Issue Date: January 31, 2006	
Audit Report Number: 2006-KC-1005	

TO: Brian D. Montgomery, Assistant Secretary for Housing – Federal Housing Commissioner, H

//signed//
FROM Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: Matrix Financial Services Corporation's St. Louis, Missouri, Branch Did Not Properly Underwrite and/or Close 40 Federal Housing Administration Loans

HIGHLIGHTS

What We Audited and Why

We reviewed 65 Federal Housing Administration loans sponsored by the St. Louis, Missouri, branch of Matrix Financial Services Corporation (Matrix). Our audit objective was to determine whether Matrix properly underwrote, closed, and submitted the loans for endorsement.

We initiated this audit due to the high default rate of Matrix's St. Louis branch. As of March 8, 2005, 18.37 percent of the loans sponsored and closed by this branch in 2003 had defaulted within two years of closing.

What We Found

Matrix did not properly underwrite 32 loans. These loans contained material deficiencies related to assets, income, liabilities, credit history, and property condition. The deficiencies affected the credit quality of the loans and placed the Federal Housing Administration insurance fund at an increased risk of borrower default on the 32 loans with original mortgage amounts totaling $3,279,345.

Matrix did not properly close 13 loans. The borrowers of each of these loans incurred excessive, unsupported, and/or unallowable closing fees totaling $7,703. While these deficiencies did not affect the Federal Housing Administration insurance fund, the borrowers should not have been required to pay these charges.

Matrix properly submitted for endorsement all the loans in our sample.

Because the branch office is no longer in business, we could not determine the cause of the underwriting or closing deficiencies.

What We Recommend

We recommend that the assistant secretary for housing take appropriate administrative action based on the information contained in these findings. At a minimum, the U.S. Department of Housing and Urban Development (HUD) should require the lenders to

- Indemnify the insurance fund $2,630,627 for the 26 actively insured loans not properly underwritten,
- Reimburse the insurance fund $226,419 for actual and future losses on the five properties acquired by HUD for loans not properly underwritten, and
- Buy down the principal balance of the 13 loans not properly closed by $7,703.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee Response

During our audit period, Matrix sold its wholesale operations to Ampro Mortgage Corporation (Ampro). We provided the draft report to both Matrix and Ampro on December 5, 2005, and requested a response within 15 days.

Matrix provided written comments dated December 8, 2005. Matrix generally agreed with our findings. After requesting an extension, Ampro provided written comments dated January 24, 2006. While Ampro management agrees the loans in this report contain underwriting deficiencies, they do not feel all deficiencies adversely affected the loan quality.

The complete text of the auditees' response, along with our evaluation of that response, is located in appendix B of this report.

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BACKGROUND AND OBJECTIVES

Matrix Financial Services Corporation (Matrix) is a non supervised direct endorsement lender based in Phoenix, Arizona. Matrix received approval from the Federal Housing Administration in June of 1983 and has operated branch offices in 12 states.

During our audit period, Matrix functioned primarily as a wholesale lender, sponsoring loans originated by approved loan correspondents. The principal activity of loan correspondents is to originate mortgages for the sale or transfer to a sponsor. Loan correspondents may take the initial application, assign an appraiser, obtain credit reports, order verifications, and close the loan after it has been underwritten. Sponsors perform the underwriting function and must ensure loan packages contain sufficient documentation and explanation to support their approval decisions. Sponsors are responsible for the actions of their loan correspondents and are required to supervise and perform quality control reviews of their loan correspondents to ensure they comply with U.S. Department of Housing and Urban Development (HUD) requirements and prudent lending practices.

The St. Louis branch experienced a large increase in production in March 2003. While the branch generally closed less than 50 insured loans per month, it closed more than 400 insured loans between March and June 2003. As of October 11, 2005, more than 25 percent of these loans had defaulted within two years of closing.

On August 31, 2003, Matrix sold its wholesale operations to Ampro Mortgage Corporation (Ampro). While Matrix is still an approved direct endorsement lender, it has not originated or sponsored a Federal Housing Administration-insured loan since 2003.

Our audit objective was to determine whether the St. Louis branch properly underwrote, closed, and submitted loans for endorsement.

RESULTS OF AUDIT

Finding 1: Matrix Did Not Properly Underwrite 32 Loans

Matrix's St. Louis branch did not properly underwrite 32 of the 65 loans reviewed. These loans contained material deficiencies related to assets, income, liabilities, credit history, and property condition. Because the branch office is no longer in business, we could not determine the cause of the underwriting deficiencies. These deficiencies affected the credit quality of the loans and placed the Federal Housing Administration insurance fund at an increased risk of borrower default on the 32 loans with original mortgage amounts totaling $3,279,345.

Matrix Did Not Follow HUD Regulations

Matrix's St. Louis branch did not follow HUD requirements and prudent lending practices when underwriting 32 of the 65 loans reviewed. The following table summarizes the material underwriting deficiencies identified.

Area of noncompliance	# of loans	% of loans
Assets	14	22
Income	12	18
Liabilities	16	25
Credit history	7	11
Property condition	1	2

Appendix C contains a schedule of the deficiencies identified in each loan. Appendix F contains detailed narratives of each loan's underwriting deficiencies.

<u>Assets</u>
Matrix did not adequately evaluate assets and document the ability of borrowers to meet their total cash investment. Matrix miscalculated retirement assets and failed to properly document gift funds, depository accounts, and earnest money deposits. Matrix also failed to verify the assets and reserves entered into an automated underwriting system.

In case number 261-8429135, the borrower's total cash investment in the property was $820. While the file contained a $500 money order, the borrower's bank printouts did not document the source of funds used to purchase the money order and only showed a $.48 balance. Using the $.48 documented assets, the borrower was $820 short of meeting her total cash investment in the property.

Income

Matrix did not adequately evaluate the amount and stability of borrower income used to compute qualifying ratios. In many cases, the underwriter included income from child support, self-employment, overtime, and commissions without obtaining sufficient documentation. In other cases, the employment documents in the file contained inconsistencies or cast doubt on the stability of the borrower's income.

In case number 261-8421556, the underwriting worksheet cited $4,565 in base monthly income. However, the employment documents revealed that the income claimed consisted of base, differential, and overtime income. While the base and differential income were stable, the borower's overtime income had significantly decreased from 2002 to 2003. Without overtime income, the borrower's gross monthly income was only $3,770.

Liabilities

Matrix did not adequately evaluate the liabilities used to compute qualifying ratios. Matrix omitted debts without proper documentation, misstated monthly escrow payments, and improperly reduced the borrower's total mortgage payment for mortgage credit certificates and temporary interest rate buydowns. Matrix also failed to verify child support obligations, follow up on credit report inquiries, document payment of outstanding judgments, and follow guidelines for adjustable rate mortgages.

In case number 261-8353065, Matrix improperly reduced the borrower's total mortgage payment for a mortgage credit certificate and temporary interest rate buydown. While the file contained a buydown agreement, the underwriter failed to establish that the eventual increase in mortgage payments would not adversely affect the borrower. Additionally, we determined that the borrower did not generate sufficient tax liability to use the mortgage credit certificate. Using the correct liabilities, the borrower's qualifying ratios increased to 32.61 and 50.39 percent.

Credit History

Matrix did not adequately evaluate the credit history of seven borrowers. The underwriter approved six of these loans using alternate credit documentation. However, several verification letters lacked signatures or were addressed to the borrower. In some cases, the verifications, credit reports, and employment documents contained conflicting information about the borrower's age or address history. The underwriter failed to resolve these inconsistencies.

Property Condition

Matrix did not adequately document completion of required property repairs for one loan. In case number 292-8383878, the conditional commitment required repair of the subject property's windows and brick. While the file contained a repair escrow agreement and two repair estimates, it did not confirm that the required repairs were ever completed.

We Could Not Determine the Cause of the Deficiencies

Because of limitations in the scope of our review caused by the branch closure, we could not determine the cause of the underwriting deficiencies.

Effect of Noncompliance

The material underwriting deficencies cited in this report affected the credit quality of the loans and placed the Federal Housing Administration insurance fund at an increased risk of borrower default on the 32 loans with original mortgage amounts totaling $3,279,345. Each of these loans defaulted within two years of closing. The following table summarizes the status of the loans as of October 11, 2005.

Loan status	# of loans	% of loans
Claim	5	16
Foreclosure	3	9
Currently in default	9	28
No longer in default	14	44
Terminated	1	3
Total	32	100

HUD incurred losses totaling $168,272 after selling the properties of four of the five loans in claim status. HUD paid a $58,147 conveyance claim on the fifth loan in claim status. Additionally, HUD has paid $20,546 in loss mitigation retention claims on 15 of the 32 loans.

Matrix Detected and Addressed Noncompliance

Matrix stopped using a loan correspondent based on problems detected by its quality assurance department. The St. Louis branch sponsored 37 loan correspondents during our audit period; however, one correspondent originated 18 of the 32 deficient loans. In June 2003, Matrix terminated its sponsorship agreement with this loan correspondent and terminated the underwriter who approved the loan packages submitted by the correspondent. At that time, the loan correspondent's default rates were below average. However, its quarterly default rates increased significantly on June 30, 2003, and have remained above average for more than two years.

In November 2003, Ampro closed the St. Louis branch and terminated its remaining employees due to an unsatisfactory on-site review of the office.

Recommendations

We recommend that the assistant secretary for housing – federal housing commissioner and chairman, Mortgagee Review Board

1A. Take appropriate administrative action against Matrix/Ampro for the four loans not properly underwritten whose subject properties were conveyed to HUD and later sold. This action, at a minimum, should include requiring Matrix/Ampro to reimburse HUD $168,272 for actual losses incurred.

1B. Take appropriate administrative action against Matrix/Ampro for the loan not properly underwritten for which HUD has paid claims totaling $58,147, including requiring Matrix/Ampro to reimburse HUD for future losses on the property, which has not yet been sold.

1C. Take appropriate administrative action against Matrix/Ampro for the actively insured loans that were not properly underwritten. This action, at a minimum, should include requiring Matrix/Ampro to indemnify HUD against future losses on the 26 loans with original mortgage amounts totaling $2,630,627.

Appendix D contains a detailed schedule of our recommendations and lists the current status of the 32 loans with material underwriting deficiencies.

Finding 2: Matrix Did Not Properly Close 13 Loans

Matrix did not properly close 13 of the 65 loans reviewed. The borrowers of each of these loans incurred excessive, unsupported, and/or unallowable closing fees totaling $7,703. Because the branch office is no longer in business, we could not determine the cause of the closing deficiencies. While these deficiencies did not affect the Federal Housing Administration insurance fund, the borrowers should not have been required to pay these charges.

Matrix Did Not Follow HUD Regulations

Matrix's St. Louis branch did not follow HUD requirements when closing 13 of the 65 loans reviewed. The borrowers of these loans paid excessive, unsupported, and unallowable closing fees. The following table summarizes the improper charges identified.

Type of fee charged	# of loans	% of loans	Total charges
Origination	4	6	$1,108
Appraisal	1	2	$100
Credit report	1	2	$45
Loan discount / commitment	7	11	$4,822
Administration	3	5	$1,500
Tax service	2	3	$128
Total			$7,703

Appendix E contains a detailed schedule of the excessive, unsupported, and unallowable fees charged to each borrower.

While HUD regulation permits lenders to charge origination, appraisal, and credit report fees, it sets restrictions on the maximum amount that can be charged. For example, origination fees may be charged up to 1 percent of the mortgage amount, excluding any up-front mortgage insurance premium. The portion of origination, appraisal, and credit report fees listed in the above chart exceeded HUD guidelines.

HUD regulation also permits lenders to charge loan discount and commitment fees. However, it requires lenders to execute a written agreement with the borrower guaranteeing the rate or discount points. In seven loans, borrowers were charged discount and commitment fees when the file did not contain the supporting agreement.

Because the loan origination fee covers all administrative tasks performed by the lender, HUD regulation does not allow administration and tax service fees.

While approximately $6,000 of the improper charges were paid to loan correspondents, Matrix sponsored the loans and was responsible for the actions of its loan correspondents.

We Could Not Determine the Cause of the Deficiencies

Because of limitations in the scope of our review due to the branch closure, we could not determine the cause of the closing deficiencies.

Improper Charges Did Not Affect Insurance Fund

While the closing deficiencies did not affect the Federal Housing Administration insurance fund, the borrowers should not have been required to pay the excessive, unsupported, and unallowable charges.

Recommendation

We recommend that the assistant secretary for housing – federal housing commissioner and chairman, Mortgagee Review Board

2A. Require Matrix/Ampro to buy down the principal balance of the 13 loans by $7,703 to account for the excessive, unsupported, and unallowable fees charged to borrowers.

SCOPE AND METHODOLOGY

The St. Louis branch of Matrix sponsored 588 Federal Housing Administration-insured loans that closed from January 1 through December 31, 2003. As of June 9, 2005, 114 of the 588 loans had defaulted within two years of closing. We eliminated 49 nonconventional refinance loans, loans with terminated insurance status, and loans with prior sales within a year of closing. We selected the remaining 65 loans.

To accomplish our objective, we interviewed HUD staff and reviewed HUD's rules and regulations for direct endorsement lenders. We also interviewed senior auditee management and reviewed Matrix's written policies and procedures. Because Ampro closed the St. Louis branch and terminated its employees, we were not able to perform an on-site review of the branch office or interview the employees who approved the 65 loans included in our audit.

To determine whether Matrix properly underwrote loans, we reviewed HUD and auditee case files for the 65 defaulted loans. We also examined previous reviews of the loans performed by the auditee and HUD. To determine whether Matrix properly closed loans, we reviewed the settlement statements and supporting documents for the 65 defaulted loans. To determine whether Matrix properly submitted loans for endorsement, we reviewed late endorsement letters, payment histories, mortgage notes, and loan submission records for all 21 of the 65 defaulted loans which were endorsed more than 60 days after closing.

We conducted on-site audit work from April through August 2005 at Ampro's office in Phoenix, Arizona.

We conducted this audit in accordance with generally accepted government auditing standards. However, due to limitations in the scope of our review, we could not assess the controls in operation at the St. Louis branch office.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Controls over the underwriting, closing, and submission of Federal Housing Administration loans.

We assessed the relevant controls identified above.

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

Significant Weaknesses

Our review did not identify any significant weaknesses in internal controls. However, due to limitations in the scope of our review, we could not assess the controls in operation at the St. Louis branch office.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	$168,272		
1B		$58,147	
1C			$2,630,627
2A	$7,703		

1/ 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.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a 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.

3/ "Funds to be put to better use" are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes loans and guarantees not made.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation **Auditee Comments**

MATRIX FINANCIAL SERVICES CORPORATION

December 8, 2005

SENT VIA EMAIL TRANSMISSION AND DHL 2ND DAY DELIVERY

Ronald J. Hosking
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
Gateway Tower II – 5th Floor
400 State Avenue
Kansas City, Kansas 66101

Re: ***Audit of 65 FHA Insured Loans sponsored by Matrix Financial Service Corporation's former St. Louis Branch Office***

Dear Mr. Hosking:

Thank you for your letter of December 5, 2005, regarding the captioned audit, and for the opportunity to participate in an exit interview with Carrie Gray and Kimberly Dahl, of your staff.

We appreciate the HUD OIG recognizing the fact that only 3 of the 32 actionable loans are the direct responsibility of Matrix Financial Services Corporation, while the remaining 29 loans are the direct responsibility of AmPro Mortgage Corporation (now known as HIC-STAR Corporation), as a result of Matrix' sale of its entire loan origination division to AmPro in February 2003 (which had a final closing date of August 31, 2003).

