UNITED STATES OF AMERICA
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Washington, D.C.

In the Matter of: **PROSPECT MORTGAGE, LLC** **Respondent**	**HUD ID No. 13920**

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is made and entered into between the United States Department of Housing and Urban Development ("Department" or "HUD") and Prospect Mortgage, LLC ("Respondent"), collectively referred to as the "Parties."

WHEREAS, Respondent is a company that participates in HUD's single-family mortgage insurance program;

WHEREAS, HUD alleges that Respondent failed to comply with HUD/FHA requirements and the Real Estate Settlement Procedures Act ("RESPA"). Specifically, HUD alleges that a series limited liability company that originates and funds FHA insured mortgages as an FHA-approved mortgagee in the manner that Respondent has, does not comply with HUD/FHA's guidelines for the operation of branch offices. HUD also alleges that certain of Respondent's affiliated business arrangements or series limited liability companies did not comply with RESPA requirements governing affiliated business arrangements, including the requirement for sufficient initial capital and separate dedicated employees;

WHEREAS, HUD has indicated its intent to issue a Notice of Violation and pursue administrative action against Respondent based on the aforementioned alleged violations of HUD/FHA requirements and Section 8 of RESPA;

WHEREAS, Respondent denies HUD's allegations. In particular, Respondent alleges that it had disclosed its business structure to HUD in a previous HUD audit and therefore was under the assumption that its business structure did not violate HUD/FHA requirements or RESPA;

WHEREAS, the Parties mutually desire to avoid further expense and administrative proceedings and to reach a satisfactory resolution of this matter; and

WHEREAS, this Agreement shall not constitute an admission of liability or fault on the part of either of the Parties.

NOW, THEREFORE, the Parties agree as follows:

1. This Agreement shall become effective upon its execution by the Parties. The date upon which this Agreement becomes effective is referred to as the Effective Date throughout this Agreement.

2. Respondent has terminated and wound down the affiliated business arrangements that were the subject of this review, and references to those affiliated business arrangements have been removed from Respondent's website.

3. With respect to any future affiliated business arrangements that Respondent may enter into or create with settlement service providers, Respondent agrees to comply with RESPA and FHA requirements in structuring and operating these arrangements.

4. Respondent agrees to make a payment to HUD in the amount of Three Million One Hundred Thousand Dollars ($3,100,000). Respondent agrees to make an initial payment of One Million Dollars ($1,000,000), which shall be remitted along with the Respondent's executed copies of this Agreement. Thereafter, Respondent agrees to make two installment payments. The first payment of One Million Fifty Thousand Dollars ($1,050,000), plus interest at the rate of five (5) percent, shall be paid within twelve (12) months of the Effective Date of this Agreement.

Respondent agrees to make a second and final installment payment of One Million Fifty Thousand Dollars ($1,050,000), plus interest at the rate of five (5) percent, within twelve (12) months of the date upon which Respondent made the first installment payment. All payments must be made by certified or cashiers check made payable to the U.S. Department of Housing and Urban Development.

5. These initial payment must be sent, along with the Respondent's executed copies of this Agreement, to the attention of Dane Narode, Esq., HUD Office of General Counsel, at the following address:

If by Regular Mail
451 Seventh Street, SW
Room B-133 -Portals 200
Washington, DC 20410

If by Courier or Express Mail
1250 Maryland Ave, SW
Portals Building, Suite 200
Washington, DC 20024
(202) 708-2350 (phone)

Subsequent payments must be made to the following address:

If Via First Class Mail:
HUD-FOC Debt
Box 979056
St. Louis, MO 63197-9000

If Via Express Mail or Courier:
HUD-FOC Debt
Government Lockbox 979056
1005 Convention Plaza
St. Louis, MO 63101

Please place the Financial Operations Center account number on all payments submitted to the lockbox addresses, above. You should receive this number within a few weeks of the Effective Date.

