potentially violent situations, or persons possessing guns or other weapons;
- Using only tools and equipment which the employee is fully qualified and authorized to use and using all safety equipment, prescribed adaptive devices, and procedures; and
- Providing safety suggestions.

Employees who violate Company safety policies may be subject to corrective action up to and including termination.

5.5.12 Smoking

We are committed to providing a work environment that supports employee health and safety and Company productivity. For the protection of all employees and to ensure compliance with federal and state law, smoking is not allowed in Company buildings including any work areas, break rooms, and hallways. Employees who do smoke should do so outside in authorized areas at least 25 feet from the building during approved breaks and lunch periods. Employees who use their rest breaks to smoke should ensure that smoking areas remain clean and that scheduled break times are not exceeded. Visitors should also be asked to smoke outside. Any smoking controversy that cannot be satisfactorily resolved by the individuals involved and/or their Manager should be referred to Human Resources.

5.5.13 Solicitations and Distribution Activities

In order to minimize work interruptions and to maintain productive business operations, employee solicitation and distribution activities (such as soliciting contributions, distributing information or literature, gathering petitions, and soliciting memberships and dues) are restricted on Company premises. Such activities are prohibited during working time, in work areas, on Company bulletin boards, and throughout Company communication systems, including e-mail. (Lunch and rest breaks are not considered working time.) The sale of goods and services is prohibited. Additionally, off-duty employees may not return to Company work areas, except as customers.

At Management's discretion, limited exceptions to this policy during non-working time may be allowed such as charity fund raising drives, employee gift solicitations, and business-related sales and service presentations. All posted or distributed information requires the prior authorization of Human Resources.

5.5.14 Possession and Use of Weapons

Employee and customer safety and security are important to us. Therefore no employee(except authorized security personnel) may possess any deadly weapon on Company premises, including in any vehicle in the parking lot. This weapons ban includes employees legally licensed to carry weapons. Employees who violate this policy will be subject to immediate corrective action up to and including termination.

5.6 Compensation and Benefits

5.6.1 COBRA – Insurance Continuation

In some instances, employees or their dependents, that lose or become ineligible for their group health insurance plans, may pay for a temporary extension of coverage through COBRA. COBRA coverage is not automatic. Employees must inform Human Resources that an extension in coverage is desired and then complete and submit all required paperwork within the required time limits. The following are examples of qualifying events and beneficiaries under COBRA:

Coverage may continue for up to eighteen (18) months upon an employee's retirement, termination (voluntary or involuntary), reduction of hours, layoff, or leave of absence. However, employees fired for gross misconduct are not eligible for coverage.

Coverage for dependents may continue for up to thirty-six (36) months because of divorce/legal separation, ineligibility of a dependent child, a covered employee/retiree becoming entitled to Medicare, or because of the death of the covered employee/retiree.

COBRA is a complicated and technical law. Contact Human Resources for complete information and assistance.

5.6.2 Insurance and Retirement Benefits

Eligible employees are offered various insurance and retirement benefits. Information summarizing these benefits is provided to participating employees periodically and as required by law. The programs outlined below are described in detail in official documents located in Human Resources. These documents are controlling and should be reviewed when specific questions arise. Benefit plans involving current, past, or retired employees may be changed or eliminated at any time at the Company's sole discretion.

Benefits Offered

Eligible employees are provided a wide range of benefits in addition to those required by law (such as Social Security, Workers Compensation, and Unemployment Insurance). Eligibility depends upon a number of factors including employee classification (such as full-time or part-time) and time employed. Some plans require employee contributions and waiting periods.

Benefits Plans Include:

- Health Insurance. The Company will participate in the payment of the employee's health insurance plan. The Company reserves the right to change the percentage of participation, at will.

5.6.3 Overtime

Employees may occasionally be required to work overtime hours to meet business needs. Management will attempt to schedule overtime fairly and consistently, however advance notice may not always be possible. Failure to work overtime or working overtime without authorization may result in corrective action up to and including termination.

Calculating Overtime

Non exempt full-time and part-time employees are eligible for overtime pay for work performed beyond forty (40) hours per week. Exempt employees are not eligible to receive overtime pay. Prior approval of a Manager is required before any non-exempt employee may work overtime. Work beyond 40 hours per week will be paid at one and one-half times the employee's hourly rate. Overtime is calculated based on a single workweek beginning at midnight on Sunday and ending at midnight on the following Sunday.

Based on "Hours Worked"

As required by law, overtime pay is based on actual "hours worked." Time off for lunch breaks, sick leave, vacation, holidays, funeral leave, jury leave, leave of absence, or similar time off is not considered "hours worked" for calculating overtime.

5.6.4 Salary and Payroll Procedures

We seek to provide fair, competitive wages and salaries that recognize each individual's unique contribution to the overall goals of the organization. Salary increases, when granted, are based on merit, job performance, position, and Company financial health. We also seek to provide timely and accurate payment to employees in compliance with all applicable laws. Employees who have questions or concerns regarding any compensation programs or policies are encouraged to contact their Manager or Human Resources. Salary policies and procedures are made in the Company's sole discretion and may be unilaterally modified or revoked at any time.

Pay Procedures

Employees are paid twice each month; on the 5th and on the 20th day of each month. The pay period paid on the 20th consists of 15 days beginning on the 1st and ending on the 15th day. The pay period paid on the 5th consists of the number of days beginning on the 16th day and ending on the last day of each calendar month. Time cards and commissions earned must be turned in the day following the pay period end to ensure a timely payroll.

If payday (the 5th or the 20th) is on a Saturday, then payroll will be on the Friday before; if it falls on Sunday, then payroll will be on the Monday after. If a payday happens to fall on a scheduled day off (such as a holiday), checks will normally be distributed on the next working day after the scheduled pay date.

Paycheck Distribution

Paychecks will be deposited directly into an employee's checking or savings account. Arrangements for mailing or pick-up by another person must be made in advance and in writing with Human Resources. Under no circumstances will the Company release any paychecks early and salary advances may not be made.

Lost Checks

Payroll must be notified in writing as soon as possible if a paycheck is lost so that a replacement check can be issued. However, the Company is not responsible for a lost check if payment cannot be stopped. Stop payment processing fees are the responsibility of the employee.

Time Records

To ensure that employees are accurately paid and that we are in compliance with applicable law, complete records of employee hours worked must be kept.

Non-exempt employees are required to record actual time worked including starting and ending time and time off for lunch. The use of accrued leave time must also be recorded on official time forms. All overtime hours require prior approval of Management.

Exempt employees are not required to record actual time worked but must account for daily attendance and record accrued leave days used. Salary deductions may be made for full day absences of exempt employees if the employee is absent a full day for personal reasons or because of illness or injury if he/she has yet to qualify for the leave plan or has exhausted his/her leave allowance.

Care should be taken to ensure that time records are completely accurate. Falsifying any time record or completing another employee's record is strictly prohibited.

