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BUSINESS AND QUALITY CONTROL PLAN
FOR CAL 32 LENDING
(1-4 Family Property Only)

Company Name:

Date of Adoption:

I. OVERVIEW

This Company adopts the following business plan and quality control plan. The function of the plan is to declare the Company's policies and procures when making loans on 1-4 family residential properties that are covered by AB 489 (as amended) and Section 32 of Regulation Z. The plan becomes effective starting with loan applications received on or after July 1, 2002 and shall continue until rescinded or modified in writing. At the core of the plan is the philosophy that the Company will not knowingly originate, arrange or make any loans that are covered under California Assembly Bill 489 (as amended) and Section 32 of federal Regulation Z (collectively, "Cal 32 Loans") unless the Company first complies in all respects with those laws.

II. EXEMPT LOANS

If there is a possibility a loan may be exempt from Cal 32, the loan officer, underwriter, processor assigned to the task as part of their normal duties shall complete and insert into each loan file a fully completed Cal 32 Worksheet.

Exempt for Reasons Unrelated to Thresholds

The worksheet first tests to see if an exemption applies that is unrelated to the APR and fee thresholds for Cal 32 loans:

	<i>Yes</i>	<i>No</i>
Is the loan for business purposes?	o	o
Is the loan on a vacation or second home (not principal residence) the borrower has stated will never be occupied as their principal residence?	o	o
Does the property contain more than 4 dwelling units?	o	o
Is the loan a home equity line of credit?	o	o
Is the loan a reverse mortgage?	o	o
Is the loan a loan under one year to acquire or to construct a new principal residence?	o	o
Is the loan to an existing corporation, partnership or LLC?	o	o

Business Loans: This only includes loans where: (1) all (or "nearly all" with senior management approval) of the loan proceeds will be used for a profit-motivated purpose and (2) where the borrower will be an active participant (verses passive investor) in that business. A Business Purpose Certificate should be completed and filed.

Vacation and Second Homes: This only includes loans on 1-4 family property that is a vacation home, a second home, or rental that the borrower indicates they do not occupy and have no intention of occupying. It is important to complete the Non-Owner Occupancy Declaration and put it into the file.

More than 4 Units: Loans on real property containing more than 4 legal dwelling units are exempt. Review the appraisal and the borrower's description of the property, rent rolls, etc. for confirmation of the number of units.

Home Equity Line of Credit & Reverse Mortgages: If the Company ever offers these products, the plan will be updated.

Construction & Acquisition Loans: Loans to enable the borrower to acquire or to build a new principal residence (as part of a "from ground-up" project verses home improvement) are exempt provided the loan term is one year or less. The one year is measured from the date of interest begins to accrue to the date of maturity. Options to extend are not permitted. Loans that are also secured by another dwelling do not qualify for the exemption.

Entity Loans: Loans to a corporation, general partnership, limited partnership or limited liability company are exempt provided: (1) the entity was in existence at least one year before the loan was applied for, (2) the entity has assets other than the real property occupied by one of its owners and (3) the purpose of the loan is business. Complete a Business Purpose Certificate.

Exempt—Below the Thresholds

Next, the Cal 32 Worksheet tests to see if the points and fees on the loan will cause it to exceeds the 6% threshold under the law or whether the APR will exceed the applicable threshold of 8% above the comparable T-Bill rate. The Worksheet begins with a calculation of the total counted points and fees on the loan:

COUNTED POINTS AND FEES CALCULATION

Prepaid Finance Charges:

- D. Total of all lender loan fees (excluding beginning interest): +(D) \$ _____
- E. Total of all broker compensation/fees paid by the borrower: +(E) \$ _____
- F. Total of all third party fees paid by borrower, including POC's, including all closing agent fees but excluding title insurance and recording fees and appraiser fees documented by receipt or bill from appraiser: +(F) \$ _____
- G. Total of all Cal 32 fees: =(G) \$ _____

CALCULATION OF LOAN AMOUNT AND 6% TEST

Next, the Worksheet contains a calculation of the "loan amount" to which the 6% test is applied:

- 1. Total Loan Amount (per application): (H) \$ _____
- 2. Minus total fees from line G: -(I) \$(_____)
- 3. Minus beginning interest: - \$(_____)
- Cal 32 Loan Amount** =(J) \$ _____

4. Divide the Cal 32 fee total reflected on Line G, by the Cal 32 loan amount on Line J:

(G) \$ _____ divided by (J) \$ _____ = _____%

If the above percentage is higher than 6%, the loan is subject to Cal 32 requirements.

