

QUALITY CONTROL CHECKLIST

Legal Documentation:

Promissory Note:

- any blanks?
- borrower name(s) consistent with title report, ID, tax returns?
- loan amount correct compared to HUD, loan approval?
- signatures consistent with other file documents?
- is initial payment correct?
- are ARM details, margin, caps, correct?
- are correct rider boxes checked?
- notary jurat regular, fingerprints present when applicable?
- late charge, prepay penalty consistent with approval, TIL?
- does endorsement name the correct assignee?
- was endorsement signed by senior officer of assignor?
- if Section 32 (see below) does the note contain required notice to assignee about potential Section 32 liability?
- if Section 32 and note contains prepayment penalty, does file contain adequate evidence that borrower's back end debt ratio, using Fannie Mae, Freddie Mac, FHA or VA standards, is 50% or less?
- if Section 32 is repayment term 60 months or more?
- if Section 32, any possibility of negative amortization?
- if Section 32, does payment schedule indicate possibility that more than 2 monthly payments are prepaid or added to balance?
- if Section 32, does note contain a default interest provision?

Deed of Trust:

- blanks?
- quality of print?
- does legal description match title policy?
- is date same as note?
- is lender vesting correct?
- is return address correct?
- evidence title co. or escrow recorded it?
- recording take place on recording date?
- rider boxes checked and riders attached?
- do riders reference correct date of TD and parties?
- Notary jurat regular?
- Was notary licensed in state where TD signed?
- If a junior lien, is request for notice property filled out?

Assignment of Deed of Trust:

- Reference correct date of TD and parties?
- Evidence of recording with correct return address?
- Notary jurat regular?
- Was notary licensed?

Escrow Instructions - Lender:

- Do lender instructions require escrow holder to provide lender with all instructions and amendments?
- Do instructions bear original certificate by escrow holder?
- Has escrow complied with each specially listed instruction?
- Has escrow or mortgage broker dealt with controlled business arrangements with
- Escrow holder by appropriate disclosure?

Title Policy:

- Is loan in proper priority?
- Are endorsements attached that are listed in funding instructions?
- Does the file contain copies of the exceptions?
- Do exceptions affect marketability of loan/title?
- Is the borrower's name correct?
- Property description correct?
- Assignee properly named in policy or endorsement?

Fire and Flood Insurance:

- Does policy expire within 9 months from recording?
- Is lender, assignee named in mortgagee endorsement/certificate 438 BFU predating recording?
- Is deductible consistent with lender's policies?
- Is the face amount of the policy sufficient to cover loan amount and senior liens, if any?
- Is the insurer a recognized insurer in this state?

- Is insurer rated "A" or better by Best's Ins. Guide?
- Is replacement cost coverage provided?
- Does file contain Flood Certification or evidence of flood insurance meeting the lender's guidelines?
- If file contain Flood Cert., does lender require flood zone monitoring and if so, has service been ordered?

HUD-1 Settlement Statement:

- Is SS certified by closing agent?
- Are each of the charges the same as in pre-closing HUD-1 approved by the borrower(s), except beginning interest?
- Any charges not reflected in Itemization of Amount
- Financed and Prepaid Finance Charge disclosures?
- Are sums paid outside of closing (POC) for such things as back-end points, rebates, etc. disclosed?
- Are deductions, payoffs consistent with funding instructions?
- If Section 32 have more than two payments or more than 60 days interest been prepaid?

Specialty Documents:

- FHA Mortgage Insurance Certificate
- VA Loan Guaranty
- Energy efficiency evidence

UNDERWRITING: INCOME AND CREDIT DECISION REVIEWED:

Mortgage Application:

Inconsistencies and Red Flags.

