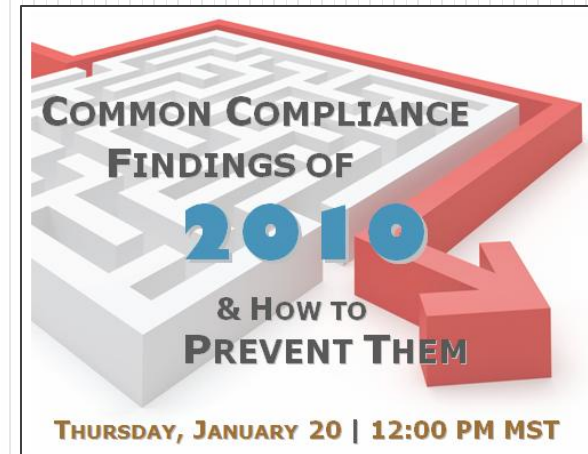


Common Compliance Findings of 2010 & How to Prevent Them

January 20, 2010

Presented by: Brady W. Meadows



Mortgage Compliance Advisors

Instructions

- Because of the large number of registrants, the lines will be muted
- To ask a question, click the plus sign next to “Questions” on the GoToWebinar box and type your question
- The panelists will address questions at the end of the presentation. If your question is not addressed, we will email the answer to you

Panelists

We are fortunate to have with us today a panel of experienced mortgage professionals. They will be taking the time to answer your questions and provide insight from hands-on application.

- Bob Warnock *MCA CEO*
- Craig Christensen *MCA COO*
- Jeff Christensen *CFO*

Agenda

- Review of Major Changes in 2010
- Most Common Findings of 2010
- Trends of 2010 Findings
- How to Prevent the Most Common Findings from Occurring
- Being Proactive about Preventing Common Findings
- Resources
- Q & A

Notable Changes in 2010

- TILA/MIDA (2009)
- RESPA Reform and the New GFE
- Fannie Mae LQI
 - Several loan level quality changes
 - Several new lender quality control rules
- FHA
 - Elimination of correspondents (brokers)
 - Increased net worth requirements
 - Changes in annual and monthly insurance premiums
 - Minimum credit score

Agency Changes in 2010

- **Fannie Mae**
 - 15 lender letters
 - 17 updates to the Selling Guide
 - Most notable change was LQI implementation
- **Freddie Mac**
 - 32 published bulletins
- **FHA**
 - 43 HUD mortgagee letters
 - Most notable change was elimination of correspondent (broker) approvals

2010 Common Findings

Top 10 Most Common Findings

10. Incorrect fees used to calculate APR on initial TIL
9. FHA Transmittal not signed by underwriter
8. FHA Addendum to the application was not completed correctly
7. FHA Conditional Commitment not completed correctly by underwriter
6. Figures on final TIL do not correspond with fees on HUD-1
5. Servicing Disclosure Statement not provided within 3 days of application
4. Underwriter approval not found in file
3. Figures on final HUD-1 do not match figures on most recent GFE
2. Initial TIL not provided within 3 days of application
1. **GFE missing or completed incorrectly**

Findings by Risk Category

- Top Significant Finding
 - Final APR is .125% or higher on final TIL and no evidence a new TIL was provided.
- Top Moderate Finding
 - Underwriter approval not in file.
- Top Insignificant Finding
 - Initial TIL not provided within 3 days of application.

Top 5 FHA Findings

1. Initial TIL not provided within 3 days of application
2. FHA Addendum to Application not complete or not signed by borrowers prior to application
3. Conditional Commitment not completed correctly
4. Transmittal Summary not signed by underwriter
5. GFE not provided within 3 days of application

Top 5 Conventional Findings

1. Servicing Disclosure Statement not completed correctly or provided within three days of application
2. Initial TIL not provided to borrower within 3 days
3. GFE not provided to borrower within 3 days
4. Transmittal not accurate or signed by underwriter
5. AUS figures do not match information in file

Top 5 VA Findings

1. GFE missing or not completed correctly
2. Lender's Compliance Certificate not signed
3. VA Loan Summary not completed
4. Certificate of loan disbursement not completed
5. Underwriter approval not in file

Top 5 Adverse Action Findings

1. Statement of Credit Denial not in file and does not meet ECOA timeframes
2. GFE not completed correctly or not in file
3. Initial application not in file
4. Borrower authorization missing or signed after credit was pulled
5. No evidence initial disclosures provided within 3 days of application (unless canceled or withdrawn within 3 days of application)

