



Issue Date

August 1, 2008

Audit Report Number

2008-LA-1014

TO: Brian D. Montgomery, Assistant Secretary for Housing-Federal Housing
Commissioner, H

Henry S. Czauski, Acting Director, Departmental Enforcement Center, CV

Joan S. Hobbs

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: First Magnus Financial Corporation Violated the Real Estate Settlement
Procedures Act When Paying Builders and Real Estate Companies Marketing
Fees and Non-Competition Fees in Exchange for Federal Housing
Administration Mortgage Business

HIGHLIGHTS

What We Audited and Why

We audited the mortgage origination and business practices of the First Magnus Financial Corporation's (First Magnus) corporate office in Tucson, Arizona. The objective of the audit was to determine whether First Magnus violated U.S. Department of Housing and Urban Development (HUD) requirements by paying builders and real estate companies marketing fees and non-competition fees in exchange for the referral of Federal Housing Administration (FHA) mortgage business.

What We Found

First Magnus violated the Real Estate Settlement Procedures Act (RESPA) when it paid marketing fees and non-competition fees to builders and real estate companies in exchange for the referral of FHA mortgage business.

What We Recommend

We recommend that HUD's Assistant Secretary for Housing require First Magnus, for any current or future FHA mortgage operations for which First Magnus may exercise management control, to ensure that the practice of paying marketing fees and non-competition fees to real estate companies and builders for referrals of FHA mortgages is discontinued. Also, we recommend that First Magnus' active status and approval to perform FHA business removed. Finally, we recommend that HUD's Acting Director for the Departmental Enforcement Center pursue administrative actions against the principal owners and management of First Magnus for allowing the improper practice of paying marketing fees and non-competition fees to real estate companies and builders in exchange for referrals of FHA mortgage business.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the report's contents with responsible HUD officials, and their views were considered. Due to the closure of First Magnus and its subsequent bankruptcy, we were unable to obtain a formal response from the auditee. However, the finding in this report was discussed with First Magnus officials during the audit, and their views were also considered in preparing the report.

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BACKGROUND AND OBJECTIVE

Background

First Magnus was a wholesale lender that was incorporated and approved by the U.S. Department of Housing and Urban Development (HUD) as a nonsupervised lender in 1996. Its corporate office was located in Tucson, Arizona. As of June 30, 2008, First Magnus had 13 active branch offices and sponsored 1,961 FHA-approved loan correspondents. As a wholesale lender, First Magnus underwrote and funded mortgages received by its loan correspondents and other brokers.

First Magnus operated First Magnus Lender Services, which provided the following services to its customers: full-service credit reporting, flood determination, appraisals, full-service insurance, and title/escrow. In addition, First Magnus operated Charter Funding (Charter), the retail-lending arm of the mortgage company. Charter's corporate office was located in Tucson, Arizona. Charter had affiliates in Arizona that provided the following services to its customers: appraisals, insurance, credit reporting, and title/escrow.

During the period January 1, 2003, and December 31, 2005, First Magnus' Tucson corporate office paid more than \$753,000 in marketing fees and non-competition fees to builders and real estate companies in exchange for exclusive referrals of more than \$937 million in federally related mortgages (non-FHA-insured and FHA-insured). Of the payments made to builders and real estate companies, over \$32,000 in marketing fees and noncompetition fees was paid in exchange for the exclusive referral of 236 FHA-insured mortgages totaling more than \$30 million for First Magnus.

First Magnus Filed for Bankruptcy

On August 16, 2007, the state of Arizona Department of Financial Institutions suspended First Magnus' Arizona mortgage banker license. On August 21, 2007, First Magnus closed and filed for Chapter 11¹ bankruptcy. Therefore, this report is being addressed to HUD since First Magnus has closed its doors and is unavailable to respond to the report.

Objective

Our objective was to determine whether First Magnus violated HUD requirements by paying builders and real estate companies marketing fees and non-competition fees in exchange for referrals of FHA mortgage business.

¹ Named after the U.S. bankruptcy code 11 entitled Reorganization, Chapter 11 bankruptcy is ordinarily used by commercial enterprises that desire to continue operating a business and repay creditors concurrently through a court-approved plan of reorganization.

RESULTS OF AUDIT

Finding 1: First Magnus Violated the RESPA When Paying Builders and Real Estate Companies Marketing Fees and Noncompetition Fees in Exchange for Referrals of FHA Mortgage Business

First Magnus paid builders and real estate companies \$32,154 in marketing fees and non-competition fees in exchange for exclusive promotion of its mortgage products and programs via terms set out in marketing agreements and noncompetition agreements with these entities. These fees, paid during the period January 1, 2003, through December 31, 2005, were associated with First Magnus' origination and processing of 236 FHA mortgages totaling more than \$30 million. First Magnus disregarded RESPA and engaged in the practice of paying improper marketing referral fees and noncompetition fees to builders and real estate companies in exchange for FHA mortgage business referrals. First Magnus loan officers were on site at builders' and real estate companies' offices, and borrowers were directed to these First Magnus loan officers by the homebuilder sales agents and real estate agents. These arrangements effectively limited affected borrowers' ability to comparison shop with other lenders and violated RESPA.