- Significant increase or unrealistic change in computing distance (purchase credit)
- Housing not large enough
- Other than "empty nester" moving down
- Tenant purchasers
- Down payment other than cash
- Life insurance shown at face rather than cash surrender value
- Missing price and date of purchase (refi)
- Buyer owns stock of employer (may be self-employed)
- Personal property exceeds one year's salary
- Little or no personal property
- New housing expense exceeds 150% of old
- Salary inappropriate for amount of loan
- Invalid SS#, three or more leading zeros, zeros in positions 4 and 5; four zeros at the end, leading number 73 through 79, leading number 8, leading number 9 (very unusual)
- Significant or contradictions in handwritten vs. typed loan application
- Borrower lives with parents or relatives
- Young borrower with large accumulation of unsubstantiated assets

Credit Report:

- Derogatories reflected in credit analysis?
- Inquiries explained by borrower?
- Verify report with alternate providers?
- Mortgage ratings/payment histories re-verified and reflected in credit analysis?

Red Flags:

- No credit
- Nicknames not related to real name
- Inconsistent with other addresses
- Many recent inquiries
- Invalid SS#
- AKA's or DBA
- Borrower could not be reached at work
- High income but no "prestige" credit cards
- Multiple SS#s or names
- Trade lines opened at same time for no apparent reason
- Spouse claims no credit
- Tradeline balances all end in zero
- Pattern of delinquencies inconsistent with explanations

Verifications & Supplemental Verifications:

- Consistency?
- Re-order verifs?
- Gift letter sound?
- Source of funds letters?
- Proof of Sale Documents?
- Proof of Debt Satisfaction, if applicable?
- Credit Explanation Letters?Red Flags?
- Bank account without sufficient cash to close?
- New bank account?
- Young borrowers with substantial cash in bank?
- Round dollar amounts?
- Gift letters not checked by canceled checks or bank statements?
- No bank account?
- IRA shown as downpayment or liquid asset?
- Borrower's funds used as security for a loan?
- Illegible bank employee signature with no readable name?
- Bank balance shows significant changes during previous two months?
- Document not folded and may never have been initialed ?
- High income borrower with little or no cash?
- Alterations by white-out?
- Lower income borrower with large, recent accumulation of cash?
- Bank account not in borrower's name?
- Funds paid outside of escrow?
- Verification "returned to sender"?

Income:

- Tax returns appear regular?
- P&L consistent with rest of presentation?
- Self-Employed Income Analysis completed?

Underwriting Analysis:

- Credit rating/score within parameters?
- Income for analysis purposes completed?
- Debt ratios computed correctly?
- Red Flags

Ability to Repay (Section 32 and General Fiduciary Obligations):

- Verifiable income evidences ability to repay
- Unverifiable income evidences ability to repay
- Unacceptable sources of repayment used :sale of residence, refinance, foreclosure, speculative income, illegal income

DISCLOSURES: LEGAL COMPLIANCE:**Verify financial calculations****Early Disclosures** (Within 3 business days of application)**Good Faith Estimate:**

- Was a Good Faith Estimate (GFE) with HUD Booklet on closing costs sent?
- If charges appear on HUD-1 that are higher than on GFE, is there a documented reason for the increase?
- Did the GFE correctly estimate any broker fees?

Controlled Business Arrangement:

- Any evidence broker or lender is affiliated with escrow holder or any other service provider?
- If so, was a properly completed controlled business arrangement disclosure provided to the borrower?

Fair Lending Notice:

- Fair Lending Notice sent?

Servicing Transfer Disclosure:

- Was a Servicing Transfer Disclosure sent?
- Have the percentages therein been reviewed and updated periodically?

Truth in Lending (Purchase or Initial Construction Only):

- Was a Truth in Lending disclosure statement sent?
- Was it correctly completed per the checklist below?

ARM Disclosures:

- Was a program disclosure statement and
- Consumer Handbook on Adjustable Rate Mortgages sent within 3 business days of receipt of loan application?

Notice of Right to Receive Copy of Appraisal:

- Was notice sent?

Mortgage Loan Disclosure Statement (Brokers Only):

- Unless broker functions solely as direct lender, did broker send MLD 882 or 883 w/i 3 business days of receipt of loan application?
- If the broker related fees increased (see HUD-1), did the broker provide a new MLD?
- Are the fees, payment, loan amount and other items accurate?
- If the MLD indicates the broker may make the loan with broker-controlled funds, was a follow-up disclosure given to the borrowers indicated broker will make loan?

