

STATE OF NEW HAMPSHIRE
BANKING DEPARTMENT

CONSUMER CREDIT ADMINISTRATION
DIVISION
REPORT OF EXAMINATION

Mortgage Banker
License Type

5902-MB
License Number

Financial Resources & Assistance of the Lakes Region, Inc.
Licensee

62-0423-40
Tax ID Number

Meredith
City

New Hampshire
State

Examined By: Kerry R. Molin
Nicole Lessard
Joseph Rouleau

Examination Date: June 11, 2007

THIS REPORT OF EXAMINATION IS STRICTLY CONFIDENTIAL

The information contained herein is based upon records of licensee, upon statements made to the examiner by management, officers, and employees; and upon information derived from sources which the examiner considered reliable and correct.

The subject licensee shall under no circumstances publish, or make public in any manner, this report of examination or any portion thereof. This examination remains the property of the State of New Hampshire Banking Department. RSA 383:10-b.

PETER C. HILDRETH
BANK COMMISSIONER

Exhibit to:

Appendix A Page A-13
Paragraph 8

The State of New Hampshire Banking Department

Mortgage Banker
REPORT OF EXAMINATION

DATE	6/11/2007
NAME OF LICENSEE	Financial Resources & Assistance of the Lakes Region, Inc.
ADDRESS	15 Northview Drive
CITY, STATE, ZIP	Meredith, NH, 03253
LICENSE NUMBER	5902-MB
EXAMINER IN CHARGE	Kerry R. Molin
TAX ID NUMBER	02-0433840

REGULATORY AUTHORITY AND SCOPE OF EXAMINATION:

This examination was conducted, without prior knowledge, pursuant to New Hampshire RSA 383: 9 and under the provisions of RSA 397-A:12. A review of the licensee's current regulated business activities, operational practices and financial condition was undertaken to determine compliance with NH RSA 397-A.

The examination took place at the licensee's principal office located in Meredith, NH during the period of June 11 –June 19, 2007 and at the New Hampshire Banking Department office on June 20 - 29, 2007. The contact persons were Scott D. Farah, President and owner; and Susan N. LeDuc, Regulatory Specialist, from the law firm: Gallagher, Callahan & Gartrell, P.C., Concord, NH.

A sample of loans closed during the previous 13 months was selected for examination. A sample of Denied and Withdrawn application files were also examined. The following documents were reviewed: work papers to verify the information submitted in the 2006 Annual Report; a copy of the Audited Financial Statements for the twelve month period ending December 31, 2006 and 2005, prepared by the CPA firm –Connor & Associates, PC; reconciliation of the Preferred Shares of Stock Outstanding and shares redeemed; a copy of the Company Handbook; Addendum to Employee Handbook –GLBA Information Security; company policies and procedures; a copy of the loan package and disclosures; home state registration issued by the NH Secretary of State; an organization chart; a list of loan originators; a list of locations outside of New Hampshire; a summary description of company operations; a list of other states issuing a mortgage license; a list of correspondent lenders; a list of shareholders; an itemized list of fees and purpose; a list of approved service providers; a copy of the NH Balloon Note disclosure; the web site located at www.franational.com; a copy of media advertisement distributed in New Hampshire; a summary of the consumer complaints; a copy of the affiliate business disclosure; a list of loan products available in New Hampshire; a list of legal and agency enforcement actions; a list of Investors; Citizens Bank Operations account statements for the months of January, February, and March 2007; inactive accounts held at Citizens Bank and Bank of America; a list of All employees; a list of New Hampshire employees; and a copy of the third party service agreements in place with the credit bureau, cleaning service, and the computer consulting company.

The following summary of the findings presented in the May 18, 2006 Report of Examination were reviewed to determine compliance: failure to notify the department of changes in the ownership of preferred stock; the use of an unlicensed corporate name and un-registered trade

names; advertisement licensing disclosures; failure to report significant events; implementation of the Gramm-Leach-Bliley Act and the safe guarding of consumer information; filing inaccurate Annual Reports; missing loan file documents; failure to document the issuance of a balloon note disclosure; failure to report the Yield Spread Premium (YSP) on the Good Faith Estimate (GFE) as a dollar amount or dollar range; the incorrect reporting of mortgage broker fees on line #801 of the HUD settlement statement and GFE; misuse of lines #801-#807 of the HUD settlement statement; the HUD incorrectly reports payments to the licensee instead of the 3rd party service provider; missing appraisal invoices to verify the cost; failure to maintain a control list of Denied /Withdrawn applications to verify pipeline; missing 1st quarter Financial Statements (balance sheet, income statement, and cash flow statement); failure to provide a notice the details of a consumer complaint; and there were no contracts with third party service providers.

