

MORTGAGE BANKER OFFICER QUESTIONNAIRE (5/29/07)

RESPONSES

LICENSEE: Financial Resources & Assistance of the Lakes Region, Inc. ("FR&A")  
EXAMINATION START DATE: June 11, 2007  
EXAMINER-IN-CHARGE: Kerry R. Molin

1. Please provide copies of all Company operational and compliance policies in effect for your NH business. Please include privacy, information security, processing, underwriting, regulatory compliance, and servicing policies.

See attachments for:

- Compliance Risk Management Program,
- Policies & Procedures for Computer Systems, Software Use and Licensing,
- Customer Information Safeguards contract with service providers,
- Customer Privacy Policy employee acknowledgement,
- Privacy Policy Disclosure (given to loan applicants),
- Quality Control Policy,
- Risk Management Procedures (Computer Network Security, Private Information Security, Borrower & Loan Program Compatibility, Goals Regarding Security Implementation)

- ✓ 2. Please provide copies of your home state registration, if incorporated, your registration with the NH Secretary of State as a foreign corporation, if incorporated out of state, and New Hampshire trade name certificates if any. Limited Liability Company's, Partnerships, and individuals should provide proof of registration with the NH Secretary of State and trade name certificate if applicable.

See attachments for:

NH Certificate of Incorporation & copy of filed Articles  
NH Certificate of Existence (4/7/2006)

- ✓ 3. Please provide an organizational chart both companywide and for your NH operations (with personnel in key positions identified). Include all affiliates, subsidiaries and parents with whom your enterprise is associated.

See attached Organization Chart (companywide) for FR&A. There is no separate chart for NH operations. FR&A has one sister organization that is also 100% owned by Scott Farah: Insurance Options, Inc.

- ✓ 4. Please provide the corporate/headquarter office address and mailing address if different than the street address. Provide the following addresses if different than above: The address(es) where the residential mortgage books and records are maintained. The

Exhibit to:

address(es) where the accounting records are maintained. The address(es) where the mortgage servicing records are maintained.

All records are maintained at the main office:  
Financial Resources & Assistance of the Lakes Region, Inc.  
15 Northview Drive  
PO Box 1158  
Meredith, NH 03253

- ✓ 5. Please designate the officers or officer authorized to attend/participate in the exit meeting (preliminary examinations findings are reviewed). Please include title, telephone number, email address, and mailing address of the designated person.

Mr. Scott Farah, President, Financial Resources & Assistance of the Lakes Region, Inc., 15 Northview Drive, Meredith, NH 03253, (603) 279-1133, [sfarah@franh.com](mailto:sfarah@franh.com) will attend the exit meeting. Also authorized to attend the exit meeting: Ms. Susan LeDuc, Regulatory Specialist, Gallagher, Callahan & Gartrell, P.C., 214 North Main Street, Concord, NH 03301, (603) 228-1181, [leduc@gcglaw.com](mailto:leduc@gcglaw.com).

- ✓ 6. Please provide a contact person for the facilitation of the examination if different than the individual designated above. Please include title, telephone number, email address, and mailing address of the designated person.

Mr. Scott Farah or Ms. Susan LeDuc. See response to item #5 for contact information.

- ✓ 7. Describe your internal audit/compliance functions relative to your NH licensed operations. If your company does not have an internal audit function, how does it ensure compliance with applicable laws and regulations and that all personnel are operating according to company policy?

FR&A does not have an internal audit function; however, it ensures compliance with applicable laws and regulations via an ongoing training process and a quality control review which reviews the documents. The Compliance Officer for FR&A is Ms. Rhonda Vappi. Nancy O'Connor and Melissa Colpitts also review all files to ensure documentation quality and compliance. Technical assistance for compliance issues is provided by Gallagher, Callahan & Gartrell, P.C. in Concord, NH.

- ✓ 8. Please provide copies of internal audit reports relative to the licensed activity (operational and compliance) [Ban Rule 2412].

FR&A does not have an internal audit function. See response to question #7 above. All books, accounts, records, files, and documents are available to the NH Banking Department examiners at FR&A's Meredith, NH office location.

- ✓ 9. Please provide a list of Officers, Directors, Partners, Members, Owners, Trustees, and Managers (include names, titles and business address).

Exhibit to:

Mr. Scott Farah is President, CEO, Chairman of the Board, and Owner of 100% of common (voting) stock.

