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MORTGAGE FINANCE TRAINING AND CAPACITY BUILDING

EGYPT FINANCIAL SERVICES PROJECT
TECHNICAL REPORT #87A

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Task: Task 1: Establish Supporting Framework for Real Estate Finance Industry

KRA: 1.10.1 Capacity Building of Banks to Extend Housing Finance Loans through Mortgages

Activity: Capacity Building of Banks to Extend Housing Finance Loans Through Mortgages

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Acronyms

ALO	Accredited Loan Officer
AM	Amortization rate
CAP	Capitalization Rate
CBE	Central Bank of Egypt
CMC	Certified Mortgage Consultant
CRMS	Certified Residential Mortgage Specialist
EBI	Egyptian Banking Institute
EMA	Egyptian Mortgage Association
EMRC	Egyptian Mortgage Refinance Company
EPMMC	Egyptian Primary Mortgage Market Course
EFS	Egypt Financial Services Project
GAAP	General Accepted Accounting Practices
GOE	Government of Egypt
IT	Information Technology
LO	Loan Officer
LTV	Loan to Value Ratio
MFCs	Mortgage Finance Companies
MIS	Management Information System
MFA	Mortgage Finance Authority
NOI	Net Operating Income
PP	Power Point
REO	Real Estate Owned
SBI	ShoreBank International Ltd
SME	Small and Medium Enterprises
SOW	Scope of Work
TOT	Train the Trainer
TT	Trainer Trainee
USAID	United States Agency for International Development

Executive Summary

The objective of this SOW was a continuation of previous efforts to facilitate the expansion of the mortgage lending system which, if adopted, would be a contributing factor of economic growth in Egypt.

The report focuses on current market conditions and recommendations as it relates to mortgage brokers and their role in expanding the mortgage industry. In addition, this report will address the roles and perspectives of real estate developers and banks which directly and indirectly affect the mortgage and housing industry.

Since Mortgage Brokers can be fast, low cost, providers of service to both first-time home buyers and owners of real property, by virtue of their involvement in their communities, they are often the first contact with property owners who wish to use valuable equity from their real property to their advantage. If properly trained and qualified, mortgage brokers are an efficient delivery system to the primary market, relieving primary lenders of the necessity of investing in loan production staff, and hard assets such as "brick and mortar." Mortgage brokers may also be best suited to serve outlying areas and areas where primary lenders choose not to open branch offices.

Over 210 mortgage brokers are currently licensed in Egypt, many of whom are not properly trained or qualified to originate and document a loan request for submission to a primary lender. This report includes recommendations to develop a "how to" workshop and a workshop for Mortgage Broker Operations which will address the basic elements of proper management of a mortgage broker office.

As loan originations are expected to increase, it will become necessary to develop a meaningful method for assuring compliance with Mortgage Finance Law 148 for the year 2001 and its executive regulations to protect the public from harmful business practices.

The contents of this report will discuss steps necessary to:

- create specific courses to be taught to mortgage brokers;
- implement and enhance examinations (tests) administered by MFA for licensing mortgage brokers;
- implement a system for physical examination of the books and records of mortgage brokers as a means to verify compliance with the law;
- implement a licensing renewal system that requires mortgage brokers to improve or sustain core competencies; and
- introduce the concept of loan officer education and licensing, in order to
- encourage all local banks to engage or increase participation in the mortgage lending sector of the Egyptian economy.

Introduction

The Mortgage Finance Law 148 passed in 2001 intended to open the doors to more homeowners through development of a mortgage market. While two mortgage finance companies (MFC's) are actually operational and two more licensed, growth has been slow.

Acceptance by banks (direct lenders) has also been slow to materialize due to concerns about foreclosure laws, property registry, risks in lending in an untested market sector and extension of credit beyond current market depository instruments, i.e., certificates of deposit.

In addition, developer financing of buyers has created a submarket not found in other developed regions. Essentially, a builder pre-sells all units to be constructed in a building. At the time of contract, the developer collects 25% of the purchase price from the buyer and requires the buyer to pay the balance of the contract price over a period of three years in equal monthly installments. During that time, the developer constructs the project with buyer funds, his own capital and a minimal amount¹ of bank financing. When the project is complete and the borrower makes final payment to the developer title is passed to the buyer who has essentially paid for the property without debt. This financing scheme is favorable to both the developer and buyer as it severely limits the cost of interest or other financing charges.

Consequently, the mortgage market faces obstacles to growth not the least of which is the promotion of mortgage finance by mortgage brokers. When Mortgage Finance Law 148 was passed, mortgage brokers were written into the law under a broad definition of "broker" and with few qualifications. Now, the MFCs and MFA are faced with mortgage brokers who have no training in sales and marketing, mortgage originations, loan documentation, or proper underwriting techniques.

As a result, this technical report will provide recommendations for improved training. Section A is Recommended Mortgage Brokers Course of Study with further subdivisions in the following subjects:

- "How To" Workshop
- Mortgage Broker Operations Workshop
- General Knowledge
- Laws and Regulations
- The Loan Process
- Financial Skills
- Instructor Selection
- Evaluations
- Venue Selection
- Classroom size
- Promotion and Publicity
- Pricing
- Licensing and Empowering Educational Enterprises
- Testing and Question Writing

Following in Section B is Recommendations for Mortgage Broker Licensing Renewal with further subdivisions:

¹ Mr. Fathalla Fawzi Mohamed, Chairman of Mena for Touristic and Real Estate Investment, who is also the President of the Builders and Developers Association, states that the average builder needs to borrow only 25% of the cost of the project from banks.

- Determination of Operational Status
 - Licensing Loan Officers
- Assessment of Administrative Fees
- Determination of Competency
- Mortgage Broker- Public Recovery Fund
- Role of Mortgage Brokers Associations
- Mortgage Broker Tribunal

Section C is Recommendations for Examination of Mortgage Brokers, which is a discussion on the physical elements of examining a mortgage broker operation, including subdivisions:

- Examinations vs. Audits
- Notification of Examinations
- Selection of Examiners
- The Examination Process
- Content of Examinations
- Exit Interview by Examiner
- Future Examinations
- Repeat and Willful Violations
- Fines and Penalties

Following the recommendations is a brief overview of mortgage lending in a bank environment followed by reviews of the appraisal course and mortgage testing software.

SECTION A:

RECOMMENDED MORTGAGE BROKER SKILLS DEVELOPMENT AND COURSE OF STUDY

1. Summary

Mortgage Brokers are fast, low cost, providers of service to both first-time home buyers and owners of real property. Mortgage brokers, by virtue of their involvement in communities and neighborhoods, are often the first contact with property owners who wish to use valuable equity from their real property to their advantage. Further, trained and qualified mortgage brokers are an efficient delivery system to the primary market, relieving authorized Mortgage Finance Companies of the necessity of investing in loan production staff, employee overhead expense, as well as other hard assets otherwise known as “brick and mortar.” And, certainly not least, mortgage brokers are best suited to serve outlying areas and areas where MFCs choose not to open branch offices.

This proposed course of study is designed to be the framework of a body of knowledge that mortgage brokers and their employees (loan officers) should have before being licensed to advise real property owners on matters of financing the greatest asset families have.

This course may be considered for entry level and prospective licensees which should be an integral part of a comprehensive training program that includes practical, hands on, “how to” training. While the current mortgage broker licensing law broadly describes the experience requirement as being five years in “brokerage,” notwithstanding the fact that the term “brokerage” is too broad, but the industry is so new, that actual hands-on experience in the production of mortgage loans is very limited and may be of low quality.

When interviews were conducted with participants in the industry, it was learned that mortgage brokering is a sideline business to many currently acting as mortgage brokers. Consequently, the recommendations made herein, propose a progressive program to bring currently licensed mortgage brokers and those seeking a license to a higher standard of knowledge, thereby increasing the quality of every loan application taken and delivered to an MFC. To that end, it is in the best interest of the mortgage brokers association and MFCs to hold workshops designed specifically to teach mortgage brokers how to deliver a quality product that will be met with a fast loan decision.

2. Mandatory Workshops

In addition to the primary course of study, it is recommended that each mortgage broker candidate must attend two eight hour workshops, hosted by the MFA or other authorized institution after the mortgage broker has passed the basic examination and before the mortgage broker license is issued by the MFA.

2.1 “How to” Workshop

The first is step by step eight hour workshop for teaching the licensee candidate specifically how to:

- conduct a proper interview with the borrower
- properly complete a loan application

- obtain the proper documentation to verify income and assets
- properly compute and complete a disclosure of costs
- properly assemble a loan file
- properly document the borrowers needs and expectations
- write a loan request or an executive summary of the transaction
- interact with the MFC
- assist with the loan signing process

The course of study also includes provisions for continuing education and development of advanced skills for the mortgage professional who desires to advance his or her profession and career and for renewing their license. License renewal will be discussed further at the end of this document.

2.2 Mortgage Broker Operations Workshop

The second workshop, titled *Mortgage Broker Operations*, will include the following topics:

- Record keeping requirements
- Employee hiring requirements
- Accounting practices
- Preparing for an examination of the mortgage broker operations by MFA
- Required disclosures to borrowers
- Prohibited acts
- Business ethics

This workshop will better prepare the mortgage broker to employ sound business practices and methods of business management.

3. Course of Study

The following course of study is subdivided into four areas; General Knowledge, Laws and Regulations, The Loan Process, and Financial Skills. Each subdivision is noted with the recommended number of hours of instruction. If the candidate should fail the exam, he/she should be permitted to retake the exam one (1) additional time in a 12-month period.

3.1 General Knowledge

The first session of General Knowledge is intended to give the student participant a global perspective in the cycle of lending. Such a perspective allows the student/participant a better understanding of the impact of home ownership and the flow of capital in micro, as well as a macro economic environment. Studies of economic cycles provide the student/participant better insight into changes of underwriting standards and risk models, while identifying the roles of government agencies and programs designed to further private ownership of real property.

3.2 Laws and Regulations

The second session addresses the current mortgage finance law including mortgage broker licensing regulations, Minimum Quality Standards, as spelled out in the regulations, protocols of the New Urban Communities Act, and the Guarantee and

Subsidy Fund mandate. Relative to mortgage financing, the law is intended to be the framework for consumer protection by addressing matters of the tripartite agreement, and debt to income ratios intended to assist property owners from overextending their income with excessive debt. Notwithstanding protection of consumers, the law is moving forward, looking to protect property owners with identification of their property and property rights through the process of registration, which currently is estimated at less than ten percent (10%) of all properties in Egypt.

It is also imperative that mortgage brokers in Egypt understand the nuances and benefits of Sharia compliant contracts of Murabaha, Ijara Wa Iqtina, Musharaka Mutanaqisa, and Istisnaa. Finally, the advanced session also addresses important issues of the process of foreclosure.

3.3 The Loan Process

The significance of this session is evident by the number of hours of training, basic and advanced, necessary for proficiency in mortgage lending. A mortgage broker is expected to shoulder a substantial portion of the burden of the loan process by delivering a complete, accurate loan file in a clear and concise format which meets the standards of the MFCs and the secondary market; anything less should be reflected in the amount of compensation derived from the transaction, if any. The mortgage broker's activities must be "value added" to the process.

In addition to loan delivery, the mortgage broker must employ timely, accurate disclosures of loan costs, interest rates where applicable, terms of payments, reset agreements, final balloon payments, and penalties required in the loan agreement. While current mortgage finance law does not address each of the disclosures mentioned, the mortgage broker associations and their members should be proactive in this matter, and become an active participant in creating sound business practices to inform and educate the public.

Quality control of the loan process starts at day one with the first interview of the borrower and carries through until the loan is delivered to the mortgage finance company for approval and signing. Mortgage brokers must also take a proactive stance on the elimination of fraud. Identifying the methods of the criminal mind will reduce the number of unnecessary loan defaults and repossessions which lead to higher borrowing costs. Furthermore, professional management of the loan process leads to customer assurance and confidence that will return new business ten fold. The loan process session teaches mortgage broker's aspects of fiduciary responsibility to the client borrower as well as to the MFC or bank the loan will be delivered.

3.4 Financial Skills

Tantamount to sound origination skills is the ability to accurately calculate, assess, and analyze financial matters germane to the loan process. The loan underwriting process employs numerous financial calculations which, if left to the untrained, would result in potential disqualification of a borrower or worse, misleading a borrower to believe that the loan could be obtained when in fact it could not. To accomplish this objective, the Financial Skills session addresses basic skills. While this session is not designed to promote specific instruments (calculators), it is well-advised to passively suggest that complex, multifunction instruments are not necessary. An instrument with the ability to calculate amortized payments, balloon payments or future values, present values, terms, and annual percentage rates is sufficient for both basic and advanced applications.

