

## ATTACHMENT A

1. Between January 2006 and December 2011, United Shore Financial Services, LLC (USFS) was a Direct Endorsement Lender approved by the Federal Housing Administration (FHA) and U.S. Department of Housing and Urban Development (HUD). As a Direct Endorsement Lender, USFS was authorized by HUD to originate and underwrite mortgage loans on HUD's behalf, including determining whether a borrower presents an acceptable credit risk to HUD and whether the proposed loan meets all applicable HUD requirements. As a Direct Endorsement Lender, USFS was authorized to endorse mortgage loans for HUD insurance without any review of the mortgage application by HUD, and to bind HUD to pay USFS or another holder of the mortgage in the event that the borrower later defaults on the mortgage.
2. HUD required Direct Endorsement Lenders, such as USFS, 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.
3. HUD required Direct Endorsement Lenders, such as USFS, 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 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 formed the basis for TOTAL's

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

4. HUD required Direct Endorsement lenders such as USFS to implement and maintain a quality control program in accordance with HUD Handbook requirements. HUD required that USFS's quality control function be independent of USFS's mortgage origination and underwriting functions. HUD required Direct Endorsement lenders such as USFS to review a sample of mortgage loan files based upon the number of FHA loans originated and/or underwritten per year. HUD Handbook 4060.1 REV-2, § 7-6.C. Direct Endorsement lenders, such as USFS, were also required to review each FHA mortgage loan that became 60 days delinquent within the first six payments, which HUD defines as "early payment defaults" or EPDs. HUD required Direct Endorsement lenders, such as USFS, in performing these quality control reviews, to review the mortgage loan file, re-verify certain information, review the soundness of underwriting judgments, document its review and any findings in a quality control report, and report the findings to senior management within one month.

5. HUD required Direct Endorsement lenders, such as USFS, to self-report to HUD all findings related to FHA mortgage loans that constituted "material violations of FHA or mortgagee requirements and represent an unacceptable level of risk" and all findings of "fraud or other serious violations." HUD Handbook 4060.1 REV-2 §§ 7-3.J & 7-4.D. Direct Endorsement lenders such as USFS were required to take "prompt action to deal appropriately with any material findings." *Id.* § 7-3.I.

6. In order to obtain Direct Endorsement status, HUD required lenders such as USFS to certify as follows:

I certify that, upon the submission of this application, and with its submission of each loan for insurance or request for insurance benefits, [USFS] has and will comply with the requirements of the Secretary of Housing and Urban Development, which include, but are not limited to, the National Housing Act (12 U.S.C. § 1702 *et seq.*) and HUD's regulations, FHA handbooks, mortgagee letters, and Title I letters and policies with regard to using and maintaining its FHA lender approval.

7. Additionally, HUD required that Direct Endorsement Lenders such as USFS to submit an annual certification stating:

I know, or am in a position to know, whether the operations of [USFS] conform to HUD-FHA regulations, handbooks, and policies. I certify that to the best of my knowledge, [USFS] conforms to all HUD-FHA regulations necessary to maintain its HUD-FHA approval, and that [USFS] is fully responsible for all actions of its employees including those of its HUD-FHA approved branch offices.

Alternatively, HUD required USFS, as a Direct Endorsement Lender, to submit a statement to HUD that it was unable to so certify and to explain why it could not execute the certification.

8. With respect to each mortgage loan submitted or endorsed by USFS for FHA insurance, either a USFS mortgagee representative or a USFS 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 an AUS, a USFS mortgagee representative was required to certify to "the integrity of the data supplied by [USFS] used to determine the quality of the loan [and] that a Direct Endorsement Underwriter review the appraisal." For each FHA loan that USFS approved using manual underwriting, a USFS 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 th[e] mortgage.”

9. For every mortgage loan USFS approved for FHA insurance, whether through manual underwriting or the use of an AUS, USFS was required to and did certify that

“I, the undersigned, as authorized representative of [USFS] 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.”

10. Additionally, for each mortgage approved by USFS, a USFS direct endorsement underwriter was required to certify, to the best of his or her knowledge, that the information in the loan application was true and correct, that the loan conditions were satisfied, and that the proposed loan met the applicable HUD requirements.

11. When a borrower defaults on an FHA-insured loan underwritten and endorsed by a Direct Endorsement Lender such as USFS, 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 and when an insurance claim is submitted.