- 10 Please provide a list of originators working in NH and the address of their work location. Please provide a list of all originators, including the address of their location that originates or solicits loans secured by NH real property.

See attachments for a list of all loan originators (LO).

11. Describe how you comply with the requirements relative to notifying the department of significant events. (Ban 2407)

FR&A's general corporate attorney, Michael Burke, Esq., is responsible for notifying the department of any significant events pursuant to NH BAN 2407. See the attached Significant Event Report form.

12. Describe company operations in detail, (a single sentence answer is not sufficient). It should describe what services and functions are performed for the borrower beginning with the initial application through your final involvement with the transaction. Your explanation should be specific enough that a person reading it will have an overview of your company's operations.

See attached description of mortgage processing workflow.

13. Please provide a list of other states where your company holds lending or brokering licenses. Include the state, license type, and license number.

See attachment.

14. Please provide a list of current lenders and/or brokers, including address, telephone, contact person and NH license number.

See attachment.

15. Please explain the process for determining whether lenders/brokers are licensed or exempt. (RSA 397-A:16,IV)

Mortgage Bankers and other Brokers are verified to the lists of Mortgage Bankers and Mortgage Brokers on the New Hampshire Banking Department web site. If an entity is not licensed, then it must provide evidence that it meets the exemption for licensing in NH RSA 397-A, or other confirmation of its exempt status will be obtained.

16. Please provide a list of stockholders or other persons (as defined in RSA 397-A:1,X) owning 10% of the licensee, including percentage of ownership.

Exhibit to:

Scott D. Farah, owner of 100% of all common (voting) stock.

- ✓ 17. Provide an itemized list of fees, their amounts, and purpose charged to NH consumers in a typical transaction. (RSA 397-A:16,I)

See Tab 17 for a sample Good Faith Estimate form which shows the standard fees charged to borrowers in a typical transaction.

- ✓ 18. Provide a list of approved service providers: Attorneys, appraisers, title companies, closing agents, etc. that provide settlement services to NH consumers. Are any of the listed settlement service providers related to your company by common ownership, a subsidiary, affiliate, or parent?

See attachment for lists. None of the approved service providers are related to FR&A by common ownership in any way. ✓

- ✓ 19. Does your company have warehouse lines of credit? If so list the warehouse lenders and the amount of the lines, and the outstanding balance. How long in days does it take to close the typical loan? Provide a pipeline report that contains the dollar amount and number of loans in the pipeline with the same date as the outstanding balance given above. Is it your policy to fund loans before a secondary market purchaser is found? If yes, how do you mitigate interest rate and market risk on pipeline loans?

No.

- ✓ 20. Does your company offer rate locks? If yes, how does your company comply with the provisions of BAN Rules 2505.01? How do you mitigate market and interest rate risk associated with rate locks? Provide copies of GNMA, FNMA, FHLMS approval letters.

No, FR&A does not offer rate locks. Rate locks are offered by the lender.

- ✓ 21. Are balloon loans offered? If yes, provide a copy of the disclosure required by Ban Rule 2504.01.

Yes. See attachment.

22. What is the normal method of compensation or fee structure, and how is it calculated (Flat fee or percentage of the face amount of the note, etc.)?

Compensation for Loan Officers is based on individual commission contracts and is based on a percent of the revenue to FR&A.

- ✓ 23. Are fees and/or compensation paid by the borrower, lender or both?

Exhibit to:

FRANK  
DOES NOT  
ADDRESS  
QUESTION

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Compensation to FR&A is based upon points and/or fees and/or yield spread premiums.

23. Are fees and/or compensation paid by the borrower, lender or both?

Fees could be paid by borrower (points and/or fees) or lender (yield spread premium) or both.

Exhibit to:

Revised  
RC 6/14/07

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- ✓ 24. Where are records required by RSA 397-A loan files, financial records, and annual report work papers (Ban 2401.01) stored and in what medium? Please detail your procedures for keeping records secure.

All files and records are maintained at the Meredith, NH office. Please refer to the Private Information Security procedures in the Risk Management procedure document (in response to question #1).

- 25. Does your company use an automated underwriting or loan processing systems? If yes, what system do you use? What charge, if any, is assessed to the borrower?