5.6.5 Working Hours

As allowed by law, the Company reserves the right to schedule work hours as business and organizational needs require. Daily and weekly work schedules may be changed at the complete discretion of the Company to meet varying job responsibilities and business conditions. While attempts will be made to establish steady and predictable hours, there are no guarantees of minimum or maximum hours and lack of notice is not an acceptable reason for refusing work.

Lunch and Rest Breaks

Full-time nonexempt employees are generally scheduled to work eight (8) consecutive hours daily with a required, unpaid one-hour lunch break. The length of the break may be changed if business needs require. Part-time employees who work more than 1/2 of a day will also receive a meal break. Full-time non-exempt employees are entitled to breaks as is appropriate. Employees who work through rest breaks may not leave work early and will not be paid additional compensation. Exempt employees are also entitled to breaks as is appropriate.

5.7 Time Off

5.7.1 Funeral Leave

Eligibility

Full-time employees who have completed their Initial Employment Period are eligible to use funeral leave. Part-time employees are not eligible for paid funeral leave but may, with Management's approval, use unpaid leave to attend a funeral or handle family affairs.

Time Allowed

Funeral leave of up to two days with pay is provided in cases of death in the immediate family providing such a length of time is required.

Immediate Family Defined

For the purposes of this policy, "immediate family" includes spouse, parents (including in-laws), children, stepchildren, daughter-in-law, son-in-law, siblings, grandparents, grandchildren, and any member of an employee's household.

Non-Immediate Family and Close Friends

In limited and unusual circumstances, paid funeral leave may be provided to attend the funeral of a non-immediate relative or close personal friend.

Approval by Management

An employee requiring funeral leave should immediately inform Human Resources and his/her Manager. In all instances, funeral leave requires Management's approval.

Extra Time

If more than two days are needed because of travel time or extenuating circumstances, an employee may use vacation leave or unpaid time off, if approved. Accrued sick leave may not be used for funeral leave.

5.7.2 Holidays

Direct Mortgage Corporation recognizes the importance of leisure time and will observe holidays as annually designated by Management.

Eligibility

Full-time employees who regularly work at least forty (40) hours per week and have completed their Initial Employment Period are eligible for holiday pay. Part-time employees are not eligible. Exceptions can be granted on a case by case basis.

To be eligible for holiday pay an employee must work (or be on approved vacation or leave in active pay status) the last scheduled day immediately before the holiday and the first scheduled day immediately after it. Holiday pay will not be approved when it is the employee's last day of employment or the employee is scheduled to work and is absent without excuse.

Schedule

Currently the following holidays are observed:

- New Years Day**
- Civil Rights Day
- Memorial Day
- July 4th **
- Labor Day
- Thanksgiving Day
- Christmas Day**

(**If the holiday falls on a weekend, the company will typically observe the holiday on the same day as the federal government. Check with your supervisor to see if/when the weekend holiday is observed)

Holidays on Weekends and During Vacations

If a holiday falls on a weekend it may be observed, at Management's discretion, either the Friday before or the Monday after the holiday. If a Company holiday occurs during an employee's scheduled vacation it will not be counted as a vacation day and the employee will be granted another day off which may be added to the present vacation period or, with Management's permission, taken at a later date during the vacation year.

Working Holiday

Business necessity may require scheduling employees to work on Company holidays. Employees required and approved to work on scheduled holidays will receive a personal day to be used, with Management's permission, at any time during the year.

5.7.3 Jury, Witness, and Voting Leave

Employees are encouraged to fulfill their civic responsibilities by serving jury or witness duty and voting in public elections.

Jury and Witness Duty

Eligibility. All employees are eligible for court-ordered witness or jury leave.

Pay. Full-time employees who have completed their Initial Employment Periods will be paid at their regular base rates for up to fourteen days of jury or witness duty in any calendar year. In addition to the fourteen days, exempt employees are also paid for any days during weeks they actually perform work.

Non-Paid Leave. Part-time employees and full-time employees who have not completed their Initial Employment Periods do not qualify for paid jury leave. In those instances or where paid leave has been exhausted, employees may take unpaid leave or use accrued vacation or personal leave as appropriate.

Procedure. Employees must immediately provide Human Resources with copies of court notices. Jury or witness pay and leave will not be authorized without prior documentation. Employees are expected to check in daily with their Manager and provide updates of their availability for work.

Breaks in Duty. Employees should report to work on any business days that the court schedule permits or if released from court early.

Jury Compensation. Fees received for jury or witness service must be submitted to the Company to receive jury pay. Employees who do not qualify for paid leave may retain their jury/witness fees.

Time off to Vote

Employees whose work schedules do not allow them the opportunity to vote in elections may receive up to 2 hours of paid time off to vote. Voting time must be scheduled at the beginning or end of the employee's workday and requires Management's authorization. Time off to vote should be requested at least one day prior to Election Day to minimize disruption of operations.

5.7.4 Leaves of Absence

Family and Medical Leave

Family and medical leaves of absence will be granted in accordance with the Family and Medical Leave Act (FMLA) and applicable state law. The law is complex, so employees are encouraged to contact Human Resources with their questions and if they are anticipating needing to take leave.

Eligibility. Employees are eligible for FMLA leave if they have:

- Worked for the Company for at least twelve (12) months (which need not be consecutive);
- Worked for at least 1,250 hours during the previous twelve (12) months; and
- Reasons for FMLA Leave. FMLA leave may be taken for any of the following reasons:
 - The birth of an employee's child or the care of the newborn child;
 - The placement of a child with an employee for adoption or foster care, or to care for the newly placed child;
 - To care for an employee's spouse, child, or parent (but not in-law) with a serious health condition; and/or
 - An employee's own serious health condition that makes the employee unable to perform one or more of the essential functions of his or her job.

Leave Time Allowed.

- **Leave Permitted.** The FMLA allows eligible employees to take up to twelve (12) workweeks of leave during a "12 month period" for the family and medical reasons listed above. The twelve (12) month period is determined by a rolling calculation and is measured backward from the date leave is used.
- **Husband and Wife Employed.** If a husband and wife are both employed by the Company, each may take twelve (12) workweeks leave for his or her own serious illness or to take care of their sick child or each other. However, a married couple is limited to a total of twelve (12) workweeks for the birth, adoption, or foster placement of a child, to care for a sick parent, or when leave is taken to care for a healthy infant or adopted child.
- **Intermittent or Reduced Schedule Leave.** Leave for serious health conditions of the employee, spouse, child, or parent may be taken, when medically necessary, either continuously, intermittently, or on a reduced schedule. However, employees must make reasonable efforts to schedule treatment and care so Company operations are not disrupted. No intermittent or reduced leave is permitted for parental leaves except under unusual circumstances and with Management's permission.

