



Quality Control Policy

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SECTION 1 – INTRODUCTION

A. Purpose

Post-closing/purchase audits are conducted on a selection of originated loans each month to verify regulatory compliance, completeness and accuracy of legal documents, credit documentation, property appraisals, and that underwriting decisions conform to company policy and specific investor requirements. These quality control reviews are used to evaluate the quality of mortgage loans, assure that origination sources are submitting quality mortgages and to confirm that origination controls are functioning properly.

B. General Policy

CITADEL SERVICING CORPORATION will maintain adequate staff or retain contractor services (collectively referred to as auditors) to perform quality control audits on a monthly basis. With the exception of senior management, the auditors will operate independently of the mortgage origination and underwriting units. The auditors are to be familiar with quality control requirements of the company and its investors and must comply with the applicable requirements of loans held by the company and sold to investors.

SECTION 2 – POST FUNDING AUDIT PROCEDURES

A. Scope and Loan Selection Criteria

The monthly selection should be a valid statistical or a minimum of 10% sample (random and discretionary) of all residential mortgage loans of total originations without regard to the investor. The sample should represent a complete scope of the loan programs offered and the origination source of the same. Over a 12-month period, the quality control sample should include, but not be limited to the following:

- Emphasis on mortgages with higher risk characteristics (i.e., low doc loans or high loan-to-value ratios);
- Mortgages from all program types
- Mortgages from all areas of operations (branches, states)
- Mortgages from each underwriter and loan originator
- A random selection of no less than 10% of all loans originated by third party originators (TPOs; i.e. Brokers) will be made; additionally, each TPO will be subject to a probation period during which a significantly higher percentage of loans will be selected for review (100% of the first 5 loans, 50% of the next 10 loans, 30% of the next 10 loans, then 10% of all loans thereafter)

The audit selection must be clearly documented, and include the methodology, frequency and loan level detail for the mortgages selected.

B. Process Definition

The quality control efforts that must be performed on each loan file received are as follows:

a) Internal Audit Appraisal Review Process

The internal audit department in the appraisal review process utilizes a two-fold format:

- A 10% sampling of the review pool for a Fannie-Mae 2055 drive-by. The respective review is to be performed by a qualified appraiser not affiliated with



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the original appraisal review firm, or the original appraiser(s). Additionally, the reviewing source is instructed to use comparable compatibles to the time frame of the initial review "Market Value Date" or comparable compatibles to the time frame of the initial appraisal, as applicable. The audit review is used to evaluate the soundness of the original appraisal and, if applicable, the soundness of the original reviewer in their determination of market values.

- All remaining files within the sampling pool that have appraisals will require a desktop review to be performed by CITADEL SERVICING CORPORATION underwriting auditor. The purpose of this process is to evaluate the accuracy of the original report. More specifically this process is used to identify the existence of unacceptable appraisal practices, the soundness of the value estimate, the accuracy of the appraiser's arithmetic in calculating adjustments, the justification of line, net and gross adjustments, the appropriateness of the comparables used, and the completeness of the final product.

b) Re-verification of Qualifying Documentation

Written re-verifications should be ordered on 100% of all loans selected. Examples of qualifying documentation could include, but are not limited to, VOE's, W2's, tax returns, paystubs, VOD's, bank statements, VOM's, and verification of rents. If the re-verification is not received alternate procedures include, but are not limited to the following:

- Verbal re-verification
- Reviewing the file to determine the materiality of the verification
- Waiving the requirement for re-verification (with proper Documentation);

If verbal verification is utilized the following information should be documented:

- The name of the employee performing the re-verification
- The name of the institution contacted
- The telephone number of the contacted institution. The validity of the telephone number should be verified through sources such as directory assistance and / or the Haines Criss-Cross guide
- The name and title of the individual contacted at the institution
- The date of the verbal re-verification
- Confirmation that the information in the original verification was accurate

If Borrower is self-employed, many documents are reviewed, including business credit reports, income analysis, and personal and corporate tax returns and P&L Statements.

c) Re-verification of Uniform Residential Loan Application

A copy of the final, typed and signed, mortgage loan application should be mailed (via certified mail) to each borrower on 100% of all loans selected for audit, requesting that the following information be verified:

- Their signatures
- All general and verified information is true and correct



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- State whether they were asked to sign a blank or incomplete mortgage application
- State whether they were asked to omit or alter any information requested on the mortgage application

d) Occupancy Verification

The owner occupancy status of the subject property (if a condition of the loan) should be verified any time there is a suspicion the borrower is not occupying. Occupancy may be verified through the following methods:

- A certified letter sent to the borrower at the subject property
- A physical property inspection
- Utilization of directory assistance or cross reference services
- Verification of the name and address on checks submitted for mortgage payments
- Review of homeowner's insurance records for mailing address
- Utility company records
- Homeowner's exemption
- Address on tax returns
- Voter registration information (unless prohibited)
- Postal verification

e) Confirmation of Broker Status

- All TPOs should have the submitting broker's status confirmed to be in good standing at the time of funding.
- An annual visit will be made to each TPO source to assure that lending practices conform to government, investor and guarantor requirements.

f) Review of Pre-Funding Quality Control Efforts

The pre-funding quality control efforts should be reviewed to assure compliance with corporate policy.

