AUDIT REPORT



CORNERSTONE MORTGAGE GROUP, LIMITED NON-SUPERVISED LOAN CORRESPONDENT

INVERNESS, ILLINOIS

2004-CH-1008

SEPTEMBER 10, 2004

OFFICE OF AUDIT, REGION V CHICAGO, ILLINOIS



Issue Date

September 10, 2004

Audit Case Number

2004-CH-1008

TO: John C. Weicher, Assistant Secretary for Housing-Federal Housing Commissioner and Chairman of Mortgagee Review Board, H

Margarita Maisonet, Director of Departmental Enforcement Center, CV

FROM: Thomas Towers, Acting Regional Inspector General for Audit, 5AGA

SUBJECT: Cornerstone Mortgage Group, Limited

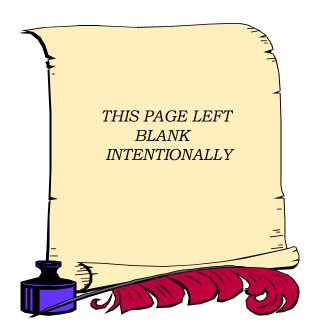
Non-Supervised Loan Correspondent

Inverness, Illinois

We completed an audit of Cornerstone Mortgage Group, Limited, a non-supervised loan correspondent, approved to originate FHA Single-Family mortgage loans. We selected Cornerstone for audit because it had a high loan default and claim rate. Our audit objectives were to determine whether: (1) Cornerstone's Quality Control Plan, as implemented, met HUD's requirements; and (2) Cornerstone followed prudent lending practices and complied with HUD's regulations, procedures, and instructions in the origination of FHA loans. The audit resulted in two findings.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without management decisions, 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 Rose Capalungan, Assistant Regional Inspector General for Audit, at (312) 353-6236 extension 2679 or me at (313) 226-6280 extension 8062.



Executive Summary

We completed an audit of Cornerstone Mortgage Group, Limited, a non-supervised loan correspondent, approved to originate FHA mortgage loans under the Single Family Direct Endorsement Program. The audit was part of the activities set forth in our Fiscal Year 2003 Annual Audit Plan. We selected Cornerstone for audit because of its high loan default and claim rate. Our audit objectives were to determine whether: (1) Cornerstone's Quality Control Plan, as implemented, met HUD's requirements, and (2) Cornerstone followed prudent lending practices and complied with HUD's regulations, procedures, and instructions in the origination of FHA loans.

We concluded, that due to the lack of management oversight and a deficient Quality Control Plan, Cornerstone did not adequately perform Quality Control Reviews of FHA loans as required. Also, Cornerstone did not: adhere to prudent lending practices; and comply with HUD's regulations, procedures, and instructions when it originated FHA-insured loans.

Lack Of Management Oversight And A Deficient Quality Control Plan Due to the lack of management oversight and a deficient Quality Control Plan, Cornerstone did not adequately perform Quality Control Reviews on FHA-loans as required. Cornerstone did not review 18 loans that defaulted within the first six payments after closing. Additionally, Cornerstone did not always: (1) perform Quality Control Reviews on FHA loans in a timely manner; (2) consistently complete written reverification of borrowers' employment, deposits, and gift letters, or other sources of funds; (3) maintain supporting documentation for its desk reviews of the property appraisals; (4) generate periodic Quality Control reports on the deficiencies to reasonably notify its senior management; and (5) formally and consistently document the deficiencies and the actions taken to resolve the deficiencies found during its reviews.

Due Diligence In Packaging Loans Was Not Exercised Cornerstone did not always originate FHA-insured loans in accordance with HUD's requirements and prudent lending practices. Cornerstone did not exercise due diligence to always verify or support borrowers' sources of funds to close, income, and credit information and reports. In addition, Cornerstone did not always ensure that: cash investment requirements were met; inconsistencies of information contained in the loan documents were explained or resolved; complete loan origination files were maintained; and face-to-face interviews with first-time borrowers were conducted.

Some Deficiencies Noted Were Repeat Findings HUD's Quality Assurance Division previously noted some of the deficiencies found during our audit. For example, during a Title II origination review in March 2001, HUD's Quality

Page iii 2004-CH-1008

Assurance Division found that Cornerstone's Illinois home office had a non-conforming Quality Control Plan and lacked supporting documentation. Additionally, during a Title II origination review in December 2001, HUD's Quality Assurance Division noted that Cornerstone's Nevada branch office performed inadequate Quality Control Reviews, did not properly verify the source of funds for the down payment and/or closing, and failed to maintain origination files or documentation

Recommendations

We recommend that HUD's Assistant Secretary for Housing-Federal Housing Commissioner and Chairman of the Mortgagee Review Board: requires Cornerstone and/or its sponsor to indemnify/reimburse HUD for the appropriate amounts cited in this report; and determines whether HUD should withdraw Cornerstone's approval to participate in HUD's Single Family Mortgage Insurance Program. We also recommend that HUD's Director of Departmental Enforcement Center take appropriate administrative actions against Cornerstone for its failure to follow HUD's requirements.

We presented our draft audit report to Cornerstone's President and Vice President, and HUD's staff during the audit. We held an exit conference with Cornerstone's President and Vice President on July 28, 2004. Cornerstone provided written comments to the draft audit report on August 13, 2004 that generally did not agree with our findings. We included excerpts of the comments with each finding (see Findings 1 and 2).

The complete text of Cornerstone's comments including attachments is in Appendix E.

Table Of Contents	
Management Memorandum	:
Executive Summary	ii
Introduction	1
Findings	
1. Lack Of Management Oversight And Deficient Quality Co- Plan Resulted In Inadequate Quality Control Reviews	ntrol
 Cornerstone Did Not Exercise Due Diligence In Packaging T Loans For Direct Endorsement Approval 	The
Management Controls	23
Follow Up On Prior Audits	25
Appendices	
A. Schedule Of Questioned Costs And Recommendation For Funds To Be Put to Better Use	r 27
B. Summary Of Deficiencies – Finding 2	29
C. Narrative Case Presentations	31
D. Status Of 37 FHA-Insured Loans	79

Page v 2004-CH-1008

E. Auditee Comments

81

2004-CH-1008 Page vi

Introduction

Section 203(b)(1) of the National Housing Act, as amended, authorizes HUD to provide mortgage insurance for Single-Family homes. HUD must formally approve a mortgagee that originates, purchases, holds, or sells FHA-insured loans. Mortgagees must follow the statutory and regulatory requirements of the National Housing Act and HUD's instructions, guidelines, and regulations when originating insured loans. Mortgagees that do not follow these requirements are subject to administrative sanctions.

In January 1992, HUD approved Cornerstone as a non-supervised loan correspondent mortgagee to originate FHA loans. As a condition for its HUD approval, Cornerstone is required to have and maintain a Quality Control Plan for the origination and servicing of FHA-insured loans. The Quality Control Plan must be a prescribed function of Cornerstone's operations and assure that it maintains compliance with HUD's requirements and its own policies and procedures.

As a loan correspondent, Cornerstone must send the FHA loans it originated to a HUD-approved Direct Endorsement sponsor(s) for underwriting approval prior to loan closing and the submission to HUD for insurance endorsement. The loan origination process includes taking an initial loan application, initiating the appraisal assignment, and obtaining the credit report, verifications of deposit and employment. Based on the information gathered by the loan correspondent, the sponsor mortgagee underwrites the loan and makes a decision as to whether the borrower represents an acceptable credit risk for HUD. Since the sponsor bases its underwriting approval, in large part, on information gathered by a loan correspondent, it is critical that the loan correspondent exercises due care and follows prudent lending practices and HUD's requirements when originating the loan.

Cornerstone has a home office located in Inverness, Illinois and one branch office located in Las Vegas, Nevada. In December 2003, HUD terminated the FHA loan origination approval of Cornerstone's Las Vegas office based on its high loan default and claim rate. Cornerstone originated 510 FHA-insured Single-Family loans totaling more than \$65 million from September 2001 through August 2003. The President of Cornerstone is Michael O'Neill.

Audit Objectives

Our audit objectives were to determine whether (1) Cornerstone's Quality Control Plan, as implemented, met HUD's requirements, and (2) Cornerstone followed prudent lending practices and complied with HUD's regulations, procedures, and instructions in the origination of FHA-insured Single Family mortgage loans.

Audit Scope And Methodology We conducted the audit at HUD's Chicago Regional Office and Cornerstone's Inverness, Illinois office. We performed our audit work between September 2003 and May 2004.

Page 1 2004-CH-1008

To accomplish our objectives, we interviewed HUD's staff and Cornerstone's management, employees, and loan borrowers. We also contacted the borrowers' employers.

We reviewed HUD's loan origination, Quality Control Plan, and Quality Control review requirements. We also reviewed Cornerstone's Quality Control Plan for adequacy and consistency with HUD's requirements.

We analyzed all 43 loans that Cornerstone performed Quality Control Reviews on as of October 1, 2003 to determine if Cornerstone implemented its Quality Control Plan. Specifically if Cornerstone performed the Quality Control Reviews in accordance with its Quality Control Plan and HUD's requirements.

We tested Cornerstone's loan origination process using a sample of loans closed during the period September 2001 through August 2003. We chose 37 loans from a universe of 480 FHA-insured loans using Computer Assisted Audit Techniques, including the ACL program. Our selection criteria included: defaulted loans and loans terminated with claims. The 37 loans were comprised of 19 loans originated or refinanced by Cornerstone's Illinois office, and the remaining 18 loans originated by its Nevada branch office. All loans originated by its Nevada branch office were terminated with claims. We tested Cornerstone's origination process through a review of HUD's FHA Case Binders and Cornerstone's loan origination files related to our sample.

The audit covered the period from September 2001 to August 2003. The period was adjusted as necessary. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

We provided a copy of this report to the President of Cornerstone.

Lack Of Management Oversight And Deficient Quality Control Plan Resulted In Inadequate Quality Control Reviews

Cornerstone Mortgage Group, Limited did not adequately perform Quality Control Reviews on FHA-loans as required. Cornerstone did not review 18 loans that defaulted within the first six payments after closing. Additionally, Cornerstone did not always: (1) perform Quality Control Reviews on FHA loans in a timely manner; (2) consistently complete written reverification of borrowers' employment, deposits, gift letters, or other sources of funds; (3) maintain supporting documentation for its desk reviews of the property appraisals; (4) generate periodic Quality Control reports on the deficiencies to reasonably notify its senior management; and (5) formally and consistently document the deficiencies and the actions taken to resolve the deficiencies found during its reviews. The problems occurred because of a lack of management oversight and Cornerstone's written Quality Control Plan was not consistent with HUD's requirements. As a result, Cornerstone was unable to ensure the accuracy, validity, and completeness of its loan origination operations and contributed to an increased risk of loss to HUD's FHA insurance fund.

HUD Requirements

HUD Handbook 4060.1 REV-1, Mortgagee Approval Handbook, Chapter 6, requires mortgagees including loan correspondents to:

- Have and maintain a Quality Control Plan that is sufficient in scope to enable the mortgagee to evaluate the accuracy, validity, and completeness of its loan origination operations and also allow for independent evaluation of significant information gathered for use in the mortgage credit decision making for all loans originated by the mortgagee;
- Include in their Quality Control Plan a provision for: (1) periodic reports that would identify for senior management areas of deficiency including, for example, errors and omissions, unacceptable patterns or trends, as well as fraud and intentional violations of regulations; and (2) written reverification of a mortgagor's employment, deposits, and gift letter or other sources of funds;
- Analyze all loans that go into default within the first six months;

Page 3 2004-CH-1008

- Formally document the actions taken by management by citing each deficiency;
- Provide management's response or actions taken;
- Perform Quality Control Reviews within 90 days of the closing of the loan; and
- Perform a desk review of the property appraisal on all loans chosen for a Quality Control review.

Sample Selection

As of October 1, 2003, Cornerstone performed Quality Control Reviews on 43 FHA loans with closing dates between September 1, 2001 and August 31, 2003. We reviewed all 43 loans. Therefore, the results of our review of Cornerstone's Quality Control process were based on a 100 percent sample.

Inadequate Quality Control Reviews Cornerstone did not perform Quality Control Reviews for 18 early payment default loans as shown in the table on the next page.

FHA Loan Number	Mortgage Amount	Closing Date	Included In OIG's Review
332-3714363	\$116,955	8/9/2002	
332-3806322	\$145,938	6/3/2002	
332-3867679	\$70,700	5/21/2002	
332-3880958	\$218,377	6/20/2002	
332-3923916	\$83,979	8/7/2002	

2004-CH-1008 Page 4

Totals	\$2,298,153	18	7
332-3856414	\$111,999	9/13/2002	
332-3738478	\$122,865	9/28/2001	Χ
332-3729736	\$133,675	9/28/2001	
332-3805123	\$112,969	1/17/2002	X
332-3800155	\$142,962	12/20/2001	
332-3797686	\$146,921	12/10/2001	
332-3793422	\$118,907	12/13/2001	Х
332-3786727	\$130,123	12/18/2001	Х
332-3781815	\$112,462	12/26/2001	X
332-3761515	\$126,976	11/28/2001	
332-3754385	\$124,439	11/9/2001	Х
332-3734424	\$142,962	1/4/2002	X
332-3710819	\$134,944	9/7/2001	

Of the 18 early default loans in the table above, seven were included in our review (Finding 2).

Cornerstone did not always perform Quality Control Reviews in a timely manner (within 90 days of closing dates). Specifically, of the 43 FHA loans, Cornerstone performed timely Quality Control Reviews on three; did not perform timely Quality Control Reviews on 27; and did not have documentation showing that the remaining 13 loans were reviewed. For the 27 loans that were untimely reviewed, Cornerstone performed the Quality Control Reviews 91 to 584 days late.

Cornerstone did not always consistently complete its written reverification of borrowers' employment, deposits, gift letters, or other sources of funds. Specifically, although evidence existed that it consistently performed complete written reverification of deposits, gift letters, or other sources of funds on 10 of the 43 FHA loans, Cornerstone did not do so on the remaining 33 loans.

Cornerstone lacked supporting documentation to show that it performed desk reviews of the property appraisals on 38 of the 43 FHA loans during its Quality Control Reviews.

Cornerstone did not generate periodic Quality Control reports, at least on a quarterly basis, to notify Cornerstone's senior management of deficiencies cited as a result of the Quality Control Reviews. Instead, the staff performing the Quality Control review reported the deficiencies verbally to

Page 5 2004-CH-1008

Lack Of Management Oversight And A Deficient Quality Control Plan senior management. HUD requires that the deficiencies found during reviews be in writing.

Cornerstone did not adequately document the deficiencies found during its Quality Control Reviews and/or the actions it took to resolve the deficiencies.

Cornerstone was not diligent in performing its Quality Control Reviews on FHA loans with closing dates between September 2001 and August 2003. In addition. Cornerstone relied completely on its sponsor, Irwin Mortgage Corporation, to perform the Quality Control Reviews on 100 percent of FHA loans originated in its Nevada branch office. HUD Handbook 4060.1 REV-1 provides that a loan correspondent may enter into a contractual agreement with its sponsor to perform its quality control. However, Cornerstone did not enter into a formal agreement with its sponsor for the quality control services. Cornerstone's management was still responsible for the timely and adequate execution of Quality Control Reviews, and accountable for adequately meeting HUD/FHA's requirements because it was a condition of its approval to originate FHA loans.

Cornerstone implemented a deficient Quality Control Plan. Specifically, Cornerstone failed to have and maintain a written Quality Control Plan that met HUD's requirements. Its Plan did not:

- Provide for an on-site branch office review to be performed at least once a year for each branch that originated or serviced FHA-insured mortgages;
- Make any reference or include the review of alternative loan documents as required by HUD's Mortgagee Letters 91-51 and 92-15;
- Mention the file retention on the results of the Quality Control Reviews;
- Require a written notification to Cornerstone's senior management of deficiencies cited as a result of the Quality Control Reviews;
- Assure that a face-to-face interview was performed with the mortgagor prior to signing the fully completed loan application Form HUD 92900; and
- Assure that the mortgagor or employee(s) of Cornerstone initialed all corrections made to the signed loan documents.