2010 Trends

Top 5 Findings Trending Up

1. GFE completed incorrectly
2. Figures on final HUD-1 do not match most recent GFE
3. Final TIL does not correspond with fees on final HUD-1
4. 4506-T disclosure not signed by borrower
5. Estimated value not supported by value in file

Top 5 Findings Trending Down

1. FHA documentation completed incorrectly
2. No evidence GFE issued within 3 days of application
3. Final loan application not signed by borrowers
4. Incorrect fees used to calculate APR on initial TIL
5. File does not support prudent underwriting decisions

How to prevent common findings


RESPA Violations

- **Three most common RESPA violations noted by our auditors:**
 1. GFE disclosures completed incorrectly
 2. RESPA disclosures not provided to borrower within three days of initial application date
 3. RESPA disclosures not in file

Good Faith Estimate

- GFE not completed correctly:
 1. Not updating the date of GFE from initial to subsequent reissues of the disclosure

OMB Approval No. 2502-0265



Good Faith Estimate (GFE)

Name of Originator	ABC Mortgage Inc.	Borrower	John Doe
Originator Address	123 Main St. Anywhere, USA 55555	Property Address	123 Oak Ave. Anywhere, USA 55555
Originator Phone Number	(555) 555-5555		
Originator Email	abc@abc-mtg.com	Date of GFE	1/20/2011

Common GFE Errors (cont.)

2. Important Dates on page #1 missing or incorrect.

Important dates

1. The interest rate for this GFE is available through . After this time, the interest rate, some of your loan Origination Charges, and the monthly payment shown below can change until you lock your interest rate.
2. This estimate for all other settlement charges is available through .
3. After you lock your interest rate, you must go to settlement within days (your rate lock period) to receive the locked interest rate.
4. You must lock the interest rate at least days before settlement.

Line 1 must show a date for when the rate is available for.

Common GFE Errors (cont.)

- HUD provides the following instruction:

Important dates

1. The interest rate for this GFE is available through [redacted]. After this time, the interest rate, some of your loan Origination Charges, and the monthly payment shown below can change until you lock your interest rate.
2. This estimate for all other settlement charges is available through [redacted]
3. After you lock your interest rate, you must go to settlement within [redacted] days (your rate lock period) to receive the locked interest rate.
4. You must lock the interest rate at least [redacted] days before settlement.

In Line 2, the loan originator must state the date until which the estimate of all other settlement charges for the GFE will be available. This date must be at least 10 business days from the date of the GFE.

Visit www.hud.gov/respa for Good Faith Estimate Instructions

Common GFE Errors (cont.)

3. Page 2, Block 2 “Your cost or charge for the specific interest rate chosen”

2. Your credit or charge (points) for the specific interest rate chosen

- The credit or charge for the interest rate of % is included in “Our origination charge.” (See item 1 above.)
- You receive a credit of \$ for this interest rate of %. This credit **reduces** your settlement charges.
- You pay a charge of \$ for this interest rate of %. This charge (points) **increases** your total settlement charges.

The tradeoff table on page 3 shows that you can change your total settlement charges by choosing a different interest rate for this loan.

For transactions without a mortgage broker, wherein the lender may choose not to separately disclose in this block, the first box of this block must be marked indicating the credit or charge for the interest rate chosen is included in the origination charge disclosed in Block 1.

And at settlement...

The two most common GFE errors at closing:

Comparison of Good Faith Estimate (GFE) and HUD-1 Charges		Good Faith Estimate	HUD-1
Charges That Cannot Increase	HUD-1 Line Number		
Our origination charge	# 801		
Your credit or charge (points) for the specific interest rate chosen	# 802		
Your adjusted origination charges	# 803		
Transfer taxes	#1203		

Charges That in Total Cannot Increase More Than 10%		Good Faith Estimate	HUD-1
Government recording charges	# 1201		
	#		
	#		
	#		

1. Charges reflected on the most recently disclosed GFE do not match the GFE column on page 3 of the final HUD settlement statement
2. Fees increase above allowable tolerances between GFE and settlement without evidence of cost to cure

Other RESPA Findings

- Additional common RESPA violation noted by auditors
 - Evidence not retained in the file initial RESPA disclosures were provided to the borrower **within three business days** of application date
 - Change of Circumstance not acceptable or no documentation of why there was a change.



