QUALITY CONTROL

EXPECTATIONS

NewRez's QC monitoring includes loan reviews which take place both prior to loan purchase and after loan purchase. All exceptions will be identified as to the level of risk the issue represents. Responses to issues of lower risk will not be required but will be tracked and reported to the Lenders should an excessive pattern or trend be identified.

A written response is required for all High or Medium risk findings. Audit findings and response instructions will be described in a summary sheet and forwarded to the Lender by e-mail communication. E-mail distribution provides a means to confirm delivery and receipt of the request. Responses are required to be returned to NewRez within five business days by e-mail along with supporting documentation. Any Lender not in compliance with response procedures will be reported to Senior Management in the monthly Quality Control Report.

A loan that is determined not to meet NewRez guidelines may require correction of the violation, indemnification, return of SRP, and/or reimbursement of losses or loan repurchase. Additionally, issues not resolved within the required time frames could result in suspension or termination of the relationship.

In the event the audit process reveals fraud or misrepresentation, a description of the type of fraud and recommendations for corrective action will be included in the monthly report to Senior Management and for further reporting to any required regulatory agency or investor. If there is sufficient information established to confirm a Lender participated in the misrepresentation, the business relations with the Lender will be terminated immediately including all loans in the NewRez pipeline from the Lender.

NewRez requires all Lenders to maintain a Quality Control Plan within their own company to help guard against errors, omissions, and fraud. A general overview of the components of a sound QC Plan are outlined below, however, detailed requirements of FHA, VA, FHLMC, FNMA, and USDA must be followed by all Lenders originating and selling loans under these products.

THE PLAN
The QC Plan must be written and maintained to current guidelines. It should be administered independently of the origination process and contain all Agency, Investor, and Regulatory requirements.

The Plan should clearly describe the:

- Sampling method
- Organizational structure
- Qualifications of review staff

- Plan for completing branch reviews
- Pre and post funding process
- Timing of reviews
- Method of reporting defects
- Calculation of the defect rate
- Process of distributing results to Senior Management
- Evaluation of reports and method to address issues with corrective action
- Requirement for agency notifications when necessary
- Procedures for maintaining records of reports, loan files and all related documents

It should also include a company's record retention policy and provide for review and oversight of the audit functions.

PREFUNDING REVIEWS

An acceptable QC plan must include a process for auditing a sample of loans prior to loan closing to prevent closing loans with errors, misrepresentation, or insufficient documentation. Sampling methodology should include loans with higher risk characteristics. The process should also insure a representative sample of loans from all products, branches, and personnel. Loans should be evaluated for data integrity, accuracy of credit and collateral information, and to insure the loan meets all guideline parameters. Prefunding audit results should be included in tracking and trending reports along with post-funding results provided for executive review.

POST-FUNDING REVIEWS

Post Funding reviews must comply with all agency requirements concerning timing, loan selection, sample size, and document re-verification. Audit processes must include a check of all credit documents, collateral documents, and closing documents for accuracy and compliance with eligibility criteria. The reviewer is also expected to validate the soundness of the underwriting decision and/or all requirements of the underwriter or AUS were included in the loan file.

Other required reviews:

- Early Payment Defaults
- Declined Loans
- Insuring Process

- Branch Reviews
- Servicing Reviews
- Vendor Audits
- QC Process Review

THE PROCESS

Within the sampling methodology, loans must be selected on a random, targeted, and discretionary basis. Discretionary samples should include higher risk characteristics such as product type, high ratio, high LTV, areas of high delinquency, or areas of decreasing property values. Targeted loans will be selected from loan categories meeting specific conditions (such as EPD's and EPO's).

Audits should include a re-verification of all underwriting documents in the credit file and a desk review of the appraisal. A field review of the appraisal must also be ordered on at least 10 percent of audits.

Other standard elements that the review should include are occupancy, underwriting decision, and loan approval conditions. The closing package must be reviewed for required documents, accuracy of information, and compliance with regulatory and agency requirements. All exceptions should be documented and scored on a uniform rating system based on the associated risk.

REPORTING

An effective QC Plan must include consistent reporting of all results to Senior Management and an appropriate method for implementing corrective action to the findings. Reports should include sample selection, loan level findings, trending and management responses. Performance issues should be addressed based on the severity.