AFN QUALITY CONTROL (QC) MANUAL

OBJECTIVES, POLICIES AND PROCEDURES
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# QC Audit Program: Objectives and Overview

## Program Governance

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<th>Regulatory Compliance Officer</th>
<th>The American Financial Network, Inc. (AFN) Quality Control (QC) Audit Program is administered and supervised by the Regulatory Compliance Officer.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality Control Auditor</td>
<td>AFN Quality Control Auditor(s) will report to the Regulatory Compliance Auditor, and shall not be involved in the origination or production of any loans that are subject to their review.</td>
</tr>
<tr>
<td>Senior Management/Board Oversight and Authority</td>
<td>Senior Management and AFN’s Board of Directors (“Board”) are accountable and actively involved in the Company’s QC Audit Program. Senior Management and the Board instill a QC philosophy throughout the Company and ensure that findings are promptly identified, remediated, and monitored. Further, Senior Management and the Board review and provide Management Responses, which include corrective action measures, to QC findings on a monthly basis.</td>
</tr>
</tbody>
</table>

## QC Auditor Qualifications

<table>
<thead>
<tr>
<th>Staff Qualifications</th>
<th>All AFN QC personnel must belong to a unit that is dedicated solely to QC and possess qualifications and experience required to provide quality reviews and meaningful analysis. Senior Management and Board ensure that independent audits are conducted and that the QC reporting structure is independent of the production, underwriting, and closing functions.</th>
</tr>
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<tr>
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<td>Staff performing QC reviews:</td>
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<tr>
<td></td>
<td>• Must not be involved in the day-to-day processes they are reviewing</td>
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<td>• Must not be within any chain of reporting or management that is directly connected to Loan Administration staff</td>
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<td></td>
<td>• Must receive proper QC training, which includes, but may not be limited to, review of this QC Plan and other detailed AFN policies and procedures</td>
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<td></td>
<td>• Must have access to current guidelines relating to operations that are in review (electronic/online format is acceptable)</td>
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(Continued)
QC Auditor Qualifications (Continued)

Staff Qualifications (Continued)

Senior Management and the Board also ensure that QC personnel are adequately trained and have sufficient experience related to the reviews being conducted, including manual underwriting and/or loans processed through any automated underwriting system utilized.

Review of Work Performed

The AFN Regulatory Compliance Officer will periodically review the QC work performed by the Quality Control Auditor and other QC staff to ensure the review results accurately reflect the quality of AFN’s loan originations and to ensure that review results accurately reflect loan quality. This review will, among other things, confirm that QC personnel follow Agency requirements and meet the required QC timeframes.

Program Objectives

Independence

The Quality Control Audit Program is independent of loan production, acquisition, sponsors, lenders, and underwriting functions.

Quality Assurance and Compliance

The purpose of this program is to ensure that loans originated and funded by AFN are of investment quality and are in compliance with guidelines, regulations and requirements of:

- Federal Home Loan Mortgage Corporation (FHLMC/Freddie Mac)
- Federal Housing Authority (FHA)
- Federal National Mortgage Association (FNMA/Fannie Mae)
- US Department of Housing and Urban Development (HUD)
- US Department of Veteran Affairs (VA)
- Federal regulatory agencies
- Institutional investors
- Private mortgage insurers
- State and local real estate laws
- Warehouse banks
- All applicable federal and state regulations

This program is designed to protect the quality and integrity of AFN’s loan origination operations, ensuring investors and other parties that the collateral backing their investment is secure.
Program Objectives (Continued)

Random Review Selection

The selection process will ensure that all parties to the loans we originate and close are subject to review (comparison of loans to ensure no disparate pricing regarding fees or rates per the Department of Housing and Urban Development’s Tiered Pricing Rule). This includes, but is not limited to:

- Appraiser
- Branch Office
- Broker
- Closing/Escrow Agent
- Closing Personnel
- Geographic Area (to monitor disparate pricing)
- Loan Officer
- Loan Processor
- Product (to monitor steering)
- Real Estate Agent
- Title Company
- Underwriter

Timeliness

The audit process of a specific loan shall start within 30 days of the last funding day of the month in which the loan closed, and the Quality Control Audit Report shall be provided no later than 30 days after the audit began.

Program Overview

File Audit Summary

The Quality Control Auditor conducts file audits as follows:

- Re-verification of qualifying information and occupancy requirements
- Confirmation of compliance with regulatory disclosures
- Review of closing documents for accuracy, agreement and completion, verifying:
  - Adequate funds were available before closing
  - All underwriter conditions were met prior to funding
  - Fees paid by Mortgagor agree with the HUD-1/CD and are in compliance with agency & investor requirements
- Review of Underwriting Decision, which includes recalculation of ratios
- Review of valuation documentation (appraisal, review appraisal, etc.) as applicable (10% per investor and loan type)
- Quality Control Residential Mortgage Credit Report (RMCR)
  - Order for 10% of loans selected for each investor

Continued
Program Overview (Continued)

File Audit Summary (Continued)

- Compare with the processing RMCR, looking for:
  - Any credit opened prior to funding but not reported
  - Another Trust Deed recorded around the same time (known as a silent second)
  - Credit opened prior to funding that was an “Inquiry” on the processing RMCR
  - Any HAWK alerts related to aliases, SSNs, address, employment, etc.
- Not required for loans with a rating of Approved or Accepted in Desktop Underwriter (DU) or Loan Prospector (LP); however:
  - Any credit information obtained from sources other than the DU/LP report must be re-underwritten
  - If the credit report included in the DU/LP evaluation contains significant discrepancies or data errors, the auditor may obtain an RMCR for the audit

Review of closing documents to ensure compliance with Department of Housing and Urban Development’s rule concerning Premium Pricing.

Ineligible Participants

AFN will verify that none of the participants in the mortgage transactions reviewed were debarred, suspended, under an LDP for the FHA program and jurisdiction, or otherwise ineligible to participate in an FHA transaction. This includes participants in an assumption transaction. Participants in a mortgage transaction may include, but are not limited to, the:

- Seller (excluding seller of a Principal Residence)
- Listing and selling real estate agent
- Loan Officer
- Loan Processor
- Underwriter
- Appraiser
- 203(k) Consultant
- Closing Agent
- Title Company

AFN verifies participant eligibility using the SAM Excluded Parties List, the LDP list, and NMLS, as applicable.
## Pre-funding Quality Control Review Process

### Overview

AFN’s prefunding QC process operates independently of our production department. Prefunding QC is conducted by Compliance Staff who have no involvement in the processing and underwriting decision of the loan being reviewed. AFN’s prefunding QC plan is designed to support its ability to identify and address defects prior to closing a loan.

The results of prefunding loan file reviews provide important and timely feedback to operations staff. Moreover, prefunding file reviews permit AFN to identify loans with defects (such as analysis or calculation errors, inaccurate data, or inadequate documentation) prior to closing and prevent AFN from delivering ineligible loans to Fannie Mae.

AFN’s prefunding QC plan requires full reviews of loan files and analysis of data and documents prior to funding. QC may supplement full file reviews with targeted loan selections designed to focus solely on a specific element of the loan or underwriting component (for example, income and employment, assets, credit, or property). These targeted reviews may be completed without performing a full file QC review.

### Timing of Loan File Reviews

AFN selects mortgages for pre-funding reviews during each month. Prefunding QC reviews are conducted prior to close, but when there is sufficient documentation in the file to perform the required review of data and documentation. For FHA loans, prefunding QC reviews must be conducted after the mortgage is approved by an FHA Direct Endorsement underwriter and prior to closing. Recommended corrections and/or revisions are communicated to operations staff and loan production. Corrections and or revisions must be prior to close.

### Loan Selection Process

AFN currently conducts a preliminary review of all loan files prior to fund that encompass a data integrity check of the entire loan file. In addition to the preliminary review, AFN conducts a full file review of selected loans based on numerous factors based on an assessment of the risks inherent in AFN’s origination processes, business sources and volume, and product mix. Factors that determine selection are reviewed monthly to ensure the sample selected including sample size is appropriate.

Continued
Pre-funding Quality Control Review Process (Continued)

Loan Selection Process (Continued)

AFN ensures its sampling of loans selected for review are representative of the total production. AFN selects loans based on both a random sampling and a discretionary or targeted basis. AFN determines its random sampling through the use of statistical sampling such that each loan has an equal chance of being selected. The discretionary sampling is to make sure that the final selection is representative of the total origination activity and that the Company adequately reviews higher risk products and services (i.e. multiple layers of credit risk, such as high LTV ratios, low credit scores, and/or high DTI ratios, complex income calculations, etc.), as well as areas identified as having potential for errors, misrepresentation, or fraud (i.e. files with characteristics related to defects identified in prior reviews, new hires, etc.).

Loans selected for prefunding QC reviews target areas that AFN identifies as having a higher potential for errors, misrepresentation, or fraud. Targeted areas may include the following:

- loans with characteristics or circumstances related to errors or defects identified in prior prefunding and post-closing review results;
- loans with complex income calculations (for example, rental income, self-employed, and short history of receipt of income);
- loans requiring the use of non-standard processing or underwriting guidelines (for example: delayed financing, multiple financed properties, assets used as income, or manual reserve calculations);
- loans secured by properties located in areas with high delinquency rates or areas experiencing rapid increases or decreases in property values;
- loans with multiple layers of credit risk, such as high LTV ratios, low credit scores, or high DTI ratios;
- loans originated or processed through various business sources, a particular branch office, staff person, contractor, third-party originator, or appraiser;
- loans originated or processed by newly hired loan officers, processors, appraisers, or other personnel or third parties involved in the loan origination process; and
- loans for which the feedback or results from third-party tools indicate potential areas of concern.

(Continued)
Pre-funding Quality Control Review Process (Continued)

**Loan Selection Process (Continued)**

The Company selects a minimum of one percent (1%) monthly production for all product types (i.e. 1% of FHA loans, 1% of conventional loans, 1% of VA loans). In the event the Company closes nine or fewer loans during the prior one-month period, it will select a minimum of one loan from each product type each month for pre-closing review. The need may arise to add additional loan characteristics to the sample selection. The Quality Control department has latitude to make additional selections at its discretion. Patterns of discrepancies and/or fraud warrant additional reviews and trends identified during a review may result in targeted audits.

**Verification of Data and Documents**

The Prefunding QC process reviews the following data and documents to ensure the documents are present and complete, and that the data relied upon in making the underwriting decision is accurate:

- data entered into an automated underwriting system;
- borrower(s)’ Social Security number(s);
- income calculations and supporting documentation;
- employment documentation, including verbal verification of employment;
- assets needed to close or meet reserve requirements;
- appraisal; and
- documentation of adequate mortgage insurance coverage.

**Discrepancies**

AFN will evaluate all discrepancies to ensure that the original documents (except blanket verification releases) were completed before being signed, were as represented, were not handled by Interested Parties, and that all corrections were proper and initialed. All conflicting information in the original documentation must be resolved with the underwriter. Discrepancies in documentation discovered during pre-closing reviews must be resolved prior to closing.

**Post-closing Audit: Overview**

**File Selection**

A post-closing audit of a minimum of 10% of all loans funded each month is required. File selection must ensure a minimum audit of 10% of FHA and USDA loans and 10% of high-risk loans having:

(Continued)
File Selection (Continued)

- 2-4 unit properties
- AUS “Refer”
- High LTV ratios
- New construction/rehab
- Non-owner occupied
- Self-employed

File selection will also consider a variety of other factors, including but not limited to the following:

- Appraiser
- Cash-out refinance
- Correspondent
- Fannie Mae Desktop Underwriter (DU) loans by category
- Geographic Area of Operation
- Investor
- Loan type (Conventional, FHA, VA)
- Production Channel
- Size
- Source/Branch
- Specialty Product/Program
- Underwriter

AFN ensures its sampling of loans selected for review are representative of the total production. AFN selects loans based on both a random sampling and a discretionary or targeted basis. AFN determines its random sampling through the use of statistical sampling such that each loan has an equal chance of being selected. The discretionary sampling is to make sure that the final selection is representative of the total origination activity and that the Company adequately reviews higher risk products and services.

The discretionary sampling is a separate monthly sample, which supplements, but does not replace, the random sampling. This sampling focuses on loans with a higher potential for errors, misrepresentation, or fraud, including but not limited to unique underwriting/processing/appraisal techniques, AFN personnel, patterns identified in other reviews, TPOs, and high risk property types.
Audit Details

The Quality Control Auditor’s comprehensive audit of AFN’s origination and underwriting functions will include verification of the following:

1. File contains all required loan processing, underwriting and closing documentation. Review this documentation to ensure completeness, accuracy, and compliance with all underwriting and eligibility requirements.

2. Applicant was given the opportunity to obtain clarification of information prior to signing the completed loan application.

3. Relevant loan documents were NOT signed in blank by the applicant or AFN personnel.

4. All document corrections were initialed by the applicant or AFN personnel.

5. SSN is consistent in all file documentation and any requirements for validation of the SSN were satisfied prior to closing.

6. Occupancy check for all loans secured by principal residences.

7. Verifications of employment, deposit, gifts, loans, rent, etc. were conducted by AFN personnel. These items should be re-verified directly with the source of the original documentation and IRS tax transcripts should be obtained (if not obtained prior to closing) for all income types used in the underwriting process.

8. A Residential Mortgage Credit Report (RMCR) was ordered from an authorized credit bureau with prior authorization from the applicant and submitted to the Underwriter; if more than one report ordered, all were submitted to the Underwriter. A new tri-merge credit report should be obtained and the liability information obtained on the new credit report should be reconciled against the credit report used at the time of underwriting.

9. The initial loan application lists each of the applicant’s outstanding liabilities and assets that are to be used for the mortgage, and debts concur with the RMCR.

10. Bankruptcy, judgments and/or any other derogatory information (if any) contained in the RMCR or in-file credit report appear on the HUD form 92900 (MCAW) if FHA loan, and explanations on all loan types are reasonable and logical.

(Continued)
11. Pertinent documentation showing adequate funds required are present and properly verified.

12. If the mortgagor is self-employed or has qualifying income of 25% or more derived from a source not providing W2 forms, the file contains financial statements and tax returns and the tax returns were verified through the IRS.

13. If the mortgagor is self-employed, a business credit report is included in the file.

14. If gift funds used for closing, a gift letter is included in the file that states: the name, address and relationship of the donor; and whether the funds were deposited in the mortgagor’s account or in escrow prior to funding.

15. The HUD-1/CD was accurately prepared and properly certified; if FHA loan, assure only FHA allowable fees and charges were paid by the mortgagor. The HUD-1/CD must also be compared to other relevant loan documents to determine whether the mortgagor made the required minimum investment, whether any credits resulted in an over-insured mortgage, and whether the seller’s concessions exceed allowable limits.

16. The property was not transferred by the mortgagor at or soon after closing (if it was, it could be an indication of a “straw buyer” in the transaction).

17. The seller was the owner of record or was exempt from owner of record requirements per HUD regulations; seller did not acquire the property soon before closing (possibly indicating a property flip).

18. Documentation of re-verification of employment, deposits, gifts, and/or other sources of funds is in the file; when possible, the Quality Control Auditor is to verify existence of accounts and employment; any obligation to repay the funds must be included on the HUD form 92900 for FHA loans.

19. Underwriting approval is accurate and complete, and all underwriting conditions were met prior to funding.

20. Closing documents are accurate, in agreement, complete, properly executed, and notarized (where applicable).

21. Appraisal(s) used to underwrite the file show reasonable use of comparable properties, are provided on current required forms, and are prepared by a licensed appraiser in good standing with the appropriate regulatory agency.

(Continued)
### Post-closing Audit: Overview (Continued)

| Audit Details (Continued) | 22. All Underwriting Decisions must be reviewed for compliance. Each Direct Endorsement loan must meet HUD underwriting requirements and have sufficient documentation and sound underwriting judgment.  
23. If an FHA loan, there must be sufficient and documented compensating factors if debt ratios exceed FHA limits.  
24. The loan was submitted for insurance, where required, within 60 days of closing and included a payment history showing the loan was current when submitted for mortgage insurance.  
25. AFN does not service its loans; they are sold with servicing released. Ensure all files contain a servicing disclosure that indicates servicing released. |
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<td>AFN will evaluate all discrepancies to ensure that the original documents (except blanket verification releases) were completed before being signed, were as represented, were not handled by Interested Parties, and that all corrections were proper and initialed. All conflicting information in the original documentation must be resolved with the underwriter.</td>
</tr>
</tbody>
</table>
| Re-verifications/Validations | In addition to the Audit Details, all files submitted for QC Audit will be subject to the following re-verifications and validations:  
• Underwriting Documents  
  o Appraisal re-verification  
    ▪ Ten percent (10%) of the loans selected for QC review must have an appraisal review by a licensed Appraiser who is not affiliated with the original appraisal firm or Appraiser; and  
    ▪ The remaining sample selection must have a desk review of the original appraisal by either internal QC staff or an outsourced vendor.  
  o Credit history re-verification, obtaining a new in-file report in the same form as the original credit report used to approve the mortgage, including a RMCR, a Tri-Merged Credit Report or, when appropriate a business credit report for each borrower from a source other than the original credit reporting agency or non-traditional credit sources. If discrepancies exist between the credit reports that may adversely affect the Borrower’s eligibility to qualify for the mortgage, then AFN will obtain a second, full RMCR. |
Re-verification/Validations (Continued)

- Income re-verification (written or electronic)
- Employment re-verification (written or electronic)
- Asset re-verification (written or electronic)
- Gift Funds, if applicable (written or electronic)
- Source of funds (written or electronic)
- Mortgage payments or rental payments, if applicable (written or electronic)
- Owner occupancy verification

- Validation of compliance with all local laws
- Verification that no party involved in origination of the loan is included on any of the industry or agency exclusionary lists
- Re-verification of each borrower’s SSN

If a written or electronic re-verification is not returned, AFN must attempt a telephone re-verification.

Post-closing Audit: Closing Documents

All Loan Types
Closing documents of all loans closed by AFN are all subject to this part of the post-closing audit.

AUS Decision
Verification of the data integrity for the AUS, which includes the review of red flag and alert messages, is required. Also confirm that all verification messages/approval conditions were satisfactorily resolved and adequately supported by appropriate documentation.

Note
The Note is reviewed for the following:

- The date of preparation is the same as the date on other closing documents
- Principal and interest (P&I), term, and rate are accurate
- Note is in agreement with Escrow Instructions, Underwriter Approval, and Disclosure terms
- Appropriate Riders, where applicable, are attached and accurate
- Signatures are in agreement with other borrower signatures in the file or with the power of attorney as recorded
- The property address is in agreement with the Deed of Trust, Title Policy and appraisal
Post-closing Audit: Closing Documents (Continued)

Deed of Trust

The Deed of Trust (DOT) is reviewed for the following:
- The appropriate form for loan type and property location used
- The loan amount is in agreement with the Note
- The date of preparation is the same as the date on other closing documents
- Borrower names and vesting are accurate and in agreement with Escrow Instructions
- The legal description and property address are in agreement with the Preliminary Report, Title Policy, Appraisal and Escrow Instructions
- Appropriate Riders, where applicable, are attached and accurate
- The Notarization section is in compliance with the law and the expiration date is after date of execution
- The property address is in agreement with the Note, Title Policy, appraisal and other closing documents
- Signatures are in agreement with other borrower signatures in the file or with the power of attorney as recorded

Title Policy

The Title Policy is reviewed for the following:
- Borrower names, vesting, legal description and property address are in agreement with other closing documents
- Schedules A and B are in agreement with the Preliminary Title Report
- All required endorsements are included and in order
- The effective date and time of the policy is in compliance with the funding and recording of the loan
- The plat map or survey agrees with the Preliminary Title Report and appraisal

HUD-1 Settlement Statement or Closing Disclosure (CD)

The HUD-1 or CD is reviewed for the following:
- Borrower names, property address and settlement date agree with other closing documents
- Fee information on HUD-1/CD agrees with final disclosures
- Fees charged are accurate and within allowed tolerances
- The HUD-1/CD is certified by Escrow
### Post-closing Audit: Closing Documents (Continued)

| **PMI Certificate** | The PMI Certificate, if applicable, is reviewed for the following:  
|                     | • Identifying information, such as borrower names and property address, is in agreement with other closing documents  
|                     | • The percent of coverage is in accordance with the LTV ratio |
| **Flood Insurance** | Flood Insurance, if applicable, is reviewed for the following:  
|                     | • A copy of the application for flood insurance or the flood policy is in the file  
|                     | • Identifying information, such as property address, is in agreement with other closing documents  
|                     | NOTE: A property is not eligible for FHA’s Flood Insurance if:  
|                     | • An existing residential building is located in the SFHA Zone A, a Special Flood Zone Area, or Zone V, a coastal Area, and insurance under the National Flood Insurance Program is not available for the community; OR  
|                     | • Improvements are or are planned to be, in a Coastal Barrier Resource System.  
|                     | AFN must determine if a property is in a Special Flood Hazard Area, as determined by FEMA. AFN must retain flood zone determination services independent of any assessment provided by an appraiser to cover the Life of Loan Flood Certification.  
| **Insurance Premiums** | Insurance premiums (PMI, MIP, VAFF) are reviewed as follows:  
|                     | • Evidence that payments were made in the prescribed regulatory time is present in the file  
|                     | • FHA Mortgage Insurance Premiums that are due upfront are remitted within the time period established by FHA; if not, remittance must include late charges and interest penalties  
|                     | • Corrective measures must be taken in the event there is a pattern of late submissions  
| **CalHFA QC** | In addition to the Closing Documents portion of the post-closing audit, a minimum of 10% of CalHFA loans are subject to a post-closing QC audit. The Quality Control Auditor will review CalHFA files for evidence that files were in compliance with all CalHFA underwriting guidelines and requirements. |
## Post-closing Audit: Conventional Loans

### Conventional Loans

In addition to the Closing Documents portion of the post-closing audit, Conventional loans are subject to an audit outlined in this section.

### Loan File Review Process

AFN's post-closing mortgage loan file review process must include a review of the loan to assess the accuracy and integrity of the information used to support the lending decision, the documentation of any defects identified through the review, and an assessment as to whether or not the loan complies with the Fannie Mae Selling Guide, all related contractual terms and agreements, and is in all respects eligible for delivery to Fannie Mae.

Post-closing review includes an evaluation of:

- the accuracy and completeness of the loan application;
- the existence and accuracy of the underwriting documents, including re-verification of underwriting documents, and a data integrity review;
- the underwriting decision to confirm it is supported;
- the output from any third-party data analysis tools;
- the data entered into DU, if applicable;
- the appraisal;
- the property eligibility;
- the project eligibility, if applicable;
- compliance with the mortgage insurer’s guidelines, and documentation of adequate mortgage insurance coverage;
- the existence and accuracy of legal, transaction documentation (for example, sales contract), and closing documentation; and
- compliance with all federal, state, and local laws and regulations.

### Timing of QC Review Process

Mortgage loans must be selected for post-closing QC reviews on at least a monthly basis. The entire QC process (selection, review, rebuttal, and reporting) must be completed within 120 days from the month of the loan closing.

(Continued)
Post-closing Audit: Conventional Loans (Continued)

**Timing of QC Review Process (Continued)**

The required timelines for each component are:

- 30 days for loan file selection,
- 60 days for QC review and rebuttal, and
- 30 days for reporting.

AFN must notify Fannie Mae and the Agencies if QC reviews are behind by more than one 30-day cycle.

**Random Mortgage Selections and Statistical Sampling**

AFN selects for its post-closing QC review a minimum of 10% of the mortgage loans that it originates using a random selection methodology.

The mortgages selected are representative of our overall book of business, including:

- all of the different types of mortgage loans that AFN offers,
- mortgage loans originated by each branch office and by third-party originators, and
- manually underwritten loans as well as loans that were processed through automated underwriting system(s).

AFN may from time to time use a statistical sampling for its selection process instead of the standard 10% random selection process or use a statistical sampling in conjunction with a random selection process.

If a statistical sampling process is used, the following is required to document the process:

- method for making a statistical selection;
- variables used in the selection model and how they are defined (for example, population size, precision rate, percentage of defect rate, and confidence level); and
- results of periodic evaluations of the process and variables, and establishment of time periods for the evaluations.

**Discretionary Mortgage Selections**

**Purpose and Selection Criteria**

The purpose of a discretionary sample is to look for or highlight areas that may pose unique or elevated levels of risk or to confirm that a particular control or process is working as intended. Discretionary QC samples supplement (but do not replace) an AFN random (or statistical) sample.

(Continued)
Discretionary Mortgage Selections (Continued)

Purpose and Selection Criteria (Continued)

In selecting loans for a discretionary sample, AFN must take into account an assessment of the risks inherent in our origination processes, business sources and volume, and product mix, and must be reviewed regularly and, when necessary, adjusted to ensure that the sample selected, including sample size, is appropriate.

Loans selected for post-closing discretionary QC reviews must target areas that AFN identifies as having a higher potential for errors, misrepresentation, or fraud.

Post-closing discretionary QC reviews allow AFN to increase the number of files as well as allow for more in-depth review when AFN uncovers fraud, errors, patterns of deficiencies, or misrepresentations.

Targeted areas may include the following:

- loans with characteristics related to errors or defects identified in prior prefunding and post-closing review results;
- loans with complex income calculations (for example, rental income, self-employed, short history of receipt of income);
- loans requiring the use of non-standard processing or underwriting guidelines (for example, delayed financing, multiple financed properties, assets used as income, or manual reserve calculations);
- loans secured by properties located in areas with high delinquency rates or areas experiencing rapid increases or decreases in property values;
- loans with multiple layers of credit risk, such as high LTV ratios, low credit scores, or high DTI ratios;
- loans originated or processed through various business sources, a particular branch office, staff person, contractor, third-party originator, or appraiser;
- loans originated or processed by newly hired loan officers, processors, appraisers, or other personnel or third parties involved in the loan origination process;
- loans that may be subject to concerns about delinquency rates or patterns identified in other reviews; and
- loans for which the feedback or results from third-party tools indicates potential areas of concern.
Post-closing Audit: Government Loans

FHA and VA Loans

In addition to the Closing Documents portion of the post-closing audit, FHA and VA loans are subject to an audit outlined in this section. The Quality Control Auditor will review the file for evidence that it was current at the time of submission for endorsement or guarantee.

Timing of QC Review Process

AFN selects FHA mortgages for post-closing reviews on a monthly basis. The selection must be comprised of loans closed in the prior one-month period. Mortgages selected must be reviewed within 60 Days from the end of the prior one-month period.

FHA Submissions to HUD for Insurance

All FHA loans must be submitted to the Jurisdictional HOC for insurance within 60 calendar days after the disbursement date. In the event a mortgage is not submitted within the required 60-day timeframe, the Quality Control Auditor must verify a late endorsement request was submitted. The late endorsement request must certify that:

- no mortgage payment is currently unpaid;
- all escrow accounts for taxes, hazard insurance and mortgage insurance premiums are current and intact, except for disbursements that may have been made to cover payments for which the accounts were specifically established; and
- neither AFN nor its agents provided the funds to bring and/or keep the mortgage current or to bring about the appearance of an acceptable payment history.

Each late endorsement request must also:

- list the FHA case number;
- list the Borrower’s name;
- be dated and signed by the Mortgagee’s representative; and
- be printed on company letterhead with the Mortgagee’s address and telephone number.

Corrective measures must be taken in the event there is a pattern of late submissions.

Required Forms

FHA/VA files must include, but are not limited to, the following:

- Completed Initial 1003, dated and executed by the borrowers and interviewer:
  - Any corrections must be initialed by the borrowers
  - All pages must be initialed by the borrowers

(Continued)
Post-closing Audit: Government Loans (Continued)

### Required Forms (Continued)
- Completed Final 1003, dated and executed by the borrowers and interviewer:
  - Any corrections must be initialed by the borrowers
  - All pages must be initialed by the borrowers
- Contract of Sale and Deposit Receipt, if purchase transaction:
  - Signatures match other signatures in the file
  - Dates agree with other information in the file
- Borrower’s Authorization to Release Information, signed and dated by the borrowers:
- Escrow Instructions and all amendments, in agreement with the certified HUD-1 or CD and other closing documentation
- Transmittal Summary (FNMA 1008 or FHLMC 1077):
  - Information must be in agreement with final terms of the loan, the appraisal and sales price (if purchase)
  - Underwriter notes must be reviewed
- Mortgage Credit Analysis Worksheet (FHA) or Loan Analysis Worksheet (VA):
  - Information must be in agreement with final terms of the loan, appraisal, and sales price (if purchase)
  - Underwriter notes must be reviewed
- FHA/VA Refinance Worksheet (if refinance)
- Underwriter Approval, with all conditions received
- Funding Sheet
- Verification of Tax Returns (form 4506)

### Disclosures - FHA
All regulatory compliance forms must be included in the file.

FHA files must include the following:
- Initial 1003, signed and dated by borrowers and loan originator
- Initial 92900A, Pages 1&2, signed by loan processor on Page 1 and borrowers on Page 2
- Initial Disclosures (Loan Estimate, Notice of Intent to Proceed, List of Service Providers, Itemization of Amount Financed, New Construction Statement (if applicable), Borrower Signature Authorization, Borrower’s Cert/Authorization, Disclosure Notices, ECOA, Credit Score Information, Patriot Act, Privacy Policy, Servicing Disclosure Statement, IRS Form 4506T, Notice of Right to Receive Appraisal, HUD’s Settlement Cost Booklet)
- State-specific Disclosures
- Informed Consumer Choice Disclosure

(Continued)
## Disclosures – FHA (Continued)
- HUD 92564-CN (For Your Protection, Get a Home Inspection)
- Confirmation of HUD 92564-CN Disclosure
- Important Notice to Homebuyers
- FHA Assumption Notice
- Energy Efficient Mortgage Fact Sheet
- Identity of Interest Certification (signed by all borrowers and consultants)

## Disclosures – VA
VA files must include the following:
- Initial 1003, signed/dated by borrowers and loan originator
- Initial 26-1802a, Pages 1&2, signed by loan processor on Page 1 and borrowers on Page 2
- Initial Disclosures (same as FHA)
- State-specific Disclosures (for CA: same as FHA)
- 26-0503 Federal Collection Policy Notice
- VA Nearest Living Relative Form
- 26-0551 Debt Questionnaire
- VA Interest Rate and Discount Statement
- 26-0592 Counseling Checklist
- 29-8978 Important Notice to Homebuyer

## Appraisal Review
The appraisal, if required for the specified loan program, will be reviewed as follows:
- Appraiser is licensed and in good standing
- Appraisal date is in compliance (within 120 days of loan closing)
- The validity of comparables and that the comparables used are in compliance (within a mile of the property and for similar properties)
- The appraisal data
- The value conclusion
- Any changes made by the underwriter
- The overall quality of the appraisal
- Net/gross adjustments, if any, are in reasonable accordance with accepted appraisal standards
- Address and legal description are in agreement with other documents in the file
- Flood Determination information is in agreement with the Flood Certification

(Continued)
Post-closing Audit: Government Loans (Continued)

**Appraisal Review (Continued)**

- Addendum, if any, is reasonable
- Sketches, if any, are in agreement with information shown on page one of the appraisal
- Photos of the subject property and comparables show reasonable property comparisons
- Desk Review is ordered on any appraisal deemed inadequate by the Quality Control Auditor, and for mortgage loans that were selected for the monthly post-closing QC review that did not have a field review conducted.
- Field Review is ordered from an independent, licensed appraiser (for FHA loans, must be listed on FHA’s Roster of Appraisers) on 10% of the FHA-insured mortgages selected for the monthly post-closing QC review and 100% of EPDs except for Streamline refinances. A field review will also be completed on loans selected where a desk review revealed significant problems and/or deficiencies with the appraisal report.

If serious deficiencies or patterns are discovered, the Quality Control Auditor must include this in a report so AFN can submit such in writing to the Quality Assurance Division of the HUD Homeownership Center having jurisdiction.