Notice. If possible, employees must give thirty (30) days advance written notice to Management of the need to take FMLA leave. If such advance notice is not possible, notice should be given as soon as possible, within one (1) or two (2) business days of learning of the need for leave. Employees should submit a request for leave form and request an appointment with Human Resources prior to beginning leave.

Medical Certification. Employees may be required to obtain initial medical certification from a health care provider to support leave requests. Additionally, the Company may require an employee to obtain a second or third medical opinion at Company expense. During the leave the Company may also require periodic re-certification as allowed by law.

Use of Accumulated Time Off. As part of the FMLA leave, employees must use accumulated time off as outlined below. Once accrued "paid time-off" is exhausted, the remainder of an employee's leave will be unpaid.

- **Sick Leave or Family Medical Leave.** An employee on a sick or family medical leave must use (as allowed by law) accrued leave (vacation, sick, and personal leave) while on leave from work.
- **Parental Leave.** Employees on parental leaves must use vacation days and personal leave accrued but may not use accrued sick leave.

Benefits.

- **Insurance.** During FMLA leaves employees may continue group health coverage under the same conditions as if they had been continuously employed. Employees are responsible for continued payment of their share of health insurance premiums, if applicable. For the portion of an FMLA leave that is unpaid payment arrangements must be made. As provided by law, the Company may recover any health insurance premiums it paid for an employee who fails to return from leave.
- **Length of Service Benefits Do Not Accrue.** Employees retain their accrued benefits while on leave. However, benefits that accrue according to performance of actual work (including vacation, holidays, and sick leave) do not accrue during leave periods.

Reinstatement. Employees returning from sick leaves must provide certification of their ability to resume work. An employee is entitled to reinstatement only if he/she would have continued to be employed had FMLA leave not been taken. Employees returning from FMLA leaves will be reinstated to their same or equivalent positions as required by law. However, as permitted by law, reinstatement may be denied to "key employees" if necessary to prevent substantial harm to Company operations.

Military Leave

A military leave of absence will be granted as legally required if a full or part-time employee enters any branch of the Armed Forces, Reserves, or National Guard or is called to duty or for training, for a period (generally) not to exceed five (5) years. By law, employees returning from military service possess reinstatement, seniority, compensation, benefits, and other rights. Military leave rights and responsibilities are complicated; Human Resources should be contacted for details and further information.

Employee Notice Requirements. To qualify for an approved leave, an employee must, where possible, give notice of the anticipated military service. A copy of orders should be included with the notification.

Use of Paid Leave. If desired, employees on approved Military leaves may utilize accrued vacation or personal leave. Otherwise, leave is unpaid.

Personal and Other Leaves of Absence

Direct Mortgage Corporation may grant a leave of absence to eligible employees who require time off from work to fulfill personal obligations. Such leaves are generally unpaid. Management's approval of personal leave will be based upon the employee's work record, the reason for the request, and business needs.

Eligibility. Full-time employees are eligible for non-FMLA personal leaves of absence if they have:

- Worked for the Company for at least two years prior to the leave request; and
- Have exhausted all paid vacation.

Part-time employees may be eligible for leave in exceptional circumstances.

Types of Leave. Leaves of absence may be granted for personal reasons, educational purposes, for community service, or religious purposes.

Requesting Leave. The employee's Manager and Management must submit requests for leaves in writing to Human Resources for review. If possible, leave requests should be made at least fourteen (14) days in advance. Employees should meet with Human Resources prior to beginning any leave to discuss the employee's responsibilities and rights and any benefit continuation. All leave requests are completely subject to managerial discretion.

Reinstatement. Business conditions do not permit the Company to guarantee that an employee will be reinstated to his/her old job or a comparable one. Upon return an employee's seniority and service credits will be reinstated, however paid leave (vacation, sick leave, holidays, etc.) does not accrue during an unpaid leave.

Communication with Company during Leave. An employee on a leave of absence should maintain regular communication with the Company and provide notice of any changes in plans or intention to return to work.

5.7.5 Sick Leave

It is critical to our operations that every employee be dependable and on the job. However, Management recognizes that an employee or immediate family member may occasionally be temporarily disabled by injury or illness. The sick leave policy is designed to provide protection to eligible employees against loss of income during unavoidable absences.

Management Approval

All sick days are subject to management approval, and paid sick leave is granted at the sole discretion of management.

Eligibility

Full-time Employees. Full-time employees who regularly work at least forty (40) hours per week and have completed their Initial

Employment Period may be eligible for sick leave pay. Part-time employees are not eligible. Exceptions may be granted on a case by case basis, granted at the sole discretion of management.

At Management's discretion authorized absences without pay may also be granted to full-time employees who have no accrued leave available.

Part-time Employees. Part-time and temporary employees are not eligible for paid sick leave but may take unpaid absences as approved by Management.

Accrual

Full-time employees accrue sick leave immediately, but may not use it until completion of the Initial Employment Period. No sick leave may be used until it is accrued and sick leave will not accrue during an unpaid leave of absence.

Rate. Sick leave is accrued at a rate of one (1) day per every two (2) months worked. This could potentially accrue a total of six (6) days for one year.

Maximum Accrual and Carryover. Employees may carryover unused sick days into the next year and accumulate a maximum of twenty-four (24) days of sick leave. Days in excess of twenty-four (24) will be lost.

Unused Accrued Days

Unused sick days may not be traded for cash or vacation days. Additionally, employees are not paid for accrued sick days at termination.

Use of Sick Leave

Sick leave is intended to provide income protection in the event of the disabling illness or injury of an employee or member of his/her immediate family, which includes a spouse, children, stepchildren, or parent.

Physician Certification

During any medical absence, the Company may request written certification of the illness or injury from the employee's physician. Periodic re-certification may also be required. Additionally, a verification or release by a health care provider may be a condition of returning to work. The Company also reserves the right to require that a physician of its choice as allowed by law examine an employee.

Abuse of Sick Leave

Employees who abuse sick leave policies or misrepresent the reasons for using sick leave will be subject to corrective action up to and including termination.

5.7.6 Vacations

Time away from work to rest, relax, and pursue personal interests is important. Therefore paid vacation days will be provided to eligible employees.

Eligibility & Accrual

Direct Mortgage provides vacation benefits to the following eligible employees:

- Regular full-time employees

You begin accruing vacation time from the date of your hire. **You become eligible to use your earned vacation after one year of service – your Anniversary Date – and on every Anniversary Date thereafter. Vacation is earned according to the schedule below.**

Based on Actual Time Worked. Vacation time accrues based on actual time worked and does not accrue during unpaid leaves, workers compensation leaves, or layoffs.

Based on Length of Service. Vacation days accrue immediately but may not be taken until they are earned in accordance with the following schedule:

Length of Service	Vacation Days/Year
1 Year	Two weeks
2 Years through 5 Years	Two weeks
6 years through 10 years	Three weeks
Over 10 years	Four Weeks

(For example, if your date of hire is 4/26/2007, you accrue (but cannot use) vacation during your first year of employment. On your anniversary date of 4/26/08 you have earned two weeks of paid vacation that must then be used during your 2nd year of employment – which is between 4/26/2008 and 4/26/2009. If the earned vacation is not used during that period, it is non-accruing, and shall not be carried forward).