As a result, HUD lacks assurance of the accuracy, validity, and completeness of Cornerstone's loan origination operations. Additionally, Cornerstone contributed to an increased risk of loss to HUD's FHA insurance fund.

Auditee Comments

Excerpts paraphrased from the comments provided by Cornerstone on our draft audit report follow. Appendix E, page 85, contains the complete text of the comments for this finding in the report. Appendix E, pages 90 to 96 contain the attachments related to this finding.]

Cornerstone did not provide a statement of agreement with this finding. However, Cornerstone believes it can solve issues with timeliness and retention of documentation and stay up to date with Quality Control standards, as dictated by HUD. It has always modified and improved its Quality Control plan in response to direction from prior audits. Cornerstone recently entered into an agreement with Callender Mortgage Services to provide off-site Quality Control services. Cornerstone pledges to maintain a proper and sufficient Quality Control program and welcomes FHA's review of their efforts.

OIG Evaluation Of **Auditee Comments**

Cornerstone did not provide us a modified and improved Quality Control Plan based on the deficiencies noted in this As a condition of HUD-FHA approval, finding. Cornerstone is required to have and maintain a Quality Control Plan for the origination of insured mortgages. The plan should be sufficient in scope to enable Cornerstone to evaluate the accuracy, validity and completeness of its loan origination operations.

Although Cornerstone provided us an agreement between Cornerstone and Callender Mortgage Services for Quality Assurance services, it did not provide Callender's Quality Control Plan to determine whether it met HUD's requirements. The agreement was not dated; therefore, it is not clear whether Callender has begun providing its services. Cornerstone provided us a printout of HUD's 37-Point Quality Control Plan Checklist from Callender Mortgage Services' website. However, this checklist does not replace establishing an adequate Quality Control Plan 2004-CH-1008 Page 7

as we recommended in Recommendation 1A. We note that Cornerstone embraces actions in Recommendation 1B of this finding.

Recommendations

We recommend that HUD's Assistant Secretary for Housing-Federal Housing Commissioner and Chairman of the Mortgagee Review Board:

- 1A. Requires Cornerstone to fully establish and implement an adequate Quality Control Plan and related reviews.
- 1B. Reviews Cornerstone's implementation of Recommendation 1A and ensure its Quality Control process is fully implemented in accordance with HUD's requirements.
- 1C. Determines whether HUD should withdraw Cornerstone's approval to participate in HUD's Single Family Mortgage Insurance Program.

We also recommend that HUD's Director of Departmental Enforcement Center:

1D. Takes appropriate administrative action(s) against Cornerstone.

2004-CH-1008 Page 8

Cornerstone Did Not Exercise Due Diligence In Packaging The Loans For Direct Endorsement Approval

Cornerstone Mortgage Group, Limited did not always originate FHA-insured loans in accordance with HUD's requirements and prudent lending practices. Cornerstone failed to exercise due diligence to always verify or support borrowers' sources of funds to close and income, credit information, and credit reports. In addition, Cornerstone did not always ensure that: cash investment requirements were met; information on inconsistencies contained in the loan documents were explained or resolved; complete loan origination files were maintained; and face-to-face interviews with first time borrowers were conducted. The deficiencies associated with Cornerstone's loan origination activities stemmed from its lack of management oversight; failure to implement an adequate Quality Control process; and reliance on its sponsor for the adequacy of the loan origination package. These deficiencies contributed to the high loan default and claim rate, and increased the risk to the FHA insurance fund by \$677,183.

HUD's Requirements

Under Section 203 of the National Housing Act (Title 12 of United States Code Section 1709), 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 FHA-insured mortgages. As a loan correspondent, Cornerstone's principal activity is the origination of mortgages for sale or transfer to an approved sponsor under HUD's Single Family Direct Endorsement Program.

Paragraph 2-5 of HUD Handbook 4000.4 REV-1, CHG-2, states mortgagees are to obtain and verify information with at least the same care that would be exercised in originating the loan in which the mortgagee would be entirely dependent on the property as security to protect its investment.

Paragraph 2-1 of HUD Handbook 4155.1 REV-4 CHG-1, requires mortgagees to determine the borrower's ability and willingness to repay the mortgage debt, and thus, limit the probability of default or collection difficulties. Four major elements are typically evaluated in assessing a borrower's ability and willingness to repay the mortgage debt: stability and adequacy of income, funds to close, credit history, and qualifying ratios and compensating factors. Paragraph 3-1 of the Handbook states HUD expects the application

Page 9 2004-CH-1008

Underwriter's Loan Approval Subject To Information Gathered

Sample FHA Loans Reviewed

Funds To Close Were Not Always Properly Verified Or Supported package to contain sufficient documentation to support the lender's decision to approve the mortgage loan.

The underwriter (sponsor) will approve or reject the loan, or approve the loan if certain conditions are met based on the information contained in the loan package received from the loan correspondent. Therefore, it is critical that the loan correspondent exercises due diligence and follows prudent lending practices during the loan origination process.

We reviewed 37 FHA loans originated by Cornerstone with a total dollar value of \$4,707,898. We selected the sample from a universe of 480 FHA loans with closing dates between September 2001 and August 2003.

Cornerstone did not properly verify or support borrowers' funds to close. Cornerstone's files failed to include documentation to support the source of funds and/or the adequacy of the borrowers' funds to close on 11 FHA-insured loans. Specifically, Cornerstone lacked support to show that it properly verified the: savings and checking deposits used as the borrowers' investment on four loans; and cash saved at home on seven loans.

For example, for FHA Case Number 137-1409761, all the funds for the borrower's investment in the property were not properly verified. Specifically, the FHA Case Binder did not include any bank statements to support the checking and savings accounts listed on two Verifications of Deposit. The large increase in one of the checking accounts was not explained in the FHA Case Binder.

HUD requires mortgagees to verify all funds for a borrower's investment in the property. Additionally, mortgagees should obtain and verify information with as much care as would be used if entirely dependent on the property as security.

The following table shows the 11 FHA loans that funds to close were not properly verified or supported.

FHA Case Number	Mortgage Amount	Savings and Checking Accounts	Cash Saved At Home
137-1409761	\$106,219	X	

2004-CH-1008 Page 10

137-1581796	\$148,849	X	
137-1609308	\$92,250	X	
332-3711691	\$230,202	- 11	X
332-3723733	\$123,880		X
332-3738478	\$122,865		X
332-3749537	\$138,040		X
332-3759898	\$134,081	X	
332-3760584	\$122,865		X
332-3786727	\$130,123		X
332-3792961	\$108,909		<u>X</u>
Totals	<u>\$1,458,283</u>	<u>4</u>	<u>7</u>

Income Was Not Always Properly Verified Or Supported

Cornerstone did not properly verify or support the income of borrowers for seven FHA loans in that it did not obtain the required income documentation. For example. Verification of Employment or adequate alternate documentation was not provided for one of the borrowers for FHA Case Binder 137-1409761. The loan application listed an amount of \$872 for the borrower's average yearto-date earnings. However, no explanation was found in the FHA Case Binder on how the amount was calculated. No Verification of Employment was found in the FHA Case Binder for the borrower's employer either. Additionally, the Binder contained no documentation to support any telephone verifications. Further. borrower's earnings statements listed his wages in 1999 and 2000 as \$14,028 and \$3,886, respectively. However, no explanation was found in the Binder for the significant difference in the borrower's wages for the two years.

The remaining six FHA cases with issues on income verification or documentation are explained in Appendix C of this report.

Cash Investment Requirements Not Met Cornerstone did not ensure that three FHA loan borrowers met the statutory three percent cash investment requirements. The borrower did not meet HUD's requirement for investing three percent of the contract sale price for FHA Case Binder 137-1293908. The borrower was required to invest three percent, or \$3,570 of \$119,000. However, the borrower paid or invested only \$1,000, which is .84 percent of the total investment required. The borrower's closing costs paid by the seller cannot be added to meet the statutory three percent cash investment required from the borrower.

Page 11 2004-CH-1008

The Settlement Statement for FHA Case Binder 137-1409761 listed that the borrower invested a total of \$2,996, including \$2,146 as cash from the borrower; \$500 of earnest money; and \$350 of appraisal fee. The total borrower's cash investment was less than the required statutory three percent cash investment of \$3,237. The borrower's closing costs of \$2,429 paid by the seller were not allowed to be added to meet the statutory three percent cash investment required from the borrower.

For FHA Case Binder 137-1609308, Cornerstone did not ensure the borrowers met the statutory three percent cash investment. Per the Settlement Statement, we determined that the cash investment from the borrower totaled \$2,255, consisting of borrower's cash of \$1,255 and earnest money of \$1,000. The \$2,255 invested by the borrower did not meet the statutory three percent cash investment of \$2,835.

Insufficient Credit Information And Credit Report Requirements Not Met Paragraph 2-3 of HUD Handbook 4155.1 REV-4 CHG-1, requires the lender to develop a credit history for prospective borrowers that may not have established a credit history and those who do not use traditional credit from utility payment records, rental payments, and automobile insurance payments. Additionally, paragraph 2-4 of the Handbook requires that one credit report is required for each borrower. A Residential Mortgage Credit Report should provide a detailed account of the borrower's employment history, verify each borrower's current employment and income (if obtainable), and include a statement attesting to its certification of employment and date verified.

Cornerstone did not verify sufficient credit information on three FHA loans, and meet HUD's credit report requirements when it obtained the credit reports for four FHA loans.

For FHA Case Binder 137-1459042, Cornerstone ordered a credit report for a borrower that did not meet HUD's requirements. The credit report included in the FHA Case Binder did not list employment and income information for the borrower.

The remaining six FHA cases with issues related to credit information and reports are explained in Appendix C of this report.

Paragraph 2-5 of HUD Handbook 4000.4 REV-1, requires the mortgagee to obtain and verify information with at least the same care that a mortgagee would exercise in originating a loan that was entirely dependent on the property as security to protect its investment.

The loan files for eight FHA cases contained inconsistencies in their loan applications, gift letters, and credit reports. Cornerstone did not explain or clearly resolve such inconsistencies

Inconsistencies between the Settlement Statement and the residential real estate contract existed for FHA Case Binder 137-0918329. The seller's name and address as listed on the Settlement Statement were different from the seller's name and address listed in the residential real estate contract.

An inconsistency between the Settlement Statement and the residential real estate contract also existed for FHA Case Binder 137-1293908. The residential real estate contract indicated that the borrower needed \$4,500 for closing. However, the Settlement Statement did not show that such an amount was needed.

For FHA Case Binder 137-1395974, the loan file contained some inconsistencies such as the Uniform Residential Loan Application was not explained or was not clearly resolved by Cornerstone. Specifically, inconsistencies between the initial and final Uniform Residential Loan Applications concerning deposits and income information existed.

We explained the remaining five of the eight FHA cases with unresolved inconsistencies in Appendix C of this report.

Loan Origination Files Did Not Exist Cornerstone lacked copies of the loan origination files for 11 of the 37 FHA loans originated and/or refinanced by its Illinois main office. Cornerstone's electronic copies for these loans were lost due to a system malfunction and the hard copies were shredded. Cornerstone was unable to retrieve the data on these loans because it lacked a backup system in its computer database. Paragraph 5-10 of HUD Handbook 4000.2 REV-2 requires the originating mortgagee to retain the entire case file pertaining to loan origination, either in hard copy or microfilm form, for at

Page 13 2004-CH-1008

least two years from the date of insurance endorsement for auditing purposes.

The following table shows the FHA loans in our sample without loan origination files.

FHA Case Number	Closing Date	Endorsement Date	Mortgage Amount
137-1293908	09/28/01	03/22/02	\$117,131
137-1301534	09/28/01	11/14/01	\$150,981
137-1323234	09/28/01	03/08/02	\$122,053
137-1368384	03/13/02	05/02/02	\$123,068
137-1385239	10/25/01	12/17/01	\$117,638
137-1393354	10/25/01	11/29/01	\$122,612
137-1396701	11/8/01	02/04/02	\$149,154
137-1409761	11/13/01	01/11/02	\$106,219
137-1447651	11/15/01	12/19/01	\$108,300
137-1481924	11/26/01	01/18/02	\$115,202
137-1497057	12/28/01	02/07/02	\$87,188
Total			<u>\$1,319,546</u>

Because of the unavailability of the loan files, we could not assess if Cornerstone properly originated the 11 loans.

Cornerstone did not conduct face-to-face interviews with first-time borrowers for three FHA loans. During our interviews, the borrowers for the three FHA loans informed us that they neither had face-to-face interviews with Cornerstone's staff nor met them during the application process. However, Cornerstone indicated on the Uniform Residential Loan Applications that it conducted face-to-face interviews with the three borrowers.

Paragraph 3-5 of HUD Handbook 4155.1 REV-4 CHG-1, requires face-to-face interviews to be conducted with all first-time borrowers who make less than 10 percent down payment unless the borrower receives pre-purchase counseling on the responsibilities of homeownership from a HUD-approved housing counseling agency.

The deficiencies occurred because Cornerstone lacked management oversight, failed to implement an adequate Quality Control Plan and effective Quality Control Reviews (see Finding 1). Cornerstone could have prevented various loan origination deficiencies if it implemented an adequate Quality Control Plan and effective Quality Control Reviews to identify and correct

Face-To-Face Interviews Were Not Conducted

Lack Of Management Oversight And A Deficient Quality Control Process Cornerstone Relied On Its Sponsor For The Adequacy Of Loan Package deficiencies in the loan origination process, and prevent repeat occurrences of problems.

In addition, Cornerstone relied on its sponsor, Irwin Mortgage Corporation, to inform it when a loan package was missing an item. If Cornerstone's management was not informed anything from its sponsor during their underwriting process, they assumed the loan origination packages submitted to the sponsor were acceptable. Cornerstone's management did not feel it needed to question the ability of a big organization such as Irwin Mortgage Corporation.

Cornerstone's loan origination deficiencies contributed to its high loan default and claim rate of 11.13 percent during the period January 2001 through December 2002. Also, such deficiencies increased the risk to the FHA insurance fund by \$677,183 (\$545,091 in ineligible and \$132,092 in unsupported costs).

As shown in Appendix D of this report, as of May 4, 2004, HUD paid claims on 19 FHA loans totaling \$2,626,824 and incurred a total loss of \$545,091 on the resale of 15 with material loan origination deficiencies cited in this report. The actual loss of \$545,091 on the 15 properties and the claim paid of \$132,092 for the property not resold are disallowed costs. We are recommending indemnification for the other seven (four in active status and three that are currently in default) of 23 FHA loans totaling \$916,034, in which we classified this total amount as funds to be put to better use in Appendix A of this report.

The remaining 14 out the 37 FHA loans reviewed are no longer contributing any risk to the FHA insurance fund. Of the 14 loans, one is currently active without any loan origination deficiency and three were terminated with claims, but did not have any material loan origination deficiency. Deficiencies existed on the remaining 10 of the 14 loans as shown in Appendix C of this report.

Auditee Comments

[Excerpts paraphrased from the comments provided by Cornerstone Mortgage Group, Ltd. on our draft report follow. Appendix E, pages 83 to 89, contains the complete text of Cornerstone's comments for this finding.]

