

EquitySmart

HOME LOANS

"Lending ... Just Smarter!"

Quality Control Policy and Procedures

January 2021

Commitment to Quality

The management and staff of Equity Smart Home Loans, Inc. ("the Company") consider quality control of the utmost importance and a responsibility of every employee. All employees regardless of position are instructed through orientation and training procedures of the following policies:

- Any employee of the Company who has knowledge of a violation of policy or procedure of the Company, investor, insurer, or any governmental agency shall notify management immediately.
- Any outside business contacts that suggest a breach of Company policy or exert pressure to have wrongful acts committed should be reported to management immediately.
- Any employee who has knowledge of a violation of policy or procedure by another employee is compelled to notify management immediately.
- The Company will take swift and strong action to preserve the high standards and integrity of the corporation.

Furthermore, the Company believes that in order to maintain a high level of integrity, the quality control procedure should start with loan application and continue throughout the entire loan origination process.

Purpose of a Quality Control Policy

The quality control policies and procedures developed by the Company are designed to:

- Protect the integrity of the loan origination function.
- Assure that quality marketable loans are originated in all branches in accordance

with Company policy and procedure, ethical business practices, investor/agency/insurer requirements, consumer protection laws, and other applicable federal and state regulations.

- Report findings and make recommendations to senior management who will take corrective action and report status as necessary to the Quality Control Department for file documentation.

The steps taken in order to help accomplish this include, but are not limited to, the following:

1. Hiring Procedures

For all loan types the Company ensures all employees involved in the origination of loans (including application through closing) are run against:

- FHFA Suspended Counterparty Program list
- LDP – HUD Limited Denial of Participation list
- GSA – US General Services Administration Excluded Party list
- OFAC – Office of Foreign Assets Control
- Freddie Mac Exclusionary List

2. Our Company has documented policies and procedures regarding the origination process that complies with all investor, State and Federal laws including but not limited to:

- State Regulations and Disclosures
- Fair Lending
- Real Estate Settlement Procedures
- Truth in Lending Act
- TRID
- The Privacy Act
- USA Patriot Act
- BSA/anti-Money Laundering
- Qualified Mortgage and Ability to Repay
- The Fair Housing Act
- Equal Credit Opportunity Act
- The Safe Act

3. Offices shall maintain current HUD, VA, and other investor guides, handbooks,

regulations, mortgagee letters, and other information relevant to the loan origination. Furthermore, each office shall maintain current Company underwriting guidelines and branch operating procedure manuals.

4. 10% of the loans processed company wide will be audited/reviewed by the manager or by a designated employee other than the originator or processor (independent of origination). The reviews will include, but are not limited to, the following: all origination documents, CD, 1003, LE, Disclosures, etc.
5. Loans shall be originated by well-trained, responsible, employees. Agents, brokers, and other non-employees may not participate in the processing of the loan.
6. Exhibits furnished to governmental agencies or to potential investors and insurers for loan approval shall be complete, factual, and properly executed.
7. Credit denial/adverse action letters shall be signed by either the manager or the person within the office designated by the manager. Any person designated by a manager shall be an authorized signatory.

Adverse action letters shall be mailed to all applicants even when loan applications are canceled unless the file contains a written request from the applicant to cancel/withdraw the application.

Timeframes Outline:

The timeframes for closing more than 15 loans per month are as follows:

- File selection is done within 30 days of month end
- Reviews are completed within 60 days of selection
- Reports to senior management within 30 days of completion and no later than 90 days from the end of the month in which the loans closed.

The timeframes for closing less than 15 loans per month:

- File selecting are performed at least quarterly
- Reports of results are given to senior management

Initial Interview and Final Uniform Residential Loan Application

The initial credit application shall be taken by an authorized full-time employee and preferably during a face-to-face interview with the loan applicant. All credit data shall be obtained in compliance with ECOA prior to counseling the applicant or taking a credit application, the applicant shall be informed of his/her rights: ECOA, fair credit reporting, financial privacy, and all other applicable fair housing and consumer protection laws. These consumer rights and other required disclosures are to be explained in plain language to the applicant prior to requesting any credit information.

At least one time prior to the submission of the final URLA, a face-to-face interview with the loan applicant shall be conducted.

The initial credit application shall be fully completed in ink in every respect and shall be signed and dated by all applicants and the interviewer. Under no circumstances is a blank credit application to be signed by the applicants. It is acceptable to have the applicant personally complete the credit application; however, where that practice is not workable, each question on the application form shall be read to the applicant and the applicant's complete response inserted.

Employees shall use due diligence in eliciting from the applicant true and accurate responses to all questions posed with an emphasis on accuracy of income, assets, liabilities, bankruptcies, judgments, etc. Employees are not to lead the applicant away from information that is possibly damaging, but shall attempt to establish the truth in all matters.

It is absolutely prohibited to overstate income or exclude or understate debts on the initial and final application. Rather, it is the responsibility of the loan processor to resolve all material conflicts and to place a clear written explanation of the resolution in the loan file. Employees are to be extremely cautious not to omit from the final application any debts or other information contained in the initial application without explanation for the same.

The loan estimate, truth in lending disclosure, servicing disclosures, HUD settlement costs booklet and product disclosure shall be provided to the applicant within three business days of receipt of the loan application. In every instance, all disclosures not executed during the initial application shall be noted at the bottom of each form "mailed to applicants on (date) by (lender employee)."