Carry Over

Vacation days may not be carried forward into the following years. Employees must use their earned vacation by the end of the year following the year in which it is earned.

Scheduling

Vacation time should be requested as early in advance as possible. All requests are subject to Management approval based upon operating requirements and staffing considerations.

Pay for Unused Vacation

Current Employees. - Employees must use their earned vacation by the end of the year following the year in which it is earned. No payments will be made for unused vacation time.

Terminated Employees. - Terminating employees will not be paid for any unused vacation time (Special circumstances in California, please see your HR representative)

5.8 Expenses and Reimbursement

5.8.1 Control of Expenses and Reimbursement

Employees should play a strong role in controlling expenses of products and services used in business related activities. Management and itemized receipts must approve all expenses in advance or evidence of expenditures must be submitted with all reimbursement requests. In limited circumstances, employees may be given cash advances to cover reasonable, anticipated expenses. Employees should contact their Manager for detailed information and procedures for receiving reimbursement.

Personal Promotion and Marketing Expenses

Loan officers may choose to invest in their business by marketing using their own funds. To be reimbursed for these expenses, you will upload the actual receipts of the marketing expenses you want reimbursed. If approved by management, then your wages will be reduced by the amount of the reimbursement, and the reimbursement will then be paid during the normal bi-monthly payroll process.

Abuse of Expense Policy

Employees who abuse the expense policy including falsifying or exaggerating expenses and incurring unnecessary and excessive expenses will be subject to corrective action up to and including termination. Unnecessary, unauthorized, and/or unreasonable expenses will not be reimbursed and will be the personal responsibility of the employee.

Business Entertainment and Gifts

Providing nominal business entertainment, meals, and gifts to customers or potential customers may be useful to establish or enhance working relationships. However, prior authorization must be obtained and spending and reimbursement guidelines met before reimbursement will be made. Employees should contact their Manager for authorization and further information.

Business Travel

Employees will be reimbursed for all actual and reasonable travel expenses, including transportation, meals, and lodging costs provided such expenses are incurred in the authorized conduct of Company business. All business travel must be approved in advance and employees are responsible for securing reasonable and cost-effective travel arrangements. Employees should contact their Manager for travel guidelines and reimbursement procedures.

Car Expenses

Company-owned cars may be provided to employees with demonstrated business needs. Additionally, employees may be reimbursed for use of their own cars on Company business. All vehicle reimbursements require prior authorization from Management and must meet established reimbursement guidelines and procedures. Employees should contact their Manager with their questions or for detailed information.

Education and Development

Employees are encouraged to continue their education in order to maintain and enhance current skills and to prepare themselves for advancement opportunities. Consequently, Company educational assistance may be offered in qualifying instances.

Requirements for Educational Assistance. Financial assistance may be provided to full and part-time employees for education and training if a number of business related requirements are met. Such requirements include that an acceptable educational institution offer the training and directly relate to the job and Company needs, and the employee must have exhibited satisfactory job performance and completed the Initial Employment Period.

Pre-Authorization Required. To guarantee reimbursement, Human Resources must approve requests for educational assistance prior to enrollment. Human Resources should be contacted for specific procedures and reimbursement requirements.

Employee Termination. Employees will not be reimbursed for education or training if prior to completing coursework they terminate voluntarily or are terminated for not fulfilling job responsibilities or for violating expected rules of conduct.

Employee Repayment of Educational Assistance. Educational assistance is provided with the expectation that employees will remain with the Company and use their newly acquired skills. However, if an employee voluntarily terminates employment following training, he/she may be required to reimburse the Company for:

- The full amount of training costs if resignation occurs within six (6) months of completing the coursework; or
- One-half of training expenses if the employee resigns between six (6) months and one year after completing the training.

Participation in Professional and Other Organizations

Membership and participation in professional organizations can be important in promoting employee development and our Company's business interests. Professional memberships and related expenses may be reimbursed with the advance approval of Management. Employees should contact their Manager for reimbursement guidelines and procedure.

Direct Mortgage

Electronic Communications & Instant Messaging (I/M) Policy

Purpose

As electronic communications evolve, human resource departments must develop policies governing the use of workplace electronic communications. Many employers that provide Internet service and e-mail systems encounter problems because employees use these electronic communications systems to transmit illegal, obscene, discriminatory, or defamatory messages, either via e-mail, instant messaging, or blogs. In addition, employees' use of cell phones or camera phones to invade co-workers' privacy, reveal trade secrets, or send offensive messages or images has increased. The types of electronic communications technologies and the ways they are used in the workplace are changing rapidly, and employers must be ready to adapt their workplace policies to those changes.

Instant Messaging – when used for business purposes – can be an effective way to increase DMC's workplace productivity.

When Instant Messaging is used inappropriately, it can be one of the biggest deterrents to our workplace productivity. I/M is not provided nor intended for personal use.

Employees should remember that company-provided electronic media and services are Direct Mortgage's property and as such, they are designed to foster company productivity and promote organizational goals.

Policy

All DMC's Electronic communications systems must be used solely for business. All e-mail, instant messaging, blogs, and other forms of electronic communications used at work are like memos, letters, and other business tools. The use of such electronic communications tools must conform with all other company policies and accepted standards of good business practice.

All e-mail, instant messaging, and other electronic communications sent, received, or stored on companies' computer systems are DMC's property;

Employees should have no expectation of privacy with respect to their electronic communications;

Personal use of e-mail or instant messaging must be kept to a minimum; I/M may only be used when authorized by your supervisor. When I/M is utilized, it is to be used for business purposes only. I/M is not provided nor intended for personal use.

Security measures, such as passwords and USER ID's, must be kept strictly confidential, and are not at any time to be shared with anyone;

DMC bans any transmission of materials that are illegal, obscene, discriminatory, harassing, or defamatory.

This policy applies to all electronic media and services that are:

- accessed on or from company premises,
- accessed using company computer equipment or via company-paid access methods, or
- used in a manner that identifies the individual with Direct Mortgage.

Prohibited Communications Using Employer-Provided Systems

Electronic media provided by Direct Mortgage cannot be used for knowingly transmitting, retrieving, or storing any communication that:

- is discriminatory or harassing;
- appears derogatory to any individual or group;
- is obscene;
- can be seen as defamatory or threatening;
- reveals company trade secrets, development plans, or other information that could harm Direct Mortgage; or
- is used for any purpose that is illegal or contrary to Direct Mortgage's policy or business interests.

Appropriate Use of Workplace Systems

Employees should try not to cause network congestion when they send or receive e-mail or use any other electronic media and services.