Please accept this letter as Matrix Financial's response to the HUD OIG's audit findings on the following loans: FHA Case No. 091-3637619; FHA Case No. 292-4295702, and; FHA Case No. 091-3643268.

Finding 1 – Matrix did not properly underwrite 3 loans:

FHA Case No. 091-3637619 – Matrix agrees with the audit findings related to Assets, Income and Liabilities on this loan

FHA Case No. 292-4295702 – Matrix agrees with the audit findings related to Liabilities and resulting Qualifying Ratios on the loan.

FHA Case No. 091-3643298 - Matrix agrees with the audit findings related to Income and Liabilities on this loan.

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www.matrixbancorp.com

December 8, 2005
Ronald J. Hosking
Office of Inspector General
US Department of HUD
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In response to the HUD OIG's recommended course of action on these three loans, Matrix would be agreeable to providing HUD with a limited indemnification on these loans and would be agreeable to executing the appropriate Indemnification Agreement.

Finding 2 – Matrix did not properly close 1 loan:

FHA Case No. 091-3637619 – Matrix agrees with the audit finding related to Credit Report charges on this loan.

In response to the HUD OIG's recommended course of action on this loan, Matrix is agreeable to providing a check in the amount of $45.00 to the current servicer to be applied to this loan as a principal reduction.

Once again, Matrix appreciates the opportunity to work with HUD's Office of Inspector General in resolving its audit findings. Your staff conducted themselves in a supremely professional manner, and it was our pleasure working with them. We look forward to hearing from you further on this matter.

Sincerely,

P Howard

Patrick Howard
President & CEO

Cc: Michael Chastain
Ron Trunnell

AmPro
MORTGAGE CORPORATION

January 24, 2006

Ronald J Hosking
Regional Inspector General for Audit
US Department of HUD
Region 7, Office of Audit
Gateway Tower II – 5th Floor
400 State Avenue
Kansas City, KS 66101-2406

Re: Audit Report
AmPro Mortgage Corporation
St Louis Branch Office

Dear Mr. Hosking

We have reiewed your audit report dated December 5, 2005 that outlines underwriting deficiencies associated with our St. Louis branch. Although we will address each of these findings individually in length, we feel it is important to provide HUD with an overview of pertient information of AmPro.

In February, 2003 AmPro Mortgage was purchased from Matrix Fiancial. The St Louis branch was an existing origination branch that was included in the purchase. Quality Control issues were identified with some of the loans originated by the branch and in September, 2003 the manager of the St Louis office resigned. AmPro elected not to replace that position and took the necessary steps to close the branch. Brokers associated with that location were assign to other branches.

Comment 1

Quality Control personnel located at AmPro's Phoenix Corporate Office have reviewed each of the audit's findings. We concur that the findings identified various levels of underwriting deficiencies. We do not, however, feel that all of the findings adversely affect the loan quality and have addressed each loan in the following attachment.

In addition, we feel it is important to advise you that effective May, 2005 AmPro Mortgage was sold to United Financial Mortgage Corporation. Our company, now known as Hic-Star Corporation is no longer originating loans through any of the previous AmPro originating branches.

Sincerely,

Larry Petr
Vice President

Comment 2

AmPro
MORTGAGE CORPORATION

[redacted]
FHA 292-4320944

Ampro #6000209
January 10, 2006

Only documents on imaging are MIC and 2 pages of left side

HUD COMMENTS

Assets

Matrix understated cash received at closing and overstated cash reserves when submitting the loan for automated underwriting. The automated underwriting analysis was performed using $475 cash received at closing. However, the settlement statement indicated the borrower received $1,595. The automated underwriting analysis was performed using $7,951 in retirement assets. While the file contained retirement account statements, the statements were incomplete, and 60 percent of the balance was only $5,615 after subtracting a borrower loan.

Criteria

Condition #26 of the DU findings report indicated that retirement assets could only be included in the underwriting analysis up to 60 percent of the account balance.

Condition #26 requirement the most recent statements for each retirement account. Condition #28 required verification of all cash reserves after closing submitted to the underwriting analysis.

AMPRO RESPONSE

The subject loan was a 64% LTV cash-out refinance where the Borrower received $1,595.47 at time of loan closing. There is no stated requirement for reserves to be met on this type of transaction.

There is one [redacted] retirement account A statement [redacted] *showing a balance of $5,863.95 as of 12/31/2002 and a* [redacted] retirement account B statement [redacted] *showing a balance of $5,028.73. A loan is shown on the* account A *statement with a balance of $1,505.10. This would reduce the total assets to $9,387.58 and 60% of that figure is $5,632.48.*

While Ampro acknowledges that the underwriter did not ensure that the proper asset figure was included in the AU submission there is every believe that the "Approval" decision was proper and would have been the same using the lower figure.

Ampro requests that no further action be required on this loan.

[redacted]
FHA 261-8402578

Ampro #6004129
January 10, 2006

Assets

The underwriter failed to verify $1,504 of the borrower's total cash investment in the property. The borrower's assets included $1,000 in earnest money, $464 in prepaid expenses, and $1,559 in a depository account. While bank printouts confirmed the balance and documented the payment of earnest money and prepaid expenses, they showed a large increase in total deposits during the month before closing. Additionally, a vehicle lease agreement signed three months before closing indicated the borrower submitted a $3,000 downpayment. While the file contained some borrower explanations, the underwriter did not adequately document the source of funds for the downpayment and excess deposits. Without the unexplained portion of the deposits, the borrower did not have any available assets. The Borrower's total cash investment in the property was

$2,968. The borrower was $1,504 short of meeting her total cash investment in the property.

AMPRO RESPONSE

Comment 3

The $3,000 mentioned as a downpayment on the automobile 3 months prior to loan closing has no bearing on the subject transaction. First it occurred 90 days prior to this loan and no new debt showed on the credit. Industry standard looks for events occurring within 90 days of closing in order to allow time for new debt to appear and also accepted as a standard as the time frame that any party wishing to contribute unallowable funds would require those funds returned. As such this is a non-issue.

Comment 4

A source of funds letter from the Borrower states that the $2,110 deposit made on 2/2120/03 was a tax refund and a copy of the 1040 was provided to support that deposit.

A printout from the bank shows funds available of $1,559.28 on 03/13/2003. There are numerous deposits made in varying amounts on the bank statements that Ampro acknowledges should have been addressed by the underwriter.

The amounts that may be documented towards the cash investment are the $2,110 in federal income tax refund and funds from payroll that are shown as deposited.

[redacted]
FHA 261-5106746

Ampro #6006229
January 6, 2006

HUD COMMENTS

Credit History

The underwriter did not adequately evaluate the borrower's credit history. This loan was approved using alternate credit including a verification of rent and letters from two utility companies. While the March 2003 rental verification listed the borrower as a current tenant, the DTE Energy letter indicated the borrower's account was closed in October 2002. The underwriter did not obtain an explanation for this inconsistency. Our research indicates the borrower was evicted from this residence.

Loan in foreclosure.

AMPRO RESPONSE

The telephone number shown on the VOR for landlord A*, owner, of the rental property does not cross through Google or Searchbug. A search through public records shows that the property is currently owned by* a new owner*. The date of ownership by this individual is unknown and may have been bought after loan closing. A call to the telephone number on the VOR is answered by a man who states he has not heard of* landlord A.

The subject loan was a purchase transaction with ratios of 27.2/27.2. The borrower was not a user of traditional credit as the credit report shows no line items. The credit letter from Ameritech indicates an account since 1997 with a good payment history and the letter from DTE Energy indicates an account from 1989 to 2002. The address on this letter is [redacted] *the same as on the VOR.*

Comment 5

While Ampro acknowledges that the dates should have been investigated by the underwriter we do not believe that this affected the integrity of the loan.

Comment 6

AmPro
MORTGAGE CORPORATION

[redacted]
FHA 261-8421556

Ampro #6007253
January 9, 2006

HUD COMMENTS
Income
The underwriter overstated the borrower's income by including overtime income not properly documented. According to the underwriting worksheet, the borrower earned $4,565 in base monthly income. However, the verification of employment indicated the borrower's base monthly income was only $3,383, and pay stubs indicated that the remaining income was from differential payments and overtime. While it was reasonable to include the $387 monthly average differential income, the overtime income decreased substantially from 2002 to 2003 and should not have been counted as effective income.

AMPRO RESPONSE
The loan application shows that the Borrower had been employed for 11 months [redacted] in location A [redacted] *and earning $4,563/month. A letter was provided by* [redacted] the borrower's employer *verifying his appointment in 04/2002 to* [redacted] location B [redacted] *with annual base salary of $40,744 ($3,395/month). The letter states that the Borrower when the Borrower works afternoons or midnight shifts he receives a shift differential.*

The letter confirms an increase in base pay effective 06/2003 to $49,298 ($4,108/mo). The 4155 states that projected income may be considered to use income from performance raises when verified by the employer in writing and scheduled to begin within 60 days of loan closing. This raise meets this criteria and use of this higher base figure would be appropriate.

HUD acknowledges use of the differential income of $387/month. Since the Borrower's effective hourly income would increase from $19.59/hour to $23.70/hour the differential income would increase by the approximate $4/hour difference.

Pay stubs from 02/09/2002 to 03/22/2002 show overtime ranging from 11.00 hours for a 2 week period to a low of 5.00 for a 2 week period.

Use of the verified base of $4,108/month + $387/month differential provides ratios of 26/46. While the total debt ratio is higher than the optimal 41% compensating factors include the increased differential pay based on the pay raise and overtime earning documented but not used in qualifying.

HUD COMMENTS
Liabilities
The underwriter understated liabilities by omitting a $273 monthly car payment from the borrower's total fixed payment and understating a revolving account payment. While a note on the application said the borrower "co-signed for" the car loan, the credit report indicated that the borrower is the primary obligor. The most recent credit report also indicated that a revolving account included by the underwriter at $37 was actually $72 per month.

AMPRO RESPONSE
The initial loan application shows a loan [redacted] *with payments of $111/month. Comments indicated that this was cosigned and "pd by father".*
A review of the credit report shows that the Borrower is the primary Borrower on the account. The file contains copies of 13 canceled checks showing that another party

makes these payments.

Comment 7

Ampro agrees that the underwriter failed to address the account as being the primary responsibility of the borrower; however this account had been open for 7 years with an excellent payment history and payments were being handled by the father as stated. Monthly payments are on a varied amount as reflected by the type of account and the payments made which were all reflected as paid as agreed.

HUD COMMENTS

Qualifying Ratios and Compensating Factors

The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed income and liabilities, the borrower's qualifying ratios increase to 30.53 and 63.40 percent. While the underwriting worksheet noted several potential compensating factors, these factors were inadequate and unsupported.

Comment 8

AMPRO RESPONSE

Use of the base income after increase plus differential at a reduced amount the ratios are 26/46. While inclusion of the [redacted] *debt would increase the total debt-to-income ratio a compensating factor would be that the file has been documented showing that these payments are made by his father.*

[redacted]

FHA 261-8353065

Ampro #6008530

January 10, 2006

HUD COMMENTS

Liabilities

The underwriter understated liabilities by improperly reducing the total mortgage payment for a mortgage credit certificate and temporary interest rate buydown.

While the state of Michigan issued a mortgage credit certificate, the underwriter failed to confirm that the borrower generated sufficient tax liability to use the available credit. Using the income and household information cited on the mortgage credit certificate and borrower application, we determined that the borrower did not generate sufficient tax liability.

While the file included a buydown agreement, the underwriter failed to establish that the eventual increase in mortgage payments would not adversely affect the borrower.

Comment 9

AMPRO RESPONSE

The Borrower earned a total of $14,459 in 2001 and $15,302 in 2002 and the application showed she had 3 dependents. Based on the low income and number of dependents this Borrower would be able to use the mortgage credit certificate as issued.

HUD COMMENTS

Qualifying Ratios and Compensating Factors

The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed liabilities, the borrower's qualifying ratios increase to 32.61 and 50.39. While the underwriting worksheet noted several potential compensating factors, these factors were inadequate.

Comment 10

AMPRO RESPONSE

The Borrower is in the medical profession as a medical assistant, which is in high demand. The employer stated that the employees have a 36 hour work week however that the Borrower regularly worked over that amount of hours thus providing higher income. Assets were verified of $1,439.

[redacted]
FHA 261-8429493

Ampro #
January 10, 2006

HUD COMMENTS

Income

The underwriter did not adequately document the borrower's two-year employment history. According to a letter from the borrower's current employer, he had been with the employer since 1996. However, a borrower letter of explanation indicated that he was self-employed from 2000 until 2002, when he returned to his current employer. While the file contained the borrower's 2000 tax return, it did not document his 2001 or 2002 self-employment income.

Comment 11

AMPRO RESOPNSE

The loan file contained a letter from employer A [redacted] *indicating that the Borrower was employed with this company. He is described as a trusted and valued employee. This letter is signed by* [redacted] employer A's [redacted] *President and* his identity [redacted] *is confirmed through third-party sources as the registered agent of this company.*

A financial history letter was provided from the Borrower indicating he had started a small textile business in 01/2000. This states that due to start-up costs he had some credit issues. He finally realized that he would be unable to continue this business and began looking for a buyer. The sale of the company closed 02/01/2003. As he was looking for a purchaser he returned to [redacted] employer A *in 06/2002.*

The fact that this Borrower found himself in a situation that would be financial unstable he returned to full-time employment and set out to sell the business that was causing hardship. This indicates a responsible individual and one that sets his obligations at the top of the priority list.

The underwriter noted on the MCAW that the Borrower had been previously self-employed indicating her review of the information. The failure to obtain the tax returns for that period of time was an omission on her part; however would have had no impact on the loan decision as his income was dictated by his full-time employment.

[redacted]
FHA 292-4316802

Ampro #5004221
January 6, 2006

HUD COMMENTS

Assets

Matrix overstated cash reserves when submitting the loan for automated underwriting by including assets not properly documented. The automated underwriting analysis was performed using $7,334 in depository assets, $6,104 in stocks and bonds, $195 required at closing, and $10,636 in reserves. The documentation included to support the depository assets only verified $3,910. The documentation included supporting the

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stocks and bonds verified $520 in a Roth IRS (individual retirement account) and $2,644 in stocks and bonds. Additionally, the statements included supporting the borrower's stocks and bonds did not cover a two-month period. The borrower's assets totaled only $7,074. The settlement statement indicated the borrower paid $5,100 earned money deposits and owed $2,047 at closing. Therefore, the borrower was short $73 at closing.

AMPRO RESPONSE

Comment 12

Ampro acknowledges the underwriter failed to obtain proper documentation to support the assets in the loan file, i.e. additional statements, etc. However, it is clear that this Borrower had a history of savings and investing. The file documents the withdrawal of funds on 09/11/2002 for earnest money indicating that the accounts are valid.

It is the opinion of Ampro that while the documentation was incomplete the Borrower had a history of savings and showed a responsible attitude towards savings. The $73 short at closing shown by HUD could easily have been money on hand or money derived from a paycheck prior to closing as a review of the MCAW indicates cash remaining after payment of debt.

HUD COMMENTS

Liabilities

Matrix understated the borrower's total fixed payment by omitting student loan payments without properly evidencing deferment of the debt. The automated underwriting analysis was performed using a $2,140 total fixed payment. However, this amount did not include $961 in monthly student loan payments. The file did not contain evidence that these debts could be deferred for at least 12 months. Including the student loans, the borrower's total fixed payment increases to $3,101.

