

JOINT AGREEMENT

Option One Mortgage Corporation ("Option One") and the United States Attorney's Office for the Eastern District of Pennsylvania ("U.S. Attorney's Office"), hereby jointly agree to the following provisions in connection with Option One's fraud detection and prevention program.

WHEREAS, Option One is a mortgage lender that principally originates loans that are submitted by independent mortgage brokers. This lending – known as indirect or wholesale lending – occurs throughout the United States, including in the Eastern District of Pennsylvania. Most of Option One's loans are "nonprime" loans, typically made to borrowers with impaired credit or who can otherwise not obtain traditional "prime" loans.

WHEREAS, Option One and the U.S. Attorney's Office both agree that fraud is a significant problem in the mortgage lending industry and has affected the nonprime lending market particularly severely. It is a priority of the office of the U.S. Attorney for the Eastern District of Pennsylvania and of Option One to combat such fraud.

WHEREAS, instances of fraud occurred in the Eastern District of Pennsylvania in connection with certain mortgage loans originated by Option One. An investigation by the U.S. Attorney's Office discovered that independent mortgage brokers had, through several schemes, committed significant fraud in loans they submitted to Option One. The fraud included inflated appraisals, fictitious charitable grants for borrowers to apply toward down payments, misrepresentations concerning cash brought to closing, and excessive real estate broker's commissions which were used to recoup the funds that mortgage brokers had provided to borrowers for such down payments.

WHEREAS, in response to the U.S. Attorney's Office initial inquiry, Option One began an immediate and comprehensive review of its policies and procedures related to fraud detection and prevention. The review led Option One to revise and enhance many of its then current fraud-related policies and procedures, as well as to create significant new policies and procedures to address the growing problem of fraud in the mortgage industry. These policies and procedures are summarized in the attached Option One Mortgage Company Statement of Fraud Detection and Prevention Program, which is incorporated herein by reference. The U.S. Attorney's Office believes that, with these enhancements, Option One has in place a proactive, innovative fraud detection and prevention program that is designed to prevent future incidents of fraud and that can become a model for other mortgage lenders.

WHEREAS, the U.S. Attorney's Office has made no finding that Option One violated any law or regulation. In fact, from the time the U.S. Attorney's Office first contacted Option One regarding its intent to initiate an inquiry and since, Option One has been forthcoming,

responsive, cooperative and receptive to suggestions for strengthening its existing fraud detection and prevention program. The U.S. Attorney's Office and Option One jointly wish to memorialize Option One's commitment to maintaining its fraud detection and prevention program.

WHEREAS, recognizing the importance of consumer education and counseling in preventing fraud. Option One voluntarily decided to provide \$50,000 to the Philadelphia Don't Borrow Trouble Hotline, \$25,000 to the Lehigh Valley Don't Borrow Trouble Hotline, and \$25,000 to the suburban Philadelphia Don't Borrow Trouble Hotline. The amount is to be provided on or before December 31, 2005.

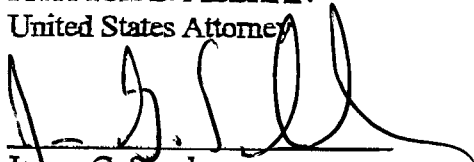
Accordingly, and based on the foregoing, it is hereby **AGREED** by and between Option One and the U.S. Attorney's Office that:

- (i) Pursuant to the instructions of the U.S. Attorney's Office contained in a March 15, 2005, letter from Michael S. Blume to Andrew L. Sandler, Option One shall provide to the U.S. Attorney's Office two reports that Option One has engaged to be prepared by a qualified third party approved by the U.S. Attorney's Office confirming Option One's compliance with the fraud detection and prevention program attached hereto and incorporated herein by reference. The first such report will cover the period of January 2005 through December 2005 and the second will cover the period between January 2006 through December 2006. The reports shall include information with respect to the scope and frequency of all monitoring activities undertaken under the fraud detection and prevention program attached hereto.
- (ii) Upon request of the U.S. Attorney's Office, Option One shall make its employees reasonably available for interview concerning the reports described in sub-paragraph (i) above.
- (iii) The required reports described in sub-paragraph (i) above may be hand-delivered or sent by certified mail, to United States Attorney's Office, Attention: Chief, Civil Division (Option One Mortgage Corporation), 615 Chestnut Street, Suite 1250, Philadelphia, Pennsylvania, 19106.