OUTLINE OF BASIC AND ADVANCED MORTGAGE BROKER COURSES

Table A-3.1

3.1. General Knowledge – Basic	Hours
A. Mortgage finance market overview <ul style="list-style-type: none"> I. Economic impact of property ownership II. Role of mortgage finance in the economy 	2
B. Development of primary mortgage market providers <ul style="list-style-type: none"> I. Sources of funds for mortgage lending II. The cost of money and loan pricing 	1
C. Development and the role of secondary markets	1
D. Government agencies and their roles <ul style="list-style-type: none"> I. Ministry of Investment II. Ministry of Justice III. Ministry of Housing IV. Guarantee and Subsidy Fund V. Mortgage Finance Authority (MFA) VI. New Urban Communities Act 	1
E. Other Service Providers <ul style="list-style-type: none"> I. Appraisers II. Mortgage Finance Companies III. Banks IV. Credit Bureaus V. Egyptian Mortgage Refinance Company (EMRC) VI. Real Estate Brokers VII. Attorneys/Foreclosure Agents 	2
Total Hours Basic	7

3.1.1 General Knowledge- Advanced	Hours
A. Economic models of mortgage finance in developing countries	2
B. Development and the role of secondary markets i. Mortgage-backed securities ii. Reselling to mortgage investors	1
C. Residential lending and economic cycles	2
D. Commercial Loans i. Acquisition and Development ii. Construction Lending	4
Total Hours Advanced General Knowledge	9
Grand Total General Knowledge	16
<u>Table A-3.2</u>	
3.2 Laws and Regulations – Basic	
A. Mortgage Finance Law 148 i. Tripartite agreements ii. Loan to value limitations iii. Tenor limitations iv. Debt to income limitations	3
B. Prime Minister’s Decree No. 465 i. Mortgage broker licensing regulations ii. Education requirements (Article 40) iii. Bonding/licensing fees iv. Employee hiring requirements v. Compensation laws (Article 50) vi. Executive orders from MFA Board of Directors	1
C. Tax Laws affecting mortgage lending i. Lender incentives and liabilities ii. Borrower incentives and liabilities iii. Seller liabilities iv. Transaction taxes v. Developer incentives and liabilities	1
D. Security agreements and provisions to protect lenders i. Due on sale ii. Assignment of rents iii. Guarantee and Subsidy Fund	1
E. Registration of real estate property i. Overview of procedures and requirements for application ii. Ministries requiring approvals iii. Processing times	1

<ul style="list-style-type: none"> iv. Verification of ownership v. Methods of holding title <ul style="list-style-type: none"> 1. freehold rights 2. leasehold rights vi. Warranties surviving the passing of title vii. Protocol of New Urban Communities (Minister of Housing) 	
F. Islamic/Shariaa compliant and alternative instruments	2
Total Hours Basic Laws and Regulations	9

Table A-3.2.1

3.2.1 Law and Regulations - Advanced	Hours
A. New housing laws and legislative developments	1
B. Property ownership and matters affecting title <ul style="list-style-type: none"> i. Liens ii. Easements iii. Encroachments iv. Escheat v. Ownership rights vi. Covenants conditions and restrictions 	2
C. Foreclosure <ul style="list-style-type: none"> i. Reasons for defaults ii. Collection practices and procedures iii. Collection and consumer protections laws of Egypt iv. Overview of Executive Regulations of Real Estate Finance Law No. 148 v. Required notices vi. Registration and public notice vii. Assignment of foreclosure agent viii. Appraisal of property ix. Public auction of the collateral x. Results of third party bids xi. Alternate liquidation of the non-performing asset xii. Affects on lender portfolio by real estate owned (REO) xiii. Affects of bankruptcy xiv. Deed in lieu of foreclosure 	2
D. Affects and liabilities of insider loans	1
E. Mortgage finance companies regulations <ul style="list-style-type: none"> Corporate policies and management (Article 35) Bis (2) i. Policies and procedures (sub 1) ii. Authorized activities (sub 2-3) iii. Records management (sub 6) iv. Audit procedures (sub 7) v. Complaint resolution (Article 35 Bis 3) vi. Financial management (Article 35 Bis 2) vii. Record keeping (Article 35 Bis,4,5,6) 	2
Total Hours Advanced Laws and Regulations	8
Grand Total Laws and Regulations	17

Table A -3.3

2.3. The Loan Process	Hours
A. Role of mortgage brokers according to the law	.5
B. Pre-qualification procedures <ul style="list-style-type: none"> i. Preparing for the loan interview ii. Using the 4 C's of Credit to determine loan feasibility iii. Helping the consumer understand the obligation iv. Addressing borrower objections 	1
C. Loan originating methods <ul style="list-style-type: none"> i. Using electronic data processing ii. Online and internet applications iii. File preparation and documentation iv. Employing a loan document checklist v. Standardization of file organization vi. Quality control of mortgage loan files vii. Employing a client conversation log viii. Reading and interpreting real estate contracts ix. Case studies 	4
D. Disclosures delivered to the borrower upon loan application <ul style="list-style-type: none"> i. Cost estimates ii. Amounts and terms of payments iii. Loan reset requirements iv. Future transfer or sale of the loan v. Borrower rights to documents and information vi. Authorization from borrower to obtain information from third parties 	1.5
E. Collateral valuation <ul style="list-style-type: none"> i. Identification of real property ii. Market approach iii. Income approach iv. Cost approach v. Capitalization rates 	3
F. Adopting standard underwriting procedures <ul style="list-style-type: none"> i. Credit assessment ii. Alternate sources of credit verification iii. Risk assessment iv. Risk mitigation <ol style="list-style-type: none"> 1. verification of income 2. verification of credit 3. verification of ownership 4. length of ownership 5. Down payment and capital contribution requirements 6. Verification of sufficient income to close 7. Seller disclosures 8. Seller contributions to loan and closing costs 	4

<p>G. Sales and marketing</p> <ul style="list-style-type: none"> i. Methods to increase loan production ii. Effective methods of marketing iii. Understanding consumer behavior iv. Developing communication skills v. Employing the internet vi. Referrals vii. Marketing partnerships viii. Relationship building ix. Role playing x. Selling mortgages vs. installment sales 	2
<p>H. Business ethics</p> <ul style="list-style-type: none"> i. Conflicts of interest ii. Fiduciary responsibilities to the borrower iii. Fiduciary responsibilities to the lender iv. Preservation of client information v. Discriminatory practices 	2
Total Hours Basic the Loan Process	18

Table A -3.3.1

3.3.1 Advanced Loan Process	Hours
<ul style="list-style-type: none"> A. Collateral valuation <ul style="list-style-type: none"> i. Capitalization rates ii. Affects of economic cycles iii. Depreciation iv. Zoning and condemnation v. Subdivision law vi. Environmental impact <ul style="list-style-type: none"> 1. water 2. toxic materials 3. lead-based paint vii. Engineering and physical obsolescence 	4
<ul style="list-style-type: none"> B. Identification of fraud <ul style="list-style-type: none"> i. by the borrower ii. by the mortgage broker iii. by the real estate agent iv. by the appraiser 	2
<ul style="list-style-type: none"> C. Quality control <ul style="list-style-type: none"> i. Flow and control of loan documents 	1
<ul style="list-style-type: none"> D. Loan closing <ul style="list-style-type: none"> i. Documents ii. Elements of promissory notes iii. Elements of the security agreement iv. Procedures for attorneys and settlement agents v. Verbal and non-verbal representations made to borrowers 	2
<ul style="list-style-type: none"> E. Overview of loan administration and sub-departments (Article 57) <ul style="list-style-type: none"> i. Value of loan servicing and its rights ii. Recordkeeping (Article 57 Section A) (Article 61) iii. Reconciliation of income (payments) received (Section A) iv. Verification of payment of real estate taxes due v. Certification of insurance coverage vi. Remittance of payment to loan participants vii. Collections management viii. Reporting to MFA (Article 35) Bis 	2
<ul style="list-style-type: none"> F. Customer retention practices 	1
Total Hours Advanced Loan Process	12
Grand Total Loan Process	30

Table A-3.4 and 3.4.1

3.4. Financial Skills	Hours
<ul style="list-style-type: none"> A. Loan product pricing <ul style="list-style-type: none"> i. How interest rates are established ii. Discounts, premiums, and par pricing 	2
<ul style="list-style-type: none"> B. Introduction to financial calculator <ul style="list-style-type: none"> i. Financial coefficients and mathematical formulas ii. Loan amortization iii. Balloon payments iv. Calculation of adjustable rate problems v. Per diem and prorating calculations vi. Loan to value vii. Debt to income ratios viii. Graduated payment loans 	2
<ul style="list-style-type: none"> C. Loan programs <ul style="list-style-type: none"> i. Case studies ii. Suitable mortgage solutions for different customers iii. Refinancing iv. Debt consolidation loans v. Property rehabilitation vi. Construction loans vii. Non-owner occupied loans viii. Working with self-employed borrowers ix. Loan productions for small and medium-sized enterprises (SME) 	2
Total Hours Basic Financial Skills	6

3.4.1 Advanced Financial Skills	Hours
<ul style="list-style-type: none"> A. Loan product pricing <ul style="list-style-type: none"> i. Hedging interest rates ii. Affects of secondary market demands iii. Affects of loan commitments and delivery iv. Single loan and Mortgage Pool Yield Calculations v. Discounting for market yield vi. Commercial loan applications <ul style="list-style-type: none"> 1. Net Operating Income 2. Debt Service Ratios 3. Capitalization Rates vii. Case studies 	4
Total Hours Advanced Financial Skills	8
Grand Total Financial Skills	14
Grand Total Basic Hours	33
Grand Total Advanced Hours	28
Grand Total All Hours	61

4. Instructor Selection

Course delivery requires more than subject knowledge; it must also be theatrical and motivational. It is not sufficient for an instructor to lecture only. Our fondest memories of teachers and instructors in our developmental years were those that inspired us to be proactive in the learning process.

The following recommendations should be carefully considered before attempting to host a course by simply advertising the content in the hope that interested participants will attend. Success of the course and credibility of the program depends upon the instructor chosen to present the course.

The instructor should:

- have direct experience in the subject matter
- be knowledgeable, if not passionate, about the content of the subject matter
- have excellent presentation skills
- use multimedia
- employ varied teaching methods
- understand the dynamics of room set up
- have a commanding presence
- engage the audience
- present with humor and wit
- have technological aptitude to operate computers and projectors
- know the audience
- be sympathetic to the learning objectives of the participants
- be well-groomed
- sustain a “very good – excellent” evaluation by student/participants

Where attempts to develop a program of Train the Trainer (TOT) are employed to expand the base of instructors, the trainee trainer (TT) should make his or her first presentation before other instructors. The instructor audience should critique the performance of the TT to help the TT build upon solid skills. The audience should also be frank in their evaluations to identify and reject anyone who does not meet the skills mentioned above.

After selection, the TT should co-present the subject with a master instructor until the master instructor is willing to testify that the TT has reached a proficiency to hold the course alone.

5. Evaluations

Whether a course is delivered by a master instructor or a TT, each course should be subject to evaluation by the audience. An evaluation form is presented in Annex 1, reflecting how participants view the instructor for appearance, subject knowledge, and use of materials, voice, and mannerisms. Such information may be further quantified through numeric scoring for greater accuracy in evaluating the instructor.

Upon conclusion of each course, the evaluation forms should be delivered to trainees/participants and collected by the course host. When the evaluations have been

reviewed, the results should be shared with the instructor. Thereafter, a decision to reengage an instructor may be much easier.

6. Venue Selection

Similar to selection of an instructor, selection of the venue must also be done with care. The venue should meet the following criteria:

- convenient, if not central, location to the majority of participants
- easy to find
- be modern in appearance
- have accessible parking, especially if the majority of participants are driving
- have a well-lit room
- have a clean, odor-free
- have sound buffeting qualities
- should not be in an area near another event that will compete with sound and lighting functions
- should be set up over one hour in advance of the presentation
- engineering staff should have tested all electrical appliances including projectors and microphones prior to the presentation
- signs should be clearly posted around the property to direct participants to the presentation room
- drinking water or other refreshments should be delivered in the room at least 30 minutes prior to the presentation
- registration staff should have participant registration forms and course hand-out material on site, and be prepared to welcome and check in students at least one hour prior to the presentation
- restroom facilities should be convenient to the presentation room
- entrances and exits should be well- functioning and the hinges oiled, if necessary, to avoid noisy latecomers.
- if the room is to be classroom style, there should be a white board with new dry erase markers in 2-3 colors
- there should also be a flip chart or flip chart size “post it” pages

At the conclusion of the program the trainees/participants should also have the opportunity to critique the facility. Course organizers should consider the comments and recommendations that favor a better learning environment.

7. Classroom Size by Participants

Workshops and courses have varying degrees of success depending upon the number of trainees and participants. Where the workshop requires case studies or projects, the optimum number of participants is 20-25. Where the subject matter is primarily lecture and with slide presentations, the number can be increased to 35-40.

When the subject matter is a presentation by a guest speaker, a room can be expanded to over 100, provided that there is no question and answer period planned.

8. Promotion and Publicity

Equal to venue selection in terms of importance is promotion of the event or course being offered. It is an interesting phenomenon observed with western mortgage brokers that registration for events is delayed (for a multitude of unclear reasons), until the last possible minute prior to the event. This surely makes for nervous event planners and sponsors. Perhaps the Egyptian culture is more respectful of such matters.

Promotion of an event or course should be frequent and begin as early as three months prior to the event with a simple post card to “remember the date.” Another teaser post card with bullet points that highlight the theme of the event, if one is appropriate and the subject matter in one or two words should be scheduled for 3-4 weeks after the first is delivered.

Approximately 45 days prior to the event, a detailed schedule of the event should be sent to prospective attendees and should be “talked up” at meetings and functions of the mortgage brokers association. This notice should state clearly what will be taught, who should attend, and how the information presented will be valuable to the attendee. This promotion piece should be delivered, again, approximately 2 weeks prior to the event to nudge on the procrastinator. Follow-up personal calls could also take place.

Arrangements could also be made with the MFA to post such events on its portal.

9. Pricing

Course and event pricing is a science that considers recovery of costs of production, marketing, instructor/speaker compensation, if any, and fees to the event planner. Later herein, we will introduce the value of one or more sponsors that become indirect beneficiaries of the course or event. Following is a discussion of the cost to the participant.

Education must be perceived as a valuable commodity that will enhance the economic well-being of the participant. Therefore, it should not be “free.” Participants will place greater value on something they have a vested interest in, even if they do not realize an outcome in the immediate future. Course pricing for the participant should be considered a meaningful value. The value of a course or workshop may be as much as the fee from one or two loan transactions.

Another important aspect of pricing and subsidizing the cost of education is through sponsorships. In the mortgage industry, there are more beneficiaries to the loan process than simply the borrower or homeowner. Mortgage finance companies, banks, and the secondary market need high quality mortgage loans, produced by educated mortgage brokers with high standards. Training and educating mortgage brokers is in the best interest of this process.

As the mortgage delivery system matures, MFCs and banks will realize that for each transaction produced there is an associated cost. In the U.S., the average cost to produce a loan is between \$1800 and \$2200 for a quality, well-documented, properly underwritten loan. Fixed-based loan originators realized that by reducing costs, including plant and production costs, the profit margin increases. Key to cost reduction has been third party originations (by mortgage brokers) who invest in plant and production costs individually, and on a much lesser scale.

However, fixed-based mortgage companies who accept loans from any source (licensed or unlicensed, certified or uncertified) wherein the loan files were poorly assembled, poorly

documented, and poorly pre-qualified, in my opinion, meet with a greater probability of loan rejection resulting in a loss of time and capital. Continuing on that line, a poorly written loan has a higher probability of rejection (and later default, if the loan is approved), as the uneducated mortgage broker fails to bring sufficient knowledge, experience, and value to the process, which in turn increases the cost of loan administration before and after the closing.

Consequently, it is in the best interest of the primary market to make a contribution, (sponsorship) to educational activities of mortgage brokers thereby reducing overall costs of loan production and loan servicing.

10. Licensing and Empowering Educational Enterprises

It is recommended that the MFA retain oversight and licensing authority of institutions, public and private, that desire to deliver mortgage education. Educational institutions, private enterprises, and professional trade associations should be left to deliver content.

MFA oversight should include approval of core subject matter, with elective subject matter left to the educational institution, or professional organization. Testing individual mortgage brokers, which is addressed in 11, below, shall remain the function of the MFA. Once subject matter is established, subject matter experts (SMEs) should develop the actual material to be taught.

Each approved institution or professional organization that delivers courses shall be required to keep attendance records of each student, the course title attended, the number of hours attended, and the course certificate number. The institution or professional organization shall maintain those records for a minimum of ten calendar years. The records of the institution or professional origination shall be available for inspection by the MFA upon request.

Except for currently approved universities, each institution shall be subject to review of its authorized course offerings and student records, as determined by the MFA, at least once each five calendar years.

11. Testing and Question Writing

The Mortgage Finance Authority requires every applicant to pass a test of competency. The test questions should be developed by subject matter experts presently active in the mortgage industry. It is recommended that the MFA form a committee of five, one of which is a staff member of the MFA and the remaining four members recommended to the MFA by the mortgage broker association(s). The committee would be required to meet as needed to review subject matter to be tested, weight the subject matter as to importance and, accept from members in the industry suggested questions or subject matter, write and approve questions to be included in a bank from which tests will be created and administered. After the first set of questions is developed, the committee should determine to meet when laws or policies change or as market conditions make significant changes in practices and procedures.

SECTION B:

MORTGAGE BROKER LICENSE RENEWAL

1. Summary

Since passing the real estate law, over 200 persons have applied and have obtained a mortgage brokers license. The current law has limited qualifications and low standards for obtaining a license. Consequently, many, if not most of the current licensees are under-performing. According to at least one MFC, mortgage brokers have a general lack of knowledge sufficient to originate, assemble, and deliver a loan file that is worthy of consideration by the MFC.

Even when provided loan processing requirements and checklists, current licensees are not sufficiently educated to employ these requirements which leave the mortgage broker, MFC, and borrower frustrated with the loan process.

This report is intended to provide a working plan for the MFA to adopt a policy whereby mortgage brokers must significantly and substantially increase their qualifications and standards or risk revocation of their license.

The objectives in this recommendation will address three matters which, if required as part of the license renewal process, may result in disqualification of some mortgage brokers on the basis of lack of knowledge, or lack of activity. The objectives discussed below include:

- a demonstration of whether the mortgage broker is active or dormant
- the assessment of an administration fee for license renewal
- the requirement to increase and maintain competency
- development of a mortgage broker public recovery fund

Furthermore, this recommendation will address the role of mortgage brokers and the formation of a tribunal (or other such committee, authorized by the MFA), to hear matters and recommend discipline for those mortgage brokers that pose a hazard to the community.

2. Determination of Operational Status

Renewal is an opportunity for the MFA to determine whether a mortgage broker is active (which is defined herein as currently and actively soliciting and originating mortgage loans), or whether the activities of the mortgage broker are essentially dormant (which shall be defined as originating and successfully closing less than one loan transaction per year since the license was issued).

The license renewal process is an opportunity for the MFA to develop a database of mortgage brokers with information regarding their solvency, operations, amount of production, and number of employees, specifically loan originators, active under the primary broker license.

When a mortgage broker is **dormant** for more than one year but less than three years, it is recommended that the mortgage broker license be placed in a suspense status, which shall require the licensee to attest annually that no mortgage originations have been or will be made until the license is reactivated. Further, the mortgage broker should submit annually, for administrative review, all personal and corporate financial records to verify the dormant status of the company. Prior to reactivation, the dormant mortgage broker should complete an updated licensing application and successfully complete not less than 37 hours of education for each 3 years of dormancy plus pass a test of competency. (This training is outlined in Section A of this report).

If a mortgage broker licensee and its company is dormant for more than 12 months, it is recommended that the mortgage broker completes the licensing process as if the license were not initially obtained, including attending licensing courses (40 hours) and passing a test of competency.

If the mortgage broker is **active**, licensing renewal should take place each 3 years and the broker should complete a “streamlined” informational document attesting to the volume of loans, (expressed in number of units and total of LE), the number of branch offices established, if any, the number of loan officers working under the license (see discussion on Loan Officers below), and attach a financial statement of the company not more than 3 months old. In addition, an educational requirement, related to competency, addressed in 4 below should be included.

2.1 Loan Officers

As the mortgage industry grows, the number of, Loan Officers working for mortgage brokers will also grow. The expansion of loan officer as employees should be managed. This matter is discussed in Section E: Future Considerations.

3. Assessment of Administrative Fees

Assessment of an administrative fee for maintenance of MFA records must accompany each renewal application, whether dormant or active.

Administrative fees should be considered a minor part of the MFA budget for oversight of the mortgage brokerage industry and should be assessed based upon two factors:

- the total volume of transactions
- the number of employees working as loan officers

It is suggested that administrative fees be weighted by loan productivity and employees in order to avoid penalizing small companies. For example, a large company with a substantial gross income should pay a greater administrative renewal fee than a smaller company with lesser income. Yet, as the smaller company grows, the administrative fee should also grow to reflect the volume of growth of gross revenue.

It is recommended that the fees be on a sliding scale according to the gross income of the company or mortgage broker.

4. Determination of Competency

Competency is the core issue in developing a quality mortgage delivery system. As mentioned in section 2 above, the renewal application should require the mortgage broker to attest to completion of a minimum of 37 classroom hours of education for each 3 year period.

It should not be necessary for the mortgage broker to submit for review each certificate attesting to attendance as this would create a burden on the MFA. The renewal application should include a segment requesting the date, number of hours, and subject matter of each course attended, as well as the certificate number. When the MFA makes a periodic examination of the mortgage broker (see Examination of Mortgage Brokers in Section C), the examiner should review a sample of the certificates listed on the renewal application to determine validity.

Until such time as the currently licensed mortgage brokers have substantially increased their standards of knowledge and skills in originating mortgage loans, renewal applications should require new testing of the licensee. The licensee should be allowed to retake the examination only one additional time within a 12 month period if he/she fails the first exam. In later years, after the general competency standards have been attained, it will not be necessary to have the mortgage broker submit to a test, as competency of the mortgage broker will be tested in more practical terms by the market place, specifically in its success or the volume of loan originations and the number of consumer complaints received by the MFA or by the mortgage brokers association.²

5. Interviews

It has been suggested that an interview with the mortgage broker candidate be a criteria for licensing renewal. Apart from a few review boards or certification programs, a face to face interview with the licensee is not standard practice. Such practices for a license are subjective and are corruptible. Again, it is the market place (and MFCs) that will ultimately determine the competency of the licensee by the willingness to conduct business with, or refer business to, the mortgage broker.

² Herein lays the importance of empowering a tribunal of mortgage brokers to hear and judge complaints against a mortgage broker. (See mortgage broker tribunal below.) The market place will be more effective in policing its own and thereby freeing the MFA to focus on oversight and policy development.

Therefore, at the time of renewal, the renewal application should include a question, "Have you had judgment rendered against you by a mortgage broker tribunal or in civil or criminal court for actions of fraud, deceit, moral turpitude, converting the assets of insolvency, or violations of the canons of ethics?"

If the answer is no, a simple telephone investigation to the mortgage brokers association is all that is necessary. If the answer is "yes," the mortgage broker should be required to explain his or her actions, and state whether or not restitution was made to the aggrieved parties. As to recommendations from the mortgage brokers association, only those matters that are considered, in the opinion of the MFA, to have unfavorable acts committed upon a borrower, or actions that pose an unacceptable risk to the public, should be considered grounds for denial of the license.

Disputes between mortgage brokers regarding fee arrangements, cooperative agreements, or other civil matters should be left to the mortgage broker tribunal, unless the tribunal recommends to the MFA that the actions of the adjudged mortgage broker are so egregious so as to pose a threat to the public and industry and are cause to deny renewal or revocation of a mortgage brokers license.

6. Mortgage Broker-Public Recovery Fund

Inherent in the mortgage broker industry is the potential for a homeowner to suffer financial harm from a sophisticated scheme wherein the mortgage broker played a major or minor role. In Section E: Future Considerations, is a discussion of a Public Recovery Fund.

SECTION C:

RECOMMENDATIONS FOR EXAMINATIONS OF MORTGAGE BROKERS

1. Summary

Mortgage broker loan originations are on the rise in Egypt and it will become necessary to develop a meaningful method for assuring compliance with the Mortgage Finance Law 148 and for the protection of the public.

The resources necessary to assure compliance may not be currently allocated, however. The following recommendations take into account potential limitations of time and capital.

The recommendations discussed herein are made on the basis that the industry regulator will conduct examinations for compliance rather than audits of mortgage brokers. A separate set of criteria should be considered for mortgage finance companies as it is the MFC that is directly administering the loan transaction after a loan file is delivered by the mortgage broker to the MFC or bank.

Prior to issuing the license, the mortgage broker candidate shall attend a workshop delivered by the MFA, or an authorized educational institution, on the subject of "Mortgage Broker Operations and the Law." This course will be a practical, informative workshop for new mortgage brokers and is further outlined under the section Recommended Mortgage Broker Course of Study, found in Section A.

2. Examinations vs. Audits

An examination of mortgage broker records and business practices is best defined as a random, periodic review of the mortgage brokers corporate, loan, and employee files for general compliance.

Conversely, an audit would entail charting source documents and material in all aspects of the loan process, from the first meeting and discussions with the borrower through, and including, the final payoff of the loan transaction. An audit is more suitable for oversight by the MFC.

3. Notification of Examination

The first examination of a mortgage broker should take place not more than one calendar year or less than six months from the date the mortgage broker license was issued. The purpose of an initial examination is to provide a form of guidance to the new mortgage broker and to determine whether the mortgage broker understands the requirements of record keeping, retention, and compliance with the law. Thereafter, an examination of the mortgage broker should take place not more than five years in the future.

When the next examination is to be scheduled, the MFA examiner in charge should send written notice to the mortgage broker not less than 10 days or more than 45 days prior to the arrival date of the examiner at the primary business or home office of the mortgage broker. The mortgage broker should be required to provide in advance a list of loans originated since the last examination. The mortgage broker should acknowledge the letter and confirm that he/she, or the owner/managing partner, in case of a corporate, will be on site during the entire examination process.

Thereafter, the next examination should be determined upon the recommendation of the examiner and should be based upon the level of competency and compliance found in the initial exam.

4. Selection of Examiners

The examinations process should be conducted by highly-trained individuals that have a minimum of 5 years of active mortgage lending. The experience should include tenure in Loan Origination, Loan Administration, and one or more levels of management in a bank, MFC, or in the private sector. An examiner could be a direct employee of the regulatory agency, or an independent contractor with sworn loyalty to the regulator.

Criteria for employment of an examiner should include more than administrative skills or lending experience. The examiner should be knowledgeable of current market activities, local customs, and trends influencing loan production and loan processing, including cutting edge technology. Furthermore, the examiner should be instructed to conduct examinations with an eye to providing guidance to the mortgage broker who willingly demonstrates safe loan origination practices. Likewise, the examiner must be trained to quickly identify deceptive and potentially harmful practices that might endanger the public, MFC, or the financial system.

That said, the examiner should not conduct examinations or other activities which may instill fear and loathing of the regulatory process.

5. The Examination Process

It is well-advised to avoid making the examination process burdensome to the extent that it hampers ongoing business operations or severely dampens the entrepreneurial spirit. Pre-scheduled, well-planned examinations take fewer hours, both in the field and when writing reports and evaluations.

While examinations should not be based solely on clock hours, a reasonable time frame for conducting the examination of a mortgage broker office should be sufficient to: 1) inspire the examiner to complete the examination assignment promptly and move on to the next task; 2) develop methodology for identifying weakness in the mortgage brokers operations; and 3) identify weaknesses in the regulatory process that requires legislative or regulatory rule-making corrections. To that end, the examination process of a mortgage broker should range from 6-8 hours, depending on the number of loan files reviewed and the number of violations found. When an examiner finds a substantial number of violations, more files should be reviewed.

6. Content of Examinations

The content of examinations is outlined in Table C-6.1. It addresses several areas of mortgage broker operations that give the examiner an insight to compliance of laws and rules.

The subject matter is broken down into five primary sectors, with further subdivision, as noted. The subjects which are addressed in narrative below, and in the checklist format, include:

1. Loans
2. Operational records
3. Corporate records
4. External audits
5. Litigation

6.1 Loans

As a matter of general organization, a mortgage broker should maintain a list of all applications, regardless of the disposition, detailing the name of the borrower, application number, amount of the original request, date of application, date submitted to the bank or mortgage finance company, date the loan was funded, and the name of the loan officer who created the loan. It is recommended that the MFA require a quarterly report from each mortgage broker that details the number of loans originated and the value of the loans in LE (see Annex 2).

Using this log, the examiner can randomly select not less than 10 actual loan files or 10% of transactions completed in the previous 24 months of activity, to determine the level of compliance.

Next, the loan file represents the primary activity and interface that the mortgage broker has with the borrower. In this file is the evidence of compliance with the law and of rules or decrees from regulatory bodies.

The mortgage broker should, at the very least, have a complete loan application with all pertinent spaces completed and supporting documentation for the information provided on the application. Furthermore, the file should include a disclosure of the costs of the loan and the purchase agreement in a clear and concise manner. The disclosure should be signed by the borrower and the mortgage broker on the date that the application was first completed.

While the mortgage broker may not have property registry information or an appraisal of the property, it is well-advised that the mortgage broker obtains as much information regarding the collateral as possible, such as the physical address, identification number, and any information regarding the building and surrounding neighborhood.

The mortgage broker should be maintaining a loan conversation log with notations as to the conversations with the borrower. Frequently, a borrower may have an additional request or change the amount of the loan, which in turn, should trigger the need for new and updated disclosures and an updated loan application.

6.2 Operational Records

The regulatory authority must have the ability to verify the conditions of the mortgage broker's operational and accounting records to determine whether the broker is employing sound financial management practices.

This area of the examination is weighted significantly less than the loan file examination; however, in conjunction with the results of examination of corporate records, external audits and litigation, a clear picture of the ability of the mortgage broker to properly manage its business in the best interest of the public, will materialize.

Among the first records to be examined are employee files. If the mortgage broker is a 1-2 person enterprise, it may be reasonable to reduce emphasis on documenting employment records. However, if the mortgage brokerage grows into a larger enterprise, the employing broker must have established methods and procedures for documenting employees; specifically, an employee file should have the following documentation:

- the employee's qualifications
- previous work history
- education history
- personal identification information
- personal credit history
- a statement that the employee has not been judged guilty of any crime of theft, conversion of assets of another, fraud, or matters presenting a danger to the public.

Next, records regarding operations of branch offices, or employees working in locations remote or removed from the primary business location of the mortgage broker, are examined.

The examiner should establish whether the location has been properly licensed and the mortgage broker has appointed a qualified branch manager to oversee the activities of all employees in the branch. The branch manager or overseer should have qualifications and an education equal to or better than the employing mortgage broker.

When conducting this portion of the examination, the examiner should observe whether the employing mortgage broker has abdicated his personal duty to properly manage the company. If this is the case, it should be determined whether the employing mortgage broker has left the capacity of active management. The intent here is that the mortgage broker license was issued to a specific person, or in the case of a company, with the intent that a specific owner/manager would oversee operations of the company. To delegate those duties might be considered circumvention of the license procedure by the person acting as a manager.

After management activities, the financial records of the mortgage broker should be examined for compliance with tax laws and proper payment of social insurance or other obligations imposed upon employers.

Along with tax reports, the examiner should determine whether the general bank (checking or operating) account has been reconciled at least once per quarter and whether the deposits and withdrawals affecting the account have been properly posted on the general

ledger. Poor accounting records are an indication of likewise poor documentation and communication with borrower transactions, which subsequently lead to other problems.

The last of the operational records to be reviewed is the educational certificates required for continuing education requirements. (See Educational License Renewal in Section B.)

The examiner should sample a representative number of certificates for compliance with course content, required number of hours, and validity of the certificate. For further verification of validity of the certificate, the examiner may contact the course provider to cross-check the provider's attendance records and certificate numbers.

It is recommended that record retention policies should be established by the MFA requiring mortgage brokers to keep copies of employee records, loan files, financial files, educational files, and other records deemed necessary by the MFA, for a minimum of five calendar years. Records may be retained in hard copy or by electronic device provided that the hardware and/or software necessary to recover, read, and copy any file or document is available to the examiner, or is provided by the mortgage broker for the examiner's use.

6.3 Corporate Records

Bearing similarities to operational files, examination of corporate records is necessary to determine compliance with national laws that relate to control and ownership of the company.

In that regard, each mortgage broker should make available to the examiner a copy of the organizational document of the legal entity, which should have been acknowledged or approved by the appropriate regulator. In addition, the mortgage broker should produce a copy of its stock or membership ledger showing all current owners and their respective share of ownership, the date the stock holder or member purchased the stock, and the purchase price of the shares.

The examiner should review for adequacy and validity any general business license(s) necessary to conduct business in the city or governorate in which the mortgage broker company is located, to ensure compliance with local laws.

Next, the examiner should review advertising and public relations materials to establish whether the mortgage broker is using false, deceptive, or misleading methods to persuade borrowers to use their service or company.

6.4 External Audits

If a mortgage broker is subject to external examinations by other regulators/entities, the examination reports should be made available for additional review.

The results of outside examinations may not be directly related to the mortgage industry, but made lead the examiner to other matters that may affect the general public.

6.5 Litigation

The last area of examination is the record of any litigation wherein the mortgage broker has been plaintiff or defendant.

Specifically in the circumstance where the mortgage broker is the defendant, it will be important for the examiner to review the issues of the litigation and assess the potential risk to the public, or the risk that a judgment against the mortgage broker will result in insolvency of the mortgage broker.

Where insolvency is a high probability, the MFA may wish to develop policies and procedures for closer oversight of the mortgage broker, or perhaps take control of the business operations through a court appointed receiver until the business is systematically closed or the active loan files transferred to another mortgage broker or lender.

7. Exit Interview by Examiner

Upon completion of the examination, the examiner should conduct an exit interview to discuss findings of the examination. The discussion should focus on critical matters with details to follow in a written report which the examiner should deliver to the MFA management and mortgage broker. It is recommended that the final report be delivered to interested parties not later than 10 days after the examination is complete.

If the examiner finds a failure to comply with laws and decrees, the final report should address the specific file or document that is deemed to be out of compliance. The mortgage broker should then respond in writing to the MFA and state clearly the measures that will be taken, and/or policies will be established within the mortgage broker operation, to avoid future violations.

8. Future Examinations

Each mortgage broker should be examined at a minimum of once each five calendar years. The examiner is recommended to review first, those matters where the mortgage broker was found in violation in the previous examination. Thereafter, the normal examination procedures should be followed. If the mortgage broker is found to be out of compliance on the first examination, a follow up examination should be held in the next six to nine months. If the follow up examination also has poor or failing results, the license should be suspended or revoked.

9. Repeat and Willful Violations

In those cases where the mortgage broker continues to violate the same laws, rules, or decrees, the violation should be considered "willful." That is to say that the mortgage broker knew or should have known that the activity and conduct was not within the law. Willful violations should be penalized with greater zeal than an isolated violation. (See Fines and Penalties below.)

10. Fines and Penalties

Fines and penalties should be considered in circumstances where the mortgage broker needs more than a reminder to obey the law. This matter may require amendments to the current regulations, or perhaps a decree by the minister, or directives by the MFA board of directors.

Minor infractions do not necessarily warrant fines unless the attitude and conduct of the mortgage broker appears reckless. A mortgage broker that demonstrates a sincere attitude toward the spirit of the law will find penalty enough when receiving an examination report which states that violations were found. Conversely however, will be the mortgage broker that is grossly negligent and has little inspiration or desire to comply with the law. This mortgage broker should be considered dangerous to the public and should be monitored closely for compliance.

As a result of the diversity of attitudes and behaviors, it will be necessary to employ a matrix or sliding scale of fines and penalties that the MFA can follow, based upon the type, frequency, and willful violation of the law. (Note to readers: This should be a follow up action.)

Table 6.1: Content of On-Site Examination of Mortgage Brokers Operations

Subject	Purpose	Weight
LOANS	<p>This review of active, closed, and in-process loans is to identify whether the mortgage broker is keeping required and accurate information on each transaction.</p> <p>Specifically the items to be examined:</p> <ol style="list-style-type: none"> 1. Agreements with the client 2. Loan application 3. Initial disclosures of costs 4. Borrower identification 5. Borrower financial information 6. Collateral information 7. Deeds and ownership information 8. Disposition of transaction 9. Correspondence and dialogue 10. Contracts regarding the property 11. Insurance policies 12. Evidence of payments of funds received in connection with the transaction. 	40%
OPERATIONS	<p>This review of operational records is intended to determine whether the mortgage broker is keeping adequate business records consistent with sound business practices.</p> <p>Specific items to be examined include:</p> <ol style="list-style-type: none"> 1. Employee records 2. Branch activities 3. Corporate obligations 4. Adequate oversight of employees 5. Active management of the company 6. Corporate financial statements and tax returns 7. General and sub ledgers 8. Bank account records 9. Educational records 10. Record retention 	15%
CORPORATE	<p>This review of corporate documents is intended to determine whether the legal entity is keeping adequate records consistent with governing laws and regulations.</p> <p>Specific items to be examined include:</p> <ol style="list-style-type: none"> 1. Corporate stock and ownership ledgers 2. Minutes of corporate business meetings 3. Licenses for business operations 4. Licenses for mortgage operations 5. Advertising and public relations material 	15%

EXTERNAL AUDITS	<p>This review of external audits may be useful and time-saving for the examiner. Review of external audits may identify weakness in specific areas of operations.</p> <p>Specific items to be examined include:</p> <ol style="list-style-type: none"> 1. Compliance review by other regulators and ministries 	5%
LITIGATION	<p>This review of litigation records may reveal the exposure the mortgage broker has to financially devastating judgments, which may, in turn, affect the conduct of the mortgage broker as it relates to the public.</p>	5%

SECTION D:

MORTGAGE BROKER TRIBUNAL

While the Mortgage Finance Authority shall retain all rights to issue, deny, suspend, and revoke the license of a mortgage broker, it is recommended that the mortgage brokers association(s) has the power and authority to hold hearings on matters regarding mortgage brokers, whether or not a mortgage broker is a member of an association.

Such matters requiring hearings may include violations of ethics, willful interference into contractual arrangements between another mortgage broker and a client, deceitful practices, or other matters harmful to the public or industry. This is not to suggest that the MFA shall require the tribunal to act first, but permits the tribunal to investigate and hear matters that are brought to the tribunal by other brokers or participants in the mortgage industry.

If the tribunal judges that the conduct of a mortgage broker is so reprehensible or egregious, the tribunal may recommend to the MFA that the license of a mortgage broker be suspended or revoked. The MFA shall have the final decision with regard to the mortgage broker license.

It is recommended that the rules governing the duties and actions of the tribunal shall be created with a committee of five members, one of which shall be from the staff of the MFA and the remaining four shall be members elected by the mortgage brokers association(s).

SECTION E:

FUTURE CONSIDERATIONS

1. Summary

Development of the mortgage industry requires strategic planning and critical thinking, both of which may be heavily borrowed upon from experiences in other markets. The laws, rules, and decrees now in place will need to be enhanced and expanded in anticipation of growth, as well as the good and bad that accompanies each. This discussion is intended to address matters that may not be relevant now; however, if these subjects are not considered, when the time comes, it will be more difficult to implement procedures. Furthermore, reaction from industry participants may have sufficient strength and volume as to cause delays in implementation. This can be observed in the U.S. mortgage market where rules and enforcement actions are undergoing constant change. (See End Notes.) It is recommended that a task force address the subjects found below.

2. Loan Officers Licensing and Certification

The mortgage brokerage industry in the U.S. grew at a swift pace from 1995 - 2005 due to lower interest rates and increased home equity. During the decade beginning 1990 and carrying through 2005, the U.S. mortgage industry experienced three refinance surges (booms) wherein the demand to refinance was far greater than the industry had ever experienced. To meet that demand, licensed mortgage brokers in many states hired loan officers.

More progressive state regulators saw fit to require licensing and/or some form of registration for loan officers to identify who they were, and to impose standards of practice and education. The states of Florida, Illinois, and Ohio were among the first. However, in those states where regulation was lacking, loan officers were hired without regard to knowledge or educational background. As the number of new loan transactions increased, the number of complaints also increased. This, in large part, could be attributed to poorly trained loan officers. Today, many state regulators are supporting licensing, registration, or a minimal educational standard of loan officers.

Both the mortgage brokers association and mortgage bankers associations have excellent educational programs that allow a mortgage broker and loan officer to study numerous industry subjects, test for competency and, if they pass, the participant is awarded a certification such as Certified Mortgage Consultant (CMC), or Certified Residential Mortgage Specialist (CRMS), or, for the entry level, Accredited Loan Officer (ALO).

It is recommended that the MFA consider this sector of the mortgage market, before it evolves without structure, and implement a licensing procedure similar to the mortgage broker license, with a slightly less stringent qualification process. Doing so will place value on the loan officer license and will be something that will be at risk if the loan officer commits any offense that is harmful to the public.

As mentioned in the Examinations section, upon license renewal a mortgage broker should also disclose information about loan officers working in their employ. The

mortgage broker should report each loan officer's name, identification number, telephone number, address, and experience in years, and number of educational hours attended in the previous 24 months.

3. Mortgage Broker-Public Recovery Fund

Inherent in the mortgage broker industry is the potential for a homeowner to suffer financial harm from a sophisticated scheme wherein the mortgage broker played a major or minor role. Such schemes may not be sufficiently evident or recognized in time to be stopped before the scheme occurs, and the likelihood of locating the mortgage broker after the scheme has been exposed is greatly diminished.

Therefore, it is recommended that a public recovery fund be established and funded by mortgage broker licensees. Upon each renewal, when the loan volume is determined as stated in point 2 above, the mortgage broker should contribute to the recovery fund one percent of the amount of the gross income of the mortgage broker or mortgage brokerage company.

The fund would be regulated by the MFA which would establish rules and policies for recovery. As a matter of disclosure, each mortgage broker should deliver a written statement to each borrower that the fund is established and that the borrower has the right of recovery for financial wrongdoing from both the fund and civil action.

SECTION F:

TIME LINE FOR IMPLEMENTATION AND NEXT STEPS

Once adopted, the recommendations contained in this report will require a commitment of resources and the establishment of one or more task forces that will endeavor to complete the tasks within a reasonable time frame.

1. Curriculum Development

Contained in this report is the recommended course of study for new and renewing licensees. The first step is to convene a committee of Subject Matter Experts which will address the following:

- review and adopt revised curriculum to international standards
- review and adopt revised test questions that are attached to this report
- create alternate basic and advanced examinations using the test questions provided and those written by Subject Matter Experts
- simulate testing procedures to identify potential problems and propose cures

The time frame recommended to complete this task is three months.

2. Examination (On-Site Inspection) of Mortgage Brokers

The task force for this effort will certainly include existing inspectors of MFA and should include input from mortgage brokers. The initial task will be to establish procedures for both off-site and on-site examinations, followed by development of:

- off-site regular reports
- pre-examination information request
- examination checklists
- exit reports for MFA and broker
- strategies for addressing violations

The time frame recommended to complete this task is nine months.

3. Licensing Renewal Process

Once the MFA has re-qualified and tested existing licensees, it will be necessary to develop a process for future renewals and establish higher competency standards which will require establishing additional rules and decrees.

The time frame for this task should be approximately two years.

4. Considerations for the Future

As the mortgage industry matures, it will be necessary to expand regulations to protect the public. Specifically, loan officer licensing will be very important to maintain control of activities of employees of mortgage brokers. Consequently, it is recommended that this task be addressed as soon as possible, assuming that the measure will require the introduction of laws and rules.

Establishment of a Public Recovery Fund, somewhat like that for the capital markets recovery fund, will take further study. However, such a fund will enhance the confidence of the market place and with lenders.

This process may take 1-2 years.

List of Annexes:

1. Instructor Evaluation Form
2. Quarterly Report of Mortgage Activity
3. Slide Presentation to MFA
4. Model Lender-Broker Agreements
5. Model State Statute Initiative

Annex 1: Instructor Evaluation

INSTRUCTOR EVALUATION

Course Name _____

Instructor _____

Appearance

Was the instructor dressed neat and professionally?	Y	N
Was the instructor groomed?	Y	N

Subject Knowledge

Do you believe that the instructor was prepared for the session?	Y	N
Do you believe that the instructor was knowledgeable in the subject?	Y	N
Did the instructor answer all of your questions?	Y	N
Would you attend another course with this instructor?	Y	N

Use of Materials

Did the instructor use teaching materials such as handouts and video?	Y	N
Did the materials reasonably follow the instruction?	Y	N
Were the handouts and teaching materials easy to understand?	Y	N
Did the course materials meet your expectations?	Y	N
Did the course materials exceed your expectations?	Y	N

Voice and Mannerisms

Rate the following as Good, Fair, Excellent or Needs Practice

Instructor's use of voice such as intonations
Could the instructor's voice be heard around the room?
Did the instructor make contact with participants?
Did the instructor make eye contact with you?
Did the instructor pace the room nervously?
Was the instructor comfortable in addressing the participants?

Comments:

Annex 2: Quarterly Report of Mortgage Activity

QUARTERLY REPORT OF MORTGAGE ACTIVITY

COMPANY NAME:

QUARTER:

NUMBER OF BRANCHES:

NUMBER OF RESIDENTIAL LOANS REFERRED TO PRIMARY LENDERS:

VOLUME OF RESIDENTIAL LOANS LE, REFERRED TO PRIMARY LENDERS:

NUMBER OF COMMERCIAL LOANS REFERRED TO PRIMARY LENDERS:

VOLUME OF COMMERCIAL LOANS LE, REFERRED TO PRIMARY LENDERS

Signature
Managing Director

Annex 3: Slide Presentation to MFA

Presentation on following pages

Annex 4: Sample Lender-Broker Agreements

MERIWEST MORTGAGE

5615 Chesbro Avenue – Suite 110
San Jose, Ca. 95123

BROKER AGREEMENT

This Broker Agreement (the "Agreement") is entered into by and between Meriwest Mortgage Corporation ("MMC"), and Cattlemen's Mortgage and Investment Corp. ("Broker").

RECITALS

- A. Broker is a licensed real estate broker (License No. MB10079) and is in the business of negotiating loans on behalf of others ("Borrower(s)") for a fee or other consideration.
- B. MMC is in the business of, among other things, making loans secured by real property.
- C. The parties wish to establish a nonexclusive relationship whereby Broker will submit loan packages ("Loans") to MMC on behalf of Broker's clients ("Borrower(s)") for possible funding.
- D. The parties now desire to enter this Broker Agreement to set forth the terms of their relationship. This agreement is intended to, and does, apply to all submissions by Broker to MMC whether such submissions were made before or after the date of this agreement. Each of the terms is intended to apply retroactively to any preexisting relationship between the parties.

AGREEMENT

NOW, THEREFORE, the parties agree as follows:

1. General Broker Responsibility. Broker will at Broker's sole expense (a) submit to MMC completed Loan packages for Borrowers under such programs, procedures, and fee schedules as MMC periodically may establish, (b) furnish MMC all Borrower credit, financial, and other information as MMC may require, (c) provide such information as MMC may reasonably request to assist MMC in marketing the Loans to secondary market investors, (d) perform such other services as MMC shall require to close the Loan (s), (e) provide a written explanation of why any Borrower approved by MMC fails to close a Loan, (f) fully assist in any fraud investigation initiated by MMC, its secondary market investors or regulators. The contents of all Loan packages submitted to MMC immediately shall become the property of MMC, and all information contained therein may be subject to MMC' independent verification and use. Provided, however, that if MMC refuses to fund the loan for any reason other than fraud, applications to multiple lenders or a "rate lock" violation, the loan package will be returned to Broker upon request.
2. Loan Approval. Loan approval shall be within MMC' sole discretion. Broker shall not represent that MMC has approved or will approve any Loan until Broker is so informed by MMC in writing.
3. Fees. Any fee, commission, or other consideration payable to Broker with respect to any Loan shall be paid only after MMC deducts from Loan proceeds all of its fees and charges. No fee shall be owed to Broker on account of any proposed Loan which is not funded and closed.
4. Broker's Authority. Broker is the agent of MMC only for the purpose of collecting information, preparing and submitting loans. Broker shall have the absolute right to establish the loan rates

1

MMC: _____
Broker: W

charged borrowers, terms and conditions for such loans and charges relating to such loans. Broker shall represent to Borrower that loan package is submitted for review and evaluation, and its funding is in the sole and absolute discretion of MMC. Broker shall represent clearly to Borrower that Broker is acting as a conduit for submission of loan package to MMC on behalf of Borrower.

5. Broker's Warranties. Broker represents and warrants to MMC, as of (i) the time any Loan package is submitted to MMC, and (ii) as of the time the Loan is funded and closed, that:

5.1 No Untrue Statements. Broker will make due and diligent inquiry of each borrower to assure that erroneous statements, or omit material facts necessary to make such statements or information accurate and understandable. *BROKER UNDERSTANDS THAT BY MAKING THE WARRANTY CONTAINED IN THIS SUBPARAGRAPH IT IS WARRANTING THE ACCURACY OF ALL INFORMATION CONTAINED IN ANY LOAN PACKAGE SUBMITTED TO MMC, WHETHER OR NOT BROKER HAS KNOWLEDGE OF, OR REASON TO SUSPECT, ANY INACCURACY.*

5.2 Absence of Claims. Except as previously disclosed by Broker to MMC in writing, there is not pending or, to the best of Broker's knowledge, threatened any suit, action, arbitration, or legal, administrative, or other proceeding or governmental investigation (including an allegation of fraud by another lender) against Broker or its current or former owners, agents, or employees which could have a materially adverse effect on the Broker's business, assets, financial condition, or reputation.

5.3 Control of Documents. No Borrower shall have had in its direct or indirect possession or control any credit, income, or deposit verification document prepared by another for submittal to MMC with respect to any Loan.

5.4 Duly Licensed. Broker possesses all necessary licenses, permits, and authority to engage in the activities contemplated by this Agreement. If applicable, Broker's license number and its expiration date appear below. Each loan officer or other person utilized by broker to perform duties requiring licenser shall be properly licensed.

5.5 Ownership. Except as otherwise disclosed to and approved by MMC in writing before the funding of any Loan, Broker shall have no direct or indirect ownership interest in any property acting as security for the Loan.


5.6 Compliance with Laws. Broker will comply with all applicable state and federal laws and regulations by authorities with respect to the loans. Authorities include, but are not limited to: 1) State and Federal regulatory authorities; 2) law enforcement agencies; 3) secondary market investors; 4) insurance companies having an interest in the transaction; and 5) transferors and assignees of the property.

5.7 Restrictions on Locking. Broker warrants that it will not lock any loan with MMC without the express approval of the borrower. Broker will not lock loans with MMC and any other lender for the same borrower and property.

5.8 Relation Back. Each warranty provided for in this Section 5 shall apply both prospective and retrospectively to all loan packages submitted by Broker to MMC notwithstanding that any individual loan may have funded under a predecessor agreement.

6. Status of Broker. Nothing in this Agreement shall be construed as making the Broker a joint venture, partner, representative, employee or agent of MMC. Broker shall not hold itself out as such, nor shall it use the MMC' name in any advertising. Broker is an independent contractor, and

2

MMC: _____
Broker: 

Broker shall determine the method, details, and means of performing all services described in this Agreement.

7. Broker's Indemnification. Broker shall indemnify and hold MMC and its shareholders, directors, officers, agents, employees, successors, and assigns harmless, from and against, and shall reimburse the same with respect to, any and all loss, damage, liability, costs, and expenses, including reasonable attorneys' fees, from any cause whatsoever, incurred by reason of or arising out of or in connection with, (a) any breach of any representation or warranty contained in paragraph 5, (b) Broker's failure to perform any obligation hereunder, and (c) any claim by a Borrower resulting from MMC's failure or refusal to fund a Loan (collectively "Loss"). Without limiting the generality of the foregoing, Broker's indemnity shall extend to all repurchase demands of any third party to which MMC had sold any Loan. A penalty of one percentage point of the original loan amount may be assessed if MMC determines the broker has caused a loan to be prepaid within six months of funding by MMC. Broker's obligation to indemnify MMC under this Agreement shall arise upon (a) MMC's incurring a Loss, or (b) automatically upon MMC's receipt of a Loan repurchase demand from a secondary market investor which MMC determines in its sole and absolute discretion to be enforceable, even if MMC has not incurred any Loss with respect to such Loan. Provided, however, Broker's obligation to indemnify or repurchase shall be contingent upon (A) Broker's breach of a particular term or warranty or representation under this Agreement and (B) such breach being the legal cause of either loss to MMC or of MMC's receiving a loan repurchase demand from a secondary market investor.

8. MMC's Rights. Broker's obligation to fully indemnify MMC under this Agreement shall not be affected by MMC taking any of the following actions with or without notice to Broker: (a) liquidation, repayment, retirement, or sale or resale of any Loan; (b) foreclosure of any Loan; or (c) sale or resale of the property securing any Loan.

9. Disclosure of Information. Broker acknowledges and agrees that MMC may report instances of Broker making any material misstatement in connection with a Loan, or Broker's knowingly aiding a Borrower to do the same, to appropriate authorities. Authorities include, but are not limited to: 1) state or federal regulatory authorities; 2) law enforcement agencies; 3) secondary market investors; 4) insurance companies having an interest in the transaction; 5) transferors and assignees of the property; and 6) credit or broker reporting services.


10. Termination of Agreement. Either party may terminate this Agreement, at any time, upon written notice to the other party; provided, however, that the obligations contained in paragraph 4 through 12 shall survive termination.

11. Governing Law. This Agreement shall be governed by California law. Any litigation between the parties to this agreement shall be brought in the Superior Court of Santa Clara County.

12. Miscellaneous.

12.1 Right of Offset. Amounts owed by Broker to MMC under this Agreement may, at MMC's option and in its sole discretion, be offset by MMC against any payments then or thereafter owed by MMC to Broker.

12.2 Notices. All notices required hereunder shall be in writing and shall be deemed to have been given, made, and received only (a) upon delivery, if personally delivered to a party; (b) one business day after the date of dispatch, if by facsimile transmission; (c) one business day after deposit, if delivered by a nationally recognized courier service offering guaranteed overnight delivery; or (d) three business days after deposit in the United States first class mail, certified mail, postage prepaid, return receipt requested, at the addressees contained herein.

MMC:
Broker: 

12.3 Attorney's Fees. If any legal action or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute, breach, default, or misrepresentation in connection with any of the provisions of this Agreement, the prevailing party or parties shall be entitled to reasonable attorneys' fees and other costs incurred in that action or proceeding, in addition to any other relief to which it or they may be entitled.

12.4 Assignment. Broker may not assign this Agreement.

12.5 Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all prior and contemporaneous agreements, representations, and understandings. No supplement, modification, or amendment shall be binding unless executed in writing by both parties.

12.6 Waivers, Remedies. Failure or delay to audit any Loan or to exercise any right shall not act as a waiver of any other right, nor shall any single or partial exercise of any right preclude any other or further exercise thereof. No waiver of any of the provisions of this Agreement shall be deemed, or shall constitute, a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver. No waiver shall be binding unless executed in writing by the party making the waiver. All remedies shall be cumulative and nonexclusive.

12.7 Partial Invalidity. If any provision of this Agreement is held invalid, void, or unenforceable, the remaining provisions shall nevertheless continue in full force and effect.

12.8 Further Assurances. Each party shall perform any further acts and execute and deliver any documents that may be reasonably necessary to carry out the provisions of this Agreement.

12.9 Notification. With regard to Meriwest Mortgage Corporation or Broker, notification shall be made to:

Meriwest Mortgage Corporation
5615 Chesbro Avenue, Suite #255
San Jose, CA 95123

Company: _____
Address: _____

This Loan Broker Agreement (the "Agreement") is made and entered into as of the _____ day of _____, 20____.

MMC: Meriwest Mortgage Corporation

By: _____
Its Representative

Broker of Record: Meriwest Mortgage

Broker: _____

AZ BO
License No: MB-10078

Expiration Date REnews Each 5yrs 30

Address: 4008 N. 15th Ave
Phoenix AZ 85015

By: [Signature]
Its President

MMC:
Broker: [Signature]

**CAPITOL COMMERCE MORTGAGE COMPANY
BROKER AGREEMENT**

This Agreement is entered into by and between Capitol Commerce Mortgage Co., (hereinafter referred to as "CCMC"), a California Corporation, and, Cattlemen's Mortgage and Investment Corp. (Broker).

CCMC hereby approves Broker to act as a Loan Broker for the purpose of soliciting and processing loan applications on behalf of CCMC, subject to the following terms and conditions:

BROKER RESPONSIBILITY:

Broker will, at Broker's sole expense: (1) submit to CCMC completed loan packages for borrowers under such programs, procedures, and fee schedules as CCMC periodically may establish; (2) furnish CCMC all borrower credit, financial statements, and other information as may be required; (3) provide such information as CCMC may request to assist CCMC in marketing the loans to secondary market investors; (4) perform such other services as CCMC shall require to close the loans. The contents of all loan packages submitted to CCMC shall become the property of CCMC upon submission, and all information contained herein may be subject to CCMC's independent verification.

FEEES:

Any fee, commission or other consideration payable to broker with respect to any loan shall be paid only after CCMC deducts from the loan proceeds all of its fees and charges. No fee shall be owed to Broker on any loan which is not funded and closed.

LOAN APPROVALS:

Loan approval shall be at the sole discretion of CCMC. Broker shall not represent that CCMC has approved or will approve any loan until Broker is so informed by CCMC in writing. All loans will close in CCMC's name.

BROKER WARRANTIES:

Broker represents and warrants to CCMC that as of the time any loan package is submitted to CCMC, and as of the time loan is funded and closed, that:

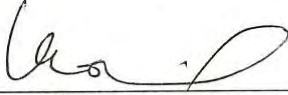
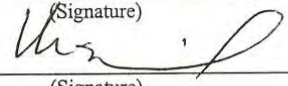
1. There are no untrue statements. Broker shall not submit in any loan package any fraudulent, false or erroneous information or statements, or omit any material fact or documentation necessary to make a prudent decision as to the quality of the loan package. For the purposes of this warranty, the Broker's submission shall mean to submit to CCMC with false or erroneous information that the Broker has knowledge of, or submitting a loan package to CCMC with false, fraudulent or erroneous information which would have been discovered in the normal course of processing the loan package using generally accepted Mortgage Banking practices prevalent in the industry, or submitting false, fraudulent, or erroneous information where such information would have or should have been discovered by the Broker or been within the knowledge of the Broker; or submitting an appraisal containing false, fraudulent, or erroneous information where the Broker was or should have been known to the Broker or where the Broker has a personal affiliation with or interest in the Appraiser. Broker agrees at the request of CCMC, to repurchase any loan within thirty (30) days, should CCMC determine fraud or misrepresentation by Broker with respect to any warranty.

CAPITOL COMMERCE MORTGAGE COMPANY
BROKER AGREEMENT

2. Except as previously disclosed by Broker to CCMC in writing, there is not pending or, to the best of Broker's knowledge, threatened any suit, action, arbitration, or legal, administrative, or other proceeding or governmental investigation (including an allegation of fraud by another lender) against Broker or its current or former owners, agents or employees which could have a materially adverse effect on the Broker's business, assets, financial condition or reputation.
3. No Borrower(s) shall have had in their direct or indirect possession or control any credit, income, or deposit verification document submitted to CCMC with respect to any loan.
4. Broker possesses all necessary licenses, permits, and authority to engage in the activities contemplated by this Agreement. If applicable, Broker's license number and its expiration date appear below.
5. Except as otherwise disclosed to CCMC, in writing, before the funding of any loan Broker shall have no direct or indirect ownership interest in any property acting as security for the loan.
6. Broker will comply with all applicable state and federal laws with respect to the loans.
7. Nothing in this Agreement shall be construed as making the Broker a joint venturer, partner, representative, employee or agent of CCMC. Broker shall not hold itself out as such, nor shall it use the CCMC name in any advertising. Broker is an independent contractor, and Broker shall determine the method, details and means of performing all services described in this Agreement.
8. Loans sold to CCMC will not be solicited by Broker for refinance for a period of six months from the date the loan is closed by CCMC. Borrower's requesting a refinance from Broker within such six month period shall be referred to CCMC to mutually discuss the impact of the early refinance. CCMC reserves the right to require the Broker to reimburse CCMC for any premium paid by CCMC to Broker (including any Servicing Released Premium or Rebate Premium originally paid to Broker on such loan.)
9. Broker shall indemnify and hold CCMC and its shareholders and directors, officers, agents, employees, successors, and assigns harmless from and against, and shall reimburse the same with respect to, and any loss damage, liability, cost, and expenses, including reasonable attorney fees, from any cause whatsoever, incurred by reason of, or arising out of, or in connection with, any breach of any representation or warranty contained in this Agreement.
10. Broker's obligation to fully indemnify CCMC under this Agreement shall not be affected by CCMC's taking any of the following actions with or without notice to Broker: a) liquidation, repayment, retirement, or sale or resale of any loan; b) foreclosure of any loan; c) sale or resale of the property securing any loan.
11. Broker acknowledges and agrees that CCMC may report instances of Broker making any material misstatement in connection with a loan, or Broker's knowingly aiding a borrower to do the same, to appropriate state or federal regulatory authorities or law enforcement agencies.
12. Either party may terminate this Agreement, at any time, upon written notice to the other party; provided, however, that the obligations contained in this Agreement shall survive termination.
13. This Agreement shall be governed by California Law.
14. Amounts owed by Broker to CCMC under this Agreement may, at CCMC's option and its sole discretion, be offset by CCMC against any payments then or thereafter owed by CCMC to Broker.

**CAPITOL COMMERCE MORTGAGE COMPANY
BROKER AGREEMENT**

15. All notices required hereunder shall be in writing and shall be deemed to have been given, made, and received only a) upon delivery, if personally delivered to a party; b) one (1) business day after the day of dispatch, if by facsimile transmission; c) one (1) business day of deposit, if delivered by a nationally recognized courier service offering guaranteed overnight delivery; or d) three (3) business days after deposit in the United States first class mail, certified mail, postage prepaid, return receipt requested, at the addresses appearing below.
16. If legal action or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute, breach, default, or misrepresentation in connection with any of the provisions of this Agreement, the prevailing party or parties shall be entitled to reasonable attorney fees and other costs incurred in that action or proceeding, in addition to any other relief to which they may be entitled.
17. Broker may not assign this Agreement.
18. This Agreement constitutes the entire Agreement between the parties and supersedes all prior and contemporaneous agreements, representations, and understandings. No supplement, modification, or amendment shall be binding unless executed, in writing, by both parties.
19. Failure or delay to audit any loan or to exercise any right shall not act as a waiver of any other right, nor shall any single or partial exercise of any right preclude any other or further thereof. No waiver of any of the provisions of this Agreement shall be deemed, or shall constitute, a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver. No waiver shall be binding unless executed in writing by the party making the waiver. All remedies shall be cumulative and nonexclusive.
20. If any provision of this Agreement is held invalid, void, or unenforceable, the remaining provisions shall nevertheless continue in full force and effect.
21. Each party shall perform any further acts and execute and deliver any documents that may be reasonably necessary to carry out the provisions of this Agreement.

Broker of Record: _____ (Signature)		Date: <u>8-20-01</u>
Principal Owner: _____ (if not Broker of Record) (Signature)		Date: <u>8-20-01</u>

AXIS MORTGAGE

BROKER AGREEMENT

This Broker Agreement ("Agreement") is entered into the 15 day of September, 20 , between **Axis Mortgage** ("Lender") and Cattlemen's Mortgage & Investment Corp., ("Broker"). This Agreement is intended to set forth the entire understanding between the parties whereby Lender may fund or purchase loans originated and submitted by Broker to Lender from time to time. Nothing contained herein shall obligate Broker to submit all loans that it brokers to Lender and Lender shall not be obligated to fund or purchase loans exclusively from Broker, it being understood that this shall be a nonexclusive agreement.

A. GENERAL BROKER RESPONSIBILITIES

Broker will, at Broker's sole expense: (1) submit to Lender completed loan packages under such programs, procedures, and fee schedules as Lender may periodically establish, (2) furnish Lender such information as may be required for underwriting and closing, and (3) provide any such information that Lender may request to ensure that all loans are saleable on the secondary market. The contents of loan packages submitted to Lender immediately shall become the property of Lender and all information contained therein may be subject to independent verification by Lender or such Third Party as Lender may designate. Broker warrants they are duly authorized to act on behalf of Borrowers to obtain residential mortgage financing. Such authority includes, but is not limited to, inquiry into Borrowers' credit, employment, income and assets.

B. BROKER WARRANTIES

Broker represents and warrants to Lender on behalf of itself, its salespersons, employees, and all persons associated with Broker who have provided services in conjunction with submission of any and all loan packages, both at the time any such loan packages are submitted to Lender and at all times in the event any such loan is either funded or purchased by Lender, that:

DULY LICENSED. Broker is duly licensed as required by state and/or federal law and possesses all necessary licenses, permits, and authority to engage in the activities contemplated by this agreement. Broker shall at all times maintain such licenses in good standing. Broker further warrants that anyone acting on behalf of or under the direction of Broker in connection with any loan is also duly licensed as required by state or federal law.

NO UNTRUE STATEMENTS. Broker has not made any false, misleading or incomplete statement to Lender either in connection with the Axis Mortgage Broker Application or with respect to any loan application submitted to Lender. None of the statements or information contained in any loan package will contain any untrue or erroneous statements known to Broker, or omit to state a fact necessary in order to make such statements or information not misleading. Broker understands that by making this warranty, Broker is warranting the accuracy of all information contained in any loan package submitted to Lender to the best reasonable knowledge of the Broker. Further, such warranty and all representations made herein shall extend to and may be relied upon by any and all successors and assigns of Lender.

DISCLOSURE OF BORROWER CONDITION. Broker has no knowledge of any adverse information concerning applicant or any aspect of the submitted mortgage loan application that is

not reflected in any of the written documents submitted to Lender by Broker. No bankruptcy petition either voluntary or involuntary is pending against the applicant, nor is any foreclosure or other proceeding pending or threatened against applicant.

DISCLOSURE OF BROKER CONDITION. Broker represents that under and according to the laws of each state and local jurisdiction in which Broker originates mortgage loan applications for submission to Lender that Broker and each of its employees, (a) is in good standing, (b) is duly licensed and authorized to transact business in order to perform its obligations hereunder, (c) will, during the term hereof, maintain such licenses and authorizations, and (d) if not a natural person, is a corporation or partnership duly authorized, validly existing and in good standing. There is no claim, litigation, investigation, or proceeding pending or threatened against or otherwise materially affecting Broker's business or performance of its obligations under this Broker Agreement. Broker has fully disclosed to Lender all un-filed claims, known to Broker, including, but not limited to, repurchase request or claims of indemnification by other lenders against Broker or any of its salespersons, employees, partners, associates, and/or stockholders, whether formerly or presently associated with Broker. Broker represents that there are no claims for broker commissions or finder's fees in connection with the mortgage loan application resulting from any action taken by Broker. Broker agrees to exonerate, indemnify and hold harmless Lender with respect to any and all losses sustained as a result of liability to any other Third Party on the basis of any arrangement or agreement made by or on behalf of Broker not provided for herein. Applicants have no claim or defense against Broker, or any agent, assignee or successor of Broker by any reason of an act or omission of Broker, its directors, officers, agents or employees.

BROKER FINANCIAL STATEMENTS, LICENSES & LOAN FILES. Broker shall, so often as Lender may reasonably request, but no less often than once each year, submit to Lender financial statements for the previous 12-month period that accurately reflect and completely disclose the financial condition of Broker. Broker shall notify Lender within 30 days of any material change in its ownership, financial condition, principal management, or in the status of its applicable state mortgage-lending licenses or equivalent documentation. Broker shall deliver to Lender a copy of any/all new, existing or renewed mortgage banker/broker licenses so that Lender has at all times in its possession only current licenses. Broker agrees to permit Lender's Internal Audit Staff to conduct audits of Broker's loan files that are registered with Lender. Lender shall retain the right to audit and verify by alternate source any credit reports, appraisals, or other documentation.

C. COMPLIANCE

Broker agrees at all times to comply with applicable federal, state and local laws regarding Broker obligations hereunder, including the issuance of accurate and timely initial upfront Disclosures to Applicants and in all other respects with regard to the processing and origination of loans. Axis Mortgage shall deliver Axis Mortgage upfront Disclosures exclusively and directly to Broker. Broker warrants that all Axis Mortgage upfront Disclosures will be delivered to Applicants in accordance with any/all applicable federal, state and local laws. Laws referred to in this section include but are not limited to the Real Estate Settlement Procedures Act, Truth in Lending Act, Fair Housing Act, Federal Consumer Credit Protection Act, Home Ownership & Equity Protection Act, Fair Credit Reporting Act, Equal Credit Opportunity Act, and any State or Federal Predatory Lending Laws.

D. INDEPENDENT CONTRACTOR

Nothing contained herein shall constitute a partnership or joint venture between Lender and Broker and the parties acknowledge that at all times they are operating as independent contractors. Broker shall at no time hold itself out to be an agent or employee of Lender. Broker shall have no authority to bind, obligate or commit Lender by any promise or representation unless specifically authorized by Lender in writing.

E. RIGHT TO DELIVERY

Broker recognizes that the Lender intends to rely on its agreements with Broker and will, without notice to Broker, make binding commitments in reliance thereon. Accordingly, it is understood and agreed that actual delivery of the loan or loans under each commitment issued under Lender's delivery programs is the essence of this Broker Agreement. Broker agrees that any loan, which Lender has agreed to lock in, shall be delivered only to Lender and not delivered to another lender unless declined by Lender. Lender acknowledges that Broker has no control over the borrower and has no liability for borrower's failure to perform or withdrawal of its application. Should Broker fail to deliver, Lender is entitled to compensation in such form as Lender may determine, including but not limited to substitution of other loans, pair-off fees, recovery of costs or offset of any losses and/or expenses resulting from failure to deliver against amounts owed to Broker with respect to other loans.

F. BROKER COMPENSATION

Broker will not originate and Lender will not fund and/or purchase high cost loans as defined by the Home Owners Equity Protection Act (Section 32) or any State-defined high cost mortgage loans. Broker hereby represents and warrants that any and all fees or compensation of any kind received by Broker, whether paid by borrower and/or Lender, will separately and conspicuously be disclosed to the borrower in accordance with applicable federal, state & local laws.

G. TERMINATION

Lender reserves the right to terminate this agreement at any time, for any reason, which termination shall be effective immediately upon sending of written notice thereof. Such termination shall not affect the obligation of either party to fulfill any commitments, representations, warranties, or indemnifications made under this Broker Agreement prior to termination. In the event of Broker's breach of any of the representations and warranties herein or if Broker fails to comply with any demand for performance required by this Agreement, in addition to Lender's unqualified right to terminate this Agreement, Lender may, at its sole discretion, choose to be released from any outstanding rate-lock or underwriting commitments.

H. INDEMNIFICATION

Broker agrees to indemnify Lender from and against any and all claims, demands, liabilities, causes of action, and expenses, including attorney's fees, relating to or arising out of Broker's action or inactions hereunder. In addition to this indemnification obligation, in the event any fraudulent "information" is submitted by Broker with respect to a loan and such loan is funded or purchased by Lender, Broker agrees to repurchase such loan immediately upon written demand therefore and compensate Lender for any costs and expenses incurred by Lender in connection with the funding or purchase of such loans. For the purposes hereof, "information" shall mean any and all information obtained from the borrower or any reference source that would, according to standard practices and procedures in the mortgage lending industry, be within the control or

knowledge of Broker, as well as any appraisal related information which is the result of, or is communicated because of, any relationship or transaction between the appraiser and Broker.

I. SOLICITATION

Broker agrees that it will not, at any time, give or sell a list of the Borrowers to any person or entity. Broker agrees not to solicit Borrowers for refinance within 9 months of Loan Closing.

J. EARLY PAYOFF

For Mortgage Loans that are prepaid in whole in the first six (6) months after the related Closing Date, the Broker shall rebate the premium paid by the Lender, minus the amount of the prepayment fees stated on the Note, if any.

K. REPURCHASE

Repurchase shall be required if Lender determines, at any time, that any representation made by Broker with respect to any mortgage loan application submitted to Lender was untrue when made or any warranty or term hereof has been breached. Repurchase shall also be required of Broker if for any reason a demand for repurchase is made by any agency or investor with respect to any mortgage loan funded by Lender for Broker that is not curable by Broker. Broker shall repurchase within 15 days of notice any loan funded or purchased by Lender hereunder for an amount equal to the sum of, at the time of repurchase, (a) the unpaid principal balance of the loan plus the accrued interest on the loan, (b) the amount of any mortgage broker compensation paid to Broker by Lender at the time the loan funded, (c) the aggregate amount of any advances made by Lender for the account of the mortgagor and interest thereon at the interest rate set forth in the promissory note, and (d) any attorney's fees, legal expenses, court costs, etc.

L. DELIVERY OF NOTICES, DISCLOSURES & CORRESPONDENCE

To the extent allowable by law, delivery of notices, disclosures and correspondence in the normal course of business between the two parties shall be deemed to have been delivered if sent by either U.S. Mail or electronic mail to the addresses listed below:

BROKER:

U.S. Mail Address:

Cattlemen's Mortgage & Investment Corp.
4008 North 15th Avenue
Phoenix, Arizona 85015

Electronic Mail Address:

cmic@cattlemensmortgage.net

LENDER:

U.S. Mail Address:

Axis Mortgage & Investments
1201 S. Alma School Rd., Suite 3700
Mesa, AZ 85210
Attn: Wholesale Department

Electronic Mail Address:

wholesale@axismtg.com

In the event Lender desires to terminate this Agreement, request the repurchase of a loan, request reimbursement of premium previously paid to Broker or other such sums as Lender may have rights under this Agreement to request, or either party wishes to assert a breach of this Agreement by the other party, such correspondence shall be deemed to have been delivered if sent by Registered or Certified U.S. Mail to the address listed above.

M. MISCELLANEOUS

This Agreement shall constitute the entire agreement between the parties. Any prior understandings preceding the date of this Agreement shall not be binding upon either party except to the extent incorporated in this Agreement. No waiver, amendment or modification of any provision of this Agreement shall be binding unless executed in writing by each party hereto.

If any provision of this Agreement is unenforceable for any reason, the remainder of this Agreement shall survive the loss of such a provision.

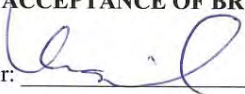
Amounts owed by Broker to Lender under this Agreement may, at Lender's option and in its sole discretion, be offset by Lender against any payments then or thereafter owed by Lender to Broker.

No delay in the exercise of or the failure to exercise any right, power or remedy afforded Lender through any breach or default of Broker under this Agreement or any acquiescence by Lender to any breach or default shall impair any right, power or remedy of Lender, nor shall any waiver of any single breach or default be deemed a waiver of any breach or default thereafter occurring.

Except as provided below, all terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns, ***provided however***, that this Agreement may not be assigned or transferred by Broker to any other person, firm, corporation, or other entity.

It is agreed that this Agreement shall be governed by, construed and enforced in accordance with the laws of the state of Arizona. In the event of any lawsuits or other proceedings related to this Agreement, each party hereby: (1) waives its right to trial by jury, (2) consents to exclusive jurisdiction in the state and federal courts located in the county of Maricopa, Arizona, and (3) agrees that the prevailing party shall be entitled to recover from the non-prevailing party its reasonable attorney's fees and costs.

N. THIS AGREEMENT SHALL BE NULL AND VOID UNLESS SIGNED BY LENDER INDICATING APPROVAL AND ACCEPTANCE OF BROKER.

Signature of Broker/Principal Officer:  _____

Print Name: Mitchel S. Medigovich _____ Date 9/15/04

Axis Mortgage & Investments, L.L.C. _____ Date _____

Annex 5: Model State Statues

NAMB

Model State Statute Initiative

Goal: To better serve and protect the public, the residential mortgage loan industry will endeavor to license, train and educate all mortgage brokers and loan originators employed by mortgage brokers. NAMB firmly believes that part of the solution to consumer abuse and predatory lending is mandatory licensing and education of all residential loan originators.

Concept: Buying or financing a home is one of the largest, most complicated and vitally important decisions facing consumers in the United States. Residential mortgage loan originators who work directly with the public should be educated, honest, and professional.

Overview: NAMB is taking a proactive stance on consumer protection. NAMB seeks to have individual state statutes passed that require pre-licensure education and mandates continuing education requirements for mortgage brokers and residential loan originators employed by mortgage brokers. This model statute would serve as a model for state regulators and legislators whose states do not have such statutes or whose states need to improve their statutes to protect and serve the general public.

The concept has several basic tenants:

- a) It should apply to all residential mortgage brokers and loan originators employed by mortgage brokers;**
- b) There should be a state licensing requirement;**
- c) There should be a pre-licensure education requirement;**
- d) There should be a continuing educations requirement to maintain competency;**

NAMB believes that such an initiative will serve to help reduce the threat of predatory lending and improve the overall competency of the industry. NAMB urges each state to adopt these concepts in the best interest of the public. NAMB is committed to see this matter through fruition and will monitor the progress of this initiative in each state.

All residential mortgage brokers and loan originators employed by mortgage brokers should have formal training and should be tested on their knowledge of matters including financial analysis, ethics, federal and state disclosures, real estate law, mathematical computations germane to real estate and mortgage lending prior to contact with the public. Residential Mortgage Loan Originators should be well qualified before they council homeowners on managing their most valuable asset.

For this reason, NAMB recommends and supports a standardization of education and experience for every person who holds themselves out to the public to be a Residential Mortgage Loan Originator.

Licensing Overview

We believe that each state should pass a licensing requirement for all residential mortgage brokers and residential mortgage loan originators employed by mortgage brokers. The

requirements for licensure should encompass all residential mortgage brokers and their loan originators including owners or responsible individuals of residential mortgage broker entities.

Residential Mortgage Loan Officers

Shall be defined as any individual who is employed by a mortgage broker, for compensation or gain, shall take or receive a mortgage application, assemble information, and prepare paperwork, and documentation necessary for obtaining a residential mortgage loan, or arranges for a conditional mortgage loan commitment between a borrower and a lender, or arrange for a residential loan commitment from a lender. Residential Mortgage Loan Officers also include an employee who solicits financial and mortgage information from the public for sale to another residential mortgage broker.

Principal Mortgage Owners/ Responsible Individuals

Defined as the owner, or managing general partner, or responsible individual, or any Officer, or stock holder, who holds themselves out to be the party accountable for residential mortgage broker loan originations or branch mortgage operations, with in the state, and/or the person in direct management of residential mortgage loan origination.

Exempt

Any individuals who do not deal, (negotiate interest rates, loan programs, offer loan locks or loan commitments) directly with borrowers. Persons who complete incidental services in arranging or procuring a mortgage loan, including administrative staff wherein their primary function is the verification of data provided by the borrower, assembly of documents and coordination of third party services such as ordering an appraisal, title report or credit reports.

Anyone employed by a mortgage broker, who deals directly with a consumer and reviews, analyzes, evaluates a proposed borrowers financial statements, income, property characteristics and credit history should obtain a license.

Licensing Requirements

To obtain a state license to become a residential mortgage broker or loan originator employed by a residential mortgage broker, the following concepts should be adopted:

1. A written application for licensure must be required. The application should require an attestation by the applicant as to the applicants' experience and knowledge of the mortgage industry.
2. The applicant should submit to a background investigation of, at a minimum, criminal records, and employment history.
 - No individual should be licensed who has had a license, or the equivalent, to practice any profession or occupation revoked, suspended or otherwise who has acted beyond legal limits.
 - No person should be licensed who has been convicted of acts against society that could be deemed 'moral turpitude'. Such acts where licenses should be denied must include duties owed by licensees to the public including acts contrary to justice and the doctrine of "fair dealing", honesty, principle or good business morals. This includes, but is not limited to theft, extortion, use of the mail to obtain property under false pretenses, tax evasion and the sale of, or the intent to sell controlled substances.

- The licensee should provide evidence that they have managed their business and personal financial affairs with care and diligence.
3. A first time Residential Mortgage Loan Officer Licensee Applicant shall provide a certificate of satisfactory completion of a course of study, as defined by the state, consisting of the subjects listed below.
 4. A Principal Mortgage Broker Entity/Owner/Responsible party Licensee Applicant shall provide a certificate of satisfactory completion of a course of study, as defined by the state, consisting of course work from the subjects listed below.³
 5. A Licensee Applicant shall pass an examination of the applicants' knowledge after items 1-4 above have been completed.
 6. Licenses shall be valid for a two-year period. Upon expiration of the two-year period, the licensee should submit an application for renewal to the appropriate licensing authority. The renewal application should, at a minimum, include evidence of continuing education courses, as described below.
 7. The licensing authority should have the authority to request additional information from the Licensee Applicant to support statements made on the application or dispute matters discovered through investigation.
 8. All initial applicants shall submit a finger print card, which shall be forwarded to the local Department of Public Safety and/or FBI for a records check.
 9. The Licensee Applicant shall pay sufficient fees to pay for Licensing Authorities costs of processing the license application and investigations.
 10. Upon receipt of a Residential Mortgage Loan Officers license, the licensee shall immediately deliver the license to his/her employing broker. Upon termination of employment of a Residential Mortgage Loan Officer, the license shall be transferred to a new employing broker and the regulating authority should be notified. If the Residential Mortgage Loan Officer does not have a new employing broker, the license shall be returned to the Licensing Authority with an explanation or the reasons for termination.

Grandfathered Persons

Every Residential Mortgage Loan Officer employed by a mortgage broker, currently registered, licensed or otherwise employed in the mortgage industry immediately preceding enactment of this initiative shall be permitted to continue employment as a Residential Mortgage Loan Officer. Each current originator shall be required to meet all of the necessary elements of licensure at the next renewal period specified by state law.

Unless provided for in state law, every Principal Residential Mortgage Broker Entity or Owner, currently licensed immediately preceding enactment of this initiative shall be permitted to maintain their license and position. Each current Principal Residential

³ Based upon the experience of many mortgage brokers, the educational requirement should be greater than that required of Residential Loan Officers.

Mortgage Broker Entity/ Owner shall be required to meet all of the necessary elements of licensure at the next renewal period specified in the state law.

Pre-Licensing Education

All persons making an initial application for licensing must:

- a) Attend educational courses, determined by the state, when applying for a Residential Loan Officer license;
- b) Attend educational courses, determined by the state, when applying for a Principal Mortgage Broker Owner license;
- c) Pass a test of core competencies;
- d) Receive a certificate of completion from the school or organization that provided courses.

Each State or Licensing Authority should, with the assistance of the local mortgage brokers, establish review and approve curriculum sufficient to establish a baseline of knowledge for licensees.

Recommended Course Curriculum

Pre-licensure course curriculum may include:

- a. Federal Lending Laws;
- b. Ethics, Diversity and Sensitivity;
- c. Practices of Residential Lending.
- d. Real Estate and Mortgage Mathematics;
- e. Escrow Procedures, Title Insurance and Loan Settlement;
- f. Appraisals and Land Survey;
- g. Loan Processing and Loan Underwriting Process;
- h. Secondary Mortgage Market;
- i. Loan Default and Foreclosure Law;
- j. State Statutes and Rules.

Continuing Education Requirements

Every residential mortgage broker, whether Residential Loan Officer or Principal Mortgage Broker/Owner, shall, upon renewal of an existing license, submit proof of satisfactory completion of a course of study.

Subjects may include:

- a) Federal, and State Lending Law;
- b) Local Rules and Regulations;
- c) Ethics and Professional Standards;
- d) General Real Estate or General Financial Studies;
- e) Product Update;
- f) Personal Development;
- g) Diversity Training.

Continuing education courses may be offered through classroom instruction, electronic transmission, or distance learning. Qualifying hours may be obtained by attendance at a locally chartered real estate or mortgage business school, accredited college, university or community college, or vocational school or other institution approved by the state licensing agency.

The licensee should receive a completion certificate that such hours have been successfully completed.
Licensees shall submit the appropriate completion certificate(s) with the license renewal form.

a. Conclusion

It is the intent of this initiative to engage measures to reduce the incidents of predatory lending and to raise the standards for those persons who interact with the public in the area of home financing. Every Residential Loan Originator employed by a mortgage broker should be licensed, responsible and accountable for his or her actions when working with the public. We at NAMB believe that establishing minimum educational requirements as well as requiring continuing education will substantially increase each Residential Loan Originators' awareness of their responsibility and duty to give consumers fair and honest service. It may be desirable for each state to consider establishing a mortgage oversight board to assist the commissioner with up-to-date material for pre-licensing and continuing educational courses.

Recommended Course Curriculum

Pre-licensure course curriculum may include:

I. Federal Lending Laws

Licensees should develop competencies in matters of federal mortgage statutes, which may include:

- a) Regulation Z (Truth in Lending Act);
- b) Real Estate Settlement Procedures Act, (RESPA);
- c) Regulation B;
- d) Regulation C, the Fair Credit Reporting Act;
- e) National Flood Insurance Act;
- f) Equal Credit Opportunity Act;
- g) Federal Trade Commission rules concerning advertising for credit;
- h) Servicing Transfer Act;
- i) Privacy Act;
- j) Consumer Protection Act;
- k) Community Reinvestment Act.

II. Ethics, Diversity and Sensitivity

Licensees should be able to discuss the canons of:

- a) Fair Housing Act;
- b) Emerging Markets;
- c) Redlining and Block-busting;
- d) Ethical practices of mortgage lending.

III. Practices of Residential Lending

Licensees shall develop competencies in the subjects of:

- a) Evolution of Residential Lending in the United States
- b) The role of Government Sponsored Enterprises (GSE's)
- c) Federal National Mortgage Association
- d) Government National Mortgage Association
- e) Federal Home Loan Mortgage Corporation
- f) Federal Housing Administration
- g) Veteran's Administration
- h) Farm Home Administration
- i) Private Mortgage Insurance Industry

Principals of Mortgage Lending, including but not limited to:

- a) Assisting consumers in selection of loan programs including Adjustable Rate Loans;
- b) Evaluating the relationship between discount points and interest rates;
- c) Describing the costs of originating a mortgage loan;
- d) Preparing and discussing the required state and federal disclosures with a consumer;
- e) Interpreting and discussing loan contingencies and covenants with the consumer;
- f) Explaining the loan commitment issued by a lender;
- g) Reading and understanding a real estate contract as it relates to financing of real property.

- h) Identifying methods of holding title to real estate and discuss options with the consumer.
- i) Describing the advantages of primary and subordinated financing options;
- j) Explaining and preparing a Good Faith Estimate of costs for a consumer.

IV. Real Estate and Mortgage Mathematics

Licensees should develop competencies in basic mathematics.

The licensee should have the basic skills to:

- a) Calculate gross and net loan amounts to satisfy a consumers loan request;
- b) manually prepare, a Good Faith Estimate of costs and Truth in Lending statement;
- c) calculate and analyze ratios of house payment-to-income;
- d) calculate the ratio of total obligations-to-income to determine loan acceptability;
- e) analyze income tax returns for self employed borrowers to confirm sufficient income;
- f) calculate loan to value ratios;
- g) calculate origination fees, yield spread premiums and discount points;
- h) calculate prorations for real estate taxes and insurance amounts for the reserve account;
- i) calculate rate changes on Adjustable Rate Mortgages;
- j) convert hourly and weekly salaries to monthly income to compute ratios;
- k) determine that the consumer has sufficient funds for closing;
- l) calculate monthly principal and interest payments and the amortization of a loan;
- m) calculate per diem interest amounts;
- n) manually calculate Annual Percentage Rate
- o) The licensee should be able to describe the theory of Time Value of Money and the impact on the financing contract.

V. Escrow Procedures, Title Insurance and Loan Settlement

Licensees should develop competencies in matters of closing forms and the closing process. The licensee should be able to explain the documents and process so that the borrower fully understands what is taking place.

The documents to be explained include, but are not limited to:

- a) the mortgage note and its provisions for default, the lenders rights and the borrowers rights;
- b) the security agreement, (mortgage or deed of trust), including each of the covenants and conditions;
- c) the HUD-1 closing statement and its relationship to the Good Faith Estimate of Costs;
- d) the Good Faith Estimate of costs and final Truth in Lending statement;
- e) The consumers right of Rescission.
- f) The purpose and cost of Lenders Title Insurance;
- g) The purpose and cost of Owners Title Insurance;
- h) Title Examination;
- i) Title Abstract;
- j) Lien Theory;
- k) Schedule "B" Exceptions to Title Insurance

VI. Appraisals and Land Survey

The licensee should be able to describe:

The three methods of valuation, including

- a) Cost approach;

- b) Market approach;
- c) Income Approach;
- d) the theory of economic obsolescence;
- e) the theory of functional obsolescence;
- f) the theory of depreciation;
- g) the theory of depletion;
- h) The licensee should be able to explain the Rectangular Survey System;
- i) Describe the method of legal identification of real property in their state;
- j) Calculate the number of acres in a given area;
- k) Calculate the number of square feet in a given area.

The licensee should be able to understand and communicate with the borrower the purpose and process of appraisal, the survey, title insurance, restrictive covenants, deed restrictions, and encroachments and pest inspections.

VII. Loan Processing and Loan Underwriting Process

Licensees should study the subjects of loan processing and underwriting. After study in this section, the licensee should be able to:

- a) prepare, explain, and execute a business agreement with the consumer;
 - b) demonstrate the ability to understand and explain an FNMA 1003 mortgage application;
 - c) explain requirements for determining if the property, income and credit of borrower fit the loan offerings available through the licensee.
- The licensee should have the knowledge to collect the necessary exhibits anticipated for:
 - a) underwriting contingencies;
 - b) understanding the procedures and requirements for issuing adverse action notices;
 - c) assembling for submission an entire loan package for underwriting.
 - d) evaluation of an appraisers conclusions.
 - The licensee should also have a basic knowledge of:
 - a) Negotiating a rate lock-in;
 - b) investigation and confirmation of application data;
 - c) arranging for a property inspection;
 - d) evaluating and reviewing a title insurance policy;
 - e) owners versus mortgagee's title insurance policies;
 - f) the function and operation of private mortgage insurance and knowing when it is required;
 - g) when Private Mortgage Insurance can be canceled;
 - h) the meaning of the terms novation, assumption, "subject to the mortgage";
 - i) release of liability
 - The licensee should be able to demonstrate an understanding of the basics concepts of:
 - a) fixed versus variable rate mortgage loans;
 - b) negative and positive amortization principles;
 - c) graduated payment mortgages;
 - d) reverse mortgages;
 - e) shared appreciation mortgages;
 - f) bi-weekly mortgages;
 - g) temporary and permanent interest rate "buy-downs";
 - h) and the concept of a wraparound mortgage.

Secondary Mortgage Market

Licensees should study the process of the Secondary Market. The licensee should be able to describe:

- a) How interest rate markets are established;
 - b) Interest rate risks;
 - c) the theory of "yield spread premiums";
 - d) the theory and process of by which loans are sold;
 - e) the theory and purpose of a loan purchase commitment ;
 - f) FNMA standard eligibility requirements;
 - g) the function and method of operation of FNMA, GNMA and FHLMC;
 - h) the method and marketing aspects of a GNMA mortgage backed pass through security;
 - i) the theory of "service release premiums".
- The licensee should also be able to explain the basic functions of;
 - a) mortgage servicing;
 - b) collections;
 - c) remittance of payments;
 - d) escrow accounts for taxes and insurance;
 - e) payoffs ;
 - f) assumptions;
 - g) the transfer of servicing rights.

VIII. Loan Default and Foreclosure Law

Licensees should study Foreclosure Law. Licensees should be able to describe:

- a) the type of foreclosure law most frequently used in their state;
- b) the legal process of a judicial foreclosure;
- c) the legal process of a trustee's sale and;
- d) how it differs from a judicial foreclosure;
- e) the borrowers rights of reinstatement;
- f) the borrowers right of redemption;
- g) the legal process of a forfeiture of equitable title;
- h) the affects of subordinate liens after foreclosure;
- i) the affects of mechanics and materialmens' liens;
- j) the process of tax lien sales.

IX. State Statutes and Rules

Licensees should study of State and local law. Licensees should be able to identify:

- a) Minimum record keeping requirements;
- b) Record retention requirements;
- c) Minimum requirements for licensing;
- d) The process for examination of a licensees records;
- e) Standards for accounting;
- f) Standards for maintaining Trust Funds;
- g) Minimum net worth requirements;
- h) Minimum bonding requirements;
- i) Local disclosure requirements;
- j) Contracts and written agreements with consumers;
- k) Minimum requirements for supervision of employees;