AMPRO RESPONSE

The credit report shows 10 student loans with 2 deferred until 12/31/2003; 7 deferred until 03/15/2003 and 1 with payment scheduled to begin 03/01/2003.

Comment 13

The underwriter was provided a letter from [redacted] the borrower's employer [redacted] *stating that the Borrower was continuing a post-graduate education program. A copy of her transcript was included through Fall 2002 together with a copy of the education requirements from the state.*

Based on the slow response time of the various student loan institutions to respond to requests for deferment this information was adequate to evidence repayment would not be required until after graduation.

Overall the Borrower exhibited a willingness and ability to manage her financial obligations in an excellent manner and had a history of savings.

[redacted]
FHA 292-4345351

Ampro #6007854
January 9, 2006

HUD COMMENTS

Credit History

The underwriter did not adequately evaluate the borrower's credit history. While the application indicated the borrower had lived with family for the past three years, the credit report, nondriver license, and employment documents show two additional

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addresses during the same timeframe. Additionally, while the borrower application, credit report, and nondriver license indicated that the borrower was 19 years old in 2003, the credit report showed an installment trade line open from 1991 to 1996. The borrower was 7-12 years old during this timeframe. The file did not contain explanations for these inconsistencies.

AMPRO RESPONSE

address A [redacted]

Shows on the application 3 years, living with aunt.

address B [redacted]

Shows on 2001 and 2002 W2s and pay stubs

Tax assessor shows this property owned by [redacted] owner A [redacted], *having been acquired in 1997.*

address C [redacted]

Credit report reflects this address and also shows [redacted] address A [redacted] *in 10/2002.*

The application shows that the Borrower was 19 years of age and living with his aunt. As the W2s and pay stubs show [redacted] address B [redacted] *it is reasonable to believe that this address is that of his parents and should have been questioned by the underwriter.*

The account opened in 1991 shows as a joint account and an equity transfer. Since we would not have been able to open an account while a minor it is reasonable that he purchased an automobile from another individual who transferred the loan to him. Ampro agrees that the underwriter should have clarified this situation.

Comment 14

While the address and loan were not addressed by the underwriter the impact upon the loan approval would not have changed.

[redacted]
FHA 261-8448405

Ampro #6009860
January 10, 2006

HUD COMMENTS

Income

The underwriter overstated the borrower's income. While a two-year average including overtime supported the $5,012 qualifying income, pay stubs covering five weeks documented only $4,446 in base monthly income and did not document any overtime. Additionally, a borrower letter and bank printouts cast doubt on the stability of the borrower's income. The letter indicated the borrower no longer relies on the overtime offered at any particular moment while the bank printouts showed an absence of weekly payroll deposits from April 5 to 17, 2003. The underwriter did not follow up on these inconsistencies. Our research confirmed a two-week pay gap just before closing and indicates the borrower averaged only $3,959 gross monthly income during the three months following closing.

AMPRO RESPONSE

Comment 15

A Verification was obtained through The Work Number showing the Borrower employed at [redacted] employer A [redacted] *since 1997. The pay stub dated 03/02/2003 showed year-to-date earnings of $9,944.23 which would be $4,972/month. Since the base pay shown on the pay stubs is $4,446/mo additional income has been paid during this 2 month period.*

The underwriter should have questioned the lack of deposits during the April 5-17, 2003 time period. Periods of inactivity are not uncommon in the auto industry and it is not unusual to have times when individuals are laid off for 1 or so weeks and then brought back. Based on an update verification from The Work Number the Borrower earned \$56,515 in 2003 which averages \$4,709/month. While the discrepant information was not properly documented it would have had no effect on the final loan decision.

HUD COMMENTS

Liabilities

The underwriter did not adequately verify the borrower's monthly child support obligations and follow up on recent inquiries shown on the borrower's credit report.

According to the underwriting worksheet, the borrower paid \$421 in monthly child support. While the file contained a request for child support payment and balance information to the state of Alabama, the letter was never signed by the state and did not list a monthly payment amount. Furthermore, the letter indicated the borrower was \$2,067 overdue in child support obligations.

The borrower's credit report showed two inquiries in January 2003. While a borrower letter explained that the inquiries were from applying for a store credit card and cell phone for his wife, the underwriter did not follow up on potential new accounts.

AMPRO RESPONSE

Ampro acknowledges that additional information should have been obtained by the underwriter pertaining to child support. The letter found in the file regarding child support does indicate overdue obligations but also shows the last payment of 03/2003 indicating that the Borrower was making payments.

Comment 16

It is common practice for a State to report delinquent child support obligations to the credit reporting agency, especially when the payer is not meeting the agreed schedule. Since Alabama did not report this individual and the letter indicates a current pay history it appears that all amounts due were being paid in a timely manner.

Recent inquiries were stated to be from new applications but there is no evidence that these accounts were ever opened. Since they are not reflected on the credit report and the borrower did not indicate any new accounts were opened the inquiries were explained satisfactorily.

Qualifying Ratios and Compensating Factors

The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed income and liabilities, the borrower's qualifying ratios increase to 23.09 and 44.93 percent. The inconsistencies in the borrower's income and liabilities could push these ratios even higher. While the underwriting worksheet noted several potential compensating factors, these factors were inadequate and unsupported.

AMPRO RESPONSE

As stated above the income can be completely explained and the income as presented would be appropriate. Additionally the child support obligation is being met as required as evidenced by the fact that the most current payment was made in 03/2003.

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[redacted]
FHA 292-4341989

Ampro #6005809
January 9, 2006

HUD COMMENTS

Assets

Matrix overstated funds available and cash reserves when submitting the loan for automated underwriting by including a large deposit not properly documented.

The automated underwriting analysis was performed using $6,029 as funds available, including $1,009 in retirement assets and $5,020 in depository assets. The retirement asset was adequately verified. While bank documents supported the $5,020 depository asset balance, the balance included a $5,744 deposit. Because the borrower's earnest money deposit was greater than 2 percent of the sales price, the lender was required to verify the source of funds for the large deposit. While a borrower letter and a retirement account statement evidenced $4,850 of the large deposit, $894 was not documented. After subtracting the unsupported portion of the large deposit, the borrower had $5,135 available.

The automated underwriting analysis was performed using $340 in reserves. The settlement statement indicated the borrower paid $3,000 in earnest money and owed $3,332 at closing. Based on the assets verified, the borrower was $1,197 short at closing.

AMPRO RESPONSE

The loan file shows a $3,000 earnest money deposit made on this new construction, a statement from bank A *showing assets of $1,666.57 and* a retirement statement *showing assets of $1,681.86 and withdrawals of $2,602.40. The Borrower has stated that the $2,602.40 withdrawal was made for the subject transaction.*

A copy of the Borrower's 2002 1040 is in the file showing a refund of $348 which the Borrower has stated went towards this transaction as well as approximately $2000 from payroll checks.

The Borrower is confirmed as receiving net income each week of $552 and lived at home thus incurring little housing expense. He could easily have deposited obtained the $894 in question by HUD by holding 2 paychecks.

Comment 17

Ampro acknowledges that the underwriter could have been more diligent in documenting the loan file; however based on the strength of this Borrower with income and saving he did not represent a credit risk.

[redacted]
FHA 261-8445791

Ampro #6011885
January 10, 2006

HUD COMMENTS

Income

The underwriter overstated the borrower's income by including a $250 "auto" allowance without demonstrating that the payment exceeds actual expenses.

AMPRO RESPONSE

The Borrower had been on the job for 7 years and the Verification of Employment showed base pay at $42,000/yr ($3500/mo). Pay stubs show bi-weekly pay at $1500 base

Comment 18

Comment 19

Comment 20

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pay, which would be $3,250/mo. Additional income is shown on the pay stub for auto allowance of $115.39, which would be $250/mo.

The 2001 and 2002 W2s reflect total wages and are inclusive of the auto allowance and the pay stubs indicate this allowance is taxed. Based on the representation of the company of his salary at $3500/mo and the fact that the auto allowance is taxed it is clear that the employer intended for that amount to be income.

Without use of the auto allowance ratios become 30/44 with that additional $250/mo as a strong compensating factor.

HUD COMMENTS
Liabilities
The underwriter understated liabilities by improperly reducing the total mortgage payment for a temporary interest rate buydown. While the file included a buydown agreement, the underwriter failed to establish that the eventual increase in mortgage payments would not adversely affect the borrower.

AMPRO RESPONSE
This Borrower had been employed for 7 years and, as reflected on the W2s, his income increased each year. In 2001 he reported income of $35,959 and in 2002 of $40,656. This represented an approximate increase of 10%. From 2002 to 2003 he had a more modest 4% increase that is more in line with cost of living increases and sufficient to handle the increase of the temporary buydown.

HUD COMMENTS
Qualifying Ratios and Compensating Factors
The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed income and liabilities, the borrower's qualifying ratios increase to 32.72 and 46.53 percent. While the underwriting worksheet noted several potential compensating factors, these factors were inadequate and unsupported.

AMPRO RESPONSE
As reflected above, if the auto allowance is not used the ratios become 30/44 and then the additional $250 becomes a strong compensating factor. The Borrower has a history of pay increases and a strong savings history as reflected in his retirement of $5,617.

[redacted] | Ampro #6000298
FHA 091-3704561 | January 6, 2006

HUD COMMENTS
Assets
Matrix overstated funds available and cash reserves when submitting the loan for automated underwriting by including large deposits not properly documented.

The automated underwriting analysis was performed using $11,088 as funds available. While bank documents supported the assets used to qualify, they showed two large deposits on February 12, 2003. Because the borrower's earnest money deposit was greater than 2 percent of the sales price, the lender was required to verify the source of funds for the large deposit. While the borrower letter explained that one of the large

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deposits was money withdrawn from another account and saved at home, the file did not contain supporting documentation. While the letter explained that the second deposit was repayment from the borrower's brother for a loan, the letter noted that the check was later rejected and redeposited; the file did not contain documentation to support the redeposit. Without the two deposits, the borrower only had $2,427 available.

The automated underwriting analysis was based on $7,085 in reserves. The settlement statement indicated the borrower needed $4,328 at closing. Based on the assets verified, the borrower was $1,901 short at closing.

AMPRO RESPONSE

Comment 21

The sales price shows as $140,060 and the file contained a copy of a check in the amount of $2,000 written 05/29/2004 and cleared 06/06/2002 as a portion of the $3,000 EM check. This was new construction and therefore the earnest money would have been higher than normal due to the long period of construction.

An additional $1,000 was deposited and cleared the Borrower's bank on 04/09/2002.

These deposits are in compliance with the sales contract dated 05/30/2002 which calls for immediate deposit of $1,000 and the additional $2,000 to be added.

Comment 22

The bank printout for 02/12/2003 shows a balance of $11,072.37 with 2 deposits on 02/12/2003 – one deposit to ATM of $5,390.90 and a cash deposit of $3,300. The letter from the Borrower states that the $5,000 deposit was repayment of a loan from his brother. Attempts had been made to deposit a 3rd part check from the US Treasury and was rejected therefore the Borrower received cash.

Comment 23

The loan file contained a copy of the brother's 1040 for 2002. This shows the brother as [redacted] living at address A [redacted] *in Jacksonville, FL with a refund due of $5,749. This also shows the funds were to be automatically deposited into checking account number* [redacted].

[redacted] The brother [redacted] *has been confirmed as currently owning a property located at* [redacted] address B [redacted] *in Jacksonville, FL.*

[redacted]
FHA 261-8407889

Ampro #6012993
January 7, 2006

HUD COMMENTS

Assets

The underwriter failed to verify the borrower's ability to meet her total cash investment in the property and satisfy all approval conditions. The borrower's total cash investment in the property was $925. The underwriting worksheet indicated that the borrower was required to pay off all collection accounts upon loan approval using funds on deposit with the realtor. Credit reports confirmed the borrower paid off five collection accounts with previous account balances totaling $3,291. The borrower needed $4,216 to make her total cash investment in the property and meet all approval conditions. Using the $2,800 realtor deposit and $3 bank account balance, the borrower was $1,413 short of meeting her total cash investment in the property and satisfying the approval requirement.

Comment 24

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AMPRO RESPONSE

Total funds required to close would be $4,216 consisting of $925 to meet the required cash investment + $3,291 for payoff of debt.

Borrower's assets were $2,800 on deposit with realtor + $3,750 from JVS + $3.59 in the bank = $6,553.59.

The pre-closing credit report shows 4 collection accounts and 1 charge off for a total of $3,291 and a post closing shows all debts with a 0 balance indicating that they were paid off.

It is a common practice when paying off collection and charge off accounts to end up with negotiated settlement amounts thus reducing the actual cash required. In this case debts were required to be paid off and a post closing credit report supports that the action was completed. Assets verified through deposits with the realtor, gift funds and bank account were more than adequate to payoff the debt and also meet the cash investment amount required.

Ampro requests that this loan be removed from action.

[redacted]	Ampro #
FHA 261-8452566	January 7, 2006

HUD COMMENTS

Assets

The underwriter failed to verify $753 of the borrower's total cash investment in the property. The borrower's assets included $2,159 in depository accounts. While bank printouts confirmed the balance and documented payment of the earnest money and appraisal, they showed $2,000 in large deposits made just two weeks before closing. Based on the borrower's $2,326 gross monthly income, these large deposits warranted an explanation and evidence of source of funds. Without the deposits, the borrower only had $159 in available assets. The borrower's total cash investment in the property was $2,187, including the earnest money and appraisal. Using the recomputed available assets, the borrower was $753 short of meeting her total cash investment in the property.

AMPRO RESPONSE

The HUD-1 shows an earnest money deposit on 04/02/2003 of $1,000 and OWN (gift funds) of $2,010. A Verification of Deposit is located in the file from [redacted] credit union A [redacted] *showing a checking account balance of $295.53 and a savings balance of $6.91 on 04/09/2003.*
An interim statement was provided from [redacted] credit union B [redacted] *showing a balance on 05/02/2003 of $1,651.80.*
An appraisal fee was made on 04/17/2003.
Additional funds were deposited to the regular checking account on 05/02/2003 of $1,500 and to the savings account of $500 on 05/02/2003.

The Borrower's required cash investment was $2,187. After reducing this amount by the $1,000 EM and the $275 appraisal fee the borrower was short $753.29.

Analysis of the loan file shows total assets on deposit at [redacted] credit union A [redacted] *of $302.44 on 04/09/2003 and funds available at* [redacted] credit union B [redacted] *on 05/02/2003 of $1,651.80.*

Comment 25

The "excessive deposits" referenced by HUD of $1,500 and $500 are not really excessive when placed in context with the loan file showing that the Borrower's residual income would allow him to put back larger amounts than some individuals.

[redacted]
FHA 181-2000595

Ampro #6010752
January 10, 2006

HUD COMMENTS

Assets

The underwriter failed to verify $5,371 of the borrower's total cash investment in the property. The borrower's assets included $500 in earnest money, $656 in depository accounts, $1,766 in retirement assets, and a $5,000 gift. However, the depository account statement was missing three pages, the retirement account statement only documented $1,513, and the gift documents did not adequately document the transfer of gift funds. Using only the earnest money, depository account balance, and recomputed retirement account balance, the borrower had $2,669 in available assets. The borrower's total cash investment in the property was $8,040. Using the recomputed available assets, the borrower was $5,371 short of meeting his total cash investment in the property.