Initial RESPA Disclosures

- GFE
- Servicing Disclosure
- Special Information Booklet (required for purchase transactions only)

When to Disclose

- RESPA defines an application as having the following 6 pieces of information.

Borrower Name	Monthly Income
Borrower SSN	Property Address
Estimated Value of Property	Loan Amount

- If the application is obtained by phone, mail, or internet, the originator must provide initial RESPA disclosures to the borrower within 3 business days of taking the loan application.

Evidence of Disclosure

- Evidence the disclosures were provided to the borrower **must be retained** in the file
- Evidence can be any of the following:
 - Date stamp or hand-written notation
 - Initial disclosure letter, including:
 - Date disclosures were provided
 - Borrowers' names
 - Subject property address
 - List of documents included
 - Copy of email sent to borrower with list of disclosures included
 - Email will provide date and time

What constitutes a business day?

- The FDIC Law, Regulations and Related Acts defines a business day as:

A day on which the creditor's offices are open to the public for carrying on substantially all of its business functions. Specifically, all calendar days except Sundays and the legal public holidays.

Compliance: TILA

- **Common TILA findings noted by our auditors:**
 1. TIL not provided within 3 days of application
 2. TIL not completed correctly
 3. TIL not properly re-disclosed to reflect increase of APR beyond allowable tolerance

TILA (cont.)

1. The most common violation in reference to TILA falls under **MDIA**.
 - MDIA became effective **7/30/09** and requires:
 - 7-business day waiting period between initial disclosure and closing
 - Re-disclosure of the TIL if APR increases (or decreases) above .125% from initial application
 - 3 day waiting period after re-disclosed TIL has been received by the borrower
 - Limits on what fees may be collected from the borrower
 - The following written language on the initial and final TIL:

"You are not required to complete this agreement merely because you have received these disclosures or signed a loan application."

TILA (cont.)

2. TIL disclosure not completed, or was completed incorrectly
 - Boxes not completed correctly with information specific to loan transaction
 - Entire top and bottom sections left blank
 - Assumption information and late charge information entered incorrectly

TRUTH-IN-LENDING DISCLOSURE STATEMENT

(THIS IS NEITHER A CONTRACT NOR A COMMITMENT TO LEND)

Applicants:
Property Address:

Prepared By:

Application No:

Date Prepared:

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS
The cost of your credit as a yearly rate	The dollar amount the credit will cost you	The amount of credit provided to you or on your behalf	The amount you will have paid after making all payments as scheduled
%	\$	\$	\$

REQUIRED DEPOSIT: The annual percentage rate does not take into account your required deposit
PAYMENTS: Your payment schedule will be:

No. of Pmts	Amount of Payments **	Payments Due	No. of Pmts	Amount of Payments **	Payments Due	No. of Pmts	Amount of Payments **	Payments Due	No. of Pmts	Amount of Payments **	Payments Due

CREDIT LIFE/CREDIT DISABILITY: Credit life insurance and credit disability insurance are not required to obtain credit, and will not be provided unless you sign and agree to pay the additional cost.

Type	Premium	Signature
Credit Life		I want credit life insurance. Signature: _____
Credit Disability		I want credit disability insurance. Signature: _____
Credit Life and Disability		I want credit life and disability insurance. Signature: _____

INSURANCE: The following insurance is required to obtain credit:

Credit life insurance Credit disability Property insurance Flood insurance

You may obtain the insurance from anyone you want that is acceptable to creditor.

If you purchase property flood insurance from creditor you will pay \$ _____ for a one year term.

SECURITY: You are giving a security interest in:

The goods or property being purchased Real property you already own.

FILING FEES: \$ _____

LATE CHARGE: If a payment is more than _____ days late, you will be charged _____ %

PREPAYMENT: If you pay off early, you may will not have to pay a penalty.
 may will not be entitled to a refund of part of the finance charge.

ASSUMPTION: Someone buying your property

may may, subject to conditions may not assume the remainder of your loan on the original terms.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date and prepayment refunds and penalties * means an estimate all dates and numerical disclosures except the late payment disclosures are estimates.

You are not required to complete this agreement merely because you have received these disclosures or signed a loan application.

Assumption and Late Charge Information

- Conventional loans are typically not assumable, whereas FHA loans are assumable, subject to conditions
- Disclose late fees according to state requirements
- Maximum allowable late charge for FHA is 4%

Completing FHA Forms

- FHA Addendum to Application

Part IV - Borrower Consent for Social Security Administration to Verify Social Security Number

I authorize the Social Security Administration to verify my Social Security number to the Lender identified in this document and HUD/FHA, through a computer match conducted by HUD/FHA.

