

ATTACHMENT A

1. SecurityNational Mortgage Company (“SNMC”) is 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, SNMC 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. SNMC obtained Lender Insurance (“LI”) status in April 2006. As a DE lender with LI status, SNMC is authorized to endorse mortgage loans for FHA insurance without any pre-endorsement review of the mortgage application by HUD. SNMC has the responsibility to perform the pre-endorsement review and ensure loans are being endorsed for FHA insurance pursuant to the requirements of 24 C.F.R. § 203.255(c).

2. HUD required DE lenders, such as SNMC, to follow applicable HUD regulations and underwriting requirements in originating and underwriting mortgage loans for FHA insurance, including those requirements set out in 24 C.F.R. Parts 202 and 203 as well as in HUD’s Handbooks and Mortgagee Letters.¹

3. HUD required DE lenders, such as SNMC, 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

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

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. SNMC 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. 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.

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

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

I, the undersigned, as authorized representative of SNMC 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 DE lender, such as SNMC, 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.

9. SNMC 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 of the Released Loans that SNMC certified for FHA mortgage insurance, but were in fact ineligible for FHA mortgage insurance, defaulted and were submitted to HUD for mortgage insurance benefits, and claims were paid out of the Mutual Mortgage Insurance Fund. The following are examples of such loans:

a) FHA Case Number 491-9146954 relates to a mortgage SNMC endorsed for FHA mortgage insurance for a property located in Texas. SNMC underwrote the mortgage for this property using an AUS. Contrary to SNMC's certifications, the borrower was not eligible for an FHA insured mortgage as the borrower was delinquent on federal debt and had an unpaid court-ordered judgment. Additionally, the borrower's credit report used in the AUS analysis contained disputed and derogatory accounts, necessitating referral to a DE underwriter for analysis, yet SNMC did not refer the loan to a DE underwriter for analysis, as it was required to do. HUD relied on SNMC's certification that FHA Case Number 491-9146594 was eligible for FHA insurance when HUD insured

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

b) FHA Case Number 023-2622995 relates to a mortgage SNMC endorsed for FHA mortgage insurance for a property located in Arizona. SNMC underwrote the mortgage for this property using an AUS. Contrary to SNMC's certifications, the loan was not eligible for FHA mortgage insurance as the loan closed as an 95 percent Loan To Value ("LTV") Cash Out Refinance even though the borrower was more than 30 days late on the underlying mortgage, which, per HUD rules, limits the LTV to 85 percent. Additionally, the data input into the AUS did not have integrity as the loan file did not contain a paystub evidencing the borrower's current income and employment status, as required by HUD. HUD relied on SNMC's certification that FHA Case Number 023-2622995 was eligible for FHA insurance when HUD insured the mortgage, and would not have insured the mortgage if HUD was aware of the loan's ineligibility for FHA mortgage insurance.

c) FHA Case Number 292-5069208 relates to a mortgage SNMC endorsed for FHA mortgage insurance for a property located in Missouri. SNMC underwrote the mortgage for this property using an AUS. Contrary to SNMC's certifications, the loan was not eligible for FHA mortgage insurance as the data input into the AUS to obtain approval did not have integrity. Specifically, the loan file did not contain documentation—evidence of entitlement to, or receipt of, child support

income—required by the AUS and HUD. Additionally, SNMC entered a base monthly income into the AUS that exceeded the base monthly income appearing on the borrower’s paystubs by more than \$800. HUD relied on SNMC’s certification that FHA Case Number 292-5069208 was eligible for FHA insurance when HUD insured the mortgage, and would not have insured the mortgage if HUD was aware of the loan’s ineligibility for FHA mortgage insurance.

d) FHA Case Number 241-8041616 relates to a mortgage SNMC endorsed for FHA mortgage insurance for a property located in Arizona. SNMC manually underwrote the mortgage for this property. Contrary to SNMC’s certifications, the loan was not eligible for FHA mortgage insurance as the borrower was not current on the mortgage loan being refinanced into an FHA insured mortgage. Even though the borrower was more than 4 months delinquent on his current mortgage, SNMC permitted the borrower to refinance into an FHA insured mortgage, in violation of HUD requirements. HUD relied on SNMC’s certification that FHA Case Number 241-8041616 was eligible for FHA insurance when HUD insured the mortgage, and would not have insured the mortgage if HUD was aware of the loan’s ineligibility for FHA mortgage insurance.

e) FHA Case Number 492-7868236 relates to a mortgage SNMC endorsed for FHA mortgage insurance for a property located in Texas. SNMC manually underwrote the mortgage for this property. Contrary to SNMC’s certifications, the loan was not eligible for FHA mortgage insurance as

SNMC overstated the borrower's income by including bonus income earned by the borrower that was significantly declining year to year, failed to include in the borrower's monthly debt calculation child support deductions appearing on the borrower's pay stub, and did not adequately analyze the borrower's credit history, which included more than \$80,000 in open collection accounts. HUD relied on SNMC's certification that FHA Case Number 492-7868236 was eligible for FHA insurance when HUD insured the mortgage, and would not have insured the mortgage if HUD was aware of the loan's ineligibility for FHA mortgage insurance.

10. As a result of SNMC's conduct and omissions, HUD insured certain Released Loans approved by SNMC 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.

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