



Bank Secrecy Act/Anti-Money Laundering Policy

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SECTION 1 – INTRODUCTION

A. Purpose

CITADEL SERVICING CORPORATION (“CSC” or the “Company”) has adopted this Anti-Money Laundering (“AML”) policy in conformance with the definition of a Loan or Finance Company under a new rule found in 31 CFR Parts 1010 & 1029 as promulgated by the Financial Crimes Enforcement Network (“FinCEN”), a division of the United States Treasury Department.

This Policy is necessary to assist with the detection of transactions that may involve money laundering or terrorist financing. The policy will also serve to provide for resources for reporting applicable situation that involve the suspicion of such activity to FinCEN.

B. Origins

The Bank Secrecy Act (“BSA”) or otherwise known as the Currency and Foreign Transactions Reporting Act requires financial institutions in the United States to assist U.S. government agencies to detect and prevent money laundering.

Specifically, the act requires financial institutions to keep records of cash purchases of negotiable instruments, and file reports of cash purchases of these negotiable instruments of more than \$10,000 (daily aggregate amount) and to report suspicious activity that might signify money laundering, tax evasion, or other criminal activities. The BSA was originally passed by the Congress of the United States in 1970, and amended several times since then, including provisions in Title III of the USA PATRIOT Act. The BSA is sometimes referred to as an “anti-money laundering” law or jointly as “BSA/AML”.

C. General Policy

The Company has established an AML Policy in accordance with Section 1029.210. This policy has been approved by both Senior Management of the Company and the Board of Directors. A copy of this Policy must be made available to FinCEN upon request.

This Policy considers money laundering to be a crime that involves the movement of money gathered from illegal sources or unlawful activities into legitimate businesses or activities. There are generally three (3) stages or phases of money laundering: placement, layering, and integration. In the placement stage, money obtained from criminal activities is introduced into the financial system. The process of layering involves hiding the source of these funds. The integration stage involves passing off those funds as being sourced from a legitimate purpose. Generally, it is thought that the stage where a Loan or Finance Company is potentially involved is in the integration phase. CSC has adopted this Policy to protect the Company and its Employees from involvement in money laundering. This Policy is part of CSC’s Compliance Program, established to assure that the Company complies with and satisfies all legal and regulatory requirements necessary to maintain ethical business practices. The BSA/AML Officer monitors and supports companywide compliance with this Policy.

D. Definitions

- **Loan or Finance Company** is a person engaged in activities that take place wholly or in substantial part within the United States in one or more of the capacities listed below, whether or not on a regular basis or as an organized business concern. This includes



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but is not limited to maintenance of any agent, agency, branch, or office within the United States. The term “loan or finance company” shall include a sole proprietor acting as a loan or finance company, and shall not include: a bank, a person registered with and functionally regulated or examined by the SEC or the CFTC, any GSE regulated by the FHFA, any Federal or state agency or authority administering mortgage or housing assistance, fraud prevention or foreclosure prevention programs, or an individual employed by a loan or finance company or financial institution. A loan or finance company is not a financial institution as defined in these regulations.

- **Residential Mortgage Lender** is the person or company to whom the debt arising from a residential mortgage loan is initially payable on the face of the evidence of indebtedness or, if there is no such evidence of indebtedness, by agreement, or to whom the obligation is initially assigned at or immediately after settlement. The term “residential mortgage lender” shall not include an individual who finances the sale of the individual’s own dwelling or real property.
- **Residential Mortgage Originator** is a person who accepts a residential mortgage loan application or offers or negotiates terms of a residential mortgage loan.
- **Residential Mortgage Loan** – A loan that is secured by a mortgage, deed of trust or other equivalent consensual security interest on a residential structure that contains 1-4 units, including (if used as a residence) an individual condominium unit, cooperative unit, mobile home or trailer; or a residential real estate upon which such a structure is constructed or intended to be constructed.

SECTION 2 – BEST PRACTICES

A. Duties of the BSA/AML Officer

- CSC’s BSA/AML Officer is Robert Diaz
 - Email address: robertd@citadelservicing.com
 - Office phone number: (949) 900-6630 ext. 217
- CSC’s designated BSA/AML Officer will be responsible for ensuring that:
 - The development, implementation, and maintenance of an Anti-Money Laundering program tailored to the specific business operations of CSC;
 - The Policy must satisfy company policies and be in compliance with the requirements of all applicable laws and regulations.
 - The AML program is implemented effectively, including monitoring compliance by the company’s representatives with their obligations under the program;
 - The AML program is revised as necessary;
 - Appropriate persons are educated and trained in accordance with the training requirements under the rule;
 - Insures that CSC provides for independent testing to monitor and maintain an adequate program, including periodic testing to determine compliance obligations under the program. The scope and frequency is commensurate with the risks posed by the company’s products and services, and will be regularly evaluated and updated.