SIGNATURES APPEAR ON FOLLOWING PAGE

PATRICK L. MEEHAN
United States Attorney

By:



James G. Sheehan
Associate United States Attorney

Date:

3/11/05

By:



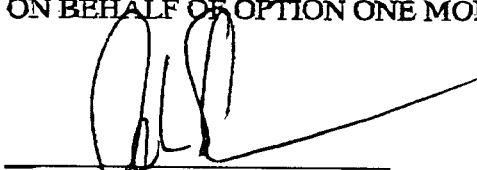
Michael S. Blume
Assistant United States Attorney

Date:

3/16/05

ON BEHALF OF OPTION ONE MORTGAGE CORPORATION

By:



Andrew L. Sandler
Anand S. Raman
Lesley B. Whitcomb

Date:

3/15/05

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OPTION ONE MORTGAGE CORPORATION

STATEMENT OF FRAUD DETECTION AND PREVENTION PROGRAM

OVERVIEW:

Option One is committed to building and maintaining a comprehensive, industry-leading fraud detection and prevention program. The Company has made the detection and prevention of fraud one of its highest priorities. This dedication to increasing awareness and halting the spread of fraud extends from Option One's senior management down to every employee at its branches.

Option One has long been committed to responsible lending and servicing practices. In addition, it has concentrated its efforts with respect to fraud detection and prevention program in response to the rise in the incidence of fraud. The enhancements that Option One has undertaken include (1) the reorganization of the corporate reporting structure and the addition of several new positions dedicated to the detection and prevention of fraud; (2) the revision of fraud-related policies and the creation of new policies aimed to prevent fraud and other misconduct; (3) the development of targeted reviews intended to identify instances of fraud and the responsible parties; (4) specialized training to increase fraud awareness; (5) the institution of regularized reports by the Chief Risk Officer to the Audit Committee of the parent company's Board of Directors; (6) the creation of an anonymous hotline for Option One employees to submit inquiries and concerns regarding potential misconduct; and (7) oversight of the hotline activity by the Chief Risk Officer. These and other measures that Option One has developed and implemented are described more fully below.

KEY ASPECTS OF THE PROGRAM:

- **Corporate Commitment.** Option One's commitment to fraud prevention extends from the top down throughout the Company, and Option One continually demonstrates to all of its employees that fraud cannot and will not be tolerated. For example, in January 2004, a memo from Option One's CEO expressed the need for heightened sensitivity to the growing problem of fraud. Continued training and fraud awareness presentations further emphasize the importance that Option One has placed on the detection and prevention of fraud.
- **Fraud Steering Committee.** Option One has a Fraud Steering Committee, which serves as the senior body for guiding corporate-wide anti-fraud policies. The Committee has the authority to order investigations, terminate employees or suspend brokers, and recommend policy revisions. Membership on the Committee comprises senior-level officers, including the Chief Risk Officer, General Counsel, Chief Appraiser, Chief Financial Officer, Senior Vice President for Credit Oversight and Senior Vice President for Wholesale Operations.

- **Fraud Committee.** Option One also has an inter-departmental Fraud Committee, which acts as a forum for the exchange of ideas, methods and recommendations for fraud detection and prevention. This Committee is chaired by the Company's Director of Portfolio Risk, and includes representatives from the Servicing, Wholesale, Appraisal, Training, Risk Management, Risk Mitigation, Asset Review, Broker Approval and Review, Closing Operations, Compliance, Underwriting, Human Resources and Secondary Marketing departments.
- **Independent Reporting Structure.** While all of Option One's departments prioritize the detection and prevention of fraud, primary responsibility rests with the Chief Risk Officer. Option One has reorganized its reporting structure to create a direct line from the Chief Risk Officer to the Company's Chief Executive Officer, independent from the Chief Operating Officer and the operational divisions of the Company. Personnel in departments including Portfolio Risk, Broker Approval and Review, Compliance and Risk Mitigation in turn report up to the Chief Risk Officer.
- **Risk Mitigation Department.** Option One has a dedicated Risk Mitigation Department, which investigates and takes action regarding fraud and improper conduct by employees and third parties. The department's responsibilities include assisting branch associates in responding to concerns regarding loan documentation and conducting independent reviews of loan files, brokers and other third parties who are involved in the application process.
- **Pre-Funding Reviews.** The Risk Mitigation Department conducts reviews of specific loan file documents, prior to loan funding, at the request of branch associates. These reviews may include calling to re-verify employment, confirming loan file information or taking other steps to ensure the accuracy and legitimacy of loan documents prior to funding.
- **Post-Funding Reviews.** The Risk Mitigation Department also conducts post-funding reviews, which typically involve the in-depth examination of multiple loans submitted by the same broker or Account Executive. These reviews may be triggered by delinquency reports, requests from the branches or the Appraisal, Servicing, Asset Management or Compliance departments. In addition, referrals for review are obtained from the Company's Consumer Complaints Task Force, Servicing High Risk Group and Legal Department. These reviews are supplemented by those performed by the Quality Control Department, some of whose analyses are directed toward the detection of mortgage fraud.
- **Corporate Appraisal Department.** The corporate Appraisal Department reviews appraisals on a sample basis. These reviews aid in the detection of property "flips," inflated appraisals and other forms of mortgage loan fraud. This department also tracks the performance of appraisers and maintains lists of "advised" (on-watch) and suspended appraisers.
- **Closing Department.** Option One's corporate Closing Department monitors closing agents, maintains a list of on-watch and suspended closing agents, and provides anti-

