

Community First Bank Loan Services Branch FAQ

Overview Statement

It is my humble opinion that the mortgage industry today, October 2009, has changed so much that it requires a paradigm shift & retraining of people and process. Why this statement and specifically, why at CFB? The loan file must be perfect from defects, mistakes, compliance errors, or Underwriting violations and at the same time, get completed in a reasonable amount of time. Most individuals, regardless of their background, have not been programmed to produce this. Missing fields on the initial 1003, not matching exact names on all documents, pushing the loan through without regard to risk management and mitigation within the credit file. Everyone needs the revenue from the funded loan; however, NO one needs the problem when the loan does not sell to the investor, does not get insured, or defaults during the first 90 days. In the CFBLS system, the loan officer & processor at the branch must be part of the “attention to detail” solution. I challenge all Branch Managers to hold their loan officers accountable for complete and accurate 1003 & the processors to obsess over the details within the file.

The CFBLS branch structure requires each branch no matter how small to have 2 processors supporting the loan officers. Processor # 1 handles the initial disclosures to insure consistent & compliant documents and prepares the file for underwriting and processor # 2 manages the file once the underwriter has approved the loan and prepares the file for the bank auditor.

The questions and answers below should provide most of the information needed to make an informed decision.

Thank you for your inquiry on becoming a CFBLS branch

**Ben Lyons,
Director
Talbert Management**

Question: What is CFB looking for in a branch?

Answer: The ideal branch for CFBL is an origination office where 10 or more loan officers generate their loans from internet or direct mail. The branch would generate 3 loans per loan officer each month. The branch would close 70% FHA & 30% Conventional loans. The branch would have 1-2 Managers, 2-3 processors, 1 receptionist, and 10 loan officers. The branch would close 25+ units per month at an average loan size of 175k. The branch would charge 1.5 points per loan on average up front and earn 1 point on the back for a total of 2.5 points or \$4300 per loan + a processing fee of \$700 or \$5,000 per loan total. The branch would have a marketing budget of 20k or more per month.

Question: What requirements are there to becoming a Branch or Branch Manager?

Answer: The Branch prospect must have a plan to open & operate the branch based on a consistent "bank plan" as described in the first question listed above. The Branch Manager must have good credit, good resume, good financial statement, good plan to grow, acceptable past loan volume, and overall be a good fit as a Manager of a CFBL Origination Branch.

Question: What would prevent me from being approved as a branch?

Answer: Past criminal issues. Past regulatory issues. Current credit issues. Lack of experience in the mortgage business. Business plan that was risky for the bank such as offering credit repair or obtaining referrals from loan modifiers. Less than \$50,000 in cash available to operate the branch. Less than 250k net worth. Loan production is below 15 units a month.

Question: What states does CFB prefer branches & what states does CFB NOT prefer a branch.

Answer: CFBL is predominantly an East Coast Bank and suggest that most of the branches are NOT in the West Coast. This does not mean that a branch on the West Coast that markets for business throughout the country would not be approved, however since California is in a declining market it would be restrictive for the branch to operate. It is not suggested that a branch be located in California, Nevada, Arizona, Florida, Georgia, Michigan at this time.

Question: What are the requirements of my branch as a start-up or from my loan officers?

Answer: It is ok if the branch is a start-up provided the business plan will support growth to minimum acceptable levels within 6 months. We want each loan officer to produce an

average of 2 closings per month. If you have 5 loan officers, we expect the branch to close 10 or more loans per month.

Question: What are the Credit requirements for the branch Manager and the Loan Officers?

Answer: We require the branch manager to have “good” credit. We require the loan officers to have “acceptable” credit. This is tough to describe as current foreclosure, tax liens, bankruptcy and overall a poor credit profile could be an issue. It is assumed that a loan officer with “bad” credit is a “bad” loan officer.

Question: How big is CFBLs?

Answer: CFBLs has assets of approximately 65 million as of September, 2009.

Question: How much loan volume can CFBLs handle each month?

Answer: CFBLs can originate approximately 90 million a month based on a 14 day dwell time. This allows 45 million at any one time to be originated and held for sale. As of September, 2009 CFBLs is originating approximately 20 million a month. Based on these figures, 70 million more a month can be handled.