First Magnus Paid Marketing Fees to Builders and Real Estate Companies for Generating FHA Mortgages

During the period January 1, 2003, to December 31, 2005, First Magnus paid real estate companies and homebuilders \$26,602 in marketing fees in exchange for the referral of 89 FHA mortgages totaling more than \$12.4 million. Homebuilders received \$17,307 in marketing fees in exchange for the referral of 50 FHA mortgages totaling more than \$7.5 million. Real estate companies received \$9,295 in marketing fees in exchange for the referral of 39 FHA mortgages totaling more than \$4.9 million (see appendix A). First Magnus may have issued payments to real estate companies and builders in addition to those amounts identified during our review.

The practice of paying real estate companies and builders in exchange for exclusive rights to FHA mortgages violates section 8(a) of RESPA, which prohibits specified referral fees. Specifically, RESPA regulations at 24 CFR (*Code of Federal Regulations*) 3500.14(b) state, "No person shall give and no person shall accept any fee, kickback, or thing of value pursuant to any agreement or understanding, oral or otherwise, that business incident to or part of a settlement service involving a federally related mortgage loan [e.g. FHA-insured] shall be referred to any person." Effectively, RESPA prohibits payments merely

for referral of business. In this regard, HUD generally has held that when a payment is based on the volume or value of business transacted, it is evidence of an agreement for the referral of business, unless it is shown that payments are for legitimate business reasons unrelated to the value of the referrals.

First Magnus violated this regulation when it executed marketing agreements that required the builder or real estate company to exclusively market its mortgage products and programs in exchange for payments ranging from \$1,000 to \$40,000 per month. First Magnus paid this fee to builders and real estate companies on the basis of the number mortgages closed rather than on the basis of the type of loan (e.g. FHA). As a result, all mortgages were treated on an equal basis with no particular loan receiving a having fee than another loan. As part of the agreements, homebuilders and real estate companies were required to exclusively distribute and display various First Magnus promotional and marketing materials, as well as provide First Magnus employees with exclusive access to their sales offices. Among the promotional and marketing materials homebuilders and real estate companies were required to distribute and display at their sales offices were business cards, flyers, and brochures covering various First Magnus mortgage products and services.

For example, First Magnus entered into a marketing agreement with new home builder Santa Anna Homes on January 1, 2004. The purpose of the agreement was to market various First Magnus mortgage products and programs (e.g. FHA, Conventional, etc.) within all Santa Anna Homes sales offices in Arizona. The marketing agreement further specified, "This shall be an exclusive marketing relationship for Marketing Partner (Santa Anna Homes). Marketing Partner (Santa Anna Homes) shall not actively support referral of business to any other mortgage company without prior written permission." In exchange for the exclusive referrals at Santa Anna Homes sales offices throughout Arizona, First Magnus would pay Santa Anna Homes a monthly "marketing" fee of \$9,999.

Santa Anna Homes was paid \$76,800 from the first quarter of 2004 through the first quarter of 2005 to refer mortgage business to First Magnus. Of this amount, \$14,374 was paid to the homebuilder for the referral of 47 FHA mortgages totaling more than \$7.1 million. Although the agreement indicated that the marketing fees were to be paid in fixed monthly sums, the payments were improper referral fees under RESPA. Further, three of the four payments made under this agreement differed from the amount specified in the agreement and were apparently based on the volume of mortgage referrals made during the period. This information is consistent with an e-mail from a First Magnus branch manager stating that the amount charged by the builder for the first quarter of 2005 was lowered from the amount stated in the agreement (\$9,999 per month; \$29,997 quarterly) to \$16,800 (\$5,600 per month) due to slower volume during the period.

Although the agreement specified an initial term of three years, the agreement included a clause allowing either party to terminate the agreement for any reason with 30 days written notice. In addition, the agreement stated that the fees paid to the builder would be reviewed on a semiannual basis to evaluate the mutual effectiveness of the agreement. These terms allowed First Magnus to terminate the agreement if the volume of mortgages being referred by the builder did not justify the monthly referral payment.

The marketing services outlined in the agreement included distribution of brochures, flyers, application packages, and other materials, providing First Magnus with rights to training presentations for builder sales staff, distributing its business cards to customers, displaying its signage and marketing materials including First Magnus-produced content in customer newsletters, and permitting it to communicate directly with builder agents.

First Magnus executed agreements with real estate companies similar to those it had with the homebuilders. For example, it entered into a marketing agreement with Long Realty on June 20, 2003. The agreement required First Magnus to pay up to \$40,000 per month in exchange for providing 10 First Magnus loan officers with exclusive access to Long Realty's sales offices. If fewer than 10 loan officers accessed Long Realty's offices during the period, the amount would be prorated. For example, if just one loan officer was granted access during the month, First Magnus would pay Long Realty \$4,000. In addition to providing First Magnus with exclusive access to Long Realty's sales offices, the agreement specified that Long Realty could not enter into any similar agreement with any other residential mortgage lender or broker. The agreement also required Long Realty to perform various promotional and marketing activities including distribution of First Magnus brochures, flyers, banners, and business cards as well as to permit First Magnus to communicate with its designated agents through Long Realty's interoffice voicemail, e-mail, and intranet. From June through December 2003, First Magnus paid Long Realty \$126,667 in connection with this marketing agreement. Of this amount, \$5,637 was paid to the real estate company in exchange for the referral of 28 FHA mortgages totaling more than \$3.2 million.

