

ATTACHMENT A

1. Between October 2008 and March 2012, MetLife Bank, N.A. (“MetLife Bank”) was a Direct Endorsement lender approved by the Federal Housing Administration (“FHA”) and U.S. Department of Housing and Urban Development (“HUD”). As of August 30, 2013, MetLife Bank merged into MetLife Home Loans LLC, with MetLife Home Loans LLC as the surviving entity. Hereafter, MetLife Bank and MetLife Home Loans LLC are referred to as MLHL. As a Direct Endorsement lender, MLHL was 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. MLHL obtained Lender Insurance status in October 2010. As a Direct Endorsement lender with Lender Insurance status, MLHL was authorized to endorse mortgage loans for HUD insurance without any pre-endorsement review of the mortgage application by HUD. Prior to obtaining Lender Insurance status, HUD performed a limited review of loans MLHL submitted for FHA insurance pursuant to the requirements of 24 C.F.R. § 203.255(c).

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

3. HUD required Direct Endorsement lenders, such as MLHL to submit certain proposed FHA originations through a HUD-approved Automated Underwriting

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

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. TOTAL also either: (1) approved 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) referred the mortgage back to the lender for manual underwriting in accordance with HUD requirements. MLHL understood that TOTAL’s determination was based on the integrity of the data supplied by the lender. HUD has promulgated requirements regarding how to calculate certain data used by TOTAL.

4. HUD required Direct Endorsement lenders such as MLHL, to implement and maintain a quality control program in accordance with HUD Handbook requirements for FHA loans in order to maintain their Direct Endorsement lender status. HUD required the FHA quality control function to be independent of FHA mortgage origination and underwriting functions. HUD required Direct Endorsement lenders such as MLHL, as part of their quality control function, to review a sample 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 were also required to review each FHA mortgage loan that became 60 days past due within the first six payments, which HUD defined as “early payment defaults” or EPDs. *Id.* HUD required Direct Endorsement lenders such as MLHL, 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 MLHL 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 MLHL were also required to take “prompt action to deal appropriately with any material findings.”

6. HUD required Direct Endorsement lenders such as MLHL, to obtain Direct Endorsement status, 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, [MLHL] 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 Direct Endorsement lenders such as MLHL to submit an Annual Certification stating:

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

or submit a statement to HUD that it was unable to so certify.

8. With respect to each mortgage loan submitted or endorsed by MLHL for FHA insurance, either a MLHL mortgagee representative or a MLHL 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 MLHL mortgagee representative was required to certify to “the integrity of the data supplied by [MLHL] used to determine the quality of the loan [and] that a Direct Endorsement Underwriter reviewed the appraisal.” For each FHA loan that MLHL approved using manual underwriting, a MLHL 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 approved by MLHL, whether through manual underwriting or the use of an AUS, a MLHL direct endorsement underwriter was required to certify that:

“I, the undersigned, as authorized representative of [MLHL] 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 loan approved by MLHL, a MLHL 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 MLHL, the lender (or, if MLHL transferred the mortgage or servicing rights 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 insures the risk of the borrower defaulting on that mortgage, which is realized if an insurance claim is submitted.

12. The Department of Justice has investigated MLHL 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 September 1, 2008 and March 31, 2012, and for which claims for FHA insurance benefits had been submitted by August 25, 2014 (the “Released Loans”). MLHL was a Direct Endorsement lender from October 2008 forward. The following statements apply to the Released Loans only.

13. Between September 1, 2008 and March 31, 2012, MLHL certified for FHA mortgage insurance pursuant to the Direct Endorsement Program certain Released Loans that did not meet certain HUD requirements and therefore were not eligible for FHA mortgage insurance under the Direct Endorsement Program.

14. MLHL’s Quality Control Department found that a substantial percentage of the loans it reviewed contained “significant” errors,² the most serious error rating

² MLHL’s definitions of its risk ratings changed over time as it adopted new QC Plans. In March 2009, MLHL added a “Moderate” risk rating. That version of the MLHL QC Plan defined “Moderate Risk” as follows: “Issues were identified such as missing documentation or unresolved questions. Failure to correct these could result in moderate risk to the investor.” That version defined “Material Risk/Significant Finding” as follows: “Issues were identified that could potentially affect the salability, insurability or collectability of the loan.” A later version (adopted in August 2011) defined “Moderate Risk” as follows: “Investor and government agency requirements and guidelines have been met, but issues with MLHL requirements were identified.” The later version defined “Material Risk/Significant Finding” as follows: “Requirements were not met, therefore posing significant risk with MLHL investors and/or government agencies.” MLHL did not tie its definitions to HUD requirements because its risk definitions applied

MLHL's Quality Control Plan contained. With respect to FHA loans, the Significant errors identified non-compliance with HUD requirements. These error rates demonstrated that certain of the loans MLHL approved were not eligible for FHA mortgage insurance. MLHL's Quality Control Department routinely distributed its findings, including these high Significant error rates, to members of MLHL's senior management.

15. In September 2008, MLHL purchased certain assets and liabilities pursuant to an Asset Purchase Agreement with First Tennessee Bank, National Association ("First Tennessee"). As part of the due diligence process of the purchase, MLHL learned that First Tennessee's Quality Control Department determined that 5 percent of the loans First Tennessee underwrote contained material errors, an error rate that increased to 15 percent after First Tennessee moved the Quality Control function to an off-shore vendor. At the time of the transaction, MLHL recognized that a 15 percent material error rate was an issue that represented "some weakness in the underwriting process," and requested First Tennessee to implement a remediation plan.