The New Hampshire Banking Commissioner announced the adoption of a Regulatory Guidelines on Nontraditional Mortgage Products effective November 13, 2006. The guidelines can be found on the department's website located at www.nh.gov/banking. Written policies and procedures must be adopted in order to meet the requirements.

BACKGROUND:

Financial Resources & Assistance of the Lakes Region, Inc., was organized as a New Hampshire corporation on May 18, 1989. The company is 100% owned Scott D. Farah, President and CEO. The company is licensed as a mortgage banker, but serves primarily as a mortgage broker. The licensee business is divided into residential and commercial lending services. The commercial lending activities comprise approximately sixty percent of the company's revenues while consumer lending and brokering activity make up the other forty percent. Mr. Farah also, operates an insurance business called Insurance Options, Inc. from the same location. The law offices of Michael Gould and Michael Burke, PA are sub-leased from the licensee at the same location. The law firm served as the settlement agent for about 75 percent of the loan closings in the sample. Financial Resources & Assistance of the Lakes Region, Inc. is currently licensed to conduct residential mortgage activity in 13 states including New Hampshire. The company commenced operations in Meredith, New Hampshire with the issuance of First Mortgage Banker and Broker license #5902-MBB and Second Mortgage Home Loan Lender license #5903-MHL prior to 1997. A new combined license #5902-MB was issued for 2006. A new branch office located in Manchester, NH was opened for business with the issuance of license #11508-MB-BCH on February 22, 2006. The Manchester branch office was closed effective January 31, 2007. The company surrendered Small Loan Lender license #6082-SM on September 6, 2006.

OBSERVATIONS:

1. **Pursuant to NH RSA 397-A: 10, III & IV, Change in name; Ownership; Location,** A visit to the branch office located at 1045 Elm Street, Suite 304 N, Manchester, NH, license #11508-MB-BCH, on June 11, 2007 indicates the office has been closed. The company failed to notify the department 10 business days in advance of the closing. The company failed to keep the licensing information on file up to date. Notice of the branch closing has not been provided to the NH banking department -Licensing Division. *A notice was sent on June 15, 2007.*

2. **Pursuant to NH RSA 397-A: 10-a, I, (a), License Surrender**, The company failed to surrender branch office license #11508-MB-BCH issued to the office located at 1045 Elm Street, Suite 304 N, Manchester, NH. The office was closed January 31, 2007. *Documentation was submitted on June 15, 2007, which included the surrender of license #11508-MB-BCH.*

3. **Pursuant to NH RSA 397-A: 10, I Change in name; Ownership; Location**, The web page located at www.franational.com indicates the use of the unlicensed corporate name: Financial Resources, Inc. A similar observation was cited in the previous examination. *The web site was revised and corrected on June 13, 2007.*

The signage for the branch office, license #11508-MB-BCH, located at 1045 Elm Street, Suite 304 N, Manchester, NH indicates the use of the unregistered trade name: "Financial Resources".

The 2006-2007 edition of the Concord Laconia Plymouth "Your Local Directory" contains white pages and yellow pages that indicate the use of the unregistered trade name "Financial Resources". *A copy of a request for correction was received on June 14, 2007.*

The July 2006 edition of the Verizon phone book white pages and yellow pages indicate the use of the unregistered trade name: "Financial Resources". *A copy of the request for correction was received on June 15, 2007.*

Flyers, marketing materials, and correspondence use the unregistered trade name: "Financial Resources".

The third party service contract between CBCInnovis, Inc. for Credit Reporting Services is in the unregistered name of "Financial Resources", signed April 4, 2007. *A revised and amended agreement was received June 14, 2007.*

Loan documents and disclosure forms contained the unregistered trade name: "Financial Resources and Assistance".

The following loans indicate the licensee served as Lender and is reported under the name "Financial Resources & Assistance, Inc.": [REDACTED] # [REDACTED]; [REDACTED] # [REDACTED] and [REDACTED]

The Banker license issued by the NH Banking Department and the Certificate of Corporate Registration issued by the NH Secretary of State are issued in the name "Financial Resources & Assistance of the Lakes Region, Inc." An amendment to the license application must be filed to add any Trade Name that is used to conduct mortgage banker and / or broker activities. A copy of the Certificate of Authority issued to the licensee by the NH Secretary of State is required to be sent to the banking department along with the return of the original licenses for amendment. A similar observation has been cited in the four previous examinations.