Question: What if we outgrow the funding capacity of CFBLs?

Answer: CFBLs uses deposits to fund loans. If the monthly funding exceeds 80-90 million a month, it is possible for CFBLs to obtain a warehouse line of credit or for the owner of the branch to add 5 more million of capital. This would be a great problem for CFB to face.

Question: Can I use my OWN title company?

Answer: You can choose the title company to use provided that the branch manager or any member of the branch managers family does not own the title company or any % ownership.

Question: What are ALL the costs to join & be a branch of CFBLs?

Answer: \$275 application fee when applying to be a branch, on each full doc loan CFB charges \$695 admin fee & \$250 doc prep. On a streamline loan, the admin fee is \$350. Each month, the branch is charged \$375 which covers accounting and Insurance. Each employee is charged \$77.00 per month for Human Resources that are outsourced & \$49.00 for Technology which covers the loan origination, pricing engine, and web based file review software's. Each branch pays \$65.00 per month for HR software for hiring all employees. Each branch pays for training where 12 days of training is performed by

CFBLS staff is in the branch office during the first month. The loan officers & processors are trained. This costs the branch \$1750 paid \$1,000 at the time a branch joins & \$750 within 60 days.

Question: What are the upfront costs to be a branch of CFBLS?

Answer: \$275 application fee, a due-diligence fee that is “to be determined”, \$1,000 for training.

Question: Do I have to post a reserve?

Answer: Not really, however we will collect a “due-diligence fee” that is equal to 1 months operating expenses for the branch. The reserve built up as the loans closed.

Question: What states can I lend in as a CFBLS branch?

Answer: All states except New York & Hawaii. CFBLS also has restrictions in certain counties based on a declining market list.

Question: Do my loan officers need to be licensed?

Answer: No, as a federal Savings bank, they are exempt from state mandated licenses.

Question: How long does it take to get branch approval?

Answer: If the branch application package is complete, the approval should take about 7-10 days.

Question: Once the branch is approved, how long does it take before I can start originating?

Answer: It takes about 1 week for all the HR paperwork to be completed and then the branch needs to be trained. Typically the branch can be trained the 2nd or the 3rd week after branch approval. Right after training the loan officers can start originating.

Question: What Origination software do we use as a CFBLS branch?

Answer: CFBLS has put together a web based origination process where ALL loans are originated via the web, credit is pulled via the web, loan information is pushed into a pricing & decision engine, and state specific-loan program specific origination documents are generated. Provided the loan officer has a computer & the web, they can originate loans.

Question: How does the branch staff get trained?

Answer: The branch Training Manager spends 4 days at the branch training the branch manager and the loan officers. Within 2 weeks after the loan officer training, a person is

sent to train the processors, and approximately 30 days after the branch started, the branch training manager spends 4 more days at the branch re-training the loan officers.

Question: Do I have to pay for training?

Answer: Yes, \$1750 total for 12 days of training over the first 45 days.

Question: Does CFBLS publish rate sheets?

Answer: No, All loans are priced using pricing software that runs a “best execution” based on the information on the loan application & credit report.

Question: Who does CFBLS sell loans to?

Answer: CFBLS sells closed loans to Chase, BOA, BB & T, SunTrust, and Flagstar.

Question: Can I broker loans that CFBLS does not offer?

Answer: The only loan programs that you can broker is USDA, Jumbo, HECM loans

Question: Will CFBLS add a new investor?

Answer: Yes, CFBLS will add new investors provided the loan program is consistent with what CFBLS wants to originate & the Reps & Warrants do not put CFBLS at risk of loss.

Question: How is the loan pricing by CFBLS?

Answer: Based on current investors, margins built in by CFBLS, and best execution model the pricing for FHA is very competitive and the Conventional pricing is worse than many investors. Pricing can fluctuate often based on what investors are in the market vs. out.

Question: What Margin does CFBLS add to the investor price?

Answer: The conventional pricing is 75bps over investor pricing & FHA is about 105bps. The pricing engine rounds up to the nearest .125% & CFBLS 15 day pricing is the investors 30 day, 30 day is the investors 45 day pricing to allow for loan delivery to investor.

Question: What loan programs does CFBLS offer?