Page 15 2004-CH-1008

Cornerstone cannot agree with all the findings in the report. Cornerstone totally relied on Irwin Mortgage Company's underwriting, as the industry led it to believe that this was the right way to proceed. Cornerstone, as a loan originator, has relied on the Direct Endorsement underwriter as having the final word. Cornerstone refers to the HUD Handbook 4155.1 when it has an underwriting question; however, it knows that different people interpret the manual in different ways. In the past when Cornerstone has contacted the Atlanta Home Ownership Center, Cornerstone was informed to ask "the underwriter"

Cornerstone generally disagreed with this finding. Cornerstone failed to make written documentation of its efforts and will do better at generating written reports and retaining these reports. Cornerstone did not have the personnel resources or the audit acumen to fully understand and grasp the level of detail we documented as a result of this audit.

Cornerstone takes time to fully review the data presented so as to package an acceptable loan file. Its originators and processors are trained, but not as an underwriter. The underwriter has the final responsibility for approving a loan to satisfy FHA requirements. Only after the loan receives underwriting approval would the loan be closed. Cornerstone questions whether it is reasonable to hold the originator liable for content of a file when it is the underwriters' judgment that dictates what documents are required in the file to receive approval. Cornerstone believes the originator assembles a loan package that conforms to guidelines. The underwriter reviews the file for the final stamp of approval.

Cornerstone used prudent lending practices in its origination of FHA loans. The completeness of the data in the loan files was subject to a difference of opinion between an underwriter and an auditor. However, some of the relevant data may have not been retained in the FHA case binder, and this clearly was a deficiency. Cornerstone must work harder to assure that complete files are retained. Its goal has always been to assemble a complete and accurate loan package clearly reflecting the borrowers' financial situation.

2004-CH-1008 Page 16

We found that files in Illinois were destroyed unintentionally. On the other hand, the Nevada files had more inherent problems. Cornerstone is now performing repetitive backups of electronically stored files. It suspended storing files using a single backup system once it discovered the problem with the system. Cornerstone is now evaluating different storage systems.

Cornerstone has always verified the funds for the three percent minimum investment. FHA questioned one of Cornerstone's sponsors regarding the minimum investment not being met at closing. The difference at the closing is due to the real estate tax proration transferred from the seller to the buyer on every real estate transaction in Illinois. Lenders are only allowed to take a predetermined amount to establish the borrower's tax escrow. For a closing in October 2004, for instance, the seller must prorate ten months of taxes because the 2004 tax will be paid in 2005. The borrower would still be responsible for paying those taxes in the future. As a result, the Settlement Statement shows less than the three percent minimum investment. It has consistently been this way in Illinois.

Reasonable time constraints in dealing with prospective borrowers dictated that Cornerstone assemble a loan package and close the loan in 30 to 60 days. This meant that it must evaluate the borrowers' data and verify information on a faster pace than the ten months our staff of three auditors used to examine 37 files. Cornerstone believes it exercised reasonable care in the loan process. It is not practical to perform the extreme depth and scope of an audit to discover some discrepancies while still satisfying the public's demand for speed and efficiency.

Cornerstone has focused on new loans in process. It has made every effort, including multiple phone calls to employers and borrowers to certify employment prior to closing loans, to discover inconsistencies before it closed the loans. Its focus was towards preventing additional losses by being very diligent on new files, rather than evaluating closed files, as part of the quality control program.

Cornerstone believes that there may have been some confusion in some of the interviews conducted with borrowers during face-to-face meetings, as required. Were Page 17

2004-CH-1008

all borrowers present at the initial application interview? Did some of the borrowers change during the processing of the loan? Employers were also interviewed. Are employers more likely to respond to a government auditor than an employee whom we are simply trying to reverify old employment data? The question coming from auditors may carry more weight and beg a careful response. Cornerstone did not have access to transcripts of the interviews of borrowers or employers in order to evaluate the information gathered. Cornerstone does not believe it had time to cross-examine these individuals either to establish contradictory findings.

The underwriters at two different sponsors accepted credit reports without employment and income data after HUD allowed that these reports were acceptable, which also did not contain employment and income data. It may be a judgment call on what is reasonable in the underwriters' opinion.

The items shown as findings under prior audits were subject to further review by both Cornerstone and the auditor. Items shown in the draft report were simply a listing of the preliminary findings of the auditor prior to Cornerstone's protestations and response. Some of these items did require Cornerstone to modify its system; however, many items were found to be aberrations or otherwise not representative of Cornerstone's general loan practices.

For FHA Case Number 332-3792961, Cornerstone pointed out that HUDOIG determined that the borrowers could only save \$1,042 per month based on a monthly net income of \$3,542, which was based on the net on the pay stub in the file. Year-to-date gross was \$40,800, which was a net of \$34,680, or \$3,853 per month. Different people will come up with different figures. Therefore, Cornerstone relied upon the direct endorsement underwriter who is reviewing that specific loan. In the FHA Case Number 332-3792961, the underwriter determined that the "Cash Saved At Home" was reasonable. To simply apply a formula to calculate this data does not take into account The auditors' statement "We real world situations. determined the borrower had the ability to save ..." shows impressive knowledge of each of these very individual borrowers' lifestyles. The underwriters and Cornerstone's

staff thought the "Cash Saved At Home" statements were reasonable based on what Cornerstone could discern without going further into the borrowers' personal habits.

Regarding FHA Case Number 137-1593584, Cornerstone pointed out that the title company prepares the settlement statement, which is revised numerous times prior to and during the closing of the transaction.

Cornerstone acknowledged it had areas of improvement to focus on in order to more closely maintain HUD's guidelines. It has taken steps to solve concerns raised in the audit findings, and will continue to work diligently to handle FHA loans properly.

OIG Evaluation Of Auditee Comments

Cornerstone indicated that it relied totally upon its sponsor's underwriting. However, it was Cornerstone's reliance on its sponsor for the adequacy of the loan packages that attributed to the deficiencies associated with its loan origination activities. Although HUD Handbook 4155.1 covers underwriting items and different people can interpret the contents of the handbook in different ways, underwriting activities are not the responsibility of Cornerstone, who is a loan originator. We are addressing in this report Cornerstone's responsibility to originate loans for sale or transfer to its sponsors as a HUD-FHA approved mortgagee.

Cornerstone staff was not expected to have audit training in order to participate in the loan origination process. However, Cornerstone should have obtained and verified information with as much care as would be used if entirely dependent on a property as security, as required by HUD Handbook 4000.2 REV-2, paragraph 3-6.

Although the underwriter has the final responsibility for approving a loan, the underwriter bases its approval largely on information gathered by the loan correspondent. Therefore, the loan correspondent is expected to exercise due care and follow prudent lending practices and HUD's requirements when originating FHA loans. Cornerstone did not exercise due diligence in packaging the loans for direct endorsement approval.

Page 19 2004-CH-1008

We acknowledge that only the Illinois files were destroyed and that Cornerstone is now performing backups of electronically stored files. Having an adequate backup system would reduce the loss of electronic loan files in the future. According to HUD Handbook 4060.1 REV-1, paragraph 2-16, a mortgagee is fully responsible for the actions of its branch office. So the inherent problems in the Nevada files, as Cornerstone pointed out, was also Cornerstone's responsibility. Cornerstone was fully responsible for the actions of its Nevada branch office. According to Cornerstone officials, Cornerstone's Nevada branch office was acting independent from Cornerstone's Illinois home office.

The real estate tax proration is not part of meeting the minimum investment and Cornerstone should not consider the tax credit when verifying whether the borrower meets the minimum investment requirement. Cornerstone did not provide support for the files in question that the borrowers met the minimum investment requirement before loan closing. The files should have contained support that Cornerstone verified the borrowers' source of funds—whether a gift, bank accounts, sweat equity, or cash on hand.

The borrowers expressed no confusion during the interviews concerning whether there were face-to-face interviews with Cornerstone. These borrowers informed HUDOIG auditors that their real estate agents were their contact during the loan application process, who explained the application process to them. There is no indication in the FHA Case binders for FHA Case Number 137-1323234, 137-1351763, and 137-1396701 that some of the borrowers were changed during the loan processing.

HUD requires that if a lender uses a Residential Mortgage Credit Report, it should meet all the requirements of the Traditional Residential Mortgage Credit Report and verify each borrower's current employment and income (if obtainable) and include a statement attesting to its certification of employment and date verified. Cornerstone did not provide us with supporting documentation of HUD allowing Cornerstone to use infile reports (a type of credit report) for manually underwritten loans. Additionally, Cornerstone indicated that it used the infile report instead

2004-CH-1008 Page 20

of a Residential Mortgage Credit Report. This is not supported by HUD Handbook 4155.1 REV-4.

Concerning the prior audits, our statements were based on information obtained from HUD documentation. Cornerstone did not provide us with any documentation to support its protestations concerning the findings. We stated in the report that the findings presented by HUD's Quality Assurance Division were resolved.

HUD requires a lender to determine the reasonableness of the accumulation of the funds based on the borrower's income stream, the time period funds were saved, spending habits, and history of using financial institutions. Using the Cash Saved At Home Statements/Letters and pay information provided in the FHA Case Binders, we assessed the borrowers' ability to save the indicated amounts based on using a reasonableness test.

We understand that revisions are made to documentation prior to and during the loan closing. However, Cornerstone is still responsible for submitting the loan package to HUD for insurance endorsement. HUD expects a loan application package to contain sufficient documentation, supporting a lender's decision to approve the mortgage loan. Cornerstone should have resolved inconsistencies in the loan application before submitting the loan package to its sponsor for approval and before finally submitting it to HUD for insurance endorsement. This relates back to adhering to prudent lending practices.

We acknowledge that Cornerstone has taken steps to solve concerns and that it will work diligently to handle FHA loans properly. By fully establishing and implementing an adequate Quality Control Plan and related reviews, as cited in Recommendation 1A, Cornerstone will further realize its goal of handling FHA loans properly.

Recommendations

We recommend that HUD's Assistant Secretary for Housing-Federal Housing Commissioner and Chairman of the Mortgagee Review Board:

2A. Requires Cornerstone Mortgage Group and/or its sponsor to reimburse HUD the applicable amount of Page 21 2004-CH-1008

- \$132,092 for the claim paid on FHA Case 332-3774090 once the property is sold.
- 2B. Requires Cornerstone Mortgage Group and/or its sponsor to reimburse HUD \$545,091 for the actual losses on FHA Cases 137-1393354, 332-3711691, 332-3723581, 332-3723733, 332-3738478, 332-3749537, 332-3754385, 332-3756760, 332-3759898, 332-3760584, 332-3781815, 332-3786727, 332-3792961, 332-3793422, and 332-3805123 since the properties were already sold.
- 2C. Requires Cornerstone Mortgage Group and/or its sponsor to indemnify HUD against future losses on seven loans totaling \$916,034 (FHA Cases 137-0918329, 137-1368384, 137-1395974, 137-1396701, 137-1459042, 137-1481924, and 137-1497057).

Management Controls

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 also 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:

- Program Operations Policies and procedures that management has implemented to reasonably ensure that the loan origination process is in compliance with HUD/FHA requirements, and that the objectives of the program are met.
- Validity and Reliability of Data Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding of Resources Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss and misuse.

We assessed all the relevant controls identified above during our audit of Cornerstone's Quality Control and loan origination processes.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Based on our review, we believe the items on the following page are significant weaknesses:

• <u>Program Operations</u>

Significant Weaknesses

Page 23 2004-CH-1008

Cornerstone did not operate its loan origination program in accordance with HUD/FHA's requirements. Cornerstone did not establish an adequate Quality Control Plan and implement it accordingly. In addition, Cornerstone did not exercise due diligence to always verify or support borrowers': sources of funds to close; income; and credit information and reports. Further, Cornerstone did not always ensure that: cash investment requirements were met; inconsistencies of information contained in the loan documents were explained or resolved; complete loan origination files were maintained; and face-to-face interviews with first time borrowers were conducted (see Findings 1 and 2).

Validity and Reliability of Data

Cornerstone did not maintain accurate and complete loan origination records; and perform Quality Control Reviews on loans to ensure accuracy, validity, and completeness of its loan origination operations (see Findings 1 and 2).

• <u>Safeguarding Resources</u>

Cornerstone's loan origination process was deficient which contributed to its high loan default and claim rate, and increased the risk to HUD's FHA insurance fund (see Finding 2).

2004-CH-1008 Page 24

Follow Up On Prior Audits

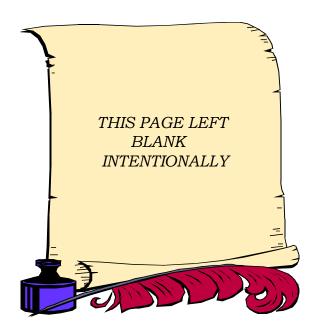
This is the first audit of Cornerstone Mortgage Group, Limited by HUD's Office of Inspector General.

The latest Independent Auditor's Report for Cornerstone covered the period ending December 31, 2003. The report did not contain any findings.

In March 2001, HUD's Quality Assurance Division conducted a Title II origination review of Cornerstone's main office in Illinois. The review resulted in nine findings that included: a non-conforming Quality Control Plan; non-compliance with the Home Mortgage Disclosure Act; lack of supporting documentation; qualification ratios that exceeded HUD's guidelines on the Mortgage Credit Analysis Worksheet; miscalculation of borrowers' income; unallowable loan fees; improper closing of loans; missing documents; and violation of the Real Estate Settlement Procedures Act. In November 2002, the findings were resolved.

In December 2001, HUD's Quality Assurance Division conducted a Title II origination review of Cornerstone's branch office in Nevada. The review resulted in six findings that included: inadequate Quality Control Reviews; failure to perform Quality Control Reviews on loans that went into default within the first six months; improper verification of the source of funds for the down payment and/or closing; failure to maintain origination files or documentation; failure to obtain signed explanatory statements regarding credit from all borrowers; and charging of unallowable fees to borrowers. In April 2002, the findings were resolved.

Page 25 2004-CH-1008



Schedule Of Questioned Costs And Recommendation For Funds To Be Put To Better Use

Recommendation	Type of Questione	ed Costs	Funds To Be Put
<u>Number</u>	<u>Ineligible</u> 1/	<u>Unsupported</u>	d 2/ To Better Use 3/
2A		\$132,092	
2B	\$545,091		
2C			<u>\$916,034</u>
Totals	<u>\$545,091</u>	<u>\$132,092</u>	<u>\$916,034</u>

- <u>1/</u> Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract or Federal, State, or local policies or regulations.
- Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.
- Funds To Be Put To Better Use are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in a reduced expenditure in subsequent periods for the activity in question. Specifically, this includes an implemented OIG recommendation that causes a non-HUD entity not to expend Federal funds for a specific purpose. These funds could be reprogrammed by the entity and not returned to HUD.