fraud training to branch closers. In addition, Option One requires additional documentation for loans submitted by brokers who are affiliated with a closing agent.

- **Broker Approval.** Option One requires brokers to submit a detailed application, which is evaluated at both the branch and corporate levels prior to approval. This approval process includes verification of licenses, background searches and scrutiny of brokers' affiliations with other third parties, such as closing agents, involved in the mortgage lending business.
- **Broker Watch Lists.** All new brokers are automatically placed on a watch list for at least their first five loan submissions, ensuring that their loans will be underwritten by a senior underwriter and specially scrutinized. In addition, established brokers who are suspected of fraud or whose loans are not performing as expected (e.g., high rate of default) are placed on a watch list and their loan applications are likewise scrutinized.
- **Prompt and Decisive Action in the Event of Fraud.** Option One immediately takes action against those brokers found to have committed fraud and suspends them, where appropriate. Option One also may make referrals to appropriate law enforcement agencies and authorities. In addition, Option One maintains a Barred Individuals List of individuals whose conduct has warranted suspension or termination. This list includes brokers, loan officers, closing agents, appraisers, and others who have committed fraud against Option One. Option One will not originate a loan in which any individual on the Barred Individuals List is known to be involved in any capacity.
- **Specialized Training.** Option One conducts specialized "Red Flags" training at the start of the tenure of each employee involved in the loan origination process. This training includes a review of a specially developed Red Flags Guide that features examples and explanations of fraudulent schemes. Employees must certify that they have completed this training and must be re-certified annually to ensure that they remain aware and educated as to current industry trends. The Red Flags Guide is continually updated as new schemes are uncovered and information is learned by the Company.
- **Training of Third Parties.** In addition to training its own employees, Option One conducts training for its business partners that addresses the importance of detecting and preventing fraud. This education currently includes courses offered through Option One University and Campus MBA for brokers and other third parties, newsletters that address current issues in the industry, and speeches and classes conducted by Option One senior management at industry conferences.
- **Source and Seasoning Policy.** In order to combat down payment fraud, Option One instituted a source and seasoning of funds policy in April 2004 for all full documentation and stated income loans. This policy requires that the source of funds paid toward a borrower's down payment must be verified or must have been in the borrower's bank account for at least thirty days prior to the loan closing.
- **Anti-Flipping Policy.** The Company deters property "flipping" by placing significant restrictions on loans secured by properties that have been sold within the prior

12 months. With respect to such applications, the Company requires a number of additional safeguards, such as additional documentation for home improvements and a technical review of the appraisal where the home value has increased by more than 10%.

- **Targeted Broker and Account Executive Reviews.** The Company has initiated comprehensive reviews of selected account executives and brokers. The account executives and brokers are targeted for review based on risk factors such as higher than expected delinquency rates, early payment default or loss severity, and unusual product mix. The results of these reviews are provided to the Fraud Steering Committee and may trigger an in-depth review of loan files for fraud.
- **Branch Investigations.** When Option One suspects instances of fraud at one of its branches or questions the possible involvement of branch employees in fraudulent activity, senior management directs in-depth branch investigations, which may lead to termination of employees and referrals for prosecution of third parties.