12. The Department of Justice has investigated USFS with regard to its origination, underwriting, quality control, and endorsement practices, as well as its submission of certifications, related to certain FHA-insured single-family residential

mortgage loans originated between January 1, 2006 and December 31, 2011, and for which claims for FHA insurance benefits were submitted by June 30, 2013 (the “Released Mortgages”). The following statements apply only to the Released Mortgages.

13. Between January 2006 and December 2011, USFS certified for FHA mortgage insurance pursuant to the Direct Endorsement Program certain Released Mortgages that did not meet FHA requirements and therefore were not eligible for FHA mortgage insurance under the Direct Endorsement Program.

14. For example, certain mortgages that USFS certified for FHA insurance: (1) relied on, unverified, undocumented, and/or improperly calculated borrower income; (2) relied on overstated, unverified, undocumented, and/or improperly calculated borrower assets; (3) did not evidence or document a proper credit analysis performed in accordance with FHA requirements; (4) excluded or understated other borrower liabilities and recurring expenses that had the potential to interfere with payments on the FHA insured mortgage and thus should have been included in qualifying ratios; (5) did not contain an appraisal that was performed and reviewed pursuant to HUD requirements that adequately supported the appraised value used to support the mortgage amount; or (6) contained other deficiencies and violations of FHA requirements.

15. Additionally, certain of USFS’s actions between 2006 and 2011 did not fully comply with the FHA-HUD rules applicable to Direct Endorsement lenders, such as USFS. For example, HUD requirements prohibit paying underwriters “commissions” based on the volume or value of mortgages approved. HUD Handbook 4060:1, REV-2, ch. 2-9.A. At certain times during the relevant time period, USFS’s underwriter compensation plan, however, used a formula that expressly tied underwriter

compensation, in part, to the percentage of loans approved by the underwriter and closed by USFS.

16. USFS also did not ensure that a Direct Endorsement Underwriters always personally reviewed appraisal reports prior to USFS approving and endorsing mortgages for FHA insurance. USFS used a computer process to automatically populate the appraisal certifications with the signature of a USFS direct endorsement underwriter, regardless of the fact that in certain circumstances, the appraisal was not reviewed by that individual, or any USFS direct endorsement underwriter.

17. Certain of USFS's internal review of its early payment defaults indicated identified serious deficiencies (the most serious category of deficiencies) in a substantial percentage of FHA loans reviewed. For example, the results of USFS's April 2007 early payment default review documented that all 15 mortgages reviewed contained serious deficiencies. The majority of the 15 mortgages reviewed contained multiple serious deficiencies. In fact, the review documented a mean of over 5 deficiencies per mortgage. USFS's May 2008 early payment default review of 21 FHA mortgages documented serious deficiencies in 15 of the 21 mortgages reviewed, with many of those containing multiple serious deficiencies. USFS's January 2009 early payment default review of 126 FHA mortgages documented serious deficiencies in 47 (over 37%) of the mortgages, with the majority of those containing multiple serious deficiencies.

18. Certain USFS's random monthly quality control reviews likewise identified serious deficiencies in a substantial percentage of the loans reviewed. For example, USFS's random monthly review for August 2007 examined 38 FHA mortgages and documented serious deficiencies in over 70% of them.

19. Despite the significant problems identified by USFS' quality control reports, these reports were not always disseminated to USFS senior management. Instead, in some months, USFS's quality control manager would summarize the report in a short email that contained little information specific to USFS's FHA originations and often merely listed the most common deficiency categories, without providing any information about the magnitude or prevalence of these deficiencies. For certain other months during the relevant time period, USFS provided little or no information to senior management regarding its quality control findings. Moreover, USFS did not disseminate the results of its FHA-specific early payment default reviews to senior management.

20. In addition, USFS failed to self-report materially-deficient mortgages and serious violations of FHA requirements to HUD as it was required to do. During the relevant time period, despite internal quality control reports that documented hundreds of materially-deficient mortgages and serious violations of FHA requirements, USFS self-reported only three mortgages to HUD.

21. As a result of USFS's conduct and omissions, HUD insured hundreds of mortgages approved by USFS that were not eligible for FHA mortgage insurance under the Direct Endorsement Program, and that HUD would not have otherwise insured. HUD subsequently incurred substantial losses when it paid insurance claims on these Released Mortgages.

22. On January 10, 2014, after the United States initiated its investigation into USFS, USFS made certain discretionary distributions to its Members.

23. This document is not an admission of any legal liability. The statements herein apply only to the Released Mortgages, and are not admissions as to any conduct

related to any mortgage not released in this Agreement. USFS reserves the right to contest the use or application of this document in any future litigation.