ATTACHMENT A

1. Since at least January 2006, Regions Bank ("Regions") has been a Direct Endorsement ("DE") lender approved by the Federal Housing Administration ("FHA") and U.S. Department of Housing and Urban Development ("HUD"). As a DE lender, Regions 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 met all applicable HUD requirements. Regions obtained Lender Insurance ("LI") status in September 2008. As a DE lender with LI status, Regions is authorized to endorse mortgage loans for FHA insurance without any pre-endorsement review of the mortgage application by HUD. Regions has the responsibility to perform the pre-endorsement review and ensure it is endorsing loans for FHA insurance pursuant to the requirements of 24 C.F.R. § 203.255(f).

2. HUD required DE lenders, such as Regions, 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.[1]

3. HUD required DE lenders, such as Regions, to submit certain proposed FHA loan 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 formed the basis for TOTAL's determination; or (2) refer the mortgage application for manual underwriting by the lender in accordance

[1] The requirements referenced in paragraphs two through twelve of this document reflect standard HUD-FHA program requirements for DE lenders as provided in HUD's Handbooks and Mortgagee Letters.

with HUD requirements. Regions understood that TOTAL's determination was based upon the data submitted, as well as the integrity of the data supplied by the lender. HUD has promulgated requirements for calculating data used by TOTAL.

4. HUD required DE lenders, such as Regions, to implement and maintain a quality control program in accordance with HUD Handbook requirements for FHA loans in order to maintain DE lender status. HUD required the FHA quality control function to be independent of FHA mortgage origination and underwriting functions. HUD required DE lenders such as Regions that originated and/or underwrote 3,500 or fewer loans per year to review a 10 percent sample of loans. HUD Handbook 4060.1 REV-2, § 7-6.C. If a mortgagee originated and/or underwrote more than 3,500 loans in a year, it was permitted to review a statistically valid random sample that provides a 95 percent confidence level with 2 percent precision, in lieu of the 10 percent sample. *Id.* DE lenders, such as Regions, were also required to review each FHA mortgage loan that became 60 days delinquent within the first six payments, which HUD defined as "early payment defaults" or EPDs. HUD Handbook 4060.1 REV-2, § 7-6.D. HUD required DE lenders, such as Regions, in performing these quality control reviews, to review the mortgage loan file, re-verify certain information, review the soundness of underwriting judgments, document the review and any findings in a quality control report, and report the findings to senior management within one month.

5. HUD required DE lenders, such as Regions, 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. DE lenders, such as Regions, were also required to take "prompt action to deal appropriately with any material findings." *Id.* § 7-3.I.

6. In order to obtain DE status, HUD required DE lenders, such as Regions, 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, [Regions] 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 a DE lender, such as Regions, to submit an Annual Certification stating:

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

Alternatively, HUD required a DE lender, such as Regions, to submit a statement to HUD stating that it was unable to so certify and to explain why it could not execute the certification.

8. To qualify as a DE underwriter, an underwriter must satisfy several requirements. The DE 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.

9. 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, sound reports, and compliance with HUD requirements; (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 responsibility to ensure that underwriting decisions are performed with due diligence in a prudent manner. *Id.*

10. With respect to each mortgage loan submitted or endorsed by Regions for FHA insurance, either a Regions mortgagee representative or a Regions DE 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 Regions mortgagee representative was required to certify to the "integrity of the data supplied by [Regions] used to determine the quality of the loan [and] that a Direct Endorsement Underwriter reviewed the appraisal." For each FHA loan that Regions approved using manual underwriting, a Regions DE 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."

11. For every mortgage loan approved by Regions, whether through AUS or manual underwriting, a Regions employee was required to certify that:

> I, the undersigned, as authorized representative of Regions 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.

12. When a borrower defaults on an FHA-insured loan underwritten and endorsed by a DE lender, such as Regions, 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 obtain compensation for loss sustained as a result of the default. As such, once a mortgage loan has been endorsed for FHA insurance, HUD insures the risk of the borrower defaulting on that mortgage, which is realized if an insurance claim is submitted.

13. The Department of Justice has investigated Regions with regard to its origination, underwriting, quality control, and endorsement practices, as well as its submissions of certifications, related to FHA-insured single-family residential mortgage loans endorsed for FHA insurance between January 1, 2006 and December 31, 2011 that resulted in claims submitted through January 7, 2015 (the "Released Loans"). The following statements apply to the Released Loans only.