Comment 26

AMPRO RESPONSE

The loan file contained a gift letter dated from the donor*, father-in-law to the Borrower, indicating a gift of $5,000. A copy of a cashier's check in the amount of $5,000 was located in the file from* the donor *as well as a copy of a deposit slip into the Borrower's account. A Google search confirms that* the donor *is located at the address and telephone number presented on the gift letter.*

The bank statements [redacted] *were incomplete and should have been addressed by the underwriter. However, the 03/27/2003 statement shows a balance of $656.21 and a review of the previous statement with a balance of $1,073.70 indicates that his is the Borrower's probable average.*

The 401K account statement [redacted] *was a quarterly statement and indicated a balance of $2,522 of which 60% would be eligible or $1,512.*

Assets available would include $500 earnest money; $5,000 gift funds; $656 depository account and recomputed retirement of $1,512 would totals $7,668.

[redacted]
FHA 261-8437504

Ampro #6020382
January 10, 2006

HUD COMMENTS

Income

The underwriter overstated the borrower's income by improperly grossing up child support income and failing to document self-employment income.

According to the underwriting worksheet, the borrower earned $3,602 in base monthly income. However, the verification of employment indicated the borrower only averages $3,178, and a settlement sheet and borrower note indicate the borrower may have changed from an employee to an "owner-operator" in April 2003. If the borrower

Comment 27

Comment 28

Comment 29

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remained an employee, the underwriter should have only used $3,178 in base monthly income. If the borrower became an "owner-operator", the underwriter did not adequately document self-employment income and expenses.

According to the underwriting worksheet, the borrower received $602 in other monthly income. This amount was based on $523 in child support income grossed up 15 percent. However, the income should not have been grossed up as it was received from the coborrower, eliminating the tax savings.

AMPRO RESPONSE

The file is documented with a Verification of Employment completed by trucking company A [redacted] *03/28/2003 showing that the Borrower is a local driver earning a weekly average of $733.35. His income has been documented as $9,015.25 for year-to-date 2003; $37,324.45 for 2002 and $19,424.26 for 6.5 months of 2001.*
As the Borrower has received pay increases since his date of hire an average of 2002 and 2003 (15 months) would be $3,089/month.

The file then contains a Settlement Sheet from trucking company A *dated 05/22/2003 indicating that the Borrower is paid as an independent. Analysis of this settlement sheet also shows that the Borrower is now an over-the-road driver as evidenced by the trip summary showing trips to Texas, Tennessee and Ohio. Year-to-date revenue is shown as $4,771.65. This appears to cover the month of May 2003.*

The Borrower's net for this month shows as $2,621 and $1,000 of the deductions shown can be added back as it is an escrow holdback that the Borrower explains is being held at his request until the completion of the mortgage transaction.

The wage garnishment shown in the loan file calls for $211.50 per week or $916.50. The file documents receipt of a minimum of $1,685 over roughly a 2 month period and pay stubs from the employment indicate regular garnishment.
Using the lesser of $3,089 average + CoBorrower's income of $1653/month (26.5 month average of 2001 $19,874 + 2002 $19,661 + 2003 YTD $4,286) + Child Support based on a 2 month average of $842 as documented in the loan file then income becomes $5,584

HUD COMMENTS

Liabilities

The underwriter understated liabilities by improperly reducing the total mortgage payment for a temporary interest rate buydown. While the file included a buydown agreement, the underwriter failed to establish that the eventual increase in mortgage payments would not adversely affect the borrower.

AMPRO RESOPNSE

The Borrower has shown increased earnings and was due a raise shortly after loan closing and the CoBorrower's income has increased each year. Based on the amounts earned by the Borrowers cumulatively, their history shows that they will be able to handle the payment increases.

HUD COMMENTS

Qualifying Ratios and Compensating Factors

The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed income and liabilities, the borrower's qualifying ratios increase to 20.31 and 47.09

Comment 30

percent. These ratios could increase further depending on the borrower's employment status. While the underwriting worksheet noted several potential compensating factors, these factors were inadequate and unsupported.

AMPRO RESPONSE

See analysis under Income section above.

[redacted]
FHA 261-8468553

Ampro #6019126
January 9, 2006

HUD COMMENTS

Income

The underwriter overstated the borrower's income. While the underwriting worksheet cited $1,603 in base monthly income, the employment documents only supported an 18.5 month average of $1,429. Further, the borrower's most recent pay stub showed a significant decline in the number of hours worked. The underwriter did not adequately document the amount or stability of borrower income. This conclusion is supported by the borrower's first default date, which occurred within a year of closing.

AMPRO RESPONSE

The loan file contains 2 pay stubs. The first is dated 05/16/2005 and shows the Borrower worked 80 hours in a 2-week period which is $1,603/mo. The second is dated 06/13/2005 and shows 50 hours worked for a 2-week period. There appears to have been some issue causing a reduction in hours during that week and year-to-date figures for the 22 weeks of 2005 show earnings of $8,227 which would equate to $1,620/mo.

The verification from The Work Number shows a steady increase in earnings and stability of employment as best could be determined in that the Borrower had been employed since 2001.

Averaging of income is not appropriate in that only base pay was used in qualifying. While the underwriter should have questioned the cause of the reduction of hours during this 1 pay period the documentation shows a history of working 80 hours per week.

HUD COMMENTS

Liabilities

The underwriter understated liabilities by incorrectly stating the borrower's monthly taxes and by improperly reducing the total mortgage payment for a mortgage credit certificate and temporary interest rate buydown.

While the underwriting worksheet used an $83 monthly tax escrow, the appraisal, conditional commitment, and settlement statement indicated the tax escrow is $105.

While a mortgage credit certificate was issued by the state of Michigan, the underwriter failed to confirm that the borrower generated sufficient tax liability to use the available credit. Using the income and household information cited on the mortgage credit certificate and borrower application, we determined that the borrower does not generate sufficient tax liability.

While the file included a buydown agreement, the underwriter failed to establish that the eventual increase in mortgage payments would not adversely affect the borrower.

AMPRO RESPONSE

The property tax figure used by the underwriter appears to be low; however use of the $105 as shown on the appraisal, etc would not have had an adverse affect on the loan decision.

Comment 31

The MCC located in the loan file shows issuance to the Borrower with a family size of 5 and gross annual income of $19,240. This certificate also shows a median income limit of $80,080.

The application shows the Borrower and 4 children thus representing a family size of 5 and income documentation supports the borrower fell well below the median income limit required to benefit from the MCC.

Comment 32

The use of the temporary buydown was deemed appropriate based on documented pay increases. Review of the figures obtained through The Work Number shows the Borrower's pay in 2001 was approximately $6.16/hour. 2002 shows an increase to approximately $6.88/hour and in 2003 to $9.25/hour. This equates to roughly $95/week in increased wages. Based on a smaller increase of 5% to $9.71/hour for the next year the increase would be to $1,683/month which is $80/month more than used to qualify and sufficient to offset the 2 years worth of payment increases.

HUD COMMENTS

The underwriter did not adequately evaluate the borrower's credit history. This loan was approved using alternate credit including a rental account and three verification letters. While all three letters were signed originals, they were not addressed to the lender and did not have creases. This indicates the letters may have been hand-carried. While the borrower claimed to have lived at one address since 2001, the credit report and employment documents documented three additional addresses during this period. The file contained an affidavit stating the borrower had "used" a relative's address in the past; however, this did not account for the other two addresses. Our research indicates the borrower was evicted from one of these residences. Additionally, alternate credit documentation is intended for borrowers without traditional credit, not for those with poor traditional credit. The borrower's credit report showed nine collection accounts. While the borrower paid the collections off before closing, some of the accounts had outstanding balances for several years before payoff. This indicated a disregard for, or inability to manage, financial obligations.

AMPRO RESPONSE

The loan application indicated rental for 2 years at [redacted] address A [redacted]. *No address was shown on the pay stubs. The credit report reflects this address with the landlord* [redacted]. [redacted] address B [redacted] *was shown in 02/2003 and* [redacted] address C [redacted] *in 08/2002. The address shown on the alternate credit letters is* [redacted] address A [redacted].

The 2001 and 2002 W2 show [redacted] address B [redacted].

A letter was provided from the Borrower stating that [redacted] address B [redacted] *belongs to a relative.*

It would appear that the underwriter saw discrepant information and required an explanation. Since the credit letters show the physical address as reflected on the 1003 it appears that no further explanation was deemed necessary. Perhaps in hindsight the underwriter should have pursued the second address however it is doubtful that it would have impacted a favorable loan decision.

Comment 33

Ampro recognizes that the use of alternate credit is not intended for Borrower's with an unsatisfactory traditional credit history. Review of this file was made for the purpose of attempting to discern why this underwriter felt that this action was appropriate.

The credit report showed 10 unpaid collections. The Borrower's explanation indicates that the charges were not caused by her but by others. For example, her boyfriend's mother ran up charges without the Borrower's knowledge, she moved from a rental unit and the utility company did not remove her name thus incurring new charges by new tenants, etc. As the underwriter cannot be interviewed at this time it is assumed that she felt that the Borrower had been a victim and should be awarded a "second chance". This action is not condoned by Ampro but merely stated.

The alternative credit letters [redacted] *were used to evidence the Borrower's true credit rating. The fact that the letters do not appear to be creased cannot be construed as evidence that the documents were hand carried. They may have been mailed in a larger size envelope or sent via overnight delivery. No evidence is presented to ascertain this fact one way or the other. Ampro employees are fully aware of the impropriety of hand-carrying documents.*

HUD COMMENTS

Qualifying Ratios and Compensating Factors

The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed income and liabilities, the borrower's qualifying ratios increase to 45.07 percent. However, the ratios could be higher, considering the significant decline in hours shown on the borrower's most recent pay stub. While the underwriting worksheet noted several potential compensating factors, these factors were inadequate and unsupported.

AMPRO COMMENTS

As stated above, a decline in income for a duration was not established and the one pay stub with reduced hours may have had extenuating circumstances. Historically the Borrower worked a full 40 hours per week. The MCC credit was justified based on the family size and income as reflected on the MCC and compared to the application. An increase in the tax liability to $105/month would increase the ratios to 31.2 and well within the acceptable range.

Increases in pay as documented through The Work Number add to the compensating factors. The credit history appears to be based on extenuating circumstances and alternative credit supports this theory.

[redacted]

FHA 292-4355829 Ampro #6010878

HUD COMMENTS

Assets

Matrix overstated funds available and understated funds required when submitting the loan for automated underwriting. Additionally, Matrix failed to document the source of funds for the borrower's earnest money deposit.

The automated underwriting analysis was performed using $2,276 in retirement assets. However, the retirement account statement only documented $1,951. While the

AmPro
MORTGAGE CORPORATION

underwriting analysis was performed using $0 borrower-paid closing costs, the settlement statement indicated the borrower needed $3,067 to closer after $5,000 in earnest money deposits. Additionally, while the file contained cancelled earnest money deposit checks totaling $5,000, the deposits exceeded 2 percent of the sales price, and the file did not evidence the source of funds.

Including earnest money, the borrower needed $8,067 to close. Based on the $1,951 in assets verified, the borrower was $6,116 short.

AMPRO RESPONSE

A retirement statement was provided [redacted] *showing a balance of $3,151.31 of which 60% of $1,951 was available for use pursuant to HUD guidelines.*

The earnest money was deposited on 01/13/2003 in the amount of $1,000 and on 01/25/2003 in the amount of $4,000.

Comment 34

Ampro acknowledges that appropriate documentation was not obtained to ascertain the source of funds for the earnest money deposit. However the funds were deposited in 01/2003 and the loan closed in 06/2003. Generally any new debt would have been reflected on the credit report. Also, a concern of large deposits is the potential that a seller or real estate agent may have contributed these amounts however to have been deposited 6 months in advance of closing would be a rare event.

HUD COMMENTS

Liabilities

Matrix understated the borrower's total mortgage payment when submitting the loan for automated underwriting by failing to follow the systems requirements for adjustable rate mortgages. Additionally, Matrix understated the borrower's total fixed payment when submitting the loan for automated underwriting by failing to include all debts listed on the borrower's credit report.

The automated underwriting analysis was performed using a $1,004 total mortgage payment. However, this amount was based on the note rate, and the correct total mortgage payment was $1,161.

The automated underwriting analysis was performed using a $1,270 total fixed payment. However, this amount did not include the updated total mortgage payment and all debts listed on the borrower's credit repot. The correct total fixed payment was $1,473.

AMPRO RESPONSE

HUD 4155 states that the Borrower must quality for a one-year ARM using the mortgage payment based upon the initial interest rate plus 1 percentage point.

Comment 35

In this case the underwriting worksheet and Note indicate that the Note rate is 4.375%. The worksheet then shows ratios calculated using 5.375% for principal and interest of $901.40. This gives a total payment of $1,160.57.

Debts included total $312 which match all open debts on the credit report thus giving a total fixed payment of $1472. Ratios shown are 36/45.

Comment 36

No impropriety is found on this loan.

OIG Evaluation of Auditee Comments

Comment 1 While Ampro agrees the loans in this report contain underwriting deficiencies, they do not feel all deficiencies affected the loan quality. We disagree. The deficiencies identified affect the credit quality of the loans and placed the Federal Housing Administration insurance fund at an increased risk of borrower default. The following comments contain our evaluation of Ampro's individual loan responses.

Comment 2 Ampro acknowledges they did not submit the proper asset figure. HUD Mortgagee Letter 96-34 requires lenders to follow automated underwriting system guidelines. Fannie Mae's Desktop Underwriter User's Guide for FHA Loans requires lenders to comply with all conditions listed on the findings report and to ensure data entered into the system was true, accurate, and complete. Matrix did not comply with Condition #28 and did not accurately enter data; therefore, the automated underwriting decision was invalid. Because Desktop Underwriter based its approval on a variety of factors, it is not possible to determine whether the approval decision would stand.

Comment 3 To simplify our case narrative, we removed the vehicle downpayment discussion from Appendix F.

Comment 4 Ampro acknowledges the unexplained deposits should have been addressed. Our unexplained portion of deposits calculation took into account the $2,110 income tax refund documented by the underwriter. The borrower could not have closed this loan without the unexplained portion of total deposits made during the month prior to closing.

Comment 5 The underwriter's failure to investigate the inconsistency in dates between the verification of rent and utility letter compromised the integrity of this loan. Paragraph 2-3 of HUD Handbook 4155.1, REV-4, CHG-1 lists the manner of payments made on previous housing expense first in the basic hierarchy of credit. Our research indicates the borrower was evicted from the residence.

Comment 6 The pay increase was scheduled for June 29, 2003, 80 days after closing.

Comment 7 Ampro agrees the applicant was the primary borrower on the omitted liability account. HUD regulations do not allow exclusion of primary obligor debts.

Comment 8 The borrower's qualifying ratios are 30.53 and 63.40 percent when including the $273 debt and using current base and average differential income. However, the borrower's ratios still exceed HUD guidelines at 25.61 and 53.17 percent when computed using the projected income.

Comment 9 The borrower did not generate sufficient tax liability to use the available mortgage credit certificate. The borrower is married with three dependents and an annual household income of $22,134. Using the 2002 Internal Revenue Service 1040 Instructions (the latest instructions available at the time of underwriting), the borrower would have zero tax liability after subtracting her standard deduction and five exemptions.

Comment 10 The underwriter failed to present significant compensating factors to justify approval of this loan. While the most recent pay stub documented overtime, the borrower's year-to-date average was actually less than the amount used to qualify. In fact, ratios increase to 34.72 and 53.65 percent when calculated using the year-to-date average.

