

Residential Mortgage Audit Program
6/30/11

Audit Procedure	By:	Reference/Comments
<p>Internal Controls</p> <p>1. Obtain and read job descriptions, written policies & procedures, any Servicing Agreements, etc.</p> <p style="padding-left: 40px;">a. Note specifically which responsibilities are CU's versus those of servicers.</p> <p style="padding-left: 40px;">b. Determine adequacy of written lending policies by completing the <i>Mortgage Policy ICQ</i> and 1-3 of the <i>Real Estate Mortgage Lending ICQ</i>.</p> <p>2. Note any control weaknesses.</p> <p>3. Throughout testwork, ensure that policies & procedures are current, and adequately address all processes in place.</p> <p>5. Via inquiry and field work, complete <i>Real Estate Mortgage Lending ICQ</i>.</p> <p>Application Process</p> <p>1. Document the application process including where apps are taken (including on-line), how they are logged, and personnel involved.</p> <p>2. Specifically note the procedural differences between mortgages retained, and those sold in the secondary market.</p> <p style="padding-left: 40px;">a. For loans sold, complete <i>Selling of Servicing Rights & Secondary Market ICQs</i>.</p> <p>3. Through discussion and/or review of training records, determine extent of fair lending training of personnel taking apps.</p> <p>4. Ensure that app fees are being processed properly, and in compliance with FASB 91.</p> <p>5. For CUC loans, review CU's copy of the Excel Certificate (which is the summary sheet faxed to CUC) for completeness and accuracy.</p>		

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<p>a. Ensure that the Certificate clearly states whether or not the mortgage is to be retained by CU.</p> <p>Denied Loans</p> <ol style="list-style-type: none"> 1. From the “Credit Committee Minutes” system report, select 20 denied loan requests, and using the <i>Adverse Action Worksheet</i>, ensure that applicants were notified in accordance with Reg. B requirements. 2. Review for any trends that could indicate inadequate fair lending standards are in place. 3. Complete <i>ECOA, ECOA-RE and HMDA/LAR ICQs</i>. <p>HMDA</p> <ol style="list-style-type: none"> 1. Obtain and/or document the HMDA process. 2. Read the most current <i>A Guide to HMDA Reporting: Getting it Right!</i> 3. Obtain most recently filed HMDA-LAR; review for completeness and accuracy and complete <i>HMDA-LAR ICQ</i>. 4. If filed electronically, note how data is adequately protected. 5. Review HMDA-LAR for any patterns that could indicate inadequate fair lending. 6. Ensure the notice of availability of the disclosure statements are properly posted in the lobbies of the branch and home offices. 7. Complete the <i>HMDA Questionnaire & HMDA-LAR ICQ</i> <p>Referrals</p> <ol style="list-style-type: none"> 1. Document controls over mortgage referrals; Include brokered loans. 2. Review contract(s) with vendor(s); follow up to ensure adherence. 		

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6/30/11

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<p>3. Determine if there is a referral fee to CU, and if so, that it is processed properly.</p> <p>4. Review any brokered loans, or other potential sub-prime loans for adequacy, and adherence to regulatory issues.</p> <p>Originated Mortgages</p> <p>1. Document controls over originated mortgages.</p> <p>2. Determine that the loan closing is properly handled.</p> <p>3. Where applicable, ensure that all pertinent copies of documentation are furnished upon request to CU as stated in paragraph 6 of the “Excel Agreement” (copy of which is in PAF) between SFCU & CUC. (CUC keeps the original docs.)</p> <p>4. Determine that the fee paid to CUC was as indicated on the Excel sheet.</p> <p>5. Select a sample of 25 loans; obtain corresponding files.</p> <p>6. Review corresponding documentation; complete <i>Doc Review & Mtge Compliance Doc Review</i> sheets and <i>Compliance ICQs</i> for each.</p> <p>7. For sold mortgages, review documentation of wire for propriety and accuracy.</p> <p>8. Via discussion with management, and/or H/R, document the process for incentive pay based on loans made (include both Originations and Operations.)</p> <p style="padding-left: 40px;">a. Determine how management monitors this.¹</p> <p style="padding-left: 40px;">b. For the above sample, review corresponding loan for accuracy and propriety of such incentive payments.</p>		

¹ NCUA Part 721.7 (b)(4) allows incentive payments provided that the Board, “establishes written policies & procedures and internal controls regarding third-party compensation and determines the employee’s involvement does not present a conflict of interest.”