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B. Program Guidelines

Financial institutions are expected to understand, identify and assess their risks, take appropriate actions to mitigate them and allocate their resources efficiently by focusing on higher risk areas.

The BSA/AML Officer will periodically conduct an assessment of company's risks and present that assessment to Senior Management and the Board of Directors for approval, and will continually assess the changing risks when new products and services are introduced, existing products and services change. In no case will the reassessment take place less frequently than every eighteen (18) months.

After identifying the types of risks, the BSA/AML Officer shall assign a level to each risk by assessing the likelihood and frequency of the risk occurring, and assessing the severity of the risk if it were to occur.

The BSA/AML Officer will then work with each functional department, including but not limited to, funding, closing, underwriting, processing, origination (including third party originators), and accounting, to develop appropriate controls to address and mitigate the risks and incorporate the controls into their department's policies and procedures.

Each department head will then implement the controls developed and assess compliance with the controls annually at a minimum and report the results of such assessment to the BSA/AML Officer.

Our policy covers multiple items that require verification of the customer, their assets, and the transactional characteristics, any of which could potentially be suspicious activities that require reporting to Compliance and evaluation and research by the BSA/AML Officer at a minimum. If items are resolved, these are only tracked but not reported. If unresolved, they must be reported to the appropriate authorities, who then complete their own research and pursue any issues independent of CSC.

C. Specific Anti-Money Laundering Mandates

Subject to conformance with industry specific regulations, this Policy shall be formulated into a Program that will generally address the following:

- Collect and verify appropriate identifying information about loan applicant customers ("Customers") while maintaining records of such information;
- Collect and verify appropriate identifying information including licensing of all Mortgage Brokers who submit loans to CSC on behalf of Customers;
- Collect and verify appropriate identifying information including licensing of all Service Providers or other counterparties that assist CSC in the preparation of a loan file;
- Comparing the names, business associates, and payees with the lists maintained by the Office of Foreign Assets Control ("OFAC") or any other similarly structured lists and processing any matches as required by law;
- Validating that any investor funds to purchase a loan(s) or an interest in a loan(s) is from a legitimate person, company or investment group and that the funds for such an investment come from or is overseen by a recognizable banking or investment entity;
- Refusing to accept funds from or to do any business with any customer or vendor whose money the Company reasonably believes is derived from criminal activity or from a sanctioned source;



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- Provide for an ongoing education and training program for the employees of the Company to identify red flag activities and report them to their managers;
- Having any red flag activities reviewed with a determination made as the appropriate measures to be taken that is consistent with applicable law. Examples of such measures would be a refusal to process and fund a loan for, severing relations with a customer or vendor, and when appropriate, filing a Suspicious Activity Report ("SAR") with FinCEN; and
- Provide for independent testing to monitor and maintain this Policy in an adequate fashion including the testing of the Company's personnel to ensure compliance with the obligations of this Policy.

D. Suspicious Activity Reporting

All non-bank residential mortgage lenders and originators ("RMLO") are subject to Suspicious Activity Report filing requirements pursuant to a new rule issued by FinCEN on February 14, 2012 and found at 31 CFR Parts 1010 and 1029 as implemented pursuant to the Bank Secrecy Act ("BSA"). The plan of action must proceed as follows:

- Employees should immediately report any suspicious transactions or requests to their Manager.
 - See "Suspicious Activities Tracking Report" for specific guidance.
- The Manager will then coordinate any such information with the BSA/AML Officer to determine the appropriate action to be taken and which reports to file when applicable.
- A SAR must be filed for any loan involving aggregate funds or other assets of at least \$5,000 when RMLO ".....knows, suspects or has reason to suspect that the transaction or a pattern of transactions of which the transaction is a part...." involves funds derived from illegal activity or involves the use of the loan or finance company to facilitate criminal activity.
- SARs are to be filed pursuant to a web-based electronic system on the FinCEN site. The SAR is filed electronically through the BSA E-Filing System (web-based) starting July 1, 2012. The SAR must be filed no later than thirty (30) calendar days after the date of the initial detection by CSC of facts that may constitute a basis for filing a SAR. If no suspect is identified on the date of such initial detection, CSC may delay filing a SAR for an additional thirty (30) calendar days to identify a suspect, but in no case shall reporting be delayed more than sixty (60) calendar days after the date of the initial detection.
- In situations involving violations that require immediate attention, such as suspected terrorist financing, or ongoing money laundering schemes, CSC is to immediately notify by telephone an appropriate law enforcement authority in addition to filing timely a SAR.
- All SARs (including joint reports made with other institutions) and the original of all supporting documents must be kept for five (5) years from the date of filing. If requested by an appropriate agency (such as FinCEN or the FBI) the supporting documentation must be made available.
- A SAR is subject to strict confidentiality requirements under the BSA with certain limited exceptions. CSC may not disclose a SAR or information that would reveal the existence of a SAR except to parties authorized under the rule such as FinCEN, federal, state,



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and local law enforcement agencies and certain federal and state agencies. Facts may be disclosed but not the existence of a SAR.