Calyx software is used for the 1003 application data gathering and forms production. Various underwriting engines may be used, but generally the FNMA version is representative.

- 26. Provide a copy of your most recent Federal Income Tax return.

2006 tax return is not yet prepared. A request for Extension was filed.

- ✓ 27. Does your company maintain a web site? If yes, please provide the web address. Is the website transactional or informational only?

Yes: www.franational.com. This is a recently launched site. Applications cannot be submitted online; it is an informational site only at this time. See attached copy of pages on site.

- ✓ 28. Please explain how your company maintains the separation of funds paid for third party services from the company's operating accounts.

FR&A does not collect any money from borrowers for third party services. Appraisals are paid for by the borrower "at the door," and all other third party fees are paid at the closing.

- 29. Please provide copies of all media advertisement distributed in New Hampshire, including website advertisements if any.

See attachments and response to question #27.

- 30. Please provide a summary table of all written consumer complaints concerning NH loans during the past 18 months, including unresolved matters. The summary table should include the complainant's name, property address, and date of complaint, issue, source, and resolution.

See response to question #35 re complaints of [redacted] and [redacted]

Exhibit to:

Rec'd  
Amendment  
4/9/07

Missile  
Extension  
Form

NH Disclosure  
CD

See 35 & 36

UPDATES  
REQUIRED

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See response to question #35 re complaints of [REDACTED] and [REDACTED]

Exhibit to:

AMENDED  
RESPONSE REC'D  
6/14/07

✓ 31. Please provide NH foreclosure files, if applicable.

None.

✓ 32. Please provide copies of any insurance agreements available to borrowers through your enterprise.

FR&A does not offer insurance agreements. FR&A does send a letter to borrowers which informs them of its sister company, Insurance Options, Inc., and the availability of insurance products through that company. FR&A makes very clear that the borrower's loan application has no bearing on or impact from their potential interest in insurance products through Insurance Options, Inc. See sample letter to customers attached.

✓ 33. Please provide a list of all loan products available in New Hampshire, with a summary of relevant terms and features.

FR&A uses a variety of lenders for a variety of products. See attached samples.

✓ 34. Has your mortgage banking business or any of the directors of the company, partners, trustees, principal officers or managers been or currently under any administrative regulatory action or undergoing any investigation by either state or federal authorities? If yes, give details.

FR&A and Scott Farah entered into a Consent Agreement with the New Hampshire Securities Bureau on 1/24/2007 with respect to previous means of funding FR&A. FR&A's last redemption of preferred stock under that agreement is due 9/30/2007. This Agreement has not been reported to the New Hampshire Banking Department because it does not meet the definition in BAN 2407.01(a)(3) relating to reporting of a formal administrative action against the licensee "based on lending, brokering, debt adjustment, sales finance, retail seller or mortgage servicer activities ..."

✓ 35. Please list any and all legal actions and agency enforcement actions in any jurisdiction, which name the licensee or its owners, trustees, directors, partners or senior officers as defendants. Include the date, court, docket number, name of litigants, and a summary of the issues.

See attachment.

✓ 36. Please provide a list of all legal suits concluded where your company settled out of court or was found at fault. Include a summary chart of the litigants, issues, copies of the final order or settlement agreement, or other documentation of the disposition of the case, including without limitation, court orders, settlement agreements and arbitration decisions.

See attachment in response to question #35.

Exhibit to:

ACTS AS  
BROKER

37. Are New Hampshire loans retained or sold on the secondary market? (See RESPA definitions to define term.) If sold, are they sold with or without recourse? Are servicing rights sold or retained by your company?

FR&A does not make and sell loans on the secondary market.

5 loans  
funded  
per report  
2006

38. Provide name and address of all investors that purchase loans generated by this office.

Occasionally, FR&A makes construction loans. FR&A has sold 6 such loans to 5 investors, most of whom reside outside New Hampshire. There are no fees paid by investors.

39. What company procedures are in place to ensure that time related disclosures such as the Good Faith Estimate, Truth-in-Lending disclosure, Special Information Booklet, etc. are provided with delivery requirements of state and federal regulations?

The delivery of these items is tracked in processing (by Nancy O'Connor and Melissa Colpitts), and the sales managers ensure that the items are sent in a timely manner.

40. Please provide the number and dollar volume of all New Hampshire loans brokered by your company since January 1<sup>st</sup> of the current year. Designate the number of those loans brokered and those loans funded.