4. **Pursuant to NH RSA 397-A: 10, IV, Change in name; Ownership; Location** The licensee failed to report the error in capital stock that was identified in the February 2007 audit of the records for the year ending December 31, 2006 within 30 days. The audit indicated 55.5 shares of preferred shares @ \$1,000 each was subscribed and not issued; were not booked to the financial statements. The holder of 34 preferred shares was identified as [REDACTED]. The owner of the remaining 21.5 shares (as reported by the trustee/safekeeping agent), is unknown by the licensee. *Information received verbally on 6/18/07 from management, indicates the shares are held by: Trust Company of America, Englewood, CO. Licensee could not prove or disprove this issue with written documentation. This a possible escheat issue.*

5. **Pursuant to NH RSA 397-A:11, I, Record Keeping**, The following withdrawn loan application files were not available for examination: [REDACTED] and [REDACTED]. [REDACTED] The control list indicates the applications were withdrawn 6/1/06 and 10/1/06, respectively. Management indicates the date of withdrawal was a clerical error. The applications were taken during the year 2004. The NH statute requires record retention for a period of 3 years.

6. **Pursuant to NH RSA 397-A: 2, III referencing Regulation B, the Equal Credit Opportunity Act, 12 C.F.R. §202. 9 (a) and §202.12 (b)**, The licensee does not identify or distinguish Denied loan applications from Withdrawn loan applications. The files are referred to in general as "Dead Sheets". A sample of "dead sheets" (Withdrawn or Denied loan files) were reviewed. The files do not provide sufficient information to determine, if the loan was Denied by the Lender or Withdrawn by the consumer. Adverse action letters must be sent to an applicant within 30 days of the date of application. The following files appear to be a denied loans, which do not contain adverse action notices: [REDACTED]-D/W; [REDACTED]-D/W; [REDACTED]-D/W; [REDACTED]-D/W; and [REDACTED]-D/W.

7. **Pursuant to NH RSA 397-A: 13, V Reports**, The following items that were requested in the June 11, 2007, Phase I, "Notice of Examination" are missing or incomplete:
 - a. Provide a copy of the most recent Federal Income Tax Return. *A copy of IRS Form 7004 extending the filing date of the 2006 Return for 6 months was received on 6/18/07. A copy of the 2006 Federal Income Tax Return should be provided when available.*
 - b. Provide a copy of the most recent quarterly financial statement; *Management indicated on 6/18/07 they do not prepare quarterly financial statements. The company relies on the CPA to provide audited figures for the 12 month period ending December 31. No interim figures are available. A similar observation was cited in the previous examination.*
 - c. Work papers and copies of source documents to support the figures submitted on the company's most recently filed NH Annual Report; the work papers shall demonstrate the actual calculation of the numbers for verification by the department; *Work papers and documents were received on June 15, 2007. The documents failed to include the dollar*

amount for loans where the licensee acted in the capacity as the lender and provide the source of funds.

- d. A list on Schedules A and B of the license application form for the current owners, indirect owners and all principals of the company. *Received Schedules A and B June 15, 2007.*
- e. Provide a list of all NH files for loans that the licensee originated, funded, closed, denied, or that were withdrawn, canceled or serviced, or foreclosed upon by the licensee during the period 18 months prior to the date of this notice.

The loan file for [REDACTED] in the amount of \$280,000 is secured with real estate located in the State of Virginia. The loan was included on the NH list of closed loans.

A list identifying the loans funded by the licensee is missing. (5 loans were reported in 2006 Annual Report totaling \$725,400.) *A list was received on 6/15/07.*

The licensee created a dead file control list, which does not distinguish loan applications which have been Denied from those Withdrawn.

Applications are filed in Alpha order by the client's last name. The files are not segregated by state. The licensee conducts business in the following 14 states, GA, ID, MD, MA, ME, MI, NH, NM, NC, OK, PA, TX (license issued in name of Scott David Farah), VA, and WA. The control list should be reviewed for accuracy in order to complete reports accurately and to select a sample of files for review. Files must be identifiable by state.

The following items that were requested in the June 11, 2007, Phase II, "Notice of Examination"—Officer Questionnaire are missing or incomplete:

- #12 The description of company operations indicates that "stated" loans will use Salary.com in order to verify the income for that position. Evidence of compliance could not be located in any of the "stated" loan files. The description also states it is company policy to request CPA letters, appropriate. Verification letters issued by a CPA were found in a majority of the loan files. The description also states, if a borrower owns their own business, a copy of the certificate of registration issued by NH Secretary of State would be requested and verified. Verification of the filing with the NH Secretary of State was found in about half of the stated loan files reviewed.
- #42 Bank statement reconciliations were not available for the months of January, February, and March 2007. The General Ledger and bank statements are reconciled every 6 months. *Reconciliations should be performed at minimum, quarterly, in order to determine errors and any discrepancies in a timely manner.*
- #49 Provide copies of all contracts or agreements in place with any third party service provider. *There were no contracts or agreements provided for title/ loan closing agents.*