Page 27 2004-CH-1008



Summary Of Deficiencies – Finding 2

FHA Loan Number	Mortgage/ Insured Amount	Funds to Close Not Verified or Supported	Income Not Properly Verified or Supported	Cash Investment Requirements Not Met	Insufficient Credit and Credit Report Requirements Not Met		Unexplained or Unresolved Inconsistencies In Loan Files	Appendix Number
137-0918329	\$130,173						Х	C-1
137-1293908	\$117,131			Х		Х	Х	C-2
137-1301534	\$150,981					Х		C-3
137-1323234	\$122,053					Х		C-4
137-1351763	\$126,976							C-5
137-1368384	\$123,068					Х		C-6
137-1385239	\$117,638					Х		C-7
137-1393354	\$122,612					Χ		C-8
137-1395974	\$173,514						Х	C-9
137-1396701	\$149,154					Χ		C-10
137-1409761	\$106,219	Χ	Х	Х		X		C-11
137-1447651	\$108,300					Х		C-12
137-1459042	\$137,735		Х		Х		Х	C-13
137-1481924	\$115,202					Χ		C-14
137-1497057	\$87,188		Х		Х	Χ		C-15
137-1581796	\$148,849	Χ	Х		Х			C-16
137-1593584	\$147,581				X		Х	C-17
137-1609308	\$92,250	X	Х	X	X			C-18
332-3711691	\$230,202	Х	Х					C-19
332-3723581	\$128,143		Х				Х	C-20
332-3723733	\$123,880	X			Х			C-21
332-3738478	\$122,865	X						C-22
332-3749537	\$138,040	Х						C-23
332-3754385	\$124,439							C-24
332-3756760	\$71,253							C-25
332-3759898	\$134,081	Х					Х	C-26
332-3760584	\$122,865	Х						C-27
332-3774090	\$123,373							C-28
332-3781815	\$112,462							C-29
332-3786727	\$130,123	Х					Х	C-30
332-3792961	\$108,909	Х						C-31
332-3793422	\$118,907				Х			C-32
332-3805123	\$112,96 <u>9</u>							C-33
Totals	\$4,179,135	11	Z	3	Z	11	<u>8</u>	

Page 29 2004-CH-1008

FHA Loan	Mortgage/ Insured	Face-To-Face Interviews Not	Premium Interest Rate Requirement	Questionable	Inaccurate Verification of Employment	Payment History of Housing Obligations Not		Appendix
Number	Amount	Conducted	Not Met	Documentation	Information	Documented	Improper Charge	Number
137-0918329	\$130,173							C-1
137-1293908	\$117,131							C-2
137-1301534	\$150,981						Х	C-3
137-1323234	\$122,053	X						C-4
137-1351763	\$126,976	Х						C-5
137-1368384	\$123,068							C-6
137-1385239	\$117,638							C-7
137-1393354	\$122,612							C-8
137-1395974	\$173,514					X		C-9
137-1396701	\$149,154	Х						C-10
137-1409761	\$106,219							C-11
137-1447651	\$108,300							C-12
137-1459042	\$137,735					X		C-13
137-1481924	\$115,202							C-14
137-1497057	\$87,188							C-15
137-1581796	\$148,849					X		C-16
137-1593584	\$147,581							C-17
137-1609308	\$92,250							C-18
332-3711691	\$230,202							C-19
332-3723581	\$128,143							C-20
332-3723733	\$123,880							C-21
332-3738478	\$122,865							C-22
332-3749537	\$138,040			Х	Х			C-23
332-3754385	\$124,439		Х	Х				C-24
332-3756760	\$71,253			Х	Х			C-25
332-3759898	\$134,081				X			C-26
332-3760584	\$122,865		Х	Х				C-27
332-3774090	\$123,373		X	X	Х			C-28
332-3781815	\$112,462		X	X				C-29
332-3786727	\$130,123			X				C-30
332-3792961	\$108,909			^				C-31
332-3793422	\$118,907			Х		Х		C-32
332-3793422	\$112,969	†	v	^		^		C-32
Totals	\$4,179,135	3	<u>x</u> 5	8	4	4	1	<u> </u>

Narrative Case Presentations

Appendix C-1
Page 1

FHA Case Number: 137-0918329

Insured Amount: \$130,173

Date of Loan Closing: 09/20/01

<u>Loan Originating Office:</u> Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Default - First Legal Action to Commence Foreclosure (19 payments made before first default reported)

Summary:

Cornerstone Mortgage Group failed to explain or resolve inconsistencies in the loan file.

Pertinent Details:

<u>Inconsistencies In Loan File</u>

The loan file contained inconsistencies concerning the Uniform Residential Loan Applications that were not explained or not clearly resolved by Cornerstone. Specifically, the Loan Application dated February 14, 2001 showed \$3,100 as cash on hand; however, the Loan Application dated September 20, 2001 listed the \$3,100 as a gift. Additionally, the Loan Application dated February 2001 showed gross monthly income of \$2,375 for the borrower and \$1,082 for the co-borrower. However, the Loan Application dated September 2001 listed gross monthly income of \$2,817 for the borrower and \$1,514 for the co-borrower. We also found inconsistencies between the Settlement Statement and the residential real estate contract (purchase contract). The seller's name and address as listed on the Settlement Statement were different from the seller's name and address listed in the purchase contract. (Paragraph 2-5 of HUD Handbook 4000.4 REV-1)

Page 31 2004-CH-1008

Appendix C-2 Page 1

FHA Case Number: 137-1293908

Insured Amount: \$117,131

Date of Loan Closing: 09/28/01

Loan Originating Office: Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Terminated

Summary:

Cornerstone Mortgage Group failed to: (1) maintain the loan origination file for this loan; (2) ensure the borrowers met the statutory three percent cash investment requirement; and (3) explain or resolve inconsistencies in the loan package submitted to its sponsor.

Pertinent Details:

Mortgagee File Was Not Available

We were unable to review the mortgagee loan origination file for consistency with the data contained in the FHA Case Binder. According to Cornerstone's President, the loan origination file for FHA Case Binder 137-1293908 was one of the files that Cornerstone entered into its computer system database and later shredded. However, Cornerstone lost some information from its hard drive, including data on this FHA Case, and was unable to recover the information. (HUD Handbook 4000.2 REV-2, Paragraph 5-10)

Cash Investment Requirements Were Not Met

Cornerstone did not ensure the borrowers met the statutory three percent cash investment. The borrower was required to invest three percent of \$119,000 (\$3,570); however, the borrower paid or invested only \$1,000 in earnest money, which was .84 percent of the total investment. The seller paid all the closing costs for this loan. (24 CFR 203.19(a)(1) and Mortgagee Letter 98-29, Single Family Production – Mortgage Calculation Simplification).

Appendix C-2

Page 2

<u>Inconsistencies In Loan Files</u>

Cornerstone did not resolve a discrepancy, between the Uniform Residential Loan Application dated September 28, 2001 and the borrower's credit report dated September 13, 2001. Cornerstone did not follow-up on four debts totaling \$1,419 that were listed on the credit report. The debts were not listed on the Loan Application. We also found an inconsistency between the Settlement Statement dated September 28, 2001 and the residential real estate contract (purchase contract) dated August 11, 2001. The purchase contract indicated that the borrower needed \$4,500 for closing. However, the Settlement Statement did not show that such an amount was needed. Additionally, there was an unexplained deposit of \$1,737 on August 11, 2001 that was contained in the FHA Case Binder but was not explained by Cornerstone. (Paragraph 2-5 of HUD Handbook 4000.4 REV-1)

Page 33 2004-CH-1008

Appendix C-3
Page 1

FHA Case Number: 137-1301534

Insured Amount: \$150,981

Date of Loan Closing: 09/28/01

Loan Originating Office: Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: National City Mortgage Company; 3809207219

Status: Terminated

Summary:

Cornerstone Mortgage Group: (1) failed to maintain the loan origination file for this loan; and (2) inappropriately charged the borrower for legal services not received.

Pertinent Details:

Mortgagee File Was Not Available

We were unable to review the mortgagee loan origination file for consistency with the data contained in the FHA Case Binder. According to Cornerstone's President, the loan origination file for FHA Case Binder 137-1301534 was one of the files that Cornerstone entered into its computer system database and later shredded. However, Cornerstone lost some information from its hard drive, including data on this FHA Case, and was unable to retrieve/recover the information. (HUD Handbook 4000.2 REV-2, paragraph 5-10)

Improper Charge For Legal Services

Cornerstone improperly charged the borrower for fees not incurred. A review of the Settlement Statement dated September 28, 2001 revealed that the borrower was charged \$375 for attorney's fees. However, the borrower said he did not use an attorney.

Appendix C-4
Page 1

FHA Case Number: 137-1323234

Insured Amount: \$122,053

Date of Loan Closing: 09/28/01

Loan Originating Office: Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Terminated

Summary:

Cornerstone Mortgage Group failed to:(1) maintain the loan origination file for this loan; and (2) conduct a face-to-face interview with the borrowers as indicated in the Uniform Residential Loan Application submitted to HUD.

Pertinent Details:

Mortgagee File Was Not Available

We were unable to review the mortgagee loan origination file for this loan for consistency with the data contained in the FHA Case Binder. According to Cornerstone's President, the loan origination file for this loan was one of the files that Cornerstone entered into its computer system database and later shredded. However, Cornerstone lost some information from its hard drive, including data on this FHA case, and was unable to retrieve/recover the information. (HUD Handbook 4000.2 REV-2, Paragraph 5-10)

Face-to-Face Interviews Were Not Conducted

Cornerstone did not conduct a face-to-face interview with the borrowers on this loan. During our interview with one of the borrowers, he said he did not have a face-to-face interview with Cornerstone's staff. However, Cornerstone's Loan Officer indicated on the Uniform Residential Loan Application dated September 28, 2001 that she conducted a face-to-face interview with the borrowers. (Paragraph 3-5 of HUD Handbook 4155.1 REV-4 CHG-1)

Page 35 2004-CH-1008

Appendix C-5
Page 1

FHA Case Number: 137-1351763

Insured Amount: \$126,976

Date of Loan Closing: 10/04/01

Loan Originating Office: Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: National City Mortgage Company; 3809207219

Status: Terminated

Summary:

Cornerstone Mortgage Group did not conduct a face-to-face interview with the borrowers, as indicated in the Uniform Residential Loan Application submitted to HUD.

Pertinent Details:

Face-to-Face Interviews Were Not Conducted

Cornerstone did not conduct face-to-face interviews with the borrowers on this loan. During our interview with the borrowers, they said they did not have a face-to-face interview with Cornerstone's staff. Cornerstone's Loan Officer indicated on the Uniform Residential Loan Application dated October 4, 2001 that she conducted a face-to-face interview with the borrowers. (Paragraph 3-5 of HUD Handbook 4155.1 REV-4 CHG-1)

Appendix C-6 Page 1

FHA Case Number: 137-1368384

Insured Amount: \$123,068

Date of Loan Closing: 03/13/02

Loan Originating Office: Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Active

Summary:

Cornerstone Mortgage Group failed to maintain the loan origination file for this loan.

Pertinent Details:

Mortgagee File Was Not Available

We were unable to review the mortgagee loan origination file for this loan for consistency with the data contained in the FHA Case Binder. Cornerstone was unable to locate its loan origination file for our review. (HUD Handbook 4000.2 REV-2, Paragraph 5-10)

Page 37 2004-CH-1008

Appendix C-7
Page 1

FHA Case Number: 137-1385239

Insured Amount: \$117,638

Date of Loan Closing: 10/25/01

Loan Originating Office: Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Terminated

Summary:

Cornerstone Mortgage Group failed to maintain the loan origination file for this loan.

Pertinent Details:

Mortgagee File Was Not Available

We were unable to review the mortgagee loan origination file for this loan for consistency with the data contained in the FHA Case Binder. According to Cornerstone's President, the loan origination file for this loan was one of the files that Cornerstone entered into its computer system database and later shredded. However, Cornerstone lost some information from its hard drive, including data on this FHA case, and was unable to retrieve/recover the information. (HUD Handbook 4000.2 REV-2, Paragraph 5-10)

Appendix C-8 Page 1

FHA Case Number: 137-1393354

Insured Amount: \$122,612

Date of Loan Closing: 10/25/01

Loan Originating Office: Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Claim Paid (Nine payments made)

Summary:

Cornerstone Mortgage Group failed to maintain the loan origination file for this loan.

Pertinent Details:

Mortgagee File Was Not Available

We were unable to review the mortgagee loan origination file for this loan for consistency with the data contained in the FHA Case Binder. According to Cornerstone's President, the loan origination file for this loan was one of the files that Cornerstone entered into its computer system database and later shredded. However, Cornerstone lost some information from its hard drive, including data on this FHA case, and was unable to retrieve/recover the information. (HUD Handbook 4000.2 REV-2, Paragraph 5-10)

Page 39 2004-CH-1008

Appendix C-9
Page 1

FHA Case Number: 137-1395974

Insured Amount: \$173,514

Date of Loan Closing: 10/26/01

Loan Originating Office: Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Active

Summary:

Cornerstone Mortgage Group failed to: (1) explain or resolve inconsistencies in the loan package submitted to its sponsor; and (2) include in the loan origination file or the FHA Case Binder a determination of the borrower's payment history of the housing obligations.

Pertinent Details:

Inconsistencies In Loan Files

The loan file contained inconsistencies concerning the Uniform Residential Loan Applications that were not explained or clearly resolved by Cornerstone. Specifically, the initial Loan Application dated October 6, 2001 a checking account with \$4,000; however, the final Loan Application dated October 26, 2001 did not show the checking account. Additionally, the initial Application showed the borrower and co-borrower had monthly incomes of \$2,892 and \$1,104, respectively. However, the final Application listed the borrower and co-borrower had monthly incomes of \$1,759 and \$3,509, respectively. (Paragraph 2-5 of HUD Handbook 4000.4 REV-1)

Payment History Of Housing Obligations Was Not Documented

Cornerstone did not include in its the loan origination file or the FHA Case Binder a determination of the borrower's payment history of his housing obligations through either the credit report, directly from the borrower's landlord or mortgage servicer, or through canceled checks covering the most recent 12-month period. (HUD Handbook 4155.1 REV-4, CHG-1, Paragraph 2-3(A))

Appendix C-10 Page 1

FHA Case Number: 137-1396701

Insured Amount: \$149,154

Date of Loan Closing: 11/08/01

Loan Originating Office: Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Active

Summary:

Cornerstone Mortgage Group failed to: (1) maintain its loan origination file for this loan; and (2) conduct a face-to-face interview with the borrowers as indicated in the Uniform Residential Loan Application submitted to HUD.

Pertinent Details:

Mortgagee File Was Not Available

We were unable to review the mortgagee loan origination file for this loan for consistency with the data contained in the FHA Case Binder. According to Cornerstone's President, the loan origination file for this loan was one of the files that Cornerstone entered into its computer system database and later shredded. However, Cornerstone lost some information from its hard drive, including data on this FHA Case, and was unable to retrieve/recover the information. (HUD Handbook 4000.2 REV-2, Paragraph 5-10)

Face-to-Face Interviews Were Not Conducted

Cornerstone did not conduct a face-to-face interview with the borrowers on this loan. During our interview with one of the borrowers, he said he did not have a face-to-face interview with Cornerstone's staff. However, Cornerstone's Loan Officer indicated on the Uniform Residential Loan Application (not dated) that she conducted a face-to-face interview with the borrowers. (Paragraph 3-5 of HUD Handbook 4155.1 REV-4 CHG-1)

Page 41 2004-CH-1008

Appendix C-11 Page 1

FHA Case Number: 137-1409761

Insured Amount: \$106,219

Date of Loan Closing: 11/13/01

Loan Originating Office: Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: National City Mortgage Company; 3809207219

Status: Terminated

Summary:

Cornerstone Mortgage Group failed to: (1) maintain its loan origination file for this loan; (2) ensure the borrowers met the statutory three percent cash investment requirement; (3) properly verify the borrower's funds to close; and (4) obtain a Verification of Employment or adequate alternative documentation for one of the borrowers.

Pertinent Details:

Mortgagee File Was Not Available

We were unable to review the mortgagee loan origination file for this loan for consistency with the data contained in the FHA Case Binder. According to Cornerstone's President, the loan origination file for this loan was one of the files that Cornerstone entered into its computer system database and later shredded. However, Cornerstone lost some information from its hard drive, including data on this FHA case and was unable to retrieve/recover the information. (HUD Handbook 4000.2 REV-2, Paragraph 5-10)

Cash Investment Requirements Were Not Met

Cornerstone did not ensure that the borrowers met the statutory three percent cash investment (\$3,237) of \$107,900. The borrowers invested only \$2,996 (includes \$500 in earnest money, \$350 for appraisal fee, and \$2,146 in closing cost). Page 12 of this report includes the specific details for this loan. (HUD Handbook 4000.2 REV-2, paragraph 1-9, 24 CFR Part 203.19(a)(1) and Mortgagee Letter 98-29, Single Family Production – Mortgage Calculation Simplification)

Appendix C-11

Page 2

Funds To Close Were Not Properly Verified Or Supported

All the funds for the borrower's investment in the property were not properly verified. Specifically, the FHA Case Binder did not include any bank statements to support the checking and savings accounts listed on two Verifications of Deposit dated October 2, 2001. The large increase of \$2,137 in one of the checking accounts was not explained in the FHA Case Binder. (HUD Handbook 4155.1 REV-4 CHG-1, Paragraph 2-10(B), Savings and Checking Accounts)

Income Was Not Properly Verified Or Supported

A verification of employment or adequate alternate documentation was not obtained for one of the co-borrowers. (HUD Handbook 4155.1 REV-4 CHG-1, Paragraph 3-1(E))

Page 43 2004-CH-1008

Appendix C-12 Page 1

FHA Case Number: 137-1447651

Insured Amount: \$108,300

Date of Loan Closing: 11/15/01

Loan Originating Office: Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Terminated

Summary:

Cornerstone Mortgage Group, Limited failed to maintain the loan origination file for this loan.