**First Magnus Paid
Noncompetition Fees to Real
Estate Companies in Exchange
for FHA Mortgage Business**

During the period January 1, 2003, to December 31, 2005, First Magnus paid Long Realty, a real estate company, \$5,552 in noncompetition fees in exchange for the referral of 175 FHA mortgages totaling more than \$21 million (see appendix B). First Magnus may have issued payments to real estate companies in addition to the amounts identified during our review.

Similar to the practice of paying marketing fees to real estate companies and builders, the practice of paying real estate companies noncompetition in exchange for exclusive rights to FHA mortgages violates section 8(a) of RESPA, which prohibits specified referral fees. Specifically, RESPA regulations at 24 CFR (*Code of Federal Regulations*) 3500.14(b) state, “No person shall give and no person shall accept any fee, kickback, or thing of value pursuant to any agreement or understanding, oral or otherwise, that business incident to or part of a settlement service involving a federally related mortgage loan [e.g. FHA-insured] shall be referred to any person.” Effectively, RESPA prohibits payments merely for referral of business. In this regard, HUD generally has held that when a payment is based on the volume or value of business transacted, it is evidence of an agreement for the referral of business, unless it is shown that payments are for legitimate business reasons unrelated to the value of the referrals.

In addition to payments made under the above marketing agreement, payments totaling \$150,000 were made to Long Realty in connection with a separate operating agreement involving another First Magnus-related company, FMLC LLC. This entity is 50.1 percent owned by First Magnus and 49.9 percent owned by Home Services America (the parent company of Long Realty). As part of this agreement, First Magnus was required to pay Home Services America/Long Realty a noncompete fee of \$50,000 per year. The agreement stated that Home Services America would not enter into any similar agreement in Pima, Cochise, or Santa Cruz County, Arizona. Further, Home Services America/Long Realty would not let any other lender have access without appointment to Long Realty offices or its employees. This noncompete fee ensured an exclusive relationship between First Magnus and Home Services America/Long Realty in these selected Arizona counties and further prohibited Home Services America from providing competitive lending services in the same counties.

As a result of these competition-limiting agreements, uninformed borrowers were directed to First Magnus, when better FHA mortgage terms may have been available from other lenders. This practice is a violation of RESPA’s prohibition of referral fees in exchange for FHA mortgage business.

Conclusion

First Magnus’ practice of paying marketing fees and noncompetition fees to builders and real estate companies in exchange for FHA mortgage business is a violation of RESPA’s prohibition of referral fees. Accordingly, HUD should require that all current and future practices of paying marketing fees and noncompetition fees to real estate companies and builders in exchange for the referral of FHA mortgages be discontinued. Also, we recommend that First Magnus have their active status and approval to perform FHA business removed.

Finally, we recommend HUD pursue administrative actions against the principal owners and management of First Magnus for allowing the improper practice of paying marketing fees and noncompetition fees to real estate companies and builders in exchange for FHA mortgage business.

Recommendations

We recommend that the Assistant Secretary for Housing-Federal Housing Commissioner

- 1A. Require First Magnus to discontinue the practice of paying marketing fees and noncompetition fees to real estate companies and builders in exchange for referrals of FHA mortgages on all current and/or future transactions.
- 1B. Remove the active status and approval for First Magnus to perform FHA business.

We recommend that the Acting Director for the Departmental Enforcement Center

- 1C. Pursue administrative actions against the principal owners and management of First Magnus for allowing the improper practice of paying marketing fees and noncompetition fees to real estate companies and builders in exchange for FHA mortgage business.

SCOPE AND METHODOLOGY

We performed audit work from October 2005 through May 2006. The audit period covered January 2003 through December 2005.

To accomplish our objective, we

- Interviewed First Magnus employees,
- Interviewed employees from mortgage companies, real estate companies and real estate developer,
- Interviewed state and federal government agency employees,
- Reviewed First Magnus financial records, and
- Reviewed public records and databases.

We performed our review in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Reliability of mortgage documents used to approve FHA-insured mortgages.
- Origination and processing of FHA-insured mortgages in compliance with HUD rules and regulations.
- Safeguarding FHA-insured mortgages from high risk exposure.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe the following item is a significant weakness:

- First Magnus disregarded RESPA regulations when it paid builders and real estate companies marketing fees and noncompetition fees in exchange for referrals of FHA mortgage business.