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<p style="text-align: center;">c. Look for existence of questionable loans made due to incentives.</p> <p>9. Ensure that quality control checklist was properly completed.</p> <p>10. Ensure QC checklist has been revised to incorporate recent changes to applicable regulations.</p> <p>Accounting Process</p> <p>1. Document the process by which new loans, loan payments, payoffs, etc are entered onto the system.</p> <p>2. Review the most recent CUC information packet (and, if applicable, comparable information from other 3rd parties) sent to the Accounting Dept, and agree to the figures input by Accounting.</p> <p>3. Ensure that there is a documented balancing.</p> <p>4. Follow up on any variances.</p> <p>5. Review corresponding G/L reconcilements.</p> <p>6. Trace figures from CUC “Delinquent Detail” report to CU’s delinquency report.</p> <p>Appraisals</p> <p>1. Verify that the appraisers used is competent to provide an accurate appraisal by reviewing the following:</p> <ul style="list-style-type: none"> a. Inquire about the appraiser’s professional certification, license, or other verification that would ensure competence in the industry; b. Inquire as to the appraiser’s familiarity with the items being appraised; c. Type of experience; and d. Determine if the board preauthorized the use of the specific appraiser (or firm). <p>2. Verify that the appraiser has no relationship with the credit union and has not appraised an item that would affect objectivity:</p>		

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6/30/11

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<p>a. Financial interest in credit union assets;</p> <p>b. Contingent fee terms based on results of a specific appraisal; or</p> <p>c. Other significant services performed for the CU.</p> <p>3. Verify that the assumptions used by the appraiser are accurate, by reviewing the appraisal and noting:</p> <p>a. Methods selected to do the appraisal are the most relevant under the circumstances;</p> <p>b. Adequate consideration and provisions are made for appropriate deductions and discounts for any development properties (i.e., interest and holding costs have been considered for a reasonable development pay-out period); and</p> <p>c. If the market/economic feasibility prospects for the property are in sufficient detail to support a forecast of probable success.</p> <p>4. Ensure compliance with NCUA Part 722, 06-RA-04, Letter 05-CU-06 and 03-CU-17, and complete <i>Appraisal ICQ</i>.</p> <p>5. Complete #5 of the <i>FHA ICQ</i>.</p> <p>Fair Housing Act</p> <p>1. After review of approved and denied loan requests, complete items 1-2 in the <i>FHA ICQ</i>.</p> <p>2. Review a sample of 10 RE advertisements and complete <i>ICQ</i> item #3..</p> <p>3. Based on observations, complete <i>ICQ</i> item #4.</p> <p>4. Ensure controls are in place to ensure compliance with new (2010) HUD annual audit requirements.</p> <p>Fair and Accurate Credit Transactions Act of 2003 (FACTA)</p>		

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6/30/11

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<p>1. Via discussion with management and/or review of written policies & procedures, determine how management has implemented controls to comply with FACTA.</p> <p>2. Determine if staff has adequate knowledge of FACTA.</p> <p>3. Complete the <i>FACTA ICQ</i>, and <i>Reporting Credit History ICQ</i>.</p> <p>Mortgage Loan Fraud</p> <p>1. During the course of field work, look for existence of mortgage loan fraud, in areas such as:</p> <ul style="list-style-type: none"> a. Automated loan processing; b. Sub-prime loans; c. Mortgage broker originated loans; d. Identity theft; e. Fixed income and elder exploitation; f. Appraisal fraud; g. Misrepresentation of loan purpose; h. Ponzi schemes; i. Home improvement scams; j. Fraudulent property “flipping”; and k. Financing non-existent properties. <p>2. Review SARs from the past 12 months for any which involve mortgage loan fraud; note any trends.</p> <p>3. Review foreclosures from the past 12 months for any which involve mortgage loan fraud; note any trends which may indicate mortgage loan fraud.</p> <p>4. Document management training and controls to prevent mortgage loan fraud; opine on adequacy.</p> <p>Variable Rate Mortgages</p> <p>1. Document controls over variable rate mortgages (VRM).</p>		

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<p>2. Note how management ensures subsequent disclosures are sent.</p> <p>3. Select a sample 15 VRMs, and complete the <i>Reg Z-VR ICQ</i>.</p> <p>S.A.F.E. Act</p> <p>1. Read and become familiar with the SAFE Act (12 CFR 761), and related reference materials.</p> <p>2. Obtain CU's corresponding written policies & procedures; ensure they were in place by 10/1/10.</p> <p>3. Test adequacy of P&P's by completing #14 of SAFE Act ICQ.</p> <p>4. Ensure CU had Mortgage Loan Originators identified & registered in the Registry by 7/29/11.</p> <p>5. Determine compliance with Act via completion of SAFE Act ICQ; opine on adequacy.</p> <p>3rd Party Due Diligence</p> <p>1. Obtain list of mortgage 3rd party processors who have been contracted since the prior audit.</p> <p>2. Via discussion, and review of corresponding documentation (including <i>Third Party Diligence Risk Assessment</i>), document due diligence performed.</p> <p>3. Opine on adequacy, and if in compliance with CU Policy.</p> <p>4. Complete 3rd PDD ICQ.</p> <p>User Access</p> <p>1. Obtain user access for all staff.</p> <p>2. Ensure that access is consistent from position to position.</p> <p>3. Ensure that access is appropriate for position level</p> <p>4. Ensure that access provides adequate separation of duties.</p>		