Pertinent Details:

Mortgagee File Was Not Available

We were unable to review the mortgagee loan origination file for this loan for consistency with the data contained in the FHA Case Binder. According to the President of Cornerstone, the loan origination file for this loan was one of the files that Cornerstone entered into its computer system database and later shredded. However, Cornerstone lost some information from its hard drive, including data on this FHA case, and was unable to retrieve/recover the information. (HUD Handbook 4000.2 REV-2, Paragraph 5-10)

Appendix C-13 Page 1

FHA Case Number: 137-1459042

Insured Amount: \$137,735

Date of Loan Closing: 11/28/01

Loan Originating Office: Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

<u>Status:</u> Default - First Legal Action to Commence Foreclosure (Five payments made before first default reported)

Summary:

Cornerstone Mortgage Group failed to: (1) meet the credit report requirements; (2) include in the loan origination file or the FHA Case Binder a determination of the borrower's payment history of the housing obligations; and (3) ensure the loan application was dated by the borrower and the interviewer.

Pertinent Details:

Credit Report Requirements Were Not Met

Cornerstone ordered credit reports for the borrower that did not meet HUD's requirements. The credit reports dated November 2, 2001 and November 15, 2001 included in the FHA Case Binder did not list employer and income information for the borrower. (HUD Handbook 4155.1 REV-4, CHG-1, Paragraph 2-4)

Payment History Of Housing Obligations Was Not Documented

Cornerstone did not include in its loan origination file or the FHA Case Binder a determination of the borrower's payment history of his housing obligations through either the credit report, directly from the landlord or mortgage servicer, or through canceled checks covering the most recent 12-month period. (HUD Handbook 4155.1 REV-4, CHG-1, Paragraph 2-3(A))

Page 45 2004-CH-1008

Appendix C-13 Page 2

Loan Application Was Not Dated

The final Uniform Residential Loan Application was signed by the borrower and the interviewer, but was not dated. (HUD Handbook 4155.1 REV-4, CHG-1, paragraphs 3-1(A) and 3-2(A))

Appendix C-14 Page 1

FHA Case Number: 137-1481924

Insured Amount: \$115,202

Date of Loan Closing: 11/26/01

Loan Originating Office: Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Active

Summary:

Cornerstone Mortgage Group failed to maintain the loan origination file for this loan.

Pertinent Details:

Mortgagee File Was Not Available

We were unable to review the mortgagee loan origination file for this loan for consistency with the data contained in the FHA Case Binder. According to Cornerstone's President, the loan origination file for this loan was one of the files that Cornerstone entered into its computer system database and later shredded. However, Cornerstone lost some information from its hard drive, including data on this FHA case, and was unable to retrieve/recover the information. (HUD Handbook 4000.2 REV-2, Paragraph 5-10)

Page 47 2004-CH-1008

Appendix C-15 Page 1

FHA Case Number: 137-1497057

Insured Amount: \$87,188

Date of Loan Closing: 12/28/01

Loan Originating Office: Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

<u>Status:</u> Default - First Legal Action to Commence Foreclosure (12 payments made before first default reported)

Summary:

Cornerstone Mortgage Group failed to: (1) properly verify the borrower's income; (2) develop a credit history from alternate sources; (3) obtain proper form of identification for the borrower; and (4) maintain the loan origination file for this loan.

Pertinent Details:

Income Was Not Properly Verified Or Supported

Cornerstone did not properly verify the borrower's income. Cornerstone did not perform income verification for the borrower's first job (United Building Maintenance) through a written verification of employment. Additionally, the Verification of Employment form dated November 11, 2001 and signed November 28, 2001 for the borrower's second job (Tenacious Cleaning Services) did not contain gross earnings for 1999, 2000, and 2001 or supporting documentation such as W-2s and paystubs. (HUD Handbook 4155.1 REV-4, CHG-1, Chapter 2, paragraph 2-6 and Chapter 3)

Insufficient Credit History

The credit reports ordered for the borrower and co-borrower did not contain sufficient credit information about the individuals. Cornerstone obtained an alternative credit statement (Automobile Insurance) for the borrowers, which is not considered sufficient development of the borrowers' credit history. (HUD Handbook 4155.1 REV-4, CHG-1, paragraph 2-3)

Appendix C-15 Page 2 Cornerstone did not obtain proper identification for the borrower; an identification card issued by Mexico was used as identification. (HUD Handbook 4000.4 REV-1, paragraph 2-5)

Mortgagee File Was Not Available

We were unable to review the mortgagee loan origination file for this loan for consistency with the data contained in the FHA Case Binder. According to Cornerstone's President, the loan origination file for this loan was one of the files that Cornerstone entered into its computer system database and later shredded. However, Cornerstone lost some information from its hard drive, including data on this FHA case, and was unable to retrieve/recover the information. (HUD Handbook 4000.2 REV-2, Paragraph 5-10)

Page 49 2004-CH-1008

Appendix C-16 Page 1

FHA Case Number: 137-1581796

Insured Amount: \$148,849

Date of Loan Closing: 02/14/02

Loan Originating Office: Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Terminated

Summary:

Cornerstone Mortgage Group, Limited failed to: (1) properly verify the borrower's deposits or funds to close; (2) properly verify the borrower's income or employment; (3) include in the loan origination file or the FHA Case Binder a determination of the borrower's payment history of the housing obligations; and (4) meet credit report requirements.

Pertinent Details:

Funds To Close Were Not Properly Verified Or Supported

Cornerstone Mortgage Group did not verify a \$5,000 Certificate of Deposit using a verification of deposit. Additionally, Cornerstone failed to obtain a bank statement to support an \$834 bank account. The Certificate of Deposit and bank account were listed on the Uniform Residential Loan Application dated February 14, 2002. (HUD Handbook 4155.1 REV-4, CHG-1, paragraphs 2-10(B) and 3-1(F))

Income Was Not Properly Verified Or Supported

Cornerstone obtained a pay stub dated December 12, 2001 that showed the borrower's year-to-date earnings were \$10,927. Additionally, Cornerstone obtained a Verification of Employment dated January 16, 2002 that showed the borrower's 2001 earnings were \$42,369. The FHA Case Binder included a letter dated February 7, 2002 that attempted to explain the earnings difference between the pay stub and the Verification of Employment. However, Cornerstone should have obtained adequate documentation to justify the earnings difference. Additionally, Cornerstone only obtained the co-borrower's 2000 W-2 form and did not include a signed copy of the Request for Copy of Tax form in the

Appendix C-16 Page 2 FHA Case Binder and its loan origination file. (HUD Handbook 4155.1 REV-4, Paragraph 3-1(E))

Payment History Of Housing Obligations Was Not Documented

Cornerstone did not include in its loan origination file or the FHA Case Binder a determination of the borrowers' payment history of their housing obligations through either the credit report, directly from the landlord or mortgage servicer, or through canceled checks covering the most recent 12-month period. (HUD Handbook 4155.1 REV-4, CHG-1, Paragraph 2-3(A))

Credit Report Requirements Were Not Met

The residential mortgage credit report dated February 7, 2002 included in the FHA Case Binder did not list an employer for the borrower. Since Cornerstone used a residential mortgage credit report, the credit report had to include a verification of each borrower's current employment and income. (HUD Handbook 4155.1 REV-4, CHG-1, Paragraph 2-4)

Page 51 2004-CH-1008

Appendix C-17 Page 1

FHA Case Number: 137-1593584

Insured Amount: \$147,581

Date of Loan Closing: 03/26/02

Loan Originating Office: Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: National City Mortgage Company; 3809207219

Status: Terminated

Summary:

Cornerstone Mortgage Group failed to: (1) meet credit report requirements; and (2) explain or resolve inconsistencies in the loan package submitted to its sponsor.

Pertinent Details:

Credit Report Requirements Were Not Met

Cornerstone used a residential mortgage credit report dated February 11, 2002, but the credit report did not include a verification of each of the borrower's current employment and income. (HUD Handbook 4155.1 REV-4, CHG-1, Paragraph 2-4)

Inconsistencies In Loan File

Inconsistencies existed between the Settlement Statement in the FHA Case Binder and Cornerstone's loan origination file regarding the settlement charges. Page 2 of the Statement in the Case Binder showed the charges were \$8,280; however, page 1 of the Statement in Cornerstone's file and page 1 of the borrower's side of the Statement in the Case Binder showed the charges were \$8,598. (Paragraph 2-5 of HUD Handbook 4000.4 REV-1)

Appendix C-18 Page 1

FHA Case Number: 137-1609308

Insured Amount: \$92,250

Date of Loan Closing: 02/28/02

Loan Originating Office: Cornerstone's main office in Inverness, Illinois

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Terminated

Summary:

Cornerstone Mortgage Group failed to: (1) properly verify or support the borrower's funds to close; (2) properly verify or support the borrower's income; (3) meet credit report requirements; and (4) ensure the borrowers met the statutory three percent cash investment requirement.

Pertinent Details:

Funds To Close Were Not Properly Verified Or Supported

Cornerstone did not properly verify the borrower's funds for the investment in the property. Specifically, no Verifications of Deposit were included for the one savings account of \$1,179 and the one checking account of \$769 listed on the Uniform Residential Loan Application dated February 28, 2002 in the FHA Case Binder. (HUD Handbook 4155.1 REV-4 CHG-1, Paragraph 2-10(B))

Verification Of Documentation Was Not Complete

Cornerstone did not include in its loan file a lender certification indicating that original documents were examined for alternate employment documentation for the borrower. Cornerstone did not maintain in its loan file the original Verification of Employment form that was mailed to and returned from the co-borrower's employer. (HUD Handbook 4155.1 REV-4 CHG-1, paragraphs 3-2(B) and 3-1(E))

Appendix C-18 Page 2 Cornerstone ordered two residential mortgage credit reports dated February 5, 2002 and February 20, 2002 for the borrowers that did not include a verification of their current employment and income. (HUD Handbook 4155.1 REV-4, CHG-1, Paragraph 2-4)

Cash Investment Requirements Were Not Met

Cornerstone did not ensure that the borrowers met the statutory three percent cash investment. Page 12 of this report shows the specifics for this FHA loan. (HUD Handbook 4000.2 REV-2, paragraph 1-9, 24 CFR Part 203.19(a)(1) and Mortgagee Letter 98-29, Single Family Production – Mortgage Calculation Simplification)

Appendix C-19 Page 1

FHA Case Number: 332-3711691

Insured Amount: \$230,202

Date of Loan Closing: 11/30/01

Loan Originating Office: Cornerstone's branch office in Las Vegas, Nevada

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Claim Paid (Two payments made)

Summary:

Cornerstone Mortgage Group failed to: (1) properly verify or support the borrower's funds to close; and (2) verify the rental income for the borrower.

Pertinent Details:

Funds To Close Were Not Properly Verified Or Supported

The cash saved-at-home letter dated October 15, 2001 that was in the FHA Case Binder showed the borrower paid \$2,000 to escrow. Additionally, the Uniform Residential Loan Application dated November 28, 2001 in the Case Binder showed an earnest money amount of \$2,000. However, the Real Property Purchase Agreement and Deposit Receipt dated July 11, 2001 in the Case Binder do not support that the borrower paid the \$2,000. The FHA Case Binder showed another individual as the buyer of the property and who paid the \$2,000 earnest money amount. (HUD Handbook 4155.1 REV-4, CHG-1, paragraph 2-10 Part A & M)

Cornerstone did not properly verify the borrower's ability generate cash saved at home of \$14,000. In the Cash Saved At Home letter dated October 15, 2001 obtained by Cornerstone, the borrower claimed he saved \$1,400 a month for 10 months (\$14,000) to purchase a home and his monthly expenses totaled approximately \$2,500. However, we determined the borrower could only save \$1,042 per month totaling \$10,423 for 10 months based on a monthly net income of \$3,542. (HUD Handbook 4155.1 REV-4, CHG-1, paragraph 2-10 Part M)

Appendix C-19 Page 2

Page 55 2004-CH-1008

Income Was Not Properly Verified Or Supported

Cornerstone did not verify the borrower's \$1,755 in monthly rental income listed on the Uniform Residential Loan Application dated November 28, 2001 in the FHA Case Binder. (HUD Handbook 4155.1 REV-4, CHG-1, chapter 2 and paragraph 2-7(M))

Appendix C-20 Page 1

FHA Case Number: 332-3723581

Insured Amount: \$128,143

Date of Loan Closing: 9/18/01

Loan Originating Office: Cornerstone's branch office in Las Vegas, Nevada

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Claim Paid (Eight payments made)

Summary:

Cornerstone Mortgage Group failed to: (1) explain or resolve inconsistencies in the loan package submitted to its sponsor; and (2) properly support or verify the borrower's income.

Pertinent Details:

Inconsistencies In Loan Files

The borrower's income information included in Cornerstone's loan origination file was inconsistent with the income information in the FHA Case Binder. The monthly income shown on the handwritten Uniform Residential Loan Application dated August 6, 2001 in Cornerstone's file was \$3,987. The monthly income on the September 10, 2001 automated Uniform Residential Loan Application submitted to HUD was \$6,333. (HUD Handbook 4000.4 REV-1, paragraph 2-5)

Income Was Not Properly Verified Or Supported

The pay stub and income presented on the Verification of Employment dated August 27, 2001 in the FHA Case Binder did not support the \$6,333 monthly income on the September 10, 2001 automated Uniform Residential Loan Application. The calculation of income per the pay stub dated August 24, 2001 and the Verification of Employment dated August 27, 2001 showed that the monthly income for the borrower was \$3,984. (HUD Handbook 4155.1 REV-4, CHG-1, Mortgage Credit Analysis for Mortgage Insurance on One-to-Four-Family Properties, chapter 2, paragraph 2-6 and chapter 3)

Appendix C-21 Page 1

FHA Case Number: 332-3723733

Page 57 2004-CH-1008

Appendix C

Insured Amount: \$123,880

Date of Loan Closing: 09/28/01

<u>Loan Originating Office:</u> Cornerstone's branch office in Las Vegas, Nevada

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Claim Paid (Three payments made)

Summary:

Cornerstone Mortgage Group failed to: (1) develop sufficient credit history using alternate sources; and (2) properly verify or support funds to close the loan.