Comment 11 Paragraph 2-6 of HUD Handbook 4155.1, REV-4, CHG-1, requires lenders to verify the borrower's employment for the most recent two years. Ampro acknowledges the underwriter did not obtain the required tax returns; without these documents, the underwriter could not adequately analyze the borrower's employment.

Comment 12 Ampro acknowledges the borrower was short at closing, based on the asset documentation. This acknowledgement confirms the borrower did not have the $10,636 reserves claimed on the Loan Prospector feedback certificate.

Comment 13 In order to exclude the student loans from the automated underwriting analysis, Matrix needed evidence the borrower was enrolled at least half-time. While Matrix obtained a transcript and a letter from the borrower's employer, the documents did not evidence current enrollment.

Comment 14 Ampro agrees the underwriter did not address the inconsistencies.

Comment 15 We disagree with Ampro's 2003 year-to-date income calculation. The pay stub ending March 2 was dated March 7, indicating the year-to-date income covered 10 weeks. Therefore, the 2003 average was only $4,309.

Comment 16 While the file documents the borrower's March 2003 child support payment, it did document the required monthly payment amount or prove that the borrower is meeting his obligation. On the contrary, the verification indicated the borrower was $2,067 in arrears.

Comment 17 Ampro acknowledges they could have been more diligent in documenting the loan file, but believes the borrower did not represent a credit risk due to the strength of his income and savings. While the borrower had stable employment, his total fixed payment was 48.76% of his gross income. Furthermore, the borrower did not have sufficient savings to close the loan; he was $1,197 short at closing.
Fannie Mae's Desktop Underwriter User's Guide for FHA Loans requires lenders to comply with all conditions listed on the findings report and to ensure data entered into the system was true, accurate, and complete. Matrix did not comply with Conditions #26 and #29 and did

not accurately enter information; therefore, the automated underwriting decision was invalid.

Comment 18 Paragraph 2-9N of HUD Handbook 4155.1, REV-4, CHG-1 requires underwriters to establish the amount of automobile allowances that may be added to gross income using Internal Revenue Service Form 2106, Employee Business Expenses, for the previous two years. Matrix failed to obtain the proper documentation to include the automobile allowance in gross income.

Comment 19 While the W-2s document increases in income, the verification of employment lists the probability of continued employment and date/amount of next pay increase as unknown.

Comment 20 The underwriter failed to present significant compensating factors to justify approval of this loan. Because the file did not contain a retirement statement dated within 120 days of closing, we could not determine the availability of assets to cushion the buydown's effect. However, while the auditee comments voice disagreement, an Ampro representative initially agreed with our conclusion that the loan approval was not adequately supported.

Comment 21 We acknowledge the borrower paid earnest money; however, because the amount was over 2 percent of the sales price, Matrix was required to verify the source of funds.

Comment 22 According to a borrower letter dated April 8, 2003, the borrower attempted to cash his brother's income tax refund check on February 13th. The letter indicates the bank rejected the check and, after his brother cashed the check, the borrower re-deposited $5,000 cash on March 25th. The underwriter did not obtain an updated bank statement to document this deposit.

Comment 23 The underwriter failed to resolve inconsistencies between the borrower letter and the brother's income tax return. The letter indicates the brother received a $5,360.90 refund check. However, the income tax return indicates the brother will receive a $5,749 refund by direct deposit.

Comment 24 Before applying the $3,750 non-profit gift, the borrower needed $7,966 to make her total cash investment in the property and meet all approval conditions. The file did not document any negotiated settlements for the collections. Based on the collection amounts listed on the credit report, the underwriter failed to verify the borrower could meet her total cash investment in the property and satisfy all approval conditions.

Comment 25 We disagree with Ampro's assertion that the unexplained deposits are not excessive when considering the borrower's income. It would take almost four weeks gross income to cover the $2,000 in unexplained deposits.

Comment 26 The underwriter did not adequately document the transfer of gift funds from the donor to the borrower. The file did not contain evidence the $5,000 was withdrawn from the donor's account. Furthermore, the deposit slip was undated and did not list the borrower's name or account number.

Comment 27 Ampro indicates that, between March 2003 and May 2003, the borrower switched from a "local driver" to an "over-the-road driver." The borrower's letter of explanation confirms he became an "owner-operator." HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-9A-2 states that income from borrowers self-employed for less than one year may not be considered as effective income. Because the borrower was self-employed for less than one year, the underwriter should not have used his income for qualifying purposes.

Comment 28 According to the initial application, signed by the borrower and co-borrower, the borrower is liable for $913 monthly child support, $520 of which is payable to the co-borrower. While the co-borrower may have received additional child support during the two month period referenced by Ampro, this does not change the amount of child support income available for qualifying purposes.

Comment 29 The borrowers' qualifying ratios increase to 49.74 and 115.35 percent after excluding the self-employment income. We adjusted the case narrative in Appendix F to reflect Ampro's confirmation of the self-employment.

Comment 30 We disagree with Ampro's calculation of year-to-date income. The borrower's June 13th pay stub covers 24 weeks, for an average monthly income of $1,486. However, the pay stubs document varied hours each pay period and the borrower's year-to-date income includes overtime. Therefore, we used a more appropriate 18.5 month average.

Comment 31 The borrower did not generate sufficient tax liability to use the available mortgage credit certificate. The borrower is an unmarried woman with four dependents and an annual household income of $19,240. Using the 2002 Internal Revenue Service 1040 Instructions (the latest instructions available at the time of underwriting), the borrower would have zero tax liability after subtracting her standard deduction and five exemptions.

Comment 32 Contrary to Ampro's claim, the employment documents did not indicate the borrower receives regular pay increases to offset the buydown's effect. Ampro's calculations of 2001 and 2002 hourly wages assume the borrower worked full-time. We believe averaging gross monthly income, including overtime, provides a more accurate portrayal of her income history. Based on 4.5 weeks in 2001, 12 months in 2002, and 24 weeks in 2003, the average gross monthly income was $1,759, $1,365, and $1,486 respectively.

Comment 33 While Ampro recognizes alternate credit is not intended for borrowers with an unsatisfactory traditional credit history, it concludes the credit history is due to extenuating circumstances. We conclude the underwriter did not evaluate the borrower's credit history per HUD guidelines. The borrower's traditional credit history and prior eviction demonstrate a disregard for, or inability to manage, financial obligations. The underwriter failed to demonstrate significant compensating factors to justify approval of this loan.

Comment 34 Ampro acknowledges that appropriate documentation was not obtained to evidence the source of funds for the earnest money deposit.

Comment 35 We acknowledge that the underwriting worksheet was completed using a $1,161 total mortgage payment, $312 in monthly debts, and a $1,473 total fixed payment. However, the underwriting worksheet indicates the loan was approved using Loan Prospector, an automated underwriting system. The information entered into the system only included a $1,004 total mortgage payment, $266 in monthly debts, and a $1,270 total fixed payment.

Comment 36 Matrix did not accurately enter information into the automated underwriting system and did not satisfy all approval conditions listed on the Loan Prospector feedback certificate.

Appendix C

SCHEDULE OF UNDERWRITING DEFICIENCIES

Case number	Closing date[1]	Original mortgage amount	Underwriter type	Assets	Income	Liabilities	Credit history	Property condition	Recomputed qualifying ratios
091-3637619[2]	1/17/2003	$139,692	Automated	x	x	x			
292-4295702	1/24/2003	$54,150	Manual			x			34.02% / 53.15%
091-3643298	1/28/2003	$102,885	Automated		x	x			
261-8291418	2/21/2003	$81,357	Manual		x				74.27% / 74.27%
292-4319476[2]	3/4/2003	$82,702	Manual		x				33.56% / 78.04%
292-4320944[2]	3/10/2003	$76,500	Automated	x					
261-8402578	3/21/2003	$80,364	Manual	x					
261-8385623	3/28/2003	$67,467	Manual	x					
261-8405705	3/28/2003	$95,247	Manual			x			32.02% / 46.05%
261-8406746	4/4/2003	$84,829	Manual				x		
261-8421556	4/10/2003	$150,212	Manual		x	x			30.53% / 63.40%
261-8353065	4/16/2003	$69,351	Manual			x			32.61% / 50.39%
261-8383878	4/16/2003	$69,451	Manual	x			x	x	
261-8429135	4/16/2003	$95,742	Manual	x			x		
261-8429493	4/18/2003	$94,254	Manual		x				
292-4316802	4/22/2003	$166,881	Automated	x		x			
292-4345351[2]	4/22/2003	$49,129	Manual				x		
261-8353223	4/25/2003	$54,568	Manual		x	x	x		48.03% / 48.03%
261-8448405	4/28/2003	$124,516	Manual		x	x			23.09% / 44.93%
292-4341989	4/29/2003	$135,375	Automated	x					
261-8445791	5/8/2003	$120,547	Manual		x	x			32.72% / 46.53%
091-3704561	5/9/2003	$135,052	Automated	x					
261-8407889	5/9/2003	$74,399	Manual	x					
261-8452566	5/16/2003	$66,474	Manual	x					
181-2000595	5/23/2003	$150,143	Manual	x					
292-4359271	5/30/2003	$125,234	Automated			x			
261-8500881	6/9/2003	$92,270	Manual		x	x			31.16% / 51.58%
261-8437504	6/10/2003	$128,981	Manual		x	x			49.74%/115.35%
261-8468553	6/12/2003	$77,388	Manual		x	x	x		45.07% / 45.07%
292-4355829[2]	6/17/2003	$160,973	Automated	x		x			
321-2284507	6/20/2003	$145,221	Automated			x			
292-4416067	8/19/2003	$127,991	Manual	x			x		
Total		$3,279,345	23 Manual / 9 Automated	14	12	16	7	1	

1 - Dates are in month/day/year order.
2 - These loans are also included in finding 2.

Appendix D

RECOMMENDATIONS AND LOAN STATUS

	Recommendations 1A	Recommendations 1B	Recommendations 1C		
Case number	Actual losses incurred on properties sold	Conveyance claim paid on property not yet sold	Original Mortgage amount of actively insured loans	Loss mitigation retention claims paid	Loan status as of October 11, 2005
091-3637619[1]			$139,692		No longer in default
292-4295702[1]			$54,150	$650	Currently in default
091-3643298[1]			$102,885		No longer in default
261-8291418	$60,260				Claim
292-4319476			$82,702	$650	No longer in default
292-4320944			$76,500		Currently in default
261-8402578			$80,364		No longer in default
261-8385623			$67,467	$500	No longer in default
261-8405705			$95,247	$900	No longer in default
261-8406746			$84,829	$4,471	Foreclosure
261-8421556			$150,212	$650	No longer in default
261-8353065			$69,351	$100	Currently in default
261-8383878			$69,451	$100	Currently in default
261-8429135			$95,742	$100	Currently in default
261-8429493			$94,254	$100	Currently in default
292-4316802			$166,881	$650	No longer in default
292-4345351			$49,129		Currently in default
261-8353223		$58,146			Claim
261-8448405	$45,689				Claim
292-4341989			$135,375	$650	No longer in default
261-8445791			$120,547		Currently in default
091-3704561					Terminated
261-8407889			$74,399		No longer in default
261-8452566			$66,474		No longer in default
181-2000595			$150,143	$900	No longer in default
292-4359271	$27,956				Claim
261-8500881			$92,270		Foreclosure
261-8437504			$128,981	$5,359	No longer in default
261-8468553			$77,388	$4,765	Foreclosure
292-4355829			$160,973		Currently in default
321-2284507			$145,221		No longer in default
292-4416067	$34,367				Claim
Total	$168,272	$58,146	$2,630,627	$20,545	

1 - Matrix is responsible for these three loans. Ampro is responsible for the remaining loans.

Appendix E

SCHEDULE OF CLOSING DEFICIENCIES

Case number	Origination fees	Appraisal[1]	Credit report[2]	Loan discount / commitment fees	Administration fees	Tax service fee	Total
091-3637619[3 / 4]			$45				$45
292-4319476[3]		$100		$1,520			$1,620
292-4314298	$258						$258
292-4320944[3]				$1,530	$500	$64	$2,094
292-4314302				$385			$385
292-4326918	$250						$249
292-4345351[3]					$500		$500
292-4365701	$350			$320			$670
261-8390879				$350			$350
292-4370616	$250						$250
292-4355829[3]					$500	$64	$564
292-4369676				$260			$260
292-4412383				$457			$456
Total	$1,108	$100	$45	$4,822	$1,500	$128	$7,703

1 - HUD requires appraisals to be charged at actual cost. The borrower in case number 292-4319476 was charged a $450 appraisal fee when the actual cost was only $350.

2 - HUD requires lenders to explain and justify credit report charges above $75. The borrower in case number 091-3637619 was charged a $120 credit report fee. The file did not contain the required explanation.

3 - These loans are also included in finding 1.

4 - Matrix is responsible for this loan. Ampro is responsible for the remaining loans.

Appendix F

UNDERWRITING DEFICIENCY NARRATIVES

Case number: 091-3637619
Closing date: January 17, 2003
Original mortgage amount: $139,692
Underwriter type: Automated
Status: This loan is no longer in default.

Assets
Matrix overstated cash reserves when submitting the loan for automated underwriting by improperly including gift funds. The automated underwriting analysis was performed using $1,386 in cash reserves after closing. However, the accounts comprising these reserves included $10,000 in gift fund deposits.

Criteria
Fannie Mae's Desktop Underwriter User's Guide for FHA Loans, chapter 4
Condition #29 of the Desktop Underwriter findings report indicated that cash reserves could not include funds received as a gift.

Income
Matrix overstated base income when submitting the loan for automated underwriting by including insufficiently documented commission income. The automated underwriting analysis was performed using $3,583 in monthly base employment income. However, pay stubs indicated that almost 95 percent of the borrower's year-to-date earnings were from commissions. Matrix did not obtain borrower tax returns or determine the existence of unreimbursed business expenses.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-7D
Fannie Mae's Desktop Underwriter User's Guide for FHA Loans, chapter 2

Liabilities
Matrix understated the borrower's total mortgage payment when submitting the loan for automated underwriting. Additionally, Matrix failed to document the required payoff of a $234 collection at closing.

The automated underwriting analysis was performed using a $1,077 total mortgage payment, which included $42 hazard insurance and $142 taxes. However, the appraisal, conditional commitment, underwriting worksheet, settlement statement, and payment history indicated higher amounts for the borrower's hazard insurance and taxes. Using the highest payments as listed on the settlement statement and payment history, the borrower's total mortgage payment increases to $1,195.

The Desktop Underwriter findings report required payoff of a $234 collection at closing. However, the file did not contain evidence the debt was ever paid off.

Criteria
Fannie Mae's Desktop Underwriter User's Guide for FHA Loans, chapter 2
Fannie Mae's Desktop Underwriter User's Guide for FHA Loans, chapter 4
Condition #23 of the Desktop Underwriter findings report required evidence that a $234 collection was paid off before the loan closing.

Case number: 292-4295702
Closing date: January 24, 2003
Original mortgage amount: $54,150
Underwriter type: Manual
Status: This loan is currently in default.
Loss mitigation retention claims: $650

Liabilities
The underwriter understated liabilities by omitting a $251 monthly car payment from the borrower's total fixed payment. According to the credit report, the account had a $1,835 balance and was paid in advance until June 2003. Based on the limited cash reserves reported on the underwriting worksheet, the $251 payment would have affected the borrower's ability to make mortgage payments within a few months of closing. This conclusion is supported by the borrower's first default date, which occurred less than two months after the car payments resumed.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-11A

Qualifying Ratios and Compensating Factors
The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed liabilities, the borrower's qualifying ratios increase to 34.02 and 53.15 percent. While the underwriting worksheet noted several potential compensating factors, these factors were inadequate and unsupported.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-12, 2-13

Case number: 091-3643298
Closing date: January 28, 2003
Original mortgage amount: $102,885
Underwriter type: Automated
Status: This loan is no longer in default.