NOTE: The above addresses are for payments only. All other correspondence after the Effective Date should be sent to the U.S. Department of Housing and Urban Development's Financial Operations Center at the following address:

U.S. Department of Housing and Urban Development
Financial Operations Center
Attention: Mary Ricchiuti

52 Corporate Circle
Albany, NY 12203
Phone: 1-800-669-5152 x 2838 or 1-518-862-2838

6. By executing this Agreement, HUD agrees to terminate its investigation and waive, release, remit and compromise any claims, causes of action, direct or indirect, as well as any potential administrative or other enforcement action, against Respondent, its predecessors, successors, transferees, directors, managers, officers, agents, representatives and assigns (collectively, "Administrative Claims") in connection with the structure and ownership of a series limited liability company under FHA mortgagee approval requirements and in connection with the operation and ownership of a series limited liability company under RESPA requirements through the Effective Date of this Agreement. The Parties agree that, except as set forth herein, this Agreement is intended to be a complete settlement by HUD of all Administrative Claims against Respondent in connection with the structure and ownership of a series limited liability company under FHA mortgagee approval requirements and in connection with the operation and ownership of a series limited liability company under RESPA requirements through the Effective Date of this Agreement.

7. This Agreement does not waive any rights or responsibilities of HUD or any other Federal agency to investigate or initiate other actions pursuant to its lawful authority except as explicitly waived herein.

8. Any breach of the terms of this Settlement Agreement by Respondent shall constitute independent grounds for the imposition of administrative sanctions by HUD against Respondent.

9. Respondent acknowledges that if it does not make the two installment payments according to the terms of this Settlement Agreement, HUD may elect to treat the outstanding

balance of the debt as a fixed claim and have this fixed claim administered and processed under the provisions of the Debt Collection Improvement Act, codified at 31 U.S.C. § 3701, *et seq.*

10. This Agreement is binding on and inures to the benefit of Respondent's predecessors, successors, transferees, directors, managers, officers, agents, representatives and assigns.

11. This Agreement may not be altered, amended, or modified, except by writing duly executed by authorized representatives of the Parties.

12. This Agreement constitutes the complete agreement between the Parties, and supersedes and replaces all prior negotiations and agreements, whether written or oral, regarding the resolution of this matter.

13. Each of the parties warrants that it has been represented by, and has sought and obtained the advice of, independent legal counsel with regard to the nature, purpose, and effect of the Agreement.

14. This Agreement is voluntary and entered into by Respondent after due consideration of the terms contained herein.

15. Respondent will not seek the termination or reconsideration of this Agreement, directly or indirectly, after the Effective Date identified in Paragraph 1, *supra.*

16. Each signatory represents and warrants that he, she or it has the power, consent, and authorization to execute this Agreement.

17. Respondent hereby agrees to waive, release, and remit any and all claims, directly or indirectly, against HUD or HUD employees with respect to the negotiation of this Agreement.

18. Each side shall bear its own costs and legal fees.

19. This Agreement may be executed in counterparts, each of which constitutes an original and all of which constitute one and the same agreement.

WHEREFORE, the Parties hereto have duly executed this Agreement.

PROSPECT MORTGAGE, LLC

Date:_____ By:_____
(Signature)

Name:_____
(Print or Type Name)

Title:_____
(Print or Type Title)

UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

Date: 7/8/2011 By:_____
(Signature)

Name: Robert Ryan
(Print or Type Name)

Title: Acting FHA Commissioner
(Print or Type Title)

WHEREFORE, the Parties hereto have duly executed this Agreement.

PROSPECT MORTGAGE, LLC

Date: 7-8-2011

By: Ronald L. Bergum
(Signature)

Name: Ronald L. BERGUM
(Print or Type Name)

Title: CEO
(Print or Type Title)

UNITED STATES DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

Date:_____

By:_____
(Signature)

Name:_____
(Print or Type Name)

Title:_____
(Print or Type Title)