Pertinent Details:

Insufficient Credit History

The FHA Case Binder showed that Cornerstone completed the order of the Residential Mortgage Credit Report for the borrower on September 21, 2001. The Residential Mortgage Credit Report showed the borrower had insufficient credits. Cornerstone then obtained credit history documentation for the borrower using another source such as from the borrower's utility company, Southwest Gas Corporation. Southwest Gas Corporation did not properly complete the credit history document, by not filling in the appropriate box. Specifically, the credit history document from the borrower's utility company did not indicate whether or not the borrower had made late payments for the service during the last 12 months. Therefore, Cornerstone failed to adequately develop a credit history for the borrower. (HUD Handbook 4155.1 REV-4, CHG-1, Mortgage Credit Analysis for Mortgage Insurance on One-to-Four-Family Properties, Paragraph 2-3)

Funds To Close Were Not Properly Verified Or Supported

Cornerstone did not properly verify the borrower's ability to save total cash at home of \$4,400. The FHA Case Binder showed that Cornerstone obtained the Cash Saved At Home letter dated September 19, 2001 indicating the borrower had: saved \$400 a month or \$4,400 for 11 months to purchase a home, and approximately \$2,900 a month in expenses. Our analysis of the borrower's total cash saved at home was lower than the \$400 a month indicated in the Cash Saved At Home letter. Based on a monthly net income of \$3,105, we determined that the

Appendix C-21

Page 2

borrower had the ability to save only \$205 a month or \$2,255 for 11 months. (HUD Handbook 4155.1 REV-4 CHG-1, paragraph 2-10 and subparagraph 2-10(M))

Appendix C-22 Page 1

<u>FHA Case Number:</u> 332-3738478

Insured Amount: \$122,865

Date of Loan Closing: 09/28/01

Loan Originating Office: Cornerstone's branch office in Las Vegas, Nevada

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Claim Paid (Seven Payments made)

Summary:

Cornerstone Mortgage Group failed to properly verify or support funds to close the loan.

Pertinent Details:

Funds To Close Were Not Properly Verified Or Supported

Cornerstone did not properly verify the borrower's ability to save cash at home of \$4,800. The FHA Case Binder showed that Cornerstone obtained a Cash Saved At Home letter dated September 24, 2001 indicating the borrower had: saved \$800 a month or \$4,800 for six months to purchase a home, and approximately \$2,300 a month in expenses. Our analysis of the borrower's total cash saved-at-home was lower than the \$800 a month indicated in the September 2001 letter. Based on a monthly net income of \$2,987, we determined that the borrower had the ability to save \$687 a month or \$4,122 for six months. (HUD Handbook 4155.1 REV-4 CHG-1, Mortgage Credit Analysis for Mortgage Insurance on One-to-Four-Family Properties, paragraph 2-10 and subparagraph 2-10(M))

Page 59 2004-CH-1008

Appendix C-23 Page 1

FHA Case Number: 332-3749537

Insured Amount: \$138,040

Date of Loan Closing: 10/25/01

Loan Originating Office: Cornerstone's branch office in Las Vegas, Nevada

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Claim Paid (Six payments made)

Summary:

Cornerstone Mortgage Group failed to: (1) properly verify or support the borrower's funds to close; and (2) address questionable documentation used in the loan process. Additionally, we determined that inaccurate information was presented on the Verification of Employment form for the borrower.

Pertinent Details:

Funds To Close Were Not Properly Verified or Supported

Cornerstone did not properly verify the borrower's ability to save cash at home of \$5,000. The FHA Case Binder showed that Cornerstone obtained a Cash Saved At Home letter dated October 12, 2001 indicating the borrower had: saved \$500 a month or \$5,000 for 10 months to purchase a home, and approximately \$3,100 a month in expenses. Our analysis of the borrower's total cash saved at home was lower than the \$500 a month indicated in the Cash Saved At Home letter. Based on a monthly net income of \$3,540, we determined that the borrower had the ability to save \$440 a month or \$4,400 for 10 months. (HUD Handbook 4155.1 REV-4 CHG-1, Mortgage Credit Analysis for Mortgage Insurance on One-to-Four-Family Properties, Paragraph 2-10(M))

Questionable Documentation

Cornerstone used questionable documentation to process the loan. The borrower's pay stub covering the payroll period September 30, 2001 through October 6, 2001 was questionable because it lacked the borrower's employer name. Also, the borrower's pay stub looked the same as the pay stub used for the borrower in FHA Case Number 332-3754385.

Appendix C-23 Page 2

The differences between the two pay stubs were the payroll and payroll tax amounts. (HUD Handbook 4000.4 REV-1, paragraph 2-5)

<u>Inaccurate Verification Of Employment Information</u>

The FHA Case Binder showed inaccuracies of information in the Verification of Employment form signed on August 13, 2001. Based on our re-verification with the Controller of the borrower's employer (Granite World Limited in Las Vegas, Nevada), the borrower was earning \$12 per hour, not \$24 per hour or \$4,200 per month as indicated in the August 2001 Verification of Employment form; the letterhead on the Verification of Employment did not belong to the employer and the signature on the letter was not the signature of the General Manager; and the borrower's pay stub for the payroll period September 30, 2001 through October 6, 2001 was not the same pay stub Granite World Limited used for the borrower. (HUD Handbook 4000.4 REV-1, paragraph 2-5)

Page 61 2004-CH-1008

Appendix C-24 Page 1

FHA Case Number: 332-3754385

Insured Amount: \$124,439

Date of Loan Closing: 11/09/01

Loan Originating Office: Cornerstone's branch office in Las Vegas, Nevada

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Claim Paid (Six payments made)

Summary:

Cornerstone Mortgage Group failed to: (1) address questionable documentation for the loan process; and (2) provide an itemized statement indicating which items were paid on the borrower's behalf. Additionally, we determined that inaccurate information was presented on the Credit Report for the borrower.

Pertinent Details:

Questionable Documentation

Cornerstone used questionable documentation to process this loan. The FHA Case Binder included a Verification of Employment form dated October 26, 2001 and was shown as verified by the General Manager of Camino Motors, borrower's employer. The verifier's title on the Verification of Employment was not the same in the letter of employment verification also dated October 26, 2001. The verifier's title as shown in the letter of employment verification was owner of Camino Motors. The borrower's pay stub was also questionable because it lacked the borrower's employer name. Also, the borrower's pay stub looked the same as the pay stub used for the borrower in FHA Case Number 332-3749537. The differences between the two pay stubs were the payroll and payroll tax amounts. (HUD Handbook 4000.4 REV-1, paragraph 2-5)

Inaccurate Credit Information

The FHA Case Binder included a Residential Mortgage Credit Report dated October 30, 2001 that Cornerstone obtained from Factual Data. The Credit Report showed the borrower's rent amount of \$895 per month. However, when we re-verified the information with the Customer Service Representative and the Office Manager of Factual Data, they both said their computer

Appendix C-24 Page 2

system did not list any rent or employment information for the borrower. (HUD Handbook 4000.2 REV-2, paragraph 3-6)

Premium Interest Rate Requirements Were Not Met

The FHA Case Binder included the Settlement Statement dated November 9, 2001 that disclosed \$2,201 as a lump sum payment by the lender on behalf of the borrower. Cornerstone did not provide an itemized statement indicating which items were paid on the borrower's behalf for the lender's contribution amount. Disclosing only a lump sum was not acceptable. (Mortgagee Letter 94-7)

Page 63 2004-CH-1008

Appendix C-25
Page 1

FHA Case Number: 332-3756760

Insured Amount: \$71,253

Date of Loan Closing: 11/05/01

Loan Originating Office: Cornerstone's branch office in Las Vegas, Nevada

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Claim Paid (Nine payments made)

Summary:

Cornerstone Mortgage Group failed to address questionable documentation for the loan process. Additionally, we determined that inaccurate information was presented on the Verification of Employment form for the borrower.

Pertinent Details:

Questionable Documentation

Cornerstone used questionable documentation for this loan. The borrower's October 5, 2001 pay stub showed a net pay of \$357 was questionable because it lacked the borrower's employer name and earnings period. The information on the pay stub was handwritten and was similar to the pay stub used for the borrower in FHA Case Number 332-3774090. The differences between the two pay stubs were the payroll and payroll tax amounts. (HUD Handbook 4000.4 REV-1, paragraph 2-5)

Inaccurate Verification Of Employment Information

The FHA Case Binder's verification of employment form signed on October 3, 2001 did not have the same information as what we re-verified with the borrower's employer, Mobile Chef Catering Corporation in Las Vegas, Nevada. According to the owner of Mobile Chef Catering Corporation, the earnings information on the October 3, 2001 Verification of Employment form was incorrect and that the signature on the form was not hers. The FHA Case Binder also contained a letter of employment verification, which was also dated October 3, 2001. The owner of Mobile Chef Catering Corporation confirmed the information on the letter was inaccurate and the signature was not hers. She said that an employee of her company could only earn up to \$300 per week as opposed to the \$400 per week as listed in the Verification of Employment

Appendix C-25

Page 2

form that Cornerstone obtained for the borrower. (HUD Handbook 4000.4~REV-1, paragraph 2-5)

Appendix C-26 Page 1

FHA Case Number: 332-3759898

Page 65 2004-CH-1008

Appendix C

Insured Amount: \$134,081

Date of Loan Closing: 11/05/01

<u>Loan Originating Office:</u> Cornerstone's branch office in Las Vegas, Nevada

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Claim Paid (11 payments made)

Summary:

Cornerstone Mortgage Group failed to: (1) explain or resolve inconsistencies in the loan package submitted to its sponsor; and (2) properly verify the borrower's deposits for funds to close. Additionally, we determined that inaccurate information was presented on the Verification of Employment form for the borrower.

Pertinent Details:

Inconsistencies In Loan Files

The loan documents in the FHA Case Binder showed inconsistencies in the amount of the borrower's earnest money. The October 1, 2001 Purchase Agreement and the November 5, 2001 Settlement Statement each showed \$500 as the earnest money. However, the November 2, 2001 Uniform Residential Loan Application showed \$1,500 as the earnest money. (HUD Handbook 4000.4 REV-1, paragraph 2-5)

Funds To Close Were Not Properly Verified Or Supported

Cornerstone did not obtain proper support to verify the borrower's bank checking deposit of \$2,718 as shown on the Uniform Residential Loan Application dated November 2, 2001. Cornerstone obtained a verification of checking deposit from the borrower's bank, Wells Fargo Bank; however, the bank statement that served as the verification document was not the most recent bank statement for the borrower. (HUD Handbook 4155.1 REV-4, CHG-1, paragraphs 2-10(B) and 3-1(F))

Appendix C-26 Page 2

Inaccurate Verification Of Employment Information

The FHA Case Binder included the Verification of Employment form signed on October 18, 2001. The information on the Verification of Employment form conflicted with information obtained during our re-verification with the borrower's employer, Dabco Products Incorporated 2004-CH-1008

Page 66

in Boulder City, Nevada. According to the President of Dabco Products, the October 19, 2001 pay stub showing a net pay of \$721 for the borrower was not valid because he said his company did not use the same kind of a pay stub form. (HUD Handbook 4000.4 REV-1, paragraph 2-5)

Page 67 2004-CH-1008

Appendix C-27 Page 1

FHA Case Number: 332-3760584

Insured Amount: \$122,865

Date of Loan Closing: 10/25/01

<u>Loan Originating Office:</u> Cornerstone's branch office in Las Vegas, Nevada

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Claim Paid (Six Payments made)

Summary:

Cornerstone Mortgage Group failed to: (1) properly verify or support the borrower's funds to close; (2) address questionable documentation for the loan process; and (3) meet the premium interest rate requirements.

Pertinent Details:

Funds To Close Were Not Properly Verified Or Supported

Cornerstone did not properly verify the borrower's ability to save cash at home of \$4,800. The FHA Case Binder showed that Cornerstone obtained a Cash Saved At Home letter dated October 18, 2001 indicating the borrower had: saved \$600 a month or \$4,800 for eight months to purchase a home, and approximately \$2,600 a month in expenses. Our analysis of the borrower's total cash saved at home was lower than the \$600 a month indicated in the Cash Saved At Home letter. Based on a monthly net income of \$2,981, we determined that the borrower had the ability to save \$381 a month or \$3,048 for eight months. (HUD Handbook 4155.1 REV-4 CHG-1, Mortgage Credit Analysis for Mortgage Insurance on One-to-Four-Family Properties, subparagraph 2-10(M)

Questionable Documentation

Cornerstone used questionable documentation to process this loan. The borrower's pay stub dated October 5, 2001 was questionable because it lacked the borrower's employer name and earnings period. Also, the borrower's pay stub was in the same as the pay stub for the borrower in FHA Case Number 332-3774090. The differences between the two pay stubs were the payroll and payroll tax amounts.

Appendix C-27

Page 2

Additionally, the FHA Case Binder showed that Cornerstone ordered an October 11, 2001 Residential Mortgage Credit Report from Credit Service Company that indicated there were no open, closed, or derogatory accounts found for the borrower. Cornerstone's Quality Control Review file; however, included a Residential Mortgage Credit Report from another credit reporting agency, Factual Data. Factual Data issued a report on April 28, 2003 that showed the borrower had credit accounts and accounts in collection status and bankruptcy proceeding before the borrower's loan closing date of October 25, 2001. Specifically, the April 28, 2003 Residential Mortgage Credit Report from Factual Data indicated the borrower had: accounts at Toyota and First USA Bank; accounts in collection status with University Medi; and accounts that were listed in borrower's April 2001 bankruptcy such as his FHA mortgage account (number 5868006203396) with Chase Home Mortgage. The accounts listed in the April 2003 Residential Mortgage Credit Report from Factual Data were not listed at all in the October 2001 Residential Mortgage Credit Report from Credit Service Company. (HUD Handbook 4000.4 REV-1, paragraph 2-5)

Premium Interest Rate Requirements Were Not Met

The FHA Case Binder included the Settlement Statement dated October 25, 2001 that disclosed \$321 as a lump sum paid by the lender on behalf of the borrower. Cornerstone did not provide an itemized statement indicating which items were paid on the borrower's behalf for the lender contribution amount. Disclosing only a lump sum was not acceptable. (Mortgagee Letter 94-7)

Page 69 2004-CH-1008

Appendix C-28 Page 1

FHA Case Number: 332-3774090

Insured Amount: \$123,373

Date of Loan Closing: 11/15/01

Loan Originating Office: Cornerstone's branch office in Las Vegas, Nevada

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Claim Paid (Nine payments made)

Summary:

Cornerstone Mortgage Group failed to: (1) meet the premium interest rate requirements; and (2) address questionable documentation for the loan process. Additionally, we determined that inaccurate information was presented on the Verification of Employment form for the borrower.

Pertinent Details:

Premium Interest Rate Requirements Were Not Met

The FHA Case Binder for the borrower included a Settlement Statement dated November 15, 2001 that disclosed \$1,621 as a lump sum paid by the lender on behalf of the borrower. Cornerstone did not provide an itemized statement indicating which items were paid on the borrower's behalf for the lender contribution amount. Disclosing only a lump sum was not acceptable. (Mortgagee Letter 94-7)

Questionable Documentation

Cornerstone used questionable documentation for this loan. The borrower's October 26, 2001 pay stub showing a net pay of \$643 was questionable because it lacked the borrower's employer name and earnings period. The pay information on the pay stub was handwritten and looked as same in format as the pay stubs used for the borrowers in FHA Case Numbers 332-3760584 and 332-3756760. The differences among the three pay stubs were the payroll and payroll tax amounts. (HUD Handbook 4000.4 REV-1, paragraph 2-5)

Appendix C-28

Page 2

The Verification of Employment form signed on October 18, 2001 included in the FHA Case Binder showed that the borrower was working at the Windmill Donuts in Las Vegas, Nevada since July 12, 1998 and was paid at an hourly rate over \$18. Based on our re-verification results, the borrower had only worked with Windmill Donuts for two days. Also, the Store Manager for Windmill Donuts confirmed the borrower only worked for two days, but only earned a minimum hourly wage, which was less than the hourly rate on the October 18, 2001 Verification of Employment form. (HUD Handbook 4000.4 REV-1, paragraph 2-5)

Page 71 2004-CH-1008

Appendix C-29 Page 1

FHA Case Number: 332-3781815

Insured Amount: \$112,462

Date of Loan Closing: 12/26/01

Loan Originating Office: Cornerstone's branch office in Las Vegas, Nevada

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Claim Paid (Four payments made)

Summary:

Cornerstone Mortgage Group, Limited failed to: (1) provide an itemized statement indicating which items were paid on the borrower's behalf; and (2) address questionable documentation for the loan process.