- Field review selection will also be based on high-risk loans, including but not limited to:
  - 2-4 unit properties
  - New construction or rehabilitation loans
  - Properties transferred within the last year
  - Properties with substantial seller concessions
  - Non-occupying co-mortgagors or multiple mortgagors
  - Housing expenses increasing by 1.5 times or more
  - Large or multiple earnest money deposits
  - Large increase in bank account balance
  - Sale of personal property or receipt of gifts/loans for funds to close
  - Self-employed borrowers
  - Loan risk assessment of “Refer” by an AUS

- Selection will also consider the following factors:
  - Property complaints received from mortgagors
  - Discrepancies found during QC reviews
  - Large adjustment or variances to property value
  - Comparable sales more than 6 months old and/or excessive distances from comparables to the subject property

(Continued)
Post-closing Audit: Government Loans (Continued)

Appraisal Review (Continued)

- Repetitive sales activity for the subject property
- Investor-sold properties
- Identity of interest between buyer and seller
- Seller identity differs from owner of record
- HUD Real Estate Owned (REO) sales financed with an FHA-insured mortgage
- Vacant properties
- Soft markets

Property appraisal and field reviews do not have to be performed for Streamline Refinances, or for HUD REO sales chosen for QC review where AFN was not required to order a new appraisal for a property financed with an FHA-insured mortgage.

Occupancy Re-verification

In cases where occupancy of the subject property is suspect, the Quality Control Auditor will attempt to determine whether the mortgagor is occupying the property; if the mortgagor does not occupy the property, it may be an indication of other problems with the mortgage loan. The Quality Control Auditor must include any instance where a mortgagor is not occupying a property mortgaged as owner-occupied in a report so AFN can submit such in writing to the Quality Assurance Division of the HUD Homeownership Center having jurisdiction.

Underwriter Approval Sheet

The Underwriter’s approval sheet will be reviewed as follows:

- All underwriting conditions are noted as received
- A copy of each underwriting condition is in the file
- Loan closed according to terms specified by the underwriter
- Ratios are accurate (Auditor to recalculate)
- Credit report and final application are in agreement regarding borrower liabilities
- All liabilities were used in the debt ratio calculation

AUS Decision

An Automated Underwriting System (AUS), such as Fannie Mae’s Desktop Underwriter (DU), is used to get approval from the governing agency. For government loans, the DU decision will be reviewed as follows:

If “Approved”

- It is not necessary to analyze the underwriting decision
- All conditions must be met with proof in the file

(Continued)
Post-closing Audit: Government Loans (Continued)

AUS Decision (Continued)

If “Refer”
- There must be evidence of a manual underwrite in the file before a final underwriting decision was made on the application
- Review to determine the rationale applied by the underwriter to approve the file is reasonable and clearly documented
- All conditions must be met with proof in the file

If “Ineligible”
- Review to determine that conditions that rendered the loan ineligible are permitted in AFN’s master commitment

For all loans included in the review, regardless of approval status, data entered into the AUS will be checked for accuracy, including, but not limited to: borrower names, property address, mortgage amount, income, assets and source of funds. A copy of the AUS report must be included in the loan file.

In instances where the AUS does not accept the application, the basis of the AUS decision on the loan must be documented and retained. If a manual underwriting downgrade or override is applied, the Quality Control Auditor must verify that no patterns of illegal discrimination against the loan applicants are present and that the downgrade or override was proper.

**NOTE:** Approval cannot be based on AUS if borrower is self-employed and experiences a decrease in income of 20% or more. Manual underwriting is required in such instances.

Streamline Refinances

FHA Streamline refinance loan files typically contain notably fewer documents than other files. Streamline refinances should be included in the QC sample; however, they should comprise a small portion of the sample unless streamline refinances are a significant portion of AFN’s production. Review of these loans may be limited to the functions performed when originating such loans and confirmation the loan was eligible for streamline processing.

FHA Specialty Programs

**Section 203(k) Rehabilitation Loans**
AFN must conduct a physical inspection of a sampling of its 203(k) loan properties. In addition, all 203(k) consultants are subject to an annual review of their performance in accordance with FHA/HUD regulations and requirements, including review of their work. Consultants who demonstrate poor performance will not be used for future projects. Any suspected fraud or malfeasance will be reported to HUD for possible administrative action.
Post-closing Audit: Government Loans (Continued)

FHA Specialty Programs (Continued)

203(k) loans must be reviewed for compliance in the following areas:

- Handling of rehabilitation escrows and disbursements
- The Rehabilitation Loan Agreement
- The scope of repairs
- The timeliness of repair completion
- Any borrower complaints about quality

Home Equity Conversion Mortgages (HECMs)

Check the file for evidence of the following:

- Homeowners meet the minimum age requirement for HECM mortgages
- Homeowners received appropriate counseling from a HUD approved counselor prior to underwriting the loan
- Fees for a credit report or appraisal were not collected until after the borrowers received required counseling
- All fees paid are reasonable for the service provided
- Title, escrow and recording fees are in accordance with AFN Escrow Division’s current fees and title includes ALTA endorsements 6.2, 8.1, 9, and 14.3
- All fees paid are disclosed in the file
- All liens against the property were disclosed

Endorsement and Insurance Information – FHA Loans

For endorsement, the review must validate all data elements submitted through FHA Connection, and validate that documentation exists in the loan file to support all data used to endorse and insure the mortgage.

Post-closing Audit: USDA Loans

USDA Loans

In addition to the Closing Documents portion of the post-closing audit, US Department of Agriculture (USDA) Rural Development-Guaranteed Rural Housing (RD-GRH) loans are subject to an audit outlined in this section.

USDA loans will be selected for review using the same selection criteria as detailed for FHA loans.
Post-closing Audit: USDA Loans (Continued)

**Required Forms**

- The RD 3550-1, Authorization to Release Information, must accompany all requests for verification from a third party.
- The RD 1910-5 form, USDA Request for Verification of Employment, is required for verifying employment.
- The RD 1980-18 form, Conditional Commitment for SFH Loan Guarantee, must be issued to the lender by Rural Development (RD) prior to closing a USDA loan. No increases to the loan amount or interest rate are permitted above what is on this form; lenders must not close a loan at an interest rate or dollar amount higher than indicated on the Conditional Commitment without approval from Rural Development (3 days required to process changes).
- The RD 1980-19 form, Guaranteed Loan Closing Report, is required when submitting to USDA/RD.
- The RD 1980-21 form, Request of Single Family Housing Loan Guarantee (4-page document that includes Lender Certification, Applicant(s) Acknowledgements and Certification, Notice to Applicant Regarding Privacy Act Information, and Notification to Applicant on Use of Financial Information), must be completed and signed/dated by all applicants and the lender.
- GUS Underwriting Findings are required in the lender’s permanent file (not required to print and submit to RD-GRH as they are reviewed electronically).

**Origination Submissions**

The following documentation must be submitted with RD-GRH:

- RD 1980-21
- FNMA 1008/FHLMC 1077 Underwriting Analysis
- GUS Underwriting Findings (electronic submission required, but printout not required with submission)
- FNMA 1003 Uniform Residential Loan Application
- Credit report (<120 days if existing, <180 days if new construction)
- Income verification (<120 days for existing, <180 days for new construction)
- Evidence of qualified alien (if applicant not US Citizen)
- FNMA 1004 Uniform Residential Appraisal Report
- FEMA Form 81-93 Standard Flood Determination
- Sales Contract
Post-closing Audit: USDA Loans (Continued)

Underwriter Approval

**Applicant Eligibility**
Applicants must meet the following eligibility requirements:

- Able to personally occupy the dwelling (generally, borrowers must sell their existing home, if applicable)
- US Citizen (or admitted for permanent residency); non-occupant co-borrowers not permitted

**Income**
USDA home loan applicants must fall within the income guidelines set forth by the United States Department of Agriculture/Rural Development (USDA/RD), available online at [http://www.rurdev.usda.gov/HSF-Guar_Income_Limits.html](http://www.rurdev.usda.gov/HSF-Guar_Income_Limits.html). (Income of up to 115% of the median income for the area allowed.)

Additional income requirements include:

- Adequate, dependable income, typically with a 24-month history (minimum)
- Qualifying ratios are 29/41 (higher ratios considered with compensating factors)
- Income verified with written VOE and one month’s current paycheck stub, OR one month’s current paycheck stub and 2 years of W2s (self-employed borrowers need 2 years 1040s)
- Debts with > 6 months payments remaining must be included in qualifying ratios
- Student loans must be included in ratios, even if currently in deferment
- Disability and Social Security benefits require a 3 year continuance documented with award letter or 2 months bank statements (grossed up 125%)
- Salary increases within 60 days of first payment due are acceptable
- Part-time employment must have history of no less than 12 months
- Alimony and child support income must continue for 3 years and have no less than a 12-month history
- Any income of a non-purchasing spouse must be verified to ensure income limits are not exceeded

(Continued)
Underwriter Approval (Continued)

Credit History
Applicant’s credit history must indicate a reasonable ability and willingness to meet obligations. A credit history reflecting any or all of the following is considered unacceptable:

- More than one 30-day late within last 12 months
- Bankruptcy or foreclosure discharged less than 36 months
- Outstanding judgments within last 12 months
- Two or more rent payments 30 days late within last 3 years
- Outstanding collection accounts with no payment arrangements
- Outstanding tax liens or delinquent federal debt with no payment arrangements
- Accounts converted to collections in the last 12 months

Possible Adverse Credit Waivers
- Circumstances for adverse credit were temporary in nature, beyond the applicant’s control, and have been removed (example: increased expenses due to illness and/or medical expenses, injury, death in family, etc.)
- Tri-merge credit reports required and must be no more than 90 days old at the time the conditional commitment is issued
- Applicants must not be delinquent on any debts owed to the federal government
- CIAVRS must be checked and documented in the loan submission package

Section 502
Section 502 loans are used to help low-income families or individuals purchase homes in rural areas. These funds can be used to acquire, build, repair, renovate or relocate a home.

Additional Guidelines

AUS Decision
Guaranteed Underwriting System (GUS) is the USDA Rural Development’s automated underwriting system (AUS). Loans should be submitted to GUS to receive loan recommendations. GUS will identify any risk factors (manual underwrite required).
Post-closing Audit: USDA Loans (Continued)

Closed Loan Submissions (to Investors)

The following documentation must be submitted to the investor when a USDA loan closes:

- Pay History (required on all files where 1st payment due is prior to file receipt date)
- Lock Letter Confirmation
- Transfer of Servicing Notice
- First Payment Letter/Coupon
- Wiring instructions (if applicable)
- Original endorsed note
- Bailee Letter (if applicable)
- 2/1 Temporary Buydown Agreement (if applicable)
- Mortgage/Deed of Trust
- Assignment (or MERS data)
- Title Commitment
- Closing Disclosure or HUD-1, as applicable (signed by Borrower and Seller)
- Initial Escrow Disclosure
- Final CD
- Escrow Agreement and Bids (if applicable)
- Final inspection (if New Construction or if Appraisal is "Subject To..." for existing homes)
- Appraisal with any Addenda
- Loan Note Guarantee (if received)
- RD Form 1980-18 (all pages); page 2 must be signed by Lender, and interest rate and loan amount on the Note cannot exceed the interest rate and loan amount approved by USDA RD
- FNMA 1008, signed by the Underwriter
- Initial and Final 1003
- Tax Information Sheet
- Flood Certification
- Hazard Insurance Policy
- Flood Insurance Policy (if applicable)
- IRS Form 4506T, completed and signed
- Original Credit Package
## Post-closing Audit: Rejected Applications

### Random Sampling
A minimum of 10% of all rejected loans, including 10% of FHA loans, must be reviewed for compliance and to ensure there were no incidences of discrimination.

### Documents
Check the file for completeness, excluding the closing documents. The file should contain a minimum of the following documentation:

- Signed 1003
- Signed 92900A
- Signed initial disclosures
- Statement of Denial

### Compliance
Rejections must meet the following additional criteria:

- Rejection is confirmed by senior staff or officer
- Reason given for rejection is valid and is specific when relayed to the borrower
- Civil Rights violations were not committed in rejection of the application
- ECOA requirements have been met and are documented in the file
- If rejection based on unacceptable credit characteristics, borrower was notified of such and given the name, address and phone number of the reporting agency (in accordance with the Fair Credit Reporting Act)
- For FHA rejections, the rejection notice to the borrower must meet the requirements of Regulation B (cannot discriminate based on race, color, religion, sex, handicap, familial status, or national origin); also, FHA will issue a form HUD 59100 to AFN, which must be retained for a minimum of 36 months
Post-closing Audit: QC Loan File

File Setup

The Quality Control Auditor will use exact copies of documents from the loan file to create a QC Loan File containing:

- Initial 1003
- Final 1003
- Underwriter approval sheet
- Transmittal summary
- Credit report(s)
- Verifications (also called *verifs*: VOE, VOD, VOR, VOM, and Verification of gift, if applicable)
- Verification of tax returns (i.e. 4506T)
- Appraisal
- Borrower’s Authorization to Release Information

Re-verification of Application

The Quality Control Auditor will verify the loan application with the borrower(s) as follows:

- Prepare a questionnaire for the borrower, asking them to verify information on the 1003
- Include a copy of 1003 and self-addressed stamped envelope
- If owner-occupied property, address it to the borrowers at the property; indicate DO NOT FORWARD on the envelope
- If non-owner occupied, address it to the borrowers at their residence, not at the subject property address

Re-verification of Verifs

The Quality Control Auditor will re-verify with entities that previously verified information that was relied upon to underwrite and approve the loan. Re-verification of verifs is done by sending a form to each verifying entity, and includes (as applicable):

- Verification of Employment
- Verification of Deposit
- Verification of Rent
- Verification of Mortgage
- Verification of Loan
- Verification of Gift (for FHA, donor’s bank statement showing funds coming out of donor’s account is mandatory. Gift funds must also either be verified in the borrower’s account, or AFN must obtain the wire transfer, a cashier’s check, money order, or certified check, and a statement showing withdrawal from donor’s account)

(Continued)
Re-verification of Verifs (Continued)

Returned forms are reviewed for agreement with the initial verification. In instances where verification forms are not returned, verbal verification is acceptable; the person and title of the person verifying the information should be noted.

Tax Returns

AFN requires verification of tax returns on 100% of its loans prior to funding, using an IRS form 4506T. The Quality Control Auditor is to review the verification; if one is not present in the file, it must be done at the time of audit.

Program Special Audits

Branch Offices

Upon request by AFN Senior Management, the Quality Control Auditor will inspect AFN Branch Offices for compliance with AFN established policies and procedures.

Early Payment Defaults (EDP)

Early Payment Defaults are all mortgages that become 60 days delinquent within the first six payments. AFN reviews all loans that it underwrote that are subject to an Early Payment Default, regardless of whether it is currently servicing the loan. AFN uses Neighborhood Watch to assist in identifying EPDs.

AFN selects EPDs for review on a monthly basis. EPDs selected must be reviewed within 60 days from the end of the month in which the loan was selected. AFN ensures appraisal field reviews are performed on all EPDs.

HMDA Reports

The Quality Control Auditor will receive a copy of AFN’s annual HMDA report and review it for compliance. A findings report will be provided within 30 days of receipt of the HMDA report.

Misc. Loans Upon Request

Upon request by AFN Senior Management, the Quality Control Auditor will audit files for which AFN has received an audit request from the investor or governing agency.

VA’s Lender Appraisal Processing Program (LAPP)

The Lender Appraisal Processing Program (LAPP) permits the Company, as a VA-authorized lender, to receive appraisal reports directly from appraisers and process them without VA involvement. The Company exercises its LAPP authority through its VA-approved staff appraisal reviewer (SAR).
Program Special Audits (Continued)

VA’s Lender Appraisal Processing Program (LAPP) (Continued)

The SAR is a full-time salaried employee with at least 3 years of work experience qualifying him/her to competently perform administrative appraisal reviews in conjunction with underwriting loans for VA loan guaranty purposes.

The SAR must stay informed about all local VA processing requirements unique to the VA jurisdiction in which a property is located.

VA-assigned appraisers send appraisal reports directly to the Company's SAR. The SAR then is responsible for:
- Reviewing the appraisal report for completeness and conformity with industry accepted appraisal practices and techniques as well as other VA requirements;
- Determining the reasonable value of the property and any conditions which must be met prior to VA guaranty of the loan; and
- Sending the veteran borrower a written notice of the value which includes any conditions or requirements upon which the VA loan guaranty is contingent.

The Company maintains an effective quality control system to ensure the adequacy and quality of its staff appraisal reviews. This QC system is independent of the Company's loan production operation and is performed by independent QC personnel reporting directly to the Company's COO.

The Company ensures that all current pertinent VA regulations, directives, and other releases are maintained and immediately available to the QC personnel as well as the Company's SARs. Further, QC personnel must maintain a basic familiarity with appraisal theory and techniques and the ability to prescribe appropriate corrective actions when problems in the appraisal review process are identified.

The Company’s senior management will ensure that an effective QC system is in place to monitor the adequacy and quality of its SARs. Senior Management must ensure that as part of the Company's QC Program QC reviews of SAR compliance with VA requirements are performed.

QC personnel perform desk reviews of 10% of each SAR’s appraisal reviews monthly. QC personnel will expand the scope of this review to 100% if it identifies a pattern of deficiencies in the SAR's performance.

(Continued)
Program Special Audits (Continued)

VA’s Lender Appraisal Processing Program (LAPP) (Continued)

QC reviews must consider (i) the overall quality of the SAR’s appraisal review, (ii) acceptability of the property in light of VA minimum property requirements, and (iii) appropriateness of the reasonable value determination. Additionally, QC Reviews must evaluate whether deficiencies exist with regard to the SAR’s issuance and timeliness of the Notice of Value (NOV). Under LAPP, the SAR must complete the standard NOV form on the Company’s corporate letterhead or attach to a statement on that letterhead, which references it. Every NOV must include the following:

- Estimated reasonable value of the property;
- Estimated remaining economic life of the property; and
- A list of any property-related conditions and requirements necessary for VA loan guaranty.

For cases processed under LAPP, the SAR must send the veteran borrower the NOV and a copy of the reviewed appraisal report, within five (5) business days of the Company’s earliest receipt of the appraisal report by the SAR or an authorized agent/broker.

In the event QC personnel identify deficiencies in the SAR's performance, QC personnel will report such deficiencies in writing to the Company's senior management and President on an at least quarterly basis. Senior Management must promptly initiate and document actions to correct deficiencies, including providing SARs with corrective instructions.

In addition to reviews of the SARs’ work, QC personnel perform random field reviews of VA fee panel appraisals. The Company will formally report any substantive negative findings to the VA Regional Loan Center where the appraiser is a member of the fee panel.

Below are specific requirements for VA appraisals:

- Appraisal must name VA as the client on the appraisal report form and must name “Any Qualified Veteran” as the veteran’s name on the form.
- Appraisal must be performed within VA timeliness requirements (generally this means as quickly as appraisals for conventional loans are generally completed in the area where the property is located).
- Appraisal must confirm to USPAP.

(Continued)
Program Special Audits (Continued)

VA’s Lender Appraisal Processing Program (LAPP) (Continued)

- The VA assigned fee appraiser must personally (i) view the interior and exterior of the subject property and the exterior of each comparable, (ii) select and analyze comparables, (iii) make the final value estimate and (iv) sign the appraisal report (either electronically or handwritten) as the appraiser.

Further, every VA appraisal report must include the following:

- Use of one of the approved forms as outlined in the VA Pamphlet 26-7, Revised, Chapter 11: Appraisal Requirements
- A location map, showing the location of the subject and each comparable.
- Building perimeter sketches showing the “footprint” of all improvements, including floor plan layout of residential spaces. The calculation for the square foot size of the improvements must also be shown either here or in the “Comments on Cost Approach” section of the URAR.
- Photographs of subject property showing a front and rear view (preferably including a different side view in each photograph) and street scene, and a photograph of each comparable (only a front view of comparable sales required).

EXCEPTIONS:

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<th>If...</th>
<th>...then...</th>
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<tr>
<td>it is a proposed construction case and no improvements are under construction,</td>
<td>only a photograph of the subject site and street scene are required in addition to a front view photograph of each comparable.</td>
</tr>
<tr>
<td>the property is in a condominium more than three units high,</td>
<td>no photographs of the comparable sales are required, provided they are located in the same project as the subject property and are substantially identical to the subject property.</td>
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<tr>
<td>the appraiser documents an inability to take photos of the comparable sales due to lack of access, poor visibility, etc.,</td>
<td>copies of listing service or advertising pictures are acceptable for the comparable sales if they clearly depict the properties. Copies of listing service or advertising pictures in lieu of photographs are never acceptable for the subject property.</td>
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Program Special Audits (Continued)

VA’s Lender Appraisal Processing Program (LAPP) (Continued)

- An itemized list of any observed repairs required to be completed, customer preference items to be installed, inspections to be performed, or conditions to be corrected, for the property to meet VA minimum property requirements.
- A copy of the appraisal invoice should be included preceding the report.
- Any additional appraisal or repair-related information that may be needed to support the fee appraiser’s conclusions. The appropriate areas of the computer-generated URAR can be expanded to include such information, provided the standard sequence of the URAR instructions, information entries, etc., does not change and the “Sales Comparison Analysis” does not appear on two separate pages.
- Additional certifications required by State law or related to continuing education or membership in appraisal organizations, etc., can be made on a separate form or page, provided they do not conflict with the language on the Statement of Assumptions and Limiting Conditions or with any VA policy. Appraisal reviewers must determine that additions or changes to the Statement of Assumptions and Limiting Conditions do not conflict with VA requirements.
- Comparables - appraiser must select the three best closed comparable sales preferably within the last 6 months (12 months old at maximum) and properly adjust the sales price of each comparable sale for market recognized differences between it and the subject property. The goal is to obtain a VA value estimate that does not exceed the price at which similar properties can be purchased in the current market. The appraiser must adequately explain any reliance on sales that are not truly comparable to the subject. Sales listings, contract offers, and unsettled sales must not be used as comparables. Appraiser must adequately explain a wide range in the sale prices of comparables before or after adjustment.

VA General QC Requirements

Senior Management must ensure that all VA-approved underwriters are familiar with VA’s credit underwriting standards and the VA Lender’s Handbook, as well as this QC Plan. Loans processed for VA Guaranty may only be underwritten by VA-approved underwriters who have undergone required training and meet all VA guidelines.

(Continued)
Program Special Audits (Continued)

**VA General QC Requirements (Continued)**

For loans selected for QC review, the QC Auditor must:
- Review loans within 90 days of loan closing;
- Obtain written re-verification of borrower’s employment, deposits and all sources of funds; and
- Reorder a new credit report from another credit source (this may be a Residential Mortgage Credit Report or an in-file report that merges the records of the three national repositories of credit files).

The QC reviewer must also determine whether underwriting conclusions and documentation are overall complete and accurate. In order to do this the reviewer will make a determination on each of the following items:

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<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Each file contains all required loan processing, underwriting, and legal documents.</td>
</tr>
<tr>
<td>2.</td>
<td>All relevant loan documents were not signed in blank by the borrower or lender employee(s), and all corrections initialed by the borrower or lender employee(s).</td>
</tr>
<tr>
<td>3.</td>
<td>Verifications of employment, verifications of deposit, and the credit report were not handled by the borrower or any interested third party.</td>
</tr>
<tr>
<td>4.</td>
<td>Credit reports conform to Residential Mortgage Credit Report standards (if RMCR used), and if more than one credit report ordered, all credit reports submitted with the loan package to VA.</td>
</tr>
</tbody>
</table>
| 5.   | There is a correlation of each outstanding liability and each asset of the borrower and co-borrower used to qualify for the loan to those listed on the initial loan application.  
*Note:* If discrepancies exist, the loan file must show they have been explained or otherwise resolved. |
| 6.   | Any outstanding judgments appearing on the credit report are listed on the application and accompanied by an explanation and documentation.  
*Note:* When there is a delinquency or judgment involving debt to the Federal Government, evidence must be provided showing the delinquent account brought current or satisfactory arrangements were made between the borrower and the Federal agency owed, or the judgment paid or otherwise satisfied. |
Program Special Audits (Continued)

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
</table>
| 7.   | Loan file contains required tax returns.  
      *Note:* If the borrower is self-employed, the loan file must include two years’ tax returns and a profit and loss statement for year-to-date since the end of the fiscal year (or whatever shorter period records may be available), and a current balance sheet showing all assets and liabilities. |
| 8.   | The Closing Disclosure (CD) or HUD-1 settlement statement was accurately prepared and properly certified. |
| 9.   | Fees charged to the veteran were appropriate and accurate. |
| 10.  | The loan was properly documented and submitted in accordance with VA standardized loan file setup procedures. |
| 11.  | The loan was current at the time of submission to VA for guaranty. |
| 12.  | Property was not transferred at the time of closing or soon thereafter, which if done would indicate possibility of misuse of the veteran’s VA loan entitlement. |
| 13.  | All conflicting information or discrepancies in the file have been resolved and properly documented in writing prior to submission of the loan to VA for guaranty. |

As part of the QC review, the QC Auditor will also ensure that VA funding fees are remitted within 15 days from the date of loan closing and late charges and interest penalties are promptly submitted to VA.

Further, the Company requires:

- Prompt and effective corrective action by Senior Management on all deficiencies identified by it or the VA;
- Maintenance of documentation of deficiencies and corrective actions taken;
- Employees be held accountable for performance failures or errors; and
- Where patterns of deficiencies have been identified, corrective instructions are provided to all relevant employees.

The Company also requires prompt reporting of any violation of law or regulation, false statements, or program abuses by it, its employees, or any other party to the transaction to the VA office of jurisdiction. Additionally, the Company must provide for furnishing audit or review findings to VA on demand.
Program Audit Reports

Report Submission

The QC Auditor will submit file audit reports to AFN’s President, with copies to the EVP of Operations and Chief Compliance Officer, within 30 days of the audit’s start date. The report is to include the following:

- Spreadsheet of loans, by loan number, included in the audit; include loan number, borrower name, origination source, investor name, underwriter name, loan type, funded date and audit rating
- Percentage of ratings in each of the following categories:
  - COMMENTS
  - DISCREPANCY
  - DOCUMENT CONTROL
  - EXCEPTIONS
  - INQUIRIES
  - OUTSTANDING ITEMS
  - REGULATORY COMPLIANCE ISSUES
  - SIGNIFICANT FINDINGS
- **Final Management Report:** Once the post-closing QC audits are fully completed, including receipt of management responses and corrective actions, the QC Auditor shall submit a final management report to all Senior Management via email. Final management reports must be provided to Senior Management no later than 120 days from the month in which the selected loans funded.

Rating Definitions

The standard ratings assigned to audit exceptions have the following relative significance.

**Exception Rating #1 – Low (Minor Findings)**

These exceptions differentiate issues that individually have only minor impact on the designated subject matter; however, their relative frequency of occurrence, and changes in their frequency may signify the development of more consequential irregularities.

**Exception Rating #2 – Medium (Important Findings)**

These exceptions 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.

(Continued)
Program Audit Reports (Continued)

Rating Definitions (Continued)

Exception Rating #3 – High (Serious Findings)

These exceptions designate prominent issues that may jeopardize a client or customer relationship, generate adverse financial consequences, and/or indicate the possibility of repercussive or legal remedies. This rating includes findings that result in a loan being ineligible for delivery to Agencies.

Corrective Actions

The Executive Vice President of Operations and the Regulatory Compliance Officer will review the reports in a timely manner and take the appropriate actions to:

- Respond to each instance of fraud, material misrepresentation or other material finding (AFN’s final report will identify corrective and curative actions taken, the timetable for completion and any planned follow-up activities)
- Notify offending employees of their errors and request an immediate response to the audit findings in an effort to prevent similar findings from occurring in the future
- Initiate policies/procedures to prevent future missteps
- Investigate inconsistencies/Cure deficiencies/Correct errors
- Report any regulation/law violations, false statements, or program abuses (by AFN or any other party), to the investor, insurer, governing agency and all other parties to the transaction within 30 days of the investigation
  - AFN must immediately report all findings of fraud and material misinterpretation to FHA.
  - If AFN identifies, and cannot mitigate, any material findings regarding origination, underwriting, or servicing, it must report finding to FHA no later than 90 days after completion of the initial findings report.
  - AFN will report findings to FHA through the Lender Reporting feature in Neighborhood Watch. When reporting findings to FHA, AFN will identify all attempts to mitigate as well as planned or follow-up activities. If AFN suspects that HUD employees or contractors were involved in any type of fraud or misrepresentation, AFN will report the matter to HUD’s Office of Inspector General through the HUD OIG website, by sending a written referral to the HUD OIG Hotline at 451 7th Street, SW, Room 8254, Washington, DC 20410, or by fax at (202) 708-4829.

(Continued)
Program Audit Reports (Continued)

Corrective Actions (Continued)

• Direct the Quality Control Auditor, when necessary, to further the investigation for evidence of fraud or patterns where followed procedures may cause inconsistencies

Defect Trending

As part of reporting, the Company conducts trend analysis. Trend tracking information is used as a prevention resource. The Company classifies defects to the following categories:

• Assets;
• Borrower & mortgage eligibility;
• Credit;
• Liabilities;
• Income/employment;
• Insurance;
• Legal/regulatory/compliance;
• Loan package documentation;
• Project eligibility;
• Property eligibility;
• Appraisal; and
• Other.

The Company also established a target defect rate of 5% net, which reflects its quality standards and goals. The target defect rate is as reasonably low as possible. The company established its target defect rate based on its post-closing random QC sample. The Company evaluates and measures progress in meeting its loan quality standards and the target defect rate at least quarterly. Results are reported to Management monthly as part of the QC report summary. The QC report summary will distinguish between reporting defects related to compliance with federal, state, or local laws and regulations, and underwriting eligibility defects.

Senior Management and the Board assist in evaluating trends against the established defect rate. The Company regularly evaluates its target defect rate to ensure it continues to meet our credit risk needs and is aligned with our loss reserves. AFN will reset it as necessary but no less than annually.
Branch Office Audits

**On-site Visits**

AFN will conduct an unannounced audit of each branch office on an annual basis. This audit will include but not be limited to the following:

- Branch Manager interview
- Compliance with signage and public notices requirements, including prominently displaying the fair housing poster so that it is available to the general public and prominently displaying the equal housing opportunity logo on all documents, including hard copy and electronic documents, distributed to the public
- If in a commercial space, it is conducive to mortgage lending and separated from any other entities by walls or partitions
- If in a non-commercial space, office adequately equipped
- If open to the public, accessibility to persons with disabilities
- Verification of Internet access to AFN’s information resources
- Inventory of loans in process as compared to a pipeline report generated at the corporate office
- Verification that AFN policies and procedures are being followed in respect to all files as they are open, in process, submitted to Underwriting, submitted to Docs, closed and/or canceled/denied
- Verification the branch does not violate HUD’s definition of a Prohibited Branch Arrangement (Chapter 2)
  - Separate legal entities cannot operate as a branch office of an approved mortgagee
  - All branch operating expenses must be paid by the approved mortgagee, not by branch manager, any other employee, or by a third party
  - All branch contractual arrangements must be in the name of the approved mortgagee and cannot be in the name of an employee or branch
  - Branch employees cannot be required to indemnify the approved mortgagee for damages
  - Branch employees cannot issue a personal check to cover operating expenses
- If applicable, Branch office is properly licensed with FHA, and has at least one full-time employee (not including a shared receptionist or contractor)
- Operations are conducted in a professional environment
- The office is sufficiently staffed with trained personnel

(Continued)
Branch Office Audits (Continued)

**On-site Visits (Continued)**

- Office personnel have access to relevant state regulations, HUD issuances and Handbooks (if applicable)
- Procedures are reviewed to reflect changes in investor and agency requirements; personnel are informed of changes
- Personnel are all employees of the mortgagee or contract employees performing functions that investors/agencies allow to be outsourced

**Branch Audit Reports**

A written report of findings and recommendations will be prepared and delivered to the AFN President and Regulatory Compliance Officer within seven days of a Branch Office Audit.

**Report Contents:** Reports must be useful internal management tools for evaluating and monitoring the quality of mortgage loan production and include the following:

- Cover findings at a high level by focusing on findings and trends while identifying loan defects that require specific corrective action
- Document resolution of the defects
- Report results of the resolution efforts to senior management and other operations personnel
- Identify sample sizes, time period covered, and applicable volumes that support sample sizes
INTERNAL QC PROCESSES

Internal QC Objectives

Compliance and Fraud Prevention

The main objectives of the AFN Quality Control department are regulatory compliance and adherence to our zero fraud policies.

QC processes are in place to assure compliance with guidelines established by FHA, FNMA, VA, institutional investors and mortgage insurers.

AFN establishes policies and procedures to ensure that state, local and federal regulations are followed, including but not limited to HPML, MDIA, RESPA and RegZ compliance.