APPENDICES

Appendix A

SCHEDULE OF PAYMENTS UNDER BUILDER AND REALTOR MARKETING AGREEMENTS²

	Homebuilders/Real Estate Companies	Payment Date	FHA Number	Mortgage Amount	Marketing Fee Paid
1	TJ Bednar Homes	10/1/2003	022-1759008	\$142,962.00	\$800.00
2	TJ Bednar Homes	10/1/2003	022-1758235	\$148,088.00	\$800.00
3	TJ Bednar Homes	11/1/2003	022-1762861	\$146,921.00	\$1,333.00
4	Santa Anna Homes	7/7/2004	023-1897221	\$159,524.00	\$333.00
5	Santa Anna Homes	7/7/2004	023-1898312	\$148,179.00	\$333.00
6	Santa Anna Homes	7/7/2004	023-1906562	\$156,764.00	\$333.00
7	Santa Anna Homes	7/7/2004	023-1985303	\$148,660.00	\$333.00
8	Santa Anna Homes	7/7/2004	023-1874351	\$154,131.00	\$333.00
9	Santa Anna Homes	7/7/2004	023-1899557	\$162,578.00	\$333.00
10	Santa Anna Homes	7/7/2004	023-1878817	\$155,797.00	\$333.00
11	Santa Anna Homes	7/7/2004	023-2006793	\$135,855.00	\$333.00
12	Santa Anna Homes	7/7/2004	023-2002018	\$155,686.00	\$333.00
13	Santa Anna Homes	7/7/2004	023-1876918	\$157,083.00	\$333.00
14	Santa Anna Homes	7/7/2004	023-1997426	\$126,072.00	\$333.00
15	Santa Anna Homes	7/7/2004	023-2000046	\$162,489.00	\$333.00
16	Santa Anna Homes	7/7/2004	023-2020930	\$158,491.00	\$333.00
17	Santa Anna Homes	7/7/2004	023-1876664	\$158,911.00	\$333.00
18	Santa Anna Homes	7/7/2004	023-2031897	\$136,244.00	\$333.00
19	Santa Anna Homes	7/7/2004	023-2015209	\$162,578.00	\$333.00
20	Santa Anna Homes	7/7/2004	Not Available*	\$152,700.00	\$333.00
21	Santa Anna Homes	7/7/2004	023-2033406	\$156,218.00	\$333.00
22	Santa Anna Homes	7/7/2004	023-2014600	\$159,564.00	\$333.00
23	Santa Anna Homes	7/7/2004	023-2017166	\$156,358.00	\$333.00
24	Santa Anna Homes	7/7/2004	023-2047317	\$159,376.00	\$333.00
25	Santa Anna Homes	9/28/2004	023-2065683	\$161,492.00	\$203.00

² Individual marketing fees paid for each mortgage was calculated by dividing the total fee paid for the period by the number of related mortgages (both FHA and non-FHA) referred during the period. For example, \$5,000 in marketing fees paid to a homebuilder for the referral of five mortgages resulted in \$1,000 (\$5,000 divided by five) in fees earned per mortgage.

* Associated FHA Number was not found in HUD's single family database systems. There is a possibility the lender may have closed the mortgage as an uninsured "FHA" mortgage.

	Builder/Real Estate Firm	Payment Date	FHA Number	Mortgage Amount	Marketing Fee Paid
26	Santa Anna Homes	9/28/2004	023-2078751	\$142,456.00	\$203.00
27	Santa Anna Homes	9/28/2004	023-2044920	\$146,382.00	\$203.00
28	Santa Anna Homes	9/28/2004	023-2095604	\$131,377.00	\$203.00
29	Santa Anna Homes	9/28/2004	023-2087739	\$158,600.00	\$203.00
30	Santa Anna Homes	9/28/2004	023-2068956	\$157,010.00	\$203.00
31	Santa Anna Homes	9/28/2004	Not Available*	\$125,544.00	\$203.00
32	Santa Anna Homes	9/28/2004	023-2089326	\$155,851.00	\$203.00
33	Santa Anna Homes	9/28/2004	023-2097305	\$162,578.00	\$203.00
34	Santa Anna Homes	9/28/2004	023-2102144	\$157,539.00	\$203.00
35	Santa Anna Homes	9/28/2004	Not Available*	\$151,860.00	\$203.00
36	Santa Anna Homes	9/28/2004	023-2107311	\$157,785.00	\$203.00
37	Santa Anna Homes	12/9/2004	023-2115120	\$160,186.00	\$353.00
38	Santa Anna Homes	12/9/2004	023-2129171	\$153,234.00	\$353.00
39	Santa Anna Homes	12/9/2004	023-2126595	\$144,961.00	\$353.00
40	Santa Anna Homes	12/9/2004	023-2135000	\$160,945.00	\$353.00
41	Santa Anna Homes	12/9/2004	023-2131622	\$149,154.00	\$353.00
42	Santa Anna Homes	12/9/2004	023-2137483	\$147,590.00	\$353.00
43	Santa Anna Homes	12/9/2004	023-2135466	\$162,530.00	\$353.00
44	Santa Anna Homes	12/9/2004	023-2143780	\$153,418.00	\$353.00
45	Santa Anna Homes	12/9/2004	023-2141750	\$162,578.00	\$353.00
46	Santa Anna Homes	12/9/2004	023-2147508	\$141,337.00	\$353.00
47	Santa Anna Homes	12/9/2004	023-2172288	\$145,564.00	\$353.00
48	Santa Anna Homes	12/9/2004	023-2177197	\$101,383.00	\$353.00
49	Santa Anna Homes	12/9/2004	023-2161568	\$162,578.00	\$353.00
50	Santa Anna Homes	12/9/2004	023-2177160	\$159,235.00	\$353.00
51	Realty Executives	7/28/2004	022-1808990	\$142,962.00	\$56.00
52	Realty Executives	12/22/2004	022-1822333	\$144,231.00	\$45.00
53	Realty Executives	1/24/2005	022-1823724	\$175,189.00	\$45.00
54	Realty Executives	2/23/2005	022-1827070	\$142,810.00	\$63.00
55	Realty Executives	3/28/2005	022-1827268	\$152,605.00	\$37.00
56	Realty Executives	9/19/2003	Not Available*	\$86,122.00	\$1,000.00
57	Realty Executives	9/19/2003	022-1755318	\$153,468.00	\$1,000.00