Income
Matrix overstated total income when submitting the loan for automated underwriting by including insufficiently documented child support income. The automated underwriting analysis was performed using $350 in monthly child support income. While bank statements covering six months showed regular automatic deposits, the statements did not document the source of these

deposits. Additionally, the file did not contain evidence the child support payments would continue for at least three years.

Criteria
Fannie Mae's Desktop Underwriter User's Guide for FHA Loans, chapter 2
Fannie Mae's Desktop Underwriter User's Guide for FHA Loans, chapter 4
Condition #23 of the Desktop Underwriter findings report required evidence of three months' receipt of child support using deposits on bank statements or cancelled checks. Condition #23 also required evidence of at least three years worth of continuance using the front and individual pages showing details of the agreement.

Liabilities
Matrix understated the borrower's total mortgage payment when submitting the loan for automated underwriting. The automated underwriting analysis was performed using a $784 total mortgage payment, which included $168 in monthly escrows. The total mortgage payment submitted did not include the borrower's mortgage insurance premium. Additionally, the payment history indicated an even higher total escrow amount. Using the highest total escrow as listed on the payment history, the borrower's total mortgage payment increases to $864.

Criteria
Fannie Mae's Desktop Underwriter User's Guide for FHA Loans, chapter 2

Case number: 261-8291418
Closing date: February 21, 2003
Original mortgage amount: $81,357
Underwriter type: Manual
Status: HUD acquired and sold the subject property.
Loss on sale of subject property: $60,260

Income
The underwriter overstated the borrower's income by including commission income received for less than one year. While the underwriter approved this loan using $2,854 in base monthly income, the employment documents indicated the borrower had averaged $929 in base monthly income over 37 weeks. The remainder of the borrower's earnings was from commission income received for less than one year.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-7, 2-7D

Qualifying Ratios and Compensating Factors
The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed income, the borrower's qualifying ratios increase to 74.27 percent. While the underwriting worksheet noted several potential compensating factors, these factors were unsupported.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-12, 2-13

Case number: 292-4319476
Closing date: March 4, 2003
Original mortgage amount: $82,702
Underwriter type: Manual
Status: This loan is no longer in default.
Loss mitigation retention claims: $650

Income
The underwriter overstated the borrower's income. According to the application and underwriting worksheet, the borrower earned $4,000 gross monthly income from two jobs. However, the underwriter did not obtain the required pay stub for one employer, and the employment documents did not support the income claimed. Between the two employers, the borrower averaged $1,352 gross monthly income in 2000, $2,174 in 2001, and $1,966 in 2002. While the file indicated the borrower was involved in three worker's compensation claims totaling $23,000, the supporting paperwork did not cite the employer name, was not signed, and did not cite the amount of work missed.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-7, 2-7A, 3-1E

Qualifying Ratios and Compensating Factors
The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed income, the borrower's qualifying ratios increase to 33.56 and 78.04 percent. While the underwriting worksheet noted several potential compensating factors, these factors were inadequate and unsupported.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-12, 2-13

Case number: 292-4320944
Closing date: March 10, 2003
Original mortgage amount: $76,500
Underwriter type: Automated
Status: This loan is currently in default.

Assets
Matrix understated cash received at closing and overstated cash reserves when submitting the loan for automated underwriting. The automated underwriting analysis was performed using $475 cash received at closing. However, the settlement statement indicated the borrower received $1,595. The automated underwriting analysis was performed using $7,951 in retirement assets. While the file contained retirement account statements, the statements were incomplete, and 60 percent of the balance was only $5,615 after subtracting a borrower loan.

Criteria
Fannie Mae's Desktop Underwriter User's Guide for FHA Loans, chapter 2
Fannie Mae's Desktop Underwriter User's Guide for FHA Loans, chapter 4

Condition # 26 of the Desktop Underwriter findings report indicated that retirement assets could only be included in the underwriting analysis up to 60 percent of the account balance. Condition # 26 required the most recent statements for each retirement account. Condition #28 required verification of all cash reserves after closing submitted to the underwriting analysis.

Case number: 261-8402578
Closing date: March 21, 2003
Original mortgage amount: $80,364
Underwriter type: Manual
Status: This loan is no longer in default.

Assets
The underwriter failed to verify $1,504 of the borrower's total cash investment in the property. The borrower's assets included $1,000 in earnest money, $464 in prepaid expenses, and $1,559 in a depository account. While bank printouts confirmed the balance and documented the payment of earnest money and prepaid expenses, they showed a large increase in total deposits during the month before closing. While the file contained some borrower explanations, the underwriter did not adequately document the source of funds for the excess deposits. Without the unexplained portion of the deposits, the borrower did not have any available assets. The borrower's total cash investment in the property was $2,968. The borrower was $1,504 short of meeting her total cash investment in the property.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-10, 2-10B

Case number: 261-8385623
Closing date: March 28, 2003
Original mortgage Amount: $67,467
Underwriter type: Manual
Status: This loan is no longer in default.
Loss mitigation retention claims: $500

Assets
The underwriter failed to verify $904 of the borrower's total cash investment in the property. The borrower's assets included $500 in earnest money. Because the underwriter did not establish the borrower's history of accumulated savings, she was required to verify the source of funds for the earnest money. The borrower's total cash investment in the property was $904, including earnest money and prepaid expenses. The borrower was $904 short of meeting her total cash investment in the property.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-10, 2-10A

Case number: 261-8405705
Closing date: March 28, 2003

Original mortgage amount: $95,247
Underwriter type: Manual
Status: This loan is no longer in default.
Loss mitigation retention claims: $900

<u>Liabilities</u>
The underwriter understated liabilities by improperly reducing the total mortgage payment for a mortgage credit certificate and temporary interest rate buydown.

While the state of Michigan issued a mortgage credit certificate, the underwriter failed to confirm that the borrower generated sufficient tax liability to use the available credit. We were unable to determine whether the borrower generated sufficient tax liability.

While the file included a buydown agreement, the underwriter failed to establish that the eventual increase in mortgage payments would not adversely affect the borrower.

<u>Criteria</u>
HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-14A-4
HUD Mortgagee Letter 95-7, section XVI

<u>Qualifying Ratios and Compensating Factors</u>
The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed liabilities, the borrower's qualifying ratios increase to 32.02 and 46.05 percent. While the underwriting worksheet noted several potential compensating factors, these factors were inadequate and unsupported.

<u>Criteria</u>
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-12, 2-13

Case number: 261-8406746
Closing date: April 4, 2003
Original mortgage amount: $84,829
Underwriter type: Manual
Status: This loan is currently in the foreclosure process.
Loss mitigation retention claims: $4,471

<u>Credit History</u>
The underwriter did not adequately evaluate the borrower's credit history. This loan was approved using alternate credit including a verification of rent and letters from two utility companies. While the March 2003 rental verification listed the borrower as a current tenant, the DTE Energy letter indicated the borrower's account was closed in October 2002. The underwriter did not obtain an explanation for this inconsistency. Our research indicates the borrower was evicted from this residence.

<u>Criteria</u>
HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-3
HUD Handbook 4000.4, REV-1, CHG-2, paragraph 2-4C

Case number: 261-8421556
Closing date: April 10, 2003
Original mortgage amount: $150,212
Underwriter type: Manual
Status: This loan is no longer in default.
Loss mitigation retention claims: $650

Income
The underwriter overstated the borrower's income by including overtime income not properly documented. According to the underwriting worksheet, the borrower earned $4,565 in base monthly income. However, the verification of employment indicated the borrower's base monthly income was only $3,383, and pay stubs indicated that the remaining income was from differential payments and overtime. While it was reasonable to include the $387 monthly average differential income, the overtime income decreased substantially from 2002 to 2003 and should not have been counted as effective income.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-7A, 3-1E

Liabilities
The underwriter understated liabilities by omitting a $273 monthly payment for one revolving account from the borrower's total fixed payment and understating a second revolving account payment. While a note on the application said the borrower "co-signed for" the revolving account with a $273 monthly payment, credit reports indicated the borrower is the primary obligor. The most recent credit report also listed the balance of the second revolving account as $72, almost twice the amount included by the underwriter.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-11A, 2-11B-2

Qualifying Ratios and Compensating Factors
The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed income and liabilities, the borrower's qualifying ratios increase to 30.53 and 63.40 percent. While the underwriting worksheet noted several potential compensating factors, these factors were inadequate and unsupported.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-12, 2-13
HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-19

Case number: 261-8353065
Closing date: April 16, 2003
Original mortgage amount: $69,351
Underwriter type: Manual
Status: This loan is currently in default.
Loss mitigation retention claims: $100

Liabilities
The underwriter understated liabilities by improperly reducing the total mortgage payment for a mortgage credit certificate and temporary interest rate buydown.

While the state of Michigan issued a mortgage credit certificate, the underwriter failed to confirm that the borrower generated sufficient tax liability to use the available credit. Using the income and household information cited on the mortgage credit certificate and borrower application, we determined that the borrower did not generate sufficient tax liability.

While the file included a buydown agreement, the underwriter failed to establish that the eventual increase in mortgage payments would not adversely affect the borrower.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-14A-4
HUD Mortgagee Letter 95-7, section XVI

Qualifying Ratios and Compensating Factors
The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed liabilities, the borrower's qualifying ratios increase to 32.61 and 50.39 percent. Furthermore, the ratios increase to 34.72 and 53.65 percent when calculated using the year-to-date average income. While the underwriting worksheet noted several potential compensating factors, these factors were inadequate.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-12, 2-13

Case number: 261-8383878
Closing date: April 16, 2003
Original mortgage amount: $69,451
Underwriter type: Manual
Status: This loan is currently in default.
Loss mitigation retention claims: $100

Assets
The underwriter failed to verify $865 of the borrower's total cash investment in the property. The borrower's assets included $500 in earnest money and $5 in a depository account. Because the underwriter did not establish the borrower's history of accumulated savings, she was required to verify the source of funds for the earnest money. While the file contained an official bank check for the earnest money, the bank printout only documented a $100 withdrawal. While the borrower did not pay any monies at closing, both the settlement statement and good faith estimate indicate the borrower paid $500 in earnest money and $470 outside of closing. The borrower's total cash investment in the property was $970. Using the $105 documented assets, the borrower was $865 short of meeting her total cash investment in the property.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-10, 2-10A, 2-10C

Credit History
The underwriter did not adequately evaluate the borrower's credit history. This loan was approved using alternate credit including a verification of rent and letters from a utility company, insurance company, and child care facility. However, the utility letter was not signed, the insurance letter was not signed and was from the borrower's employer, and the child care letter did not list an address or contact number. None of the letters were addressed directly to the lender.

Criteria
HUD Handbook 4000.4, REV-1, CHG-2, paragraph 2-4C
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-3, 3-1

Property Condition
The underwriter failed to confirm repair requirements were satisfied before submitting the loan for endorsement. The February 6, 2003, conditional commitment required scraping/repair of windows and repair/replacement of brick as needed. While the file contained an April 16, 2003, repair escrow agreement for $1,350 and two repair estimates, dated before the escrow agreement, it did not confirm that the required repairs were completed.

Criteria
HUD Handbook 4000.2, REV-2, paragraph 2-19

Case number: 261-8429135
Closing date: April 16, 2003
Original mortgage amount: $95,742
Underwriter type: Manual
Status: This loan is currently in default.
Loss mitigation retention claims: $100

Assets
The underwriter failed to verify $820 of the borrower's total cash investment in the property. The borrower's assets included $500 in earnest money and $.48 in a depository account. Because the underwriter did not establish the borrower's history of accumulated savings, she was required to verify the source of funds for the earnest money. While the file contained a money order for the earnest money, the bank printout did not document the source of funds for the money order. While the borrower did not pay any monies at closing, both the settlement statement and good faith estimate indicated the borrower paid $500 in earnest money and $320 outside of closing. The borrower's total cash investment in the property was $820. Using the $.48 documented assets, the borrower was $820 short of meeting her total cash investment in the property.

Additionally, the file ledger from the title company indicated that the borrower paid an additional $500 to the title company the day after the loan closed. Matrix did not document the reason or source of funds for this payment. Including the $500, the underwriter failed to document the source of funds for $1,320 paid by the borrower.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-10, 2-10A

Credit History
The underwriter did not adequately evaluate the borrower's credit history. The underwriting worksheet indicated this loan was approved using alternate credit. While the file contained verifications of rent and automobile insurance, the verification of rent was addressed to the borrower's residence, and the letter from the insurance carrier was addressed to an unknown party and mailed to the borrower's residence. Additionally, alternate credit documentation is intended for borrowers without traditional credit, not for those with poor traditional credit. The borrower's credit report indicated she had multiple late payments on a student loan account. While the file contained a borrower explanation, it did not contain documentation to support her explanation.

Criteria
HUD Handbook 4000.4, REV-1, CHG-2, paragraph 2-4C
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-3, 3-1

Case number: 261-8429493
Closing date: April 18, 2003
Original mortgage amount: $94,254
Underwriter type: Manual
Status: This loan is currently in default.
Loss mitigation retention claims: $100

Income
The underwriter did not adequately document the borrower's two-year employment history. According to a letter from the borrower's current employer, he had been with the employer since 1996. However, a borrower letter of explanation indicated that he was self-employed from 2000 until June 2002, when he returned to his current employer. While the file contained the borrower's 2000 tax return, it did not document his 2001 or 2002 self-employment income.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-6

Case number: 292-4316802
Closing date: April 22, 2003
Original mortgage amount: $166,881
Underwriter type: Automated
Status: This loan is no longer in default.
Loss mitigation retention claims: $650

Assets
Matrix overstated cash reserves when submitting the loan for automated underwriting by including assets not properly documented. The automated underwriting analysis was performed using $7,334 in depository assets, $6,104 in stocks and bonds, $195 required at closing, and $10,636 in reserves. The documentation included to support the depository assets only verified $3,910. The documentation included to support the stocks and bonds verified $520 in a Roth IRA (individual retirement account) and $2,644 in stocks and bonds. Additionally, the statements included to support the borrower's stocks and bonds did not cover a two-month

period. The borrower's assets totaled only $7,074. The settlement statement indicated the borrower paid $5,100 in earnest money deposits and owed $2,047 at closing. Therefore, the borrower was short $73 at closing.

Criteria

Conditions B6 and A0 of the Loan Prospector feedback certificate required the most recent two months statements for each account to verify sufficient funds required to close.
Condition 1P required verification of all reserves submitted to Loan Prospector.
HUD Mortgagee Letter 00-28

Liabilities

Matrix understated the borrower's total fixed payment by omitting student loan payments without properly evidencing deferment of the debt. The automated underwriting analysis was performed using a $2,140 total fixed payment. However, this amount did not include $961 in monthly student loan payments. The file did not contain evidence that these debts could be deferred for at least 12 months. Including the student loans, the borrower's total fixed payment increases to $3,101.

Criteria

HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-11C
Condition BG of the Loan Prospector feedback certificate required the lender to include all debts listed on the credit report when computing the borrower's qualifying ratios.

Case number: 292-4345351
Closing date: April 22, 2003
Original mortgage amount: $49,129
Underwriter type: Manual
Status: This loan is currently in default.