Employee Screening

AFN will not employ individuals debarred, suspended, subject to a LDP or otherwise restricted from participation in HUD/FHA programs for the purpose of HUD origination, processing, underwriting or servicing. AFN will check employee lists in January and June of every year in order to ensure that current employees meet AFN’s screening requirements.

AFN screening process will include verification that future or current employees’ outside employment, including self-employment, does not create a prohibited conflict of interest. AFN employees shall not have multiple roles in a single FHA insured transaction, and are prohibited from directly or indirectly receiving multiple sources of compensation from a single FHA-insured transaction.

All AFN employees are subject to a screening process that includes but is not limited to the following:

- Credit Alert Verification Reporting System (CAIVRS)
- Limited Denial of Participation (LDP) list
- Voluntary Abstention list
- System for Award (SAM) Excluded Parties list

In addition to the above, Loan Originators (including Branch Managers) are checked on:

- Nationwide Mortgage Licensing System & Registry (NMLS)
- Bureau of Real Estate (when applicable)

In addition to all of the above, Branch Managers are subject to a background check.

AFN maintains documentation that supports each employee’s eligibility.
## Internal QC Objectives (Continued)

### Verification

QC processes are in place to verify that information provided by borrowers, and any other providers of information, is accurate at the time of processing, underwriting, document drawing and before funding.

### Escrow Funds

Escrow funds received from Mortgagors must not be excessive, must be used only for the purposes for which they are received, are used in compliance with all Consumer Financial Protection Bureau (CFPB) escrow requirements, and must be maintained in an account separate from AFN’s general operating account.

AFN retains the results of each review and any corrective action taken as a result of review findings.

### FHA/VA Funding Fees

FHA and VA fees must be paid within prescribed regulatory timeframes.

### MIP

Private mortgage insurance premiums must be remitted timely to FHA. AFN is responsible for verifying this fact. If a payment is late AFN must ensure that the remittance includes late charges and interest penalties. AFN monitors its procedures for late submissions and will address any pattern of late submissions and promptly take corrective measures.

### Random Review Selection

Random selection of files to review is practiced in order to assure that the work of all Loan Officers, Loan Processors, Underwriters and Appraisers is subject to review.

A Loans Funded report must be completed by the Regulatory Compliance Officer and submitted to the Quality Control Auditor by the 10th business day after month-end. This report will include but will not be limited to the following:

1. AFN loan number
2. Borrower last name
3. Loan type
4. Loan amount
5. LTV ratio
6. Number of units
7. Occupancy status
8. Origination source (Branch Office or Third-party Originator)
9. Investor name

(Continued)
### Internal QC Objectives (Continued)

<table>
<thead>
<tr>
<th>Random Review Selection (Continued)</th>
<th>10. Appraiser name</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11. Underwriter name (AFN Underwriter and AUS with findings)</td>
</tr>
</tbody>
</table>

A minimum of 10% will be selected each month of categories 3, 8, 9, 10 and 11 above.

| Record Retention | AFN will retain QC Audit records, reports, and actions taken for a minimum of 37 months after compilation. |
INTERNAL QC FILE AUDITS

Loan Processing QC Processes

Government Services Administration (GSA) and Limited Denial of Participation (LDP)

Loan Processors check the GSA and LDP lists for the following parties to the loan:

- All Borrowers and Borrowers’ AKAs
- Sellers
- Listing Agent
- Listing Firm
- Escrow Officer
- Escrow Company
- Title Officer
- Title Company
- Appraiser
- Appraisal Company
- Loan Officer
- Loan Processor

Loan Boarders check the GSA and LDP lists for the following parties to the loan:

- All Borrowers and Borrowers’ AKAs
- Sellers
- Listing Agent
- Listing Firm
- Selling Agent
- Selling Firm
- Escrow Officer
- Escrow Company
- Title Officer
- Title Company
- Appraiser
- Appraisal Company
- Broker
- Broker Loan Officer
- Broker Loan Processor

Credit Alert Verification Reporting System (CAIVRS)

For all FHA and VA loans CAIVRS (within the FHA Connection) is checked for each borrower’s social security number to ensure the borrower has not outstanding debt to any government entity that reports to CAIVRS. A printout of the CAIVRS report is retained in the loan file.

(Continued)
CAIVRS (Continued)
AFN may not deny a borrower’s application solely on the basis of unverified CAIVRS information.

Credit Reports
A credit report is pulled for each borrower to ensure the borrower meets minimum required credit scores and credit history for the loan for which the borrower is applying. The credit report is also checked for any alerts or discrepancies.

If delinquent federal debt appears in a credit report or equivalent, public record, or CAIVRS or equivalent system, AFN will verify the validity of the debt and determine the delinquency status by contacting the creditor agency. If the debt is valid and delinquent per the Debt Collection Improvement Act, borrower will be ineligible for an FHA-insured mortgage until the debt is resolved with the creditor agency (not applicable to FHA Streamline Refinance).

If the borrower resolves the delinquency, or AFN determines that information regarding delinquent federal debt is no longer valid, AFN may continue to process the mortgage application.

Automated Underwriting System (AUS) Decision
An AUS Decision (DO, DU or LP) is pulled for each loan to ensure it meets agency standards of approval. All loans are also manually underwritten to ensure they meet AFN standards of approval per AFN policy and investor guidelines.

Pre-underwriting Loan File Audit
The Underwriting Assistant conducts file audits on every loan as follows prior to Underwriting:

- Using the “Pre-Underwriting QC Audit Checklist” checks for the following:
  - The Loan Processor’s name is on the Corporate Loan Processor list.
  - The Loan Officer’s name on the 1003 matches the Loan Officer’s name in Encompass
  - The Loan Officer is licensed and an AFN employee
  - Reverse directory on Loan Officer’s number listed on the 1003 is a cell phone or other land line not tied to any other mortgage company

(Continued)
Pre-underwriting Loan File Audit (Continued)

- Reverse directory on the Branch’s phone number listed on the 1003 is an AFN listed
- FHA Loans:
  - The Branch listed on initial 1003 is HUD Approved
  - The Mortgage ID # used to pull the case number matches the branch shown on the initial 1003
  - Case Query was pulled for each borrower by SSN and there are no findings of multiple cases
- 411 listings were found for all employers
- The appraisal was ordered through an approved AMC
- The seller is the owner of record, or exempt owner of record requirements (per HUD regulations)

Pre-docs Loan File Audit

Pre-doc Audit The Document Drawer conducts file audits on every loan as follows; corrections must be made prior to drawing docs:

- Using the “Pre-Doc Audit Sheet” checks the following for accuracy:
  - Doc Order Form
  - Estimated Closing Statement
  - Hazard Insurance
  - Invoices for appraisal, credit, inspections or reviews are included
  - Vesting Amendment is included and correct
  - 3-option Offer Statement included
  - Lock Confirmation
  - Streamline Refinance: MIP is accurate
  - Ratios on AUS and Underwriting Transmittal match
  - Assets on the 1003, AUS and Underwriting Transmittal match
  - Final 1008 or Underwriting Transmittal
  - Final 1003
  - Preliminary Title Report (Prelim)
  - Flood Certification
  - Appraisal
  - RESPA Compliance
  - MDIA Compliance
  - Underwriter has cleared file for Docs
## Pre-funding Loan File Audit

<table>
<thead>
<tr>
<th><strong>AUS Data Integrity</strong></th>
<th>This review includes liabilities reconciliation between the loan application (form 1003) and the credit report.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Verification of Employment (VOE)</strong></td>
<td>Verbal re-verification of employment is required on all files. AFN personnel will document, in writing, the following:</td>
</tr>
<tr>
<td></td>
<td>• The company name</td>
</tr>
<tr>
<td></td>
<td>• The phone number provided is listed under the company name</td>
</tr>
<tr>
<td></td>
<td>• The Mortgagor is employed in the capacity stated in the file</td>
</tr>
<tr>
<td></td>
<td>• The name and title of the employer’s contact who is verifying the information</td>
</tr>
<tr>
<td><strong>Verification of Deposit (VOD)</strong></td>
<td>Re-verification of the availability of funds to close in a bank and/or escrow account is required on all files.</td>
</tr>
<tr>
<td></td>
<td>For FHA-insured mortgages: If a VOD was not obtained, a statement showing the prior month’s ending balance for the most recent month is required. If the previous month’s balance is not shown, statements for the two most recent months must be obtained.</td>
</tr>
<tr>
<td><strong>Escrow Instructions</strong></td>
<td>A review of the escrow instructions and any amendments, as applicable, is required on all files.</td>
</tr>
<tr>
<td><strong>Closing Documents</strong></td>
<td>A review of the closing documents for accuracy, compliance, and agreement with loan approval terms is required on all files.</td>
</tr>
<tr>
<td></td>
<td>The Funder conducts audits on every loan as follows (every file must pass this audit prior to funding):</td>
</tr>
<tr>
<td></td>
<td>• Using the “Pre-funding Audit Sheet” checks the following for accuracy and completeness:</td>
</tr>
<tr>
<td></td>
<td>o Lender’s Instructions</td>
</tr>
<tr>
<td></td>
<td>o Note</td>
</tr>
<tr>
<td></td>
<td>o Deed of Trust/Security Instrument</td>
</tr>
<tr>
<td></td>
<td>o AKA Statement</td>
</tr>
<tr>
<td></td>
<td>o Final CD &amp; Itemization of Amount Financed</td>
</tr>
<tr>
<td></td>
<td>o MDIA compliance</td>
</tr>
<tr>
<td></td>
<td>o Right of Rescission (as applicable)</td>
</tr>
<tr>
<td></td>
<td>o Payment Letter</td>
</tr>
<tr>
<td></td>
<td>o Disclosures, including state-specific disclosures</td>
</tr>
</tbody>
</table>

*(Continued)*
Closing Documents (Continued)

- Broker/Agent Certification
- Appliance Statement
- Certification of Settlement Agent
- HUD1 Addendum
- ADP Code
- Case Number (as applicable)
- Property address matches throughout file
- First payment date
- Borrower signatures
- Termite inspection and clearance (as required)
- Loan lock
- PMI Certification
- Final 1008 or FHA/VA Transmittal
- Final 1003
- Final HUD/VA Addendum (92900A) for FHA/VA
- Credit Report
- Demands
- Hazard Insurance
- Estimated Closing Statement
- Escrow Instructions
- Grant Deed
- ALTA Preliminary Report
- Flood Certification
- Initial disclosures
- Appraisal
- RESPA Compliance
- MDIA Compliance
- Underwriter has cleared file for Docs

Any loan that does not pass the pre-funding audit will not be funded. Feedback regarding discrepancies and/or errors will be provided to the Loan Processor and Loan Originator with a copy to the VP of Operations. Loans re-submitted will undergo a second review to ensure the file is in compliance and must be signed off by a supervisor.
### Pre-funding Loan File Audit (Continued)

<table>
<thead>
<tr>
<th>Loan Approval Terms</th>
<th>A review confirming terms of the loan approval comply with loan type and program and have been met is required on all files. Discrepancies in this information are cause to postpone funding until any such discrepancy has been satisfactorily cured/cleared.</th>
</tr>
</thead>
<tbody>
<tr>
<td>MERS Check</td>
<td>A search in the MERS system to confirm no undisclosed loans are present for the borrower(s) is required on all files. Discrepancies in this information are cause to postpone funding until any such discrepancy has been satisfactorily considered.</td>
</tr>
<tr>
<td>Credit Report Refresh</td>
<td>For conventional loans, a refreshed credit report is pulled and reviewed to ensure no new/undisclosed debt has been incurred. Discrepancies in this information are cause to postpone funding until any such discrepancy has been reviewed by an Underwriter to ensure the borrower still qualifies for the loan.</td>
</tr>
</tbody>
</table>

### Denied Loan File Audit

<table>
<thead>
<tr>
<th>Upon Denial</th>
<th>AFN Senior Management will review all denied loans upon denial. This denied loan file audit will include:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- The reason for denial is valid</td>
</tr>
<tr>
<td></td>
<td>- The denial and loan data meet regulatory compliance</td>
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<tr>
<td></td>
<td>- Applicants were not discriminated against</td>
</tr>
<tr>
<td></td>
<td>- The adverse action letter is approved for issuance</td>
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</tbody>
</table>
Post-closing Quality Control (QC)

Overview

AFN must verify the accuracy and integrity of the information used to support the lending decision for any mortgage loans selected for a QC review. All re-verification documentation must be retained either in AFN’s QC records. When the re-verification is performed by an outsource vendor, it is acceptable for the re-verification documentation to be maintained with the vendor rather than in the QC files. In such cases, the vendor must provide AFN with the results of the re-verification findings, which must be accessible to AFN along with the re-verification documentation for at least three years from the date of the review.

When information obtained through the re-verification process differs from the information utilized in the underwriting of the loan, the lender must re-underwrite the loan to verify that the loan remains eligible as delivered.

Review of Underwriting Decision and Approval Conditions

AFN must confirm that the mortgage loan was underwritten in accordance with applicable requirements (FHA, HUD, FNMA, FHLMC, VA, Federal Regulatory Agencies, Institutional Investors, Private Mortgage Insurers, State and Local Real Estate Laws and Warehouse Banks) and that adequate support for the underwriting decision is contained in the loan file.

This includes reviewing underwriting reports and notices of return regarding mortgage insurance rejections based on errors or omissions. AFN must confirm that all loan approval conditions required by the underwriter were satisfied and that the information on the closing documents, including the HUD-1 Settlement Statement or CD, is consistent with the underwriting decision and the final terms of the mortgage loan.

Review of DU Findings and Conditions

For loans underwritten through DU, AFN must confirm that all DU Verification Messages/Approval Conditions that appear in the DU Underwriting Findings report were satisfactorily resolved and adequately supported by appropriate documentation. If DU returned an Ineligible recommendation, the reviewer must confirm that the loan was eligible for delivery to Fannie Mae.

AFN must notify Fannie Mae within 30 days of confirmation that one or more defects identified through the QC process results in the loan being ineligible as delivered to Fannie Mae. AFN must also notify Fannie Mae immediately of the discovery during the QC process of misrepresentation or possible breach of selling warranty including fraud.
## Post-closing Quality Control (QC) (Continued)

### General Requirements for Re-Verifications

When conducting the required post-closing QC reviews on loans selected through the random selection process, the re-verifications or reviews noted below must be performed for all selected loans. AFN may choose to make targeted loan selections designed to focus solely on a specific element of the loan, such as product, business source, or underwriting component (for example, income and employment, assets, credit, or property) as a part of our discretionary loan selection process.

When conducting the required discretionary post-closing QC reviews, AFN must consider the purpose of the targeted selection when determining whether certain re-verifications are necessary. For example, if the purpose of the targeted selection is to focus specifically on income calculations, re-verification of assets or a review of the appraisal is not within the scope of the review and is not required to be completed; however, re-verifications of income and employment are required. If the purpose of the targeted selection is to review loans originated through a new source of business, then all areas of the loan are in the scope of the review and all re-verifications noted below must be performed. AFN must assess the purpose of the targeted loan selection and conduct the re-verification or reviews noted below as appropriate.

### Use of IRS Form 4506T in the QC Plan

AFN requires tax transcripts on all loans with income documentation in the file during the pre-closing process. The underwriter must reconcile the transcript information received from the IRS with the income documents in the loan file. The QC auditor may use the IRS transcripts obtained during their pre-closing process (processing and underwriting) for the post-closing QC process without ordering new transcripts.
Re-verification of Borrower Income, Employment and Asset Information

For all loans selected via the random selection process (and for loans selected through the discretionary selection process, as applicable) the post-closing QC review must include re-verification of the borrower’s income, employment, and asset information. The re-verification should be in writing; however verbal re-verification may be accepted provided AFN documents the conversation in writing stating the name, title or position, and contact information of the interviewee, and includes that documentation in the underwriting file.

AFN must re-verify the borrower’s income and employment information directly with the source of the original documentation. If the employer does not provide verification of a borrower’s income, the loan file must be documented to state the date the information was requested, but that it was not obtained.

Re-verification procedures may be supplemented with alternative information sources available on the Internet, maintained by state or local licensing authorities, and other third parties.

Re-verification of asset information directly from the borrower’s financial institution may not be possible in all instances, however, QC must attempt to re-verify the borrower’s assets and reconcile the information from the financial institution with information in the underwriting file. If the re-verification of asset information cannot be obtained from the financial institution, the QC Auditor should document its attempt in its QC records.

Re-verification of Borrower’s Credit History

For all loans selected via the random selection process (and for loans selected through the discretionary selection process, as applicable) the post-closing QC review must include re-verification of the borrower’s credit history.

If a borrower’s credit was evaluated by using a traditional credit report, QC must re-verify the borrower’s credit history by obtaining a new tri-merge credit report. If a borrower’s credit history was evaluated by using nontraditional credit or a nontraditional mortgage credit report, the QC Auditor must re-verify each of the credit references on that report. If the QC Auditor obtained written references from creditors, the lender’s QC review process must include re-verification of each of the credit references.

(Continued)
Post-closing Quality Control (QC) (Continued)

Re-verification of Borrower’s Credit History (Continued)

The liability information obtained on the new credit report must be reconciled against the credit report or references used at the time of underwriting the loan to identify any discrepancies or the existence of any debt that may not have been taken into account when the loan was underwritten. QC must also review any “potential red flag” messages appearing in the DU Underwriting Findings report or alerts created by sources other than DU associated with the credit report to ensure all messages have been addressed and documented, and that the loan is eligible for sale to Fannie Mae.

Verification of Owner-Occupancy

For all loans secured by a principal residence that are selected via the random selection process (and for loans selected through the discretionary selection process, as applicable) the post-closing QC review must include verification of owner-occupancy. QC must review the hazard insurance policy and other documentation in the file (for example, appraisal, income tax returns or transcripts) to confirm that there are no indicators that the property is not the borrower’s principal residence.

For FHA-insured loans, a “principal residence” means “a dwelling where the borrower maintains or will maintain their permanent place of abode and typically spends or will live in the house the majority of the calendar year.” Borrowers may only have one principal residence at any given time, at least one borrower must occupy the property within sixty (60) days after signing the security instrument, and plan to occupy the property for at least one year. Military personnel must meet requirements outlined in 24 CFR 203.31.

Verification of Data Integrity

QC must review the final terms of the loan to ensure they align with data on which the underwriting was based. When a loan file review identifies discrepancies between the data that was used in the underwriting decision and the data verified through the QC process, QC must reassess the underwriting decision based on the newly verified information to determine whether the loan remains eligible as delivered to Fannie Mae.

(Continued)
Post-closing Quality Control (QC) (Continued)

Verification of Data Integrity (Continued)

For mortgages processed through DU, QC must ensure that all data submitted to DU is true, correct, and complete. QC must verify that the loan file contains documentation that supports all data submitted to DU to process the mortgage loan. QC must ensure that all of the borrower’s liabilities were included in DU’s analysis. When there are inconsistencies between the data and/or information submitted to DU (or used for manual underwriting) and the source documents, QC must determine whether discrepancies are within tolerances permitted by Fannie Mae:

1. For loans underwritten through DU, if discrepancies are outside the DU allowed tolerances, resubmit the mortgage loan to DU using the correct data. If QC is unable to resubmit the loan to DU, QC must manually perform a comprehensive risk assessment using the documentation required by DU, to determine if the loan meets Fannie Mae requirements for manually underwritten loans. For manually underwritten loans, if discrepancies are outside of the allowed tolerances, QC must manually perform a comprehensive risk assessment to determine if the loan meets Fannie Mae requirements.

2. Make a determination as to whether or not the loan, with the correct data taken into consideration, remains eligible as delivered to Fannie Mae, either through the receipt of a DU recommendation of Approve/Eligible, or through manually underwriting the loan, if appropriate.

3. If QC determines that the mortgage loan was eligible as delivered, QC must document the underwriting file to reflect its decision.

4. If QC determines that the mortgage loan was not eligible as delivered, AFN must advise Fannie Mae of these findings via the Lender Self-Report Mailbox.

Review of Potential Red Flag and Alert Messages

AFN’s loan file review process must include a review of any “potential red flag” messages appearing in the DU Underwriting Findings report or alerts created by sources other than DU, such as those associated with credit reports or Social Security verification systems, to ensure that all messages have been addressed and documented, and that the mortgage loan is eligible as delivered to Fannie Mae.
Review of Social Security Numbers

As part of AFN’s loan file review process, QC must ensure that the borrower(s)’ Social Security number on loans selected for review is consistent in all file documentation and any requirements for validation of the Social Security number were satisfied prior to closing.

Review of Appraisers and Appraisals

AFN must continually evaluate the quality of its appraisals through the normal underwriting review of all appraisal reports, and by utilizing field reviews and desk reviews as part of the QC process. AFN should also utilize third party tools and information (such as analytical tools, public record databases, and automated valuation models) to help identify areas of inaccuracy and/or inconsistencies that may be indicators of appraisal deficiencies.

AFN must ensure that all loans we originate comply with provisions of the Appraiser Independence Requirements and are validated through the post-QC process. AFN monitors its appraisers and appraisal management companies with an at least annual review.

Verification of Appraisal by Field Review

QC must obtain an appraisal field review to evaluate the appraisal for 10% of the mortgage loans selected for QC review via the random selection process. The field review must be prepared by an appropriately licensed or certified appraiser who is not affiliated with the original appraiser or appraisal firm.

Appraisal Field Review Forms

Fannie Mae requires the use of the following forms when completing a field review:

- One-Unit Residential Appraisal Field Review Report (Form 2000)
- Two to Four-Unit Residential Appraisal Field Review Report (Form 2000A)

Verification of Appraisal by Desk Review

AFN may complete a desk review to evaluate the appraisal for the remaining 90% of mortgage loans the lender has selected for QC review as part of its random sample.

It is acceptable for the desk review to be completed by an individual who is not a licensed or certified appraiser; however, the appraisal reviewer must be competent in the application of basic appraisal theory for:

(Continued)
Post-closing Quality Control (QC) (Continued)

Verification of Appraisal by Desk Review (Continued)

- assessing market risk;
- determining if a property meets eligibility requirements, including the LTV, CLTV, and HCLTV ratios; and
- prescribing corrective actions in the underwriting process when defects are identified.

Fannie Mae permits lenders to use automated valuation models as a tool in the completion of the valuation assessment.

Reporting

AFN must review the results of the field review or desk review to determine whether any defects are identified. If the lender determines that the mortgage loan was not eligible as delivered, AFN must advise Fannie Mae of these findings via the Lender Self-Report Mailbox.

Anti-Predatory Lending (APL) Policy

Summary

AFN supports the expansion of fair and equitable homeownership opportunities. To discourage predatory lending practices, which are inconsistent with such opportunities, and to protect itself from potential liabilities, AFN has established this anti-predatory lending policy (APL Policy) with respect to residential mortgage loans.

Compliance with Laws and Regulations

AFN requires compliance with all applicable federal, state and local anti-predatory lending laws and other similar credit-related consumer protection laws, regulations and orders designed to prevent or to regulate potentially abusive and deceptive lending practices and loan terms.

For example, anti-predatory lending (APL) laws may prohibit or limit certain practices and characteristics, including but not limited to the following:

- Requiring the borrower to obtain prepaid, single premium credit life, credit disability, credit, unemployment or other similar credit insurance;
- Requiring mandatory arbitration provisions with respect to dispute resolution in the loan documents; or
- Charging prepayment penalties for the payoff of the loan beyond the early years of such loan.
Anti-Predatory Lending (APL) Policy (Continued)

Ineligible Collateral

Any Residential Mortgage Loan or MBS that does not comply with all applicable APL laws will be ineligible as collateral to support advances or other activity with AFN. This includes Residential Mortgage Loans that meet ANY of the following criteria:

- The annual percentage rate or points and fees charged for the loan exceed the thresholds of the Home Ownership and Equity Protection Act of 1994 (HOEPA) and its implementing regulations (Federal Reserve Board Regulation Z);
- The loan has been identified by a regulator as having predatory terms or conditions or resulting from predatory practices;
- The loan includes prepaid, single-premium credit insurance;
- The loan is subject to state or local laws where one or more of the major credit-rating agencies will not rate a security (or securities) in which the underlying pool contains such a loan;
- The loan is defined under one or more federal, state or local laws as a High Cost Loan, Covered Loan or Home Loan categorized under such laws as having certain potentially predatory characteristics;
- The loan includes penalties in connection with the prepayment of the loan beyond the time permitted by applicable law, not to exceed five (5) years; or
- The loan requires mandatory arbitration to settle disputes.

Ineligible Points and Fees

A residential mortgage that does not comply with all applicable anti-predatory lending laws is ineligible for funding by AFN. AFN opposes predatory lending and has implemented a number of policies designed to combat it. A mortgage is not eligible for funding by AFN if the total points and fees charged to the borrower are greater than:

- Five percent (5%) of the mortgage amount; or
- The amount specified under applicable law, which causes a loan to be classified as a high cost, high rate, high risk or similar category of loan.

Under this guideline, the definition of “points and fees” provided by applicable federal, state or local law will be applied. Unless state or local law or regulation expressly defines points and fees, points and fees will be defined as follows (The Points and Fees Test):

(Continued)
## Anti-Predatory Lending (APL) Policy (Continued)

<table>
<thead>
<tr>
<th>Ineligible Points and Fees (Continued)</th>
<th>Prepaid Finance Charge (total amount of prepaids)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prepaid Interest (deduct from prepaid finance charge)</td>
</tr>
<tr>
<td>+</td>
<td>Other Mortgage Broker Compensation (the total amount of any non-prepaid finance charge paid to Broker by borrower [does not include YSPs and other lender-paid compensation to the Broker])</td>
</tr>
<tr>
<td>+</td>
<td>Other Charges Paid to Creditor/Affiliate (the total amount of all Regulation Z Section 226.4(c)(7) charges not included as a part of the Prepaid Finance Charge if paid to the creditor or creditor affiliate)</td>
</tr>
<tr>
<td>+</td>
<td>Optional Credit Insurance/Related Products Paid at or Before Closing (optional credit life/accident/health/loss of income/debt cancellation coverage costs, regardless of how named or paid (in cash or financed) and regardless if a single premium or initial payment)</td>
</tr>
<tr>
<td>+/-</td>
<td>Creditor Requested Adjustments (the total amount of all customer requested overrides)</td>
</tr>
</tbody>
</table>

AFN maintains awareness of, and full compliance with, all applicable laws, particularly anti-predatory lending laws, rules and regulations as they apply to any of its origination or servicing practices. Since applicable laws can change, it is important that AFN monitors federal laws and the laws of each state or locality in which it does business and takes necessary steps to comply with any changes in these laws.
## Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act)

### Licensing Standards

<table>
<thead>
<tr>
<th>MLO Standards</th>
<th>All AFN MLOs must meet the following criteria:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Never had a loan originator license revoked</td>
</tr>
<tr>
<td></td>
<td>• No felonies in the last seven years; no felonies ever involving fraud, dishonesty, breach of trust or money laundering</td>
</tr>
<tr>
<td></td>
<td>• Demonstrates financial responsibility</td>
</tr>
<tr>
<td></td>
<td>• Scores 75% or better on the NMLS national test</td>
</tr>
<tr>
<td></td>
<td>• Takes 8 hours of continuing education annually, including: 3 hours federal law/regulations, 3 hours ethics, 2 hours non-traditional mortgage lending</td>
</tr>
<tr>
<td></td>
<td>• Maintains licensure through the NMLS</td>
</tr>
</tbody>
</table>

### NMLS Registry Check

<table>
<thead>
<tr>
<th>Requirements</th>
<th>The SAFE Act statute requires individual mortgage loan originators (MLOs) employed by &quot;Agency-regulated&quot; institutions to be registered with the Nationwide Mortgage Licensing System and Registry (NMLS). MLOs must register to obtain a unique NMLS identifier and maintain registration. MLOs are to be licensed in all states in which they originate, according to the state’s requirements (see NMLS Resource Center\State Licensing).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountable Employees</td>
<td>AFN Operations Personnel, including Loan Processors, Underwriters, Doc Drawers and Funders must perform an NMLS registry check on each file before proceeding with their designated operations tasks.</td>
</tr>
<tr>
<td>Registry Check</td>
<td>The licensing status of the mortgage loan originator (MLO) for each file must be checked before proceeding with the loan. The MLO’s NMLS record must reflect the following:</td>
</tr>
<tr>
<td></td>
<td>• The MLO is authorized to represent American Financial Network, Inc. (AFN; 237341)</td>
</tr>
<tr>
<td></td>
<td>• AFN is listed as the MLO’s employer</td>
</tr>
<tr>
<td></td>
<td>• The MLO is authorized to conduct business on behalf of AFN</td>
</tr>
<tr>
<td></td>
<td>• The MLO’s status date is on or before the application date</td>
</tr>
</tbody>
</table>
### REGULATORY COMPLIANCE

#### Information Resources

<table>
<thead>
<tr>
<th>Source</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HUD.GOV</strong></td>
<td>All employees are granted Internet access that enables them to view handbooks, mortgagee letters, and other bulletins, letters and publications distributed by HUD.</td>
</tr>
<tr>
<td><strong>Intranet</strong></td>
<td>AFN hosts a web page where all branches and employees shall have access to bulletins, policies, procedures and memos relevant to their positions and each individual role in the loan origination, loan processing, underwriting, doc drawing, insuring, funding, post-closing, secondary marketing, and interim loan servicing processes. All employees will be notified of regulatory changes prior to the effective date.</td>
</tr>
</tbody>
</table>
| **LEAP Reporting** | The following are required to be reported to FHA using the Lender Electronic Assessment Portal (LEAP):

**Information Updates**
This includes changes to corporate or branch information not requiring any HUD approval (admin contacts, principal/authorized agent relationships, etc.).

**Change Requests**
This includes items such as adding Title I or Title II insurance authority.

**Notices of Material Events**
These are events that may potentially impact FHA loan program approval. A brief description of the event must also be provided along with any supporting documentation. Some specific examples of material events include, but are not limited to:
- Change in partnership or principal owner;
- Operating losses of 20 percent or greater of adjusted net worth;
- Change in fidelity bond and Errors and Omissions coverage;
- Change in business form;
- Bankruptcy;
- Change, revocation or surrender of lending licenses;
- Ceasing operations;
- Notice of unresolved findings or sanctions;
- Changes to contact info, fiscal year, registered offices, direct endorsement, federal employee identification number; |

(Continued)
Information Resources (Continued)

LEAP Reporting (Continued)
- Termination of supervision by any regulator;
- Net worth and liquid asset deficiencies

Loan Origination Software (LOS)
All branches have access to the current version of loan origination software (Encompass) that is kept up to date regarding regulatory requirements.
This LOS system provides required initial disclosures and other regulatory forms, such as the Loan Estimate (LE) and Closing Disclosure (CD).

Encompass360 Doc Drawing Engine
Encompass, a product of Ellie Mae, Inc., is used for drawing closing documents. Included in this document system are compliant loan documents and final disclosures, as well as automatic predatory lending and compliance auditing. Ellie Mae, Inc. also notifies its clients of regulatory and compliance changes in the industry that affect loan closing.

NYLX
AFN subscribes to the New York Loan Exchange (NYLX) online application, which in addition to being used for loan locks/pricing also provides underwriting guidelines for all governing agencies and investors.

Training
AFN conducts periodic mandatory training sessions in which employees are given detailed guidance and instruction regarding changes in laws and regulations.

Ability-to-Repay/Qualified Mortgage (ATR/QM)

Summary
AFN is committed to complying with Ability-to-Repay and Qualified Mortgage rules (ATR/QM) by making a reasonable, good-faith determination that borrowers have a reasonable ability to repay the loan in accordance with the policies set forth within Fannie Mae, Freddie Mac, HUD, VA and USDA guidelines. Factors considered in making this determination include the borrower’s income, assets and employment status (if relied on) against the mortgage loan payment, ongoing expenses related to all applicable GSE policies. AFN will utilize reasonably reliable third-party sources of information.
### HUD's Final Rule

On December 11, 2013 HUD issued its final rule on Qualified Mortgages (QM) for single family residential loans. This rule replaces CFPB’s temporary QM definition for FHA loans.

