



Issue Date	April 21, 2004
Audit Case Number	2004-AT-1005

TO: John C. Weicher, Assistant Secretary for Housing-Federal Housing
Commissioner, H

James D. McKay

FROM: James D. McKay
Regional Inspector General for Audit, 4AGA

SUBJECT: Cotton State Mortgage, Inc
Non-Supervised Loan Correspondent
Atlanta, Georgia

INTRODUCTION

We have completed an audit of the loan origination activities of Cotton State Mortgage, Inc (Cotton State). We selected Cotton State for review because of its high default rate. Our objectives were to determine whether: (1) Cotton State acted in a prudent manner and complied with Department of Housing and Urban Development (HUD) regulations, procedures, and instructions in the origination of Federal Housing Administration (FHA) insured single-family mortgages; and (2) Cotton State's quality control plan, as implemented, meets HUD requirements.

To accomplish our objectives, we tested for compliance with HUD's requirements for the origination of the FHA-insured loans. We reviewed a sample of 26 FHA-insured loans that: (1) had defaulted after 12 or fewer payments were made, or (2) were originated by a loan officer and approved by an underwriter/sponsor who had high occurrences of defaults. We interviewed appropriate officials and staff from Cotton State and HUD's Atlanta Single Family Homeownership Center. We also interviewed the closing attorneys and two mortgagors to verify inconsistent information in the files. In addition, we reviewed HUD, Cotton State, sponsoring mortgagees', and closing attorneys' files and documents.

Our review generally covered the period April 1, 2001, through April 30, 2003, but extended the period as necessary to achieve the audit objective. We performed our on-site work between July 1, 2003, and December 31, 2003. We performed the audit in accordance with generally accepted government audit standards.

We discussed our review results with Cotton State and HUD officials during the audit. We provided a copy of the draft report to Cotton State officials on February 12, 2004, for their comments and discussed the report with the officials at the exit conference on February 27, 2004. Cotton State provided written comments on March 26, 2004. Cotton State's comments are summarized in the finding and included in their entirety as Appendix B. The attachments are available upon request.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Sonya D. Lucas, Assistant Regional Inspector General for Audit, or me at (404) 331-3369.

SUMMARY

Our review showed that Cotton State did not properly originate FHA-insured loans in accordance with HUD requirements and prudent lending practices. Specifically, Cotton State did not exercise due diligence in the verification of the borrower's liabilities, credit, assets, and income. Of the 26 loans reviewed, we identified loan origination deficiencies in 4 of the loans. The deficiencies included: (1) inadequate verification of employment, rent, and gift funds, (2) inadequate verification of funds used to pay off debts, and (3) inconsistencies in the credit reports and loan applications. The conditions existed because Cotton State's quality control review was ineffective in identifying the deficiencies. Cotton State's quality control process was not in compliance with HUD's requirements for reviewing defaulted and rejected loans and did not include monthly quality control reviews. As a result of the deficiencies, Cotton State originated loans for mortgagors who were not qualified for FHA-insured loans. In addition, the inappropriate loans contributed to high default rates and increased HUD's risk to the FHA insurance fund. Cotton State needs to indemnify HUD for two FHA-insured loans with a total unpaid balance of \$221,007.

BACKGROUND

HUD insures mortgages made by private lending institutions under Title II, Section 203(b) of the National Housing Act and governed by regulations in Title 24 Code of Federal Regulations (CFR) Part 203. HUD designates these institutions as supervised, non-supervised, loan correspondent or investing lenders and mortgagees. Dependent upon their designation, the institutions have the authority to originate, purchase, sell, or service HUD FHA-insured

mortgages. Specifically, a loan correspondent can only originate loans for an approved non-supervised mortgagee/sponsor.

Cotton State was incorporated on May 1, 1988, in the state of Georgia, and received approval from HUD as a Title II non-supervised loan correspondent on October 6, 1993. The company was formed for the purpose of originating residential mortgage loans with FHA, Department of Veterans Affairs, and conventional financing resources for borrowers located in Georgia and South Carolina. Since Cotton State is a non-supervised loan correspondent mortgagee, it only originates loans and does not perform the underwriting of the loans. The underwriter/sponsoring mortgagee is responsible for approving or rejecting the loan based on the information contained in the loan package received from Cotton State, if certain conditions are met. Therefore, it is critical that Cotton State exercise prudent lending practices during the loan origination process.