Credit History

The underwriter did not adequately evaluate the borrower's credit history. While the application indicated the borrower had lived with family for the past three years, the credit report, nondriver license, and employment documents show two additional addresses during the same timeframe. Additionally, while the borrower application, credit report, and nondriver license indicated that the borrower was 19 years old in 2003, the credit report showed an installment trade line from open from 1991 to 1996. The borrower was 7-12 years old during this timeframe. The file did not contain explanations for these inconsistencies.

Criteria

HUD Handbook 4000.4, REV-1, CHG-2, paragraph 2-4C

Case number: 261-8353223
Closing date: April 25, 2003
Original mortgage amount: $54,568
Underwriter type: Manual
Status: HUD acquired the subject property.
Conveyance Claims: $58,147

Income
The underwriter overstated the borrower's income by failing to consider the stability of the borrower's income and employment. According to the underwriting worksheet, the borrower earned $1,317 in base monthly income. While a handwritten employer letter indicated that the borrower worked 40 hours per week, it was faxed from the seller, and a computerized verification of employment only showed part-time employment status. While an 11-month average supported the income claimed, recent pay stubs indicated that the borrower's income sharply declined during the four months before closing. Additionally, the borrower held three positions in different lines of work in two years. Due to the instability of the borrower's income and employment, the underwriter should have used the 2003 average base monthly income.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-6, 2-7, 3-1E

Liabilities
The underwriter understated liabilities by improperly reducing the total mortgage payment for a mortgage credit certificate and temporary interest rate buydown.

While a mortgage credit certificate was issued by the state of Michigan, the underwriter failed to confirm that the borrower generated sufficient tax liability to use the available credit. Using the income and household information cited on the mortgage credit certificate and borrower application, we determined that the borrower did not generate sufficient tax liability.

While the file included a buydown agreement, the underwriter failed to establish that the eventual increase in mortgage payments would not adversely affect the borrower.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-14A-4
HUD Mortgagee Letter 95-7, section XVI

Credit History
The underwriter did not adequately evaluate the borrower's credit history. This loan was oved using alternate credit including a rental account and letters from two telecommunications companies. One of the letters was faxed from the seller. While the borrower claimed to have lived with family before renting her current residence for 10 months, the credit report and employment documents showed two additional addresses during this period. The underwriter did not obtain an explanation for this inconsistency. Our research indicates the borrower was evicted from one of her previous residences.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-3
HUD Handbook 4000.4, REV-1, CHG-2, paragraph 2-4C

Qualifying Ratios and Compensating Factors
The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed income and liabilities, the borrower's qualifying ratios increase to 48.03 percent. While the underwriting worksheet noted several potential compensating factors, these factors were unsupported.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-12, 2-13

Case number: 261-8448405
Closing date: April 28, 2003
Original mortgage amount: $124,516
Underwriter type: Manual
Status: HUD acquired and sold the subject property.
Loss on sale of subject property: $45,689

Income
The underwriter overstated the borrower's income. While a two-year average including overtime supported the $5,012 qualifying income, pay stubs covering five weeks documented only $4,446 in base monthly income and did not document any overtime. Additionally, a borrower letter and bank printouts cast doubt on the stability of the borrower's income. The letter indicated the borrower no longer relies on the overtime offered at any particular moment while the bank printouts showed an absence of weekly payroll deposits from April 5 to 17, 2003. The underwriter did not follow up on these inconsistencies. Our research confirmed a two-week pay gap just before closing and indicates the borrower averaged only $3,959 gross monthly income during the three months following closing.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-6, 2-7A, 3-1E
HUD Handbook 4000.4, REV-1, CHG-2, paragraph 2-4C

Liabilities
The underwriter did not adequately verify the borrower's monthly child support obligations and follow up on recent inquiries shown on the borrower's credit report.

According to the underwriting worksheet, the borrower paid $421 in monthly child support. While the file contained a request for child support payment and balance information to the state of Alabama, the letter was never signed by the state and did not list a monthly payment amount. Furthermore, the letter indicated the borrower was $2,067 overdue in child support obligations.

The borrower's credit report showed two inquiries in January 2003. While a borrower letter explained that the inquiries were from applying for a store credit card and cell phone for his wife, the underwriter did not follow up on the potential new accounts.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-3B, 2-11A

Qualifying Ratios and Compensating Factors
The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed income and liabilities, the borrower's qualifying ratios increase to 23.09 and 44.93 percent. The inconsistencies in the borrower's income and liabilities could push these ratios even higher. While the underwriting worksheet noted several potential compensating factors, these factors were inadequate and unsupported.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-12, 2-13

Case number: 292-4341989
Closing date: April 29, 2003
Original mortgage amount: $135,375
Underwriter type: Automated
Status: This loan is no longer in default.
Loss mitigation retention claims: $650

Assets
Matrix overstated funds available and cash reserves when submitting the loan for automated underwriting by including a large deposit not properly documented.

The automated underwriting analysis was performed using $6,029 as funds available, including $1,009 in retirement assets and $5,020 in depository assets. The retirement asset was adequately verified. While bank documents supported the $5,020 depository asset balance, the balance included a $5,744 deposit. Because the borrower's earnest money deposit was greater than 2 percent of the sales price, the lender was required to verify the source of funds for the large deposit. While a borrower letter and a retirement account statement evidenced $4,850 of the large deposit, $894 was not documented. After subtracting the unsupported portion of the large deposit, the borrower had $5,135 available.

The automated underwriting analysis was performed using $340 in reserves. The settlement statement indicated the borrower paid $3,000 in earnest money and owed $3,332 at closing. Based on the assets verified, the borrower was $1,197 short at closing.

Criteria
Fannie Mae's Desktop Underwriter User's Guide for FHA Loans, chapter 2
Fannie Mae's Desktop Underwriter User's Guide for FHA Loans, chapter 4
Condition #26 of the Desktop Underwriter findings report required the lender to verify the source of funds for earnest money deposits exceeding 2 percent of the sales price. Condition #29 of the Desktop Underwriter findings report required the lender to verify all cash reserves after closing and indicated that cash reserves could not include funds received as a gift.

Case number: 261-8445791
Closing date: May 8, 2003
Original mortgage amount: $120,547
Underwriter type: Manual
Status: This loan is currently in default.

Income
The underwriter overstated the borrower's income by including a $250 "auto" allowance without demonstrating that the payment exceeds actual expenses.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-7, 2-7N, 3-1E

Liabilities
The underwriter understated liabilities by improperly reducing the total mortgage payment for a temporary interest rate buydown. While the file included a buydown agreement, the underwriter failed to establish that the eventual increase in mortgage payments would not adversely affect the borrower.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-14A-4

Qualifying Ratios and Compensating Factors
The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed income and liabilities, the borrower's qualifying ratios increase to 32.72 and 46.53 percent. While the underwriting worksheet noted several potential compensating factors, these factors were inadequate and unsupported.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-12, 2-13

Case number: 091-3704561
Closing date: May 9, 2003
Original mortgage amount: $135,052
Underwriter type: Automated
Status: This loan has been terminated and paid-in-full.

Assets
Matrix overstated funds available and cash reserves when submitting the loan for automated underwriting by including large deposits not properly documented.

The automated underwriting analysis was performed using $11,088 as funds available. While bank documents supported the assets used to qualify, they showed two large deposits on February 12, 2003. Because the borrower's earnest money deposit was greater than 2 percent of the sales price, the lender was required to verify the source of funds for the large deposit. While a borrower letter explained that one of the large deposits was money withdrawn from another account and saved at home, the file did not contain supporting documentation. While the letter explained that the second deposit was repayment from the borrower's brother for a loan, the letter noted that the check was later rejected and redeposited; the file did not contain documentation to support the redeposit. Without the two deposits, the borrower only had $2,427 available.

The automated underwriting analysis was based on $7,085 in reserves. The settlement statement indicated the borrower needed $4,328 at closing. Based on the assets verified, the borrower was $1,901 short at closing.

Criteria
Fannie Mae's Desktop Underwriter User's Guide for FHA Loans, chapter 2
Fannie Mae's Desktop Underwriter User's Guide for FHA Loans, chapter 4

Condition #25 of the Desktop Underwriter findings report required verification of $11,088 in depository assets using a verification of deposit, the most recent bank statement showing the previous month's balance, or the most recent two statements. Condition #28 required the lender to verify all cash reserves and indicated that the reserves could not include funds received as a gift.

Case number: 261-8407889
Closing date: May 9, 2003
Original mortgage amount: $74,399
Underwriter type: Manual
Status: This loan is no longer in default.

Assets
The underwriter failed to verify the borrower's ability to meet her total cash investment in the property and satisfy all approval conditions. The borrower's total cash investment in the property was $925. The underwriting worksheet indicated that the borrower was required to pay off all collection accounts upon loan approval using funds on deposit with the realtor. Credit reports confirmed the borrower paid off five collection accounts with previous account balances totaling $3,291. The borrower needed $4,216 to make her total cash investment in the property and meet all approval conditions. Using the $2,800 realtor deposit and $3 bank account balance, the borrower was $1,413 short of meeting her total cash investment in the property and satisfying the approval requirement.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-10

Case number: 261-8452566
Closing date: May 16, 2005
Original mortgage amount: $66,474
Underwriter type: Manual
Status: This loan is no longer in default.

Assets
The underwriter failed to verify $753 of the borrower's total cash investment in the property. The borrower's assets included $2,159 in depository accounts. While bank printouts confirmed the balance and documented payment of the earnest money and appraisal, they showed $2,000 in large deposits made just two weeks before closing. Based on the borrower's $2,326 gross monthly income, these large deposits warranted an explanation and evidence of source of funds. Without the deposits, the borrower only had $159 in available assets. The borrower's total cash investment in the property was $2,187, including the earnest money and appraisal. Using the recomputed available assets, the borrower was $753 short of meeting her total cash investment in the property.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-10, 2-10B

Case number: 181-2000595
Closing date: May 23, 2003
Original mortgage amount: $150,143
Underwriter type: Manual
Status: This loan is no longer in default.
Loss mitigation retention claims: $900

Assets
The underwriter failed to verify $5,371 of the borrower's total cash investment in the property. The borrower's assets included $500 in earnest money, $656 in depository accounts, $1,766 in retirement assets, and a $5,000 gift. However, the depository account statement was missing three pages, the retirement account statement only documented $1,513, and the gift documents did not adequately document the transfer of gift funds. Using only the earnest money, depository account balance, and recomputed retirement account balance, the borrower had $2,669 in available assets. The borrower's total cash investment in the property was $8,040. Using the recomputed available assets, the borrower was $5,371 short of meeting his total cash investment in the property.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-10, 2-10C
HUD Mortgagee Letter 00-28

Case number: 292-4359271
Closing date: May 30, 2003
Original mortgage amount: $125,234
Underwriter type: Automated
Status: HUD acquired and sold the subject property.
Loss on sale of subject property: $27,956

Liabilities
Matrix understated the borrower's total mortgage payment and total fixed payment when submitting the loan for automated underwriting. The automated underwriting analysis was performed using an $809 total mortgage payment and $1,639 total fixed payment. The note and underwriting worksheet indicated these amounts included a temporary interest rate buydown reduction. However, the file did not contain a buydown agreement, and the Loan Prospector loan summary specifically stated that there was not a temporary buydown. Without the reduction, the borrower's total mortgage payment and total fixed payment increase to $964 and $1,794.

Criteria
Loan Prospector feedback certificate and loan summary

Case number: 261-8500881
Closing date: June 9, 2003
Original mortgage amount: $92,270
Underwriter type: Manual
Status: This loan is currently in the foreclosure process.

Income
The underwriter overstated the borrower's income. The borrower's current and previous positions relied on weather conditions. During the last 15.5 months at his most recent position, the borrower was laid off 327 days. While the $2,167 in base monthly income cited on the underwriting worksheet was supported by a verification of employment and pay stub, the borrower only averaged $1,143 gross monthly income over 27.4 months, including unemployment compensation. The underwriter should have used the 27.4-month average to account for the income's instability.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-7, 3-1E

Liabilities
The underwriter understated liabilities by incorrectly stating the borrower's monthly taxes. While the underwriting worksheet used a $117 monthly tax escrow, the appraisal, conditional commitment, and settlement statement indicated the tax escrow is $174.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-12

Qualifying Ratios and Compensating Factors
The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed income and liabilities, the borrower's qualifying ratios increase to 31.16 and 51.58 percent. While the underwriting worksheet noted several potential compensating factors, these factors were inadequate and unsupported.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-12, 2-13

Case number: 261-8437504
Closing date: June 10, 2003
Original mortgage amount: $128,981
Underwriter type: Manual
Status: This loan is no longer in default.
Loss mitigation retention claims: $5,359

Income
The underwriter overstated the borrower's income by improperly grossing up child support income and improperly including self-employment income.

According to the underwriting worksheet, the borrower earned $3,602 in base monthly income. However, the employment documents indicate the borrower became self-employed between March 2003 and May 2003. Because the borrower was self-employed for less than one year, the underwriter should not have included his income for qualifying purposes.

According to the underwriting worksheet, the co-borrower received $602 in other monthly income. This amount was based on $523 in child support income grossed up 15 percent.

However, the income should not have been grossed up as it was received from the borrower, eliminating the tax savings.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-7, 2-7P, 2-9A-2, 2-9B, 3-1E

Liabilities
The underwriter understated liabilities by improperly reducing the total mortgage payment for a temporary interest rate buydown. While the file included a buydown agreement, the underwriter failed to establish that the eventual increase in mortgage payments would not adversely affect the borrower.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-14A-4

Qualifying Ratios and Compensating Factors
The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed income and liabilities, the borrower's qualifying ratios increase to 49.74 and 115.35 percent. While the underwriting worksheet noted several potential compensating factors, these factors were inadequate and unsupported.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-12, 2-13

Case number: 261-8468553
Closing date: June 12, 2003
Original mortgage amount: $77,388
Underwriter type: Manual
Status: This loan is currently in the foreclosure process.
Loss mitigation retention claims: $4,765

Income
The underwriter overstated the borrower's income. While the underwriting worksheet cited $1,603 in base monthly income, the employment documents only supported an 18.5-month average of $1,429. Further, the borrower's most recent pay stub showed a significant decline in the number of hours worked. The underwriter did not adequately document the amount or stability of borrower income. This conclusion is supported by the borrower's first default date, which occurred within a year of closing.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-6, 3-1E

Liabilities
The underwriter understated liabilities by incorrectly stating the borrower's monthly taxes and by improperly reducing the total mortgage payment for a mortgage credit certificate and temporary interest rate buydown.

While the underwriting worksheet used an $83 monthly tax escrow, the appraisal, conditional commitment, and settlement statement indicated the tax escrow is $105.

While a mortgage credit certificate was issued by the state of Michigan, the underwriter failed to confirm that the borrower generated sufficient tax liability to use the available credit. Using the income and household information cited on the mortgage credit certificate and borrower application, we determined that the borrower does not generate sufficient tax liability.