Access to Employees' Communications on Workplace Systems

Direct Mortgage can monitor electronic information created and/or communicated by employees using e-mail, word processing, utility programs, spreadsheets, Internet, and similar electronic media.

Direct Mortgage reserves the right to review employees' electronic files and messages to the extent necessary to ensure that electronic media and services are being used in compliance with the law, this policy, and other Direct Mortgage rules.

Employees should assume that electronic communications are not private. They also should keep in mind that whatever they send in e-mails using Direct Mortgage systems will be in those systems or on the Internet for a longtime.

Some Inappropriate uses include (but are not limited to):

- Solicitation of any meeting with another employee for anything network related;
- Any communication to any employee not work related;
- Distributing DMC's employee contact information to any person/entity outside of DMC;
- Transmitting any company correspondence to any person and/or entity not associated with DMC;
- Allowing an outside person to access DMC's internal messaging system;
- Communicate, entertain, or discuss job offers with others, or communicate other employment opportunities;
- Using a personal I/M system, such as Yahoo, or AOL;

Electronic Communications Policy Violations

Employees who violate Company Electronic Communications policies may be subject to legal & criminal liability and/or corrective action up to and including termination.

6. Change and Process Management

6.1 Introduction

Mortgage banking is a dynamic industry that faces near constant pressure to make changes. Additionally, it seems as if the rate of change continues to increase after each business cycle or "financial crisis." Successful industry participants must be able to competently manage multiple changes across various departments and business units simultaneously. Direct Mortgage, Corp. ("DMC") has enacted this Change Management and Process Management Policy ("the Policy") to provide the framework within which it analyzes and responds to internal and external changes originating from, among others, each of the following:

- Customers.
- Stakeholders and other employees, including those that hold management, director, and officer level positions.
- Shareholders.
- Local, state, and federal regulators.
- Vendors, business partners, and other counterparties including, but not limited to, Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investors, private investors, private mortgage insurers, and warehouse banks.

A robust and well executed change management policy will increase DMC's awareness and understanding of proposed changes, thereby ensuring changes are implemented in a thoughtful manner which minimizes negative impacts to its services, customers, and stakeholders.

6.2 Ownership, Approval, and Periodic Review

The Change Management and Process Management Committee ("CPMC") consists of DMC's Chief Executive Officer ("CEO"), President, Lead Systems Architect, Chief Financial Officer (CFO) and Underwriting Manager. The CPMC is DMC's dedicated group that oversees changes to processes, systems, and policies.

The CPMC is responsible for the Policy and its related duties, responsibilities, and tasks. At its discretion, the CPMC may choose to engage additional stakeholders and other employees, including those that hold management, director, and officer level positions, to aid in carrying out the duties, responsibilities, and tasks outlined by the Policy.

The Policy itself will be reviewed at least annually. Any material changes to the Policy will be considered and approved by the CPMC.

6.3 Scope

The Policy applies to all covered business activities engaged in by DMC. Changes to processes and project management will be handled according to the Policy.

More specifically, among other things, the Policy applies to changes in each of the following areas:

- IT systems, services, processes, and documentation.
- Real estate secured loans originated and/or serviced by DMC.
- DMC's own requirements, standards, criteria, guidelines, and written policies and procedures.
- All applicable local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending,

and the extension of credit.

- Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements.

6.4 Staff And Training

All staff responsible for performing the duties, responsibilities, and tasks per the Policy should meet the following requirements:

- Be appointed by the CPMC.
- Be knowledgeable about the Policy.
- Be able to solve complex problems and think critically.
- Be able to communicate both verbally and in writing.
- Be able to keep up to date with all industry trends and/or widely accepted best practices, with respect to change management.
- Have a good understanding of DMC's own existing requirements, standards, criteria, guidelines, and written policies and procedures.
- Have a good understanding of the covered business activities in which they will assist in enacting changes.
- Be able and willing to participate in ongoing training.

All staff responsible for performing the duties, responsibilities, and tasks per the Policy should receive initial training.

New hires who will be responsible for performing the duties, responsibilities, and tasks per the Policy should receive initial training within 30-days of employment.

Ongoing training is required whenever changes are made to any of the following:

- The Policy.
- DMC's own requirements, standards, criteria, guidelines, and written policies and procedures, with respect to change management.
- Local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements, with respect to change management.
- Industry trends and/or widely accepted best practices, with respect to change management.

Training subjects include, but are not limited to, the following:

- The Policy.
- Change management.
- DMC's own requirements, standards, criteria, guidelines, and written policies and procedures, with respect to change management.
- Local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements, with respect to change management.
- Industry trends and/or widely accepted best practices, with respect to change management.

Training may occur in a wide variety of settings utilizing any existing and effective educational modality including company meetings, online webinars, and self-paced courses.

6.5 Process Management

It's critical for the CPMC to regularly inventory and evaluate each of DMC's policies, procedures, and processes. With this in mind, the CPMC is responsible for regularly completing each of the following tasks:

- Ensure each of DMC's written policies and procedures, across the entire organization, use a similar and familiar template.
- Ensure each of DMC's written policies and procedures are stored in a centralized document repository and accessible to the appropriate stakeholders and other employees, including those that hold management, director, and officer level positions.
- Ensure each of DMC's written policies and procedures are complete, accurate, and up to date.
- Ensure each of DMC's written policies and procedures are reviewed annually or otherwise, as per the requirements of the individual policies and procedures.
- Ensure stakeholders and other employees, including those that hold management, director, and officer level positions, receive training about DMC's written policies and procedures annually or otherwise, as per the requirements of the individual policies and procedures.
- When changes are made, ensure DMC's formal change management process is followed.
- When changes are made, ensure the appropriate systems are utilized.
- When changes are made, ensure all relevant documentation is updated.
- Regularly conduct reviews to ensure the actual performance of employee work processes is consistent with process flows and descriptions.

6.6 Change Management Process

- Identify and provide a clearly describe the proposed change.
- Evaluate the proposed change. Gather input from stakeholders and other employees including those that hold management, director, and officer level positions. Answer the following questions:
 - Where did the change originate? (e.g., regulator, counterparty, etc.)
 - Which employee submitted the change request?
 - Why should the change be made?
 - Is the change optional or mandatory?
 - What is the end result of the change being made? Define the deliverables.
 - What is the ROI and/or other benefit(s) to making the change?
 - What risks are associated with making the change? Are there risks associated with not making the change?

- What resources (human, IT, infrastructure, etc.) will be required to make the change? Is DMC in a position to expend the necessary resources?
- What financial resources are associated with making the change? Review the budget. Are there financial risks associated with making or not making the change?
- What impacts will the change have on other aspects of the business?
- CPMC to decide whether to make the change.
 - If yes, proceed to Step 4.
 - If no, notify the requestor and other impacted parties.
- Create a formal change plan and make assignments.
- Review report backs and otherwise track progress (see Section 6.11).
- Upon completion, test the processes, procedures, etc. impacted by the change using audits (internal or external) and/or targeted reviews.