Answer: Conventional & FHA primarily. VA streamlines are ok as of September, 2009.

VA full doc & purchases will be offered around October of 2009. USDA as broker through Chase. Jumbo loans through ING and Reverse mortgages

Question: What loan programs does CFBLS not do or want to do?

Answer: Credit scores below 620, FHA 203k loans, Manufactured homes, loans over 1 million dollars.

Question: What are the challenges with being a branch of CFBLS?

Answer: Restrictions such as borrower benefit, credit scores must be over 620, max debt ratio is 48% (50% with reserves), restrictions in declining markets (see chart), tough loan file audit, files MUST be complete & compliant or it does not close, all marketing must get approved by the bank.

Question: What are the turn times in Underwriting?

Answer: The goal is 24 hours, the average is 48 hours, and the tolerance is 72 hours at maximum.

Question: What underwriting overlays or restrictions does CFBLS impose?

Answer: Min credit score is 620 regardless of DO findings. Max debt ratio is 48% (50% with reserves) regardless of DO findings. Borrower benefit of 75 savings or more per month & closing costs recovered in 84 months on FHA & 60 months on Conventional. Field reviews on VA streamlines where loan cannot be more than 10% higher than property value. Reduction in LTV & min credit score in Declining Markets (see Chart). Maximum loan size is 750k (1 million with board approval). NO New York or Hawaii.

Question: Can I process my own loans?

Answer: Yes

Question: Does the processor have to be an employee or can they be an independent contractor?

Answer: The processor can be an independent contractor provided they complete the bank tests, contractor agreement, and pass the background checks.

Question: Does CFBLS offer marketing assistance?

Answer: Yes, we have contracts with Lower my bills, Lending Tree, Red Clay Media, and other companies. The branch is responsible for the cost of all marketing.

Question: Can I use a “trade name” or a “D/B/A”?

Answer: No, CFBLS does not want any name other than Community First Bank used.

Question: How is the branch accounting handled?

Answer: Each branch has a QuickBooks account setup that includes an Operating account, Loan loss reserve account, and Operating reserve account. All accounts are on-line & viewed 24hrs a day, 7 days a week.

Question: How do I get my money from the branch account?

Answer: Through payroll twice a month, repayment of capital expenses to start the branch, or reimbursement of expenses.

Question: Can I setup my own checking account to pay branch expenses?

Answer: yes, however ALL expenses MUST be paid directly or as a reimbursement as required by HUD.

Question: How is the revenue posted to my QuickBooks?

Answer: Within 24 hours of the loan funding, a disbursement sheet is sent to the branch Manager for approval & credit to the branch account.

Question: What is my branch typically credited with?

Answer: 100% of origination fees, processing fees and any Premium dues as a result of pricing up sell.

Question: Can I charge discount points on the HUD as origination points?

Answer: ON FHA & VA yes & on Conventional loans any discount must be bonified.

Question: What fees can the branch charge in addition to the standard CFBLS fees on the HUD?

Answer: The branch can only charge Origination Points, Discount Points, or Processing fees.

Question: What can the branch charge as a processing fee?

Answer: Up to \$795 on the HUD

Question: How does the loan file flow?

Answer: Normal process like most other companies. Loan officer takes application at the branch, loan processor processes file at the branch, file is sent to Underwriter via the web, loan processor & loan officer react to the loan approval by satisfying the open conditions, after the file is signed off by Underwriter it goes to closer, then loan auditor. Once Bank audit is cleared the loan can close.

Question: Can I have an underwriter in my branch?

Answer: Yes, provided the branch has been operating for 6 months or longer and closes 20 loans or more per month.

Question: Can I have a closer in my branch?

Answer: Yes, provided the branch has been operating for 6 months and the branch is closing 30 loans or more per month.

Question: Can I get a discount for loan volume?

Answer: Yes, CFBLS rebates up to \$200 per loan provided 40 units or more are closed a month.

Question: Can I hire loan officers in different locations other than my office?

Answer: No, initially you can only hire loan officers that work in or within 45 minutes of your approved branch office.

Question: Can I open up more than 1 branch office?

Answer: Yes, provide you have 4 or more months with CFBLS and are operating your branch satisfactory.