Notes:
GFE's 1st and 2nd [redacted] YSP disclosed as 0-3% on GFE, [redacted] 1st disclosed as 0-2% on the GFE, [redacted] 1st disclosed as 0-2% on the GFE –also look into gross lender paid comp and net lender paid comp on the HUD, [redacted] 1st 0-3% on the HUD (jumbo loan N/A), [redacted] YSP 0-3% on GFE
No copy of appraisal in file for [redacted] 1st or 2nd (appraisal fee listed POC on HUD)
appraisal and invoice received 6/7/06,
or [redacted] 1st or 2nd (appraisal feelisted POC on HUD)
appraisal and invoice received 6/7/06,
No NH Balloon Disclosure for [redacted] 2nd, [redacted] 2nd
Licensee's disclosures use various trade names (see "trade names used" document)
Loan origination fees to brokers have been changed to "brokers points" which are being placed on line 809 of the HUD.
Print ads submitted for examination failed to include the phrase "Licensed by the New Hampshire Banking Department."
Exhibit #33 table of litigation. Have these been reported as significant events?
399-A: 4 VIII- The licensee indicated that they have not done any small loans.
Statute says they shall surrender their license if they cease doing business in person or by registered mail- has had small loan license for several years, and hasn't done any business.

The licensee is disclosing the broker's fees on line 801 as an origination fee on the GFE , however they are disclosing it as a broker's fee on the HUD. Do we cite for this? Yes

Monday 5/22/06 – licensee says he will have all the first day letter items complete for tomorrow- Tuesday 5/23/06-doctors appointment in afternoon

Tuesday 5/23/06- licensee will need the room in the morning so I should be coming in afternoon- Did not return on Tuesday as originally planned. Stayed in the office in the morning and then had another doctor's appointment in the afternoon. Called Scott in the afternoon to say I would not be back in and he said he was hoping to wrap things up tomorrow (Wednesday) since he was leaving for vacation. Told him things would not be wrapped up and that Kerry would be back on Tuesday of next week. Also told him that I would be needing a contact person to supply information while he was away. He said that person may not have access to all the information that we needed.

Wednesday- Came back with Joseph Rouleax. Scott F brought in first day letter with attachments. Said that was "everything." I told him we'll see. I also asked for a detailed org chart which Kerry had originally asked for and then I unknowingly had him only go down as far as manager on the chart. I was not aware that Kerry had already asked for a detail of the entire organization so I informed him that we would be needing that as Kerry had originally requested. I also requested to look at the commercial loan side of the house. Scott said that he thought that wasn't going to be involved but I explained that my notes said that 99% of his client fees were generated through commercial loans and so we

Exhibit to:

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would be interested in doing that. I asked for 10. He said he didn't think he had 10 New Hampshire and so I asked him to supply however many he had.

Documents rec'd Wednesday:
Exhibit 1- Privacy Policy & Employee Handbook
Exhibit 2- Sec of State website showing in good standing
Exhibit 3- Org chart including 4 managers and president
Exhibit 7 internal audit functions
Exhibit 8- internal audit reports- licensee claims that they have already supplied most recent internal audit (actually those were the audited financial statements)
Exhibit 10- mortgage originators- same copy of annual report that we received before, no addresses-
Exhibit 11 – significant events- he reports to legal counsel and believes that they take the required steps
Statement of profit and losses, same balance sheet and cash flows that we had already received
Exhibit 13- list of licenses issued by other states
Exhibit 14 –list of lenders –same list failed to include telephone # and contact person
Exhibit 17- Mortgage Brokerage Business Contract
Exhibit 18- list of closing agents
Exhibit 21- Balloon loan disclosure –"we rarely do balloons" but if we do we use this disclosure
Exhibit 25- list of underwriting systems
Exhibit 26- we had asked for details of financial transactions- got same p&l statement, balance sheet, and statement of cash flows
Exibit 32- print advertisements which failed to include "licensed by the New Hampshire Banking Department
Exhibit 33- table of litigation
Exhibit 35- affiliated business disclosure
Exhibit 36- attached rate sheets
Exhibit 38- claims no criminal actions- see litigation table for civil
Exhibit 43- NH loan list?
Exhibit 49- 2 out of state locations that conduct NH business
Exhibit 51- A list of something
Exhibit A- org chart/list of employees

Question # 16- regarding stockholders says that Scott Farah owns 100% of common stock and that there are 7 other preferred stockholders which will be bought out in 120 days.

399-A: 4 VIII- The licensee indicated that they have not done any small loans.
Statute says they shall surrender their license if they cease doing business in person or by registered mail- has had small loan license for several years, and hasn't done any business.

Exhibit A- Somewhat of an organizational chart rec'd . More a listing of employees.