Cotton State originated 625 loans totaling \$71,962,172, between April 1, 2001, and April 30, 2003. As of April 30, 2003, 69 of the 625 loans were in default and 10 loans had claims paid on them. Cotton State's default and claim rates declined over the 2-year period. Cotton State's office is located at 3301 Buckeye Road, Suite 700, Atlanta, Georgia.

Finding 1 - Loans Were Not Originated in Accordance with HUD Requirements

Cotton State did not properly originate FHA-insured loans in accordance with HUD requirements and prudent lending practices. Specifically, Cotton State did not exercise due diligence in the verification of the borrower's liabilities, credit, assets, and income. Of the 26 loans reviewed, we identified loan origination deficiencies in 4 of the loans. The deficiencies included: (1) inadequate verification of employment, rent, and gift funds, (2) inadequate verification of funds used to pay off debts, and (3) inconsistencies in the credit reports and loan applications. The conditions existed because Cotton State's quality control review was ineffective in identifying the deficiencies. Cotton State's quality control process was not in compliance with HUD's requirements for reviewing defaulted and rejected loans and did not include monthly quality control reviews. As a result of the deficiencies, Cotton State originated loans for mortgagors who were not qualified for FHA-insured loans. In addition, the inappropriate loans contributed to high default rates and increased HUD's risk to the FHA insurance fund. Cotton State needs to indemnify HUD for two FHA-insured loans with a total unpaid balance of \$221,007.

Criteria

Section 203 of the National Housing Act states that HUD insures mortgages made by private lending institutions. Dependent upon their designation by HUD, the institutions have the authority to originate, purchase, sell, or service HUD FHA-insured mortgages.

HUD Handbook 4000.4, REV-1, Single Family Direct Endorsement Program, Paragraph 2-1, requires mortgagees to develop HUD/FHA-insured loans in accordance with accepted sound lending practices, ethics, and standards. Paragraph 2-5 provides that mortgagees must obtain and verify information with at least the same care that would be exercised if originating a mortgage entirely dependent on the property as security to protect its investment.

Paragraph 2-13 states that a loan correspondent may participate in Direct Endorsement in a limited manner within the Field Office jurisdiction where it is approved to originate loans, provided its sponsor is approved for Direct Endorsement. Under this arrangement, the loan correspondent will take the initial application, handle the appraisal assignment with HUD, procure verifications of deposit and employment and the credit report, close the loan after it has been underwritten and submit the loan package to HUD for insurance endorsement.

Loan Origination Deficiencies

We reviewed 26 loans originated by Cotton State. Four loans had significant origination deficiencies as described below.

Inadequate Verification of Employment, Rent, and Gift Funds

HUD Handbook 4060.1, Mortgagee Approval Handbook, Paragraph 2-23D, and 24 CFR 202.5(j)(4), state that to be approved and to maintain mortgagee approval, neither the mortgagee nor any officer, partner, director, principal, or employee shall be engaged in business practices

that do not conform to generally accepted practices of prudent mortgagees or that demonstrate irresponsibility.

FHA Case Number 105-1001301

We questioned the validity of the residence and employment of the borrower. We also questioned the validity of the gift funds and the funds used to close the loan. We found that the person who signed the Request for Verification of Rent form never worked at the apartment complex and the complex did not use the rental receipts in the loan file. The apartment complex manager stated the borrower never lived at the complex, and the person who verified the rent never worked at the complex.

We also found that the address shown on the Verification of Employment for the borrower's place of employment was a mailbox located in an United Parcel Service store. We found that the company no longer had a box there. The seller of the property was the registered agent for the borrower's place of employment and was also a loan officer for Cotton State.

In addition, it appeared that the borrower did not live in the home. According to a neighbor, the seller and his wife always lived in the home and she did not know the borrower. Finally, there was no evidence the settlement statement truly reflected what actually took place at closing. The settlement statement showed that \$1,000 was due from the borrower at closing. However, a review of the closing attorney's records did not show a check from the borrower for the \$1,000. We found that the downpayment assistance check included an additional \$1,000 that was used to satisfy the borrower's funds needed to close the loan. A reconciliation of the downpayment assistance check showed \$24 was paid to the borrower at closing.