Pertinent Details:

Premium Interest Rate Requirements Were Not Met

The FHA Case Binder included a December 26, 2001 Settlement Statement that disclosed \$1,841 as a lump sum payment by the lender on behalf of the borrower. Cornerstone did not provide an itemized statement indicating which items were paid on the borrower's behalf for the lender contribution amount. Disclosing only a lump sum was not acceptable. (Mortgagee Letter 94-7)

Questionable Documentation

Cornerstone used questionable documentation for this loan. The FHA Case Binder included a November 15, 2001 Verification of Employment form that showed the borrower was employed with Wilson Dynamic Webpages. Our re-verification results indicated that the borrower's employer, Wilson Dynamics, did not exist. We called Wilson Dynamic using the telephone number listed on the Verification of Employment form and found that the telephone number was a residential telephone number. Also, Wilson Dynamic was not listed in the Yellow Pages website or in Lexis Nexis. (HUD Handbook 4000.4 REV-1, paragraph 2-5)

Appendix C-30 Page 1

FHA Case Number: 332-3786727

Insured Amount: \$130,123

Date of Loan Closing: 12/18/01

Loan Originating Office: Cornerstone's branch office in Las Vegas, Nevada

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Claim Paid (Five payments made)

Summary:

Cornerstone Mortgage Group failed to: (1) properly verify or support the borrower's funds to close; (2) explain or resolve inconsistencies in the loan package submitted to its sponsor; and (3) address questionable documentation for the loan process.

Pertinent Details:

Funds To Close Were Not Properly Verified Or Supported

Cornerstone did not properly verify the borrower's ability to save cash at home of \$4,000. The FHA Case Binder showed that Cornerstone obtained a Cash Saved At Home letter dated December 10, 2001 indicating the borrower had: saved \$500 a month or \$4,000 for eight months to purchase a home, and approximately \$3,200 a month in expenses. Our analysis of the borrower's total cash saved at home was lower than the \$500 a month indicated in the Cash Saved At Home letter. Based on a monthly net income of \$3,394, we determined that the borrower had the ability to save \$194 a month or \$1,552 for eight months. (HUD Handbook 4155.1 REV-4 CHG-1, Mortgage Credit Analysis for Mortgage Insurance on One-to-Four-Family Properties, paragraph 2-10 and subparagraph 2-10(M)

Inconsistencies In The Loan Files

The FHA Case Binder included a November 15, 2001 Verification of Employment form that the borrower's employer, IB Landscaping, completed. The Verification of Employment form showed the borrower's 2001 year-to-date earnings as \$41,360, but was not consistent to the amount shown in IB Landscaping's letter also dated November 15, 2001. In its letter, IB Landscaping indicated that the borrower had 2001 year-to-date earnings of \$36,960. (HUD Handbook 4000.4 REV-1, paragraph 2-5)

Appendix C-30 Page 2

Page 73 2004-CH-1008

Questionable Documentation

Cornerstone used questionable documentation to process this loan. The borrower's handwritten pay stub covering the payroll period November 18, 2001 through November 24, 2001 was questionable because it lacked the borrower's employer name and looked the same in format as the pay stubs used for the borrowers in FHA Case Numbers 332-3749537 and 332-3754385. The differences among the three pay stubs were the payroll and payroll tax amounts, and that the pay stub for the borrower in this case was handwritten. (HUD Handbook 4000.4 REV-1, paragraph 2-5)

Appendix C-31 Page 1

FHA Case Number: 332-3792961

Insured Amount: \$108,909

Date of Loan Closing: 12/06/01

Loan Originating Office: Cornerstone's branch office in Las Vegas, Nevada

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Claim Paid (Eight payments made)

Summary:

Cornerstone Mortgage Group failed to properly verify or support the borrower's funds to close.

Pertinent Details:

Funds To Close Were Not Properly Verified or Supported

Cornerstone did not properly verify the borrower's ability to save cash at home of \$3,500. The FHA Case Binder showed that Cornerstone obtained a Cash Saved At Home letter dated November 27, 2001 indicating the borrower had: saved \$500 a month or \$3,500 for seven months to purchase a home, and \$2,700 a month in expenses. Our analysis of the borrower's total cash saved at home was lower than the \$500 a month indicated in the Cash Saved At Home letter. Based on a monthly net income of \$2,998, we determined that the borrower had the ability to save \$298 a month or \$2,086 for seven months. (HUD Handbook 4155.1 REV-4 CHG-1, Mortgage Credit Analysis for Mortgage Insurance on One-to-Four-Family Properties, paragraph 2-10 and subparagraph 2-10(M))

Page 75 2004-CH-1008

Appendix C-32 Page 1

<u>FHA Case Number:</u> 332-3793422

Insured Amount: \$118,907

Date of Loan Closing: 12/13/01

<u>Loan Originating Office:</u> Cornerstone's branch office in Las Vegas, Nevada

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Claim Paid (Five payments made)

Summary:

Cornerstone Mortgage Group failed to: (1) develop a sufficient credit history for the borrower using an alternate source; (2) obtain documentation to support the borrower's housing obligations; and (3) address questionable documentation for the loan process.

Pertinent Details:

Insufficient Credit History

The FHA Case Binder included a December 7, 2001 Residential Mortgage Credit Report that Cornerstone ordered for the borrower. The Credit Report showed that the borrower had insufficient credit information. Although the credit report showed that the borrower did not have sufficient credit information, Cornerstone did not obtain credit history documentation from alternate sources such as utility, rent, and automobile insurance payment records. (HUD Handbook 4155.1 REV-4, CHG-1, paragraph 2-3)

Payment History Of Housing Obligations Was Not Documented

The FHA Case Binder did not include any documentation regarding the payment history of the borrower's housing obligations. Also, Cornerstone lacked documentation in its loan origination file for the borrower that it obtained the borrower's payment history of housing obligations through a credit report, directly from the borrower's landlord or mortgage servicer, or through the most recent cancelled checks the borrower issued. (HUD Handbook 4155.1 REV-4, CHG-1, paragraph 2-3 (A))

Appendix C-32

Page 2

Questionable Documentation

Cornerstone used questionable documentation to process this loan. The borrower's handwritten pay stub dated November 30, 2001 was questionable because it lacked the borrower's employer name and earnings period. Also, the pay stub looked as the same format as the pay stubs used for borrowers in FHA Case Numbers 332-3760584 and 332-3774090. The differences among the three pay stubs were the payroll and payroll tax amounts. (HUD Handbook 4000.4 REV-1, paragraph 2-5)

Page 77 2004-CH-1008

Appendix C-33 Page 1

FHA Case Number: 332-3805123

Insured Amount: \$112,969

Date of Loan Closing: 01/17/02

Loan Originating Office: Cornerstone's branch office in Las Vegas, Nevada

Sponsor Name and Identification Number: Irwin Mortgage Corporation; 1377909991

Status: Claim Paid (Four payments made)

Summary:

Cornerstone Mortgage Group, Limited failed to provide an itemized statement indicating which items were paid on the borrower's behalf.

Pertinent Details:

Premium Interest Rate Requirements Were Not Met

The FHA Case Binder included a Settlement Statement dated January 17, 2002 that disclosed \$1,972 as a lump sum payment by the lender on behalf of the borrower. Cornerstone did not provide an itemized statement indicating which items were paid on the borrower's behalf for the lender contribution amount. Disclosing only a lump sum was not acceptable. (Mortgagee Letter 94-7)

Status Of 37 FHA-Insured Loans

As of May 4, 2004

FHA Case	Mortgage		Number of Payments Before First Default	Claim Amount	(Loss) on Resale of	
Number	Amount	Status	Reported	Paid	Property	
137-0918329	\$130,173	Default	19	-	-	
137-1293908	\$117,131	Terminated	-	-	-	
137-1301534	\$150,981	Terminated	-	-	-	
137-1323234	\$122,053	Terminated	=	-	-	
137-1351763	\$126,976	Terminated	=	=	-	
137-1368384	\$123,068	Active	-	-	-	
137-1385239	\$117,638	Terminated	=	-	-	
137-1393354	\$122,612	Claim	9	\$138,106	(\$30,743)	
137-1395974	\$173,514	Active	-	-	-	
137-1396701	\$149,154	Active	-	-	-	
137-1409761	\$106,219	Terminated	-	-	-	
137-1447651	\$108,300	Terminated	-	-	-	
137-1450434	\$124,540	Active	-	-	-	
137-1459042	\$137,735	Default	5	-	-	
137-1481924	\$115,202	Active	-	-	-	
137-1497057	\$87,188	Default	12	-	-	
137-1581796	\$148,849	Terminated	-	-	-	
137-1593584	\$147,581	Terminated	-	-	-	
137-1609308	\$92,250	Terminated	-	-	-	
332-3711691	\$230,202	Claim	2	\$261,641	(\$44,466)	
332-3722403	\$124,236	Claim	8	\$132,872	(\$84,884)	
332-3723581	\$128,143	Claim	8	\$136,433	(\$18,423)	
332-3723733	\$123,880	Claim	3	\$132,036	(\$39,330)	
332-3734424	\$142,962	Claim	4	\$151,469	(\$92,471)	
332-3738478	\$122,865	Claim	4	\$130,549	(\$78,815)	
332-3749537	\$138,040	Claim	6	\$147,203	(\$30,297)	
332-3754385	\$124,439	Claim	6	\$132,898	(\$31,465)	
332-3756760	\$71,253	Claim	9	\$77,853	(\$37,381)	
332-3759898	\$134,081	Claim	11	\$141,116	(\$6,726)	
332-3760584	\$122,865	Claim	3	\$132,496	(\$33,143)	
332-3774090	\$123,373	Claim	9	\$132,092	-	
332-3781815	\$112,462	Claim	4	\$121,293	(\$55,337)	
332-3786727	\$130,123	Claim	5	\$145,152	(\$31,027)	
332-3792961	\$108,909	Claim	8	\$115,265	(\$30,684)	
332-3793422	\$118,907	Claim	5	\$132,351	(\$53,113)	
332-3803384	\$137,025	Claim	0	\$145,952	(\$26,193)	
332-3805123	<u>\$112,969</u>	Claim	4	<u>\$120,046</u>	<u>(\$24,141)</u>	
Totals	<u>\$4,707,898</u>			<u>\$2,626,824</u>	<u>(\$748,639)</u>	

Page 79 2004-CH-1008



Auditee Comments



August 12, 2004

Rose Capalungan Assistant Regional Inspector General for Audit United States Department of HUD- Office of Inspector General 77 West Jackson Blvd. Suite 2646 Chicago, IL. 60604

Dear Ms. Capalungan:

We have tried to put together a summary response, and want to acknowledge that a file by file response to be done by the two principles of cornerstone Mortgage Group could take an additional 60 days. This of course depends on how successful we are in requesting copies of the HUD binder files that were lost in the hard drive failure of our Ricoh e-cabinet.

This piece of equipment was my idea because of our limited space for files and that we were to have been able to have the Nevada branch email us a page for page copy of the credit application and all its documentation. It was one of the things we were trying to implement to keep a better handle on files originated outside our main office.

We are continuing to review the findings and do feel that there are different ways to come to conclusions and we can not agree with all the findings in the report. For example on page 15 it states that we were totally relying on Irwin's underwriting. Yes, we were and that is what the industry leads us to believe is the right way of doing things. We as loan originators have always relied on the direct endorsement underwriter being the final word. Prior to direct endorsement the final word was that of the FHA underwriter working down on Jackson in Chicago.

Corporate Address: 1628 Colonial Parkway, Inverness, IL 60067

Page 81 2004-CH-1008

(847) 776-8000 Fax: (847) 776-6490

If we have an underwriting question we start at the 4155 but we know that different people interpret the manual in different ways. We have called the Atlanta HOC centers in the past and are told they only talk to underwriters because of the volume of calls they receive. We would then be told to ask "the underwriter".

The Nevada branch existed and was doing business with Irwin mortgage before we ever entered the picture. We were introduced to the manager through our Account Executive who worked with both companies. The original company that had the Nevada branch closed and Irwin thought we could step into the position.

The Nevada branch already had a working relationship with the Irwin underwriting department in Indianapolis.

We are not trying to make excuses, but we do want to paint a clear picture in hopes that HUD can see if and where the system can be improved. Please review the following attachment. Thank you for your consideration.

Michael O'Neill J. O

Michael O'Neil

President

Thomas Ryder

2004-CH-1008

We have a small corporation, and we have worked hard to analyze these findings and do believe that we can make necessary adjustments to continue to serve homebuyers in the Midwest. Please consider the following response:

Quality control plan:

We have always modified and improved our QC plan in response to direction from prior audits. As noted in your findings, the areas to be addressed are primarily timeliness and retention of documentation. We believe we can solve these issues and stay up to date with QC standards as dictated by HUD. Attached is a copy of the agreement we have recently entered into with Callander Mortgage services to provide offsite QC. With the reduction in the mortgage volume this year we find that it is not possible to have anyone in our office that does not handle a file at some point prior to funding, due to a reduction in staff. As we have discussed before we had been trying to keep up with the QC in the past by giving the duties to non processors, and found the turnover in those positions was high. We would fall behind on the hiring and retraining of the employee responsible for QC. We pledge to maintain a proper and sufficient QC program and invite FHA's review of our efforts.

Our Nevada office:

Nevada files were influenced by a real estate community that had a dishonest and sophisticated vein. Our default percentages were affected considerably by the numerous homebuyers referred to our office by Leo Werner and his real estate office. We subsequently have learned that Mr. Werner was prosecuted for his real estate activities in Nevada. Please note that our office severed ties with Mr. Werner and his office out of concern for his business practices, although we couldn't find any substantive documentation to pursue further action or refer to authorities. We attempted to find problems with files thru phone calls and review of file documentation. We did fail to make written documentation of our efforts and will do better at generating written reports and retaining these reports. We believe that these individuals involved did a good job of covering these inconsistencies while we were processing the loan files. Only with careful and thorough work did these facts come to light. Were these procedures beyond our scope of review? We did not have the manpower, nor the audit training to discern what the OIG auditors found in their many months of investigation of these files.

Originators versus underwriters:

As originators, we try to assemble an accurate file while balancing time constraints of the borrowers and home sellers and we cannot take months to investigate each file. We do take time to fully review the data presented so as to package an acceptable loan file. Our

Page 83 2004-CH-1008

originators and processors are trained, but not as an underwriter. A sponsors underwriters are trained and licensed by FHA. The underwriter holds final responsibility for the approval of the loan as satisfying FHA requirements. If a file doesn't conform to guidelines it is rejected or additional documents may be requested. Then the file may be reconsidered for underwriters' approval. Only after the loan receives underwriting approval would the loan be closed. Is it reasonable to hold the originator liable for content of a file when it is the underwriters' judgement that dictates what documents are required in the file to receive her approval? The originator assembles a loan package that we believe conforms to guidelines, the underwriter reviews the file for the final stamp of approval.

Cornerstone Mortgage did not exercise due diligence:

Cornerstone Mortgage did utilize prudent lending practices in it's origination of FHA loans. The assertion that we assembled loans without documenting income, verifying assets or providing adequate credit information certainly brings questions about what data the underwriter used in granting a loan approval on these files. I contend that the loan files contained relevant information for the underwriters' analysis, but the completeness of the data is certainly subject to a difference of opinion between an underwriter and an auditor. Some of the relevant data may not have been retained in the FHA case binder. This is a deficiency that needs attention. Cornerstone Mortgage must work harder to assure that complete files are retained.

We feel we put together a complete loan package for submission to underwriting. However, our experience has shown that underwriting requirements vary considerably between lenders. This fact is what causes a reliance on the underwriters individual interpretation of what constitutes a complete and properly documented loan file. Honestly, if you submitted the same file to three different sponsors you would likely find three different opinions of what is required to make the file comply with FHA's guidelines. Our goal has always been to assemble a complete and accurate loan package that reflects the borrowers financial situation clearly. We believe that we have a reputation with sponsors and other wholesale lenders for doing just that!