#53 Provide a copy of the written policies and procedures in place that are in accordance with the Commissioner's order of November 13, 2006 concerning the Guidance on Non-traditional Mortgage Products. *The response does not completely address the Commissioner's Order.*

8. Pursuant to NH RSA 397-A: 2, III referencing the Standards for Safeguarding Customer Information 16 C.F.R. § 314 – Policy Standards for Safeguarding Consumer Information. The licensee's Gramm-Leach-Bliley Act, Part 314, Information Security Policy is incomplete. The policy does not include the monitoring of service providers which serve in the capacity as the closing agent. The policy does not indicate evaluations and adjustments will be preformed at least annually and adjust as needed.

9. Pursuant to NH RSA 397-A: 2, III referencing the New Hampshire Banking Commissioner's order of November 13, 2006 in regards to non-traditional mortgage products. The licensee has started to develop Policies and Procedures to address non-traditional mortgages. Evidence could not be located in the loan files, which indicates the borrower's were informed and educated by the licensee of the characteristics of the selected loan product. There is no proof in the files that the loan product chosen was the best option for the borrower. Documentation verifying the borrower's ability to repay the loan was not found in the files. Amortization schedules of payments to be collected during the life of the loan were not seen in the files. Compliance could not be determined.

10. Pursuant to NH RSA 397-B:2, I Application of Chapter and NH RSA 397-B:4, I (a) Registration; Fees; Term; Renewal The licensee served in the capacity as banker/lender, where it closed and provided the source of funds for 1 loan in 2005 and 5 loans in 2006. The loans were sold to the following investors:

<u>Borrower</u>	<u>Yr/Closed</u>	<u>Loan \$</u>	<u>Investor</u>	<u>Servicer</u>	<u>Status</u>
[REDACTED]	2005	142,000	[REDACTED] NH	[REDACTED]	Paid off 4/06
[REDACTED]	2006	117,400	[REDACTED] NC	CL and M, Inc. Gilford, NH	Paid off 9/06
[REDACTED]	2006	130,000	[REDACTED] MD	CL and M, Inc. Gilford, NH	Open -payoff due 7/30/07
[REDACTED]	2006	166,000	IRA f/b/o [REDACTED] FL	Equity Trust Company Elyria, OH	Paid off 6/07
[REDACTED]	2006	215,000	[REDACTED] NH	CL and M, Inc. Gilford, NH	Paid off 3/07
[REDACTED]	2006	97,000	[REDACTED] NH	CL and M, Inc. Gilford, NH	Paid off 3/07

A review of the files indicates the loans were issued to consumers and secured by 1 to 4 family, owner occupied residence. The licensee is dealing with the unregistered Mortgage Servicer –CL and M, Inc., Gilford, NH.

11. Pursuant to NH RSA 397-A: 11, I, Record Keeping. The following documents were missing from the designed loan file:

A copy of the loan application was missing from the following files: [REDACTED], and [REDACTED]

A copy of the borrower's Credit Report was missing from the following files: [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED], and [REDACTED]

A copy of the Good Faith Estimate (GFE) was missing from the following files: [REDACTED], and [REDACTED]

A copy of the licensee's New Hampshire Balloon Note disclosure was missing from the following files: [REDACTED], and [REDACTED]

A copy of the Appraisal was missing from the following files: [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED], and [REDACTED]

A copy of Underwriting Guidelines form 1008 was missing from the following files: [REDACTED], [REDACTED], [REDACTED], [REDACTED], and [REDACTED]

A copy of the initial Truth in Lending statement (TIL) was missing from the following files: [REDACTED], and [REDACTED]

A copy of the final Truth in Lending statement (TIL) was missing from the following files: [REDACTED], and [REDACTED]

A copy the Credit Report invoice was missing from the following files: [REDACTED], and [REDACTED]

A copy of the Real Estate Appraisal invoice was missing from the following files: [REDACTED], [REDACTED], and [REDACTED]

A copy of the "Right of Rescission" was missing from the following files: [REDACTED], and [REDACTED]

12. Pursuant to NH Code of Administrative Rule, Ban 2504.01. The following loans contained a Note with a repayment schedule that includes a balloon payment at maturity: [REDACTED]. The files did not contain a copy of the licensee's New Hampshire Balloon Payment Disclosure Statement. Compliance could not be determined.