ANNUAL PERCENTAGE RATE TEST

Lastly, the Worksheet contains an Annual Percentage Rate test:

- 1. Comparable T-Bill Rate* _____% plus 8% = _____% Maximum APR

2. Loan APR= _____ Loan APR

If the Loan APR exceeds the Maximum APR threshold, the loan is subject to Cal 32 requirements. R.

*T-Bill rate as of the 15th day of the month preceding the loan application.

III. PRE-CLOSING PROCEDURES AND REVIEW FOR EXEMPT LOANS

As part of the quality control review on each exempt loan, these procedures should be followed:

Pre-Doc Review. If the counted points and fees or APR are critical to the exemption, prior to the documents being drawn for a loan, the person drawing documents must contact the closing agent to get a firm quotation of the final projected fees and costs on the loan. If the closing agent is unsure of a fee, have them give you an estimated amount as a pad. Second, those fees must be compared with the fees with the figures in the Counted Points and Fees calculations in the Worksheet, and set forth above. **ADDITIONAL FEES COULD CAUSE THE LOAN TO EXCEED THE COUNTED POINTS AND FEES THRESHOLD OR APR THRESHOLDS.**

Instructions to the Closing Agent. To prevent the closing agent from imposing fees not considered in the calculations, the closer should include instructions to the closing agent to the effect: "Do not charge the borrower for any fees or costs not reflected in these instructions, unless the fee or cost is for some special service requested solely by the borrower. Contact the lender for permission to charge lender any other fee or costs."

IV. POST CLOSING FILE REVIEW OF EXEMPT LOANS

Within a reasonably short time after receiving the closing statement for the recorded loan, a quality control person within the Company shall review the file (and note thereon) to confirm:

Exempt because Below Threshold:

The final fees and costs are equal to or less than the fees and costs considered on the Worksheet. The final APR is equal to or less than the APR considered on the Worksheet.

Exempt for Other Reasons:

If applicable, a signed Business Purpose Certificate or Non-Owner Occupancy Declaration is contained in the file. The collateral for the loan did not change since underwriting.

If an error is discovered, it is the policy of the Company to take decisive corrective action. If the error resulted in the final points, fees or APR crossing the threshold into a Cal 32 loan, a refund shall immediately be made to bring the loan below those thresholds. In addition, a review shall be undertaken and documented to determine the lapse that allowed the error to occur. Corrective measures shall be implemented to avoid the same error in the future. If the error is missing evidence and/or declaration for another exemption, management should be consulted to determine corrective action on a case-by-case basis.

V. UNDERWRITING CAL 32 LOANS (NOT EXEMPT LOANS)

A. UNDERWRITING ABILITY TO REPAY

1. Income Tests. The Company will only make a Cal 32 where the borrower has a reasonable ability to repay the loan based upon their verified income. Income is tested on a Cal 32 Quality Control Checklist by two methods. First, the borrower's back-end debt ratio (housing expense and other installment debt divided by income) must be below 55%. In addition, after deducting housing expenses and installment debt from the borrower's income, the remaining income must equal or exceed \$1,000 plus \$200 for every member of the household over two persons. The checklist lists these two tests as follows:

Ability to Repay Tests:

1. Back-end Debt Ratio Test: (Fixed Expenses, Verified Income) = _____% (*must be 55% or less*)
2. Disposable Income Test: Total Verified Income - Fixed Expense = \$ _____
(*must exceed \$1,000 plus \$200 for every member of household over 2 persons*)
2. Verification. To qualify for consideration, income must be verified. The method will vary by the type of income. In general, the Company will verify the various types of possible income by these methods:
 - (a) Wage Earner: For employment income, a recent paycheck stub, W-2 or tax return is sufficient.
 - (b) Self-Employed: For self-employment income, the income shown on Schedule C of the borrower's federal income tax return, or a profit and loss coupled with 6 months bank statements showing the income reflected on the P&L.
 - (c) Social Security; Retirement: Federal statement, check stub, correspondence or 6 months bank statements. Tax-exempt income may be adjusted to 120% for its tax-exempt status.
 - (d) Rental Income: Copy of lease and at least three recent bank statements showing the deposit of rentals. Deduct housing expenses (mortgage, taxes, insurance) to determine net rental income.
 - (e) Child or Elder Care: If paid in cash, consider only income supported by telephonic or written confirmation from payor.
 - (f) Boarders: 3 recent bank statements if paid by check, written confirmation by boarder and copy of written agreement with boarder if paid in cash.
 - (g) Temporarily Unemployed. Use previous years verified income (by one of the methods above), written statement from borrower covering the reason for temporary unemployment and the prospects for re-entry into job force within 60 days. Consider co-signer until employment is resumed.
 - (h) Borrower in Foreclosure. Decline unless: (i) foreclosure caused by temporary unemployment, and meets guidelines above, (ii) new loan will cure foreclosure AND monthly payment will be lower or (iii) you secure a firm, written commitment from a qualified co-signer to assist borrower by a fixed sum each month for as long as necessary and co-signer signs promissory note.
 - (i) Co-Signers. The use of income from co-signers is permissible under limited circumstances. First, the co-signer's income must be verified. Second, co-signer must be related by blood, marriage or close friendship. Third, the combined back-end debt ratio of both borrowers and co-signers (after merging both of their income and expenses) cannot exceed 45%.

The Cal 32 Quality Control Checklist must be completed:

Monthly Verified Income (attach verification used)

Sources: W-2s/Tax Return: \$_____, Self-Employment \$_____,
Tax Exempt (gross-up by 20%) \$_____, Net Rental: \$_____,
Other: \$_____ Amounts \$_____ \$_____ \$_____ \$_____
Verification Used: _____
Adjustments ± : \$_____ Reasons _____
Total Verified Income: \$_____

Monthly Fixed Expenses

Proposed loan (fully adjust payment if ARM): \$_____
Other mortgages: \$_____
Property Taxes/Ins./HOA: \$_____
Other Installment Debt per app/credit report: \$_____
Total Fixed Expenses: \$_____

B. UNDERWRITING IDENTIFIABLE BENEFIT

To qualify for a loan, there must be an identifiable benefit to the borrower. The Company will normally follow these guidelines:

Acceptable:

- o Borrower needs cash out that is more than 3 times the closing costs associated with this loan.
- o Borrower’s monthly mortgage savings will exceed closing costs within 36 months.
- o Borrower needs to refinance a balloon payment.
- o Borrower is buying or building a new residence.

Unacceptable:

- o Cash out less than three times closing costs.
 - o Monthly mortgage savings cannot be recouped in less than 36 months.
 - o Purpose is to payoff high interest rate credit cards unless borrower is made aware in writing that the credit card debt could probably be dischargeable in a bankruptcy but that will not be the case once the debt is rolled into a loan secured by the borrower’s home. Borrower should be encouraged in writing to cancel credit cards to avoid over-extending. Consider requiring credit counseling before closing loan and get verification thereof.
- The Company will consider exceptions to the above and other situations on a case-by-case basis.