A review of the receipts and disbursements of the closing escrow account showed the closing attorney received a check for \$5,284 which was applied as follows: \$4,260 as down payment assistance, \$1,000 to close, and \$24 as a refund to the borrower. The bank check was payable to the borrower and the check memo stated it was for the non-profit providing the down payment assistance. We could not determine who purchased the bank check. The closing attorney issued a check to the non-profit for \$5,010 and to the borrower for \$24. The \$250 difference could not be reconciled. We consider the \$1,000 closing payment an inducement to purchase. We also determined another loan officer at Cotton State handled the downpayment assistance program for the nonprofit.

A review of the settlement statement showed that the seller received \$6,123 from the sale. Included in the settlement was the payoff of the seller's past due utility fees of \$1,163 and miscellaneous fees of \$154.

Cotton State's President stated that they did not have a policy to review the sale of employee's personal properties when the loan was originated by Cotton State.

As of December 31, 2003, HUD's Neighborhood Watch showed the borrower had made no payments when the first default occurred. The borrower is under partial reinstatement. As a result, we are requesting indemnification of the \$136,200 unpaid loan balance.

Inadequate Verification of Funds Used to Pay off Debts

Our review of the loan files showed that Cotton State did not adequately verify the borrowers' source of funds used to pay their outstanding obligations. The following loan involved a borrower with a history of credit problems and excessive obligations.

FHA Case Number 101-9742188

Cotton State did not adequately verify the borrower's funds used to pay off the debts. The loan file showed the borrower had a history of credit problems including nonpayment of rent. The credit report showed judgments totaling \$6,188 for six eviction cases. The loan file did not demonstrate that Cotton State followed up to identify the source of the borrower's cash used to pay off the debts. More specifically, the file did not show that \$3,518 of the \$6,188 debt for rent was paid before the initial loan application date. This was also significant because the borrower did not have documented funds to pay off the debts. The verification of deposit showed the borrower had an average balance of \$100 in savings and \$280 in checking, during January and February 2001. Cotton State should have made a determination as to where the funds came from to pay off the judgments and considered the information in determining the eligibility of the borrower to prequalify for the loan.

Inconsistencies in Credit Reports and Loan Applications

Our review of the loan files showed that Cotton State did not resolve inconsistencies with the credit reports and loan applications. We identified two loans with inconsistencies.

FHA Case Number 101-9771359

Cotton State did not resolve differences shown on the borrower's loan application and credit reports. The borrower did not list any credit on the application. There were two credit reports for the borrower. Both reports were from Advantage Credit International and included data from two credit bureaus. Both reports were ordered on April 17, 2001; however, the report dates were different.

One report was dated April 17, 2001, and the other report was dated April 27, 2001. The earlier report included debt of \$4,500, while the later report only showed \$200 of debt. There was nothing in the loan file documenting how the balance was reduced.

As of December 31, 2003, HUD's Neighborhood Watch showed the borrower had made five payments when the first default occurred. The property was under first legal action to commence foreclosure. As a result, we are requesting indemnification of the \$84,807 unpaid loan balance.

Cotton State did not include all of the borrower's debts on the loan application as shown on the credit report. The loan application showed one credit account with payment of \$300. However, the borrower's credit report listed 22 derogatory accounts. The borrower's total debt listed on the credit report of \$24,052 was not included on the loan application.

Quality Control Review Deficiencies

Cotton State did not: (1) perform timely quality control reviews, (2) include required loans in the reviews, or (3) effectively identify deficient processing.

HUD Handbook 4060.1, Chapter 6, sets forth the requirements for the quality control review. Paragraph 6-1C, states that single family originating mortgagees may choose to review the lesser of either 10 percent of all loans closed on a monthly basis, or a random sample that provides a 95 percent confidence level with 2 percent precision. Paragraph 6-1C(1)(b) states that mortgagees that close fewer than 10 loans annually must review at least one loan. If fewer than 10 loans are originated monthly, the 10 percent sampling requirement may be done on a quarterly basis. Paragraph 6-1D states that a mortgagee's quality control plan and review procedures must include an analysis of all loans which go into default within the first 6-months. Paragraph 6-3A provides that quality control reviews must be performed within 90 days of the closing of the loan. In addition, Paragraph 6-3B provides that a minimum of 10 percent of total loans rejected must be reviewed.