13. Pursuant to NH RSA 397-A: 2, III referencing the Real Estate Settlement Procedures Act, Regulation X, 24 C.F.R 3500.7, (c) and Appendix A, B, & C. The Good Faith Estimate (GFE) contained a yield spread premium (YSP) disclosure which reads, "0-2%", "0-3%", "0-4%", or 3-4%. RESPA allows for fees to be disclosed as a dollar amount or a dollar range. The following files all contained a GFE which reported the YSP range of 0 -2%:

[REDACTED]

The following files contained a GFE which reported the YSP range of 0 -3%:

[REDACTED]
[REDACTED]
[REDACTED] and
[REDACTED]

The following files contained a GFE which reported the YSP range of 0-4%:

[REDACTED]

The following files contained a GFE which reported the YSP range of 3-4%:

[REDACTED]

The following files contained a GFE which reported the YSP range of 0-5%:

[REDACTED]

The GFE report fees paid to the Broker on Line #801 for the following loans:

[REDACTED]
[REDACTED] and
[REDACTED]

Line #801 is restricted for use to report fees paid to the Lender. Similar observations were reported in the previous examination.

14. Pursuant to NH RSA 397-A: 2, III referencing the Real Estate Settlement Procedures Act, Regulation X, 24 C.F.R 3500.7, (c) The Good Faith Estimate provided for the following loans failed to disclose the Yield Spread Premium (YSP) paid by the Lender:

[REDACTED] (\$2652.00); and [REDACTED] (\$57.25)

A fee must be disclosed on the GFE in order to be collected.

15. Pursuant to NH RSA 397-A: 2, III referencing the Real Estate Settlement Procedures Act ("RESPA") and Regulation X, 24 C.F.R. §3500.2, §3500.8, and Appendix A, the HUD settlement statement issued for the following loans disclosed a loan origination fee on line 801 payable to the Broker: [REDACTED]

and [REDACTED] Lines 801 and 802 are designated for fees payable to the "Lender". Broker fees should be disclosed on lines 808 and higher. A similar observation was cited in the previous examination.

16. Pursuant to NH RSA 397-A: 2, III referencing the Real Estate Settlement Procedures Act, Regulation X, 24 C.F.R 3500.8 and Appendix A, B, & C. The HUD Settlement Statement reports fees on Lines # 801 to #807 incorrectly for the following loans:

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] and [REDACTED] Lines #801 - #807

are restricted to be use for those items defined in Appendix A. A similar observation was cited in the previous examination.

17. Pursuant to NH RSA 397-A: 2, III referencing the Real Estate Settlement Procedures Act, Regulation X, 24 C.F.R. §3500.7(a)(2), §3500.8 and Appendix A, The Appraisal fee was not reported on the HUD settlement statement as paid p.o.c. (Paid outside of closing) for the following loans: [REDACTED]; and [REDACTED].

18. Pursuant to NH RSA 397-A:2, III referencing the Real Estate Settlement Procedures Act, Regulation X, 24 C.F.R. §3500.8, and Appendix A, Section L, the HUD -1 settlement statement incorrectly reports payments to the licensee instead of the 3rd party service provider for the following loans: [REDACTED]

[REDACTED]
[REDACTED] The ultimate recipient of the fee must be disclosed on the HUD-1. Similar observations were reported in the previous examination.

The HUD -1 settlement statement fails to indicate the 3rd party service provider for the following loans: [REDACTED]

19. Pursuant to NH RSA 397-A:2, III referencing the Real Estate Settlement Procedures Act, Regulation X, 24 C.F.R. § 3500.14, A copy of the vendor invoices for the borrower's credit report fee and the real estate appraisal fee were reviewed. The Real Estate Appraisal fee listed on the GFE and the HUD-1 could not be supported by invoice issued by the service provider for the following files: [REDACTED] (HUD \$350 vs. cost \$325)

The Credit report fee listed on the GFE and HUD-1 could not be supported by invoice (s) Issued by the service provider for the following files: [REDACTED] (HUD \$15 vs. cost \$12.45); [REDACTED] (HUD \$15 vs. cost \$12.45);

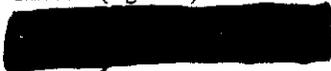
Fees collected and reported on the HUD cannot exceed the actual cost to perform the service.

20. Pursuant to NH RSA 397-A:2, III referencing the Real Estate Settlement Procedures Act, Regulation X, 24 C.F.R. § 3500.7 (e), The licensee does not issue a complete Relationship Disclosure statement. The review of the sample of loan files indicates the use of the law firm: Gould & Burke, PLLC as the closing agent on approximately 80% of the loans; and Korkosz Appraisal Services is used to provide a statement of value on about 50% of the loans. A copy of a credit report is obtained from the credit reporting service, CBCInnovis, for each borrower. A particular provider statement must be issued to identify the parties and the relationship.