Credit Information Analysis

All loans selected should have an audit checklist that documents the review of the borrower's credit information, transaction information and underwriting decision. All credit reports ordered must be in the file at the time of audit and must have been submitted to the Guarantor or Investor.

g) Legal Documentation Analysis

All loans selected should have an audit checklist completed which documents the review of all legal / closing documents such as Note, Deed of Trust / Mortgage, applicable Riders, title policy, MI (mortgage insurance) certificate, if applicable, HUD-1, regulatory disclosures, etc.

- Note – verify accuracy of the loan amount, interest rate, amount of monthly payment, first payment date, maturity date, late charge amount, rate change date (if ARM), and Borrower signatures



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- Deed of Trust / Mortgage – verify accuracy of the loan amount, interest rate, first payment date, maturity date, legal description, Borrower signatures, acknowledgements and recording date
- Riders – verify dates, rate, PMI, mortgages, name and address, first payment date, maturity date, loan amount, mortgagors names (typed and signed), initialed corrections and all other items specific to the particular rider
- Assignment / Corporate Assignment – verify Mortgagee's name, assignee's name, legal description as appears on mortgage, book and page of recorded mortgage and notary acknowledgement; Corporate Assignments are also reviewed for appropriate attesting by the Secretary or Assistant Secretary and signature of an Officer of the Corporation (no less than Vice President) in applicable states
- Deed – verify proper execution, legal description, acknowledgements and recording date
- PMI – verify correct coverage amount, names reflected exactly as they appear on the Mortgage, address, loan amount, Mortgagee's name and address, program type and correct renewals
- CD / Closing Disclosures – verify correct payment of fees not previously paid, collection of escrow funds, proper remittance of tax reserves, payment of advance interest and proper compliance with contingencies; additionally, check CD for correct sales price, property address, names, proper certification, required minimum down payment, loan closed according to sales contract and Borrower investment; determine Seller's concessions to assure compliance with applicable Investor guidelines
- Title Policy – verify the amount, proper insurance of the Mortgagee, countersignature of the issuer, correct legal description, title currently in Borrower's name and all taxes paid for latest applicable year; review Flood Certificate, Survey and Lender Certification to verify flood maps were checked
- Survey – verify certification, date and legal description (must agree with Mortgage or Deed of Trust, Title Insurance Policy and Appraisal)
- Hazard Insurance Policy – verify that the policy is the original, the amount is not less than the loan amount, Mortgagee Clause present and evidence of initial premium and type of insurance

i) Appraisal

One of every ten selections shall be reappraised through a review appraisal. A current approved Appraiser on CITADEL SERVICING CORPORATION's Approved Appraiser List will conduct this review. The Review Appraiser must not be the same as the original Appraiser. All selections will be reviewed by the Quality Control Underwriter for the appraised value, appraisal format and the use of prudent appraisal practices. All appraisals will be reviewed for flood zone information (map number and date).

j) Exclusionary Listings

All parties involved in the transaction should be verified against any exclusionary listings.



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C. Discrepancy Detection, Resolution and Reporting

a) Detection

All significant deviations or findings (i.e.; underwriting, corporate policies, and misrepresentations) should be evaluated for materiality and overall impact on the investment quality of the loan. These issues should be presented to management on a regular basis. The representation should:

- Describe the scope of the audit
- Summarize individual finding(s)
- Identify trends, fraud or other problem and
- Provide appropriate comment

Senior management should request from appropriate department heads, a response to the QCO's findings. Responses should include comment, explanation and recommendations and procedures for resolving any problems.

b) Resolution

When misrepresentation is discovered and further action is deemed necessary, it is suggested that you evaluate the following objectives and determine the most appropriate course of action:

- Eliminate additional exposure by identified parties deemed responsible. To establish the participants, the facts must be collected using internal or external resources, obtaining written statements whenever possible. A chronology of events should be maintained and all material analyzed to assess individual involvement. A decision should be made to continue, modify, or terminate the business relationship, and records of findings and results should be organized and recorded to provide a vehicle for future review and monitoring.
- Isolate additional exposure by tracking and closely monitoring individuals believed involved; set up a watch database.
- Obtain clarification or additional documentation to resolve discrepancies, it is recommended the borrower and originator be contacted for a satisfactory response to the discrepancies noted and supporting documentation obtained.
- Fulfill seller contract responsibility to notify investor / servicer by providing notification of unresolved material deviations.
- Make demand repayment in full under terms of the legal documents; The issuance of a demand letter should be rescission of the loan or the return of all loan proceeds in exchange for return of the deed of trust securing the premises. The letter is intended to notify the borrower, broker, and any third party that there is a belief a material misrepresentation has occurred. Unless counsel has provided advice to the contrary, letters to third parties should provide the recipient of the demand with a description of the basis of the liability. Opportunity should be given to all parties to rebut the allegations of fraud. The time for performance by the offending individual should be extremely short, as time is of the essence once fraud has been discovered. If appropriate, the demand itself will be affected whether the servicing department, investor, or sub-servicer has instituted foreclosure proceedings; in which case advice of counsel is necessary because of the conflicting demands being made upon the borrower. Further, if foreclosure has



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already occurred, the company may have waived its rights to proceed against third parties if a full credit bid is obtained; legal counsel should preapprove all communication including form letters. The broker in conjunction with the terms of the agreement should make reference to the broker agreement, with time tracking for performance. The broker may have committed the misrepresentation directly or through its company, in which case the demand should be based on direct repayment of the loan along with all other losses; as opposed to the limited remedies that may contained in the broker agreement. Reference should be made to the deed of trust provision relating to truthfulness of the information and responsibility for losses, the loan application with reference to the declaration by the borrower, and any riders that may be executed at the opportunity to clarify or rebut the contentions of misrepresentation. No threats of criminal action should be made by the signer; and

- Recover damages / mitigate losses; to attempt to recover losses or mitigate damages, ascertain if participant holds any bond or Errors and Omissions insurance. Request negotiations with said parties to pursuit of legal action.

c) Reporting

Serious problems, such as fraud or gross incompetence should be reported immediately. Files are forwarded to Loan Administration for appropriate investigation and action.

SECTION 3 – RECORDING KEEPING SYSTEM

A standard record-keeping system should be developed. The type of records and reports that should be maintained, are as follows:

a) Mortgage Sample Selection Documentation

This document shows which mortgage files were selected for quality control review, and how they were selected.

b) Individual Audit File

This file contains information compiled and the findings obtained by the quality control reviewer.

c) Branch Report of Quality Control Findings

This report is prepared on a monthly basis, and summarizes the findings of the individual loans, helping to identify trends, fraud and other problem areas. This initial branch report is provided to Branch Managers and Operation Supervisors within 90 days of the end of the month immediately following the date of funding [FME]. A response addressing the findings is required from appropriate parties and should include a recommendation for a solution.

d) Final Report of Quality Control Findings

This report summarizes the unacceptable loans indicating the initial findings, the Branch response and recommendation, and a final quality control recommendation. This report is forwarded to Senior Management and Audit Committee.

e) Outstanding Follow-Up

This report details all unacceptable loans that have not been resolved. It is forwarded to Senior Management, and the appropriate parties who are required to



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respond. Once all loans from the branch report are resolved, the Audit Report is closed and retained for future review and trend analysis.

f) Report to Investors, Mortgage Insurers or Government Agencies

This report presents certain serious findings to the investor, mortgage insurer or government agency.

The reporting must be on timely basis. The information is then provided to the proper areas of management. The reports contain useful information in the right amount of detail and elicit appropriate responses, including corrective action when necessary.



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SECTION 4 – RESPONSE TIMING (REVIEW / RESPONSE / ACTION)

Selection, audit and reporting of detailed audit findings, and identifying audit exceptions should be accomplished within 60 days of funding month end and corrective actions implemented and verified by Quality Control within 30 days of final report. The following matrix provides time frames for completion and reporting of quality control audits:

	FROM	TO	DUE DATE
Monthly Production Report	Loan Administration Manager	Quality Control Manager	5 th of the month following the audit month
Audit Selection	Quality Control Manager	Quality Control Processors	10 th of the month following the audit month
Review of Original Files	Servicing	<i>Quality Control Auditors</i>	10 th day of the second month following the audit month
Complete Branch Report	Quality Control Manager	Branch Manager Operations Supervisor	15 th day of the 2 nd month following the audit month
Review of Audit Results and Correction of Errors	Branch Manager Operations Supervisor	Quality Control Manager	25 th day of the 2 nd month following the audit month
Final Report	Quality Control Manager	Audit Committee Senior Management	Last day of the 2 nd Month following the audit month

SECTION 5 – RESOLUTIONS

The director of Internal Audit should be able to draw closure to all findings and issues identified, through final resolution and / or corrective action, within the time frames specified in the matrix.



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SECTION 6 – RECORD RETENTION REQUIREMENTS

All quality control reports and records should be retained for a minimum of five years. The exception being those files that were referred for legal action, or enforcement, or to a regulatory agency, in which instance, the files should be retained for seven years.



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REVERIFICATION FORMS