While the file included a buydown agreement, the underwriter failed to establish that the eventual increase in mortgage payments would not adversely affect the borrower.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-12, 2-14A-4, 3-1
HUD Mortgagee Letter 95-7, section XVI

Credit History
The underwriter did not adequately evaluate the borrower's credit history. This loan was approved using alternate credit including a rental account and three verification letters. While all three letters were signed originals, they were not addressed to the lender and did not have creases. This indicates the letters may have been hand-carried. While the borrower claimed to have lived at one address since 2001, the credit report and employment documents documented three additional addresses during this period. The file contained an affidavit stating the borrower had "used" a relative's address in the past; however, this did not account for the other two addresses. Our research indicates the borrower was evicted from one of these residences. Additionally, alternate credit documentation is intended for borrowers without traditional credit, not for those with poor traditional credit. The borrower's credit report showed nine collection accounts. While the borrower paid the collections off before closing, some of the accounts had outstanding balances for several years before payoff. This indicated a disregard for, or inability to manage, financial obligations.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-3
HUD Handbook 4000.4, REV-1, CHG-2, paragraph 2-4C

Qualifying Ratios and Compensating Factors
The underwriter understated the borrower's qualifying ratios and failed to present significant compensating factors to justify approval of this loan. Using the recomputed income and liabilities, the borrower's qualifying ratios increase to 45.07 percent. However, the ratios could be higher, considering the significant decline in hours shown on the borrower's most recent pay stub. While the underwriting worksheet noted several potential compensating factors, these factors were inadequate and unsupported.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-12, 2-13

Case number: 292-4355829
Closing date: June 17, 2003
Original mortgage amount: $160,973

Underwriter type: Automated
Status: This loan is currently in default.

Assets
Matrix overstated funds available and understated funds required when submitting the loan for automated underwriting. Additionally, Matrix failed to document the source of funds for the borrower's earnest money deposit.

The automated underwriting analysis was performed using $2,276 in retirement assets. However, the retirement account statement only documented $1,951. While the underwriting analysis was performed using $0 borrower-paid closing costs, the settlement statement indicated the borrower needed $3,067 to close after $5,000 in earnest money deposits. Additionally, while the file contained cancelled earnest money deposit checks totaling $5,000, the deposits exceeded 2 percent of the sales price, and the file did not evidence the source of funds.

Including earnest money, the borrower needed $8,067 to close. Based on the $1,951 in assets verified, the borrower was $6,116 short.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-10A
HUD Mortgagee Letter 00-28
Condition BT of the Loan Prospector feedback certificate indicated the automated underwriting analysis was performed using $0 in borrower closing costs. Condition G3 indicated the automated underwriting analysis was performed using $2,276 in stocks and bonds.

Liabilities
Matrix understated the borrower's total mortgage payment when submitting the loan for automated underwriting by failing to follow the systems requirements for adjustable rate mortgages. Additionally, Matrix understated the borrower's total fixed payment when submitting the loan for automated underwriting by failing to include all debts listed on the borrower's credit report.

The automated underwriting analysis was performed using a $1,004 total mortgage payment. However, this amount was based on the note rate, and the correct total mortgage payment was $1,161.

The automated underwriting analysis was performed using a $1,270 total fixed payment. However, this amount did not include the updated total mortgage payment and all debts listed on the borrower's credit report. The correct total fixed payment was $1,473.

Criteria
Condition BU of the Loan Prospector feedback certificate required the lender to enter a total mortgage payment computed 1 percent greater than the note rate. Condition BG required the lender to include all debts listed on the borrower's credit report.

Case number: 321-2284507
Closing date: June 20, 2003

Original mortgage amount: $145,221
Underwriter type: Automated
Status: This loan is no longer in default.

Liabilities
Matrix failed to document the required payoff of an $880 outstanding judgment listed on the borrower's credit report.

Criteria
Fannie Mae's Desktop Underwriter User's Guide for FHA Loans, chapter 4
Condition #22 of the Desktop Underwriter findings report required evidence of payoff of any outstanding judgments shown on the credit report.

Case number: 292-4416067
Closing date: August 19, 2003
Original mortgage amount: $127,991
Underwriter type: Manual
Status: HUD acquired and sold the subject property.
Loss on sale of subject property: $34,367

Assets
The underwriter failed to verify $351 of the borrower's total cash investment in the property. While the settlement statement indicates the borrower received $222 at closing, the closing and disbursement instructions and hazard insurance receipt indicated the borrower paid $1,088 outside of closing. The borrower's total cash investment in the property was $866. Using the $515 in available assets documented on the borrower's bank statement balance, the borrower was $351 short of meeting her total cash investment in the property.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-10

Credit History
The underwriter did not adequately evaluate the borrower's credit history. This loan was approved using alternate credit including three utility payment verifications. However, the file did not contain a verification of rent or an explanation regarding the absence of such verification. Both the underwriting worksheet and the borrower application indicated she paid $700 per month for rent.

Criteria
HUD Handbook 4155.1, REV-4, CHG-1, paragraphs 2-3, 2-3A, 3-1

Appendix G

CRITERIA

HUD Handbook 4000.2, REV-2, paragraph 2-19
Repair requirements outstanding on the conditional commitment must be satisfied before the mortgage is submitted for endorsement. If adverse weather conditions prevent completion of the repairs, the loan may be submitted for insurance if a repair escrow is established and the lender provides a mortgagee's assurance of completion.

HUD Handbook 4004.4, REV-1, CHG-2, paragraph 2-4C
Underwriters determine the overall acceptability of the loan for HUD insurance and are required to perform underwriting decisions with due diligence in a prudent manner. Underwriters must review all credit analyses performed by fee and staff personnel to ensure reasonable conclusions, sound reports, and compliance with HUD requirements. Underwriters must have an awareness of warning signs that may indicate irregularities and the ability to detect fraud.

HUD Handbook 4004.4, REV-1, CHG-2, paragraph 2-13
Loan correspondents may take the initial application, assign an appraiser, obtain credit reports, order verifications, and close the loan after it has been underwritten. A direct endorsement-approved sponsor must perform the underwriting function. Loan correspondents cannot perform any underwriting function including mortgage credit examination.

HUD Handbook 4060.1, REV-1, paragraph 3-4
The principal activity of a loan correspondent is to originate mortgages for the sale or transfer to a sponsor. The sponsor is required to perform the underwriting function and is responsible for the actions of their loan correspondents. Sponsors are required to supervise and perform quality control reviews of their loan correspondents to ensure they are in compliance with the HUD requirements and prudent lending practices.

HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-3
Past credit performance serves as the most useful guide in determining the attitude toward credit obligations that will govern the borrower's future actions. A period of financial difficulty in the past does not necessarily make the risk unacceptable if a good payment record has been maintained since. When delinquent accounts are revealed, the lender must determine whether the late payments were due to a disregard for, or an inability to manage, financial obligations or to factors beyond the control of the borrower. Major indications of derogatory credit, including judgments and collections, and any other recent credit problems, require sufficient written explanation from the borrower. The borrower's explanation must make sense and be consistent with other credit information in the file.

For borrowers who do not use traditional credit or have not yet established a credit history, lenders must develop a credit history using alternate documentation. Alternate credit documentation includes utility payment records, rental payments, automobile insurance payments, and other means of direct access from the credit provider.

The basic hierarchy of credit evaluation is the manner of payments made on previous housing expense, including utilities, followed by the payment of installment debts, then revolving accounts. Generally, an individual with no late housing or installment debt payments should be considered as having an acceptable credit history.

<u>HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-3A</u>
Lenders must determine the borrower's payment history of housing obligations either directly from the landlord, through the credit report, or using canceled checks covering the most recent 12-month period.

<u>HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-3B</u>
Lenders must obtain an explanation from the borrower for all recent inquiries shown on the credit report.

<u>HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-6</u>
Lenders must verify the borrower's employment for the most recent two full years. To analyze the probability of continued employment, lenders must examine the borrower's past employment record, qualifications for the position, previous training and education, and the employer's confirmation of continued employment. A borrower who changes jobs frequently within the same line of work but continues to advance in income or benefits should be considered favorably. Income stability takes precedence over job stability.

<u>HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-7</u>
Lenders must analyze the income of each borrower to determine whether it can reasonably be expected to continue through at least the first three years of the mortgage loan.

<u>HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-7A</u>
Overtime income may be included in the qualifying ratios if the borrower has received such income for approximately two years and there are reasonable prospects of its continuance. Lenders are required to develop an earnings trend and must provide a sound rationalization when including overtime income that has continually declined.

<u>HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-7D</u>
Commission income must be averaged over the previous two years. The borrower must provide the last two years' tax returns along with a recent pay stub. Unreimbursed business expenses must be subtracted from gross income. Commissions earned for less than one year are not considered effective income.

<u>HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-7N</u>
Automobile allowances and expense account payments may only be included in gross monthly income to the extent that they exceed actual expenditures. To establish the amount of income that may be added to gross income, the borrower must provide Internal Revenue Service Form 2106, Employee Business Expenses, for the previous two years. Lenders must obtain verification from the employer that the payments will continue.

<u>HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-7P</u>
Nontaxable income may be "grossed-up" to account for the tax savings.

HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-9A-2
Income from borrowers self-employed for less than one year may not be considered as effective income.

HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-9B
Self-employment income must be documented using the year-to-date balance sheet and profit-and-loss statement. The borrower must provide signed and dated individual tax returns for the most recent two years, including all applicable schedules.

HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-10
Lenders must verify all funds for the borrower's investment in the property. The borrower's investment in the property is the difference between the amount of the insured mortgage, excluding any up-front mortgage insurance premium, and the total cost to acquire the property, including prepaid expenses.

HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-10A
Lenders must verify the amount and source of funds for earnest money deposits which appear excessive based on the borrower's history of accumulated savings or exceed 2 percent of the sales price. To document the amount of funds, lenders may use a copy of the borrower's canceled check or a certification from the deposit holder acknowledging receipt of funds. To document the source of funds, lenders may use a verification of deposit or bank statement showing that the average balance was sufficient to have included the earnest money deposit.

HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-10B
Lenders must document depository accounts (savings and checking) using a verification of deposit along with the most recent bank statement. If there is a large increase in an account, the lender must obtain an explanation and evidence the source of funds for the deposits.

HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-10C
Lenders must document the transfer of gift funds from the donor to the borrower. Acceptable documentation includes a donor's withdrawal slip or cancelled check, along with the borrower's deposit slip or bank statement showing the deposit. If the funds are not deposited to the borrower's account before closing, the lender must obtain verification that the settlement agent received the gift from the donor.

HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-11A
The borrower's liabilities include all installment loans, revolving charge accounts, real estate loans, alimony, child support, and all other continuing obligations. Unless a revolving account shows a specific monthly payment, the lender must compute the monthly payment at the greater of 5 percent of the balance or $10.

HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-11B-2
Contingent liability applies for cosigned obligations unless the underwriter obtains documentation that the primary obligor has been making payments on a regular basis and does not have a history of delinquent payments on the loan over the past 12 months.

HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-11C
When a debt payment, such as a student loan, is scheduled to begin within 12 months of the mortgage loan closing, the lender must include the anticipated monthly obligation in the

underwriting analysis unless the borrower can provide evidence that the debt may be deferred to a period outside this timeframe.

HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-12
Ratios are used to determine whether the borrower can reasonably be expected to meet the expenses involved in homeownership and otherwise provide for the family. HUD requires underwriters to compute ratios of the borrower's mortgage payment expense to effective income and of the borrower's total fixed payment to effective income. The borrower's total mortgage payment includes principal and interest and escrow deposits for real estate taxes, hazard insurance premiums, homeowners' association dues, and mortgage insurance premiums. The borrower's total fixed payment is comprised of the borrower's total mortgage payment and all recurring charges. The borrower's ratios are considered acceptable if the total mortgage payment and total fixed payment do not exceed 29 and 41 percent of gross monthly income, respectively. Ratios exceeding these benchmarks may be considered acceptable if significant compensating factors are presented.

HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-13
The following compensating factors may be used in justifying approval of mortgage loans with ratios exceeding the 29 and 41 percent benchmarks. Underwriters must state the compensating factors used to support loan approval on the "remarks" section of the underwriting worksheet.

- The borrower has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the new mortgage.
- The borrower makes a large downpayment toward the purchase of the property.
- The borrower has demonstrated a conservative attitude toward the use of credit and an ability to accumulate savings.
- Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expenses.
- The borrower receives compensation or income not reflected in effective income but directly affecting the ability to pay the mortgage, including food stamps and similar public benefits.
- There is only a minimal increase in the borrower's housing expense.
- The borrower has substantial cash reserves after closing.
- The borrower has substantial nontaxable income (if no adjustment made previously in the ratio computations).
- The borrower has potential for increased earnings, as indicated by job training or education in the borrower's profession.
- The home is being purchased as the result of relocation of the primary wage-earner, and the secondary wage-earner has an established history of employment and is expected to return to work.

HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-19
If the borrower is purchasing an energy-efficient home, the qualifying ratios may exceed the 29 and 41 percent benchmarks by 2 percent. The borrower's ratios are considered acceptable if the total mortgage payment and total fixed payment do not exceed 31 and 43 percent of gross monthly income, respectively. New construction begun after April 24, 1994, is automatically considered energy efficient.

HUD Handbook 4155.1, REV-4, CHG-1, paragraph 2-14A-4

Underwriters are required to establish that the eventual increase in mortgage payments from a temporary interest rate buydown will not adversely affect the borrower and likely lead to default. The underwriter must document which of the following criteria the borrower meets:

- Potential for increased income that would offset the scheduled payment increases, as indicated by job training, education, or a history of advancement.
- A demonstrated ability to manage financial obligations in such a way that a greater portion of income may be devoted to housing expense. This may also include borrowers whose long-term debt, if any, will not extend beyond the term of the buydown agreement.
- The borrowers have substantial assets available to cushion the effect of the increased payments.
- The cash investment made by the borrower substantially exceeds the minimum required.

<u>HUD Handbook 4155.1, REV-4, CHG-1, paragraph 3-1</u>
The loan package submitted for insurance endorsement is expected to contain sufficient documentation to support the lender's decision to approve the mortgage loan. When standard documentation does not provide enough information to support the approval decision, the lender must provide additional explanatory statements, consistent with other information in the application, to clarify or supplement the documentation submitted by the borrower. Verification forms must pass directly between lender and provider without being handled by any third party.

<u>HUD Handbook 4155.1, REV-4, CHG-1, paragraph 3-1E</u>
Lenders are required to obtain a verification of employment and the most recent pay stub to document borrower income. If the lender does not obtain a verification, it must obtain pay stubs covering the most recent 30-day period along with original copies of the previous two years' Internal Revenue Service W-2 forms.

<u>HUD Mortgagee Letter 95-7, section XVI</u>
Lenders may consider the tax credit resulting from mortgage credit certificates as a direct reduction in housing expense when computing the borrower's qualifying ratios. Lenders using the tax credit as a direct reduction in housing expense must develop and use a worksheet that estimates the amount of the mortgage credit available, determines the adjusted total housing payment, and confirms that borrowers generate sufficient tax liability to use the available credit. Loan files must contain copies of the mortgage credit certificate and the worksheet.

<u>HUD Mortgagee Letter 00-28</u>
Assets such as 401(k)s, IRAs (individual retirement account), and thrift savings plans may be included in the underwriting analysis up to 60 percent of value unless the borrower provides credible evidence that a higher percentage may be withdrawn after subtracting taxes and penalties.

<u>Fannie Mae's Desktop Underwriter User's Guide for FHA Loans, chapter 2</u>
The lender is accountable for compliance with all Federal Housing Administration guidelines, as well as for any eligibility requirements, credit capacity, and documentation requirements not covered in the user's guide. The data entered into the automated system must be true, accurate, and complete.

<u>Fannie Mae's Desktop Underwriter User's Guide for FHA Loans, chapter 4</u>
The lender must comply with all messages and conditions listed on the automated underwriting findings report. Additionally, the lender must review the credit report to confirm that the data evaluated by the system were accurate.