6.7 Sources

As previously stated, changes originate from many sources including, but not limited to, each of the following:

- **Customers** can initiate changes by providing feedback through various methods including, but not limited to, the following:
 - Complaints.
 - Polls.
 - Surveys.
 - Other forms of verbal and/or written feedback.
- **Stakeholders and other employees, including those that hold management, director, and officer level positions** can initiate changes by providing feedback through various methods including, but not limited to, the following:
 - Companywide meetings.
 - Emails sent to various addresses including, but not limited to, the following:
 - MakeMeAware@directcorp.com
 - support@directcorp.com
 - VIPsupport@directcorp.com
 - Management meetings.
 - Operations meetings.
 - Retail meetings.
 - Sales meetings.
 - Verbal discussions with their supervisor and/or their chain of command.
 - Weekly management reports.
- **Shareholders** can initiate changes via the same methods as stakeholders and other employees, including those that hold management, director, and officer level positions. *(At current, DMC's sole shareholder is Beech Enterprises, LLC. Beech Enterprises, LLC is owned by DMC's CEO, James Beech, and his wife, Kristen Beech. James Beech is involved in the day-to-day operations of DMC. Kristen Beech is not involved in the day-to-day operations of DMC. The methods shareholders utilize to initiate change may change if/when additional shareholders exist.)*
- **Local, state, and federal regulators** can initiate changes by providing feedback through various methods including, but not limited to, the following:
 - Complaints.
 - Email.
 - Examination reports.
 - Exit interviews.
 - Mail.
 - News.
 - Other notices of policy and/or relevant legislative changes.
 - Websites.
- **Vendors, business partners, and other counterparties including, but not limited to, Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investors, private investors, private mortgage insurers, and warehouse banks** can initiate changes by providing feedback through various methods including, but not limited to, the following:
 - Email.
 - Handbooks.
 - Guidebooks.
 - Lender letters.
 - Mail.
 - Mortgagee letters.
 - Other announcements.
 - Quality control audits.
 - Quality assurance audits.
 - Selling Guide updates.
 - Seminars.
 - Webinars.
 - Websites.

Stakeholders and other employees, including those that hold management, director, and officer level positions, are responsible for regularly monitoring the above mentioned sources to identify changes in their respective departments.

Further, when necessary, DMC engages a vendor to aid in carrying out the duties, responsibilities, and tasks outlined by the Policy, specifically as they relate to regulatory compliance. At current, the vendor is Granite Mortgage, LLC.

6.8 Communications

As stated above, DMC collects data needing evaluation using multiple methods. One primary method is email. The CPMC is responsible for managing subscriptions to various data lists including feeds, newsletters, notifications, updates, etc. regarding, among other things, legislation, licensing, regulatory requirements, selling and delivering guidelines, underwriting guidelines, etc. Proposed changes are emailed to Policyupdate@directmortgage.com. The email subject line should identify the source of the change request (Regulator, Agency, Vendor, etc.) and the bulletin number (if applicable).

Each member of the COMC is a member of the email distribution group Policyupdate@directmortgage.com.

The CPMC is responsible for reviewing, assessing and assigning each proposed change, as required by Section 6.6 of this policy, and will be assigned as a Project Assignment.

The discussions required in Section 6.6 may take place in one of DMC's regularly scheduled and recurring meetings. These meetings take place as follows:

6.8.1 Companywide

All employees are required to attend a recurring companywide meeting which takes place each Monday at 9:00AM MST.

DMC's CEO chairs the companywide meeting. During this time, DMC leadership discusses, solicits feedback, and provides training and other relevant information regarding, among other things, the following:

- Awards and recognitions.
- Birthdays and work anniversaries.
- Interest rate predictions.
- Economic conditions and trends.
- Announcements regarding, among other things, changes to the following:
 - DMC's own requirements, standards, criteria, guidelines, and written policies and procedures.
 - Local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements.
 - Technology.
 - Pricing
- Information Technology including, but not limited to, the following:
 - Cybersecurity.
 - Information Systems.
 - Information Technology.
- Training required per DMC's written policies and procedures.

6.8.2 Management

All management, director, and officer level employees are required to attend a recurring management meeting which takes place each Monday at 4:00PM MST.

All employees invited to the management meeting are required to complete and submit a robust written assessment concerning their own performance, department(s), and other areas of responsibility. This Management Report is due by the EOB each Thursday. DMC's President reviews each individual report and then prepares a composite report which is distributed to all attendees weekly on Friday. Managers must review the composite report before the Monday meetings begin.

DMC's CEO chairs the management meeting. During this time, DMC leadership discusses, solicits feedback, and provides training and other relevant information regarding, among other things, the following:

- Awards and recognitions.
- Birthdays and work anniversaries.
- Industry trends and/or widely accepted best practices.
- Economic conditions and trends.
- Announcements regarding, among other things, changes to the following:
 - DMC's own requirements, standards, criteria, guidelines, and written policies and procedures.
 - Local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements.
 - Technology.
 - Pricing
- Information Technology including, but not limited to, the following:
 - Cybersecurity.
 - Information Systems.
 - Information Technology.
- Training required per DMC's written policies and procedures.
- Individual areas of responsibility including, but not limited to, the following:
 - Underwriting.
 - Assets.
 - Credit.
 - Employment and income.
 - Title Reports.
 - Appraisals and property valuations.
 - Closing and funding.
 - Quality Control.
- Managers' self assessments.
- Projects, assignments, and "report backs."
- Achievements.
- Weak areas.
- Other comments and agenda items as requested per individual managers via their management reports.

6.8.3 Operations

All operations employees are required to attend a recurring meeting which takes place daily, Tuesday – Thursday, at 9:00AM MST. Operations employees include:

- Closers.
- Funders.
- Post closing clerks in the following areas:
 - Shipping.
 - Settlement.
- Secondary marketing:
 - Lock desk.
 - Selling and delivering.
- Underwriters.

DMC's President chairs the daily operations meeting. During this time, the operations team discusses, solicits feedback, and provides training and other relevant information regarding, among other things, the following:

- Current turn times.
- Daily expectations.
- Industry trends and/or widely accepted best practices.

- Economic conditions and trends.
- Announcements regarding, among other things, changes to the following:
 - DMC's own requirements, standards, criteria, guidelines, and written policies and procedures.
 - Local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements.
- Training required per DMC's written policies and procedures.
- Individual areas of responsibility including, but not limited to, the following:
 - Underwriting.
 - Assets.
 - Credit.
 - Employment and income.
 - Title Reports.
 - Appraisals and property valuations.
 - Closing and funding.
 - Pricing.
 - Selling and delivering.