I understand that my consent allows no additional information from my Social Security records to be provided to the Lender, and HUD/FHA and that verification of my Social Security number does not constitute confirmation of my identity. I also understand that my Social Security number may not be used for any other purpose than the one stated above, including resale or redisclosure to other parties. The only other redisclosure permitted by this authorization is for review purposes to ensure that HUD/FHA complies with SSA's consent requirements.

I am the individual to whom the Social Security number was issued or that person's legal guardian. I declare and affirm under the penalty of perjury that the information contained herein is true and correct. I know that if I make any representation that I know is false to obtain information from Social Security records, I could be punished by a fine or imprisonment or both.

This consent is valid for 180 days from the date signed, unless indicated otherwise by the individual(s) named in this loan application.

Read consent carefully. Review accuracy of social security number(s) and birth dates provided on this application.

Signature(s) of Borrower(s)

Date signed

Signature(s) of Co-Borrower(s)

Date signed

X

/ /

X

/ /

- Most common finding: Addendum is not signed prior to being underwritten

Completing FHA Forms

- FHA Addendum cont.

Signature(s) of Borrower(s) **Do not sign** unless this application is fully completed. Read the certifications carefully & review accuracy of this application.

Signature(s) of Borrower(s)	Date signed	Signature(s) of Co-Borrower(s)	Date signed
X	/ /	X	/ /

(Borrowers Must Sign Both Parts IV & V) Federal statutes provide severe penalties for any fraud, intentional misrepresentation, or criminal connivance or conspiracy purposed to influence the issuance of any guaranty or insurance by the VA Secretary or the HUD/FHA Commissioner.

VA Form 26-1802a (2007) page 2 form HUD-92900-A (05/2008)
Calyx Form - fhavaa2.frm (06/2008)

- Borrowers must sign both places on page 2

Completing FHA Forms

- Conditional Commitment

<p>Commitment Terms</p> <p><input type="checkbox"/> Conditional Commitment for Mortgage Insurance under the National Housing Act, Sec.</p> <p><input type="checkbox"/> See below</p> <p>By:</p> <p>Lender ID <input type="text"/> Action Date <input type="text"/></p> <p>Sponsor/Agent <input type="text"/> FHA Case No. <input type="text"/></p> <p>Mortgagee <input type="text"/> INST Case Ref. No. <input type="text"/></p>		<p>Est. Value of Prop. \$</p> <p>Property Address:</p> <p><input type="checkbox"/> Existing <input type="checkbox"/> Proposed</p> <p>(see gen. cond. 3)</p> <p>Monthly Expense Estimate</p> <p>Fire Insurance \$</p> <p>Taxes \$</p> <p>Commitment Issued <input type="text"/></p> <p>Commitment Expires <input type="text"/></p> <table border="0"> <tr> <td>Improved Living Area</td> <td>Sq. Ft.</td> <td>Condo. Com. Exp. \$</td> </tr> <tr> <td></td> <td></td> <td>Total..... \$</td> </tr> </table>	Improved Living Area	Sq. Ft.	Condo. Com. Exp. \$			Total..... \$
Improved Living Area	Sq. Ft.	Condo. Com. Exp. \$						
		Total..... \$						

- Most common finding is the action date is the same date the appraiser signed. However, action date should be the date the underwriter signed the conditional commitment
- The commitment issued date should be the date the appraisal was completed
- Commitment expires - Date cannot exceed 4 months

Completing FHA Forms

- Transmittal Summary

Underwriter's signature & date (if required) X	CHUMS ID #
Risk Assessment Scored by TOTAL? <input type="checkbox"/> yes <input type="checkbox"/> no Risk Class <input type="checkbox"/> A/A or <input type="checkbox"/> Refer CHUMS ID # for Reviewer of appraisal _____ <small>(Required for loans scored by TOTAL with risk class A/A or loans where the appraisal and credit reviews are performed by different underwriters.)</small>	

Calyx form - fhatransum1.frm (8/2008)

form HUD-92900-LT (05/2008)

- Make sure Transmittal Summary is signed or the ZFHA number from the AUS is listed

Common Appraisal Findings

- **Common findings related to appraisal:**
 - Exceeding distance and age requirements
 - Comparable not over 6 months old
 - Comparables not more than a mile away
 - Look for adequate comments about use of the comparables. A desk or field review may be required
 - Appraiser did not provide a listing or an active comparable (Conventional loan)
 - Appraiser's license missing
 - Appraiser not checked in FHA Connection, or appraiser name on assignment inconsistent with appraiser name on appraisal

Credit Findings

- Auditors will review credit report for:
 - Information properly and consistently reflected throughout loan file
 - Explanation for name and address variations on the credit report



Credit Findings (cont.)