14. Between January 1, 2006 and December 31, 2011, Regions certified for FHA mortgage insurance pursuant to the DE Program certain Released Loans that did not meet certain HUD requirements regarding borrower creditworthiness and therefore were not eligible for FHA mortgage insurance under the DE Program. With respect to each of these Released Loans, Regions committed one or more of the following types of violations of the HUD requirements: overstating, or failing to obtain appropriate confirmation of, the borrower's income; failing to obtain appropriate confirmation of the borrower's employment; understating the borrower's liabilities; failing to obtain

appropriate confirmation regarding the source and nature of gift funds; and/or failing to properly confirm that a borrower was sufficiently up to date on mortgage payments at the time of a refinancing.

15. Between January 1, 2006 and December 31, 2011, Regions did not maintain a Quality Control ("QC") program that fully complied with the QC requirements established by HUD.

a. Regions' QC Department did not consistently review an adequate sample of FHA insured loans. As described above, HUD required a DE lender to review either 10 percent of the FHA loans it originates, or a "statistical random sampling that provides a 95 percent confidence level with 2 percent precision." HUD Handbook 4060.1, Rev-2, Section 7-3(C). Regions chose to perform the latter but did not adhere to HUD's 2 percent precision requirement. Regions used a statistical formula to determine the number of loans it needed to review. One input into that formula was an "Anticipated Defect Rate," which corresponded to the percentage of loans underwritten by Regions that was expected to contain material underwriting defects. Under the formula used by Regions, the higher the "Anticipated Defect Rate," the more loans Regions would need to review. In order to ensure compliance with the required confidence and precision levels, Regions was required to regularly update its sample selection algorithm to reflect its current deficiency rate. However, during most of the relevant period, Regions failed to update the default "Anticipated Defect Rate," which did not represent any actual or anticipated defect rate. As a result of Regions' failure to validate, update, or calculate an "Anticipated Defect Rate," Regions reviewed significantly fewer loans than required by HUD.

b. Regions also did not appropriately respond to exceptions and trends discovered during the course of its QC review. HUD Handbook 4060.1, Rev-2, Section 7-3(F) requires that a DE lender "expand the scope of the Quality Control review when fraud or patterns of deficiencies are uncovered; scope means both an increased number of files as well as a more in-depth review." Regions recognized in an internal audit that it should be performing appropriate trend analysis; however, prior to 2011, Regions did not adjust its QC review based on any trend analysis.

c. To the extent that Regions' QC Department identified deficiencies during the course of its loan review, Regions engaged in a pattern of "curing" QC findings by obtaining documentation that was not available to the underwriter at the time the loan was approved. As a result, Regions' actual defect rate reported to senior management was understated to the extent that it represented a "post-cure" defect rate.

d. Regions also failed to review EPDs in accordance with HUD guidelines. Pursuant to the HUD Handbook, Regions was required to review *all* loans that became *60* days past due within the first six months. Nevertheless, at certain times prior to 2011, as part of its EPD review, Regions reviewed only those loans that became *90* days past due. And in further violation of the HUD requirements, Regions excluded from its EPD review those loans for which it had sold the servicing rights. Moreover, until at least late 2011, Regions performed an insufficient EPD review in violation of the HUD Handbook, reviewing loans only to determine the reason for default and failing to provide any review regarding the quality of underwriting.

16. Regions did not fully adhere to HUD's self-reporting requirements. During the period between January 1, 2006, and December 31, 2011, the HUD Handbook required lenders to report "findings of fraud" or "other serious violations" or "serious material deficiencies" to HUD. During this time period, Regions' monthly QC reviews identified numerous FHA-insured loans that contained material deficiencies.

Nevertheless, Regions did not self-report any materially deficient loans to HUD until 2011.

17. As a result of Regions' conduct and omissions, HUD insured hundreds of loans approved by Regions that were not eligible for FHA mortgage insurance under the DE Program, and that HUD would not otherwise have insured. HUD subsequently incurred substantial losses when it paid insurance claims on those loans.

18. 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. Regions reserves the right to contest the use or application of this document in any future litigation.