



U.S. Department of Justice

United States Attorney

Eastern District of Pennsylvania

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April 28, 2006

Alan B. Horn
Executive Vice President and General Counsel
American Home Mortgage Investment Corp.
c/o Mitchel H. Kider
Weiner Brodsky Sidman Kider PC
1300 Nineteenth Street, NW
Fifth Floor
Washington, DC 20036-1609

RE: Settlement Agreement

Dear Mr. Horn:

Pursuant to paragraph 2 of the Settlement Agreement in United States ex rel. Cynthia Santore Smith v. Columbia National, Inc., No. 99-6605 (E.D. Pa.), I am writing to set out the terms of the referenced additional consideration. Any terms defined by the Settlement Agreement apply herein. What is more, the signatories to this letter warrant that they have authority to bind the parties they represent.

For all claims for FHA insurance benefits submitted by Defendant within five (5) years after the effective date of the Settlement Agreement referenced above in connection with FHA insured loans originated by the Bensalem Office with an FHA Case Number issue date on or between January 1, 1997 to September 1, 1999 (hereafter referred to as "future claims"), Defendant agrees to utilize the checklist that is Attachment A, hereto. If any particular loan is determined by Defendant not to have any material exception or finding of fraud following the review of the criteria set forth on Attachment A, then Defendant may, in its sole discretion, submit the insurance claim to HUD. The submission of a future claim shall be deemed to include a certification by the head of quality assurance for American Home Mortgage Servicing, Inc., or its affiliate, that Defendant in good faith and with reasonable due diligence utilized the checklist that is Attachment A, hereto. Provided that, in connection with any future claim, the Defendant utilized the checklist that is Attachment A, hereto, in good faith and with reasonable due diligence, the United States agrees that for any future claim submitted after the effective date of the Settlement Agreement referenced above that its sole remedy against Defendant as pertains to conduct relating to loan origination shall be for indemnification for actual expenses and losses.


Alan B. Horn
April 28, 2006
Page 2

Should Defendant fail to utilize the checklist that is Attachment A as required by this letter, then the United States may seek any applicable remedy against Defendant as pertains to conduct relating to loan origination.

On behalf of Defendant and to acknowledge the obligations contained herein, please sign and date this letter where indicated below. Once executed, return the original to me, and retain a copy for your files.

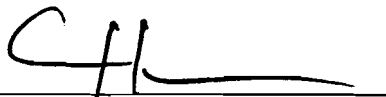
Sincerely,

PATRICK L. MEEHAN
United States Attorney



Michael S. Blume
Assistant United States Attorney

APPROVED: _____



Alan B. Horn
Executive Vice President and General Counsel
American Home Mortgage Investment Corp.

**Attachment A
Columbia National, Inc.**

Audit Checklist for CNI - Bensalem Loans

Audit date: _____ Loan #: _____

Borrower: _____ Reviewer: _____

Default date: _____ Loan Officer: _____

U/W: _____ Closing date: _____

Realtor: _____

Mortgage Loan Application

- Number of years on the job/in that profession inconsistent with borrower's age.
- Significant or contradictory changes in debt, employment, income or assets from the initial to the final application.
- Borrower is purchasing property from landlord or employer.

Credit Report

- Variance in residence data from other file documentation.
- Length of time on credit bureau file inconsistent with buyer's age.
- Social Security number is invalid or differs from loan application, W-2s, pay stubs, tax returns, or other alternate verification documentation.
- Make sure all debts with payments of 10 months or more are included in calculation of the total debt to income ratio. Any total debt to income ratio over 41% must have compensating factors.
- File should contain explanation for derogatory credit. Does explanation make sense?
- Recent inquires on the original credit report should be explained, unless no explanation is required because of Automated Underwriting Findings (AUS).
- Debts being paid off prior to closing. The file must document the source of funds used to pay off the debts.

Verification Of Rent (VOR)

- Verification of Rent is for the same address as on the borrower's bank statement and pay stubs. If not, the borrower as required has addressed the conflicting information regarding his residence.

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Verification of Employment (VOE)

- Income is out of line with the type of employment.
- Commission-type position with "base" salary only (and vice versa).
- Round dollar amounts in (i.e., year-to-date or prior year's earnings).
- "Squeezed-in" numbers, handwriting, etc.
- Person verifying employment appears to be related to the borrower.
- "White-outs," cross-outs.
- Credit explanation indicates that borrower was late due to illness/layoff, but income on VOE is not lower during that time period.
- File must contain required documentation for all income used to qualify the borrower for the loan.
- Income stability must be documented.
- Review to make sure income was calculated correctly.
- Make sure documentation is not outdated.
- For verbal verification, employer telephone numbers should be obtained from the public telephone records (internet, directory assistance, telephone book, etc.), rather than the loan application.
- Check employer's address on the Verification of Employment form. Compare address to the W-2s.
- For self-employed borrowers, the required documentation is:
 - Signed and dated individual tax returns, plus all applicable schedules, for the most recent two years;
 - Signed copies of federal business income tax returns for the last two years, with all applicable schedules, if the business is a corporation, an S corporation, or a partnership;
 - A year to date profit-and-loss (P&L) statement and balance sheet;
 - A business credit report on corporations and S corporations.

