

## ATTACHMENT A

1. Primary Residential Mortgage, Incorporated (“PRMI”) is a Direct Endorsement lender approved by the Federal Housing Administration (“FHA”) and the U.S. Department of Housing and Urban Development (“HUD”). As a Direct Endorsement lender, PRMI is authorized by HUD to originate and underwrite mortgage loans on HUD’s behalf, including determining a borrower’s creditworthiness and whether the proposed loan meets all applicable HUD requirements. PRMI obtained Lender Insurance status on April 29, 2008. As a Direct Endorsement Lender with Lender Insurance status, PRMI is authorized to endorse mortgages for HUD insurance, without any pre-endorsement review of the mortgage application by HUD. Prior to PRMI obtaining Lender Insurance status, HUD performed a limited review of loans PRMI submitted for insurance pursuant to the requirements of 24 C.F.R. § 203.255(c).

2. HUD required Direct Endorsement lenders, such as PRMI, to follow applicable HUD regulations and underwriting requirements in originating and underwriting mortgage loans for FHA insurance, including those requirements set out in HUD’s Handbooks and Mortgagee Letters.<sup>1</sup>

3. HUD required Direct Endorsement lenders, such as PRMI, to submit certain proposed FHA originations through a HUD-approved Automated Underwriting System (“AUS”) in conjunction with a tool known as Technology Open to Approved Lenders (“TOTAL”). According to the FHA’s TOTAL Mortgage Scorecard User Guide, TOTAL evaluated the overall creditworthiness of the applicants based on a number of credit variables. After a proposed loan was submitted, TOTAL would either: (1) approve the mortgage subject to certain eligibility criteria or other conditions, including conditions that the lender validate the information that

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<sup>1</sup> The requirements referenced in paragraphs two through eight of this document reflect standard HUD-FHA program requirements for Direct Endorsement lenders as provided in HUD’s Handbooks and Mortgagee Letters.

formed the basis for TOTAL's determination; or (2) refer the mortgage application for manual underwriting by the lender in accordance with HUD requirements. PRMI understood that TOTAL's determination was based on the integrity of the data supplied by the lender. HUD has promulgated requirements for calculating data used by TOTAL.

4. To qualify as a Direct Endorsement underwriter an underwriter must satisfy several requirements. The Direct Endorsement underwriter "must have a minimum of three years full-time recent experience (or equivalent experience) reviewing both credit applications and property appraisals." HUD Handbook 4000.4, REV-1, CHG-2, ch. 2-4.A.3; *see also* HUD Handbook 4155.2 ch. 2.A.4.a. The underwriter must also be a "reliable and responsible professional skilled in mortgage evaluation" and "must be able to demonstrate his or her knowledge and experience regarding the principles of mortgage underwriting." HUD Handbook 4000.4, REV-1, CHG-2, ch. 2-4.A.1; *see also* HUD Handbook 4155.2 ch. 2.A.4.a.

5. HUD has considered the DE underwriter to be "the focal point of the Direct Endorsement program." HUD Handbook 4000.4, REV-1, CHG-2, ch. 2-4.C. The DE underwriter must assume the following responsibilities: (1) compliance with HUD instructions, the coordination of all phases of underwriting, and the quality of decisions made under the program; (2) the review of appraisal reports, compliance inspections and credit analyses performed by fee and staff personnel to ensure reasonable conclusions and sound reports; (3) the decisions relating to the acceptability of the appraisal, the inspections, the buyer's capacity to repay the mortgage, and the overall acceptability of the mortgage loan for HUD insurance; (4) the monitoring and evaluation of the performance of fee and staff personnel used for the DE program; and (5) awareness of warning signs that may indicate irregularities and an ability to detect fraud, as well as the obligation to ensure that underwriting decisions are performed with due diligence in a prudent manner.

6. With respect to each mortgage loan submitted or endorsed by PRMI for FHA insurance, either a PRMI mortgagee representative or a PRMI Direct Endorsement underwriter was required to certify that the mortgage “is eligible for HUD mortgage insurance under the Direct Endorsement program.” For each loan that was approved using AUS, a PRMI mortgagee representative was required to certify to the “integrity of the data supplied by [PRMI] used to determine the quality of the loan [and] that a Direct Endorsement Underwriter reviewed the appraisal.” For each FHA loan that PRMI approved using manual underwriting, a PRMI Direct Endorsement underwriter was required to certify that he or she “personally reviewed the appraisal report (if applicable), credit application, and all associated documents and ha[s] used due diligence in underwriting the[e] mortgage.”

7. For every mortgage loan approved by PRMI, whether through manual underwriting or the use of an AUS, a PRMI employee was required to certify that:

I, the undersigned, as authorized representative of PRMI at this time of closing of this mortgage loan, certify that I have personally reviewed the mortgage loan documents, closing statements, application for insurance endorsement, and all accompanying documents. I hereby make all certifications required for this mortgage as set forth in HUD Handbook 4000.4.

8. When a borrower defaults on an FHA-insured loan underwritten and endorsed by a Direct Endorsement lender, such as PRMI, the lender – or if the mortgage or servicing rights were transferred after closing, the mortgage holder or servicer – has the option of submitting a claim to HUD to compensate the lender for any loss sustained as a result of the default. As such, once a mortgage loan is endorsed for FHA insurance, HUD bears the risk of the borrower defaulting on that mortgage, which is realized if an insurance claim is submitted.

9. PRMI certified for FHA mortgage insurance, pursuant to the Direct Endorsement Program, certain Released Loans that did not meet all HUD requirements, and therefore were not

eligible for FHA mortgage insurance under the Direct Endorsement Program. Certain Released Loans that PRMI certified for FHA mortgage insurance, but were in fact ineligible for FHA mortgage insurance, defaulted and were paid out of the Mutual Mortgage Insurance Fund. The following are examples of such loans:

- a. FHA Case Number 105-3701822 relates to a mortgage PRMI endorsed for FHA mortgage insurance for a property located in Georgia. PRMI underwrote the mortgage for this property using an AUS. Contrary to PRMI's certifications, PRMI did not comply with HUD rules in reviewing and approving this mortgage for FHA insurance and failed to ensure that the information entered into the AUS to obtain approval had integrity. Specifically, the loan file did not contain documentation of – (i) a HUD-1 or settlement statement to verify net equity for the sale of the borrower's prior home, and (ii) the terms and conditions of withdrawal of funds from the borrower's retirement account – required by the AUS and HUD. Additionally, PRMI failed to input the borrower's liabilities into the AUS, improperly omitting the borrower's existing mortgage and home equity loans, and the borrower's outstanding debts on two credit accounts. Because PRMI did not document the full amount of assets entered into the AUS and failed to input the full amount of the borrower's liabilities into the AUS, PRMI was not permitted to rely on the AUS recommendation as the data used by PRMI did not have integrity. HUD relied on PRMI's certification that FHA Case Number 105-3701822 was eligible for FHA insurance when HUD insured the mortgage, and would not have insured the mortgage if HUD was aware of PRMI's violations of HUD requirements and the loan's ineligibility for FHA mortgage insurance.

b. FHA Case Number 541-7482264 relates to a mortgage PRMI endorsed for FHA mortgage insurance for a property located in Virginia. PRMI underwrote the mortgage for this property using an AUS. Contrary to PRMI's certifications, PRMI did not comply with HUD rules in reviewing and approving this mortgage for FHA insurance and failed to ensure that the information entered into the AUS to obtain approval had integrity. Specifically, the loan file did not contain (i) evidence of entitlement to, or receipt of, child support income and (ii) evidence of other employment income required by the AUS and HUD. Because PRMI did not document the full amount of income PRMI entered into the AUS, PRMI was not permitted to rely on the AUS recommendation as the data used by PRMI did not have integrity. HUD relied on PRMI's certification that FHA Case Number 541-7482264 was eligible for FHA insurance when HUD insured the mortgage, and would not have insured the mortgage if HUD was aware of PRMI's violations of HUD requirements and the loan's ineligibility for FHA mortgage insurance.

c. FHA Case Number 095-1161636 relates to a mortgage PRMI endorsed for FHA mortgage insurance for a property located in Florida. PRMI underwrote the mortgage for this property using an AUS. Contrary to PRMI's certifications, PRMI did not comply with HUD rules in reviewing and approving this mortgage for FHA insurance. Specifically, PRMI failed to properly verify the borrower's earnest money deposit. Because this earnest money deposit was not properly verified, this loan was ineligible for FHA mortgage insurance. HUD relied on PRMI's certification that FHA Case Number 095-1161636 was eligible for FHA

insurance when HUD insured the mortgage, and would not have insured the mortgage if HUD was aware of PRMI's violations of HUD requirements and the loan's ineligibility for FHA mortgage insurance.

d. FHA Case Number 495-7783938 relates to a mortgage PRMI endorsed for FHA mortgage insurance for a property located in Texas. PRMI underwrote the mortgage for this property using an AUS. Contrary to PRMI's certifications, PRMI did not comply with HUD rules in reviewing and approving this mortgage for FHA insurance. Specifically, PRMI endorsed the mortgage for FHA insurance even though the borrower was not eligible for an FHA insured mortgage as the borrower was delinquent on another pre-existing FHA mortgage. Additionally, PRMI failed to properly verify the borrower's rental history. HUD relied on PRMI's certification that FHA Case Number 495-7783938 was eligible for FHA insurance when HUD insured the mortgage, and would not have insured the mortgage if HUD was aware of PRMI's violations of HUD requirements and the loan's ineligibility for FHA mortgage insurance.

10. As a result of PRMI's conduct and omissions, HUD insured certain Released Loans approved by PRMI that were not eligible for FHA mortgage insurance under the Direct Endorsement Program, and that HUD would not otherwise have insured. HUD subsequently incurred substantial losses when it paid insurance claims on those Released Loans.

11. The statements herein apply only to certain mortgages which are the subject of the release in this Agreement. This document is not an admission as to any conduct related to any mortgage not released in this Agreement, nor is it an admission of any legal liability. PRMI reserves the right to contest the use or application of this document in any future litigation.