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

Company Name:

Date of Adoption:

1. 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 procure when making loans on 1-4 family residential properties. The plan become effective starting with loan applications received on or after July 1, 2002 and shall continue until rescinded or modified in writing. The key element of the plan is 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").

2. COMPLETION OF CAL 32 WORKSHEET

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. The worksheet lists the loans that are not Cal 32 loans and therefore eligible for consideration by the Company.

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?	<input type="radio"/>	<input type="radio"/>
Is the loan on a vacation or second home (not principal residence) the borrower has stated will never be occupied as their principal residence?	<input type="radio"/>	<input type="radio"/>
Does the property contain more than 4 dwelling units?	<input type="radio"/>	<input type="radio"/>
Is the loan a home equity line of credit?	<input type="radio"/>	<input type="radio"/>
Is the loan a reverse mortgage?	<input type="radio"/>	<input type="radio"/>
Is the loan a loan under one year to acquire or to construct a new principal residence?	<input type="radio"/>	<input type="radio"/>
Is the loan to an existing corporation, partnership or LLC?	<input type="radio"/>	<input type="radio"/>

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, use the Cal 32 Worksheet to test 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) \$ _____ = _____ %

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. Reduce the interest rates or fees to .10% below Maximum APR.

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

3. PRE-CLOSING PROCEDURES AND REVIEW

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 or borrower any other fee or cost."

4. POST CLOSING FILE 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:

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.