Exhibit to:

Appendix A Page A-13
Paragraph 8

Examiner (Signature)



Signature redacted. Signed by:

Kerry R. Molin



Signature redacted. Signed by:

-10- Kimothy Griffin

Nicole's Notes – Financial Resources & Assistance 6-11-07 to 6-15-07

- They are using the “Law office of Gould and Burke PLLC” as their settlement agent. This settlement agent shares office space with the licensee. ✓
- They are using the “Korkosz Appraisal Services, LLC” in close to half of the loan that have been reviewed. The appraisers for this company are Phil Korkosz, Heather Walker, and Melody A. Wyman. ✓
- Using the wrong name of Financial Resources and Assistance on a number of documents including the borrower's certification, right to request an appraisal, and the borrower signature authorization forms. ✓
- No documentation related to the guidance after Nov 2006 for nontraditional mortgages. ✓

Loan 1- [REDACTED]

-The initial application dated 7-31-06 stated that [REDACTED] worked for [REDACTED] as a [REDACTED] and makes \$ [REDACTED]/month (\$ [REDACTED]/year). The next application dated 8-7-06 and the final application dated 9-6-06 stated [REDACTED] income as \$ [REDACTED]/per month (\$ [REDACTED]/year). The pay stubs that were in the file don't match the figures reported on the application. The borrower is paid weekly. The two reported amount are \$ [REDACTED] and \$ [REDACTED] (The monthly income would be \$ [REDACTED] and \$ [REDACTED]). There was a check for \$ [REDACTED] marked as bonus pay. The most recent pay period was 7-29-06 with the year to date at \$ [REDACTED]. The only deposits that I could verify were for \$ [REDACTED] from [REDACTED].

-The credit report lists \$12.45; the HUD charged the borrower \$15.00 for the credit report.

-YSP listed as 0-3% on the GFE

Loan 2 - [REDACTED]

-Missing the application, credit report, appraisal, income documents, and the majority of the disclosures.

Loan 3- [REDACTED]

-Full doc loan - I could not verify the assets that were listed on the application.

-YSP listed 0-3% on the GFE

-The GFE was not provided within three days of application – Credit report was pulled for the refinance on 4-19-06. The GFE was given to the borrower on 6-19-06.

Loan 4- [REDACTED]

-YSP listed as 0-3% on the GFE

-The initial application form 5-5-06 states the borrower makes \$ [REDACTED] month (\$ [REDACTED] year) as a contractor for [REDACTED] construction. There was another application in the loan file that stated the borrower made \$ [REDACTED] month (\$ [REDACTED] year).

-The credit report lists \$ [REDACTED]; the HUD charged the borrower \$15.00 for the credit report. On the request for verification of employment it looks like figures were whited-

Exhibit to:

out or erased. The total amount reported for the year does not match what was reported on the applications.

-the GFE was not provided with in three days of the credit report being pulled on 4-11-06, this is a refinance.

Loan 5 - [REDACTED]

-This is a stated income loan. The initial application dated 7-11-06 state that the borrower is a [REDACTED] of [REDACTED] in [REDACTED]. He makes \$ [REDACTED]/month (\$ [REDACTED]/year).

Loan 6 - [REDACTED]

-No guidance in file to comply with the commissioner's order. This was a stated loan no way to verify what was reported to us.

-YSP listed 0-3% on the GFE

Loan 7 - [REDACTED]

This was a jumbo loan – RESPA does not apply.

Loan 8 - [REDACTED]

-On a letter dated 3-28-2007 the fax line was whited out. The fax line that was whited out was dated 3-27-2007, 1 day before the letter was written.

-The two bank accounts that were verify do not match the amount that was reported on the application.

-This is a full doc loan - the only income verification was W2's for 2004 and 2005. What they reported on the original application on 1-24-07 match the W2's in the file. The other income that was reported on the final application is not documented anywhere in the file.

Loan 9 - [REDACTED]

-YSP was listed as 0-4% on the GFE

Loan 10 - [REDACTED]

-YSP was listed as 3-4% on the GFE

-This was a full doc loan – there was not documentation to verify the borrower's income that was reported on the application.

-Missing the right of rescission, credit report, and appraisal.

Loan 11 - [REDACTED] (1st)

-YSP listed as 0-3% on the GFE. This was a stated loan – could not verify the income.

Loan 12 - [REDACTED]

- This is a construction loan. It is being signed by the borrower and is in the borrower's name. Financial Resources is the lender in this loan.

-This is a stated 'NIV' loan

-They collected a 7% loan origination fee- this appears to be very high. Using wrong name on the HUD.