- Effective for case numbers assigned on or after 01/10/2014
- Adopts 3% points and fees limit
- Points and fees calculation based on unpaid principal balance
- HUD QM rule establishes its own definition of rebuttable presumption and conclusive presumption (safe harbor) QM
  - A loan transaction is a rebuttable presumption QM if the APR exceeds the average prime offer rate (“APOR”) for a comparable mortgage, as of the date the interest rate is set, by more than the combined annual MI premium and 1.15% for a first-lien mortgage
  - A loan transaction is a safe harbor QM if the APR does not exceed the above threshold
- The following loans are all deemed safe harbor QMs that meet ability to repay requirements:
  - Property Improvement
  - Manufactured Home
  - Indian Housing
  - Section 184A Native Hawaiian Housing
  - Insured Mortgages
  - Guaranteed Mortgages

### ATR Standard

The Ability to Repay Standard requires the Lender to conduct a reasonable good-faith evaluation of the borrower’s ability to repay. The following 8 underwriting factors must be considered:

- Current or reasonably expected income or assets that the consumer will rely on to repay the loan;
- Current employment status;
- Monthly mortgage payments for the loan;
- Underwrite the consumer’s monthly payment using the greater of the fully indexed rate or any introductory interest rate and monthly fully amortizing payments that are substantially equal

(Continued)
Ability-to-Repay/Qualified Mortgage (ATR/QM) (Cont’d)

ATR Standard (Continued)
- Monthly payments on any simultaneous loans secured by the same property;
- Monthly payments for property taxes and insurance the borrower is required to buy
- Debts, alimony, and child support obligations;
- Monthly debt-to-income ratio or residual income, that was calculated using the total of all mortgage and non-mortgage obligations listed above; and
- Credit history.

Three Percent Cap
The following fees are included in the three percent (3%) cap:
- Compensation paid to a mortgage broker by a “borrower or lender”
- Any origination charges paid by a borrower to the Broker or Lender
- Discount points that do not lower the interest rate
- LLPAs that are not included in the rate and for which the bona fide discount points exclusion does not apply
- Fees paid to a lender affiliate that are actually retained by affiliate
- Fees paid to a Broker affiliate such as a service provider for escrow, title, processing and closing
- Any charge payable directly or indirectly by the consumer and imposed directly or indirectly by the creditor as an incident to or a condition of the extension of credit unless excluded
- Non-refundable PMI

The following fees are excluded from the three percent (3%) cap (if not affiliate):
- Per Diem Interest
- Notary and credit report fees
- 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

(Continued)
Ability-to-Repay/Qualified Mortgage (ATR/QM) (Cont’d)

Three Percent Cap (Continued)

- Government program mortgage guarantee insurance or VA Funding Fee
- Private Mortgage Insurance Premium is excluded if:
  - Portion does not exceed FHA MIP (currently at 1.75%)
  - The premium is refundable on a pro rata basis and the refund is automatically issued upon notification of the satisfaction of the loan
- Bona fide third party charges provided no portion is retained by the lender or an affiliate (e.g. Fees for Title Examination, abstract of title, title insurance, property survey, credit report and appraisal
- Bona Fide Discount Points
  - Up to 2 discount points are excluded if the loan’s interest rate without the discount does not exceed the APOR by more than 1 percentage point - this includes LLPAs expressed as a discount point vs. a separate fee or origination fee
  - Up to 1 Discount Point is excluded if the loan’s interest rate without any discount does not exceed APOR by more than 2 percentage points
- Fees for extensions, renegotiations and float downs
- Escrows for Taxes and Insurance
- Fees for preparing loan-related documents (deeds, mortgages, and reconveyance or settlement documents)

Real estate related fees that are paid to an affiliate must be included in the maximum points and fees test. An affiliate’s charges may be reduced by a lender credit and/or through credit for the rate chosen.

Settlement Charges

The gross charge paid to the creditor, an affiliate of the creditor or an affiliate of the broker must be included in points and fees.

To the Creditor
Fees paid to the creditor must be included in points and fees and can be reduced by a lender credit for rate chosen (Line 802 of the HUD-1).

To an Affiliate of the Creditor
Fees paid to an affiliate of the creditor must be included in points and fees and can be reduced by a lender credit or credit for rate chosen (Line 802 of the HUD-1).
Ability-to-Repay/Qualified Mortgage (ATR/QM) (Cont’d)

Settlement Charges (Continued)

To an Affiliate of the Broker
Fees paid to an affiliate of the broker must be included in the points and fees and cannot be reduced by any credits.

Seller Credits
Where there is clear evidence of the party responsible for payment, seller credits can be applied to reduce the following points and fees:
- Discount Points
- Finance Charges

Seller credits cannot be applied to broker fees.

Lender Credits and Credit for Rate Chosen
The credit for rate chosen (Line 802 on the HUD-1) may be applied to reduce points and fees, excluding broker fees and fees paid to an affiliate of the broker. The credit for rate chosen can also be applied to reduce fees paid to an affiliate of the creditor where there is clear evidence outlining the application of the credit.

RESPA/TILA Cures
Credits for RESPA/TILA cures cannot be applied to reduce points and fees.

Broker Compensation
Broker compensation and fees paid to an affiliate of the broker must be included in the points and fees calculation and cannot be reduced by credits.

Points and Fees Compliance
The following rules apply:
- Hud-1/CD must itemize all credits. Lump sum credits are not acceptable.
- Encompass Itemization screens must be fully completed and match the HUD-1/CD in the file.
  - Clear itemization of fees and application of all credits that indicate paid by/paid to is required
- Encompass must capture the following information to ensure accuracy of the points and fees test:
  - Party responsible for paying each fee on the HUD-1/CD
  - Accurately categorizing the party to whom the fee is paid
  - Accurately determining to whom the fee is paid
Effective January 18, 2014, creditors must provide applicants for first-lien loans secured by a dwelling with copies of appraisals as well as other written valuations that were developed, whether or not the borrower requests the copies.

A valuation is defined as any estimate of the value of a dwelling developed in connection with an application, such as an appraiser’s report, automated valuation model (AVM) report, Broker Price Opinion (BPO) or document prepared by staff that assigns value to the property.

Under the rule, a creditor must:

- Notify the applicant of their right to receive a copy of the appraisals within three business days of receiving the application.
- Promptly share copies of the appraisals and other written valuations once completed and received
  - Regardless of whether credit is extended, denied, incomplete or withdrawn
  - Delivery occurs 3 business days after you mail or transmit copies or upon evidence received by the applicant
- Deliver a copy of the appraisal or valuation at or prior to consummation even when an applicant waives their right to receive a copy in advance of closing.
- Deliver a copy of the appraisal or valuation within 30 days after determining the loan will not close or open, even when an applicant has provided a waiver.

A second appraisal, performed by an Appraiser not affiliated with the first Appraiser is required if the loan will be used to finance the purchase of a dwelling an seller is:

- Reselling the property within 91 to 180 days or acquiring it, and
- The resale price exceeds the seller’s acquisition price by more than 20%.
### Ability-to-Repay/Qualified Mortgage (ATR/QM) (Cont’d)

<table>
<thead>
<tr>
<th>Homeownership Counseling, TILA, HOEPA</th>
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<tbody>
<tr>
<td>Dodd-frank Act amended TILA by expanding the scope of HOEPA coverage to include purchase-money mortgages and open-end credit plans and also amended HOEPA’s coverage tests. The consumer must receive either the RESPA Loan Estimate (LE) or the disclosures required under § 1026.40 for HELOCs before the homeownership counseling session on the advisability of the mortgage loan.</td>
</tr>
</tbody>
</table>

**General Requirement (Whether or Not a High Cost Loan)**

The lender must give applicants for federally-related mortgages (whether or not a high-cost mortgage) a written list of homeownership counseling organizations **within three business days** of receiving the loan application.

**High Cost Mortgage Requirements**

Prior to making a high cost mortgage (rebuttable presumption), the lender must receive written certification that the consumer has received homeownership counseling on the advisability of the mortgage from a HUD-approved counselor or a state housing finance authority (if permitted by HUD).

### NMLS ID

Effective January 10, 2014, the application (1003), Note and Security Instrument must include:

- Loan Originator Organization (LOO) company name and NMLS ID
- Name and NMLS ID of the individual loan originator who, under the LOO’s policy, is primarily responsible for the transaction
- Data must be on the document at time it is delivered to the borrower and cannot be added post closing

### Conclusive Presumption

Conclusive Presumption (Safe Harbor) prohibits risky features such as negative amortization, interest-only (IO) periods and loan terms longer than 30 years. Points and fees generally may not exceed 3% of the total loan amount as defined by Reg Z (with higher thresholds for loans <$100K). Additionally, a safe harbor qualified mortgage:

- Cannot exceed 43% DTI
- Evaluates Ability to Repay (ATR)
- Verifies Assets and Income are using 8 factors

*(Continued)*
### Ability-to-Repay/Qualified Mortgage (ATR/QM) (Cont’d)

#### Conclusive Presumption (Continued)
- Calculates the consumer’s monthly payment using the maximum interest rate that may apply during the first years after the first regular periodic payment will be due (for variable rate, underwrite the consumer’s monthly payment using both the maximum interest rate that may apply during the first 5 years and the higher of the fully indexed rate or an introductory rate)
- Provides AFN a Safe Harbor; if a loan is QM, then there is a Conclusive presumption that AFN complied with ATR

#### Rebuttable Presumption (Higher Priced)
Qualified Mortgages under the General and Temporary definitions are considered higher-priced if they have an APR that exceeds the APOR by 1.5 percentage points or more for first-lien loans and 3.5 percentage points or more for subordinate-lien loans.

If a higher-priced loan meets the QM criteria, a court will presume it complies with the ATR requirements but the consumer may rebut the presumption. AFN does not originate Higher Priced Mortgage Loans (HPMLs).

#### Temporary/ GSE Eligible QM
Meets the same requirements as General QM loans regarding prohibitions on risky features (negative-amortization, interest-only, and balloon-payment features), maximum loan term of 30 years, and points-and-fees restrictions and must also meet at least one of these additional requirements:
- Eligible for purchase or guarantee by the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac) while operating under federal conservatorship or receivership
- Eligible for Federal Housing Administration (FHA) insurance
- Eligible to be guaranteed by the U.S. Department of Veterans Affairs (VA), U.S. Department of Agriculture (USDA) or the Rural Housing Service (RHS)
Anti-money Laundering (AML) Policy

Summary
Money Laundering is the introduction of illegally obtained currency into the banking system and/or using the banking system to illegally hide currency that was lawfully obtained. It is not hard for criminals to obtain currency. However, until the currency is deposited into the banking system, their ability to utilize it is restricted. When institutions knowingly accept cash from criminals, they legitimize (or launder) the proceeds. Accordingly, criminals must do business and we must be diligent in detecting and reporting suspicious activity.

AFN shall monitor a sufficient amount of transactional activity 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 identified “red flags.”

The Security Officer will be responsible for this monitoring and will document when and how it is carried out, and will report suspicious activities to the Board of Directors and appropriate authorities. Among the information utilized to determine whether to file a Suspicious Activity Report are exception reports that include transaction size, location, type, number, and nature of the activity.

AFN is committed to the highest standards of anti-money laundering (AML) compliance and requires all management and employees to follow these AML policies and adhere to these standards to prevent the use of our institution and/or its products and services for money laundering purposes.

Board Oversight
The Board of Directors is responsible to approve and exercise general oversight over this policy as well as all other policies implemented through the Bank Secrecy Act Policy. This policy is approved and incorporated within the minutes of the Meeting of the Board of Directors.

Goals and Objectives
The standards set out in this Policy represent minimum requirements based on applicable legal and regulatory guidance and apply throughout AFN. These requirements are intended to prevent AFN, our employees, third party vendors and clients from being misused for money laundering, terrorist financing or other financial crime.
Anti-money Laundering (AML) Policy (Continued)

Money Laundering Defined

Money Laundering is the participation in any transaction that seeks to conceal or disguise the nature or origin of funds derived from illegal activities such as fraud, corruption, organized crime, or terrorism, etc. Predicate offenses for money laundering are defined by local law. Generally speaking, the money laundering process consists of three “stages”:

- **Placement**: The introduction of illegally obtained monies or other valuables into financial or nonfinancial institutions.
- **Layering**: Separating the proceeds of criminal activity from their source through the use of layers of complex financial transactions. These layers are designed to hamper the audit trail, disguise the origin of funds and provide anonymity.
- **Integration**: Placing the laundered proceeds back into the economy in such a way that they re-enter the financial system as apparently legitimate funds.

These “stages” are not static and overlap broadly. Financial institutions may be misused at any point in the money laundering process. 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.

Applicability

The purpose of this policy is to implement Anti-money Laundering strategies and Suspicious Activity Reporting as required by the United States Bank Secrecy Act, USA Patriot Act, Money Laundering Control Act, and related regulations domestically and internationally.

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, AFN will consult with legal counsel and the Security Officer to resolve the conflict.

AFN requires that its own organization, its employees and its third party vendors comply with all requirements of this policy, the Bank Secrecy Act, Anti-money Laundering regulations and Suspicious Activity Reporting requirements as they exist, or from time to time may be amended.
Anti-money Laundering (AML) Policy (Continued)

Security Officer Designation

This policy provides for the appointment and designation of a Security Officer to be approved by the Board of Directors. The Board approved Security Officer is responsible for daily coordination and monitoring of compliance within this policy and for the filing of suspicious activity reports with proper agencies when deemed appropriate. The Security Officer is responsible for reporting any suspicious situations and other ongoing compliance matters in this area to the Board of Directors.

Required Review

AFN requires this policy be reviewed no less than annually.

- First Date of Review – 06/15/2012
- Next Due for Review – 05/31 of each year

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 AFN business lines and operations and any responses or changes which may be appropriate in consideration of Suspicious Activity Reports filed during the previous year, then current industry trends or regulatory guidance.

Notwithstanding the above required annual review, the Security Officer shall examine Anti Money Laundering strategies, goals and objectives on an ongoing basis and maintain an effective Anti-Money Laundering program.

Recognizing Red Flags

Red flags that signal possible money laundering or terrorist financing include, but are not limited to:

- The customer exhibits unusual concern about the AFN'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.
- The customer wishes to engage in a transaction that lacks business sense or is inconsistent with the customer's stated business.
- The information provided by the customer that identifies a legitimate source for funds is false, misleading, or substantially incorrect.
- Upon request, the customer refuses to identify or fails to indicate any legitimate source for his or her funds and other assets.

(Continued)
Recognizing Red Flags (Continued)

- 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.
- The customer exhibits a lack of concern regarding transaction costs.
- 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.
- The customer has difficulty describing the nature of his or her business.
- The customer attempts to conduct frequent or large transactions, or asks for exemptions from AFN's AML policies.
- 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.
- 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.
- The customer is from, or has accounts in, a country identified as a non-cooperative country or territory by the FATF.
- The customer has unexplained or sudden extensive money service activity, especially when they had little or no previous activity.
- The customer has a large number of wire transfers to unrelated third parties inconsistent with the customer's legitimate business purpose.
- The customer has financial activity with no apparent business purpose to or from a country identified as money laundering risk or a bank secrecy haven.
- 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.

(Continued)
### Anti-money Laundering (AML) Policy (Continued)

#### Recognizing Red Flags (Continued)

- The customer requests that a transaction be processed to avoid the Company's normal documentation requirements.
- The customer uses multiple accounts, or maintains accounts in the names of family members or corporate entities, with no apparent purpose.
- The customer has inflows of funds or other assets well beyond the known income or resources of the customer.

#### Responding to Red Flags

When an employee of AFN detects any red flag he or she will:

- Notify the Security Officer
- Investigate further under the direction of the Security Officer which may include:
  - Gathering additional information internally or from third-party sources
  - Contacting the government
  - Freezing the account

#### Mitigation of and Response to Detected Red Flags

The Chief Compliance Officer shall be notified immediately upon detection of one or more red flags, which, singly or in combination with one another, indicates a possible risk of identity theft in connection with any new loan application or an existing loan. After investigation, the Chief Compliance Officer shall consider the appropriate response taking into account aggravating factors that may heighten the risk of identity theft. Responses shall be commensurate with the degree of risk posed.

Appropriate responses may include:

- Carefully reviewing the entire file to determine if any additional red flags exist;
- Monitoring the application throughout the application process;
- Contacting the loan applicant for explanation and/or additional documentation;
- Changing passwords, security codes, or other security devices that permit access to personally identifying information;
- Denying the loan application;
- Notifying and cooperating with law enforcement;
- Filing a Suspicious Activity Report ("SAR"); and/or
- Determining that no response is warranted under the particular circumstances.
Money Service Businesses

AFN (whether or not licensed as a money services business by any State) must register with the Department of the Treasury and, as part of that registration, maintain a list of its agents as required by 31 U.S.C. 5330 and this policy.

List of Agents

AFN prepares and maintains a list of its agents annually as of January 1 of each year for the preceding twelve (12) month period. Upon request, AFN must make its list of agents available to FinCEN and any other appropriate law enforcement agency. The following information shall be included with respect to each agent on the list (including any revised list) of its agents:

- The name of the agent, including any trade names or doing-business-as names;
- The address of the agent, including street address, city, state, and ZIP code;
- The telephone number of the agent;
- The type of service or services (money orders, traveler's checks, check sales, check cashing, currency exchange, and money transmitting) the agent provides;
- A listing of the months in the 12 months immediately preceding the date of the most recent agent list in which the gross transaction amount of the agent with respect to financial products or services issued by the money services business maintaining the agent list exceeded $100,000. For this purpose, the money services gross transaction amount is the agent's gross amount (excluding fees and commissions) received from transactions of one or more businesses described in §103.11(uu);
- The name and address of any depository institution at which the agent maintains a transaction account (as defined in 12 U.S.C. 461(b)(1)(C)) for all or part of the funds received in or for the financial products or services issued by the money services business maintaining the list, whether in the agent's or the business principal's name;
- The year in which the agent first became an agent of the money services business; and
- The number of branches or subagents the agent has.
Operators of Credit Card System

AFN does not authorize, or maintain authorization for, any person to serve as an issuing or acquiring institution without first taking appropriate steps, based upon the AFN money laundering or terrorist financing risk assessment, to guard against that person issuing credit card or acquiring merchants who accept credit cards in circumstances that facilitate money laundering or the financing of terrorist activities.

For purposes of making the risk assessment required by this section, the following persons are presumed to pose a heightened risk of money laundering or terrorist financing when evaluating whether and under what circumstances to authorize, or to maintain authorization for, any such person to serve as an issuing or acquiring institution:

- A foreign shell bank that is not a regulated affiliate, as those terms are defined in 31 CFR 104.10(e) and (j);
- A person appearing on the Specially Designated Nationals List issued by Treasury’s Office of Foreign Assets Control;
- A person located in, or operating under a license issued by, a jurisdiction whose government has been identified by the Department of State as a sponsor of international terrorism under 22 U.S.C. 2371;
- A foreign bank operating under an offshore banking license, other than a branch of a foreign bank if such foreign bank has been found by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act (12 U.S.C. 1841, et seq.) or the International Banking Act (12 U.S.C. 3101, et seq.) to be subject to comprehensive supervision or regulation on a consolidated basis by the relevant supervisors in that jurisdiction;
- A person located in, or operating under a license issued by, a jurisdiction that has been designated as uncooperative with international anti-money laundering principles or procedures by an intergovernmental group or organization of which the United States is a member, with which designation the United States representative to the group or organization concurs; and
- A person located in, or operating under a license issued by, a jurisdiction that has been designated by the Secretary of the Treasury pursuant to 31 U.S.C. 5318A as warranting special measures due to money laundering concerns.
Anti-money Laundering (AML) Policy (Continued)

Insurance Companies

Policies, procedures and internal controls developed and implemented by AFN under this section shall include provisions for complying with the applicable requirements of subchapter II of chapter 53 of title 31, United States Code. All third-party vendors shall be required to comply with this policy.

Third Party Originators, Appraisers and Various Other Vendors

The term “Third Party Originator” means a person engaged in brokering business with AFN. The term “Appraiser” means a person engaged in the valuation of property for AFN. Third Party Originators, Appraisers, and all vendors associated with AFN shall attest to adherence to the AFN policy regarding BSA/AML/SAR.

Banking

Prohibition on Correspondent Accounts for Foreign Shell Banks

AFN shall not establish, maintain, administer, or manage a correspondent account in the United States for, or on behalf of, a foreign shell bank. AFN shall not engage in any money service transactions when we have a reasonable cause to believe a foreign bank or foreign financial institution is involved in any way.

Due Diligence Programs for Correspondent Accounts for Foreign Financial Institutions

AFN shall establish a due diligence program that includes appropriate, specific, risk-based, and, where necessary, enhanced policies, procedures, and controls that are reasonably designed to enable AFN to detect and report, on an ongoing basis, any known or suspected money laundering activity conducted through or involving any correspondent account established, maintained, administered, or managed by AFN in the United States for a foreign financial institution.

Due Diligence Programs for Private Banking Accounts

AFN shall maintain a due diligence program that includes policies, procedures, and controls that are reasonably designed to detect and report any known or suspected money laundering or suspicious activity conducted through or involving any private banking account that is established, maintained, administered, or managed in the United States by AFN.

Internal Controls

AFN shall ensure that annual independent testing of AFN’s compliance includes compliance with this policy, the Bank Secrecy Act, Anti-money Laundering regulations and Suspicious Activity Reporting requirements. (Continued)
Internal Controls (Continued)

The required compliance testing will be conducted by AFN personnel. At a minimum, the annual audit shall include a review to determine that:

- All identified suspicious activity was reviewed and appropriately handled.
- System level reports were properly reviewed and no suspicious activity failed to be reported.

There exists no defect within the implementation of this policy such that reporting may not be appropriately acted upon or the process may be otherwise expected to fail.

Security Officer Responsibility

The Board of Directors approved Security Officer is responsible for all aspects of the design, implementation, reporting and compliance with respect to this policy to include, but not be limited to:

- Chairs the AML Executive Committee
- Determines the structure and resource levels of AML throughout AFN
- Ensures resources are deployed effectively to support AFN in mitigating AML risks
- Drives communication to the Board and other stakeholders with respect to issues concerning AML
- Represents AML at Board, Senior Group Committees and at senior corporate level as appropriate
- Maintains relationships to AML external auditors, regulatory and other authoritative bodies
- Controls, manages and administers AML’s budget and resource planning processes
- Is responsible for AML systems, technology, AML Risk Analysis, MIS and operations
- AML Business Partners
- Develop best practices for respective business divisions as applicable
- Communicate with Business Partners on a timely and effective basis
- Protects AFN from legal, regulatory and reputational risk with regard to business involving sanctioned individuals, entities and/or countries
- Track and follow up on the conditions that have been imposed as part of the CIP approval

(Continued)
Anti-money Laundering (AML) Policy (Continued)

Security Officer Responsibility (Continued)

- Develop and maintain procedures and systems to ensure that unusual and suspicious transactions are reported as required and to local authorities as appropriate
- Develop and carry out adequate controls to ensure that all applicable legal and regulatory AML requirements are being adhered to throughout AFN
- Appoints the BSA eFiling Super User

New Hire Training

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

Ongoing Training

All AFN employees shall receive training, no less than annually, to ensure current knowledge of the methods used to detect money laundering, the then current money laundering schemes that may impact AFN and 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, Bank Secrecy Act, Patriot Act and OFAC
- The implementation of these policies and the practical application thereof in the context of the employee’s function or responsibility
- How to identify red flags
- What to do when a risk is identified
- Disciplinary consequences for non-compliance

Security Officer Training

The individual Security Officer responsible for implementation of and compliance with BSA, AML, Suspicious Activity Report and/or this policy shall be required to maintain industry standard and best practice with regard to the discharge of these duties. In addition to the training required within Ongoing Training above, the Security Officer shall be required to:

- Attend two (2) seminars of appropriate subject matter each a minimum of one day in duration
- Maintain any related professional designations
- Subscribe to industry, peer, government, law enforcement news feeds, services, newsletters or other sources of information as may be beneficial to the discharge of his/her duties.
Sharing AML Information

**FinCEN and Other Federal Law Enforcement**

AFN 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 Security Officer is to be notified and shall be responsible for all matters regarding the request.

**Research Limits**

Unless otherwise stated in FinCEN's request, AFN is required to search current accounts and transactions, accounts maintained by a named suspect during the preceding 12 months, and transactions conducted by or on behalf of or with a named subject during the preceding six months. If a match is found, it will be reported to FinCEN by completing FinCEN's subject information form in a timely manner. If a search of our records does not uncover a matching account or transaction, then AFN will not reply as allowed under Section 314(a) of the PATRIOT Act.

**Non-disclosure**

AFN 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. AFN will maintain procedures to protect the security and confidentiality of requests from FinCEN, as required by Section 501 of the Gramm-Leach-Bliley Act and 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, AFN 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. AFN will not use information provided to FinCEN for any purpose other than:

- To report to FinCEN as required under Section 314 of the PATRIOT Act
- To determine whether to establish or maintain an account, or to engage in a transaction
- To assist AFN in complying with any requirement of Section 314 of the PATRIOT Act

(Continued)
Sharing AML Information (Continued)

Sharing Information with Other Financial Institutions

AFN 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. Before sharing such information AFN shall:

- File an initial notice with FinCEN before any sharing occurs and annual notices afterwards.
- 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. 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.
- 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.

Bank Secrecy Act (BSA)

Purpose

The purpose of the Bank Secrecy Act (31 USC §5311 – 5332) is to require certain reports or records where they have a high degree of usefulness in criminal, tax, or regulatory investigations or proceedings, or in the conduct of intelligence or counterintelligence activities, including analysis, to protect against international terrorism.

Financial Institution Defined

The definition of “financial institution” used within the act is broad and encompasses many businesses and types of business not generally considered within this category and for whom these laws and regulations have yet to be applied. Under the act, a “financial institution” means:

- An insured bank (as defined in section 3(h) of the Federal Deposit Insurance Act (12 U.S.C. 1813(h)));

(Continued)
Bank Secrecy Act (BSA) (Continued)

Financial Institution Defined (Continued)

- A commercial bank or trust company;
- A private banker;
- An agency or branch of a foreign bank in the United States;
- Any credit union;
- A thrift institution;
- A broker or dealer in securities or commodities;
- An investment banker or investment company;
- A currency exchange;
- An issuer, redeemer, or cashier of travelers' checks, checks, money orders, or similar instruments;
- An operator of a credit card system;
- An insurance company;
- A dealer in precious metals, stones, or jewels;
- A pawnbroker;
- A loan or finance company;
- A travel agency;
- A licensed sender of money or any other person who engages as a business in the transmission of funds, including any person who engages as a business in an informal money transfer system or any network of people who engage as a business in facilitating the transfer of money domestically or internationally outside of conventional financial institutions;
- A telegraph company;
- A business engaged in vehicle sales, including automobile, airplane, and boat sales;
- Persons involved in real estate closings and settlements;
- The United States Postal Service;
- An agency of the United States Government or of a State or local government carrying out a duty or power of a business described in this paragraph;
- A casino, gambling casino, or gaming establishment with an annual gaming revenue of more than $1,000,000 which -
  o Is licensed as a casino, gambling casino, or gaming establishment under the laws of any State or any political subdivision of any State; or

(Continued)
Bank Secrecy Act (BSA) (Continued)

Financial Institution Defined (Continued)

- Is an Indian gaming operation conducted under or pursuant to the Indian Gaming Regulatory Act other than an operation which is limited to class I gaming (as defined in section 4(6) of such Act);
- Any business or agency which engages in any activity which the Secretary of the Treasury determines, by regulation, to be an activity which is similar to, related to, or a substitute for any activity in which any business described in this paragraph is authorized to engage; or
- Any other business designated by the Secretary whose cash transactions have a high degree of usefulness in criminal, tax, or regulatory matters.

Identification Required

In General. - No financial institution may issue or sell a Bank check, cashier's check, traveler's check, or money order to any individual in connection with a transaction or group of such contemporaneous transactions which involves United States coins or currency (or such other monetary instruments as the Secretary may prescribe) in amounts or denominations of $3,000 or more unless -

- The individual has a transaction account with such financial institution and the financial institution
  - Verifies that fact through a signature card or other information maintained by such institution in connection with the account of such individual; and
  - Records the method of verification in accordance with regulations which the secretary of the treasury shall prescribe; or
- The individual furnishes the financial institution with such forms of identification as the Secretary of the Treasury may require in regulations which the Secretary shall prescribe and the financial institution verifies and records such information in accordance with regulations which such Secretary shall prescribe.
  - While regulation provides for this alternative, no such prescriptions have been issued by the Secretary as of the date of this policy. Should any customer present such identification, the transaction shall be elevated to the attention of the Security Officer for review and determination of compliance.
Bank Secrecy Act (BSA) (Continued)

Security Program

AFN is not a chartered bank. Nevertheless, a security program to establish security features shall follow similarly to banking procedures. For information purposes only, a security program, as defined by the Comptroller of the Currency is required of all national banking associations, BSA §21.3 states, the security program shall:

- Establish procedures for opening and closing for business and for the safekeeping of all currency, negotiable securities, and similar valuables at all times;
- Establish procedures that will assist in identifying persons committing crimes against the institution and that will preserve evidence that may aid in their identification or conviction; such procedures may include, but are not limited to:
  - Using identification devices, such as prerecorded serial-numbered bills, or chemical and electronic devices;
  - Maintaining a camera that records activity in the banking office; and
  - Retaining a record of any robbery, burglary or larceny committed or attempted against a banking office;
- Provide for initial and periodic training of employees in their responsibilities under the security program and in proper employee conduct during and after a robbery; and
- Provide for selecting, testing, operating and maintaining appropriate security devices, as specified in paragraph (b) of this section.
- Security devices. Each national bank shall have, at a minimum, the following security devices:
  - A means of protecting cash or other liquid assets, such as a vault, safe, or other secure space;
  - A lighting system for illuminating, during the hours of darkness, the area around the vault, if the vault is visible from outside the banking office;
  - Tamper-resistant locks on exterior doors and exterior windows designed to be opened;
  - An alarm system or other appropriate device for promptly notifying the nearest responsible law enforcement officers of an attempted or perpetrated robbery, burglary or larceny; and

(Continued)
Security Program (Continued)

- Such other devices as the security officer determines to be appropriate, taking into consideration:
  - The incidence of crimes against financial institutions in the area;
  - The amount of currency or other valuables exposed to robbery, burglary, or larceny;
  - The cost of the security devices;
  - The distance of the banking office from the nearest responsible law enforcement officers and the time required for such law enforcement officers ordinarily to arrive at the banking office;
  - Other security measures in effect at the banking office; and
  - The physical characteristics of the banking office structure and its surroundings.

Currency Transaction Reporting

The Bank Secrecy Act requires that all financial institutions report all coin and currency receipts of more than $10,000 in one (1) transaction (or 2 or more related transactions).

Structured Transactions

The BSA, in general prohibits the structuring of any transaction for the purpose of evading or avoiding established reporting requirements. As such it is a violation of this policy and related laws and regulations for any person, agent or entity to cause or attempt to cause AFN:

- To fail to file a required report.
- File a report which includes any material misstatement or omission
- To structure or assist in structuring, or attempt to structure, any transaction with one or more domestic financial institutions so as to avoid the intention of this policy, the underlying regulations or any reporting requirements.
Bank Secrecy Act (BSA) (Continued)

Bulk Cash Smuggling Into or Out of the United States

In General
Whoever, with the intent to evade a currency reporting requirement under § 5316, knowingly conceals more than $10,000 in currency or other monetary instruments on the person of such individual or in any conveyance, article of luggage, merchandise, or other container, and transports or transfers or attempts to transport or transfer such currency or monetary instruments from a place within the United States to a place outside of the United States, or from a place outside the United States to a place within the United States, shall be guilty of a currency smuggling offense and subject to punishment pursuant to subsection (b) of §5332.

Concealment on Person
For purposes of this section, the concealment of currency on the person of any individual includes concealment in any article of clothing worn by the individual or in any luggage, backpack, or other container worn or carried by such individual.

Penalties
Both civil and criminal penalties exist for the violation of the Bank Secrecy Act, Anti-money Laundering and/or Suspicious Activity Reporting. This information should not be construed as comprehensive, limiting or legal advice. It is offered to provide all readers of this policy a sense of the seriousness with which AFN and its regulators view these policies and the degree to which violations may be penalized.

Penalties for the violation of the AFN BSA/AML Policy and/or related law may have varied penalties depending upon the nature of the offense. AFN and the United States government act independently and the actions of one in no way limit the actions of the other.

Corporate Penalties
This proper and considered BSA/AML policy is of paramount importance to AFN. All personnel should be ever vigilant that the transactions in which they engage in or on behalf of AFN and/or its customers are done so in accordance with this policy. Violations of the AFN BSA/AML Policy can have significant ramifications including, but not limited to: termination, censure, demotion, or warning.

(Continued)
Bank Secrecy Act (BSA) (Continued)

Civil Penalties
A domestic financial institution or nonfinancial trade or business, and a partner, director, officer, or employee of a domestic financial institution or nonfinancial trade or business, willfully violating this subchapter or a regulation prescribed or order issued under this subchapter (except sections 5314 and 5315 of this title or a regulation prescribed under sections 5314 and 5315), or willfully violating a regulation prescribed under section 21 of the Federal Deposit Insurance Act or section 123 of Public Law 91–508, is liable to the United States Government for a civil penalty of not more than the greater of the amount (not to exceed $100,000) involved in the transaction (if any) or $25,000. For a violation of section 5318(a)(2) of this title or a regulation prescribed under section 5318(a)(2), a separate violation occurs for each day the violation continues and at each office, branch, or place of business at which a violation occurs or continues.

Criminal Penalties
A person willfully violating this subchapter or a regulation prescribed or order issued under this subchapter (except section 5315 or 5324 of this title or a regulation prescribed under section 5315 or 5324), or willfully violating a regulation prescribed under section 21 of the Federal Deposit Insurance Act or section 123 of Public Law 91–508, shall be fined not more than $250,000, or imprisoned for not more than five years, or both.

A person willfully violating this subchapter or a regulation prescribed or order issued under this subchapter (except section 5315 or 5324 of this title or a regulation prescribed under section 5315 or 5324), or willfully violating a regulation prescribed under section 21 of the Federal Deposit Insurance Act or section 123 of Public Law 91–508, while violating another law of the United States or as part of a pattern of any illegal activity involving more than $100,000 in a 12-month period, shall be fined not more than $500,000, imprisoned for not more than 10 years, or both.

A financial institution or agency that violates any provision of subsection (i) or (j) of section 5318, or any special measures imposed under section 5318A, or any regulation prescribed under subsection (i) or (j) of section 5318 or section 5318A, shall be fined in an amount equal to not less than 2 times the amount of the transaction, but not more than $1,000,000.
As of 02/06/2012, FinCEN, a bureau of the Department of the Treasury ("Treasury"), issued a final rule defining non-bank residential mortgage lenders and originators as loan or finance companies for the purpose of requiring them to establish anti-money laundering programs and report suspicious activities under the Bank Secrecy Act.

The rules are not substantially different from those which apply to Federal Financial Institutions. The following departures or exceptions apply to non-bank residential mortgage lenders and originators as defined by FinCEN.

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FinCEN intended both a broad definition and to differentiate from the SAFE Act definition of Mortgage Loan Originator.

FinCEN defines Residential Mortgage Lenders and Originators as "any business that, on behalf of one or more lenders, accepts a completed mortgage loan application, even if the business does not in any manner engage in negotiating the terms of a loan."

FinCEN also intends the Final Rules to cover "businesses that offer or negotiate specific loan terms on behalf of either a lender or borrower, regardless of whether they also accept a mortgage loan application."

The Final Rule does not contemplate coverage of an individual employed by a loan or finance company or financial institution, and provides an exception for individuals financing the sale of their own real estate.

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**Note:** The implementation of the SAR filing requirement was purposely delayed by FinCEN to facilitate their development of a web based SAR filing system useable by all program participants and accessible with only an internet connection and browser. Updated SAR filing information may be found at the FinCEN website.
FinCEN Supervisory User

AFN shall designate a Supervisory User with responsibilities of:

- Liaison between BSA eFiling and AFN.
- Assuming primary responsibility for AFN’s use of the BSA eFiling system.
- Responsibility for facilitating the process of creating general user accounts for other AFN users.
- Day-to-day oversight of AFN’s BSA compliance efforts from a filing standpoint.
- Access to system functionality not available to regular users, such as ability to update filing organization information and track the status of filings submitted by all users from across the organization.

The designated Supervisory User shall:

- Have insight into all BSA filing activities across all of AFN.
- Be knowledgeable about the individuals responsible for preparing and submitting BSA filings and the processes by which filings are submitted.
- Be designated by AFN’s Security Officer as designated in this policy.

FinCEN Discrete Filing

There is a user interface for creating and submitting a discrete (individual) Bank Secrecy Act (BSA) filing via the BSA eFiling System. Current paper forms are replaced within the BSA eFiling System by electronic forms which:

- Collected limited information to identify the filing as it is routed via BSA eFiling to FinCEN.
- Provide on-line instructions.
- Allow for common information, such as financial institution information, to be saved in pre-populated templates to reduce the time required for data entry.

FinCEN Batch Filing

Existing BSA batch creation system(s) and processes may continue to be utilized within the filing system by:

- Clicking "Track Status" brings up the Track Status window.
- Statuses track the lifecycle of filings in the BSA eFiling system.
- The Track Status view lists all of an individual's filings.
- Filter Track Status by specified date range or unique search criteria.
Bank Secrecy Act (BSA) (Continued)

FinCEN Acknowledgments
The BSA eFiling System will send an acknowledgment for each filing (both discrete and batch) submitted through BSA eFiling.
- Discrete acknowledgments are delivered directly in the body of a secure message.
- Batch acknowledgments are received as attachments to a secure message.
- Batch acknowledgments are delivered in the same format (ASCII or EBCDIC) in which the batch was received.

FinCEN Alerts
FinCEN is able to route broadcast messages to all BSA eFiling users with Alert privileges on the BSA eFiling System. These Alert messages may also contain attachments. Only Supervisory Users can assign the privilege of receiving Alert messages.
- All available Alerts are listed in the Alerts Inbox, which is accessed by selecting "View Alerts" from the left navigation menu. Each Alert listed may be viewed by simply clicking on the Alert subject.
- Alert content may be displayed in the message window, as well as in attached files.

FinCEN Secure Messaging
Users assigned the Secure Messaging privilege will have the ability to send Secure Messages to FinCEN.
- Users may provide information to FinCEN in the body of the Secure Message.
- Users may also provide information to FinCEN in an attached file.

*After enrolling in the BSA eFiling System, see the BSA eFiling System User Manual for further details on appropriate uses of secure messaging.*

FinCEN may reply to a user's Secure Message using the Secure Message functionality.
- All available Secure Message replies are listed in “View Inbox”. Each message reply listed may be viewed by simply clicking on the message subject.
- Filter Secure Messages by specified date range or show all.
- Secure Message content may be displayed in the message window, as well as in attached files.
Exemptions

Loan and finance companies remain exempt from Currency Transaction Report (CTR) requirements with the exception of transactions exceeding $10,000.

Customer Identification Program (CIP)

Due to the large dollar transfers during the loan process, AFN requires the accurate, verified and appropriate identification of its customers in accordance with the requirements of the Bank Secrecy Act. Identifying the customer is the most important aspect of opening a new account or relationship. Current identification, verified factual information and current address and phone are important when dealing with financial obligations.

The CIP rules require financial institutions to apply certain identity verification procedures when a customer opens a new account. An "account" is defined as a formal arrangement established to provide ongoing services.

The following have been identified as high-risk customers or accounts and should receive a higher level of scrutiny within the confines of this policy.

- Adult book stores
- Adult entertainment clubs
- Apartment houses
- Check cashing
- Convenience stores that sell travelers checks and/or money orders
- Currency dealer or exchanger
- Hotels
- Liquor stores
- Movie theaters
- Used boat dealers that finance their own sales
- Used car or motorcycle dealers that finance their own sales
Bank Secrecy Act (BSA) (Continued)

Identification Requirements
AFN requires anyone establishing a new account relationship to provide, at a minimum, the following information to form a “reasonable belief” that the true identity of a customer is obtained.

**Individuals**
- Name
- Date and place of birth
- Residence address and mailing address if different (PO Box alone will not be acceptable)
- If the individual is a U.S. person, the individual’s social security number. If the individual is a non-U.S. person all of the following that the individual possesses (minimum of one required):
  - a U.S. taxpayer identification number; a passport number and country of issuance and alien identification card number;
  - number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard.
- Official issued identification number (e.g., Social Security Number, Employee Identification Number or Individual Taxpayer Identification Number)
- Current Driver’s License (photograph required)
- Current Armed Forces Identification (photograph required)
- Valid Passport (photograph required)
- Current Alien Identification (current photograph required)
- Valid Social Security Number
- Valid Employee Identification Number

**Businesses**
- Customers name
- Business name
- The address of the customer’s principal place of business and, if different, the customer’s mailing address. If the customer has a local address different from its principal place of business, the local address.

(Continued)
Identification Requirements (Continued)

- If the customer is a U.S. person, an employer identification number, or if the person does not have an employer identification number or is not required to apply for an employer identification number, the social security numbers of the principals involved with the account.
- If the customer is a non-U.S. person, a U.S. taxpayer identification number or if the customer is not required to have a U.S. taxpayer identification number, a taxpayer identification number issued by the country of the customer’s residence.

Existing Customers

AFN need not verify the identity of an existing customer seeking to open a new account relationship, or who becomes a signatory on an account, if AFN:

- Previously verified the customer’s identity in accordance with this policy and consistent with the regulation; and
- Continues to have a reasonable belief that it knows the true identity of the customer.

Should any employee of AFN, in the process of confirming the identity of an Existing Customer, validate or determine that a ‘reasonable belief’ was not obtained in accordance with this policy then the individual or business verification process must be followed without exception.

Reasonable Belief

AFN is 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 it is noted that the document shows some obvious form of fraud, this factor must be considered in determining whether we can form a reasonable belief that we know the customer’s true identity.

AFN may use any or all of 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

(Continued)
OPERATIONS – QUALITY CONTROL
OBJECTIVES, POLICIES AND PROCEDURES

Bank Secrecy Act (BSA) (Continued)

Identification Requirements (Continued)

- AFN 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

AFN 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, or in some instances when we need more time, we may, pending verification, restrict the types of transactions or dollar amount of transactions. If suspicious information is found that indicates possible money laundering or terrorist financing activity, we will, after internal consultation with the Security Officer, file a SAR in accordance with applicable law and regulation.

Office of Foreign Asset Control (OFAC)

AFN shall implement reasonable procedures for determining whether the customer appears on any list of the known or suspected terrorists or terrorist’s organizations provided to AFN by any government agency. The names of all persons subject to this policy shall be checked against current Office of Foreign Asset Control (“OFAC”) control lists and against any other lists of known or suspected terrorists or terrorist organizations provided to AFN by a federal government agency. AFN requires that it adhere to any and all federal directives issued in connection with such list. For purposes of this section the lists may include, but be limited to:

- Treasury’s OFAC “Specifically Designated Nationals and Blocked Persons” List
- SDN List
- Embargoed countries and regions List
- Any other similar, renamed, or replacement list as may, from time to time, be provided

Because the OFAC Website is updated frequently, AFN shall consult the list on a regular basis and subscribe to receive updates as they occur. AFN may, if necessary, access these

(Continued)
Bank Secrecy Act (BSA) (Continued)

Office of Foreign Asset Control (OFAC) (Continued)

lists through various software programs to ensure speed and accuracy. AFN shall also review existing accounts against these lists as they are updated and we will document our review.

In the event that we determine a customer, or someone with or for who the customer is transacting, is on the SDN List or is from or engaging in transactions with a person or entity located in an embargoed country or region, we will:

- Notify the Security Officer
- Reject the transaction and/or block the customer's assets
- File a blocked assets and/or rejected transaction form with OFAC

We may also call the OFAC Hotline at 1-800-540-6322.

Taxpayer Identification Requirement

AFN must obtain the Taxpayer Identification Number prior to opening a new account or adding a new individual to an existing account. There is no exception to this rule for individuals.

AFN may permit the opening or addition of a signatory to an account for other than an individual (such as a corporation, partnership, or trust) that has applied for, but has not received, an Employer Identification Number.

However, in such a case, AFN must obtain a copy of the application before it opens or adds a signatory to the account and obtain the Employee Identification Number within 6 weeks of the account opening or addition of the signatory to the account.

For Tax Identification Number compliance for Non-U.S. persons, AFN must obtain one or more of the following:

- Taxpayer Identification Number
- Passport Number and Country of Issuance
- Alien Identification Card Number
- Number and Country of Issuance of any other Government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard
In the event that a currency dealer or exchanger has been unable to secure the identification required within the 30-day period specified, it shall nevertheless not be deemed to be in violation of this section if:

- It has made a reasonable effort to secure such identification; and

- It maintains a list containing the names, addresses, and account or credit line numbers of those persons from whom it has been unable to secure such identification, and makes the names, addresses, and account or credit line numbers of those persons available to the Secretary as directed.

- The 30-day period provided for in this section shall be extended where the person opening the account or credit line has applied for a taxpayer identification or Social Security number on Form SS-4 or SS-5, until such time as the person maintaining the account or credit line has had a reasonable opportunity to secure such number and furnish it to the currency dealer or exchanger.

- A taxpayer identification number for an account or credit line required under this section need not be secured in the following instances:
  - Accounts for public funds opened by agencies and instrumentalities of Federal, state, local or foreign governments,
  - Accounts for aliens who are:
    - Ambassadors, ministers, career diplomatic or consular officers, or
    - Naval, military or other attaches of foreign embassies and legations, and for members of their immediate families,
  - Accounts for aliens who are accredited representatives to international organizations which are entitled to enjoy privileges, exemptions, and immunities as an international organization under the International Organizations Immunities Act of December 29, 1945 (22 U.S.C. 288), and for the members of their immediate families,
  - Aliens temporarily residing in the United States for a period not to exceed 180 days,
## Bank Secrecy Act (BSA) (Continued)

### Currency Dealers or Exchanges (Continued)
- Aliens not engaged in a trade or business in the United States who are attending a recognized college or any training program, supervised or conducted by any agency of the Federal Government, and
- Unincorporated subordinate units of a tax exempt central organization which is covered by a group exemption letter.

### Record Retention
AFN has established reasonable procedures for maintaining records of the information used to verify a person’s name; address, and other identifying information as required by law and regulation. AFN requires the following:
- Maintain a record of identifying information provided by the customer.
- Where AFN relies upon a document to verify identity, a copy of the document that AFN relied upon that clearly evidences the type of document and any identifying information it may contain, must be maintained.
- AFN must also record the methods and result of any additional measures undertaken to verify the identity of the customer.
- AFN must record the resolution of any discrepancy in the identifying information obtained.
- AFN must retain all of these records for (5) five years after the date the account is closed despite state or federal requirements.

### Notice Required
AFN is required to give adequate notice to our new customers that AFN is requesting information to verify their identity. The Customer Identification Notice in the appendix shall be posted in a conspicuous location within the lobby or other area of each branch or location which deals with customers and/or handles new accounts.

### Special Requirements
**Broker Dealers**
AFN works with several broker-dealers and the third party vendor will need to identify all clients. The CIP must include risk-based procedures for verifying the identity of each customer to the extent reasonable and practicable. The procedures must enable the broker-dealer to form a reasonable belief that it knows the true identity of each customer.

(Continued)
Broker Dealers (Continued)
The procedures must be based on the broker-dealer's assessment of the relevant risks, including those presented by the various types of accounts maintained by the broker-dealer, the various methods of opening accounts provided by the broker-dealer, the various types of identifying information available, and the broker-dealer's size, location, and customer base.

Futures Commission Merchants and Introducing Brokers
The CIP must include risk-based procedures for verifying the identity of each customer to the extent reasonable and practicable. The procedures must enable each futures commission merchant and introducing broker to form a reasonable belief that it knows the true identity of each customer. The procedures must be based on the futures commission merchants or introducing broker's assessment of the relevant risks, including those presented by the various types of accounts maintained, the various methods of opening accounts, the various types of identifying information available, and the futures commission merchants or introducing broker's size, location and customer base.

Mutual Funds
The CIP must include risk-based procedures for verifying the identity of each customer to the extent reasonable and practicable. The procedures must enable the mutual fund to form a reasonable belief that it knows the true identity of each customer. The procedures must be based on the mutual fund's assessment of the relevant risks, including those presented by the manner in which accounts are opened, fund shares are distributed, and purchases, sales and exchanges are effected, the various types of accounts maintained by the mutual fund, the various types of identifying information available, and the mutual fund's customer base.

Currency Transaction Report (CTR)
AFN will file with FinCEN Currency Transaction Reports for all transactions involving currency that exceed $10,000.

Threshold
Multiple transactions will be treated as a single transaction if they total more than $10,000 during any one business day.
Structured Transactions

In accordance with AFN’s policy regarding Structured Transactions, any transaction which appears to be structured to avoid the required filing and the individual transaction or the aggregate of multiple transactions would otherwise meet the threshold and require the filing of a Currency Transaction Report, a Currency Transaction Report shall be filed. In addition, the structured transaction and the CTR shall be referred to the Security Officer as a candidate for a Suspicious Activity Report.

Suspicious Activity Reporting (SAR)

Suspicious Activities

It is impossible for AFN to define all activity that would qualify as suspicious. The following list represents typical suspicious activities within the banking industry:

Commercial Accounts

- One or more cash deposits per week that are structured to avoid CTR reporting. (Note: a deposit is considered structured if it is between $8,000 and $10,000.)
- Two or more instances per week where a customer makes two or more cash deposits on the same day, and the total of the deposits is between $5,000 and $8,000.
- One or more instances a week where a customer has made cash deposits to two or more related accounts, and the total of the deposits is between $5,000 and $10,000.
- Cash deposits that are over $10,000, and, that are 25% greater than the customer’s second highest cash deposit.
- Cash deposits that are over $10,000, and, that are 150% of the customer’s average cash deposits (ignoring inconsequential deposits that are below $3,000).
- Cash withdrawals of more than $5,000, unless the withdrawal is made for payroll purposes.
- Deposits of more than $3,000, made in traveler’s checks or money orders.
- Single purchase with cash of cashier’s checks, traveler’s checks, or money orders for more than $5,000.
- Purchase of a CD with cash, for more than $5,000.
- Deposits of more than $5,000 in a week, made primarily from wire transfers.

(Continued)
Suspicious Activity Reporting (SAR) (Continued)

**Commercial Accounts (Continued)**
- Check cashing customers, whose deposits of checks exceed by 50% the amount of cash they withdraw.
- Two or more instances a week where small bills ($1, $5, $10, $20) are exchanged for large bills ($50, $100), in excess of $3,000.

**Consumer Accounts**
- Two or more deposits made during a week where the total amount of the deposits is greater than $5,000.
- Two or more deposits made during a month where the total amount of the deposits is greater than $10,000.
- Two or more cash deposits made during a quarter where the total amount of the deposits is more than $18,000.
- Any cash deposit between $8,000 and $10,000.
- Any cash deposit where the currency has a noticeable mildew aroma. Likewise, any cash deposit where the currency has an aroma that could be drug-related (e.g., alcohol, cannabis, or an unidentifiable sweet smell).
- One or more cash withdrawals during a month, where the total amount is equal or above $5,000.
- Deposits equal or above $3,000 in a day, made in travelers checks or money orders.
- Purchase with cash of cashier’s checks, traveler’s checks, or money orders for $3,000 or more.
- Purchase with cash of a CD, for $3,000 or more.

**Identification Required**
Before concluding any transaction with respect to which a report is required, AFN shall verify and record the name and address of the individual presenting a transaction, as well as record the identity, account number, and the social security or taxpayer identification number, if any, of any person or entity on whose behalf such transaction is to be effected in accordance with its Customer Identification Program.

**Violations Aggregating $5,000 or More Where Suspect Can Be Identified**
Whenever AFN detects any known or suspected Federal criminal violation, or pattern of criminal violations, committed or attempted against AFN or involving a transaction or transactions conducted through AFN and involving or aggregating $5,000 or more in funds or other assets where AFN believes that it was either an actual or potential victim of a criminal violation, or

(Continued)
Suspicious Activity Reporting (SAR) (Continued)

Violations Aggregating $5,000 or More Where Suspect Can Be Identified (Continued)

series of criminal violations or that it was used to facilitate a criminal transaction, and AFN has a substantial basis for identifying a possible suspect or group of suspects, AFN shall ensure a Suspicious Activity Report is filed with the appropriate law enforcement agencies and regulators.

If it is determined prior to filing this report that the identified suspect or group of suspects has used an alias, then information regarding the true identity of the suspect or group of suspects, as well as alias identifiers, such as drivers’ license or social security numbers, addresses and telephone numbers, must be reported.

Insider Abuse

AFN requires that any employee, director, officer, agent, contractor or other institution-affiliated party who may have knowledge or suspicion regarding any Federal criminal violation, or pattern of criminal violations, committed or attempted against the bank or involving a transaction or transactions conducted through the bank, where the bank may be either an actual or potential victim of a criminal violation, or series of criminal violations, or that the bank was used to facilitate a criminal transaction and there exists any reason to believe that any employee, director, officer, agent, contractor or other institution-affiliated party may have committed or aided in the commission of a criminal act, regardless of the amount involved in the violation, shall report such knowledge, or suspicion to Jonathan Gwin, Esq. immediately upon obtaining such knowledge or suspicion.

Jonathan Gwin, Esq. shall review the report, elevate the matter internally, as may be appropriate and in accordance with other AFN polices, and ensure a Suspicious Activity Report is filed with the appropriate law enforcement agencies and regulators.

Violations Aggregating $25,000 or More Regardless of Potential Suspects

Whenever AFN detects any known or suspected Federal criminal violation, or pattern of criminal violations, committed or attempted against AFN or involving a transaction or transactions conducted through AFN and involving or aggregating $25,000 or more in funds or other assets where AFN believes that it was either an actual or potential victim of a criminal violation, or series of criminal violations, or that AFN was used to facilitate a criminal transaction, even though there is no substantial basis for identifying a possible suspect or group of suspects, AFN shall ensure a Suspicious Activity Report is filed with the appropriate law enforcement agencies and regulators.
Suspicious Activity Reporting (SAR) (Continued)

Transactions
Aggregating
$5,000 or
More that
Involve
Potential
Money
Laundering

Any transaction conducted or attempted by, at or through AFN and involving or aggregating $5,000 or more in funds or other assets, if AFN knows, suspects, or has reason to suspect that:

- The transaction involves funds derived from illegal activities or is intended or conducted in order to hide or disguise funds or assets derived from illegal activities (including, without limitation, the ownership, nature, source, location, or control of such funds or assets) as part of a plan to violate or evade any law or regulation or to avoid any transaction reporting requirement under Federal law;

- The transaction is designed to evade any regulations promulgated under the Bank Secrecy Act; or

- The transaction has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and AFN knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction.

AFN shall ensure a Suspicious Activity Report is filed with the appropriate law enforcement agencies and regulators.

Filing of Reports

AFN is required to file a Suspicious Activity Report no later than 30 calendar days after the date of the initial detection of facts that may constitute a basis for filing a Suspicious Activity Report. If no suspect was identified on the date of detection of the incident requiring the filing, AFN may delay filing a Suspicious Activity Report for an additional 30 calendar days to identify a suspect. In no case shall reporting be delayed more than 60 calendar days after the date of initial detection of a reportable transaction. In situations involving violations requiring immediate attention, such as when a reportable violation is ongoing, AFN shall immediately notify, by telephone, an appropriate law enforcement authority and the appropriate regulatory agency in addition to filing a timely Suspicious Activity Report.

AFN shall file a copy of the Suspicious Activity Report with state and local law enforcement agencies where appropriate.
Suspicious Activity Reporting (SAR) (Continued)

**Board Notification**
Whenever AFN files a Suspicious Activity Report pursuant to this policy, AFN management shall promptly notify its board of directors, or a committee of directors or executive officers designated by the board of directors to receive notice.

If AFN files a Suspicious Activity Report pursuant to Section 10.2.7 and the suspect is a director or executive officer, AFN may not notify the suspect, pursuant to 31 USC 5318(g)(2), but shall notify all directors who are not suspects.

**Reporting**
Forms are no longer accepted by FinCEN. SAR is done via the FinCEN website at [http://www.fincen.gov/forms/bsa_forms](http://www.fincen.gov/forms/bsa_forms).

**Confidentiality**
Suspicious Activity Reports are confidential. AFN or any person subpoenaed or otherwise requested to disclose a Suspicious Activity Report or the information contained in a Suspicious Activity Report shall decline to produce the Suspicious Activity Report or to provide any information that would disclose that a Suspicious Activity Report has been prepared or filed, citing this policy, applicable law (e.g., 31 USC 5318(g)), or both. Upon receiving and denying such a request, AFN shall promptly notify the appropriate regulatory agency.

**Safe Harbor**
In an effort to promote reporting and the exchange of information, the laws and regulations relevant to this policy provide protections for AFN and its employees, officers, directors or agents. The safe harbor provision of 31 USC 5318(g), which exempts any financial institution that makes a disclosure of any possible violation of law or regulation from liability under any law or regulation of the United States, or any constitution, law, or regulation of any state or political subdivision, covers all reports of suspected or known criminal violations and suspicious activities to law enforcement and financial institution supervisory authorities, including supporting documentation, regardless of whether such reports are required to be filed pursuant to this section or are filed on a voluntary basis.

**Record Retention**
AFN shall maintain a copy of any Suspicious Activity Report filed and the original or business record equivalent of any supporting documentation for a period of five years from the date of the filing of the Suspicious Activity Report.

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<th>Record Retention (Continued)</th>
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<td>Supporting documentation shall be identified and maintained by AFN as such, and shall be deemed to have been filed with the Suspicious Activity Report. AFN shall make all supporting documentation available to appropriate law enforcement agencies upon request.</td>
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**Persons Having Financial Interests in Foreign Financial Accounts**

Reports and information related to this section and §103.24 shall be retained for five (5) years.

**Financial Institutions**

Reports and information related to this section and §103.26 shall be retained for five (5) years.

**Affiliated Third Party Banks**

In addition to documenting and recording Taxpayer Identification Numbers in accordance with TIN Required, AFN shall, in addition, retain either the original or a microfilm or other copy or reproduction of each of the following:

- Each document granting signature authority over each deposit or share account, including any notations, if such are normally made, of specific identifying information verifying the identity of the signor (such as a driver's license number or credit card number);
- Each statement, ledger card or other record on each deposit or share account, showing each transaction in, or with respect to, that account;
- Each check, clean draft, or money order drawn on the bank or issued and payable by it, except those drawn for $100 or less or those drawn on accounts which can be expected to have drawn on them an average of at least 100 checks per month over the calendar year or on each occasion on which such checks are issued, and which are (i) dividend checks, (ii) payroll checks, (iii) employee benefit checks, (iv) insurance claim checks, (v) medical benefit checks, (vi) checks drawn on government agency accounts, (vii) checks drawn by brokers or dealers in securities, (viii) checks drawn on fiduciary accounts, (ix) checks drawn on other financial institutions, or (x) pension or annuity checks;

(Continued)
Suspicious Activity Reporting (SAR) (Continued)

Record Retention (Continued)

- Each item in excess of $100 (other than bank charges or periodic charges made pursuant to agreement with the customer), comprising a debit to a customer's deposit or share account, not required to be kept, and not specifically exempted, under paragraph (b)(3) of this section;
- Each item, including checks, drafts, or transfers of credit, of more than $10,000 remitted or transferred to a person, account or place outside the United States;
- A record of each remittance or transfer of funds, or of currency, other monetary instruments, checks, investment securities, or credit, of more than $10,000 to a person, account or place outside the United States;
- Each check or draft in an amount in excess of $10,000 drawn on or issued by a foreign bank which the domestic bank has paid or presented to a nonbank drawee for payment;
- Each item, including checks, drafts or transfers of credit, of more than $10,000 received directly and not through a domestic financial institution, by letter, cable or any other means, from a bank, broker or dealer in foreign exchange outside the United States;
- A record of each receipt of currency, other monetary instruments, investment securities or checks, and of each transfer of funds or credit, of more than $10,000 received on any one occasion directly and not through a domestic financial institution, from a bank, broker or dealer in foreign exchange outside the United States; and
- Records prepared or received by a bank in the ordinary course of business, which would be needed to reconstruct a transaction account and to trace a check in excess of $100 deposited in such account through its domestic processing system or to supply a description of a deposited check in excess of $100. This subparagraph shall be applicable only with respect to demand deposits.
- A record containing the name, address, and taxpayer identification number as determined under section 6109 of the Internal Revenue Code of 1986, if available, of the purchaser of each certificate of deposit, as well as a description of the instrument, a notation of the method of payment, and the date of the transaction.

(Continued)
Suspicious Activity Reporting (SAR) (Continued)

Record Retention (Continued)

- A record containing the name, address and taxpayer identification number as determined under section 6109 of the Internal Revenue Code of 1986, if available, of any person presenting a certificate of deposit for payment, as well as a description of the instrument and the date of the transaction.

- Each deposit slip or credit ticket reflecting a transaction in excess of $100 or the equivalent record for direct deposit or other wire transfer deposit transactions. The slip or ticket shall record the amount of any currency involved.

Affiliated Third Party Brokers or Dealers in Securities

In addition to documenting and recording Taxpayer Identification Numbers in accordance with TIN Required, AFN shall, in addition, retain either the original or a microfilm or other copy or reproduction of each of the following:

- Each document granting signature or trading authority over each customer's account;

- Each record described in §240.17a–3(a) (1), (2), (3), (5), (6), (7), (8), and (9) of Title 17, Code of Federal Regulations;

- A record of each remittance or transfer of funds, or of currency, checks, other monetary instruments, investment securities, or credit, of more than $10,000 to a person, account, or place, outside the United States;

- A record of each receipt of currency, other monetary instruments, checks, or investment securities and of each transfer of funds or credit, of more than $10,000 received on any one occasion directly and not through a domestic financial institution, from any person, account or place outside the United States.
## Appraisal Independence Rule (AIR)

### Summary
The Appraisal Independence Rule (AIR) provides important protections to homebuyers, mortgage investors and the housing market. AIR applies to all loans of one to four unit properties except loans that are insured or guaranteed by a federal agency, such as FHA or VA.

### Mandatory Compliance
Compliance with AIR is effective for all loans with application dates on or after March 1, 2013.

### Appraiser Independence Safeguards
AIR requires that an “appraiser” must be, at a minimum, licensed or certified by the state in which the property to be appraised is located.

No employee, officer or agent of AFN 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 the following:

- Withholding or threatening to withhold timely payment or partial payment for an appraisal report;
- Withholding or threatening to withhold future business for an appraiser, demoting or terminating or threatening to demote 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 an appraiser provide an estimated, predetermined, or desired valuation in an appraisal report prior to completion of the appraisal report, or requesting 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 must be provided;
- Providing to an appraiser, appraisal company, AMC or any entity or person related to the appraiser, appraisal company, or AMC stock or other financial or non-financial benefits;

(Continued)
Appraisal Independence Rule (AIR) (Continued)

Appraiser Independence Safeguards (Continued)

- Removing an appraiser from a list of qualified appraisers, or adding an appraiser to an exclusionary list of appraisers, used by any entity, without prompt written notice to such appraiser, which notice shall include written evidence of that appraiser’s illegal conduct, a violation of the Uniform Standards of Professional Appraisal Practice (USPAP) or state licensing standards, 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; or
  - Unless such appraisal or AVM is done pursuant to written, pre-established bona fide pre- or post-funding appraisal review or quality control process or underwriting guidelines, and so long as the lender adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value
- 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).

Approved AMCs

Appraisals must be ordered through an AFN-approved Appraisal Management Company (AMC). Following are AFN-approved AMCs:

- 1st National Appraisal Source
- AAMC-Link
- AmeriMac
- AMSA Appraisal Services
- Appraisal Links, Inc.
- Appraisal Management Company
- Appraisal Mgmt Solutions, LLC
- AppraisalTek
- ARIVS
- Class Appraisal, Inc.
- Coester VMS
- CoreLogic Valuation Solutions
- Core Valuation Management
- Dart Appraisal
- EHS Appraisal Management LLC
- Frisco Lender Services LLC
- HVCC Appraisal Ordering
- Landmark AMC
- Lucos
- Momentum
- MyAMC
- National Appraisal Management Co
- Nationwide
- Nationwide Appraisal Network
- Pendo Management Group
- Property Rate
- Rapid Appraisal Ordering
- ServiceLink
- Solidifi
- Springhouse
- South Texas Appraisal Management (aka STXAM)
- The Appraisal Shop
- TimsCo, Inc.
- TriMavin
- Triserv Appraisal Management
Appraisal Independence Rule (AIR) (Continued)

Low Value on the Appraisal

If an appraisal comes in with a lower-than-anticipated value, neither the Loan Officer nor the Loan Processor may contact the appraiser directly. Furthermore, it is against AFN policy to order a second appraisal and disregard the original appraised value. Instead, the Loan Officer or Real Estate Agent may provide additional documentation and/or comps to the Underwriter for review. If the Underwriter believes an increase in value is warranted, he or she may contact the AMC directly to discuss any documentation-supported reason to increase the appraised value, but may not request a certain value.

Borrower Receipt of Appraisal

A copy of the appraisal must be delivered to the borrower before loan documents are drawn.

If the appraisal is e-mailed or hand-delivered to the borrower, the waiting period for drawing loan documents is three business days. If the appraisal is mailed to the borrower, the waiting period for drawing loan documents is six business days. AFN may waive the three day requirement for receiving a copy of the appraisal if the Appraisal Report Disclosure form is signed by the borrower with the waiver box checked.

NOTE: Sundays and legal holidays may not be included in the three business day calculation; however, all of the following may be included:
- Appraisal delivery day
- The date the loan documents are prepared
- Saturday

Example 1: An average week without a holiday
The borrower receives the appraisal on Monday. Monday is day one, Tuesday is day two, and Wednesday is day three. The loan documents may be drawn/dated on or after Wednesday.

Example 2: An average week, weekend included
The borrower receives the appraisal on Friday. Friday is day one, Saturday is day two and Monday is day three. The loan documents may be drawn/dated on or after Monday.

Example 3: Weekend included, plus a legal holiday
The borrower receives the appraisal on Friday. Friday is day one, Saturday is day two, Monday is a legal holiday (and is not counted) and Tuesday is day three. The loan documents may be drawn/dated on or after Tuesday.
Appraiser Engagement

Neither the LO nor the borrower can pay the appraiser directly. Payments must be made through the AMC.

AFN will not accept any appraisal report completed by an appraiser who is selected, retained or compensated in any manner by any other third party (including Mortgage Brokers and Real Estate Agents).

There must be separation of AFN’s Sales or Mortgage Production functions and appraisal functions. An AFN employee in Sales or Mortgage Production functions shall have no involvement or direct contact with the appraiser.

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 AFN; and
- Having any substantive communications with an AMC including ordering or managing an appraisal assignment.

These parties include:

1. All members of AFN’s Mortgage Production staff;
2. Any person who is compensated on a commission/bonus basis upon successful completion of a mortgage; and
3. Any person whose immediate supervisor is not independent of the Mortgage Production staff/process.

AFN employees not described above are not subject to the prohibitions described above and may engage in communications with an appraiser. No person on AFN’s staff may provide an AMC a list or panel of appraisers to be used for loans involving a specified mortgage Broker, Real Estate Agent, or Loan Originator. Mortgage Brokers and Real Estate Agents must not be involved in the selection of an appraiser for approved panel or specific assignments under any circumstances.

Appraisal Transfers

AFN may use an appraisal prepared by an appraiser selected by another lender (but not a Mortgage Broker) on FHA and VA loans; however, the name of the original lender must be named as the client on the appraisal report. In addition, the transferring Lender must complete and sign the AFN Appraisal Transfer form, which must be kept in the file (paperless system) with the appraisal. Appraisal transfers will not be accepted on conventional loans.
**Appraisal Independence Rule (AIR) (Continued)**

<table>
<thead>
<tr>
<th>AIR Appraisal Delivery Certification Required on All Conventional Loans</th>
<th>The Loan Processor must complete the AIR Appraisal Delivery Certification form on all conventional loans prior to loan documents being drawn. If the appraisal is delivered via e-mail, a copy of the email sent to the borrower must be retained and kept in the file (paperless system) with the AIR Appraisal Delivery Certification form. If the appraisal is delivered via hand-delivery, the borrower must check the acknowledgement of receipt box and sign the Appraisal Report Disclosure form, which is to be retained in the file (paperless system). The AIR Appraisal Delivery Certification form is a Prior to Docs (PTD) condition that must be signed off by an Underwriter before loan documents are released.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality Control</td>
<td>If AFN has reason to believe an appraiser is violating applicable laws or otherwise engaging in unethical conduct, AFN shall promptly refer the matter to the applicable board or agency.</td>
</tr>
</tbody>
</table>

**Disclosures**

<table>
<thead>
<tr>
<th>Advance Disclosures</th>
<th>Advance (initial) disclosures are provided to mortgage applicants upfront to give AFN's best estimate of charges they may incur in the pending loan transaction, including the annual percentage rate (APR) the applicants can expect to pay. These disclosures are issued in compliance with Regulation X and Regulation Z (Truth-in-lending Act) of the Real Estate Settlement Procedures Act (RESPA). Disclosures are delivered or mailed to loan applicants within three (3) business days of receipt of a loan application.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARM Disclosure</td>
<td>An Adjustable Rate Mortgage (ARM) Disclosure and Consumer Handbook on Adjustable Rate Mortgages (CHARM Booklet) is provided to any applicant who is applying for an ARM loan. The loan originator must provide these items at the time of application or at the time an adjustable rate is expressed. The applicant is also entitled to receive, upon request, disclosures for as many programs for which the applicant is qualified.</td>
</tr>
</tbody>
</table>
## Disclosures (Continued)

<table>
<thead>
<tr>
<th><strong>Borrower’s Authorization and Fair Credit Reporting</strong></th>
<th>A Borrower’s Authorization to Release Information form must be signed and dated by the applicant and in the lender’s possession before a credit report may be drawn from any credit-reporting agency. Information obtained on the credit report may only be shared with an AFN employee who has reason to review the data or an outside entity that is used to process the application and complete the loan transaction.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CA Fair Lending Notice</strong></td>
<td>Applicants for loans where the property is located in the state of California must receive a California Fair Lending Notice at the time of application or with initial disclosures (within 3 days of receipt of the application). A copy that is signed and dated by the applicants must be retained in the loan file.</td>
</tr>
<tr>
<td><strong>Credit Denial or Adverse Action Letter</strong></td>
<td>A credit denial notice or adverse action letter must be issued on all canceled or denied loan applications. The notice/letter, explaining the reason for cancellation or denial, must be mailed directly to the applicants with a copy retained in the file.</td>
</tr>
<tr>
<td><strong>Equal Credit Opportunity Act (ECOA)</strong></td>
<td>Neither AFN nor any of its affiliates or representatives will discourage any applicant from applying for a loan because of the applicant’s race, color, religion, sex, handicap, familial status, national origin or age, or because the applicant has in good faith exercised any rights under the Consumer Credit Protection Act, or because any portion of the applicant’s income to qualify is derived from a public assistance program. An ECOA notice is included in each loan application package.</td>
</tr>
<tr>
<td><strong>Loan Estimate (LE)</strong></td>
<td>A Loan Estimate (LE) of costs associated with the loan must be provided to the applicant within three (3) days of AFN’s receipt of the loan application.</td>
</tr>
<tr>
<td><strong>Government Monitoring Section of the 1003</strong></td>
<td>The section at the bottom of page 3 of the 1003 labeled “Information for Government Monitoring Purposes” must be completed on every loan application. The information is used to comply with the Home Mortgage Disclosure Act (HMDA). Because providing this information is voluntary, the applicant is NOT required to complete it; however, if the applicant refuses, the loan originator must complete it and indicate how the information was provided using the checkboxes provided.</td>
</tr>
</tbody>
</table>
## Disclosures (Continued)

| Right of Rescission Notice | For any owner-occupied refinance loan for a residential property with 1-4 units, including take-out loans for construction or a lease-option-to-purchase contract, AFN will issue Right of Rescission Notice to the applicant. This notice will give the applicant an opportunity to cancel (rescind) the transaction up to midnight of the 3rd business day after any of the following:  
- Execution of loan documents  
- Delivery of the Closing Disclosure  
Escrow will be instructed not to disburse funds until the rescission period has passed. If an applicant exercises the right to rescind, any monies to close the transaction that were already paid by the applicant will be refunded to the applicant. |
| Settlement Cost Booklet | The HUD booklet, “Homebuyers Guide to Settlement Costs” is delivered or mailed to loan applicants with delivery of Advance Disclosures. A confirmation of receipt is executed by the applicant and retained in the loan file. |
| Servicing Disclosure | A notice to the applicant regarding AFN’s loan servicing practices is required with the initial disclosures. The applicants must sign and date the disclosure and return a copy to AFN, which must be retained in the loan file. |
| Loan Estimate Re-disclosure | A Loan Estimate (LE), which is included in the Advance Disclosures, will be re-disclosed any time a change in the loan terms causes the APR to vary by .125% more or less than when the APR was last disclosed. |
SUBSERVICER MONITORING AND CONTROL

Servicing and Subservicing Overview

Master Servicer

As Master Servicer, AFN is the owner of the serving rights and therefore bears the pass through risk, as well as, the burden of compliance to investor and regulatory reporting and collection requirements. These guidelines are provided to help mitigate risks to AFN through the implementation of internal control procedures. Management will ensure that employees have access to all required information and training to perform their specific functions. These guidelines are not meant or intended to replace investor guides or eliminate the need to reference such guides or investor resources on a frequent basis.

Oversight and Enforcement

Senior management is responsible for the oversight and enforcement of AFN’s policies and is committed to effective communications and frequent interaction with the departmental management and staff to ensure employees are well apprised of the policies and procedures. AFN is committed to providing the highest level of integrity and compliance to consumer protection regulations to ensure a superior customer experience. AFN expects all employees to adhere to written policies and procedures as it relates to ethical behavior and fair dealings with its customers.

Performance Benchmarks

AFN will create and measure performance benchmarks to identify areas of concern, trends, and inefficiencies. The guidance contained within this Policy is meant to help meet or exceed the following Key Performance Indicators ("KPI’s"):  
- All loans are uploaded to servicing within 48 hours of loan funding.  
- Loan document images are uploaded within 48 hours of loan boarding.  
- Transfer of Servicing Letters are sent as required and in accordance to Regulation X.  
- Welcome Letters are generated and mailed within 48 hours of loan boarding.  
- Escrow conversions/transfers to custodial accounts occur within investor required time frames.  
- All cash and disbursement accounts are reviewed and reconciled daily and monthly, as necessary, to ensure exceptions are cleared timely.  

(Continued)
## Subservicing Overview (Continued)

### Performance Benchmarks (Continued)

- Servicing performance is reviewed monthly to ensure performance is in line with peers and investor requirements.
- Delinquency levels are maintained within investor guidelines.
- All regulatory and investor reporting is performed timely and accurately.
- Taxes and Insurance are disbursed timely and in accordance with investor guidelines.

### Regulation Monitoring

AFN monitors all bulletins, policy announcements and guideline updates from GSEs and various investors.

The Mortgage Servicing Departments review and audit servicing performance, as well as any third party vendors, to confirm adherence to KPIs, contractual agreements and regulatory requirements.

Before any servicing functions are outsourced to a third party subservicer, AFN will review all procedures and ensure the subservicer and its staff have the knowledge, experience, and resources required to perform the servicing functions, as required.

AFN must contact client references provided by subservicer to evaluate subservicer's performance and degree of client satisfaction. The subservicer’s references should be using the same investor(s) expected to be used by AFN.

AFN must contact Fannie Mae, Ginnie Mae and Freddie Mac to obtain feedback regarding subservicer's loan administration experience and capabilities and servicing ratings.

All subservicer visits will include a review of loan set-up processes and procedures and monitoring and controls of subservicer's loan administration activities. In addition, AFN will obtain and review copies of the sub-servicer’s most recent SASE 16 Report, USAP Report, internal quality control procedures, and third party audit and investor reports. The Company will independently verify state licensing and confirm the subservicer is in good standing with each state for loans serviced on behalf of the Company.
Servicing Functions

Boarding

AFN will deliver newly funded loan files to the sub-servicer in accordance with procedures detailed in service agreements or AFN requirements. These functions will be carried out by designated Post Closing or Servicing personnel. New loans should be boarded to the servicing system within 48 hours of funding.

Within 24 hours of boarding, AFN’s Accounting department will wire the appropriate funds to the subservicer or into the various custodial accounts, as required. The escrow funds will be reconciled and balanced against the boarded loan reports to the servicing system. In all cases, any custodial funds will be transferred on or before settlement.

When using a third party sub-servicer, the sub-servicer is to complete the set-up of all new loans within two to five business days of receipt of the loan files. The Mortgage Servicing department is responsible for reviewing vendor performance and adherence to the loan set-up time frames. Subsequent compliance and quality control audits will be performed to ensure sub-servicer’s compliance with SLA’s. The timing of the loan set-up process is critical to ensure custodial funds are deposited timely and to facilitate the transfer and reconciliation of custodial funds.

AFN’s Mortgage Servicing department will review boarding reports to reconcile and confirm all loans were delivered and boarded and ensure accuracy of the loan data including boarded date, loan amount, first payment date, escrow balance, investor loan number, and property address. Mortgage Servicing personnel will cross match loan numbers and update AFN’s servicing system and confirm all document images were received, as required, and resolve any outstanding issues or discrepancies identified. AFN’s Mortgage Servicing department will enter the investor loan numbers into its system of record and provide to subservicer for timely reporting and remitting purposes.

AFN accounting personnel will confirm directly with the applicable custodial Company the date and amount of the initial escrow funds deposited to the correct AFN accounts to confirm timely set-up of new loans by subservicer and timely deposit of funds were completed.

Transfer of Servicing/Goodbye Letters will be sent to the borrowers after receipt of the servicing loan number and in accordance with RESPA.
Servicing Functions (Continued)

**Payment Processing and Customer Service**

**Controls**
AFN must ensure adequate controls exist surrounding payment processing; when using a subservicer, AFN will ensure adequate controls are present. AFN will review the subservicer’s SASE 16 report amongst other documents to ensure adequate controls and processes are being followed. This is more fully described in the Monitoring section of this Policy.

Accurate payment notices or coupons must be properly addressed and sent timely to borrowers providing payment and contact information. Payments received by the AFN will be noted in its servicing system and forwarded to the subservicer along with a payment-received log to ensure the subservicer applies the correct posting dates and payments correctly.

All payments must be posted to the account as of the date received. Should a payment be received and posting delayed such that interest or late charges are incurred, the fees shall be credited and reflected in the next billing cycle.

**Suspense Payments and Payoffs**
Payments held in suspense shall be applied once meeting the required payment amount.

A Payoff Request report will be generated and reviewed as necessary (daily if necessary) to maximize retention rates of the portfolio. All payoff demands will be generated without delay. Payoffs will include fees and charges that are required in addition to the amounts for principal and interest due.

**Customer Service**
All QWR’s will be closely managed and will adhere to the requirements of RESPA. All QWR responses must be completed by AFN Senior Management.

Fair Credit Reporting Act (FCRA) requires AFN to furnish information to consumer reporting agencies and insure the accuracy of the information reported. In addition, servicing personnel must handle disputes in prescribed fashion as outlined in the Act. AFN reports directly through its subservicer borrower credit histories to the three major repositories (Trans Union, Equifax, and Experian).
Servicing Functions (Continued)

**Custodial Accounts**

American Financial Network, Inc. (“AFN”), has engaged Provident Funding, a sub-servicer, to meet its loan servicing responsibilities for loans sold with servicing retained. With respect to review and control of AFN's custodial accounts, it is AFN’s policy to ensure, through review of Provident Funding’s reports and communication with Provident Funding’s personnel, the following:

1. All deposits are made within two business day of receipt of borrower payment as Provident employs the use of a lockbox for borrower payments.
2. Ensure all monies due to the investor for repurchases and other amounts are deposited when due.
3. Ensure funds needed to advance P&L are deposited timely and in an amount to cover the remittance due.
4. Ensure all custodial accounts and P&I accounts are reconciled within 45 days of month end.
5. Ensure all variances and any fund shortages are resolved within 90 days of month end.
6. Prepare, review, test, and keep on file Form 59 for all P&I account reconciliations and Form 59E for all custodial account reconciliations.
7. Ensure all shortages are funded within 90 days of each month end.
8. Ensure all P&L and custodial accounts are never below zero.
9. Ensure all records and accounts are maintained at loan level and in detail.
10. Ensure that the total of the “trial balance” ties and is equal to the liability on Form 59E, Escrow Custodial Account Reconciliation Worksheet.
11. Reimburse AFN immediately or same day payment is received.
12. Ensure no commingling of funds of any kind takes place.

(Continued)
Servicing Functions (Continued)

Custodial Accounts (Continued)

13. Should AFN cause any custodial account funds to be invested, AFN will ensure the following:
   a. Escrow funds and P&L funds are not commingled when invested.
   b. An appropriate letter agreement is executed based on the type of custodial account and where the depository is located.
   c. The investment depository accounts are titled exactly the same as the custodial account from which the funds were withdrawn.
   d. Invested custodial funds are re-deposited back into the original custodial accounts prior to remitting.
   e. AFN retains interest earned on such investment accounts.
## Mortgage Loan Advertising

### Advertising Requirements

**Applying the Policy**

AFN expects all employees to act with the highest regard to ethics through truth in advertising, which, in some instances, may require more than merely following the law. No AFN employee or branch shall engage in unfair, misleading, or deceptive advertising practices. Mortgage loan originators advertising specific programs or terms must list actual offered rates with the disclaimer of “rates subject to change at any time.”

When including or linking AFN’s name to any form of advertisement (written for handouts, published in a newspaper or other periodical, or scripted for radio or television), whether inducing or not inducing new clients, when holding AFN’s name to a public image, the policies and procedures herein must be followed.

**Federal Advertising Requirements**

- The Equal Housing Opportunity Act logo must be displayed in all offices and must be present on all documents and print advertising*
- The AFN logo or full name (American Financial Network, Inc.) must be used for all advertisements*
- The corporate telephone number must be included on all advertisements* (can be in addition to a loan officer or office #)
- The NMLS ID# from the AFN office for which the advertiser works and the advertiser’s individual NMLS ID# must be included on all advertisements*
- If the advertisement mentions: interest rates, any payment amount, number of payments or payment period, or percentage of any down payment, then the following must also be included in the ad:
  - Rates must be stated as the annual percentage rate (APR); it may be accompanied by the simple interest rate, which cannot be in larger print or more prominent than the APR
  - Amount of the represented loan
  - Repayment term in years of the represented loan
  - Prepayment terms
  - If the advertised rate may increase, the ad must state: “Advertised rate may increase”
  - Statement: “Restrictions may apply. Programs not available in all areas.”

*(Continued)*
Advertising Requirements (Continued)

Federal Advertising Requirements (Continued)

* In the case of a verbal advertisement (i.e. radio, TV, online media), the following must be quoted: “American Financial Network, Inc. provides an Equal Housing Opportunity.”

- AFN shall not set nor advertise minimum loan amounts

Advertising Requirements: State-specific

California

Department of Business Oversight (DBO) Licensed Branch
- Full branch address
- “Licensed by the Department of Business Oversight under the California Lender License # _______ (include license #)

Bureau of Real Estate (BRE) Licensed Branch
- Full branch address
- “American Financial Network, Inc. is licensed as a Real Estate Broker by the State of California, License #_______”
- Brokers must disclose: “Broker is performing acts for which a real estate license is required.”

Corporate Approval of Advertisements

Submitting for Review/Approval

Any AFN employee seeking approval of an advertisement must:
- Complete a “Request for Review of Advertising” form
- Attach a copy of the proposed advertisement
- Submit the information to AFN Marketing Department for compliance review at marketing@afncorp.com

The submitted request will be reviewed and any change recommendations issued. A final corrected version should be submitted prior to using the advertisement. If the advertisement is approved as is, the requester will be notified.
FRAUD AND IDENTITY THEFT PREVENTION PROGRAM

Program Administration

Regulatory Compliance Officer

The Regulatory Compliance Officer, in concert with Executive Management personnel, will oversee AFN’s wide-reaching fraud and identity theft prevention policies and procedures. This oversight includes monitoring service providers to ensure their processes are kept in compliance.

Training

All AFN employees will receive documentation and access to other tools that assist in detection of fraud and identity theft. New employees will be scheduled for mandatory fraud and identity theft prevention training within their first 30 days of employment, and all personnel will attend mandatory supplementary training as the need arises due to changes in mandates, regulations, policies and/or procedures.

Identifying Red Flags

Advisory

Finding one or more red flags does not necessarily identify fraud or fraudulent intent; however, red flags may signal a need for an in-depth investigative review and/or borrower interview.

Loan Application (1003)

Loan applications are reviewed for the following red flags:

- Non-homeowner borrower is buying investment property
- Home not large enough for proposed occupants
- Employer address listed as a PO Box
- Owner-occupied property with unrealistic commute to work
- Years in profession inconsistent with borrower’s age
- Level of education inconsistent with employment
- Work phone and home phone are the same
- Assets inconsistent with liabilities and income
- Borrower income inconsistent with type of employment
- Company phone number identified as a cell phone
- Borrower purchasing property from landlord or employer
- Dates on application and verification forms are inconsistent
- Excessive real estate owned
- Down payment source other than cash
- Significant or contradictory changes from handwritten to typed loan application

(Continued)
Identifying Red Flags (Continued)

Loan Application (1003) (Continued)

- Invalid social security number
- Borrower address does not match consumer credit report*

*Note: If the consumer address does not match his or her address as listed on the consumer credit report, and a Notice of Address Discrepancy is received from a National Credit Reporting Agency (NCRA), an interview of the consumer is required to establish a reasonable belief that the consumer report obtained relates to the consumer. Proof of address obtained from the consumer must be forwarded to the NCRA from which the discrepancy notice was received.

General

All file documentation is examined for the following red flags:

- Typeface, font, handwriting and/or spacing varies within any document from a single source
- Evidence of whiteout or other alterations (erasure, strike-through, squeeze-in)
- Borrower name, phone number, address, SSN, handwriting or signature inconsistent with other file documentation
- More than one mortgage lender reflected throughout the file
- Any party to the transaction has more than one role
- Borrower appears to be related to another party to the transaction (except gift donor)
- Patterns or similarities in loan packages received from a specific loan originator, realtor, or property owner/seller

Credit Report

- Credit reports are reviewed for the following red flags:
  - Personal data on credit report inconsistent with the 1003
  - SSN invalid, differs from the 1003, or has “deceased” flag
  - Residence data varies from file documentation
  - Employment differs from that listed on the 1003
  - No credit (possible use of alias or different SSN)
  - Credit habits inconsistent with income/employment
  - All trade lines open recently or around the same time
  - All accounts paid in full recently (possible new, undisclosed consolidation loan)
  - Refinance of recently originated loan (current lender may have accelerated for misrepresentation)
  - Length of time on credit bureau file inconsistent with age
  - HAWK or other alerts on the credit report
  - Recent inquiries from other mortgage lenders
  - “AKA” or “DBA” on the record

(Continued)
Identifying Red Flags (Continued)

Credit Report (Continued)

- Indebtedness on 1003 varies from that on the credit report
- Late payments explained by unemployment due to illness or layoff, but VOE and reported income do not support this
- Multiple SSNs or names listed
- Spouse claims no credit
- All trade line account balances end in zero
- The pattern of delinquency is inconsistent with the letter of explanation provided
- Borrower address does not match consumer credit report*

*Note: If the consumer address does not match his or her address as listed on the consumer credit report, and a Notice of Address Discrepancy is received from a National Credit Reporting Agency (NCRA), an interview of the consumer is required to establish a reasonable belief that the consumer report obtained relates to the consumer. Proof of address obtained from the consumer must be forwarded to the NCRA from which the discrepancy notice was received.

Verification of Employment (VOE)

VOEs are reviewed for the following red flags:

- Name of employer includes some form of borrower’s name
- Employer uses PO Box address
- Date of hire is a weekend or holiday
- Income not consistent with type of employment
- Commission-type position with base salary only (and vice versa)
- Round dollar amounts (in year-to-date earnings or prior year’s earnings)
- Past year’s income shown as “see W2s and/or Pay Stubs”
- Illegible employer signature with no additional identification such as title and/or contact phone number
- Co-borrower’s maiden name same as the employer signature
- Borrower appears to be related to person signing the VOE
- Employer’s signature less than one day after originator’s signature
- White-out or strikethrough used on the form
- Late payments previously explained by unemployment due to illness/layoff, but VOE/reported income do not support this
- Employer not in good standing or not registered with appropriate regulatory agency(ies)
- Company phone number identified as a cell phone number

(Continued)
Identifying Red Flags (Continued)

**Verification of Employment (VOE) (Continued)**
- “Personnel” misspelled
- Person verifying income is not in a position of authority
- VOE addressed to a specified person’s attention
- Excessive praise in the remarks section
- Overlaps in current and prior employment dates
- Drastic change from previous to current position/profession
- Employee paid monthly instead of bi-weekly or bi-monthly
- No prior earnings on the VOE
- Overtime or Bonus Pay exceeds 50% of Base Pay
- Answering machine/service at place of business indicates self-employment

**Paycheck Stubs**
Paycheck stubs are be reviewed for the following red flags:
- Document is handwritten, not computer-generated
- Company name is not printed on the document
- Check numbers do not increase chronologically (when reviewing more than one paycheck stub)
- Round dollar amounts
- Amounts withheld for Social Security, Medicare and other government withholdings are inconsistent with the percentage required (SS = 6.2% to max limit that changes annually; Medicare = 1.45% without limit)
- YTD totals not calculated accurately from check to check
- SSN not consistent with other loan file documents
- Drastic increase in pay from one year to the next
- Even dollar amount in year-to-date or past earnings column
- Employee’s name not printed on the document
- Debts reflected as payroll deductions (loans, judgments, etc.) not disclosed on the loan application

**W2s/1099s**
W2s/1099s are reviewed for the following red flags:
- Document is handwritten, not computer-generated
- Company name is not printed on the document
- Document typed, yet check stubs were computer-generated
- Employer Identification Number (EIN) not in proper EIN numeric format (2 digits, hyphen, 7 digits)
- Round dollar amounts
- Income reflected on W2 statements inconsistent with 1003, VOE, and/or income tax returns
- Copy submitted is not “Copy C” (Employee’s Copy)
- Withholdings are inconsistent with paycheck stubs
Tax Returns

Tax Returns are reviewed for the following red flags:

1040s
- Taxpayer label not used, yet residence has not changed
- Address and/or profession inconsistent with 1003
- Unemployment compensation reported, but no gap in employment previously disclosed
- No estimated tax payments if self-employed (Schedule SE); OR SE filed, yet self-employment not disclosed
- Tax returns not signed/dated by the borrower
- Paid tax preparer signed the taxpayer’s copy
- W2s do not match 1040s
- Even dollar amount in year-end wage figure
- Employer’s address and zip code are inconsistent
- Borrower’s job status inconsistent with reported salary
- W2 form presented is not he “Employee’s Copy”
- Shows stock assets, yet dividend income not reported on 1003
- Large savings assets, yet interest income not reported on 1003
- No quarterly estimated tax payments for high-income borrowers
- High-income borrowers who prepare their own tax returns
- CPA letter used is the same firm for many customers or is not licensed

Schedule A
- Real estate taxes and mortgage interest reflected on tax returns, yet no real estate is owned (or vice versa)
- Tax preparation fee deducted, yet prior year’s returns prepared by borrower
- Few or no deductions for a high-income borrower
- No mortgage interest paid when borrower shows property ownership (or vice versa)

Schedule B
- Substantial cash in the bank, yet little or no related interest income reported
- Stocks owned, yet no dividends earned
- Amount or source of income inconsistent with 1003
Identifying Red Flags (Continued)

**Tax Returns (Continued)**

*Schedule C*
- Business code inconsistent with type of business
- Gross income inconsistent with total income on 1099s
- No “Cost of Goods Sold” on retail or similar business type
- Depreciation deduction for real estate owned but not disclosed (or vice versa)
- Interest expense shown for undisclosed loan
- No deductions for taxes and/or licenses
- Wages paid, yet no tax expense claimed
- Wages paid, yet no EIN disclosed
- Salaries paid inconsistent with type of business
- Business expenses inconsistent with type of business
- No IRA or Keogh deduction
- Income significantly higher than previous years
- No salaries paid to non-commission employees
- No Schedule SE filed (for self-employed)

*Schedule E*
- Properties listed, yet not shown on the 1003
- Mortgage interest deducted, yet no mortgage disclosed (or vice versa)
- Net income from rents plus depreciation does not equal cash flow submitted on the 1003
- Partnership income shown (as a General Partner, borrower may be liable for partnership’s debts)

**Bank Statements**

Bank statements are reviewed for the following red flags:
- Bank statements do not reconcile
- Bank logo on statement looks suspicious
- Periodic deposits/withdrawals inconsistent with income
- NSF (insufficient funds) fees appear on the statements
- Daily balances inconsistent with opening/closing balances
- Earnest-money deposit not reflected in bank withdrawals
- Bank account is not in the borrower’s name, or the account or bank statements reflect additional account holders
Identifying Red Flags (Continued)

**Verification of Deposit (VOD)**

VODs are reviewed for the following red flags:

- Source of funds consists of an unverified note, equity exchange, or sale of residence
- PO Box address for depository
- Round dollar amounts, especially on an interest-bearing account
- New, recently opened bank account
- Numbers appear “squeezed in”
- Illegible signature with no additional identification such as title and/or contact phone number
- VOD completed the same day as ordered (or within one day)
- Bank verification dated on a weekend or holiday
- White-out or strikethrough used on the form
- Gift letter on file not verified by transfer of funds
- VOD signed by a bank officer or other personnel who would not ordinarily verify an account
- Significant change in balance over last 2 months
- Account opened on a Sunday or holiday
- No date stamp affixed to the document by the depository
- Excessive balance in checking versus savings account
- Checking accounts show an average 2-month balanced exactly equal to the current balance
- Low-income/young borrowers with substantial cash on deposit
- Account not in borrower’s name or is a joint account

**Verification of Rent (VOR)**

VORs are reviewed for the following red flags:

- Fictitious institution name (cannot be 411 searched)
- Rent verifier is a relative
- Rent is low (potential payment shock)
- Address inconsistent with 1003
- VOR faxed, yet fax number not traceable to the institution
Identifying Red Flags (Continued)

Bank Checks (Earnest Money Deposit or Rent Checks)

Bank checks are reviewed for the following red flags:
- Numbers, payee or other information appears to be altered
- Bank name or account number inconsistent with 1003
- Low check number (indicates newly opened account)
- Dollar amounts not encoded correctly on the check
- Check number does not agree with encoded number
- Endorsement date inconsistent with date check was written
- Check numbers from same account do not increase chronologically
- Checks reflect additional non-borrowing signers
- Cashier’s check for funds to close mentions an entity or non-interested party as remittee

Sales Contract

Sales Contracts are reviewed for the following red flags:
- Borrower not listed as the purchaser
- Names have been added to or deleted from the contract
- The seller is a realtor, broker, relative or employer
- Earnest-money deposit is entire down payment or odd amt
- The sales price is substantially below market value
- A second, non-disclosed mortgage is indicated
- Realtor absent from the transaction (no realtor disclosed), or listing and selling agent are the same person (or a broker)
- Name and address on the earnest-money deposit check inconsistent with the buyer
- Multiple sales contracts exist
- The sales contract is missing pages
- White-out or strikethrough used on the form
- Dated after the credit documents or appraisal date
- Power of Attorney is used for the transaction
- Sale subject to acquiring title
- Buyer required to use a specific lender or broker
- Secondary financing offered by the seller or other parties
- Excessive loan originator/broker commission
- Contract Addendum(a) exists

Appraisal

Appraisals are reviewed for the following red flags:
- Ordered by any party other than the lender or broker
- Property owner’s name inconsistent with file documentation
- Information left blank (i.e. borrower, client, occupant, etc.)
- Appreciation in stagnant or declining market/area

(Continued)
Identifying Red Flags (Continued)

Appraisal (Continued)

- Most recent sale on subject and/or comps is missing
- Appraisal date prior to sales contract date
- Home not large enough for proposed occupants
- High land value for the area
- Excessive distance from subject property to comps
- Excessive adjustments in area where market time is under six months
- Income approach not used on tenant-occupied dwelling
- Appraisal ordered before sales contract was written
- Photos do not match subject property description
- Photos were taken at odd angles/views
- Photos reveal items not disclosed in the appraisal (i.e. additional structures on premises, next to railroad tracks or commercial buildings)
- “For Rent” or “For Sale” sign on owner-occupied refinance
- Photos of subject property or comps look familiar
- Appraiser located outside subject property’s county
- Weather conditions in the photo not appropriate for time of year photos were supposedly taken for the appraisal
- Occupant identified as a tenant on an owner-occupied app
- Occupants are unknown or tenant
- House number in photo does not match property address
- Comparable properties are all adjusted in the same direction
- Line adjustments exceed ten percent
- Overall adjustments exceed twenty-five percent
- Erasures, white-out or strikethrough used on the form
- Zoning is not legal for a residence
- Property listed on the MLS, yet no “For Sale” sign in photos
- Old comps used in a “hot” market

Preliminary Title Report/Title Search

Title are reviewed for the following red flags:

- Prepared for/mailed to a party other than the lender or broker
- Property seller not on the title
- Property seller owned property for a short time with cash out on the sale
- Notice of Default (NOD) is recorded (possible cash-out refinance with a straw buyer)
- Delinquent property taxes

(Continued)
## Identifying Red Flags (Continued)

### Preliminary Title Report/Title Search (Continued)
- Judgment against borrower not shown on the credit report
- Modification agreement on existing loan(s) (possible re-writes due to delinquency)
- Suspicious transfers exist
- Tax or similar liens against borrower on refinances
- Buyer has pre-existing financial interest in the property
- Date and amount of existing encumbrances

### HUD1 Settlement Statement
The HUD1 is reviewed for the following red flags:
- Buyer and seller addresses inconsistent with other file documentation
- Sales price inconsistent with sales contract
- Reference to undisclosed secondary financing or double escrow
- Prorated rent on an owner-occupied transaction
- Excessive cash proceeds to the buyer
- Zero amount due to or from the buyer
- HUD1 or Escrow Instructions contain unusual credits, disbursements, related parties, and/or delinquent loans or multiple mortgages to be paid off
- Excessive fees listed
- Unexplained payoffs on seller’s HUD1 not showing on title
- Unusually long (or short) loan processing time
- Borrower’s signature inconsistent with other file documents
- Mailing address on the grant deed does not match the property address

### Homeowners Insurance
Homeowners Insurance is reviewed for the following red flags:
- Mailing address does not match subject property address
- Policy is for a manufactured home (not previously disclosed)
- Subject property in flood zone (flood insurance required)

### Lease Agreement on Subject Property
Leases are reviewed for the following red flags:
- The lease is between the borrower and a relative
- 411 search result does not match the renter name/address
- Rent amount is too high or low for the area and market
- Contradictory start/end dates on the lease
- Appraisal shows the property as vacant
### Identifying Red Flags (Continued)

#### Mortgage Payoff
Mortgage Payoffs are reviewed for the following red flags:
- Names and/or property address don’t match file documents
- Mortgage account number doesn’t match the credit report
- Next payment due shows overdue payment
- Accrued interest divided by per diem interest indicates more than 30 days (could indicated late payment)
- Escrow information shows an escrow overdraft
- There is a large prepayment penalty

#### Canceled Check Copies
Canceled checks are reviewed for the following red flags:
- Encoding numbers are missing or do not match the date and amount of the check
- Typeface is misaligned or varies
- Check numbers and dates are not in chronological sequence

#### Cash to Close
Cash to close is reviewed for the following red flags:
- Borrower has substantial cash on deposit or on hand
- Borrower has no bank account, or the bank account is new
- Escrow receipt used as verification of funds
- Down payment funds on deposit for a short period of time
- Cash in bank insufficient to close

#### Social Security Numbers (SSNs)
SSNs are reviewed for the following red flags (also refer to the following chart of valid social security number leading digits):
- Three or more leading zeros
- Zeros in positions 4 and/or 5
- Ending in four zeros
- Leading number 8 or 9 (invalid)

(Continued)
### Identifying Red Flags (Continued)

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<thead>
<tr>
<th>Leading Digits</th>
<th>Issuing State</th>
<th>Leading Digits</th>
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### Identifying Red Flags (Continued)

**Federal Employer Identification Number (EIN)**

Every business with employees on payroll must have a Federal Employer Identification Number (EIN or FEIN). The EIN is nine digits, consisting of a two-digit region identifier followed by a hyphen and seven additional digits. The employer’s state and region should match the IRS district office that issues EINs for the region. The following chart shows valid two-digit identifiers by state/district office.