16. During the transaction's due diligence process, MLHL hired an outside consultant to analyze First Tennessee's loan quality. In contrast to First Tennessee's internal quality control findings, the outside consultant retained by MLHL found over half the total loans First Tennessee underwrote contained material errors prior to any

to all its loan types. HUD defined "Moderate Risk" as follows: "The record contained significant unresolved questions or missing documentation. Failure to resolve these issues has created a moderate risk to the mortgagee and FHA." HUD Handbook 4060.1 REV-2, § 7-4. HUD defined "Material Risk" as follows: "The issues identified during the review were material violations of FHA or mortgagee requirements and represent an unacceptable level of risk." *Id.*

efforts to mitigate or resolve the findings. MLHL made no attempt to determine if any of the findings by the outside consultant could be mitigated or resolved.

17. After the transaction, First Tennessee conducted quality control for MLHL for loans closed in 2008. When MLHL's Quality Control Department began conducting the quality control function for loans closed in January 2009, and thus rating risks, the overall Significant error rate increased to 48 percent for that month, reaching a high of 61 percent in February 2009. The overall Significant error rate remained above 25 percent through July 2010. From August 2010 through May 2011, the overall Significant error rate ranged from 17 percent to 7 percent.

18. MLHL also reviewed "early payment defaults" or EPDs, loans that became 60 days past due within the first six payments. When First Tennessee conducted the review in 2008, the Significant error rate for EPDs ranged from 0 percent to 50 percent. When MLHL's Quality Control Department began conducting the quality control function, the overall Significant error rate for EPDs increased to 75 percent and never fell below 15 percent through March 2012, when MLHL ceased its mortgage loan operations.

19. These overall error rates were based upon a review of a statistical sample of mortgage loans and were not FHA-specific, and MLHL neither calculated nor discussed FHA-specific findings. As part of its investigation, the Department of Justice calculated an FHA-specific Significant error rate for the Released Loans from MLHL's loan-level Quality Control data. This analysis shows Significant error rates that were higher than the overall Significant error rate. The FHA-specific Significant error rate that the Department of Justice calculated reached a high of 68 percent in February of 2009,

and remained above 25 percent through July of 2010. Similarly, the FHA-specific EPD Significant error rate was higher than the overall EPD Significant error rate. During the relevant time period, the FHA-specific EPD Significant error rate ranged from 20 percent to 83 percent, according to the Department of Justice's analysis.

20. MLHL's error rates were discussed monthly at credit meetings. For example, at the June 2009 "Consumer Credit Committee Meeting," MLHL's Quality Control Manager reported overall Significant error rates over 45 percent (January 2009 QC report). At the July 2010 "Senior Credit Committee Meeting," MLHL's Quality Control Manager reported an overall Significant error rate of 30 percent for the month of March and stated that for April it was "expected to be the same." (March 2010 QC report).

21. MLHL's senior management was aware of the high overall Significant error rates throughout 2009 and 2010, as quality control reports were regularly circulated to the Chief Executive Officer and the Board of Directors. MLHL's former Chief Risk Officer acknowledged that, when he joined MLHL in August of 2010, the overall Significant error rate had not dropped below 20 percent, that it was generally known by MLHL senior management that the error rate was too high, and that the error rate needed to be reduced.

22. While the overall Significant error rate identified by MLHL decreased in 2010 and 2011, during the same time period, MLHL more frequently downgraded FHA loans from "Significant" to "Moderate." In one instance a MLHL quality control employee wrote, "Why say Significant when it feels so Good to say MODERATE," in an internal email discussing loans with findings to be downgraded.

23. Even though MLHL was aware of its high overall Significant error rate and that some of the loans it certified for FHA insurance were not eligible for FHA insurance, MLHL reported fewer Released Loans to HUD than were required to be reported. Initially, MLHL did not give MLHL's Quality Control Manager authority to report loans to HUD because it was obtaining legal advice on the issue. In February 2010, MLHL's Quality Control Manager began reporting only loans involving confirmed third-party fraud or misrepresentations, including third-party fraud or misrepresentations that MLHL found in 2009 and 2010. MLHL's Quality Control Manager alerted senior management that MLHL approved loans with Significant findings that should be reported to HUD, but she was instructed not to report such loans at that time. It was not until November 2010 that MLHL began reporting certain MLHL approved loans with Significant findings that MLHL did not mitigate or resolve. However, MLHL did not report loans with Significant findings that MLHL found in the 2009 and 2010 time period as it had done with third party misrepresentations. Overall, between January 2009 and December 2011, MLHL's internal Quality Control department identified 1,097 FHA mortgage loans underwritten by MLHL with a Significant/Material finding, but MLHL reported only 321 mortgages to HUD. MLHL did not self-report any loan with Significant findings related to MLHL's underwriting and origination for the 970 Significant findings MLHL identified prior to November 2010.

24. As a result of MLHL's conduct, HUD insured hundreds of loans approved by MLHL that were not eligible for FHA mortgage insurance under the Direct Endorsement Program, and that HUD/FHA would not otherwise have insured. HUD

subsequently incurred substantial losses when it paid insurance claims on those Released Loans.

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