-Missing the appraisal POC charge of \$200 on the HUD.

*No Income
Verification*

Exhibit to:

-Missing final TIL, underwriter, and Transfer of services. I am unable to tell who the investor is for this loan. There is no documentation to verify the borrower's business.
- There is a statement of finance charges in this file. This documents tells the borrower that the lender is collecting a mortgage broker fee in the amount \$9100 - the amount of the loan origination-fee. Wouldn't they need to call this fee a loan origination fee, not a mortgage broker fee - they are the lender, not the borrower.

Loan 13 - [REDACTED]

-This is a stated income loan - the pay stub that I found in the file does not match the income that was reported on the application.
-YSP listed as 0-3% on the GFE.

Loan 14 - [REDACTED]

-Katie Adjutant is the originator for this loan.
-YSP listed as 0-3% on the GFE

Loan 15 - [REDACTED] (1st)

-Missing YSP on the GFE
-Line 801 on the HUD is going to the broker – not the lender
-Missing the appraisal

Loan 16- [REDACTED]

-This is a no doc loan
-The \$300 POC appraisal fee is not listed on the HUD

Loan 17 - [REDACTED]

-This is a Jumbo loan – RESPA does not apply
-This was a stated loan (NIV) there was not way to verify anything – did not comply with the guidance

Loan 18- [REDACTED]

-The YSP is listed as 0-3% on the GFE
-Line #s are listed incorrectly on the HUD

Loan 19- [REDACTED]

-Line #s are listed incorrectly on the HUD
-HUD appraisal charge was \$25 more than the appraisal invoice
-The comps that are used for the appraisal were not within the same time frame. This appraisal was done in Oct. with comp 2 having a few feet of snow on the ground.
-GFE not provided within 3 days. It is a refinance and credit was pulled on 10-24-06

Loan 20 - [REDACTED]

-The fees on the HUD are not all going to the person who is ultimately receiving them.
-Problems with line numbers on the HUD.
-The YSP is listed as 0-5% on the GFE.

Exhibit to:

-Dale Hicks from Coastal Lending of S FL Inc, of Tequesta, Fl originally took this loan application. I went to talk to Nancy about this loan. She stated that Coastal Lending does not have their license in NH so they contacted her about this borrower. I asked if she had to pay Coastal for this information, she stated that they did not pay them anything.

-Missing the appraisal

Loan 21- [REDACTED]

-wrong line #s on the HUD

-No Secretary of State or salary.com verification for this stated loan.

Loan 22- [REDACTED]

-Missing the appraisal, credit report, underwriter, and final TIL

- Not sure what type of loan documentation this loan was. There was no asset or income verification in this file

Seconds

Loan 1 - [REDACTED] (2nd)

-The YSP was not listed on the GFE.

-There was an unreasonable relationship between the GFE and the HUD

-Missing the balloon disclosure – not given within three days.

Loan 2 - [REDACTED] (2nd)

-Missing the appraisal

*Page 3
SECRET 202.9(a)*

Denied/Withdrawn loan files:

- These loans have “dead sheets” in them. It does not really explain what went on in the actual loan files. The reader cannot tell if these loans were denied by the lender or withdrawn by the borrower. Also, it does not tell the reader if the borrower was informed about what was going on at any point.
- The wrong name is also appearing through out these files.

Loan 1 (a) - [REDACTED]

-Problem with the dates - the GFE stated it was done in 2005 - the "dead sheet" stated that the borrower changed their mind about the deal in November 2006. There was another application in the beginning of 2006.

Loan 3(a) - [REDACTED]

-There was also a dead sheet in the file from August 29, 2005 in addition to the one from 7-7-06.

Loan 4 (a) - [REDACTED]

It appears that this loan was denied because of credit – but there was not a proper adverse action notice given.

Exhibit to:

Loan 5 (a) - [REDACTED]

-The "dead sheet" stated that the borrower went with another lender. When going through the loan file I found a borrower summary page stated "turn down credit score". There was no adverse action in this loan file.

-Naomi Rumery was the loan originator for this loan - working for the Manchester office. She did not date anything in this file. There is a date of 2-10-06 on the credit report but the address is listed as the Meredith office - I can't prove unlicensed branch activity from this loan file.

Loan 7 (a) - [REDACTED]

- Unlicensed activity - there was an email in the file dated 2-16-2006 from Tom Scribner listed as the branch manager for the Manchester branch. This branch did not get their license until 2-22-06.

Loan 10 (a) - [REDACTED]

-This looks like it could be a denied loan file- states " appraisal issue. There was no adverse action notice.