Section 32 Early Disclosures (Section 32 Loans Only):

- Any possibility APR exceeded 10 points over comparable T-Bill rate as of preceding 15th of the month? (if so, complete Section 32 Analysis to determine if loan is Section 32)
- Did prepaid finance charges, exclusive of beginning interest, and other compensation to the lender, broker or affiliates, exceed 7% of the amount of the promissory note (if so, complete Section 32 Analysis to determine if loan is Section 32)
- If loan is Section 32, was a section 32 notice sent that contained the same APR, monthly payment as reflected in the final TIL and ARM information?
- Did at least 3 business days pass between receipt of Section 32 notice and execution of any contractual document?
- When final loan does signed, did borrower acknowledge receipt of earlier Section 32 notice on the date file indicates borrower(s) received it?
- Is evidence of transmission (Federal Express bill, etc.) attached to Section 32 notice in file as proof of delivery?

Credit Denial (Denied or Substantially Changed Credit Only):

- Was credit denied?
- Was loan type changed, loan amount reduced?
- Is above checked, was adverse action notice sent w/in 30 days of receipt of the loan application?

Consummation Disclosures:

Truth in Lending Statement:

- Did each borrower acknowledge receipt of a copy of the TIL?
- Creditor's name correct?
- Borrower's name correct?
- Property address correct?
- Monthly payment(s), balloon payment correct?
- Do sum of payments equal Total of Payments? []
- Does the Amount Financed equal the note amount less the Prepaid Finance Charges shown on the HUDI (See Fee Chart for identification of PPFC's)?
- Was any discrepancy the result of a Good faith estimate of the prepaid finance charge, e.g. beginning interest? []
- Is the APR correct within an eight? []
- Does Total of Payments less Amount Financed equal Finance Charge
- Were "e"s placed after the APR, The Finance Charge, The Amount Financed, Filing Fees and other items? []
- Prepayment Penalty Disclosure consistent with Note?
- Late Charge consistent with Note?
- If ARM, is necessary verbiage present?

Right to Cancel:

- Was general form used unless original lender is refinancing the same borrower (use refinance form)?
- Was receipt of two copies each acknowledged by each borrower with an "ownership" interest in the real property?
- Is beginning date of rescission period on or after date note and trust deed were signed?
- Is ending date of rescission period filled out and include at least 3 business days (every day except Sunday, federal holidays) starting with day after receipt? 6
- Were any funds disbursed before three days ended?
- Was a waiver accepted and if so: did it comply with 12 C.F.R. 226.23(e); is there evidence in file substantiating bona fide emergency that would not wait 3 business days; and did the borrower(s) nonetheless get TIL and three day right to cancel form before waiving?
- Was Verbal or written confirmation of non-rescission obtained before disbursement of funds?

Specialty Disclosures/Documents:

- If first payment due less than 30 days before closing, does file contain Hardship Letter?
- Impound Account. If lender offers or requires impounds for taxes, insurance or mortgage ins., is form property filled-out?
- W-9. Filled out?
- SS# match credit report?
- Compliance Agreement?
- Authorization to Release Info./Credit Authorization ?
- Declaration of Oral Disclosure (Applicable only to real estate brokers not engaged exclusively in direct lending)
- Payment Letter?
- Lender-Purchase Disclosure

PROPERTY: APPRAISAL:

Identifying and Documenting Lender's Criteria

The Appraiser:

- Certification?
- E&O?
- Right to Rely on Report?

The Appraisal:

- Facts of report make sense?
- Acceptable appraisal practices?
- No arithmetic errors?
- Size of net and gross adjustments reasonable?
- Ages of comps okay?
- Quality comps?
- Checking for ignored comps?
- Re-appraisal advised?
- New site inspections for adverse conditions & influences?

Red Flags:

- Appraisal ordered by buyer, seller, broker
- Comps not verified as recorded, other source of info
- Tenant, not owner, shown as contact
- Sales approach exceeds cost approach
- "For Sale" signs on refi property
- HUD-1 or deed less than 2 years old