- Suspects and all other persons involved in a transaction that results in a SAR cannot be notified.
- A SAR should not be produced or made known in response to a subpoena. If subpoenaed, CSC must decline to produce any information including whether a SAR exists and must contact FinCEN for advisement on how to proceed with the matter.
- RMLs are protected from liability from defamation or for any other claims with respect to the submission of a SAR.

E. Office of Foreign Assets Control Policy

The Office of Foreign Assets Control is a division of the United States Treasury Department. Among its prime functions is the maintaining and publishing of a list of countries, individuals, and organizations that are hostile to the national security of the United States. CSC has a legal obligation to avoid doing any business with such people and entities, to block payment of funds to person and any entity on that list as well as to file timely reports of all such actions with OFAC. It is vitally necessary and in accordance with this Policy and applicable law that CSC does not conduct business with such individuals, entities, or countries on the OFAC restricted list. Compliance with this Policy is essential to protect the Company from criminal or civil actions as well as to maintain the trust of our customers and safeguard the Company's reputation.

F. Fraud and Anti Money Laundering

Mortgage Fraud is an operational risk. FinCEN has stated that preventing mortgage fraud should be the result of an AML program. The BSA/AML Officer is also responsible for the ongoing training in this area. As an example, this training should center upon bringing to employees' attention information on any mortgage fraud schemes as they become known.

G. Customer Identification Program/Know Your Customer

The Customer Identification Program ("CIP") Policy is an important part of the process to insure compliance with the AML. We collect at minimum basic customer identification information from each potential applicant and utilize risk-based measures to verify the identity; we notify our customers that we require identification information and compare customer identification information with government-provided lists of suspected terrorists for all applicants. In addition we verify all parties to the transaction against various agency debarment lists as required. We confirm the true identity of our customers by using risk-based procedures and tool to further verify and document the accuracy of the information we get about our customers during every step of processing a loan, including analyzing any inconsistencies in the information we obtain.

- See CSC's Customer Identification Program Policies and Procedures for additional details.

SECTION 3 – EMPLOYEE TRAINING

Employees must be well-versed in CSC policies and procedures as regards anything contained herein. All CSC Employees are required to undergo training on CSC's AML and CIP



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programs upon hire and are also required to participate in ongoing training. The noted training focuses on understanding how to spot and prevent violations.

SECTION 4 – GENERAL LOAN UNDERWRITING

Each loan must be scrutinized for compliance with all areas of this Policy. Every loan must have a fully completed Uniform Residential Loan Application ("1003") containing all facets of the customer's income and assets including employment data, bank account information, and income status. Each file must also contain a three (3) bureau tri-merge credit report with an OFAC list clearance, Social Security Administration number verification, and alias or also known as ("AKA") information. Each loan submitted for underwriting approval must contain a Statement of Identification from the Title Company as well as further proof of identity in the form of a State issued Driver's License or Identity Card as well as a copy of the Customer's Social Security card. A valid Passport will suffice if a Driver's License is not available or if the Customer is a Foreign National. The underwriter must take great care to scrutinize that report for any variance or anomalies that could indicate an issue with Policy compliance. Furthermore, the source and seasoning of any down payments must be analyzed for conformance with the Policy insofar as if the funds came from a verifiable banking relationship to the closing Escrow or Title Company. Finally, any verification of income must be corroborated to be from a legitimate source of employment. Please refer to the KYC Policy section for additional requirements

- See CSC's Customer Identification Program Policies and Procedures for additional details.

SECTION - FAQs

Q. Can you give me an example of a suspicious activity that might occur here at CSC?

A. Appearance of alterations to a bank statement, earning documentation (paystubs, W-2's, tax returns), fraudulent credit letters, fabricated gift letters, invalid social security number, "straw buyer." Another example would be when a borrower claims he or she is a victim of identity theft.

Q. Do I need to confirm that fraud or something illegal has actually occurred?

A. No, you are only required to be a vigilant "issue spotter." If you are concerned that something appears suspicious, you need only report your thoughts in writing to your Supervisor who will then discuss this with the BSA/AML Officer who will take control of the matter at that point.

Q. Here's a situation I came across recently: a borrower could not provide two (2) years of tax returns, saying he does not file taxes. Must I report this?

A. No, this isn't per se evidence of financial fraud being perpetrated against CSC.

Q. What if I see an employee committing a suspicious activity?

A. CSC has a zero tolerance policy with respect to fraudulent or illegal activities. If you suspect anyone at the Company has violated these standards, please bring it to the attention of the Chief Executive Officer, Human Resources, and/or your manager.

Q. How do I report a suspicious activity?

A. You need only report your thoughts in writing to your Supervisor who will then discuss this with the BSA/AML Officer who will take control of the matter at that point.



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