6.8.4 Sales

All sales employees are required to attend a recurring meeting which takes place daily, Tuesday –Thursday, at 9:30AM MST. Sales employees in attendance include:

- Wholesale Account Executives
- Corporate Loan Officers
- Other corporate employees, as necessary.

DMC's President chairs the daily sales meeting. During this time, the sales team discusses, solicits feedback, and provides training and other relevant information regarding, among other things, the following:

- Current turn times.
- Daily expectations.
- Competition.
- Industry trends and/or widely accepted best practices.
- Economic conditions and trends.
- Announcements regarding, among other things, changes to the following:
 - DMC's own requirements, standards, criteria, guidelines, and written policies and procedures.
 - Local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements.
- Training required per DMC's written policies and procedures.

6.8.5 Technology

All IT employees are required to attend a recurring meeting which takes place daily, Tuesday –Thursday, at 8:30AM MST. IT employees include:

- Desktop and hardware support.
- Developers and programmers.
- Systems admins and architects.
- Technology vendors, as necessary.

DMC's CEO chairs the daily Technology meeting. During this time, the technology team discusses, solicits feedback, and provides training and other relevant information regarding, among other things, the following:

- Announcements regarding, among other things, changes to the following:
 - DMC's own requirements, standards, criteria, guidelines, and written policies and procedures.
 - Local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements.
 - Technology.
 - Pricing
- Information Technology including, but not limited to, the following:
 - Cybersecurity.
 - Information Systems.
 - Information Technology.
- Training required per DMC's written policies and procedures.

6.8.6 Retail

All Retail employees are required to attend a recurring meeting which takes place biweekly, Wednesday, at 9:30AM MST. Retail employees include:

- Retail Vice President(s)
- Branch Managers
- Loan Officers
- Loan Officer Assistants
- Loan Processors
- Loan Processing Assistants

DMC's VP's and Branch Managers chair the biweekly retail meeting. During this time, retail team members discuss, solicits feedback, and provides training and other relevant information regarding, among other things, the following:

- Current turn times.
- Daily expectations.
- Competition.
- Industry trends and/or widely accepted best practices.
- Economic conditions and trends.
- Announcements regarding, among other things, changes to the following:
 - DMC's own requirements, standards, criteria, guidelines, and written policies and procedures.
 - Local, state, and federal laws, rules, and regulations regarding mortgage banking, mortgage brokering, mortgage lending, and the extension of credit; and Fannie Mae, Freddie Mac, FHA/HUD, USDA, VA, Ginnie Mae, other institutional investor, private investor, private mortgage insurer, and warehouse bank requirements, standards, criteria, guidelines, written policies and procedures, and agreements.
- Training required per DMC's written policies and procedures.
- Sales processes.

- Personal development including relationship building.

6.9 Systems

("DW") is DMC's own proprietary web-based mortgage origination and servicing system. DW has many capabilities including, but not limited to, the following:

- Accounting.
- Automated Underwriting System ("AUS").
- Compliance review.
- E-Signatures.
- Human resources.
- Loan Origination System ("LOS").
- Origination functions related to the following:
 - Applications.
 - Processing.
 - Underwriting.
 - Closing.
 - Funding.
 - Post-closing including selling and delivering.
- Payroll processing.
- Reporting
- Repository for documents related to the following:
 - Counterparties including TPO's.
 - Employees.
 - Loans.
 - Policies and procedures.
 - Underwriting guidelines.
- Servicing.

DMC utilizes DirectWare ("DW") and Microsoft Team Foundation Server ("TFS") as centralized repositories for all of its policies and procedures.

Additionally, when necessitated by project scope, DMC utilizes TFS for version control, reporting, requirements management, project management, automated builds, testing and release management capabilities. TFS covers the entire application (e.g., DirectWare) lifecycle.

When changes and projects are minor, and narrow in scope, DMC may forego the use of TFS. In these instances, other common software programs including, but limited to, Microsoft Excel, Microsoft Outlook, Microsoft Planner, and Microsoft Word may be utilized.

6.10 Record Retention

DMC will keep all records related to change and process for a minimum of 7-years.

6.11 Change Tracking

Each change will be assigned and tracked as a Support Case in the Project Assignment queue. Assigned changes will be tracked as follows:

- Source of change (Regulator, Agency, Vendor, etc.)
- Bulletin number
- Date received
- Change description
- Date assigned
- Assigned to
- Date tested (if required)
- Date completed
- Date implemented
- Date of training (if required)

7. Appendices

7.1 Appendix A – DMC FAQ's

Use the following link to access the Frequently Asked Questions repository
<https://www.directmortgage.com/frequently-asked-questions/>

7.2 Appendix B – Email Templates

7.2.1 Instructions (Refinance)

PLEASE READ THIS ENTIRE EMAIL.

****PLEASE NOTE, AND PROVIDE, ALL CLOSING CONDITIONS LISTED BELOW:**

Attached are our HUD-1, Closing Instructions and Wire Instructions.

Dear Title/Escrow Officer,

- **
- **

- **Password Protected Documents.** The password for all secured attachments is **the city of the property, all lowercase letters and no spaces.**
- If the vesting, non-borrowing signers or marital status is incorrect, or will change from that which is shown on the preliminary title report and on page 2 of our specific instructions, please send me specific instructions; and, (if applicable) a Quit Claim or Warranty Deed immediately. We MUST receive this PRIOR to Closing Documents being sent.
- **If the vesting or marital status changes after the closing documents are sent, the closing documents must be re-drawn.**
- **DO NOT hand write or type ANYTHING (other than completing blank lines) on the Note, Mortgage or Deed of Trust; or the borrowers will need to resign all documents. If corrections are needed, we will send you new documents.**
- Please provide an "ESTIMATED" HUD-1 for review.
- Both the Broker and Lender must approve Title's HUD-1 prior to documents being sent out.
- If the HUD-1 approval from the broker is received after 3pm Mountain Time, the documents will be sent the following business day.
- Please verify that the attached wire instructions are correct.
- Please promptly send your HUD-1 and any corrections to UserName@DirectCorp.com and Docs@DirectCorp.com or fax (801) 924-7760.

Dear Broker/Loan Officer,

- **
- **
- Please send me an email with your approval of title's HUD-1.

If your HUD-1 approval is received after 3pm Mountain Time, the documents will be sent the following business day.

If you have any questions please let me know.

Thank you,

7.2.2 Instructions (Purchase)

PLEASE READ THIS ENTIRE EMAIL.

****PLEASE NOTE, AND PROVIDE, ALL CLOSING CONDITIONS LISTED BELOW:**

Attached are our HUD-1, Closing Instructions and Wire Instructions.