Loan files not retained as required:

We are now doing repetitive back ups of electronically stored files. A single backup system, as was previously employed, was obviously inadequate. We suspended storing additional files in this fashion once the problem was discovered. Now, we are evaluating different storage systems. Please note that only Illinois files were destroyed, not the Nevada files which had more inherent problems. This was certainly an inadvertent act.

3% Minimum required investment

We have always verified the funds for the 3% minimum investment. One of our current sponsors told us that FHA was questioning them on many of their files (not just ours) that

the minimum investment was not being met at closing. The reason for the difference is due to the real estate tax proration transferred from the seller to the buyer on every real estate transaction in the state of Illinois. Real estate tax bills come due over 1 year from the time they accrue. For example the tax bills in Cook county Illinois that are now due in October of 2004 are for the year 2003. Lenders are only allowed to take a predetermined amount to establish the borrower's tax escrow. For a closing in October the lender may only take a 4 months escrow at the closing. The seller must prorate 10 months of taxes because the 2004 tax will not be paid until 2005. The borrower is still responsible for paying those taxes in the future but that is what the tax escrow is for. This will make the bottom line on the HUD 1 show less than the 3%. It has been done this way in Illinois for as long as I can remember.

Management controls:

We would like to point out that these 37 files were examined by a staff of three full time auditors for approximately ten months, in order to draw these conclusions and find these deficiencies. Reasonable time constraints in dealing with prospective borrowers dictated that we assemble a loan package and close the loan in 30 to 60 days. This means that we must evaluate the borrowers data and verify this information on a much more accelerated pace. We believe we exercised reasonable care in the loan process, however, the extreme depth and scope of an audit to discover some discrepancies simply isn't practical while still satisfying the publics demand for speed and efficiency.

Irwin Mortgage and Cornerstone Mortgage were certainly concerned as we saw default numbers worsen in the Nevada office. We had numerous conversations regarding steps to prevent further losses. Irwin Mortgage indicated that they had been doing quality control on 100% of our Nevada files. We were in agreement with this direction and also offered our abilities to try to stay in touch with borrowers who began to get behind on payments. Cornerstone Mortgage also suggested improvements in the servicing of the mortgages to help borrowers to better understand their obligations. We also focused on new loans in process. We made every effort to discover inconsistencies before we closed loans. This included multiple phone calls to employers and borrowers to certify employment prior to closing a loan. This was in addition to reviewing the written documentation already attained from the borrower or directly from the employer. We even verified business licenses on some employers. Our focus was toward preventing additional losses by being very diligent on new files, rather than delving into the closed files, as is part of the quality control program. We now know that with the extreme depth of this investigation, we may have found these discrepancies uncovered by this audit.

We believe that there may have been some confusion in some of the interviews conducted with borrowers as to the face to face meetings as required. Were all borrowers present at the initial application interview? Did some of the borrowers change during the processing of the loan? Employers were interviewed also. Are employers more likely to respond to a government auditor than to an employee who is simply trying to reverify old employment data? The government audit question carries much more weight and begs a

Page 85 2004-CH-1008

careful response whereas our employee question may seem to be a hassle. We did not have access to transcripts of the interviews of borrowers or employers in order to evaluate the information gathered. We don't believe we had time to cross examine these individuals either, to establish contradictory findings.

Insufficient credit reports and requirements not met:

Please be aware that underwriters at two different sponsors accepted the credit reports without employment and income data after HUD allowed that infile reports were acceptable which didn't contain that information, either. Perhaps an oversight or a judgement call on what is reasonable in the underwriters opinion.

Prior audits

We have always welcomed HUD audits over the years. Please be aware that the items shown as "findings" were subject to further review by both our office and by the auditor. The items shown in this restatement are simply a listing of the preliminary findings of the auditor prior to our protestations and response. Some of these items did require modifications of our systems, but many were shown to be aberrations or otherwise not representative of our general loan practices.

Funds saved at home

Case # 332-3792961 (NV). The Auditor determined they could only save \$1,042 per month based on a monthly net income of \$3,542. It seems this was based on reviewing the net on the pay stub in the file the net is about 85% of the gross. Year to date gross was \$40,800, which is a net of \$34,680 which is \$3,853 per month. It shows that different people will come up with different figures. That is why we take our cues from the direct endorsement underwriter who is reviewing that specific loan. In this case the underwriter determined that the cash saved at home made sense. Savings at home varies greatly from one family to the next. To simply apply a formula to coldly calculate this data doesn't take into account the real world. The auditors statement "We determined the borrower had the ability to save..." shows impressive knowledge of each of these very individual borrowers lifestyles. The underwriters and our staff thought the statements were reasonable and that's about as much as we could discern without much more information on the borrowers personal habits.

Inconsistencies in loan file:

Case #137-1593584 (IL). The settlement statement is prepared by the title company and they make numerous revisions prior to and during the closing of the transaction. Our staff works diligently to insure that these statements are properly prepared and watches out for our client in the process. These variances probably resulted from out requests to correct figures during the closing process, typically looking out for the borrower. It

appears that the borrowers costs to close were reduced by \$318 in the final rendition (Hud binder) versus the Hud-1 in our file that was a preliminary draft. Our retention of documents suffered, but the client was benefited thru out concentrated efforts. This exemplifies our situation. We haven't had a complaint in years regarding our Illinois office because we consistently work hard to treat our buyers fairly, sometimes paying more attention to our clients needs than to our own needs in running our business.

Conclusion:

We have offered these insights to shed additional light on the resolution of a difficult situation. Cornerstone Mortgage does have areas for improvement to focus on, in order to more closely uphold HUD's guidelines. However, Cornerstone Mortgage has been very successful over 12 years in serving numerous families in their goal to be homeowners. Our Illinois office has always maintained excellent default percentages according to the HUD's Neighborhood Watch program. This mortgage company's difficulties arose from dealings with a less than honest faction of the Las Vegas real estate market. Despite our best efforts (and those of Irwin Mortgage Corporation and previous FHA auditors and investigators) we were unable to ferret out the negative influence in time to prevent substantial deterioration in our Nevada percentages. These high default figures were a reflection on the entire corporation. Hence, we have had the company of auditors for many months past. Cornerstone Mortgage has taken steps to solve concerns brought by these audit findings, and will continue to work diligently to handle FHA loans properly, while bringing experienced and professional service to an ever growing list of satisfied clients.

Page 87 2004-CH-1008

Early Warnings Single Lender

Page 1 of 1





Early Warnings

Servicing

Analysis

Details

Queries

es Help/About

Single Lender - Originator by Branch CORNERSTONE MORTGAGE GROUP LTD - 7527800008 Lender Branch Originations in the United States Default Choice - Current Defaults

Default Choice - Current Defaults Performance Period - 06/30/2004

Sort Order by Percent of Defaults and Claims in Descending Order Active - Terminated - Merged Originating Branches

Data shown includes all insured single family loans with beginning amortization date between **July 01, 2002 and June 30, 2004**

Rank	t I	Compare Ratio	Total Orig.	Total in (Defauft	Total	Total in Default and Claim		United States Total Orig	Total in		States Total in Default and	
1	United States	29%	161	1	0	1	0.62	2,250,786	41,350	6,467	47,817	<u>L</u>

Displaying records 1 to 1 out of a total number of 1 records Download this report to an Excel file [Help]

Report Summary

Report Run: July 28, 2004

Output

Data includes Lender loan types between 1 and 9999999 total originations and between 0 and 9999999 total

Options: current defaults & claims and between 0 and 9999999 compare ratio in the United States.

Loan Type(s): All Loans



https://entp.hud.gov/sfnw/nw/ew-lendcat-out.cfm?lendlist=75278&area=%20&FA=US&ar...~7/28/2004.



AGREEMENT PROVIDING FOR OFF SITE POST-FUNDING QUALITY ASSURANCE SERVICES

Parties

Briar Creek, Inc., dba Callender Mortgage Services, a Texas business Corporation, (hereinafter referred to as "Callender").

Cornerstone Mortgage Group, LTD. (hereinafter referred to as "Cornerstone")

Purpose of Agreement

Cornerstone has need for third-party quality assurance services with regard to certain loans it originates or purchases. Callender provides the type of services that Cornerstone desires. Therefore, for the consideration expressed hereinbelow, the parties enter into this agreement for quality assurance services.

Services to be Provided

Following established FNMA, FHLMC, FHA, VA guidelines, Callender agrees to provide quality assurance services to Cornerstone.

Payment for Services

For the services to be rendered by Callender to Cornerstone under this Agreement, Cornerstone agrees to pay and promptly remit to Callender for each loan file for which Callender conducts a quality assurance audit as described in this Agreement. The parties specifically agree that compensation and cost recovery may be modified from time to time if done so in writing. Compensation for services rendered and reimbursement for out-of-pocket expenses incurred by Callender under this agreement are set below and incorporated herein by such reference.

Quality Assurance Review of Files - Each loan \$125.00

Reimbursement for actual charges incurred for reverification expense, review appraisal, three repository in-file credit report, charges by financial institutions and employers for reverification of original documents. All document shipping charges will be paid by Cornerstone.

701 North Center St. • Bonham, TX 75418 • phone: 903.640.5626 • fax: 903.583.4199

Callender Representations

- (a) With respect to the Agreement, Callender represents, warrants and covenants to Cornerstone that:
- at all times material to the transactions contemplated by this Agreement, Callender is a duly organized validly existing and in good standing under the laws and jurisdiction of the State of Texas;
- (2) the execution, delivery and performance of this Agreement has been duly authorized by Callender and requires no other approval;
- (3) this Agreement, when executed, constitutes a legally binding obligation of Callender;
- (4) Callender has the skill, knowledge and expertise to provide the services herein contracted for;
- (5) Callender employs personnel who, in Callender's opinion, has proven ability to conduct the services herein contracted for;
- (6) Callender will use appropriate diligence and its best efforts in providing the audit services herein contracted for.
- (b) With respect to its audit services, Callender specifically does not undertake to warrant the subsistence and legal enforceability of any loan document or loan closing document or legal accuracy of any such document or its compliance with any state or federal law.

Quality Assurance Policy

Callender will provide Cornerstone with a copy, upon request, of a "Policy" which may be adopted for its sole use. The Policy may be submitted to investors or agencies which may require a copy of the Policy. The cost of the policy is \$395.00.

Policy Confidentiality

Cornerstone agrees to hold the Policy in strict confidence and agrees that disclosure of this Policy, other than stated above, is a breach of this Agreement.

Term

Unless terminated earlier, this Agreement shall be for a term of one year commencing on the date last signed by Callender and Cornerstone and ending (12) months thereafter. This Agreement, however, shall be automatically renewed for successive one-year terms unless earlier terminated by either party as authorized in this paragraph. This Agreement may be terminated with or without cause by Callender or Cornerstone upon 30 days written notice to the other party, but such termination shall not in any respect change or modify the obligation of the parties with respect to any duties under this Agreement on quality assurance audits occurring prior to the date of termination.

Notices

For the purposes of the Agreement and any notices contemplated hereby, the parties addresses are as follows:

Callender Mortgage Services 701 North Center Street Bonham, TX 75418 Cornerstone Mortgage Group, LTD. 1628 Colonial Parkway Inverness, IL 60067

Executed this day of	, 2004.
Briar Creek, Inc. dba Callender Mortgage Services	Cornerstone Mortgage Group, LTD.
By Clar Lee Allen, President	By: Mike O'Neill, President





Home Email



OUR QUALITY CONTROL SERVICES ARE COST EFFECTIVE & CONFIDENTIAL

click here for printable checklist

Home	HUD's 37 Point Quality Control Plan Checklist QUALITY CONTROL PLAN CHECKLIST-LOAN ORIGINATION (Reference: HUD Handbook 4060.1 REV-1 Chapter 6)				
Frequently Asked Questions					
Privacy	Does your Quality Control Plan Measure Up?				
Links					
Contact	Yes No				
	1. the Mortgagee maintains compliance with HUD/FHA requirements? (6-1)				
Free! Printable	2. personnel conducting the QC reviews have no direct loan processing or underwriting responsibilities? (6-1A)				
HUD's 37 Point Quality Control Plan Checklist	3. periodic reports which identify deficiencies are provided to senior management at least quarterly? (6-1A & 6-1G)				
	4. procedures are revised to reflect changes in FHA requirements; personnel are informed of the changes, employees are accountable for performance failures or errors? (6-1B3)				
	5. prompt, effective corrective measures are taken by senior management and documented when deficiencies are identified? (6-1B4 & 6-1G)				
	6. procedures exist for expanding scope of the QC review when fraud/patterns of deficiencies exist? (6-1B5 & 6-1D4)				
	7. the Mortgagee reviews EITHER 1) 10% of all loans closed on a monthly basis; OR 2) a random sample that provides				



95% confidence level with 2% precision? -the selection includes loans from all branches; -from all authorized
agents, loans correspondents; -iron an loan officers,
8.
9. SPONSORS OF LOAN CORRESPONDENTS MUST: perform QC reviews on loan purchased from their correspondents (the LC MUST have it's own QC plan) (6- 1D5)
an on-site branch office review is completed at least once a year? (6-1D3)
11. a review of alternative document loans is completed? (6-1D6)
12. reporting to HUD (or appropriate Fed. Agency) under HMDA? (6-1D8)
13. the Mortgagee reports any violation of law or regulation, area office or OIG? (6-1H)
14. loans are processed by its employees or Authorized agents? (6-2B)
15. MIP's are remitted within 15 days from closing? (6-2C)
16. no one is employed who is debarred, suspended or subject to an LDP or otherwise restricted? (6-2G)
17. the mortgagee is in compliance with RESPA? (6-2H)
18. records of QC findings and actions taken are maintained? (6-2 & 6-1F)
19. the reviews will be performed within 90 days of loan closing? (6-3A)
20. a minimum of 10% of all rejected loans are reviewed and that senior staff concurred w/the rejection? (6-3B)
21. a desk review of appraisals on ALL loans in the QC sampling is completed (6-3C); if there is a STAFF appraiser, a 10% field review must also be done? (6-3C)
22. a new credit report (using a 3-repository in-file report) is obtained with a full RMCR on at least 10% of all OC loans? (6-3D)

Page 93 2004-CH-1008

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		23. that a written reverification of the mortgagor's employment, deposits, gift letter or other source of funds is completed? (6-3E)
		24. a face-to-face interview was performed with the mortgagor PRIOR to signing the HUD 92900 (unless otherwise exempt-i.e. in refinances)? (6-5B)
		25. if relevant documents were signed in blank by the mortgagor or employee of lender that all corrections were initialed by mortgagor/employee? ((6-5C)
		26. if more than 1 credit report was ordered, then all are to submitted with the package to HUD? (6-5E)
		27 that the preliminary loan application lists each outstanding debt and asset and was used to qualify the mortgagor? (6-5F)
		28. any outstanding judgements on the Credit Report was on the HUD 92900 with an explanation? (6-5G)
		29. the file has documentation on source of funds and if other than deposits, the source is verified? (6-51)
		30. if mortgagor is self-employed the file has a financial statement and business credit report? (6-51)
		31. if there is a gift letter, it has the relationship of donor and no repayment and funds are deposited into mortgagor's account? (6-5J)
		32. the HUD-1 is accurate and certified? (6-5K)
		33. the loan was current when submitted for endorsement? (6-5L)
		34. it determines whether the mortgagor transferred the property possibly a "strawbuyer"? (6-5M)
		35. all conflicting information is resolved prior to submission to HUD? (6-50)
		36. there was accurate and complete underwriting? (6-5Q)
		37. the mortgagee is monitoring and supervising overage activities to prevent illegal discrimination or tiered pricing violations? (ML-94-43)
		Any No response indicates a deficiency in your Quality Control Plan.
	2 ; 7KH	94 ! !