We reviewed the quality control plan and the latest quality control review performed by Cotton State's quality control contractor. We noted deficiencies with the quality control review relating to the timeliness of the review and the type of loans included in the review.

A quarterly quality control review was performed on July 24, 2003, covering the period April through June 2003. However, HUD's Neighborhood Watch showed that Cotton State originated 14 loans in April, 13 loans in May, and 2 loans in June 2003. Therefore as required, monthly reviews should have been performed in April and May 2003. Also, two loans that closed at the end of April 2003 were not reviewed within 90 days of closing. The quality control review did not include an analysis of the loans that went into default within the first 6-months or were rejected or withdrawn. Cotton State's Operation Manager stated that quarterly reviews were performed, instead of monthly reviews, because they are not closing as many FHA loans.

Cotton State's quality control review was ineffective in identifying deficient loans. Based on our review that identified 4 of 26 loans that were deficient, we believe an effective quality control system would have identified weaknesses in the processing procedures and brought about corrective actions. By not establishing an effective system to review the loans, Cotton State did not ensure the accuracy, validity, and completeness of its loan origination operations.

AUDITEE COMMENTS

Excerpts from Cotton State Mortgage's written comments on our draft finding follow. The complete text is included as Appendix B. The written comments were not signed by a Cotton State official.

"Cotton State Mortgage's Management must take exception to the audit finding that "Cotton State's quality control Quality Control Process was not in compliance with HUD's requirements for reviewing defaulted loans." The reason CSM's Management takes exception to this is do to the fact that management has been reviewing each and every delinquent loan for the last 4 years. Cotton State Mortgage also categorizes all of its delinquents by Loan Officer, and councils its' Loan Officers whenever the Loan Officers' average is above the Atlanta-HUD Field Office Average.

"**105-1001301**...Due to the fact that there are inconsistencies in this file, CSM agrees that it would be prudent to indemnify HUD against potential future losses. If a foreclosure were to be initiated, we are asking only that HUD notify us at it's [sic] inception. The employee involved in this transaction has been terminated.

"**101-9742188**...All other items were confirmed Satisfied per Court Records on 03/01/2001. So it would appear that these items were paid and processed prior to Cotton State Mortgage's Application of 02/28/2001. So funds to satisfy these debts did not have to be verified. Funds to pay-off all other debts appeared to have been prior to 02/28/2001. Copy of March Bank Statement doesn't show any large disbursements, so it would appear that the other debts were paid off prior to Feb 28...

"**101-9691425**... American Residential conditioned for cash to close, however the only Cash to close was \$144.00 in checking and \$767.00 in 401K. Don't know why American Residential would close this loan without funds liquidated from 401k. This loan was reviewed back in June 2001 during CSM's Delinquency Review. It was determined that American Residential was not properly Underwriting files per HUD's guidelines.

"**101-9771359**...both reports were in Cotton State Mortgage's file. ...Advantage Credit claims that the April 27, 2001 credit report is authentic. The date of 04/17/2001 was the date the preliminary report was ordered, and the Date of 04/27/2001 was the final UPDATED credit report.

Therefore your initial request to indemnify HUD would be completely unfounded, in as much as CSM was diligent [sic] in their origination process, and violated no HUD rules or guidelines.

"**105-0035213**... All other debts were accounted for On final 1003. Sponsor American Residential knew all about this debt...

“**105-0372905**... Regarding the consumer derogatory [sic], and the credit not being on the 1003. This loan was a Streamline Refinance of the original FHA Case# 101-9569800 Per FHA 4155, if the loan is a Streamline Refinance with No Cash out Consumer Debt is not required. That is why the consumer debt is not listed on the 1003. As for the Delinquent obligation on the Mortgage, the underwriter can approve a Streamline Refinance if the payment is being lowered, and it is helping the Borrower. Cotton State Mortgage did not make the underwriting decision regarding the late on the Mortgage.

“**Quality Control**

The reason CSM was handling their QC review on a Quarterly Basis was to be able to sample more FHA loans in a single review. We found the data to be more meaningful to us. However, in order to comply with HUD’s Quality Control plan CSM will handle Quality Control Reviews Monthly.”