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(Continued)
### Identifying Red Flags (Continued)

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<tr>
<td>WY</td>
<td>CHEYENNE</td>
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</table>
Detecting Red Flags

Consumer Credit Reports

Consumer credit reports sometimes include alerts, notifications, warnings, or other information that assist in detection of red flag issues. Following are some of the manners in which credit reports are used for red flag detection:

- A fraud or active duty alert is included
- A credit freeze notice is provided in response to a credit report request
- A notice of address discrepancy is received from the credit reporting agency
- Data on the report indicates recent activity inconsistent with the customer’s history and usual pattern of activity:
  - There has been a recent and significant increase in the number of credit inquiries
  - There have been an unusual number of recently established credit relationships
  - A material change in the use of credit, especially with respect to newly established credit relationships
  - An account that was closed for cause or identified for abuse of account privileges by a creditor

Document and Data Review

All AFN Personnel who come in contact with loan files, including but not limited to the Mortgage Loan Originator, Loan Processor, Underwriter, Doc Drawer, Funding Assistant and Funder, are trained to be aware of red flags discussed in the previous section (Identifying Red Flags). Thorough review of all documents and data submitted is an important manner in which AFN can discover, and then investigate and respond to red flags.

All file documentation will be scrutinized for the following:

- A document has the appearance of being altered, forged, or reassembled from a destroyed/discarded document.
- Personal identifying information is inconsistent with external information sources:
  - Address provided by the consumer doesn’t match any address in the consumer credit report.
  - SSN doesn’t match other resources/documentation, has not been issued, or is listed on the Social Security Administration’s Death Master File.

(Continued)
Detecting Red Flags (Continued)

Document and Data Review (Continued)

- Personal identifying information provided by the customer is inconsistent with other personal identifying information provided by the customer (i.e., there is a lack of correlation between the SSN range and the customer’s date of birth).
- Personal identifying information provided by the customer is associated with known fraudulent activity as indicated by internal or third-party source (i.e. the address or phone number is the same as that on a previous application that was found to be fraudulent).
- Personal identifying information provided by the customer is a type commonly associated with fraudulent activity:
  - The address provided is fictitious, a mail drop, or a prison; or
  - The phone number is invalid or associated with a pager or answering service.
- The SSN provided by the customer is not unique (matches a previous applicant or customer).
- The address or telephone number provided is the same as or very similar to that listed on other applications.
- The photograph or physical description on identification (ID) documentation is inconsistent with the appearance of the applicant or customer who is presenting the ID.
- Other information on an ID is inconsistent with information provided (i.e. address, date of birth).
- Other information is inconsistent with information already in the customer’s file, such as a signature or recently negotiated bank check.
- The applicant fails to provide additional personal identifying documentation required to complete the application.

FraudGUARD

All loans originated and/or funded by AFN will be uploaded to the InterThinx FraudGUARD system. This tool offers a comprehensive analysis of loan application data, which includes:

- Support and training from mortgage fraud and risk experts
- Authenticated, expert risk scoring based on rules and artificial intelligence technology
- Automated review of 100% of our loans (instead of random sampling) for fraud detection including identity, collateral risk, third parties and data integrity
- Effective detection of problematic loans

(Continued)
Detecting Red Flags (Continued)

FraudGUARD (Continued)
- Third party review services
- Reporting tool to detect trends with entities across the entire portfolio
- Statistically validated performance analytics
- Comprehensive training on a continuous basis

Fraudulent Activity After Credit Granted
Closed loans are scrutinized for the following red flag activities:
- Customer fails to make the first payment, or makes the first payment but no subsequent payments
- Nonpayment when the customer has no history of late or missed payments
- Mail sent to the customer is returned repeatedly as undeliverable

Notices Received
In some instances, a notice may be received from a party that has reason to believe there is a possible identity theft connection to an application with our institution. These notices may be received from a number of entities, including but not limited to the following:
- A customer
- A victim of identity theft
- A credit reporting agency
- Law enforcement authorities

Responding to Red Flags

Initial Response
Upon initial intake of documentation from the borrower, the Mortgage Loan Originator (MLO) is to scrutinize each document for authenticity. If any red flag warning is applicable to any document or information gathered, the MLO is to address the issues with the borrower and request verification of authenticity.

In the event a loan is submitted to loan processing, and the loan processor deems any documentation or information submitted, or any data received from a third party (such as a credit report) as suspicious, the loan processor must request verification of authenticity and/or an explanation from the borrower. All red flag issues must be noted on the file prior to submitting to underwriting.
Responding to Red Flags (Continued)

**Underwriting Response**

Upon submission to underwriting, the Underwriter must run FraudGuard to assist identification of fraud risk in mortgage applications, comply with regulations, improve application review process through greater speed and efficiency and increase loan quality.

FraudGuard variances can be cleared following investigation or correction. Comments and documentation clearing variances must be captured on each variance.

All FraudGuard variances must be cleared by underwriting prior to close. The Underwriter must document why any variances are cleared and all variances on a file must be cleared prior to docs.

If the Underwriter deems any documentation, information submitted, or data received from a third party as suspicious, the Underwriter must condition the file for explanation and/or verification of information. If the Underwriter is not satisfied with the response, he or she is to refer the file, with detailed notes regarding red flag issues, to the Underwriting Manager or the Compliance Department.

**Elevated Response**

FraudGuard variances and other non-FraudGuard related red flags that cannot be cleared or resolved must be escalated for an elevated response to the Underwriting Manager or Compliance Department for review and clearance.

If satisfactory explanation or other supporting documentation can be obtained from the borrower, the file can be returned to underwriting to be underwritten. If the red flag issues remain unresolved, the file is to be returned to underwriting to be denied due to “unverifiable information.” Files reviewed by the Underwriting Manager or Compliance Department must be logged and documented for clearance or denial.

**Management Response to FraudGuard/Red Flag Findings**

FraudGuard reports must be pulled monthly by Compliance Department staff and reviewed immediately for trends and patterns. All reports must be stored on the AFN server. The Compliance Department must review the Red Flag Training program annually and make any necessary adjustments. Any newly identified risks will be added to the training program.

FraudGuard reports must be reviewed quarterly with Senior Management and any patterns or trends notated must be presented to Senior Management and companywide training must be modified to address such patterns or trends.
Responding to Red Flags (Continued)

Mandatory Red Flag Training
All AFN personnel must complete annual mortgage fraud training within 30 days of hire and thereafter complete mandatory Red Flag Training annually to maintain employment with AFN.

Providing ID Theft Victims and Law Enforcement with Records
The Fair Credit Reporting Act (FCRA), enforced by the Federal Trade Commission (FTC), requires that, upon written request, AFN must provide copies of records related to a consumer transaction to a law enforcement entity that is authorized by a victim of identity theft. Records must be provided within thirty (30) days of receipt of any verifiable request (such as a police report and completed affidavit).

Monitoring the Program

Service Providers
It is crucial that all service providers hired by AFN, especially those conducting activities covered by the red flag rule, are in compliance with all rules and regulations. The Regulatory Compliance Officer will request and review a copy of each service provider’s fraud and identity theft policies and procedures.

Reports to Executive Management
Annually (or quarterly if deemed necessary) Regulatory Compliance Officer will compile a report to address the following key issues:

- The effectiveness of the program
- How service providers are being monitored
- Any significant incidents of identity theft and the company’s responses (if applicable)
- Recommendations for changes/improvements to the program
## PROTECTING CUSTOMER INFORMATION AND PRIVACY

### Information Security Plan

<table>
<thead>
<tr>
<th>Gramm-Leach-Bliley Act and Fair and Accurate Credit Transactions (“FACT”) Act</th>
<th>AFN’s transactions with its customers involve the collection of nonpublic personal information, including but not limited to:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Full names</td>
<td>• Income and credit histories</td>
</tr>
<tr>
<td>• Complete addresses</td>
<td>• Social security numbers</td>
</tr>
<tr>
<td>• Home, work and cell phone numbers</td>
<td>The Gramm-Leach-Bliley (GLB) Act and FACT Act are federal laws, enforced by the Federal Trade Commission (FTC), which require financial institutions collecting this type of information to take steps to ensure the security and confidentiality of the data and to take precautionary measures when disposing of any such records that are downloaded and/or printed. AFN includes these considerations in its Information Security Plan.</td>
</tr>
<tr>
<td>• Bank/Credit account statements</td>
<td></td>
</tr>
</tbody>
</table>

| Fair Credit Reporting Act (FCRA) | The Fair Credit Reporting Act (FCRA) is a federal law, enforced by the Federal Trade Commission (FTC), which regulates the collection, dissemination and use of consumer information, including consumer credit information. Per this law, AFN is required to use discretion and safety precautions when collecting, storing and using its customers’ credit information. |

| Responsible Personnel | ALL AFN employees are responsible for safeguarding our customers’ nonpublic personal and credit information in accordance with the GLB Act and FCRA. The Regulatory Compliance Officer will review and update policies and procedures as regulations necessitate. |

**Important Note:** All personnel are to become familiar with and follow AFN’s information security policies and procedures or face disciplinary action, which may include termination of employment.
Information Security Plan (Continued)

Handling Customers’ Nonpublic Personal and Credit Information

All customers’ nonpublic personal and credit information is to be collected and handled with discretion. Under no circumstances is any paper or electronic data that discloses customer nonpublic personal and/or credit information to be forwarded to any third party (unless required in the usual manner of conducting business, such as requesting a consumer credit report), discarded in any trash bin, re-used as scratch paper, used in training materials or disposed of in any manner other than discarding in an official shred. Shred bins are locked and their contents are inaccessible to any persons other than the document shredding service. Documents placed in shred bins are to be shredded by our document shredding service at regular intervals.

Physical Security

Hard copies of documents and other data containing customer information are to be handled with care and kept out of view and of any persons not directly involved in using the information in our regular course of business. It is everyone’s responsibility to ensure that loan files and other vehicles for these documents remain inaccessible to people who may enter the premises but have no business-related cause to view or handle them. This includes, but is not limited to:

- Employees whose job description does not require them to handle the information
- Couriers/Vendors
- Maintenance workers
- Any other person who may enter the premises

Electronic Security

Several proactive measures are taken to protect our customers’ information on our computer network.

**Data Server Firewall**

AFN’s computer network includes a security-enabled firewall that is designed to block unauthorized users from accessing any information stored on the network servers or workstations.

The firewall must be maintained and upgraded per the vendor’s recommendations. It must also be periodically tested for leaks and vulnerabilities and any patches or fixes for known vulnerabilities must be applied. Testing should be performed during a time when there is minimal network traffic (evening or weekend) because test scripts will sometimes tend to bog down the system.

(Continued)
Information Security Plan (Continued)

Electronic Security (Continued)

Workstation Security
Employees who view customer information through any of our software applications (and other data delivery systems) must safeguard the information, especially when leaving their workstations. It is AFN policy for all employees handle data delivery systems in the following manner:

- Secure your workstation when it is unattended (even for a restroom break, lunch break, or brief meeting)
  - Log out of systems when leaving your workstation; or
  - Lock your desktop with a secure password; and
  - Do not post your password at or around your workstation.
- Keep your access codes (i.e. user name/password) private; codes are not to be shared with any other employee, even those who have similar responsibilities within the company.
- All customer credit and nonpublic personal information is to be saved only on the network server; employees who need to save customer information have been assigned employee folders on the network server.
  - Notify your supervisor if you do not have a network folder so he or she can submit a request to the IT Dept.
  - Do not save customer information on the local drive on your workstation PC (computer desktop or C:\ drive).

Password Management
Passwords for network systems are assigned by the Information Technology (IT) Department. Passwords are delivered to individuals and are not to be shared with anyone else for any reason. Violation of this policy weakens the security of our data and overall network security; therefore, any employee who violates this policy is subject to disciplinary action.

Disposal Rule
AFN protects against unauthorized access to or use of customers’ nonpublic personal and credit information. Practices used to ensure proper disposal include, but are not limited to:

- Hard copies (printed on paper) of any such information, when no longer needed in the regular course of business, is to be placed in a shred bin for pickup by our document-shredding vendor.
- Shred bins are locked and inaccessible by any persons other than the shredding vendor, whose personnel are to remove the contents of the bin under supervision and deposit them directly in the shredder.

(Continued)
Information Security Plan (Continued)

Disposal Rule (Continued)

- Electronic copies are to be saved only on the network server, which is protected by a firewall, and only for as long as required; any hardware to be disposed of for the purpose of replacement or upgrade will first be wiped clean of any AFN business-related data.

Preventing and Detecting Security Breaches

AFN's Information Technology (IT) Department uses numerous safeguards against security breaches. These safeguards include, but are not limited to:

- Allow only one instance of user login authentication at a time to prevent sharing/misuse of employee logins/passwords.
- Assign cryptic passwords for access to network systems and third-party service providers; change any password that is suspected or known to have been shared.
- Lock out users when an incorrect password is attempted more than twice.
- Routinely upgrade firewall and other security software that detects malware, spyware and other threats to data security.
- Maintain all intrusion detection systems as recommended by the vendor(s).
- Review server logs and firewall logs for anomalies daily; these logs will provide information that can identify any network computer that has been compromised.
- Watch for unexpectedly large amounts of data being transmitted from the network and investigate to ensure the transmission is authorized.

Responding to Security Breaches

AFN's IT Department will take swift action if a security breach is detected. IT response to a security breach will include, but will not be limited to:

- Immediately disconnect a compromised workstation PC or data server from the Internet.
- Determine what information, if any, was retrieved by the intruder.
- Notify the Chief Operating Officer of the breach.

The COO or an Executive Designee will determine who to notify of the data security breach and notify any or all of the following, as deemed necessary to protect the customers whose information may have been compromised:

- Local law enforcement to file police report
- Credit reporting agencies
- Consumers

(Continued)
Responding to Security Breaches (Continued)

Credit bureaus will be notified if it is determined or suspected that consumer social security numbers have been stolen.

- Equifax – (800) 685-1111 – businessrecordsecurity@equifax.com
- Experian – (888) 397-3742 businessrecordsvictimassistance@experian.com
- Transunion – (800) 372-8391

Individual consumers will be notified of the incident by mail. The notification letter will include the following information:

- A description of the information compromise and how AFN is responding to it
- Recommendation that consumers contact a credit bureau to request that a fraud alert be placed on their credit report (and include contact numbers for all three bureaus)
- The Federal Trade Commission’s website, indicating that is where individuals can find helpful identity theft prevention information (www.ftc.gov/idtheft)
- AFN’s police case number and law enforcement officer assigned to the case
- Recommendation that they contact the FTC if they discover their information is misused (877-438-4338)

Employee Screening and Training

To ensure employees respect and protect sensitive data, AFN will:

- Check references and backgrounds of employees who will have access to our customers’ nonpublic personal and credit information.
- Require all employees to sign a confidentiality and security standards agreement prior to having access to sensitive data.
- Limit access to customers’ nonpublic personal and credit information to those employees who need it in the normal course of their job description.
- Suspend access to the AFN network and any third-party resources from which sensitive data may be obtained when an employee is on vacation or on an extended leave of absence.
- Terminate employee access to the AFN network and any third-party resources from which sensitive data may be obtained immediately upon termination of the employee.
- Train employees not to give sensitive information out over the phone or via e-mail to an unknown source.
- Take disciplinary action, which may include termination of employment, for violation of AFN’s Information Security Plan.
Consumer Complaint Policy

Introduction
American Financial Network, Inc. ("AFN") requires all branches to respond to customer complaints swiftly. It is the policy of AFN that ALL customer complaints be memorialized in writing on the AFN Internal Consumer Complaint Form and promptly submitted to the Compliance Officer for review and retention. The responsibility of monitoring and responding to complaints is delegated to the Branch Manager of each AFN Branch location. The Compliance Officer will keep a central file of all complaints and responses and the Board of Directors will review new complaints and responses at least quarterly.

Purpose
The purpose of this written policy is to standardize a process for receiving and addressing consumer complaints to ensure that any instances or poor service or non-compliance do not go undiscovered, and are instead addressed in accordance with AFN's internal policy. By standardizing the process for logging and resolving consumer complaints, our aim is for consumers to provide AFN with sufficient information to understand the nature and scope of the complaint so any required process improvements can be made.

Report to Corporate Guidelines
When a complaint is received, set a single point of contact for the consumer. The Branch Manager is to report the complaint, presenting all facts and information in an objective manner. Use the AFN Internal Use Consumer Complaint Form to report the following:

- Complainant’s name and contact information
- Employee name(s), if complaint about a specific employee, and employee licensing information
- Summary of the complaint, including a chronology of relevant facts and dates
  - Detail the precise claims of the customer
  - Express resolution desired by customer
- Any documentation that supports or explains the complaint
- What steps, if any, have been taken to resolve the complaint
- Branch Manager’s recommended course of action or corrective procedures
- Indicate whether the complaint arose from an isolated incident or if there is a pattern or practice that needs to be corrected
- Deliver the completed form and any documentation to the Chief Compliance Officer, Andy Kalyviaris (andy@afncorp.com)
Consumer Complaint Policy (Continued)

Response Guidelines

Unless otherwise prescribed by regulation, following is AFN’s policy for responding to complaints.

- Acknowledge each consumer complaint within ten (10) business days of receipt of the initial complaint [whether the complaint was received orally (in person), via telephone, electronically (e.g. via email or social media), or through written correspondence].
- Answer inquiries, comments or objections within fifteen (15) business days of receipt.
- Ensure all complaints are fully processed and responded to within twenty (20) business days of receipt.
- Maintain a log of consumer complaints that includes details of whether/how the complaint was resolved.

Recordkeeping

The Chief Compliance Officer will maintain a consumer complaint file that consists of all documentation regarding consumer complaints for five (5) years from the date of the initial written or oral notification of each complaint.

The complaint file will contain:

- **AFN Internal Use Consumer Complaint Form**
- All correspondence with (to and from) the consumer
- All documentation used in the investigation of the complaint
THIRD PARTY ORIGINATORS (TPOs)

TPO Application Submission

**Complete TPO Application Package**

Any Third Party Originator (TPO) seeking approval to do business with AFN must submit a complete application package containing the following documentation:

- Completed TPO Application
- Copy of broker’s BRE license
- Copy of Quality Control Policies and Procedures
- BRE and MLO Endorsement
- Financial Statements
  - Financial statement for the immediate prior fiscal year
  - Most recent quarter’s financial statement
- If Corporation, copy of Articles of Incorporation
- If Corporation, copy of Corporate Resolution authorizing the corporation to do business with AFN
- References – a minimum of three (3) lenders to which loans are currently being submitted
- Résumés for the principals, processors and underwriters

**TPO Application Review**

**Application Package**

Only complete application packages will be considered. The TPO candidate must submit all items requested in the “Complete TPO Application Package” section.

**References**

References will be contacted by letter or telephone. In addition to completing the reference questionnaire, the referring lender must provide, and AFN must verify, the company address, phone number, and authority of the person providing the information.

**Screening of Principals and Officers**

AFN will utilize investigative resources, including but not limited to the following, to screen TPO principals and key personnel:

- CAIVRS/MARI Systems
- HUD GSA/LDP Lists
- FHLMC Exclusionary List
- Fraud Guard
- Credit Bureaus
- Department of Business Oversight/Bureau of Real Estate

*(Continued)*
## TPO Application Review (Continued)

### Screening of Principals and Officers (Continued)

For screening purposes, a principal owner is any person or entity meeting the following thresholds:

- Publicly traded corporation: 10% ownership or more;
- Private/Closed corporation: 25% ownership or more;
- Limited Liability Company: All members.

### Findings Report

Upon completion of the TPO Application Review, the reviewer must compile a findings report for Senior Management. The report must categorize the TPO candidate’s application package with one of the following statuses:

**Approved**
This TPO candidate’s application package has been approved. AFN can proceed with acceptance of loan packages.

**Conditional Approval**
If the TPO candidate meets the listed conditions, the application package will be approved. All loans received from this TPO must be re-verified prior to funding until all TPO Conditional Approval conditions have been satisfied. If conditions not met within specified timeframe, TPO to be declined and notified and any loan packages received are to be returned to the TPO.

**Declined**
The TPO candidate’s application was denied due to (the report should state the reason or reasons)

- Insufficient net worth
- Insufficient experience
- Negative reference report
- Knowledge of inappropriate or unacceptable activity

**Suspense**
Insufficient information was provided to make a prudent decision; the application is in suspense pending receipt of additional information. Loans received from this TPO should not be funded until this status changes to Approved or Conditional Approval.
TPO Approval Authority

**Senior Management**
TPO approval can only be awarded by the President, COO, or EVP of Operations or their Senior Management designee. It is inappropriate for individuals involved in loan production or personnel whose compensation is fully or partially based on production to have approval authority.

**Application Findings Report Review**
The TPO master file—including the application, required documentation and the reviewer’s findings report—will be scrutinized by the President, COO, or EVP of Operations or their Senior Management designee. Any adverse comments or findings will be investigated. The decision to approve or decline will be signed and dated and then submitted to the Regulatory Compliance Officer along with the TPO master file.

TPO Status Notification

**TPO Status Letter**
The Regulatory Compliance Officer, or his Senior Management designee, shall notify the TPO in writing of the status of its application. Inform the TPO regarding AFN’s plan for the TPO’s loans, according to the findings report.

**Internal Status Notification**
Notify AFN personnel of any approved TPO and update software systems so loans received from the TPO can be funded. Keep an updated log (spreadsheet) of all TPO applicants and the findings report, whether approved or not. This TPO Audit Log must include the date approved, the TPO broker’s license number and the date it expires.

**TPO File**
A master file will be kept for each TPO in which the full application package, findings report, TPO Agreement and Addenda will be retained. Records of any negative incidents will also be retained in the TPO file. The TPO’s approval status must be withdrawn if non-compliant files are habitually submitted to AFN.
## TPO Agreement and Attachments

<table>
<thead>
<tr>
<th>TPO Agreement</th>
<th>The TPO Agreement must be signed by the President or COO of the corporation or the Broker of Record. It will be retained in the TPO master file.</th>
</tr>
</thead>
<tbody>
<tr>
<td>FHA/VA Addendum</td>
<td>If the TPO will submit FHA and/or VA loans to AFN, the FHA Addendum must be signed by the President or COO of the corporation or the Broker of Record. It will be retained in the TPO master file.</td>
</tr>
<tr>
<td>Zero Fraud Tolerance Statement</td>
<td>AFN maintains a zero tolerance policy for loan fraud committed by any party to a transaction. The Zero Fraud Tolerance Statement must be signed by the President or COO of the corporation or the Broker of Record, and by all loan originators who will originate loans submitted to AFN. The signed and dated statements will be retained in the TPO master file.</td>
</tr>
<tr>
<td>Anti-predatory Lending Statement</td>
<td>AFN maintains a zero tolerance policy for predatory lending practices conducted by any party to a transaction. The Anti-predatory Lending Statement must be signed by the President or COO of the corporation or the Broker of Record, and by all loan originators who will originate loans submitted to AFN. The signed and dated statements will be retained in the TPO master file.</td>
</tr>
<tr>
<td>IRS Form W9</td>
<td>A completed IRS Form W9 form must be obtained from the TPO and retained in the TPO master file.</td>
</tr>
<tr>
<td>Taxpayer Identification Number and NMLS Unique Identifiers</td>
<td>TPOs must provide their Taxpayer Identification Number and the names and NMLS IDs of all mortgage loan originators who will submit loan applications to AFN. This information will be used on the HUD 92900A and on the Sponsored Originator Maintenance screen of The FHA Connection.</td>
</tr>
<tr>
<td>Loan Originators as W2 Employees</td>
<td>AFN requires that any mortgage loan originator submitting loans from a Third Party Originator is a W2 employee (not a salesperson classified as a 1099 independent contractor) of the TPO.</td>
</tr>
</tbody>
</table>
Annual TPO Re-certification

Re-certification Schedule

Renewal Eligibility

All Approved TPOs will be re-certified annually and/or prior to expiration of their broker’s license.

Brokers who have delivered six (6) or more loans over the 12-month period prior to re-certification are eligible for renewal. Brokers who have delivered five (5) or fewer loans over the 12-month period prior to re-certification must confirm their intent to maintain a broker/lender relationship with AFN.

Any broker that does not respond will be removed from the approved list and canceled; a cancellation notification will be mailed to the broker and no more loans will be accepted.

Approval Renewal Process

Brokers who have submitted at least six (6) files over the prior 12-month period (or those who submitted fewer but wish to continue the broker/lender relationship) and who have no adverse/negative events in their file will receive a renewal letter from AFN requesting the following:

- Current financial statements
  - Financial statement for the immediate prior fiscal year
  - Most recent quarter’s financial statement
- Copy of current broker license/broker of record license
- Résumés for any new principals, processors and underwriters

A review of the information received will be conducted, similar to new application approvals, and a recommendation given to the Regulatory Compliance Officer. A renewal status letter will be mailed to the broker/TPO.