Exhibit to:

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Question # 47 asks how many **total** employees for fiscal year end- answer 27 -
Question # 48 asks how many total employees located in NH for fiscal year end- answer 21
Actually 27 is the number outside of NH so total employees should be 48

Question # 27 asks for

Thursday May 25, 2006

Arrived and asked Rhonda for the box of 2005 financial information
She said she had talked to Scott at 5pm yesterday and that box was at the accountants. We told her that Scott had called back and said that it was here but she would not give it to us. She got Scott on the phone who first said that he needed to have the accountants go through it and that it would not be available until tomorrow. I told him we needed it today he said that was not possible. There were several phone calls back and forth between Scott and myself

Note: Scott had mentioned as far as ownership is concerned that there were only 6 or 7 shares of preferred stock that was going to be bought out (see questionnaire)- financial statements show 392,000+ in preferred stock outstanding (based upon the balance sheet submitted for examination.

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STATE OF NEW HAMPSHIRE
BANKING DEPARTMENT

CONSUMER CREDIT ADMINISTRATION DIVISION
REPORT OF EXAMINATION

Mortgage Banker 5902-MB
Small Loan Lender 6082-SM
License Type License Number

Financial Resources & Assistance of the Lakes Region Inc. 02-0423840
Licensee Tax I.D. Number

Meredith **New Hampshire**
City State

Examined By: **Kerry R. Molin**
Anna-Maria Tsorvas
Joseph Rouleau

Examination Date: **May 18, 2006**

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:

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THIS REPORT OF EXAMINATION IS STRICTLY CONFIDENTIAL

The State of New Hampshire Banking Department

Mortgage Banker
REPORT OF EXAMINATION

DATE	5/18/2006
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 regularly scheduled examination was conducted 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 May 18 –June 2, 2006 and at the New Hampshire Banking Department office on June 12 & 13, 2006. The contact person was Scott D. Farah, President and owner.

A sample of loans closed during the previous 18 months was selected for examination. A sample of Denied and Withdrawn application files were also examined. The following documents were reviewed: company policies and procedures; home state registration issued by the NH Secretary of State; an organization chart; a description of the internal audit/ compliance function; a list of loan originators; 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 Balloon Note disclosure; a copy of the internally prepared financial statements for the twelve month period ending December 31, 2005; a copy of the Audited Financial Statements for the twelve month period ending December 31, 2004 and 2003, prepared by the CPA firm –Connor & Associates, PC; bank account statements for 2005; work papers to verify the information submitted in the 2005 and 2004 Annual Reports; a copy of the 2004 Form 1120 Federal Income Tax Return; a copy of media advertisement distributed in New Hampshire; the web site located at www.franh.com; 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 legal suits settled out of court; and a list of locations outside of New Hampshire that conduct New Hampshire Business.

The following summary of the findings presented in the October 11, 2004 Report of Examination were reviewed to determine compliance: advertisement licensing disclosures; failure to report significant events; the use of an unlicensed corporate name and un-registered trade names; the filing of complete financial statements in a timely manner; implementation of the Gramm-Leach-Bliley Act and the safe guarding of consumer information; the incorrect reporting of mortgage broker fees on the HUD settlement statement; the HUD incorrectly reporting payments to the licensee instead of the 3rd party service provider; and the maintenance of a consumer complaint file;

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THIS REPORT OF EXAMINATION IS STRICTLY CONFIDENTIAL

BACKROUND:

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 half of the company's revenues while consumer lending and brokering activity make up the other half. 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 occasionally serves as a settlement agent.
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 company was also issued a Small Loan Lender license #6082-SM to its principal office prior to 1997.

OBSERVATIONS:

1. **Pursuant to NH RSA 397-A: 10, IV, Change in Name; Ownership; Location.**
   The licensee failed to amend its license application within 30 days of a change in ownership. The licensee has been retiring the number of shares of preferred stock outstanding. An amendment to the license application explaining the required changes has not been received by the NH banking department -Licensing Division. *A notice was received on June 7, 2006.*

2. **Pursuant to NH RSA 397-A: 10, I and IV, Change in Name; Ownership; Location.**
   The Signs on the door, the fence and in front of the building indicate the use of the unlicensed corporate name: 'Financial Resources, Inc." The following unregistered trade names were also used on loan documents and verifications: 'Financial Resources" and "Financial Resources & Assistance". The Broker 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 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 two previous examinations.

3. **Pursuant to NH RSA 397-A: 14 a, III Advertising.** The licensee's web site located at www.franh.com does not contain the required statement, "Licensed by the New Hampshire banking department" (effective August 21, 2003). A similar observation was cited at the previous examination. *A copy of the correction was received on June 7, 2006.*