OIG EVALUATION OF AUDITEE COMMENTS

Quality Control Review Deficiencies

Although Cotton State management performed its own separate review of delinquent loans, they are also responsible for follow up and resolution of deficiencies identified during the loan origination process and quality control reviews. Thus, the internal review performed by the Cotton State management did not meet HUD requirements for an independent quality control review. Cotton State hired an independent quality control contractor to do its quality control review covering the period April 2003 through June 2003. We noted the contactor’s review did not include an analysis of loans that went into default within the first six months or were rejected or withdrawn, as required. Cotton State agreed to perform monthly quality control reviews.

FHA Case Number 105-1001301

Cotton State’s management agreed to indemnify HUD against potential future losses.

FHA Case Number 101-9742188

Cotton State did not provide documentation to support that \$3,518 of the \$6,188 debt for rent was paid before the initial loan application date. Since the borrower did not have documented funds to pay off the debt, Cotton State should have verified the borrower’s source of funds at the time the initial loan application was made.

FHA Case Number 101-9691425

We agree with Cotton State officials regarding the fact that borrower did not have sufficient funds in the bank to close on the loan, and that the sponsoring mortgagee should have requested the liquidation of the borrower’s 401K as condition for closing. Therefore, we will address the loan as an underwriting issue in a separate report to the sponsoring mortgagee.

FHA Case Number 101-9771359

We agree that both credit reports were in Cotton State's file. However, Cotton State did not explain why the borrower's liabilities were not listed on the loan application. Also, Cotton State did not explain why the total debt amounts differed on each credit report. Cotton State did not provide documentation for the balance reduction. Therefore, we are requesting indemnification of the \$84,807 unpaid balance.

FHA Case Number 105-0035213

We reviewed the final Uniform Residential Loan Application (Form 1003) and determined that it did not include all of the borrower's debts as shown on the credit report.

FHA Case Number 105-0372905

We agree that the loan was a streamline refinance. We will address the underwriting deficiencies identified in a separate report to the sponsoring mortgagee.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Housing-Federal Housing Commissioner:

- 1A. Seek appropriate administrative action against Cotton State and require Cotton State to indemnify two loans totaling \$221,007.
- 1B. Require Cotton State to follow HUD's requirements for obtaining and verifying information used to qualify borrowers for FHA insurance.
- 1C. Require Cotton State to implement its management control process and ensure all loan origination functions are monitored for compliance with HUD requirements.
- 1D. Review Cotton State's implementation of the quality control plan, and ensure its loan origination procedures and management control process are fully implemented in conformity with HUD's requirements.

MANAGEMENT CONTROLS

In planning and performing our audit, we considered Cotton State's management controls relevant to HUD's Section 203 program to determine our audit procedures and not to provide assurance on the controls. Management is responsible for establishing effective management controls to ensure that its goals are met. Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance

Relevant Management Controls

We determined that the following management controls were relevant to our audit objectives:

- Loan origination process.
- Quality control process.

We assessed the relevant controls identified above by:

Reviewing the regulations governing the program and procedures established by Cotton State in originating FHA-insured loans;

Interviewing HUD officials, employees of Cotton State, other related parties, and entities;

Reviewing Cotton State's and HUD's records and related documents and controls for FHA-insured loans originated between April 1, 2001, and April 30, 2003.

A significant weakness exists if management controls do not provide reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed.

Based on our audit, we identified weaknesses in all relevant control areas. See Finding 1.

FOLLOW-UP ON PRIOR AUDITS

This is the first Office of Inspector General audit of Cotton State. J. Thomas Abernathy, CPA, PC completed the most recent Independent Auditor audit report for the 12-month-period ended December 31, 2002. The report did not contain any findings.

SCHEDULE OF QUESTIONED COSTS AND FUNDS PUT TO BETTER USE

<u>Recommendation Number</u>	<u>Type of Questioned Cost Funds Put to Better Use</u> ^{1/}
1A	\$221,007

^{1/} Funds Put to Better Use are costs that will not be expended in the future if our recommendations are implemented. These funds include costs not incurred, and de-obligation of funds.

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Cotton State Mortgage's Management must take exception to the audit finding that "Cotton State's quality control Quality Control Process was not in compliance with HUD's requirements for reviewing defaulted loans." The reason CSM's Management takes exception to this is do to the fact that management has been reviewing each and every delinquent loan for the last 4 years. Cotton State Mortgage also categorizes all of its delinquents by Loan Officer, and councils its' Loan Officers whenever the Loan Officers' average is above the Atlanta-HUD Field Office Average.