* Associated FHA Number was not found in HUD's single family database systems. There is a possibility the lender may have closed the mortgage as an uninsured "FHA" mortgage.

	Builder/Real Estate Firm	Payment Date	FHA Number	Mortgage Amount	Marketing Fee Paid
58	Keller Williams	12/12/2005	Not Available *	\$196,828.00	\$167.00
59	Keller Williams	10/28/2005	271-9217992	\$210,105.00	\$250.00
60	Keller Williams	7/7/2005	381-7603779	\$96,323.00	\$500.00
61	Keller Williams	5/24/2005	022-1829932	\$157,731.00	\$500.00
62	Long Realty	11/4/2003	022-1733749	\$112,665.00	\$833.00
63	Long Realty	11/4/2003	022-1746742	\$128,143.00	\$833.00
64	Long Realty	11/4/2003	022-1669981	\$63,995.00	\$833.00
65	Long Realty	11/4/2003	022-1750435	\$121,800.00	\$348.00
66	Long Realty	11/4/2003	022-1751742	\$95,004.00	\$348.00
67	Long Realty	11/4/2003	022-1754256	\$111,142.00	\$348.00
68	Long Realty	11/4/2003	022-1753670	\$104,342.00	\$348.00
69	Long Realty	11/4/2003	022-1754840	\$108,300.00	\$91.00
70	Long Realty	11/4/2003	022-1755035	\$88,609.00	\$91.00
71	Long Realty	11/4/2003	022-1758104	\$153,569.00	\$91.00
72	Long Realty	11/4/2003	022-1698994	\$111,650.00	\$91.00
73	Long Realty	11/4/2003	022-1761184	\$71,963.00	\$91.00
74	Long Realty	11/4/2003	022-1762281	\$128,143.00	\$91.00
75	Long Realty	11/4/2003	022-1720383	\$153,975.00	\$79.00
76	Long Realty	11/4/2003	022-1763530	\$140,171.00	\$79.00
77	Long Realty	11/4/2003	022-1762269	\$110,990.00	\$79.00
78	Long Realty	11/4/2003	022-1764037	\$107,082.00	\$79.00
79	Long Realty	11/4/2003	022-1765061	\$121,191.00	\$79.00
80	Long Realty	11/4/2003	022-1764615	\$117,993.00	\$79.00
81	Long Realty	2/4/2004	022-1768804	\$145,145.00	\$80.00
82	Long Realty	2/4/2004	022-1767707	\$137,837.00	\$80.00
83	Long Realty	2/4/2004	022-1768885	\$149,154.00	\$80.00
84	Long Realty	2/4/2004	022-1768617	\$150,829.00	\$80.00
85	Long Realty	2/4/2004	022-1770417	\$84,955.00	\$80.00
86	Long Realty	2/4/2004	022-1771304	\$136,771.00	\$80.00
87	Long Realty	2/4/2004	022-1770207	\$146,667.00	\$80.00
88	Long Realty	2/4/2004	022-1774005	\$88,305.00	\$80.00
89	Long Realty	2/4/2004	022-1774795	\$73,841.00	\$80.00
TOTAL				\$12,497,001.00	\$26,602.00

* Associated FHA Number was not found in HUD's single family database systems. There is a possibility the lender may have closed the mortgage as an uninsured "FHA" mortgage.