Paystubs

- Form is handwritten.
- Check numbers do not increase chronologically.
- Round dollar amounts.
- Amounts withheld for Social Security, FICA, Medicare and other government programs are inconsistent with the level required.
- Year-to-date totals do not total accurately from paycheck to paycheck.
- Social Security number is not consistent with other loan-file documents.

Form W-2/1099

- Form is handwritten.
- Different type/font within the form.

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- Employer identification number is formatted other than XX-XXXXXXX (two digits, hyphen, seven digits) and/or other than numeric (could be invalid).
- Employer and employee names or addresses are inaccurate.
- Round dollar amounts.
- Income reflected on W-2 statements is different than income reported on mortgage application, VOE and tax returns.

Tax Returns (Form 1040)

- Address and/or profession does not agree with other information submitted on the mortgage application.
- Evidence of "white-out" or other alterations.
- No estimated tax payments by self-employed borrower (Schedule SE required); or self-employment tax claimed, but self-employment not disclosed.

Schedule A (Itemized Deductions)

- Real estate taxes and/or mortgage interest is paid but no property is owned (or vice versa).

Schedule B (Interest and Dividend Income)

- Amount or source of income does not agree with the information submitted on the mortgage application.

Schedule C (Profit/Loss from Business Owned)

- Gross income does not agree with total income on Form 1099s.
- Wages are paid, but there is no employer identification number.

Schedule E (Rents and Royalties)

- Additional properties are listed, but not shown, on the mortgage application.
- Mortgage interest is deducted but no mortgage is disclosed.

Verification of Deposit (VOD); Bank Statements

- Evidence that VOD may have been hand-carried (i.e., folded, not creased).
- "Squeezed-in" numbers, handwriting, etc.
- Bank account not in borrower's name.
- "White-outs," cross-outs.
- Bank statements reflect balances inconsistent with opening/closing balances.

Columbia National, Inc.

Source of Funds

- File must document the borrower's source of funds, e.g., verification of deposit (VOD), bank statements, gift, grant, etc.
- Make sure documentation is not outdated.
- If the borrower received a gift, the transfer of gift funds must be documented.
- Gift letter should be completely filled out and signed by appropriate parties. Gift should be from an acceptable source as per 1-IUD Handbook 4155.1 REV-4 CHG-1, paragraph 2-10. (that gift letter is not from an interested party, such as the seller or the realtor).
- Seller and/or lender credit appropriately applied to borrower's closing costs and/or prepaids.

Checks (To the extent checks are in the file)

- Numbers, payee or other information appear to be altered Bank and/or account number is inconsistent with the information on application.
- Dollar amount is not encoded correctly on check.
- Check number does not agree with encoded number.

Sales Contract

- Borrower is not shown as purchaser.
- Seller is a Realtor, relative or employer.
- Name and address on earnest-money deposit check is different from that of the buyer.
- Earnest-money deposit checks have inconsistent dates; for example,
 - o Check #111 dated November 1
 - o Check #113 dated September 1
 - o Check #114 dated October 1

Preliminary Title Report/Title Search

- Property seller not on the title (purchase transactions only).

Appraisal

- Appraisal indicates owner of record is the same as the sales contract and HUD-1. Underwriter should have required the appraiser to analyze within the last year the sale of the subject property or any pending sale. If the property is flipped, the appraiser must provide an accurate or complete analysis of the prior sales transactions that occurred within one year of the date of the appraisal.
- The appraiser must clearly state how the sale was verified and to what extent.

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- Make sure there is an accurate description and evaluation of subject property.
- Appropriate comparables are used.
- Photos are not from MLS.
- Large adjustments are explained.
- Compliance inspection report completed for items listed on the valuation condition sheet.

HUD-1/Settlement Statement

- Names and addresses of property seller and buyer vary from other loan documentation.
- Sales price differs from sales contract.
- Reference is made to undisclosed secondary financing.
- Down payment differs from sales contract

Additional Items

- Type, spacing, and/or font varies within document from a single source.
- Inconsistent borrowers' names, phone numbers, addresses, Social Security numbers, or handwriting throughout file.
- Parties to the transaction have more than one role (for example, Realtor is landlord, employer is gift donor).
- Borrower appears to be related to any other party reflected in the file except the gift donor (for example, verifier of funds or employment, appraiser, escrow officer, etc.).
- Borrowers' signatures differ throughout the loan package.
- Borrower's identity confirmed.
- Loan closed at interest rate that the loan was underwritten and approved.
- All parties on the title are required to sign the mortgage note.
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- Make sure that an interested party to the transaction did not process the loan. Underwriter reviewed all original documents.
- Loan closed according to how it was underwritten. All the underwriter's conditions were satisfied.
- Maximum mortgage calculated correctly.

For Automated Underwritten System (AUS) Loans

- The information entered into the AUS is documented in the file as per HUD requirements.
- The borrower does have \$20,000 in reserve and the file contains documentation.
- The loan is a 20-year loan not a 30-year loan.
- The income entered is accurate and documented.
- If the gift was given prior to the first submission to AUS, the file must contain

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- documentation of the transfer of gift funds.
All the conditions listed on the feedback sheet should be documented.

Comments regarding any findings/discrepancies:
