

STATE OF NEW HAMPSHIRE
BANKING DEPARTMENT



Examined By: Kerry R. Molin
Nicole Lessard
Joseph Rouleau

Examination Date: June 11, 2007

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The information contained herein is based upon records of licensee, upon statements made to the examiner by management, officers, and employees; and upon information derived from sources which the examiner considered reliable and correct.

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PETER C. HILDRETH
BANK COMMISSIONER

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The State of New Hampshire Banking Department

**Mortgage Banker
REPORT OF EXAMINATION**

DATE	6/11/2007
NAME OF LICENSEE	Financial Resources & Assistance of the Lakes Region, Inc.
ADDRESS	15 Northview Drive
CITY, STATE, ZIP	Meredith, NH, 03253
LICENSE NUMBER	5902-MB
EXAMINER IN CHARGE	Kerry R. Molin
TAX ID NUMBER	

REGULATORY AUTHORITY AND SCOPE OF EXAMINATION:

This examination was conducted, without prior knowledge, pursuant to New Hampshire RSA 383: 9 and under the provisions of RSA 397-A:12. A review of the licensee's current regulated business activities, operational practices and financial condition was undertaken to determine compliance with NH RSA 397-A.

The examination took place at the licensee's principal office located in Meredith, NH during the period of June 11 - June 19, 2007 and at the New Hampshire Banking Department office on June 20 - 29, 2007. The contact persons were Scott D. Farah, President and owner; and Susan N. LeDuc, Regulatory Specialist, from the law firm: Gallagher, Callahan & Gartrell, P.C., Concord, NH.

A sample of loans closed during the previous 13 months was selected for examination. A sample of Denied and Withdrawn application files were also examined. The following documents were reviewed: work papers to verify the information submitted in the 2006 Annual Report; a copy of the Audited Financial Statements for the twelve month period ending December 31, 2006 and 2005, prepared by the CPA firm - Connor & Associates, PC; reconciliation of the Preferred Shares of Stock Outstanding and shares redeemed; a copy of the Company Handbook; Addendum to Employee Handbook - GLBA Information Security; company policies and procedures; a copy of the loan package and disclosures; home state registration issued by the NH Secretary of State; an organization chart; a list of loan originators; a list of locations outside of New Hampshire; a summary description of company operations; a list of other states issuing a mortgage license; a list of correspondent lenders; a list of shareholders; an itemized list of fees and purpose; a list of approved service providers; a copy of the NH Balloon Note disclosure; the web site located at www.franational.com; a copy of media advertisement distributed in New Hampshire; a summary of the consumer complaints; a copy of the affiliate business disclosure; a list of loan products available in New Hampshire; a list of legal and agency enforcement actions; a list of Investors; Citizens Bank Operations account statements for the months of January, February, and March 2007; inactive accounts held at Citizens Bank and Bank of America; a list of All employees; a list of New Hampshire employees; and a copy of the third party service agreements in place with the credit bureau, cleaning service, and the computer consulting company.

The following summary of the findings presented in the May 18, 2006 Report of Examination were reviewed to determine compliance: failure to notify the department of changes in the ownership of preferred stock; the use of an unlicensed corporate name and un-registered trade

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names; advertisement licensing disclosures; failure to report significant events; implementation of the Gramm-Leach-Bliley Act and the safe guarding of consumer information; filing inaccurate Annual Reports; missing loan file documents; failure to document the issuance of a balloon note disclosure; failure to report the Yield Spread Premium (YSP) on the Good Faith Estimate (GFE) as a dollar amount or dollar range; the incorrect reporting of mortgage broker fees on line #801 of the HUD settlement statement and GFE; misuse of lines #801-#807 of the HUD settlement statement; the HUD incorrectly reports payments to the licensee instead of the 3rd party service provider; missing appraisal invoices to verify the cost; failure to maintain a control list of Denied /Withdrawn applications to verify pipeline; missing 1st quarter Financial Statements (balance sheet, income statement, and cash flow statement); failure to provide a notice the details of a consumer complaint; and there were no contracts with third party service providers.

The New Hampshire Banking Commissioner announced the adoption of a Regulatory Guidelines on Nontraditional Mortgage Products effective November 13, 2006. The guidelines can be found on the department's website located at www.nh.gov/banking. Written policies and procedures must be adopted in order to meet the requirements.

BACKGROUND:

Financial Resources & Assistance of the Lakes Region, Inc., was organized as a New Hampshire corporation on May 18, 1989. The company is 100% owned Scott D. Farah, President and CEO. The company is licensed as a mortgage banker, but serves primarily as a mortgage broker. The licensee business is divided into residential and commercial lending services. The commercial lending activities comprise approximately sixty percent of the company's revenues while consumer lending and brokering activity make up the other forty percent. Mr. Farah also, operates an insurance business called Insurance Options, Inc. from the same location. The law offices of Michael Gould and Michael Burke, PA are sub-leased from the licensee at the same location. The law firm served as the settlement agent for about 75 percent of the loan closings in the sample. Financial Resources & Assistance of the Lakes Region, Inc. is currently licensed to conduct residential mortgage activity in 13 states including New Hampshire. The company commenced operations in Meredith, New Hampshire with the issuance of First Mortgage Banker and Broker license #5902-MBB and Second Mortgage Home Loan Lender license #5903-MHL prior to 1997. A new combined license #5902-MB was issued for 2006. A new branch office located in Manchester, NH was opened for business with the issuance of license #11508-MB-BCH on February 22, 2006. The Manchester branch office was closed effective January 31, 2007. The company surrendered Small Loan Lender license #6082-SM on September 6, 2006.

OBSERVATIONS:

1. **Pursuant to NH RSA 397-A: 10, III & IV, Change in name; Ownership; Location,** A visit to the branch office located at 1045 Elm Street, Suite 304 N, Manchester, NH, license #11508-MB-BCH, on June 11, 2007 indicates the office has been closed. The company failed to notify the department 10 business days in advance of the closing. The company failed to keep the licensing information on file up to date. Notice of the branch closing has not been provided to the NH banking department -Licensing Division. *A notice was sent on June 15, 2007.*

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2. Pursuant to NH RSA 397-A: 10-a, I, (a), License Surrender, The company failed to surrender branch office license #11508-MB-BCH issued to the office located at 1045 Elm Street, Suite 304 N, Manchester, NH. The office was closed January 31, 2007. Documentation was submitted on June 15, 2007, which included the surrender of license #11508-MB-BCH.

3. Pursuant to NH RSA 397-A: 10, I Change in name; Ownership; Location, The web page located at www.franational.com indicates the use of the unlicensed corporate name: Financial Resources, Inc. A similar observation was cited in the previous examination. The web site was revised and corrected on June 13, 2007.

The signage for the branch office, license #11508-MB-BCH, located at 1045 Elm Street, Suite 304 N, Manchester, NH indicates the use of the unregistered trade name: "Financial Resources".

The 2006-2007 edition of the Concord Laconia Plymouth "Your Local Directory" contains white pages and yellow pages that indicate the use of the unregistered trade name "Financial Resources". A copy of a request for correction was received on June 14, 2007.

The July 2006 edition of the Verizon phone book white pages and yellow pages indicate the use of the unregistered trade name: "Financial Resources". A copy of the request for correction was received on June 15, 2007.

Flyers, marketing materials, and correspondence use the unregistered trade name: "Financial Resources".

The third party service contract between CBCInnovis, Inc. for Credit Reporting Services is in the unregistered name of "Financial Resources", signed April 4, 2007. A revised and amended agreement was received June 14, 2007.

Loan documents and disclosure forms contained the unregistered trade name: "Financial Resources and Assistance".

The following loans indicate the licensee served as Lender and is reported under the name "Financial Resources & Assistance, Inc.": [REDACTED], [REDACTED], and [REDACTED].

The Banker license issued by the NH Banking Department and the Certificate of Corporate Registration issued by the NH Secretary of State are issued in the name "Financial Resources & Assistance of the Lakes Region, Inc." An amendment to the license application must be filed to add any Trade Name that is used to conduct mortgage banker and / or broker activities. A copy of the Certificate of Authority issued to the licensee by the NH Secretary of State is required to be sent to the banking department along with the return of the original licenses for amendment. A similar observation has been cited in the four previous examinations.

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4. **Pursuant to NH RSA 397-A: 10, IV, Change in name; Ownership; Location** The licensee failed to report the error in capital stock that was identified in the February 2007 audit of the records for the year ending December 31, 2006 within 30 days. The audit indicated 55.5 shares of preferred shares @ \$1,000 each was subscribed and not issued; were not booked to the financial statements. The holder of 34 preferred shares was identified as David Mount. The owner of the remaining 21.5 shares (as reported by the trustee/safekeeping agent), is unknown by the licensee. *Information received verbally on 6/18/07 from management, indicates the shares are held by: Trust Company of America, Englewood, CO. Licensee could not prove or disprove this issue with written documentation. This a possible escheat issue.*
5. **Pursuant to NH RSA 397-A:11, I, Record Keeping**, The following withdrawn loan application files were not available for examination: [REDACTED]; and [REDACTED]. The control list indicates the applications were withdrawn 6/1/06 and 10/1/06, respectively. Management indicates the date of withdrawal was a clerical error. The applications were taken during the year 2004. The NH statute requires record retention for a period of 3 years.
6. **Pursuant to NH RSA 397-A: 2, III referencing Regulation B, the Equal Credit Opportunity Act, 12 C.F.R. §202. 9 (a) and §202.12 (b)**, The licensee does not identify or distinguish Denied loan applications from Withdrawn loan applications. The files are referred to in general as "Dead Sheets". A sample of "dead sheets" (Withdrawn or Denied loan files) were reviewed. The files do not provide sufficient information to determine, if the loan was Denied by the Lender or Withdrawn by the consumer. Adverse action letters must be sent to an applicant within 30 days of the date of application. The following files appear to be a denied loans, which do not contain adverse action notices: [REDACTED]; [REDACTED]; [REDACTED]; and [REDACTED].
7. **Pursuant to NH RSA 397-A: 13, V Reports**, The following items that were requested in the June 11, 2007, Phase I, "Notice of Examination" are missing or incomplete:
 - a. Provide a copy of the most recent Federal Income Tax Return. *A copy of IRS Form 7004 extending the filing date of the 2006 Return for 6 months was received on 6/18/07. A copy of the 2006 Federal Income Tax Return should be provided when available.*
 - b. Provide a copy of the most recent quarterly financial statement; *Management indicated on 6/18/07 they do not prepare quarterly financial statements. The company relies on the CPA to provide audited figures for the 12 month period ending December 31. No interim figures are available. A similar observation was cited in the previous examination.*
 - c. Work papers and copies of source documents to support the figures submitted on the company's most recently filed NH Annual Report; the work papers shall demonstrate the actual calculation of the numbers for verification by the department; *Work papers and documents were received on June 15, 2007. The documents failed to include the dollar*

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amount for loans where the licensee acted in the capacity as the lender and provide the source of funds.

- d. A list on Schedules A and B of the license application form for the current owners, indirect owners and all principals of the company. *Received Schedules A and B June 15, 2007.*
- e. Provide a list of all NH files for loans that the licensee originated, funded, closed, denied, or that were withdrawn, canceled or serviced, or foreclosed upon by the licensee during the period 18 months prior to the date of this notice.

The loan file for [REDACTED] in the amount of \$280,000 is secured with real estate located in the State of Virginia. The loan was included on the NH list of closed loans.

A list identifying the loans funded by the licensee is missing. (5 loans were reported in 2006 Annual Report totaling \$725,400.) *A list was received on 6/15/07.*

The licensee created a dead file control list, which does not distinguish loan applications which have been Denied from those Withdrawn.

Applications are filed in Alpha order by the client's last name. The files are not segregated by state. The licensee conducts business in the following 14 states, GA, ID, MD, MA, ME, MI, NH, NM, NC, OK, PA, TX (license issued in name of Scott David Farah), VA, and WA. The control list should be reviewed for accuracy in order to complete reports accurately and to select a sample of files for review. Files must be identifiable by state.

The following items that were requested in the June 11, 2007, Phase II, "Notice of Examination"—Officer Questionnaire are missing or incomplete:

- #12 The description of company operations indicates that "stated" loans will use Salary.com in order to verify the income for that position. Evidence of compliance could not be located in any of the "stated" loan files. The description also states it is company policy to request CPA letters, appropriate. Verification letters issued by a CPA were found in a majority of the loan files. The description also states, if a borrower owns their own business, a copy of the certificate of registration issued by NH Secretary of State would be requested and verified. Verification of the filing with the NH Secretary of State was found in about half of the stated loan files reviewed.
- #42 Bank statement reconciliations were not available for the months of January, February, and March 2007. The General Ledger and bank statements are reconciled every 6 months. *Reconciliations should be performed at minimum, quarterly, in order to determine errors and any discrepancies in a timely manner.*
- #49 Provide copies of all contracts or agreements in place with any third party service provider. *There were no contracts or agreements provided for title/ loan closing agents.*

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#53 Provide a copy of the written policies and procedures in place that are in accordance with the Commissioner's order of November 13, 2006 concerning the Guidance on Non-traditional Mortgage Products. *The response does not completely address the Commissioner's Order.*

8. Pursuant to NH RSA 397-A: 2, III referencing the Standards for Safeguarding Customer Information 16 C.F.R. § 314 – Policy Standards for Safeguarding Consumer Information. The licensee's Gramm-Leach-Bliley Act, Part 314, Information Security Policy is incomplete. The policy does not include the monitoring of service providers which serve in the capacity as the closing agent. The policy does not indicate evaluations and adjustments will be preformed at least annually and adjust as needed.
9. Pursuant to NH RSA 397-A: 2, III referencing the New Hampshire Banking Commissioner's order of November 13, 2006 in regards to non-traditional mortgage products. The licensee has started to develop Policies and Procedures to address non-traditional mortgages. Evidence could not be located in the loan files, which indicates the borrower's were informed and educated by the licensee of the characteristics of the selected loan product. There is no proof in the files that the loan product chosen was the best option for the borrower. Documentation verifying the borrower's ability to repay the loan was not found in the files. Amortization schedules of payments to be collected during the life of the loan were not seen in the files. Compliance could not be determined.
10. Pursuant to NH RSA 397-B:2, I Application of Chapter and NH RSA 397-B:4, I (a) Registration; Fees; Term; Renewal The licensee served in the capacity as banker/lender, where it closed and provided the source of funds for 1 loan in 2005 and 5 loans in 2006. The loans were sold to the following investors:
- | Borrower | Yr/Closed | Loan \$ | Investor | Servicer | Status |
|------------|-----------|---------|--------------------------------------|------------------------------------|-----------------------------|
| [REDACTED] | 2005 | 142,000 | [REDACTED]
Franconia, NH | Todd Workman
Franconia, NH | Paid off 4/06 |
| [REDACTED] | 2006 | 117,400 | [REDACTED]
Newland, NC | CL and M, Inc.
Gilford, NH | Paid off 9/06 |
| [REDACTED] | 2006 | 130,000 | [REDACTED]
West Friendship, MD | CL and M, Inc.
Gilford, NH | Open -payoff
due 7/30/07 |
| [REDACTED] | 2006 | 166,000 | IRA f/b/o [REDACTED]
Maitland, FL | Equity Trust Company
Elyria, OH | Paid off 6/07 |
| [REDACTED] | 2006 | 215,000 | [REDACTED]
Mirror Lake, NH | CL and M, Inc.
Gilford, NH | Paid off 3/07 |
| [REDACTED] | 2006 | 97,000 | [REDACTED]
Mirror Lake, NH | CL and M, Inc.
Gilford, NH | Paid off 3/07 |
- A review of the files indicates the loans were issued to consumers and secured by 1 to 4 family, owner occupied residence. The licensee is dealing with the unregistered Mortgage Servicer –CL and M, Inc., Gilford, NH.

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11. Pursuant to NH RSA 397-A: 11, I, Record Keeping. The following documents were missing from the designed loan file:

A copy of the loan application was missing from the following files: [REDACTED]; and [REDACTED]

A copy of the borrower's Credit Report was missing from the following files: [REDACTED]; [REDACTED]; [REDACTED]; [REDACTED]; [REDACTED]; [REDACTED]; and [REDACTED].

A copy of the Good Faith Estimate (GFE) was missing from the following files: [REDACTED]; and [REDACTED].

A copy of the licensee's New Hampshire Balloon Note disclosure was missing from the following files: [REDACTED] and [REDACTED].

A copy of the Appraisal was missing from the following files: [REDACTED]
[REDACTED]
[REDACTED], and [REDACTED].

A copy of Underwriting Guidelines form 1008 was missing from the following files: [REDACTED]
[REDACTED] and [REDACTED].

A copy of the initial Truth in Lending statement (TIL) was missing from the following files: [REDACTED] and [REDACTED].

A copy of the final Truth in Lending statement (TIL) was missing from the following files: [REDACTED] and [REDACTED].

A copy the Credit Report invoice was missing from the following files: [REDACTED] and [REDACTED].

A copy of the Real Estate Appraisal invoice was missing from the following files: [REDACTED] and [REDACTED].

A copy of the "Right of Rescission" was missing from the following files: [REDACTED] and [REDACTED].

12. Pursuant to NH Code of Administrative Rule, Ban 2504.01. The following loans contained a Note with a repayment schedule that includes a balloon payment at maturity: [REDACTED]. The files did not contain a copy of the licensee's New Hampshire Balloon Payment Disclosure Statement. Compliance could not be determined.

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13. Pursuant to NH RSA 397-A: 2, III referencing the Real Estate Settlement Procedures Act, Regulation X, 24 C.F.R. 3500.7, (c) and Appendix A, B, & C. The Good Faith Estimate (GFE) contained a yield spread premium (YSP) disclosure which reads, "0-2%", "0-3%", "0-4%", or 3-4%. RESPA allows for fees to be disclosed as a dollar amount or a dollar range. The following files all contained a GFE which reported the YSP range of 0 -2%:

[REDACTED]

The following files contained a GFE which reported the YSP range of 0 -3%:

[REDACTED] and

The following files contained a GFE which reported the YSP range of 0-4%:

The following files contained a GFE which reported the YSP range of 3-4%:

The following files contained a GFE which reported the YSP range of 0-5%:

The GFE report fees paid to the Broker on Line #801 for the following loans:

[REDACTED]; and
Line #801 is restricted for use to report fees paid to the Lender.
Similar observations were reported in the previous examination.

14. Pursuant to NH RSA 397-A: 2, III referencing the Real Estate Settlement Procedures Act, Regulation X, 24 C.F.R. 3500.7, (c) The Good Faith Estimate provided for the following loans failed to disclose the Yield Spread Premium (YSP) paid by the Lender:

[REDACTED]
A fee must be disclosed on the GFE in order to be collected.

15. Pursuant to NH RSA 397-A: 2, III referencing the Real Estate Settlement Procedures Act ("RESPA") and Regulation X, 24 C.F.R. §3500.2, §3500.8, and Appendix A, the HUD settlement statement issued for the following loans disclosed a loan origination fee on line 801 payable to the Broker: [REDACTED] and [REDACTED]. Lines 801 and 802 are designated for fees payable to the "Lender". Broker fees should be disclosed on lines 808 and higher. A similar observation was cited in the previous examination.

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16. Pursuant to NH RSA 397-A: 2, III referencing the Real Estate Settlement Procedures Act, Regulation X, 24 C.F.R 3500.8 and Appendix A, B, & C. The HUD Settlement Statement reports fees on Lines # 801 to #807 incorrectly for the following loans:

[REDACTED]

[REDACTED] and [REDACTED] Lines #801 - #807 are restricted to be use for those items defined in Appendix A. A similar observation was cited in the previous examination.

17. Pursuant to NH RSA 397-A: 2, III referencing the Real Estate Settlement Procedures Act, Regulation X, 24 C.F.R. §3500.7(a)(2), §3500.8 and Appendix A. The Appraisal fee was not reported on the HUD settlement statement as paid p.o.c. (Paid outside of closing) for the following loans: [REDACTED] and [REDACTED]

18. Pursuant to NH RSA 397-A:2, III referencing the Real Estate Settlement Procedures Act, Regulation X, 24 C.F.R. §3500.8, and Appendix A, Section L, the HUD -1 settlement statement incorrectly reports payments to the licensee instead of the 3rd party service provider for the following loans: [REDACTED]

[REDACTED] The ultimate recipient of the fee must be disclosed on the HUD-1. Similar observations were reported in the previous examination.

The HUD -1 settlement statement fails to indicate the 3rd party service provider for the following loans: [REDACTED]

19. Pursuant to NH RSA 397-A:2, III referencing the Real Estate Settlement Procedures Act, Regulation X, 24 C.F.R. § 3500.14, A copy of the vendor invoices for the borrower's credit report fee and the real estate appraisal fee were reviewed. The Real Estate Appraisal fee listed on the GFE and the HUD-1 could not be supported by invoice issued by the service provider for the following files: [REDACTED] (HUD \$350 vs. cost \$325)

The Credit report fee listed on the GFE and HUD-1 could not be supported by invoice (s) Issued by the service provider for the following files: [REDACTED] (HUD \$15 vs. cost \$12.45); [REDACTED] HUD \$15 vs. cost \$12.45),

Fees collected and reported on the HUD cannot exceed the actual cost to perform the service.

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20. Pursuant to NH RSA 397-A:2, III referencing the Real Estate Settlement Procedures Act, Regulation X, 24 C.F.R. § 3500.7 (e), The licensee does not issue a complete Relationship Disclosure statement. The review of the sample of loan files indicates the use of the law firm: Gould & Burke, PLLC as the closing agent on approximately 80% of the loans; and Korkosz Appraisal Services is used to provide a statement of value on about 50% of the loans. A copy of a credit report is obtained from the credit reporting service, CBCInnovis, for each borrower. A particular provider statement must be issued to identify the parties and the relationship.

Examiner (Signature)

Kerry Molin

Kimothy Griffin