Loan 11 (a) - [REDACTED]

-The "dead sheet" stated that the borrower went with another lender. When going through the file I found the borrower summary page stating " turn down for credit."

Loan 12 (a) - [REDACTED]

-This looks like a denied loan file - dead sheet states "credit". There was no adverse action letter in the file.

Loan 13 (a) - [REDACTED]

-This looks like a denied loan file - dead sheet states "credit". There was no adverse action letter in the file

Loan 14(a) - [REDACTED]

-No reason was stated on the "dead sheet".

Loan 2 (b) - [REDACTED]

-The phone number listed on the application for the interview was [REDACTED]. I am not sure where this number goes to.

Exhibit to:

Joe's
Notes

Financial Resources & Assistance of the Lakes Region, Inc. 6/11/2007 Monday

Arrived at 7:45 at the designated meeting point. Kerry was already present, a few minutes later Nicole arrived. We drove up the hill to Financial Resources. The front door was opened, and a few lights were on, however I did not see anyone. We waited about fifteen minutes for a few more people to arrive.

8:15 walked in, Received a loan list from Scott after several minutes, however this list does not discriminate from investments or date. Scott said he would get a more accurate one later when one of his employees that maintain the system arrived.

I have done an inventory of the files; they are sorted alphabetically, for all the states. The list that Scott gave us includes investment properties, and a range in dates from 1998 to present date, finding and sorting the files has taken up considerable time.

12:30 Susan arrived; I have worked with her before. Scott asks how soon he wants the dead list, I told to have it please by the end of the day. He is also given us a filtered list that does not include the investment properties.

2:30 I left to head to the Manchester office, the building was very easy to find. The office entrance was discreet. Went into the office, the main board to all the offices listed 'financial resources' I went up the three flights of stairs, and I found the office. The office was lock. It appeared to have only one room, All the lights were off and there was nothing inside, No files, no office equipment, no desk, it was empty.

6/12/2007 Tuesday

8:35 Went upstairs to speak to Scott.

Joe - I am missing several loan files from the loan list.

Scott stated- oh sure, just make me a list of the files you are missing. I'll get them to you in an hour.

We went into his office. I told him that a number of files were missing and that not all of the files in the list fall within the requested scope. Some of the files were from 2001 or even earlier.

Scott said that can not be. Joe told him that there are a good number of files missing about 40 to 50, (51 currently) perhaps it is a Computer error or data entry error. Scott went over the computer and showed me how the system works and how the data is pulled.

Then Scott stated that it is possible that the files that I have pulled out of Scope were from an earlier date and that the current one in scope is upstairs. We have a lot of files out up here. Scott further explained what he meant by this- He stated that the [REDACTED] has done several files with him and that if it was on the list I would see most of them downstairs, however, the most recent one that would be in scope is up here to have work done to it. He stated there must be 150 even 200 files up here. He showed me one of the offices, opened the door and showed that the office had a box full of files I would guess at least 20 in this one room.

Exhibit to:

Appendix A Page A-13
Paragraph 8

Then Scott told me that he has not gotten the dead list yet to us, that they are having a printer issue, and that the IT guy would be in later today to fix it. (this did not make sense to me because how would he have printed the list that he gave me, also there are several printers in the building) He also later stated that all of the dead files are kept in a safe.

I went back to the loan list issue. Scott told me to check thru the list and compare it to the most accurate list, and list out which ones we want. He will have his employees check their offices and pull all of them.

After I began loan review, found multiply issues in loan files, compared my finding to Nicole's, these finding are similar. (See spreadsheet for more details)

Appx 2:00 pm

We received a box with approximately 10 of the requested loans at the end of the day. Scott inquired is this was enough, Kerry stated that for the time being it will suffice, but we may need more later.

6/13/07 Wednesday

I continued to review loan files.

6/14/07 Thursday

Did file review

5 of the 2007 files the were requested are missing, We informed Sue of this, she found the files and had all 5 of them to us before 11:00.

Also 2 of the 'dead' files were missing we communicating with Sue these files were incorrectly entered to their database, the sectary was dating some of the files under the date she was entering them into their database, not on closing dates. Sue stated that the files were done in 2004 and have been shredded.

6/15/2007

Continue loan review.

Meeting to touch base on loan file finding will be at 2:30 with Sue.

Finding in my sample:

Line 801 to 807 on HUD: several files

Wrong name or shorten name used on HUDs, consumer disclosures: most to all files

Missing Credit report: few files

YSP on the GFE is given as a percentage 0-2% or 0-3% or 3-4% and not a dollar amount.

Missing invoices to Credit reports, appraisal (courier fee were also missing invoices, not sure if pursuing)

Exhibit to:

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Paragraph 8