The acceptance of a blank signed loan application is prohibited. Final applications shall be signed by applicants at closing.

Credit Reports

The initial application, provided to the credit bureau, shall be a true copy of the original without any deletions or changes. The ordering of more than one credit report per applicant (except for supplemental updates), or the use of any report except from designated and approved credit bureaus is forbidden.

A handwritten explanation is required from the applicant for credit rating less than “satisfactory” above R1, 30/60/90-day notices, judgments, bankruptcy, collections, or other adverse credit reported. A handwritten explanation is also required for all credit inquiries listed on the credit report which were made within 90 days of loan application.

A loan applicant or any interested third party may not be permitted to view or make a copy of a credit report. The contents of a credit report may not be disclosed to an applicant except to the extent required by the Fair Credit Reporting Act. When adverse credit is reported loan consultants are to instruct the applicant to contact the credit bureau for a full disclosure.

Outstanding judgments listed on the credit report or otherwise known must be included in the final application. Undisclosed debts appearing on the credit report must be satisfactorily explained in writing by the applicant.

An investigation shall be conducted to resolve conflicting credit information which exists among the credit report and any other documents in the file such as the initial application or any verification forms. Any resolution of conflicting credit information which results in the exclusion of a reported debt or obligation shall be fully documented in the loan file.

The credit report may not be marked or highlighted. If the credit report reconciliation becomes complex, then a photocopy shall be made and so labeled for that purpose.

Verification Forms

VERIFICATION OF EMPLOYMENT (VOE)
VERIFICATION OF DEPOSIT (VOD)
VERIFICATION OF CREDIT
SOURCE OF FUNDS

A loan applicant may not sign any blank verification forms. The only exception to this rule will be on HUD/FHA/ loan applications when the requirements set forth in Section A of Mortgagee Letter 87-12 have been fulfilled.

It is strictly prohibited for verifications to be hand carried by applicants, sellers, realtors, loan consultants, or anyone having a financial interest in the transaction. Only on an exception basis may a non-commissioned employee hand carry a verification form to a depository, employer, creditor, or landlord. In this event, a notation as to that fact and the date of delivery must be made at the top of the form.

It is strictly prohibited to mail blank verification forms to loan applicants with instructions to sign and forward the form to employers or depositors.

Verification forms received in the office are to be date stamped, and the contents carefully compared with the initial application and the credit report. Discrepancies shall be investigated and resolved with explanatory documentation placed in the loan file.

To verify the source of funds for earnest money deposit, down payment, and settlement cost, the file shall contain adequate documentation to reasonably assure that the funds have not been borrowed.

Pre-closing Review Performed by Branch

Prior to obtaining the applicant's final signatures, the application form shall be reviewed with the applicant to ensure that the applicant agrees with each statement contained therein. By signing the application form, the applicant is certifying to the truth and accuracy of each entry.

TRID; If a client submits the six pieces of information (name, income, social security number, property address, estimate of the value of the property, and loan amount sought) that constitutes an application under the TRID Rule, the Broker/Loan Officer must ensure that a loan estimate is delivered or placed in the mail within three business days and that every loan is double checked for this compliance daily.

In no less than 10% of the loans processed in each office, the entire file should be reviewed by the manager or by a designated employee (Carmen Casey) other than the originator or processor prior to submission of the application package to the underwriter for approval. In instances where discrepancies or variances from agency investor rules or Company policy are found, it is the responsibility of the manager to discuss the problem with those employees responsible and to be certain that the error is not repeated.

If the manager discovers a pattern of deficiencies or variances, the manager must conduct a meeting of the office staff to explain the correct practices and procedures. The manager shall notify the division quality control manager of the problem and take corrective action.

If branch operating procedures permit, the loan processor or other designated person should review the HUD-1 settlement statement, termite report, title binder, survey, original hazard policy, and all underwriting conditions prior to closing.

The HUD-1 should be reviewed to assure that the terms of the loan approval and sales contract are satisfied and that the closing instructions have been followed. Where the HUD-1 has been improperly completed, a corrected HUD-1 should be requested. In addition, review other key areas on HUD-1 and compare applicable original documents:

- Earnest money credited to the borrower corresponds with sales contract and final application.
- Seller and borrower's names on title binder and sales contract should match.
- Compare cash "paid to" or "collected from" categories with loan estimate and final application.
- Check for excessive or unallowable fees charged to borrowers.
- Check for unauthorized credits or debits to contract purchase price.
- Check for unauthorized escrow.
- Names or recipients of fees other than lender shall be noted on the HUD-1. These include fees for credit report, tax service, appraisal, attorney, and survey.
- Fees paid outside closing (POC), such as up-front credit reports, appraisals, and application fees shall be noted on HUD-1. These items are to be shown as a POC in the appropriate borrower or seller column and a notation entered where the fee is described, for example, \$300.00 to ABC Appraisals, Inc.
- If the purchase contract indicates the seller will pay closing costs and if the borrower paid for anything outside closing (POC), the up-front appraisal fee and credit report fee will be refunded to the buyer.
- The complete name, address, and zip code of the borrower, seller, settlement agent, lender, and mortgage insurance case number shall appear on the HUD-1.
- Borrower, seller, and settlement agent shall sign the HUD-1.
- Check to ensure that the seller contribution limits are not exceeded.

Contractor/Employee:

Signature

Printed Name

Title

Date