- Retain any supporting documentation for detected variations
 - Name variations should be explained with an LOE
 - Any items such as divorce decrees or legal name change documents should be retained in your file

Credit Findings (cont.)

- The AUS report, alone, does not validate your loan approval

“This loan is also subject to all other lender specified conditions and must comply with all applicable federal, state and local laws and regulations.”

- It is your responsibility to make sure your loan meets the requirements of the agencies
- For manually underwritten loans, agency and lender credit requirements must be followed

Omission of a Liability

- Unsupported omission of a liability can:
 - Invalidate your AUS findings
 - Contribute to a repurchase if ratios increase beyond specified thresholds (due to discovered debt)
- Retain supporting documentation for any omitted debt in your loan file

Omission of a Liability (cont.)

AUS report may incorrectly interpret the credit liabilities

- Revolving trade line was incorrectly reflected as an Installment loan with less than 10 payments and omitted from qualifying ratios
- AUS findings did not read a debt. Make sure the borrower's monthly debts reported through the credit report match the monthly debt on the AUS report

Information on Credit

- Unexplained inquiries and undisclosed debt
 - Review the credit report and make sure ALL recent inquiries (typically within 90 days) have been adequately addressed with your borrower
 - Take steps to verify that undisclosed debt has not been obtained by the borrower

FNMA's Loan Quality Initiative (LQI)

- Fannie Mae's LQI is effective on all applications dated on or after **June 1, 2010**. Some of the new loan level requires are;

Verify Borrower Identity	Validate SSN
Review DU Red Flags	Validation of Qualified Parties
Undisclosed Liabilities	Property Unit Number
Calculation of LTV Ratio	Manual UW of Refer with Caution

Learn more about FNMA's LQI at: <https://www.efanniemae.com/sf/lqi>

LQI - Highlights

Undisclosed Liabilities

- Detection of any new debt incurred after the initial credit pull could delay closing or prevent the transaction from going forward
- Lenders must disclose all borrower debts on the final loan application, including those incurred DURING the application process

Validation of Third Parties

- Must run LDP and GSA against all individuals involved the origination, underwriting, or servicing of the loan.

Being Proactive about Preventing Common Findings

Quality Check Points

- Commit to implementing compliance and quality throughout your entire loan process.
- Implementing check points through out your process will reduce and eliminate many of the common findings.



Using QC Reviews to Improve your Business

- Pre-funding and post-closing file reviews provide feedback about practices which may be putting your organization at risk.
- Use the information found in your reviews to implement change into your system to eliminate common findings.

You cannot effectively manage risk without information to manage it from.

Brief Summary and Checklist

- Address and correct any discrepancies between your documents
- Obtain and RETAIN all documentation gathered during the loan process
- Retain underwriting package with all appropriate signatures
- Retain closing package with all appropriate signatures
- Follow and document compliance with the 3 day disclosure rule
- Take the time to complete forms correctly



- Take the time and effort to implement a good quality control plan to save:
 - Time
 - Resources
 - Increase Revenue
 - Decrease Risk

Changes to come in 2011

- New tabular TIL statement
- Risk based pricing rules
- Loan originator compensation
- Implementation of the Dodd/Frank Act and the Consumer Finance Protection Bureau
- Combination of the GFE and TIL into one document
- Ongoing agency changes

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- Training and Consulting
- Agency Approval

Contact Information

- We will be answering a few of your questions in just a moment. Questions not addressed at this time will be emailed directly to you, as well as answered in our next newsletter. You are also welcome to contact us at any time:

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- **Support (Current Clients):** (801) 649-6038
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- **Email:** Info@MortgageComplianceAdvisors.com

Resources

- Federal Trade Commission:
 - <http://www.ftc.gov>
- Fannie Mae
 - <https://www.efanniemae.com>
- Freddie Mac
 - <https://www.freddiemac.com>
- FHA/VA
 - <http://www.HUD.gov>

Questions & Answers

Thank You!

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