Appendix B

SCHEDULE OF PAYMENTS UNDER REALTOR NONCOMPETITION AGREEMENTS³

	Real Estate Firm	FHA Number	Mortgage Amount	Payment Date of Noncompetition Fee	Non-Competition Fee Paid
1	Long Realty	022-1733749	\$112,665.00	2/26/2004	\$91.00
2	Long Realty	022-1746742	\$128,143.00	2/26/2004	\$91.00
3	Long Realty	022-1669981	\$63,995.00	2/26/2004	\$91.00
4	Long Realty	022-1750435	\$121,800.00	2/26/2004	\$91.00
5	Long Realty	022-1751742	\$95,004.00	2/26/2004	\$91.00
6	Long Realty	022-1754256	\$111,142.00	2/26/2004	\$91.00
7	Long Realty	022-1753670	\$104,342.00	2/26/2004	\$91.00
8	Long Realty	022-1754840	\$108,300.00	2/26/2004	\$91.00
9	Long Realty	022-1755035	\$88,609.00	2/26/2004	\$91.00
10	Long Realty	022-1758104	\$153,569.00	2/26/2004	\$91.00
11	Long Realty	022-1698994	\$111,650.00	2/26/2004	\$91.00
12	Long Realty	022-1761184	\$71,963.00	2/26/2004	\$91.00
13	Long Realty	022-1762281	\$128,143.00	2/26/2004	\$91.00
14	Long Realty	022-1720383	\$153,975.00	2/26/2004	\$91.00
15	Long Realty	022-1763530	\$140,171.00	2/26/2004	\$91.00
16	Long Realty	022-1762269	\$110,990.00	2/26/2004	\$91.00
17	Long Realty	022-1764037	\$107,082.00	2/26/2004	\$91.00
18	Long Realty	022-1765061	\$121,191.00	2/26/2004	\$91.00
19	Long Realty	022-1764615	\$117,993.00	2/26/2004	\$91.00
20	Long Realty	022-1768804	\$145,145.00	2/26/2004	\$91.00
21	Long Realty	022-1767707	\$137,837.00	2/26/2004	\$91.00
22	Long Realty	022-1768885	\$149,154.00	2/26/2004	\$91.00
23	Long Realty	022-1768617	\$150,829.00	2/26/2004	\$91.00
24	Long Realty	022-1770417	\$84,955.00	2/26/2004	\$91.00
25	Long Realty	022-1771304	\$136,771.00	2/26/2004	\$91.00
26	Long Realty	022-1770207	\$146,667.00	2/26/2004	\$91.00

³ Individual noncompetition fees paid for each mortgage was calculated by dividing the total fee paid for the period by the number of related mortgages (both FHA and non-FHA) referred during the period. For example, \$50,000 in noncompetition fees paid to a real estate company in exchange for the referral of 1,000 mortgages for the year, which resulted in \$50 (\$50,000 divided by 1,000) in fees per mortgage.

	Real Estate Firm	FHA Number	Mortgage Amount	Payment Date of Noncompetition Fee	Non-Competition Fee Paid
27	Long Realty	022-1774005	\$88,305.00	2/26/2004	\$91.00
28	Long Realty	022-1774795	\$73,841.00	2/26/2004	\$91.00
29	Long Realty	022-1778059	\$98,962.00	8/3/2004	\$24.00
30	Long Realty	022-1767135	\$87,949.00	8/3/2004	\$24.00
31	Long Realty	022-1779162	\$134,436.00	8/3/2004	\$24.00
32	Long Realty	022-1777546	\$93,532.00	8/3/2004	\$24.00
33	Long Realty	022-1782205	\$119,262.00	8/3/2004	\$24.00
34	Long Realty	023-1990355	\$111,294.00	8/3/2004	\$24.00
35	Long Realty	022-1785299	\$161,689.00	8/3/2004	\$24.00
36	Long Realty	022-1782286	\$70,948.00	8/3/2004	\$24.00
37	Long Realty	022-1784314	\$77,647.00	8/3/2004	\$24.00
38	Long Realty	022-1784678	\$121,394.00	8/3/2004	\$24.00
39	Long Realty	022-1783780	\$105,509.00	8/3/2004	\$24.00
40	Long Realty	022-1785390	\$78,764.00	8/3/2004	\$24.00
41	Long Realty	022-1785384	\$137,837.00	8/3/2004	\$24.00
42	Long Realty	022-1784734	\$82,671.00	8/3/2004	\$24.00
43	Long Realty	022-1788736	\$121,952.00	8/3/2004	\$24.00
44	Long Realty	022-1787379	\$101,500.00	8/3/2004	\$24.00
45	Long Realty	022-1786396	\$122,409.00	8/3/2004	\$24.00
46	Long Realty	022-1788605	\$111,700.00	8/3/2004	\$24.00
47	Long Realty	022-1791242	\$76,784.00	8/3/2004	\$24.00
48	Long Realty	022-1792021	\$125,352.00	8/3/2004	\$24.00
49	Long Realty	022-1791367	\$93,532.00	8/3/2004	\$24.00
50	Long Realty	022-1789804	\$133,878.00	8/3/2004	\$24.00
51	Long Realty	022-1792219	\$91,553.00	8/3/2004	\$24.00
52	Long Realty	022-1783751	\$121,444.00	8/3/2004	\$24.00
53	Long Realty	022-1794182	\$121,750.00	8/3/2004	\$24.00
54	Long Realty	022-1794471	\$141,600.00	8/3/2004	\$24.00
55	Long Realty	022-1792225	\$137,837.00	8/3/2004	\$24.00
56	Long Realty	022-1793724	\$122,053.00	8/3/2004	\$24.00
57	Long Realty	022-1795477	\$151,996.00	8/3/2004	\$24.00
58	Long Realty	022-1796227	\$50,900.00	8/3/2004	\$24.00
59	Long Realty	022-1795976	\$147,682.00	8/3/2004	\$24.00

	Real Estate Firm	FHA Number	Mortgage Amount	Payment Date of Noncompetition Fee	Non-Competition Fee Paid
60	Long Realty	022-1793809	\$122,764.00	8/3/2004	\$24.00
61	Long Realty	022-1790752	\$79,931.00	8/3/2004	\$24.00
62	Long Realty	022-1800192	\$157,528.00	8/3/2004	\$24.00
63	Long Realty	022-1796921	\$156,665.00	8/3/2004	\$24.00
64	Long Realty	022-1799025	\$113,223.00	8/3/2004	\$24.00
65	Long Realty	022-1801782	\$119,110.00	8/3/2004	\$24.00
66	Long Realty	022-1798619	\$100,688.00	8/3/2004	\$24.00
67	Long Realty	022-1802272	\$141,643.00	8/3/2004	\$24.00
68	Long Realty	022-1801986	\$102,058.00	8/3/2004	\$24.00
69	Long Realty	022-1801776	\$118,146.00	8/3/2004	\$24.00
70	Long Realty	022-1802170	\$156,513.00	8/3/2004	\$24.00
71	Long Realty	022-1800061	\$56,600.00	8/3/2004	\$24.00
72	Long Realty	022-1799200	\$150,118.00	8/3/2004	\$24.00
73	Long Realty	022-1801050	\$58,100.00	8/3/2004	\$24.00
74	Long Realty	022-1801718	\$153,569.00	8/3/2004	\$24.00
75	Long Realty	022-1803284	\$146,160.00	8/3/2004	\$24.00
76	Long Realty	022-1802838	\$140,983.00	8/3/2004	\$24.00
77	Long Realty	022-1803929	\$61,000.00	8/3/2004	\$24.00
78	Long Realty	022-1802969	\$83,179.00	8/3/2004	\$24.00
79	Long Realty	022-1802322	\$111,142.00	8/3/2004	\$24.00
80	Long Realty	022-1803166	\$149,611.00	8/3/2004	\$24.00
81	Long Realty	022-1804381	\$108,909.00	8/3/2004	\$24.00
82	Long Realty	022-1823027	\$251,517.00	8/3/2004	\$24.00
83	Long Realty	022-1804402	\$162,146.00	8/3/2004	\$24.00
84	Long Realty	022-1804077	\$118,146.00	8/3/2004	\$24.00
85	Long Realty	022-1834780	\$93,786.00	8/3/2004	\$24.00
86	Long Realty	022-1805601	\$123,880.00	8/3/2004	\$24.00
87	Long Realty	022-1805081	\$88,508.00	8/3/2004	\$24.00
88	Long Realty	022-1805393	\$142,455.00	8/3/2004	\$24.00
89	Long Realty	022-1806330	\$124,692.00	8/3/2004	\$24.00
90	Long Realty	022-1806557	\$125,454.00	8/3/2004	\$24.00
91	Long Realty	022-1801514	\$80,185.00	8/3/2004	\$24.00
92	Long Realty	022-1805618	\$144,231.00	8/3/2004	\$24.00
93	Long Realty	022-1803754	\$129,920.00	8/3/2004	\$24.00

	Real Estate Firm	FHA Number	Mortgage Amount	Payment Date of Noncompetition Fee	Non-Competition Fee Paid
94	Long Realty	022-1829013	\$90,850.00	8/3/2004	\$24.00
95	Long Realty	022-1807683	\$89,421.00	8/3/2004	\$24.00
96	Long Realty	022-1808722	\$98,099.00	8/3/2004	\$24.00
97	Long Realty	022-1809474	\$115,862.00	8/3/2004	\$24.00
98	Long Realty	022-1809813	\$160,979.00	8/3/2004	\$24.00
99	Long Realty	022-1812546	\$142,303.00	8/3/2004	\$24.00
100	Long Realty	022-1810443	\$160,167.00	8/3/2004	\$24.00
101	Long Realty	022-1811852	\$150,829.00	8/3/2004	\$24.00
102	Long Realty	022-1810364	\$145,297.00	8/3/2004	\$24.00
103	Long Realty	022-1815513	\$88,508.00	8/3/2004	\$24.00
104	Long Realty	022-1817175	\$131,899.00	8/3/2004	\$24.00
105	Long Realty	022-1816787	\$130,427.00	8/3/2004	\$24.00
106	Long Realty	022-1813818	\$57,093.00	8/3/2004	\$24.00
107	Long Realty	022-1819130	\$79,119.00	8/3/2004	\$24.00
108	Long Realty	022-1819101	\$101,246.00	8/3/2004	\$24.00
109	Long Realty	022-1819958	\$142,759.00	8/3/2004	\$24.00
110	Long Realty	022-1819459	\$93,380.00	8/3/2004	\$24.00
111	Long Realty	022-1820116	\$152,757.00	8/3/2004	\$24.00
112	Long Realty	022-1820536	\$50,250.00	10/19/2005	\$17.00
113	Long Realty	022-1821438	\$135,401.00	10/19/2005	\$17.00
114	Long Realty	022-1821003	\$147,885.00	10/19/2005	\$17.00
115	Long Realty	022-1821627	\$133,980.00	10/19/2005	\$17.00
116	Long Realty	022-1822009	\$175,189.00	10/19/2005	\$17.00
117	Long Realty	022-1801391	\$102,058.00	10/19/2005	\$17.00
118	Long Realty	022-1821446	\$129,260.00	10/19/2005	\$17.00
119	Long Realty	022-1823889	\$174,986.00	10/19/2005	\$17.00
120	Long Realty	022-1824422	\$154,838.00	10/19/2005	\$17.00
121	Long Realty	022-1824669	\$135,654.00	10/19/2005	\$17.00
122	Long Realty	022-1825171	\$79,728.00	10/19/2005	\$17.00
123	Long Realty	022-1827432	\$172,296.00	10/19/2005	\$17.00
124	Long Realty	022-1825402	\$64,960.00	10/19/2005	\$17.00
125	Long Realty	022-1827416	\$119,110.00	10/19/2005	\$17.00