Loans brokered: 21 loans (\$3,831,250); loans funded: 0.

41. Describe company procedures in place regarding notifications under the federal Equal Credit Opportunity Act and Regulation B, 12 C.F.R. 202.9.

All adverse action notices are produced by the Lender.

42. Provide a copy of the operating account register and escrow account register. Provide a copy of all bank statements and corresponding reconciliations for the most recent quarter.

Copy of operating account register provided. There is no escrow account. Bank statements for Jan - Mar 2007 also provided. Reconciliations are done every 6 months.

43. Examination materials will be returned to licensee. Fees associated with the return shipping are the responsibility of the licensee. Preprinted labels will be accepted provided the full address and billing number are included. If preprinted labels are not included, please provide the full address and billing account number for return shipment.

This is not applicable (exam conducted on site).

Exhibit to:

44. Please provide the total number of employees for the most recent fiscal year end.

✓ 28 employees as of 12/31/2006. See attached list.

✓ 45. Please provide the total number of employees located in New Hampshire for the most recent fiscal year end.

20 employees located in New Hampshire as of 12/31/2006. See attached list.

✓ 46. Please provide a list of locations that are not in New Hampshire that conduct New Hampshire business. Provide address, city, state, zip code, telephone number, tax number, contact person, and internet address.

New Hampshire business is generally conducted from the main office in Meredith, NH.

47. Please provide the gross revenue (before expenses) from all loan transactions for the previous fiscal year.

✓ \$7,199,541 as of 12/31/2006

48. Please provide the gross revenue (before expenses) from all New Hampshire loan transactions for the previous fiscal year.

✓ \$1,703,237 as of 12/31/2006

29%  
What about  
Close Account  
✓ 49. Please provide copies of all contracts or agreements in place with any third party service provider.

See attached contract with CBC-Innovis re consumer reports; Tracy Smith re cleaning; Ryan Barton re computer services.

✓ 50. Please provide the total number of re-purchases (buybacks) that your company had for the previous calendar year. Please provide the number of re-purchases (buybacks) for New Hampshire.

None.

✓ 51. Please provide the total number of early defaults. Please provide the number of early defaults for New Hampshire.

None.

✓ 52. Please provide the name of the person that has been charged with oversight of the safe guarding of consumer information.

Rhonda Vappi, Compliance Officer in conjunction with Ryan Barton of Barton Computer

Exhibit to:

Services.

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.

FR&A has included Borrower & Loan Compatibility procedures in its Risk Management Procedures (see response to question #1). Please also see attached copy of underwriting forms where fully indexed ratios and payment ability are considered. See also responses to questions 7 (training) and 12 (operations overview).

Exhibit to:

Appendix A Page A-14  
Paragraph 7

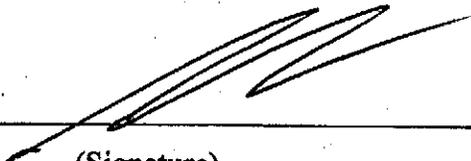
**CERTIFICATION UNDER OATH**

I, Scott D. Farah, President,  
(Name) (Title)

of Financial Resources & Assistance of the Lakes Region hereby subscribe and affirm,  
(Licensee Name)

under penalty of perjury, that the foregoing statements made by me are true, correct and complete to the best of my knowledge and belief.

Dated: June 13, 2007

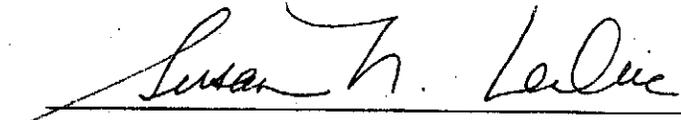
  
\_\_\_\_\_  
(Signature)

State of New Hampshire )  
County of Belknap ) SS

On this, the 13 day of June, 20 07 before me personally appeared

Scott D. Farah, President and made oath, under penalty of perjury, that the foregoing  
(Name)

statements made by him / ~~her~~ is true, correct and complete.

  
\_\_\_\_\_  
Notary Public / ~~Justice of the Peace~~

My Commission Expires 9/17/08 **SUSAN N. LEDUC**  
**Notary Public - New Hampshire**  
**My Commission Expires September 17, 2008**

Exhibit to:

Appendix A Page A-14  
Paragraph 7