Cotton State Mortgage terminated relationships with 2 HUD Sponsors which were not adhering to sound underwriting guidelines, and we established a comprehensive program to Council each contributing Loan Officer. Please note, CSM has been able to drop its delinquency to over 121% from its highest point.

Please note that this was demonstrated to HUD auditors during our audit, and also that Cotton State Mortgage's Management takes a very proactive approach in controlling their delinquent loans. We also Go over and beyond what HUD's requirements are for reviewing delinquent loans. Therefore we believe that the statement made in the DRAFT was inaccurate and unfair.

As I am sure you will recall from the exit conference, held 2-27-04, all parties in attendance were in agreement that the final report should give a more "balanced" and "accurate" picture of CSM' current origination and processing procedures. Again, it was evident to all parties that the vast majority of delinquencies were confined to a short period in 2000-2001. Looking at our track record since our approval in 1993, you can easily see a very sound delinquency picture with the exception of originations coming from the short period outlined above. Furthermore, once the sources of the problems were identified, management took swift and decisive action to correct the problem. Recent delinquent trends will readily bear that out. Current trends have been very positive.

105-1001301-*

- Due to the fact that there are inconsistencies in this file, CSM agrees that it would be prudent to indemnify HUD against potential future losses. If a foreclosure were to be initiated, we are asking only that HUD notify us at it's inception. The employee involved in this transaction has been terminated.

101-9742188-*-Loan Officer Verria Neal

Closing Date 03/09/2001

- Application taken 02/28/2001
 - Innovation Financial Solutions Paid-off 02/21/2001 or before (see attached documentation in file)
 - All other items were confirmed Satisfied per Court Records on 03/01/2001. So it would appear that these items were paid and processed prior to Cotton State Mortgage's Application of 02/28/2001. So funds to satisfy these debts did not have to be verified.
 - Funds to pay-off all other debts appeared to have been prior to 02/28/2001.
 - Copy of March Bank Statement doesn't show any large disbursements, so it would appear that the other debts were paid off prior to Feb 28,
- Please see John Bardin-Operations Manager of Advantage Credit's explanation.

* Borrower's name has been deleted.

101-9691425-*--Loan Officer-Rebecca Foster

Closed 03/09/2001

- American Residential conditioned for cash to close, however the only Cash to close was \$144.00 in checking and \$767.00 in 401K. Don't know why American Residential would close this loan without funds liquidated from 401k.
- This loan was reviewed back in June 2001 during CSM's Delinquency Review. It was determined that American Residential was not properly Underwriting files per HUD's guidelines.

101-9771359-*--Loan Officer-Rebecca Foster

Closed 05/03/2001

See attached credit reports dated 04/17/2001 and 04/27/2001 both reports were in Cotton State Mortgage's file. Both credit reports were showed to Joyce Harris and Dennis Durick during their exit conference.

Advantage Credit claims that the April 27, 2001 credit report is authentic. The date of 04/17/2001 was the date the preliminary report was ordered, and the Date of 04/27/2001 was the final UPDATED credit report.

Therefore your initial request to indemnify HUD would be completely unfounded, in as much as CSM was diligent in their origination process, and violated no HUD rules or guidelines.

105-0035213-*--Loan Officer-Rebecca Foster

Closed-07/2001

- Per underwriting approval \$14,065 collections was garnished from Antron Wilson's Walmart check for \$100.93. All other debts were accounted for On final 1003. Sponsor American Residential knew all about this debt, please

105-0372905-*--Loan Officer-Les Williams-Closed-12/26/2001

- Regarding the consumer derogatory, and the credit not being on the 1003. This loan was a Streamline Refinance of the original FHA Case# 101-9569800 Per FHA 4155, if the loan is a Streamline Refinance with No Cash out Consumer Debt is not required. That is why the consumer debt is not listed on the 1003. As for the Delinquent obligation on the Mortgage, the underwriter can approve a Streamline Refinance if the payment is being lowered, and it is helping the Borrower. Cotton State Mortgage did not make the underwriting decision regarding the late on the Mortgage.

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