C. UNDERWRITING LOAN PRODUCT SELECTION.

It is the policy of this Company to offer the loan applicant the best loan product they qualify for. As part of that commitment the Company will:

1. Loan Grid. Maintain a listing of its loan products and pricing by credit grade, loan to value ratio, and debt ratio. If the loan will be brokered, the listing will be consistent with the products offered by the Company’s regular lenders as determined by a review at least annually. If the lenders are private, the survey will be limited to those lenders who made or purchased at least 3 loans from the Company in the previous year. If the loan will be made and resold, the listing will be based upon information gathered from prospective loan purchases the Company regularly (10% or more of the Company’s volume of such loans) does business with.
2. Match. The Company will offer the borrower the best priced product for which they qualify from the grid, and it will document that selection. The Quality Control Checklist requires the underwriter to explain why the borrower did not qualify for the next best product:

Loan Program Superior to Product Offered Borrower (identify by name if any):

Next better loan program has these qualities: lower rate longer term fixed adjustable
Reason Borrower did not qualify: debt ratio credit mortgage history recent BK
Comments: _____

In the Comments section, the underwriter should further explain the specifics that prevented the borrower from qualifying for the better product.

VI. LOAN DOCUMENTATION FOR CAL 32 LOANS

The Company's creation, timing, delivery and review of loan documentation must show attention to detail. The person performing each act should log each activity in the Cal 32 Quality Control Checklist. Backdating, filling-in information after the fact, false entries and other types of shortcuts are prohibited and, if discovered, will be the basis for disciplinary action.

The review process is divided into two phases. The first phase deals with the early disclosures the Company will give in addition to other required disclosure. The discussion below deals only with the documents unique to Cal 32 loans.

Prior to the borrower signing any documents of a contractual nature, they must be given the Phase 1 documents and at least three business days must pass before any contracts are signed. You can count the day they receive the documents as day 1 and contracts can be signed on the 4th day.

Again, the Quality Control Checklist lists the Phase 1 documents and the review that must be performed on each:

Phase 1 Documents

Section 32 Notice Contents: completed with correct loan amount APR payment schedule balloon

Consumer Caution Notice: prepared

No-Prepay Product Offer: N.A.: only loan offered has no prepay
 completed with amount rate term points closing

Transmittal of Phase 1 Documents: Date: _____ Method (include air-bill): _____ by _____ to both borrowers

Return: Date Section 32 Rec'd: _____ Date Signed For: _____ signatures complete
Date Caution Rec'd: _____ Date Signed For: _____ signatures complete

First Date Final Docs can be signed: _____

When completing the Section 32 Notice, it is important to first catalog all possible closing costs and include them in your computations so the final APR will be at or below the figure the Company disclosed earlier. If the borrowers

did not acknowledge receipt of early notices on the day they should have received them; they may acknowledge receipt when they sign closing documents. However, you need to add:

“Received on _____”

Ask each borrower to initial this earlier date. Below they would sign and put the current date. The file should have an air-bill, fax receipt or other proof of the earlier delivery.

Phase 2 Documents

Provided the borrower has not indicated an unwillingness to go forward with the loan, the loan will progress to a final document stage. Closing cost information should be confirmed with the closing agent and adjusted if necessary to bring the APR at or below the number disclosed in the Section 32 Notice. The document preparer is then required to review the loan documents and complete the QC Checklist:

Promissory Note Contents & Loan Terms: no prepay penalty (unless alternative loan offer previously made)
 no prepaid payments no balloon no default interest rate no negative amortization lender fees, broker fees
and other prepaid finance charges financed by the loan do not exceed 5% of note amount

Notice to Assignee: in note in deed of trust in assignment

Pre-Funding

Review the 3-Day Right to Cancel to confirm the correct dates were filled-in. Review once again the Truth-in-Lending Disclosure Statement to make sure the borrower signed for it. Is acknowledgment of receipt of the Section 32 Notice and the Consumer Caution Notice in the file?

Post-Closing Review

Within a reasonably short time after receiving the closing statement for the recorded loan, a quality control person within the Company shall review the file (and note thereon) to confirm that no new closing costs were imposed on the borrower that would render the earlier disclosures inaccurate. The 3-day right to cancel should be reviewed to make sure all dates were filled-in correctly.

If an error is discovered, it is the policy of the Company to take decisive corrective action, including refunding any undisclosed fee or cost.