Dear Title/Escrow Officer,

- **
- **
- **Password Protected Documents.** The password for all secured attachments is **the city of the property, all lowercase letters and no spaces.**
- Please provide a Warranty Deed (or equivalent) showing the EXACT vesting for the borrower(s). Also let us know the marital status and if there will be any non-borrowing signers. We MUST receive this PRIOR to Closing Documents being sent.
- **If the vesting, non-borrowing signers or marital status changes after the closing documents are sent they must be re-drawn.**
- **DO NOT hand write or type ANYTHING (other than completing blank lines) on the Note, Mortgage or Deed of Trust or the borrowers will need to resign all documents. If corrections are needed, we will send you new documents.**
- Please provide an "ESTIMATED" HUD-1 for review.
- Both the Broker and Lender must approve Title's HUD-1 prior to documents being sent out.
- If the HUD-1 approval from the broker is received after 3pm Mountain Time, the documents will be sent the following business day.
- Please verify that the attached wire instructions are correct.
- Please promptly send your HUD-1 and any corrections to UserName@DirectCorp.com and Docs@DirectCorp.com or fax (801) 924-7760.

Dear Broker/Loan Officer,

- **
- **
- Please send me an email with your approval of title's HUD-1.
- If your HUD-1 approval is received after 3pm Mountain Time, the documents will be sent the following business day.

If you have any questions please let me know.

Thank you,

7.2.3 Closing Documents (Dry Fund)

PLEASE READ THIS ENTIRE EMAIL.

****PLEASE NOTE, AND PROVIDE, ALL FUNDING CONDITIONS LISTED BELOW:**

Attached are your Closing Documents.

Dear Title/Escrow Officer,

- **
- **
- HUD is approved; pending any correction/change match our HUD exactly!

- **Password Protected Documents.** The password for all secured attachments is **the city of the property, all lowercase letters and no spaces.**
- Please double check that your documents are correct and accurate BEFORE scheduling your closing.
- Please verify that the vesting, non-borrowing signers and marital status are all correct on the Mortgage or Deed of Trust.
- **If the vesting is not correct, STOP and contact us for corrected documents.**
- **DO NOT hand write or type ANYTHING (other than completing blank lines) on the Note, Mortgage or Deed of Trust or the borrowers will need to resign all documents restart any rescission period. If corrections are needed, we will send you new documents.**
- If you need any changes or corrections made, please email requests to UserName@DirectCorp.com and Docs@DirectCorp.com or fax (801) 924-7760.
- Please send complete signed closing package back to us immediately after signing, as indicated on the closing instructions. We require the original package in our office for funding review. **DO NOT hold the closing package as this will delay funding.**

Dear Broker/Loan Officer,

- **
- **

If there are any changes to the HUD-1 promptly email or call me for approval.

Thank you,

7.2.4 Closing Documents (Wet Fund)

PLEASE READ THIS ENTIRE EMAIL.

Attached are your Closing Documents.

Dear Title/Escrow Officer,

- HUD is approved and attached are the closing documents and disbursement.
- Funds have been requested for [Date]
- **Password Protected Documents.** The password for all secured attachments is **the city of the property, all lowercase letters and no spaces.**
- Please double check that your documents are correct and accurate BEFORE scheduling your closing.
- Please verify that the vesting, non-borrowing signers and marital status are all correct on the Mortgage or Deed of Trust.
- **If the vesting is not correct, STOP and contact us for corrected documents.**
- **DO NOT hand write or type ANYTHING (other than completing blank lines) on the Note, Mortgage or Deed of Trust or the borrowers will need to resign all documents. If corrections are needed, we will send you new documents.**
- For funding authorization promptly send via email or fax the following documents.
 1. Buyer/Seller signed HUD-1.
 2. Warranty Deed.
 3. Entire closing package.
 4. Loan Officer to sign final 1003.
 5. 2 forms of borrower identification for each borrower.
 6. Receipt of funds that the borrower brought to close.
- **You are not authorized to record and disburse this loan without prior authorization from us.**
- If for any reason you are not able to record and disburse this loan on the scheduled date, please send the funds back immediately and a new wire and disbursement will be sent.
- If you need any changes or corrections made, please email requests to UserName@DirectCorp.com and Docs@DirectCorp.com or fax (801) 924-7760.
- Please send complete signed closing package back to us immediately after signing, as indicated on the closing instructions.

Thank you,

7.2.5 Funding Conditions (Dry Fundings)

This closing package has been reviewed and the following conditions are required for funding:

- 1-Perform Verbal VOE's for both borrowers (Internal Condition, DMC to complete).
- 2-Provide 2 forms of acceptable ID for both borrowers (see note about ID below).
- 3-Loan officer to sign final 1003 (attached).

- Please send ALL conditions together to UserName@DirectCorp.com and Funding@DirectCorp.com or fax 801-924-7760.
- All conditions must be received by 10am Mountain Time for possible same day funding.
- If conditions are received after 10am, the loan will be set up for the following day for funds.
- For a quicker funding, please do not upload conditions to scanned images or "Piece" send conditions.

Note about acceptable ID. DMC requires that the borrower present the closing agent with 2 forms of ID and the 2 forms must be returned with the package. We cannot use documents we already have to verify the identity of the person signing the closing documents, you must obtain proper ID from the borrower(s) at the signing.

Some of the forms of ID allowed to complete the Patriot Act form are not acceptable forms of ID for funding purposes and some of the ID allowed for funding are not permitted for the Patriot Act form. You are advised to provide ID from the list below that satisfy both requirements, otherwise you may need to provide 3 forms of ID. You must have at least one form from the "Primary" group and a second form from either group.

Primary Form

Valid Driver's License
Valid State Issued Photo ID Card
Valid Passport
Valid Military ID Card
Valid I.N.S. (Permanent Resident Alien) Card
Valid Canadian Driver's License

Secondary Form

Social Security Card
Organization membership card
Government issued visa
Birth certificate
Valid Non-US/Canadian driver's license
Most recently signed tax return
Property tax bill
Voter registration card
Most recent utility bill with name and address of the Borrower(s)
Bank/investment/loan statement
Paystub
Most recent W2
Home/car/renters insurance papers
Valid Major Credit Card (Not valid to complete Patriot Act)
Valid Weapons Permit (Not valid to complete Patriot Act)
Valid Employee Photo ID Card (Not valid to complete Patriot Act)

Thank you,

7.2.6 Disbursement Approval (Dry Fund)

This loan is approved for funding and I have submitted the approval to accounting.

Attached is the funding breakdown, you are authorized to record and disburse according to the attached disbursement instructions once you receive the wire.

If I can be of further assistance, please feel free to contact me.

Please note: This is not a guarantee that the funding will occur, it is only verification that the loan is approved by the funding reviewer and that the reviewer has approved accounting to request funds.

Thank you,

Tran

7.2.7 Disbursement Approval (Wet Fund)

This loan is approved to record and disburse.

You are authorized to record and disburse according to our Cash Disbursement Agreement. The funding authorization number for this file is XXXXXX-YY.

If I can be of further assistance, please feel free to contact me.

Thank you,

7.3 Appendix C – TILA-RESPA Integrated Disclosure rule – Small Entity