Brokers who are up for renewal but have adverse actions in their files will receive a renewal letter requesting items noted above, plus they will be notified of the following extra renewal requirements:

- The next five loan packages received from them will undergo a Post-closing Quality Control Audit
- A Senior AFN Executive will visit their location
- If serious violations are found, they may be ineligible for renewal

Approval Reinstatement

Brokers removed from the Approved list due to inactivity may request reinstatement, which is only granted with submission of a new complete application package (same as a new applicant).
### TPO Management and Monitoring

<table>
<thead>
<tr>
<th>Quality Control File Reviews</th>
<th>50% of a newly approved TPO’s loans are pulled for a post-closing file audit for the first 90 days after approval. 75% of all loans submitted must be successfully closed through AFN.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early Payment Defaults</td>
<td>Upon discovery of an early payment default (EPD) and/or upon receipt of a repurchase request for a loan submitted by a TPO, the loan will be audited. EPD for this purpose is defined as a loan that becomes 60 days past due within the first six months. The TPO will be put on AFN’s Watch List, or discharged if the file audit reveals fraud or violation of predatory lending laws.</td>
</tr>
<tr>
<td>Performance Monitoring</td>
<td>AFN will monitor the TPO’s pull-through rate of “Underwriting Received” to “Funded” and also “Locked” to “Funded.” AFN will also track the number of conditions per loan, and the number of approvals vs. suspenses vs. denials.</td>
</tr>
<tr>
<td>Management Meetings</td>
<td>AFN will hold at least one meeting per month to review performance-monitoring reports and identify any problem areas.</td>
</tr>
<tr>
<td>TPO Meetings</td>
<td>AFN will communicate with the TPO on a regular basis to discuss various performance issues.</td>
</tr>
<tr>
<td>Poor Performance</td>
<td>Upon discovery of fraud, discrimination or other activities that adversely affect the quality of AFN’s loan pipeline, AFN will:</td>
</tr>
<tr>
<td></td>
<td>• Notify the BRE or DBO (according to the TPO’s license)</td>
</tr>
<tr>
<td></td>
<td>• Use the MARI online “Incident Reporting System”</td>
</tr>
<tr>
<td></td>
<td>• Consult legal counsel to determine whether a criminal suit can be filed against the TPO</td>
</tr>
<tr>
<td>TPO Advertising</td>
<td>AFN prohibits TPO from using official FHA-approved Lending Institution logo on any advertising unless TPO is an FHA-approved mortgagee., and requires TPO to include Name, NMLS ID, location and contact information on all advertising to consumers.</td>
</tr>
<tr>
<td></td>
<td>AFN prohibits TPO from advertising in a manner that falsely represents or creates an impression that TPO is acting on behalf, or at the direction, of HUD, FHA, the U.S. government, or any federal, state, or local government agency.</td>
</tr>
<tr>
<td></td>
<td>TPO must display Fair Housing posters at home location and all branch locations dealing with borrowers and the general public.</td>
</tr>
<tr>
<td>TPO Closing Mortgages In Its Own Name</td>
<td>If TPO is an FHA-approved lender, AFN may permit TPO to purchase/hold FHA-insured mortgages in its own name.</td>
</tr>
</tbody>
</table>
Mini-Correspondent Division (Mini-Corr)

Mini-Corr Application Submission

Complete Mini-Corr Application Package

Any Lender seeking approval to do correspondent business with AFN must submit a complete application package containing the following documentation:

- Completed Mini-Corr Application
- Copy of Mini-Corr State License
- Copy of Quality Control Policies and Procedures
- Mini-Corr and MLO Endorsement
- Financial Statements
  - Financial statement for the immediate prior fiscal year
  - Most recent quarter’s financial statement
- If Corporation, copy of Articles of Incorporation
- If Corporation, copy of Corporate Resolution authorizing the corporation to do business with AFN
- References – a minimum of three (3) lenders to which loans are currently being submitted
- Limited Power of Attorney
- Résumés for the principals, processors and underwriters
- Warehouse Bank Line Reference
- Mini-Corr Organizational Chart
- Copy of Warehouse Approvals
- Warehouse Facility Form and Wire Authorization Instructions
- Audited, reviewed or compiled financial statements (if available)
- Evidence of $300,000 Errors and Omissions Insurance and Fidelity Bond Coverage with AFN named as Loss Payee with maximum deductible of $50,000
- Evidence of Minimum Net Worth of $100,000
- Evidence of Minimum of five years’ experience in mortgage lending
- Authorization to run credit of all owners
- Investor Scorecards
- AIR Policies and Procedures
## Mini-C Application Review

<table>
<thead>
<tr>
<th>Application Package</th>
<th>Only complete application packages will be considered. The Mini-Correspondent candidate must submit all items requested in the “Complete Mini-C Application Package” section.</th>
</tr>
</thead>
<tbody>
<tr>
<td>References</td>
<td>References will be contacted by letter or telephone. In addition to completing the referenced questionnaire, the referring lender must provide, and AFN must verify, the company address, phone number, and authority of the person providing the information.</td>
</tr>
</tbody>
</table>
| Screening of Principals and Officers | AFN will utilize investigative resources, including but not limited to the following, to screen Mini-C principals and key personnel:  
   - CAIVRS/MARI Systems  
   - HUD GSA/LDP Lists  
   - FHLMC Exclusionary List  
   - Fraud Guard  
   - Credit Bureaus  
   - Appropriate State Licensing Agency |
| Findings Report     | Upon completion of the Mini-Corr Application Review, the reviewer must compile a findings report for Senior Management. The report must categorize the Mini-Corr candidate’s application package with one of the following statuses:  
   **Approved**  
   This Mini-Corr candidate’s application package has been approved. AFN can proceed with acceptance of loan packages.  
   **Conditional Approval**  
   If the Mini-Corr candidate meets the listed conditions, the application package will be approved. All loans received from this Mini-Corr must be re-verified prior to funding until all Mini-Corr Conditional Approval conditions have been satisfied. If conditions not met within specified timeframe, Mini-Corr to be declined and notified and any loan packages received are to be returned to the Mini-Corr.  
   **Declined**  
   The Mini-Corr candidate’s application was denied due to (the report should state the reason or reasons)  
   - Insufficient net worth  
   - Insufficient experience  
   - Negative reference report  
   - Knowledge of inappropriate or unacceptable activity |

(Continued)
### Mini-Corr Application Review (Continued)

<table>
<thead>
<tr>
<th>Findings Report (Continued)</th>
<th><strong>Suspense</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Insufficient information was provided to make a prudent decision; the application is in suspense pending receipt of additional information. Loans received from this Mini-Corr should not be funded until this status changes to Approved or Conditional Approval.</td>
</tr>
</tbody>
</table>

### Mini-Corr Approval Authority

<table>
<thead>
<tr>
<th>Senior Management</th>
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<tbody>
<tr>
<td>Mini-Corr approval can only be awarded by the President, COO, or EVP of Operations or their Senior Management designee. It is against AFN corporate policy for individuals involved in loan production or personnel whose compensation is fully or partially based on production to have approval authority.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Application Findings Report Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Mini-Corr master file—including the application, required documentation and the reviewer’s findings report—will be scrutinized by the President, COO, or EVP of Operations or their Senior Management designee. Any adverse comments or findings will be investigated. The decision to approve or decline will be signed and dated and then submitted to the Regulatory Compliance Officer along with the Mini-Corr master file.</td>
</tr>
</tbody>
</table>

### Mini-Corr Status Notification

<table>
<thead>
<tr>
<th>Mini-Corr Status Letter</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Regulatory Compliance Officer, or his Senior Management designee, shall notify the Mini-Corr in writing of the status of its application. Inform the Mini-Corr regarding AFN’s plan for the Mini-Corr’s loans, according to the findings report.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Internal Status Notification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notify AFN personnel of any approved Mini-Corr and update software systems so loans received from the Mini-Corr can be funded. Keep an updated log (spreadsheet) of all Mini-Corr applicants and the findings report, whether approved or not. This Mini-Corr Audit Log must include the date approved, the Mini-Corr’s license number and the date it expires.</td>
</tr>
</tbody>
</table>
Mini-Corr Status Notification (Continued)

Mini-Corr File

A master file will be kept for each Mini-Corr in which the full application package, findings report, Mini-Corr Agreement and Addenda will be retained. Records of any negative incidents will also be retained in the Mini-Corr file. The Mini-Corr’s approval status must be withdrawn if non-compliant files are habitually submitted to AFN.

Mini-Corr Agreement and Attachments

<table>
<thead>
<tr>
<th>Mini-Corr Agreement</th>
<th>The Mini-Corr Agreement must be signed by the President or COO of the corporation or the Lender of Record. It will be retained in the Mini-Corr master file.</th>
</tr>
</thead>
<tbody>
<tr>
<td>FHA/VA Addendum</td>
<td>If the Mini-Corr will submit FHA and/or VA loans to AFN, the FHA Addendum must be signed by the President or COO of the corporation or the Lender of Record. It will be retained in the Mini-Corr master file.</td>
</tr>
<tr>
<td>Zero Fraud Tolerance Statement</td>
<td>AFN maintains a zero tolerance policy for loan fraud committed by any party to a transaction. The Zero Fraud Tolerance Statement must be signed by the President or COO of the corporation or the Lender of Record, and by all loan originators who will originate loans submitted to AFN. The signed and dated statements will be retained in the Mini-Corr master file.</td>
</tr>
<tr>
<td>Anti-predatory Lending Statement</td>
<td>AFN maintains a zero tolerance policy for predatory lending practices conducted by any party to a transaction. The Anti-predatory Lending Statement must be signed by the President or COO of the corporation or the Lender of Record, and by all loan originators who will originate loans submitted to AFN. The signed and dated statements will be retained in the Mini-Corr master file.</td>
</tr>
<tr>
<td>IRS Form W9</td>
<td>A completed IRS Form W9 form must be obtained from the Mini-Corr and retained in the Mini-Corr master file.</td>
</tr>
<tr>
<td>Taxpayer Identification Number and NMLS Unique Identifiers</td>
<td>Mini-Cors must provide their Taxpayer Identification Number and the names and NMLS IDs of all mortgage loan originators who will submit loan applications to AFN. This information will be used on the HUD 92900A and on the Sponsored Originator Maintenance screen of The FHA Connection.</td>
</tr>
</tbody>
</table>

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Mini-Corr Agreement and Attachments (Continued)

<table>
<thead>
<tr>
<th>Loan Originators as W2 Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFN requires that any mortgage loan originator submitting loans from a Third Party Originator is a W2 employee (not a salesperson classified as a 1099 independent contractor) of the Mini-Corr.</td>
</tr>
</tbody>
</table>

Annual Mini-Corr Re-certification

<table>
<thead>
<tr>
<th>Re-certification Schedule</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Approved Mini-Correspondents will be re-certified annually and/or prior to expiration of their license.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Renewal Eligibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lenders who have delivered six (6) or more loans over the 12-month period prior to re-certification are eligible for renewal. Lenders who have delivered five (5) or fewer loans over the 12-month period prior to re-certification must confirm their intent to maintain a Mini-Correspondent relationship with AFN. Any lender that does not respond will be removed from the approved list and canceled; a cancellation notification will be mailed to the lender and no more loans will be accepted.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Approval Renewal Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lenders who have submitted at least six (6) files over the prior 12-month period (or those who submitted fewer but wish to continue the Mini-Corr relationship) and who have no adverse/negative events in their file will receive a renewal letter from AFN requesting the following:</td>
</tr>
<tr>
<td>• Current financial statements</td>
</tr>
<tr>
<td>o Financial statement for the immediate prior fiscal year</td>
</tr>
<tr>
<td>o Most recent quarter’s financial statement</td>
</tr>
<tr>
<td>• Copy of current lender license/broker of record license</td>
</tr>
<tr>
<td>• Résumés for any new principals, processors and underwriters</td>
</tr>
<tr>
<td>A review of the information received will be conducted, similar to new application approvals, and a recommendation given to the Regulatory Compliance Officer. A renewal status letter will be mailed to the Mini-Correspondent.</td>
</tr>
</tbody>
</table>

(Continued)
Annual Mini-Corr Re-certification (Continued)

Approval Renewal Process (Continued)

Lenders who are up for renewal but have adverse actions in their files will receive a renewal letter requesting items noted above, plus they will be notified of the following extra renewal requirements:

- The next five loan packages received from them will undergo a Post-closing Quality Control Audit
- A Senior AFN Executive will visit their location

If serious violations are found, the Mini-Corr may be ineligible for renewal

Approval Reinstatement

Lenders removed from the Approved list due to inactivity may request reinstatement, which is only granted with submission of a new complete application package (same as a new applicant).

Mini-Corr Management and Monitoring

Quality Control File Reviews

100% of a newly approved Mini-Corr’s loans are pulled for a post-closing file audit for the first 90 days after approval. 75% of all loans submitted must be successfully purchased by AFN.

Early Payment Defaults

Upon discovery of an early payment default (EPD) and/or upon receipt of a repurchase request for a loan submitted by a Mini-Corr, the loan will be audited. EPD for this purpose is defined as a loan that becomes 60 days past due within the first six months. The Mini-Corr will be put on AFN’s Watch List, or discharged if the file audit reveals fraud or violation of predatory lending laws.

Performance Monitoring

AFN will monitor the Mini-Corr’s pull-through rate of “Underwriting Received” to “Purchased.” AFN will also track the number of conditions per loan, and the number of approvals vs. suspenses vs. denials.

AFN Approved Fulfillment Companies

Mini-Correspondents must use AFN approved fulfillment companies for all loans submitted to AFN for purchase. Use of a non-AFN approved fulfillment company may be the basis for non-purchase or repurchase demand.

Management Meetings

AFN will hold at least one meeting per month to review performance-monitoring reports and identify any problem areas.
Mini-Corr Management and Monitoring (Continued)

Mini-Corr Meetings
AFN will communicate with the Mini-Corr on a regular basis to discuss various performance issues.

Poor Performance
Upon discovery of fraud, discrimination or other activities that adversely affect the quality of AFN’s loan pipeline, AFN will:

- Notify the appropriate state licensing agency (according to the Mini-Corr’s license)
- Use the MARI online “Incident Reporting System”
- Consult legal counsel to determine whether a criminal suit can be filed against the Mini-Corr
- Cancel Mini-Corr Approval as to future loans
## ANTI-STEERING AND LOAN OFFICER COMPENSATION

### About the Anti-steering & LO Comp Policy

**Disclaimer**
American Financial Network, Inc. (AFN) is a creditor by definition under Regulation Z. Upon brokering any loans to another lender, all broker-oriented compensation and anti-steering policies must be followed as if acting as a Broker.

**Introduction**
Regulation Z [12 CFR 226.36(d)] requires AFN to refrain from paying our loan originators based on the terms and conditions of individual loans, except for the amount of the loan.

Regulation Z also requires that originators do not steer consumers toward loans with adverse terms and conditions based on the compensation the LO will be paid.

### Key Definitions

#### Loan Originator
A loan originator (LO) is a person or entity who, for compensation or other monetary gain, arranges, negotiates, or otherwise obtains an extension of consumer credit for another person. The term loan originator includes our employees, mortgage brokers and mortgage broker companies or any other creditor (including our bank) that does not provide the funds for the transaction at consummation using our own resources.

#### Managers and Administrative Staff
Managers, administrative staff, and similar individuals who are employed by a creditor or loan originator but do not arrange, negotiate, or otherwise obtain an extension of credit for a consumer, and whose compensation is not based on whether any particular loan is originated, are not loan originators.

#### Compensation
In general, the term “compensation” includes salaries, commissions, and any financial or similar incentive provided to a loan originator that is based on any of the terms or conditions of the loan originator’s transactions.

For example, the term compensation includes:
- An annual or other periodic bonus; or
- Awards of merchandise, services, trips or similar prizes

*(Continued)*
Compensation (Continued) Compensation includes amounts the LO retains and is not dependent on the label or name of any fee imposed in connection with the transaction. Compensation also includes amounts the LO retains, but does not include amounts the originator receives as payment for bona fide and reasonable third-party charges, such as title insurance or appraisals. In some cases, amounts received for payment of third-party charges may exceed the actual charge because, for example, the originator cannot determine with accuracy what the actual charge will be before consummation. In such cases, the difference retained by the originator is not deemed compensation if the third-party charge imposed on the consumer was bona fide and reasonable, and also complies with state and other applicable laws.

Compensation Based on Transaction Terms or Conditions Regulation Z ("the rule") prohibits compensation to a loan originator (LO) for a transaction based on that transaction’s interest rate, annual percentage rate, loan-to-value ratio or the existence of a prepayment penalty. The rule also prohibits compensation based on a factor that is a proxy for a transaction’s terms or conditions.

Following are examples of compensation factors that are not based on the transaction terms or conditions.

- The LO’s overall loan volume (i.e. total dollar amount of credit extended or total number of loans originated) delivered to the creditor
- The long-term performance of the LO’s loans
- An hourly rate of pay to compensate the LO for the actual number of hours worked
- Whether the consumer is an existing or a new customer
- A payment that is fixed in advance for every loan the LO arranges for the creditor (i.e. $600 for each loan arranged for the creditor, or $500 for each of the first 500 loans arranged and $1,000 for each additional loan)
- The percentage of applications submitted by the LO to the creditor that results in consummated transactions
- The quality of the LO’s loan files (i.e. accuracy and completeness of the loan documentation)
- A legitimate business expense, such as fixed overhead costs
- Compensation that is based on the amount of credit extended (the loan amount)
<table>
<thead>
<tr>
<th>Compliance</th>
<th>This policy is adopted and enforced to ensure compliance with 12 CFR 226.36(a)(d), commonly referred to as Regulation Z.</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFN’s LO Comp Rules</td>
<td>AFN will not pay LOs based on the terms and conditions for the loan, except for the amount of credit extended (the loan amount).</td>
</tr>
<tr>
<td></td>
<td>AFN will not pay LOs based on the borrower’s credit score, interest rate, annual percentage rate (APR), loan-to-value ratio (LTV), debt-to-income ratio (DTI), or whether or not the loan has a prepayment penalty (AFN does not fund loans with a prepayment penalty).</td>
</tr>
<tr>
<td></td>
<td>AFN will not pay yield spread premiums (YSPs) to LOs, although we may continue to pay and receive creditor to creditor YSPs or servicing release premiums on secondary market transactions as long as the LO is not paid in this manner.</td>
</tr>
<tr>
<td></td>
<td>AFN will not pay LOs based on any basis that may be construed as a proxy for terms and conditions, including but not limited to:</td>
</tr>
<tr>
<td></td>
<td>• AFN/Branch overall profits (when calculated using mortgage loan profits)</td>
</tr>
<tr>
<td></td>
<td>• Borrower credit score</td>
</tr>
<tr>
<td></td>
<td>• Loan type (i.e. Conventional, FHA, VA) when terms and conditions vary</td>
</tr>
<tr>
<td>Borrower Paid Compensation</td>
<td>When loan compensation is paid directly by the consumer, no other person—including our affiliates or any other creditor—may be paid for the origination of that loan. This rule does not apply to payments received by AFN when selling the loan to a secondary market investor.</td>
</tr>
</tbody>
</table>
Anti-steering Policy

**General Rule**
Loan Originators (LOs) are prohibited from steering consumers to a particular loan in order to increase their compensation. LOs may enjoy a safe harbor if they present loans to consumers that include the following features for all types of transactions in which the consumer expresses an interest. AFN LOs must present loans that have:

- The lowest interest rate for which the consumer qualifies;
- The lowest points and origination fees; and
- 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.

LOs may present up to three, but no more than four loans per type of transaction. Type of transaction means fixed rate loans, variable rate loans, and/or reverse mortgages.

**Steering**
Under Regulation Z [12 CFR 226.36(e)], directing or “steering” a consumer to consummate a particular credit transaction means advising, counseling, or otherwise influencing a consumer to accept that transaction. For such actions to constitute steering, the consumer must actually consummate the transaction in question. Thus, the rule does not address the actions of the LO if the consumer does not actually obtain a loan through that LO.

A transaction that is in the best interest of the consumer is one for which they are likely to qualify, at the time the loan is offered. AFN LOs must make offers of loans that are available from our investors with whom we regularly conduct business. We are not required to establish more business relationships simply to offer a greater variety of loans.

LOs are not required to direct consumers to the transaction that will pay the LO the least compensation; however, doing so will be in compliance with this section of the regulation. There is no required format for presenting offers. AFN may use our own form or one that is provided by a loan document vendor as long as it is easily understood by the consumer and meets the requirements previously noted (under “General Rule”).
Recordkeeping

Broker and LO Comp Records

AFN will keep records of compensation paid to LOs and Brokers, including any compensation AFN receives as a Broker in the secondary market, for a minimum of three years after the date the loan closes.

AFN will retain a copy of the compensation agreement in effect on the date the interest rate was set for the transaction (in the case of a Broker).

AFN will obtain and maintain the disclosure of compensation or Broker Agreement required by our state law for all mortgage loan Brokers who refer loans to us that qualify as a mortgage loan under Regulation Z.

Training

Anti-steering Rules

All lending staff, including managers, will be trained regarding anti-steering and LO comp rules as part of their compliance training.
## MERS QA Plan and Standards

### Processing Standards

**Requirements**

American Financial Network, Inc. ("AFN") agrees to perform the following tasks to remain compliant with MERSCORP, Inc. ("MERSCORP") processing standards:

- Properly prepare and record security instruments or assignments naming Mortgage Electronic Registrations Systems, Inc. ("MERS") as the mortgagee.
- Only Signing Officers appointed under corporate resolution, tested and transitioned onto Corporate Resolution Management System ("CRMS") after November 1, 2010 may execute documents in MERS name.
- Register loans in a timely manner on the MERS System.
- Update beneficial (investor) and servicing rights on the MERS System in a timely manner, as changes in ownership occur.
- Remove MERS as mortgagee of record from the county land records via a recorded assignment from MERS in a timely manner, in the event a loan is sold to a non-member entity or foreclosed in the name of the servicer or other entity.
- Ensure data integrity when information is entered into the MERS System.
- Properly prepare and record other documents required for life of lien events (i.e. Assumptions, Modifications for CEMA or construction loans, Subordination Agreements, etc.).
- Update MIN status on the MERS System in a timely manner for life of lien events, including payoff, assumption, foreclosure or transfer to a non-MERS member.
- Record lien releases for paid-in-full loans in a timely manner.

**MERS as Original Mortgagee (MOM)**

AFN must name MERS as mortgagee in accordance with investor guidelines and ensure the following guidelines are also followed:

- Include the Servicer Identification System ("SIS") telephone number [(888) 679-6377] in the MERS as Mortgagee language.
- Place the MERS Mortgage Identification Number ("MIN") in a visible location on the first page of the security instrument, but not in any space reserved for the jurisdiction's recorder per jurisdictional requirements (in all cases, county recorder requirements take precedence over MERS requirements).
MERS Processing Standards (Continued)

MERS as Original Mortgagee (MOM) (Continued)

- Execute and record the security instrument with in state requirements and investor guidelines. Important Note: If the jurisdiction does not require recording, the security instrument must still be recorded in the county land records according to the MERS Rules of Membership.
- Register all originations with a MOM security instrument on the MERS System in a timely manner.
  - If a loan with a MOM security instrument is purchased before it is registered, the buyer must ensure the loan is registered on the MERS System in a timely manner.
  - If a loan is registered but does not close, and the security instrument is not recorded in the county land records, reverse the registration on the MERS System in a timely manner.

Non-MOM

AFN must name MERS as mortgagee in accordance with investor guidelines and ensure the following guidelines are also followed:

- Place the MERS Mortgage Identification Number ("MIN") and Servicer Identification System ("SIS") telephone number [(888) 679-6377] in a visible location on the first page of the security instrument, but not in any space reserved for the jurisdiction’s recorder per jurisdictional requirements (in all cases, county recorder requirements take precedence over MERS requirements).
- Ensure MERS is named as Assignee in the county land records in accordance with MERS document standards.
- Register (or convert from iRegistration to Non-MOM) the loan to be assigned to MERS on the MERS System in a timely manner. The effective transfer date is the date defined in the Purchase and Sale Agreement on which the buyer begins servicing the loans on its servicing system, OR, for loans assigned to MERS by the originator or purchaser, the assignment date.
  - If the loan is registered but does not close, or is never assigned to MERS, and no document reflecting MERS has ever been recorded in the land records, reverse the registration on the MERS System in a timely manner.

iRegistration

When using iRegistration, AFN must:

- Ensure MERS is not the current mortgagee or assignee.
- If MERS is the original mortgagee on the security instrument, ensure an assignment out of MERS has been recorded.
Additional MERS Standards

Data Integrity

These standards apply to data on the internal system of AFN and/or a sub-servicer if one is named on the MERS System. Upon registering a loan on the MERS System, a three-way validation must occur between the information on the loan documents (recorded security instrument and note for borrower information), the MERS System, and AFN’s LOS (“Encompass”).

The following data must match exactly in Encompass and the MERS System:

- Loan status
- Borrower name(s), including middle name or initial
- For assumed loans, the current borrower name(s)
- All borrower social security numbers (or tax identification numbers)
- Subject property address
- Property county (or FIPS code)
- Note date and note amount
- Lien type
- Occupancy (required field as of February 27, 2012)
- MOM indicator
- “MOM” for loans with MERS as Original Mortgagee that have never been assigned out of MERS
- “Non-MOM” for loans assigned into MERS
- “iRegistration” for loans on which MERS is not the mortgagee
- Investor name/ID
- If the investor is neither an Option 1 or Option 2 Member Investor, identify the non-Member investor by using Org ID 1000002 (Undisclosed Investor); however, you must disclose the investor’s name to MERSCORP
- Servicer and/or Subservicer name/ID
- MERS Originator ID
- Investor loan number and agency ID
- FHA/VA Case numbers (as applicable)
- When the investor field contains a securitization trustee, AFN must populate the Pool field for Agency securitizations only and populate the Securitization Name field otherwise (required fields as of February 27, 2012):
  - Investor Pool Number or Trust Name in Pool Number field
  - Securitization Name

(Continued)
Additional MERS Standards (Continued)

Data Integrity (Continued)
The seller must initiate all “Transfer of Beneficial Rights” transactions within the required timeframe of the effective date of transfer.

The seller must initiate all “Transfer of Servicing Rights” transactions within the required timeframe of the effective transfer date. The effective transfer date is the date defined on the Purchase and Sale Agreement on which the buyer begins servicing the loans on its servicing system. Both the buyer and seller are responsible to MERS for ensuring that transfers are completed in a timely manner.

Deactivation
The following standards must be applied to deactivations:

• If performed in error, reverse the deactivation on the MERS System within the required timeframe of discovering the error.
• Change the MIN status (deactivation reason) on the MERS System within the required timeframe of the event that caused deactivation.
• Execute and record an Assignment within the required timeframe of the deactivation date when all MOM and Non-MOM loans are deactivated for reason of “Transfer to non-MERS status,” “Default by Servicer,” or “Default by Subservicer.”

Foreclosure
AFN must prepare an Assignment to Servicer and send it for recording before the first legal action.

For foreclosure actions before February 27, 2012:

• Change MIN status to “Foreclosure Pending Option 1” for MOM or Non-Mom, or “Foreclosure Pending Option 3” for iRegistration within the required timeframe of when the first legal action is taken.
• Change MIN status to “Foreclosure Complete” or “Foreclosure Reinstated” within the required timeframe of this action being taken.

For foreclosure actions on or after February 27, 2012:

• Change MIN status to “Deactivated-Assigned to Servicer for Default,” or “Foreclosure Pending Option 3” for iRegistration, within required timeframe of when the first legal action is taken.
• For iRegistrations and MOM/Non-MOM loans in pending status, change MIN status to “Foreclosure Complete” or “Foreclosure Reinstated” within the required timeframe of this action taking place.
Additional MERS Standards (Continued)

Lien Release

AFN must apply these standards to all MOM and Non-MOM loans:

- Prepare the lien release document with MERS as mortgagee, signed by an individual authorized on the MERSCORP Corporate Resolution.
  - Place the MIN and SIS telephone number in an area that is under or close to AFN’s loan number on the document, unless that placement is not compliant with county recorder requirements (in all cases, county recorder requirements take precedence over MERS requirements).
- Execute and record the lien release document in accordance with state and investor guidelines.
  - In accordance with the Rules of Membership, if the jurisdiction doesn’t require recording, the lien must still be recorded in the county land records.
- Change the MIN status to “Paid in Full” and enter the Effective Payoff Date in the MERS System in a timely manner after payoff of the loan.

Member Information

The following Member Information on the MERS System must be kept current and accurate:

- Member name (must contact MERS to change)
- Address(es) and telephone/fax numbers
- Website address (URL)
- Contact information, including name, address, phone and email address for the following personnel:
  - Primary Customer Service contact
  - Primary System Administrator contact
  - Operations contact
  - Accounting/Billing contact
  - Executive Sponsor
  - Legal Department/Quality Assurance
  - Technical (required if using system-to-system interface to the MERS System)
Additional MERS Standards (Continued)

**Recordable Documents**
The following additional recordable document standards must be applied:

- Place the MIN and SIS telephone number in an area that is under or close to AFN’s loan number on the document, unless that placement is not compliant with county recorder requirements (in all cases, county recorder requirements take precedence over MERS requirements).
- Enter additional loan information (such as Assumption, Modification Information for CEMA or construction loans, etc.) on the MERS System in a timely manner.

**Security Instruments**
AFN (or its Subservicer) is responsible to MERS for ensuring that all security instrument information is entered in the MERS System within the required timeframe:

- For MOM loans, update the Registration date.
- For loans assigned to MERS, update the Assignment date or Effective Transfer date.
- For MERS iRegistration loans, update the Registration date.

**Reports**
AFN’s MERS Coordinator will check the MERS System daily for items that appear in the Reports section of the system. All reject warning reports will be researched and cleared and any new or remaining items will be tracked. These reports may include, but are not limited to the following:

- Registration Verification (loans registered the previous day)
- Registration Rejects and Warnings
- Overdue Transfer of Beneficial Rights
- Physical Transfer of Beneficial Rights
- Expired Transfer of Beneficial Rights
- Transfer of Beneficial Rights Rejects
- Overdue Transfer of Servicing Rights
- Physical Transfer of Servicing Rights
- Expired Transfer of Servicing Rights
- Transfer of Servicing Rights Rejects
- Monthly billing statement (summary and MIN level)
- MINS for the Same Primary Borrower SSN, Property and First Lien Daily Report
- MINS for the Same Primary Borrower SSN, Property and First Lien Monthly Report

(Continued)
Additional MERS Standards (Continued)

**Reports (Continued)**

- County Unknown Warning Report
- Lite Member Aged MIN Report
- Portfolio Analysis Report (used to reconcile registrations, transfers, paid in full MINs, foreclosures and transfers to Non-MERS Members, and to validate data integrity)
MERS QC PLAN VALIDATION

Internal QC Processes

Plan Audits
AFN will self-audit its performance for the applicable standards defined in this MERS System Quality Assurance Plan. Our QC Auditor will conduct tests on a random sample of registered or acquired loans for effectiveness and then revise this Plan as may be required.

Data Integrity
The following general data integrity points will be reviewed:
- MOM indicator correctly reflects MERS as Mortgagee status.
- The following fields match in Encompass and MERS System:
  - Original Borrower Name(s)
  - Current Borrower Name(s)
  - All borrower SSN/Tax ID numbers
  - Property address (and Property County or FIPS code matches the legal description in Encompass)
  - FHA/VA Case Number
  - Investor
  - Investor Loan Number and Agency ID (if required)
  - Lien Type
  - Note Amount
  - Note Date
  - Pool Number
  - Servicer/Subservicer
- Originating Org ID for MERS Member or Original Note Holder for Non-MERS Member correctly reflects the loan originator.
- Pool Number field on the MERS System for MINS in rated securities contains pool # if securitization trustee is an Agency, or contains trust name otherwise.
  
  Effective February 27, 2012, the following additional general data integrity points will be reviewed:
  - Owner occupancy in Encompass matches the MERS System.
  - Pool number field on the MERS System for MINs in rated securities contains the pool number if securitization trustee is an Agency.
  - Securitization Name field on the MERS System for MINs rated securities contains trust name if securitization trustee is not an Agency.
MOM Loans

MOM loans are audited as follows:

- Approved MOM language is used.
- Correct MIN and SIS Number appears on the documents.
- MIN is positioned in the correct location on documents.
- Security Instrument:
  - Recorded in accordance with state and investor guidelines; if the jurisdiction does not require recordation, MERS is named in the county land records.
  - Registered on MERS System within the required timeframe of Note Date (of Funding Date in escrow states).
- MOM indicator is set to “MOM” in the MERS System.

Non-MOM Loans

Non-MOM loans are audited as follows:

- Approved MERS as Mortgagee language is used.
- Correct MIN and SIS Number appear in the correct location on the Assignment.
- Assignee (when assigning to MERS) or Assignor (when assigning from MERS) name and address on the MERS System matches the executed Assignment.
- MOM indicator is set to “Non-MOM” in the MERS System.
- MERS Signing Officer signature is valid.
- Loan registered or converted from iRegistration to Non-MOM within the required timeframe of Transfer or Assignment.
- Assignment executed within the required timeframe of Registration and sent for Recording.

Foreclosure Loans

Foreclosure loans are audited as follows:

- Foreclosure documentation matches MERS System status.
- Proof of Assignment, if applicable, was executed and sent for recording before the first legal action.
- Proof of first legal action is provided by AFN.
- Pending Option in MERS System matches documentation.
- Assignment out of MERS audit:
  - Correct MIN and SIS numbers in correct location on Assignment.
  - Valid MERS Signing Officer signature.
## Internal QC Processes (Continued)

### Foreclosure Loans (Continued)
- If property went to sale, MERS was not left in title on sale documentation (unless in a state where this is temporarily allowed).
- If title was deeded to MERS temporarily, subsequent deed provided removing MERS from title.

### iRegistration Loans

iRegistration loans are audited as follows:
- No MERS language is used, or assignment out of MERS recorded before registration as an iRegistration loan.
- MOM indicator is set to “iRegistration” in the MERS System.

### Lien Release Loans

Lien Release loans are audited as follows:
- Approved MERS as Mortgagee language is used.
- Correct MIN and SIS Number appear in the correct location on documents.
- Lien Release is recorded.
- MERS Signing Officer signature is valid.
- MIN status within MERS System updated to reflect “Paid in Full” within the required timeframe of the payoff date.

### Member Information

Ensure all Member (AFN) Information, including Contact Information) in the MERS System is current, accurate and complete:
- Member name reflects AFN’s legal name
- Address(es) current
- Phone numbers
- Website address (URL)
- Contact information (name, address, telephone and e-mail address) for all contacts, including:
  - Accounts/Billing
  - Primary System Administrator
  - Primary Customer Service
  - Legal/Quality Assurance
  - Operations
  - Executive Sponsor
  - Technical (if using system-to-system interface to MERS)
Transfer of Servicing and/or Beneficial Rights

AFN will verify the following on a sampling of loans bought or sold:

- Loans setup in beneficial, servicing or combined transfer batches within the required timeframe of the effective transfer date (as defined in the Purchase and Sale Agreement, on which the buyer begins servicing the loans on its servicing system).
- Batches for all loans sold during the previous month were accepted by the investor/buyer, or confirmed by AFN if the MINs are being purchased, prior to the expiration date (within 30 days of the sale date or batch creation date, whichever is later).
- Verify the purchaser of any loans sold, the status of any rejected MINs or batches, and if necessary, make corrections to the batch or MIN level detail to allow acceptance of the transfer by the investor/buyer (or delete the batch and create a corrected batch).
- If AFN is the purchaser, validate the MINs in transfer batches are correct and accept the MINs or batches prior to the batch expiration date or report discrepancies to the seller and reject those MINs or batches.

Validation Exceptions

Reporting

Exceptions, if applicable, will be reported to the Vice President of Operations at AFN.

Corrections

The Vice President of Operations will delegate corrections and ensure they are completed within 30 calendar days of receipt of the exceptions report.

Follow-up

Vice President of Operations will follow-up with AFN’s designated MERS Coordinator for an explanation or root cause of required corrections and modify procedures if required.