	Real Estate Firm	FHA Number	Mortgage Amount	Payment Date of Noncompetition Fee	Non-Competition Fee Paid
126	Long Realty	022-1825953	\$125,504.00	10/19/2005	\$17.00
127	Long Realty	022-1827875	\$139,765.00	10/19/2005	\$17.00
128	Long Realty	022-1828785	\$129,920.00	10/19/2005	\$17.00
129	Long Realty	022-1828388	\$86,224.00	10/19/2005	\$17.00
130	Long Realty	022-1828908	\$133,777.00	10/19/2005	\$17.00
131	Long Realty	022-1828995	\$118,146.00	10/19/2005	\$17.00
132	Long Realty	022-1805703	\$120,379.00	10/19/2005	\$17.00
133	Long Realty	022-1827852	\$169,302.00	10/19/2005	\$17.00
134	Long Realty	022-1829978	\$157,122.00	10/19/2005	\$17.00
135	Long Realty	022-1831262	\$164,379.00	10/19/2005	\$17.00
136	Long Realty	022-1830540	\$149,611.00	10/19/2005	\$17.00
137	Long Realty	022-1833313	\$165,896.00	10/19/2005	\$17.00
138	Long Realty	022-1812539	\$171,535.00	10/19/2005	\$17.00
139	Long Realty	022-1832919	\$135,451.00	10/19/2005	\$17.00
140	Long Realty	022-1832029	\$153,823.00	10/19/2005	\$17.00
141	Long Realty	022-1833989	\$84,143.00	10/19/2005	\$17.00
142	Long Realty	022-1832189	\$82,113.00	10/19/2005	\$17.00
143	Long Realty	022-1833699	\$123,322.00	10/19/2005	\$17.00
144	Long Realty	022-1834121	\$80,337.00	10/19/2005	\$17.00
145	Long Realty	022-1834818	\$164,379.00	10/19/2005	\$17.00
146	Long Realty	022-1832991	\$140,019.00	10/19/2005	\$17.00
147	Long Realty	022-1834445	\$152,250.00	10/19/2005	\$17.00
148	Long Realty	022-1834167	\$96,729.00	10/19/2005	\$17.00
149	Long Realty	022-1804658	\$94,090.00	10/19/2005	\$17.00
150	Long Realty	022-1834666	\$122,561.00	10/19/2005	\$17.00
151	Long Realty	022-1832983	\$149,915.00	10/19/2005	\$17.00
152	Long Realty	022-1835807	\$67,142.00	10/19/2005	\$17.00
153	Long Realty	022-1835308	\$132,914.00	10/19/2005	\$17.00
154	Long Realty	022-1835083	\$138,801.00	10/19/2005	\$17.00
155	Long Realty	022-1835002	\$134,589.00	10/19/2005	\$17.00
156	Long Realty	022-1835836	\$100,434.00	10/19/2005	\$17.00
157	Long Realty	022-1830880	\$95,968.00	10/19/2005	\$17.00

	Real Estate Firm	FHA Number	Mortgage Amount	Payment Date of Noncompetition Fee	Non-Competition Fee Paid
158	Long Realty	022-1835985	\$131,442.00	10/19/2005	\$17.00
159	Long Realty	022-1836405	\$99,419.00	10/19/2005	\$17.00
160	Long Realty	022-1836904	\$103,377.00	10/19/2005	\$17.00
161	Long Realty	022-1831516	\$132,914.00	10/19/2005	\$17.00
162	Long Realty	022-1836650	\$135,350.00	10/19/2005	\$17.00
163	Long Realty	022-1836746	\$139,664.00	10/19/2005	\$17.00
164	Long Realty	022-1838260	\$122,700.00	10/19/2005	\$17.00
165	Long Realty	022-1838310	\$102,312.00	10/19/2005	\$17.00
166	Long Realty	022-1838601	\$161,232.00	10/19/2005	\$17.00
167	Long Realty	022-1839430	\$164,379.00	10/19/2005	\$17.00
168	Long Realty	022-1840077	\$103,530.00	10/19/2005	\$17.00
169	Long Realty	022-1840996	\$170,317.00	10/19/2005	\$17.00
170	Long Realty	022-1840480	\$134,842.00	10/19/2005	\$17.00
171	Long Realty	022-1841299	\$35,525.00	10/19/2005	\$17.00
172	Long Realty	022-1841282	\$189,805.00	10/19/2005	\$17.00
173	Long Realty	022-1842026	\$143,724.00	10/19/2005	\$17.00
174	Long Realty	022-1842344	\$120,607.00	10/19/2005	\$17.00
175	Long Realty	022-1842758	\$131,899.00	10/19/2005	\$17.00
TOTAL			\$21,202,775.00		\$5,552.00